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TIFFANY & CO
Form 10-Q
May 25, 2016
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 April 30, 2016

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 13-3228013

(State of incorporation) (I.R.S. Employer Identification No.)

727 Fifth Avenue, New York, NY 10022

(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: Common Stock, \$.01 par value, 126,017,551 shares outstanding at the close of business on April 30, 2016.

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 FOR THE QUARTER ENDED APRIL 30, 2016

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PART I. Financial Information

Item 1. Financial Statements

TIFFANY & CO. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except per share amounts)

	April 30, 2016	January 31, 2016	April 30, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	\$779.6	\$843.6	\$675.8
Short-term investments	10.3	43.0	39.6
Accounts receivable, less allowances of \$11.6, \$11.5 and \$10.0	221.5	206.4	192.5
Inventories, net	2,320.1	2,225.0	2,363.0
Prepaid expenses and other current assets	190.7	190.4	207.6
Total current assets	3,522.2	3,508.4	3,478.5
Property, plant and equipment, net	946.0	935.8	897.0
Deferred income taxes	369.8	382.8	425.1
Other assets, net	310.2	294.6	340.8
	\$5,148.2	\$5,121.6	\$5,141.4
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	\$220.1	\$221.6	\$197.1
Current portion of long-term debt	92.5	84.2	—
Accounts payable and accrued liabilities	300.4	329.1	271.2
Income taxes payable	36.6	27.1	44.6
Merchandise credits and deferred revenue	68.2	67.9	72.2
Total current liabilities	717.8	729.9	585.1
Long-term debt	790.2	790.0	873.6
Pension/postretirement benefit obligations	436.4	428.1	532.2
Deferred gains on sale-leasebacks	56.4	55.1	62.8
Other long-term liabilities	188.1	189.0	201.4
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 126.0, 126.8 and 129.2	1.3	1.3	1.3
Additional paid-in capital	1,179.5	1,175.7	1,178.1
Retained earnings	1,980.7	2,012.5	1,976.2
Accumulated other comprehensive loss, net of tax	(218.6)	(278.1)	(285.5)
Total Tiffany & Co. stockholders' equity	2,942.9	2,911.4	2,870.1
Non-controlling interests	16.4	18.1	16.2
Total stockholders' equity	2,959.3	2,929.5	2,886.3
	\$5,148.2	\$5,121.6	\$5,141.4

See notes to condensed consolidated financial statements.

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TIFFANY & CO. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
 (Unaudited)
 (in millions, except per share amounts)

	Three Months Ended April 30,	
	2016	2015
Net sales	\$891.3	\$962.4
Cost of sales	345.7	393.4
Gross profit	545.6	569.0
Selling, general and administrative expenses	411.0	399.0
Earnings from operations	134.6	170.0
Interest and other expenses, net	11.5	9.3
Earnings from operations before income taxes	123.1	160.7
Provision for income taxes	35.6	55.8
Net earnings	\$87.5	\$104.9
Net earnings per share:		
Basic	\$0.69	\$0.81
Diluted	\$0.69	\$0.81
Weighted-average number of common shares:		
Basic	126.1	129.2
Diluted	126.5	129.8

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	April 30,	
	2016	2015
Net earnings	\$87.5	\$104.9
Other comprehensive earnings (loss), net of tax		
Foreign currency translation adjustments	51.7	3.6
Unrealized gain on marketable securities	1.2	1.1
Unrealized gain (loss) on hedging instruments	4.3	(4.4)
Net unrealized gain on benefit plans	2.3	4.7
Total other comprehensive earnings, net of tax	59.5	5.0
Comprehensive earnings	\$147.0	\$109.9

See notes to condensed consolidated financial statements.

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TIFFANY & CO. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

(in millions)

	Total Stockholders' Equity	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock Shares	Amount	Additional Paid-In Capital	Non- controlling Interests
Balance at January 31, 2016	\$ 2,929.5	\$ 2,012.5	\$ (278.1)	126.8	\$ 1.3	\$ 1,175.7	\$ 18.1
Exercise of stock options and vesting of restricted stock units ("RSUs")	8.3	—	—	0.4	—	8.3	—
Tax effect of exercise of stock options and vesting of RSUs	(0.6)	—	—	—	—	(0.6)	—
Share-based compensation expense	5.2	—	—	—	—	5.2	—
Purchase and retirement of Common Stock	(78.1)	(69.0)	—	(1.2)	—	(9.1)	—
Cash dividends on Common Stock	(50.3)	(50.3)	—	—	—	—	—
Other comprehensive earnings, net of tax	59.5	—	59.5	—	—	—	—
Net earnings	87.5	87.5	—	—	—	—	—
Non-controlling interests	(1.7)	—	—	—	—	—	(1.7)
Balance at April 30, 2016	\$ 2,959.3	\$ 1,980.7	\$ (218.6)	126.0	\$ 1.3	\$ 1,179.5	\$ 16.4

See notes to condensed consolidated financial statements.

