

Edgar Filing: TIFFANY & CO - Form 10-Q

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.

Table of Contents

TIFFANY & CO. AND SUBSIDIARIES  
INDEX TO FORM 10-Q  
FOR THE QUARTER ENDED APRIL 30, 2016

|                                                                                                                                     | Page      |
|-------------------------------------------------------------------------------------------------------------------------------------|-----------|
| <u>PART I - FINANCIAL INFORMATION</u>                                                                                               |           |
| Item 1. <u>Financial Statements</u>                                                                                                 |           |
| <u>Condensed Consolidated Balance Sheets - April 30, 2016, January 31, 2016 and April 30, 2015 (Unaudited)</u>                      | <u>2</u>  |
| <u>Condensed Consolidated Statements of Earnings - for the three months ended April 30, 2016 and 2015 (Unaudited)</u>               | <