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

	Three Months Ended April 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$87.5	\$104.9
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	52.1	48.9
Amortization of gain on sale-leasebacks	(2.1)	(2.1)
Excess tax benefits from share-based payment arrangements	(0.5)	(1.8)
Provision for inventories	4.3	8.9
Deferred income taxes	3.3	—
Provision for pension/postretirement benefits	12.4	17.1
Share-based compensation expense	5.1	6.7
Changes in assets and liabilities:		
Accounts receivable	(7.3)	2.5
Inventories	(41.9)	(3.6)
Prepaid expenses and other current assets	9.7	2.3
Accounts payable and accrued liabilities	(37.7)	(59.1)
Income taxes payable	(5.2)	16.3
Merchandise credits and deferred revenue	(0.8)	5.7
Other, net	0.2	(3.1)
Net cash provided by operating activities	79.1	143.6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments	(4.0)	(39.0)
Proceeds from sales of marketable securities and short-term investments	36.9	1.0
Capital expenditures	(45.6)	(37.4)
Net cash used in investing activities	(12.7)	(75.4)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of credit facility borrowings, net	(5.4)	(27.6)
Proceeds from other credit facility borrowings	7.1	—
Repayment of other credit facility borrowings	(14.2)	(11.3)
Repurchase of Common Stock	(78.1)	(33.1)
Proceeds from exercised stock options	11.0	0.5
Excess tax benefits from share-based payment arrangements	0.5	1.8
Cash dividends on Common Stock	(50.3)	(49.2)
Distribution to non-controlling interest	(2.1)	—
Financing fees	—	(0.1)
Net cash used in financing activities	(131.5)	(119.0)
Effect of exchange rate changes on cash and cash equivalents	1.1	(3.4)
Net decrease in cash and cash equivalents	(64.0)	(54.2)
Cash and cash equivalents at beginning of year	843.6	730.0
Cash and cash equivalents at end of three months	\$779.6	\$675.8

See notes to condensed consolidated financial statements.

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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 April 30, 2016 and 2015 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2016 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 months ended April 30, 2016 and 2015 are not necessarily indicative of the results of the entire fiscal year.

Certain prior year amounts have been reclassified to conform with the current year presentation. The Company adopted ASU No. 2015-17 – Income Taxes: Balance Sheet Classification of Deferred Taxes, on a retrospective basis, as of January 31, 2016. Accordingly, current deferred taxes were reclassified to noncurrent on the April 30, 2015 Condensed Consolidated Balance Sheet, which increased noncurrent assets by \$101.5 million and noncurrent liabilities by \$0.3 million. The Company also adopted ASU No. 2015-03 – Simplifying the Presentation of Debt Issuance Costs, on a retrospective basis, as of February 1, 2016. Accordingly, debt issuance costs of \$8.1 million and \$8.5 million were reclassified from other assets, net to a direct deduction from long-term debt at January 31, 2016 and April 30, 2015, respectively.

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: Deferral of the Effective Date, deferring the effective date of ASU 2014-09 for one year to interim and annual periods beginning after December 15, 2017. Early adoption is also permitted as of the original effective date (interim and annual periods beginning after December 15, 2016) and retrospective application is required. In March 2016, the FASB issued ASU No. 2016-08 – Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), to clarify the

implementation guidance on principal versus agent considerations, specifically including indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. In April 2016, the FASB issued ASU No. 2016-10 – Revenue from Contracts with Customers: Identifying Performance

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Obligations and Licensing, to clarify the identification of performance obligations as well as the licensing implementation guidance. The effective date and transition requirements for both amendments are the same as ASU 2014-09, as amended by ASU 2015-14. Management is currently evaluating the impact of the new guidance on the consolidated financial statements.

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 Issuance Costs Associated with Line-of-Credit Arrangements, which indicates the Securities and Exchange Commission staff would not object to an entity deferring and continuing to present 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. The Company adopted the new guidance effective February 1, 2016, and, as a result, it has reclassified debt issuance costs related to long-term debt from other assets, net to a direct deduction from long-term debt, while continuing to present debt issuance costs related to line-of-credit arrangements as an asset. The adoption of the new guidance did not have a material impact on the Company's financial position or earnings. See "Note 1. Condensed Consolidated Financial Statements" and "Note 7. Debt" for additional information.

In February 2016, the FASB issued ASU No. 2016-02 – Leases, which requires an entity that leases assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either financing or operating, with the applicable classification determining the pattern of expense recognition in the statement of earnings. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 and must be adopted using a modified retrospective approach. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-05 – Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which states that a change in counterparty to a derivative instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge account criteria continue to be met. This ASU is effective for interim and annual periods beginning after December 15, 2016. The amendments should be applied on either a prospective basis or a modified retrospective basis and earlier application is permitted. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09 – Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which provides guidance on several aspects of accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification on the statement of cash flows. Most notably, the Company will be required to recognize all excess tax benefits and shortfalls as income tax expense or benefit in the statement of earnings within the reporting period in which they occur. This ASU is effective for interim and annual periods beginning after December 15, 2016 and early addition is permitted. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

3. RECEIVABLES AND FINANCING ARRANGEMENTS

Receivables. The Company's accounts receivable, net primarily consists of amounts due from Credit Receivables (defined below), department store operators that host TIFFANY & CO. boutiques in their stores, third-party credit card issuers and wholesale customers. 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.

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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 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. Certain customers may be granted payment terms which permit purchases above a minimum amount to be paid for in equal monthly installments over a period not to exceed 12 months (together with Credit Card Receivables, "Credit Receivables"). Credit Receivables require minimum balance payments. An 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 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 April 30, 2016 and 2015, the carrying amount of the Credit Receivables (recorded in accounts receivable, net) was \$80.9 million and \$68.0 million, of which 97% was considered current in both periods. The allowance for doubtful accounts for estimated losses associated with the Credit Receivables (approximately \$1.4 million at April 30, 2016 and \$1.0 million at April 30, 2015) was determined based on the factors discussed above. Finance charges earned on Credit Card Receivables are not significant.

Financing Arrangements. The Company has provided financing to diamond mining and exploration companies in order to obtain rights to purchase the mine's output (see "Note 10. Commitments and Contingencies"). 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 April 30, 2016 and 2015, the current portion of the carrying amount of financing arrangements including accrued interest was \$2.5 million and \$21.0 million and was recorded in prepaid expenses and other current assets. At April 30, 2016 and 2015, the non-current portion of the net carrying amount of financing arrangements including accrued interest was \$19.9 million and \$41.3 million and was included in other assets, net.

As of April 30, 2016, the Company had a \$43.8 million loan receivable under a financing arrangement (the "Loan") with Koidu Limited (previously Koidu Holdings S.A.) ("Koidu"). The Company recorded impairment charges totaling \$37.9 million during the fiscal year ended January 31, 2016 related to the Loan, and the net carrying amount of the Loan was \$5.9 million as of April 30, 2016. The Company intends to continue to participate in discussions with Koidu and certain of Koidu's stakeholders as part of management's ongoing evaluation of the collectability of the Loan and the accrual of interest income. See "Note 10. Commitments and Contingencies" for additional information on this financing arrangement.

Management has not recorded any impairment charges on such loans in the three months ended April 30, 2016 and 2015.

4. INVENTORIES

(in millions)	April 30, 2016	January 31, 2016	April 30, 2015
Finished goods	\$1,361.9	\$1,292.9	\$1,396.5
Raw materials	847.3	813.7	872.8
Work-in-process	110.9	118.4	93.7
Inventories, net	\$2,320.1	\$2,225.0	\$2,363.0

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5. INCOME TAXES

The effective income tax rate for the three months ended April 30, 2016 was 29.0% versus 34.7% in the prior year.

At April 30, 2016, the Company's gross uncertain tax positions decreased by \$6.6 million and gross accrued interest and penalties decreased by \$0.8 million from January 31, 2016, primarily as a result of the conclusion of a tax examination. This settlement resulted in an income tax benefit of \$6.6 million for the three months ended April 30, 2016, and reduced the effective income tax rate by 5.4 percentage points.

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. Ongoing audits where subsidiaries have a material presence include New York City (tax years 2011–2013) and New York State (tax years 2012-2014). Tax years from 2010-present are open to examination in the U.S. Federal jurisdiction and 2006–present are open to examination in various state, local and foreign jurisdictions. As part of these audits, the Company engages in discussions with taxing authorities regarding tax positions. As of April 30, 2016, unrecognized tax benefits are not expected to change materially 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 April 30,	
	2016	2015
Net earnings for basic and diluted EPS	\$87.5	\$104.9
Weighted-average shares for basic EPS	126.1	129.2
Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units	0.4	0.6
Weighted-average shares for diluted EPS	126.5	129.8

For the three months ended April 30, 2016 and 2015, there were 1.4 million and 0.7 million stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

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7. DEBT

(in millions)	April 30, 2016	January 31, 2016	April 30, 2015			
Short-term borrowings:						
Credit Facilities	\$77.3	\$ 76.6	\$66.3			
Other credit facilities	142.8	145.0	130.8			
	\$220.1	\$ 221.6	\$197.1			
Long-term debt:						
Unsecured Senior Notes:						
2010 1.72% Notes, due September 2016 ^{a, b}	\$92.5	\$84.2	\$84.0			
2012 4.40% Series B Notes, due July 2042 ^c	250.0	250.0	250.0			
2014 3.80% Senior Notes, due October 2024 ^{a, d}	250.0	250.0	250.0			
2014 4.90% Senior Notes, due October 2044 ^{a, d}	300.0	300.0	300.0			
	892.5	884.2	884.0			
Less current portion of long-term debt	92.5	84.2	—			
Less unamortized discounts and debt issuance costs	9.8	10.0	10.4			
	\$790.2	\$790.0	\$873.6			

^a These agreements require lump sum repayments upon maturity.

^b These Notes were issued, at par, ¥10.0 billion.

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

^d These Notes were issued at a discount which will be amortized until the debt maturity.

There have been no material changes to the agreements governing the Credit Facilities or Senior Notes referenced in the table above since January 31, 2016.

At April 30, 2016, the Company was in compliance with all debt covenants.

8. HEDGING INSTRUMENTS

Background Information

The Company uses derivative financial instruments, including interest rate swaps, forward contracts, put option contracts and net-zero-cost collar arrangements (combination of call and put option contracts) to mitigate a portion of its exposures to changes in interest rates, foreign currency and precious metal prices.

Derivative Instruments Designated as Hedging Instruments. If a derivative instrument meets certain hedge accounting criteria, it is recorded on the consolidated balance sheet at its fair value, as either an asset or a liability, with an offset to current or comprehensive earnings, depending on whether the hedge 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.

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•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.

Derivative Instruments Not Designated as Hedging Instruments. Derivative instruments which do not meet the criteria to be designated as a hedge are recorded on the consolidated balance sheet at their fair values, as either assets or liabilities, with an offset to current earnings.

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. As of April 30, 2016, \$20.8 million remains recorded as an unrealized loss in accumulated other comprehensive loss, which is being amortized over the term of the 2042 Notes to which the interest rate swaps related.

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. The Company settled the interest rate swap in 2014 and recorded an unrealized loss within accumulated other comprehensive loss. As of April 30, 2016, \$3.9 million remains recorded as an unrealized loss and is being amortized over the terms of the respective 2024 Notes or 2044 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.

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As of April 30, 2016, the notional amounts of foreign exchange forward contracts accounted for as cash flow hedges were as follows:

(in millions)	Notional Amount	USD Equivalent
Derivatives designated as hedging instruments:		
Japanese yen	¥ 17,520.5	\$148.6
British pound	£ 17.8	26.3
Derivatives not designated as hedging instruments:		
U.S. dollar	\$ 59.6	\$59.6
Euro	€ 21.5	23.9
British pound	£ 4.7	6.8
Chilean peso	2,622.9	3.9
Japanese yen	¥ 423.5	3.8
Korean won	15,011.6	12.5
Hong Kong dollar	HK\$58.2	7.4
Mexican peso	180.2	10.2
New Zealand dollar	NZ\$ 3.1	2.1
Singapore dollar	S\$ 23.9	17.7
Swiss franc	Fr. 11.6	11.8

The maximum term of the Company's outstanding foreign exchange forward contracts as of April 30, 2016 is 12 months.

Precious Metal Collars and Forward Contracts – The Company periodically hedges a portion of its forecasted purchases of precious metals for use in its internal manufacturing operations in order to manage the effect of volatility in precious metal prices. The Company may use either a combination of call and put option contracts in net-zero-cost collar arrangements ("precious metal collars") or forward contracts. For precious metal collars, if the price of the precious metal at the time of the expiration of the precious metal collar is within the call and put price, the precious metal collar expires at no cost to the Company. The Company accounts for its precious metal collars and forward contracts as cash flow hedges. The Company assesses hedge effectiveness based on the total changes in the precious metal collars and forward contracts' cash flows. As of April 30, 2016, the maximum term over which the Company is hedging its exposure to the variability of future cash flows for all forecasted transactions is 24 months. As of April 30, 2016, there were precious metal derivative instruments outstanding for approximately 72,000 ounces of platinum, 1,440,000 ounces of silver and 42,500 ounces of gold.

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

	Three Months Ended April 30,			
	2016		2015	
(in millions)	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 ^a	\$ (13.9)	\$ 3.5	\$ 1.0	\$ 4.2
Precious metal forward contracts ^a	21.6	(2.7)	(5.1)	(1.0)
Precious metal collars ^a	0.3	—	—	—
Forward-starting interest rate swaps ^b	—	(0.4)	—	(0.4)
	\$ 8.0	\$ 0.4	\$ (4.1)	\$ 2.8

^aThe gain or loss recognized in earnings is included within Cost of sales.

^bThe gain or loss recognized in earnings is included within Interest and other expenses, net.

The pre-tax losses on derivatives not designated as hedging instruments were \$5.8 million and \$4.8 million in the periods ended April 30, 2016 and April 30, 2015, respectively, and were included in interest and other expenses, net. There was no material ineffectiveness related to the Company's hedging instruments for the periods ended April 30, 2016 and 2015. The Company expects approximately \$16.6 million of net pre-tax derivative losses included in accumulated other comprehensive income at April 30, 2016 will be reclassified into earnings within the next 12 months. This amount will vary due to fluctuations in foreign currency exchange rates and precious metal prices.

For information regarding the location and amount of the derivative instruments in the Condensed Consolidated Balance Sheet, 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 and are considered to be most reliable.

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

Level 3 – Unobservable inputs reflecting the reporting entity's own assumptions and require the most judgment.

The Company's derivative instruments are considered Level 2 instruments for the purposes of determining fair value. The Company's foreign exchange forward contracts, as well as its put option contracts, are primarily valued using the appropriate foreign exchange spot rates. The Company's precious metal forward contracts and collars are primarily valued using the relevant precious metal spot rate. The Company's interest rate swaps were primarily valued using the 3-month LIBOR 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 April 30, 2016 are classified in the table below in one of the three categories described above:

(in millions)	Estimated Fair Value			Total Fair Value
	Level 1	Level 2	Level 3	
Marketable securities ^a	\$34.2	\$—	\$	—\$34.2
Time deposits ^b	10.3	—	—	10.3
Derivatives designated as hedging instruments:				
Precious metal forward contracts ^c	—	9.2	—	9.2
Precious metal collars ^c	—	0.9	—	0.9
Foreign exchange forward contracts ^c	—	0.6	—	0.6
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts ^c	—	0.2	—	0.2
Total financial assets	\$44.5	\$10.9	\$	—\$55.4

(in millions)	Estimated Fair Value		Total Fair Value
	Level 1	Level 3	
Derivatives designated as hedging instruments:			
Precious metal collars ^d	\$—\$0.5	\$	—\$0.5
Foreign exchange forward contracts ^d	—14.8	—	14.8
Derivatives not designated as hedging instruments:			
Foreign exchange forward contracts ^d	—2.0	—	2.0
Total financial liabilities	\$—\$17.3	\$	—\$17.3

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Financial assets and liabilities carried at fair value at April 30, 2015 are classified in the table below in one of the three categories described above:

(in millions)	Estimated Fair Value			Total Fair Value
	Level 1	Level 2	Level 3	
Marketable securities ^a	\$55.5	\$—	\$	—\$55.5
Time deposits ^b	39.6	—	—	39.6
Derivatives designated as hedging instruments:				
Precious metal forward contracts ^c	—	0.3	—	0.3
Foreign exchange forward contracts ^c	—	10.3	—	10.3
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts ^c	—	1.0	—	1.0
Total financial assets	\$95.1	\$11.6	\$	—\$106.7

(in millions)	Estimated Fair Value		Total Fair Value
	Level 1	Level 3	
Derivatives designated as hedging instruments:			
Precious metal forward contracts ^d	\$-4.7	\$	—\$4.7
Foreign exchange forward contracts ^d	—0.3	—	0.3
Derivatives not designated as hedging instruments:			
Foreign exchange forward contracts ^d	—5.0	—	5.0
Total financial liabilities	\$-10.0	\$	—\$10.0

^a Included within Other assets, net.

^b Included within Short-term investments.

^c Included within Prepaid expenses and other current assets or Other assets, net evaluated based on the maturity of the contract.

^d Included within Accounts payable and accrued liabilities or Other long-term liabilities evaluated based on the maturity of the contract.

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 as such is 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, current portion of long-term debt and long-term debt was \$1.1 billion and the corresponding fair value was approximately \$1.1 billion at April 30, 2016 and 2015.

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 (the "Loan") with Koidu Limited (previously Koidu Holdings S.A.) ("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

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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, 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.

As of January 31, 2016, Koidu had not made any of its interest payments due in July 2015 and thereafter, nor its principal payment due in September 2015. The missed payments constitute events of default under the Loan. In February 2016, the Company received the results from two separate and independent reviews of Koidu's operational plans, forecasts, and cash flow projections for the mine, which were commissioned by the Company and by Koidu's largest creditor, respectively. Based on these factors, ongoing discussions with Koidu, and consideration of the possible actions that all parties, including the Government of Sierra Leone and Koidu's largest creditor, might take under the circumstances, management determined that it is probable that it will be unable to collect a portion of the amounts due under the contractual terms of the Loan, and recorded impairment charges, and a related valuation allowance, of \$37.9 million in the year ended January 31, 2016. Additionally, the Company ceased accruing interest income on the outstanding Loan balance as of July 31, 2015. At April 30, 2016, there was \$43.8 million of principal outstanding under this Loan (see "Note 3. Receivables and Financing Arrangements").

During the three months ended April 30, 2016, Koidu did not make any payments due to the Company under the Loan. Koidu also has yet to provide a proposed revised payment schedule to the Company. The carrying amount of the Company's loan receivable from Koidu, net of the valuation allowance, was \$5.9 million at April 30, 2016 and January 31, 2016.

The Company intends to continue to participate in discussions with Koidu regarding operational plans, forecasts and cash flow projections for the mine, as well as revisions to the payment schedule for the Loan. The Company also intends to continue to participate in discussions with certain of Koidu's stakeholders, including its largest creditor and the Government of Sierra Leone. The outcome of these discussions, as well as any other developments, will inform 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.

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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 \$76.0 million at April 30, 2016) (based on its alleged wasted investment) to CHF 3.8 billion (or approximately \$3.9 billion at April 30, 2016) (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 \$124.0 million at April 30, 2016) (based on its wasted investment) to approximately CHF 540.0 million (or approximately \$559.0 million at April 30, 2016) (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.

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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 all rights of appeal have 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 April 30, 2016 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. In 2015, management introduced new TIFFANY & CO. brand watches, which have been designed, produced, marketed and distributed through certain of the Company's Swiss subsidiaries.

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.

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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. 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 remediation actions at Mile 10.9 of the River. The actions under the Mile 10.9 AOC are complete (except for continued monitoring), the Remedial Investigation ("RI") portion of the RI/FS was submitted to the EPA on February 19, 2015, and the Feasibility Study ("FS") portion of the RI/FS was submitted to the EPA 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.

The FS presented and evaluated three options for remediating the lower 17 miles of the River, including the approach recommended by the EPA in its Focused Feasibility Study discussed below, as well as a fourth option of taking no action, and recommended an 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 RI and FS are being reviewed by the EPA and other governmental agencies and stakeholders. Ultimately, the Company expects that the EPA will 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 approach to remediating the entire lower 17-mile stretch of the River.

Separately, on April 11, 2014, the EPA issued a proposed plan for remediating the lower eight miles of the River, which is supported by a Focused Feasibility Study (the "FFS"). The FFS evaluated three remediation options, as well as a fourth option of taking no action. Following a public review and comment period and the EPA's review of comments received, the EPA issued a Record of Decision on March 4, 2016 that set forth a remediation plan for the lower eight miles of the River (the "RoD Remediation"). The RoD Remediation is estimated by the EPA to cost \$1.38 billion. The Record of Decision did not identify any party or parties as being responsible for the design of the remediation or for the remediation itself. The EPA did note that it estimates the design of the necessary remediation activities will take three to four years, with the remediation to follow, which is estimated to take an additional six years to complete.

On March 31, 2016, the EPA issued a letter to approximately 100 companies (including the Company) notifying them of potential liability for the RoD Remediation and of the EPA's planned approach to addressing the cost of the RoD Remediation, which included the possibility of a de-minimis cash-out settlement (the "settlement option") for certain parties. In April of 2016, the Company notified the EPA of its interest in pursuing the settlement option, and accordingly recorded an immaterial liability representing its best estimate of its minimum liability for the RoD Remediation, which reflects the possibility of a de-minimis settlement. Although the EPA must determine which parties are eligible for the settlement option, the Company does not expect any settlement amount that it might agree with the EPA to be material to its financial position, results of operations or cash flows.

In the absence of a viable settlement option, the Company is unable to determine its participation in the RoD Remediation, if any, relative to the other potentially responsible parties or the allocation of the estimated cost thereof among the potentially responsible parties, until such time as the EPA reaches an agreement with any potentially responsible party or parties to fund the RoD Remediation (or pursues legal or administrative action to require any potentially responsible party or parties to perform, or pay for, the RoD Remediation). With respect to the RI/FS (which is distinct from the RoD Remediation), until a Record of Decision is issued with respect to the RI/FS, neither the ultimate remedial approach for the remaining upper nine miles of the relevant 17-mile stretch of the River and its cost, nor the Company's participation, if any, relative to the other potentially responsible parties in this approach and

cost, can be determined.

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As such, the Company's liability, if any, beyond that already recorded for (1) its obligations under the 2007 AOC and the Mile 10.9 AOC, and (2) its estimate related to a de minimis cash-out settlement for the RoD Remediation, cannot be determined at this time. However, the Company does not expect that its ultimate liability related to the relevant 17-mile stretch of the River will be material to its financial position, in light of the number of companies that have previously been identified as Potentially Responsible Parties (i.e., the more than 300 parties that were initially designated in litigation as potentially responsible parties), which includes, but goes well beyond those approximately 70 companies 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 to the 2007 AOC and Mile 10.9 AOC. It is nonetheless possible that any resulting liability when the uncertainties discussed above are resolved could be material to the Company's results of operations or cash flows in the period in which such uncertainties are resolved.

11. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Loss

(in millions)	April 30, 2016	January 31, 2016	April 30, 2015
Accumulated other comprehensive (loss) earnings, net of tax:			
Foreign currency translation adjustments	\$(83.6)	\$(135.3)	\$(72.7)
Unrealized gain (loss) on marketable securities	0.2	(1.0)	3.0
Deferred hedging loss	(22.5)	(26.8)	(9.8)
Net unrealized loss on benefit plans	(112.7)	(115.0)	(206.0)
	\$(218.6)	\$(278.1)	\$(285.5)

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

(in millions)	Three Months Ended April 30, 2016	2015
Foreign currency translation adjustments	\$58.8	\$3.8
Income tax expense	(7.1)	(0.2)
Foreign currency adjustments, net of tax	51.7	3.6
Unrealized gain on marketable securities	1.8	1.5
Income tax expense	(0.6)	(0.4)
Unrealized gain on marketable securities, net of tax	1.2	1.1
Unrealized gain (loss) on hedging instruments	8.0	(4.1)
Reclassification adjustment for gain included in net earnings ^a	(0.4)	(2.8)
Income tax (expense) benefit	(3.3)	2.5
Unrealized gain (loss) on hedging instruments, net of tax	4.3	(4.4)
Amortization of net loss included in net earnings ^b	3.9	7.8
Amortization of prior service credit included in net earnings ^b	(0.2)	(0.2)
Income tax expense	(1.4)	(2.9)
Net unrealized gain on benefit plans, net of tax	2.3	4.7
Total other comprehensive earnings, net of tax	\$59.5	\$5.0

^a These gains are reclassified into Cost of sales and Interest and other expenses, net (see "Note 8. Hedging Instruments" for additional details).

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^b 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).

Stock Repurchase Program. In March 2014, the Company's Board of Directors approved a share repurchase program ("2014 Program") which authorized the Company to repurchase up to \$300.0 million of its Common Stock through open market transactions. The program had an expiration date of March 31, 2017, but was terminated in January 2016 in connection with the authorization of a new program with increased repurchase capacity (as described in more detail below). Approximately \$58.6 million remained available for repurchase under the 2014 Program at the time of its termination.

In January 2016, the Company's Board of Directors approved a new share repurchase program ("2016 Program") which authorizes the Company to repurchase up to \$500.0 million of its Common Stock through open market transactions, block trades or privately negotiated transactions and terminated the 2014 Program. Purchases under the 2014 Program were, and purchases under the 2016 Program have been, executed under a written plan for trading securities as specified under Rule 10b5-1 promulgated under the Securities and 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 2016 Program will expire on January 31, 2019. Approximately \$415.9 million remained available for repurchase under the 2016 Program at April 30, 2016.

The Company's share repurchase activity was as follows:

	Three Months Ended April 30,	
(in millions, except per share amounts)	2016	2015
Cost of repurchases	\$78.1	\$33.1
Shares repurchased and retired	1.2	0.4
Average cost per share	\$66.48	\$87.16

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 April 30, 2016 and 2015.

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 April 30,			
	Pension Benefits		Other Postretirement Benefits	
(in millions)	2016	2015	2016	2015
Net Periodic Benefit Cost:				
Service cost	\$4.8	\$6.0	\$ 0.8	\$ 1.1
Interest cost	8.0	7.7	0.9	0.8
Expected return on plan assets	(5.8)	(6.1)	—	—
Amortization of prior service credit	—	—	(0.2)	(0.2)
Amortization of net loss	3.8	7.4	0.1	0.4
Net expense	\$10.8	\$15.0	\$ 1.6	\$ 2.1

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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 Internet, catalog, business-to-business 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 Internet, business-to-business 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 wholesale sales of TIFFANY & CO. merchandise to independent distributors for resale in certain emerging markets (primarily in the Middle East). 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 April 30,	
(in millions)	2016	2015
Net sales:		
Americas	\$403.4	\$443.7
Asia-Pacific	238.2	259.0
Japan	131.1	121.8
Europe	97.1	106.7
Total reportable segments	869.8	931.2
Other	21.5	31.2
	\$891.3	\$962.4
Earnings from operations*:		
Americas	\$58.7	\$72.3
Asia-Pacific	60.0	72.7
Japan	44.4	43.8
Europe	10.3	15.4
Total reportable segments	173.4	204.2
Other	1.8	2.0
	\$175.2	\$206.2

* Represents earnings from operations before (i) unallocated corporate expenses, and (ii) interest and other expenses, net.

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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 April 30,	
	2016	2015
Earnings from operations for segments	\$175.2	\$206.2
Unallocated corporate expenses	(40.6)	(36.2)
Interest and other expenses, net	(11.5)	(9.3)
Earnings from operations before income taxes	\$123.1	\$160.7

Unallocated corporate expenses includes 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.

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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. Through its subsidiaries, the Company designs and manufactures products and operates TIFFANY & CO. retail stores worldwide, and also sells its products through Internet, catalog, business-to-business and wholesale operations. The Company's principal merchandise offering is jewelry (representing 93% of worldwide net sales in the fiscal year ended January 31, 2016); it also sells timepieces, leather goods, sterling silverware, china, crystal, stationery, fragrances and accessories.

The Company's reportable segments are as follows:

Americas includes sales in 124 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 Internet, catalog, business-to-business and wholesale operations;

Asia-Pacific includes sales in 81 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 55 Company-operated TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products through Internet, business-to-business and wholesale operations;

Europe includes sales in 43 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 ("U.A.E.") and wholesale sales of TIFFANY & CO. merchandise to independent distributors for resale in certain emerging markets (primarily in the Middle East). 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.

SUMMARY OF FIRST QUARTER RESULTS

As reported, worldwide net sales decreased 7% to \$891.3 million in the three months ("first quarter") ended April 30, 2016, and comparable store sales decreased 9%. On a constant-exchange-rate basis (see "Non-GAAP Measures" below), worldwide net sales decreased 7% in the first quarter due to sales declines in all regions except Japan, and comparable store sales decreased 9%.

Earnings from operations as a percentage of net sales ("operating margin") decreased 2.6 percentage points, as an increase in gross margin was more than offset by a lack of sales leverage on selling, general and administrative ("SG&A") expenses.

Net earnings declined 17% to \$87.5 million, or \$0.69 per diluted share, due to the decline in net sales as well as higher SG&A expenses. The decline in net earnings included an income tax benefit of \$6.6 million, or \$0.05 per diluted share, as a result of the conclusion of a tax examination.

• Inventories, net decreased 2% from April 30, 2015.

• The Company spent \$78.1 million to repurchase 1.2 million shares of its Common Stock.

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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. These non-GAAP financial measures presented here may not be comparable to similarly-titled measures used by other companies.

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:

First Quarter 2016 vs. 2015

	GAAP Reported	Translation Effect	Constant-Exchange-Rate Basis
Net Sales:			
Worldwide	(7)%	— %	(7)%
Americas	(9)	(1)	(8)
Asia-Pacific	(8)	(3)	(5)
Japan	8	7	1
Europe	(9)	(2)	(7)
Other	(30)	—	(30)
Comparable Store Sales:			
Worldwide	(9)%	— %	(9)%
Americas	(10)	(1)	(9)
Asia-Pacific	(15)	(3)	(12)
Japan	12	7	5
Europe	(15)	(1)	(14)
Other	(21)	—	(21)

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Statements 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 tables reconcile certain GAAP amounts to non-GAAP amounts:

(in millions, except per share amounts) GAAP Impairment charges ^a Specific cost-reduction initiatives ^b Non-GAAP

Year Ended January 31, 2016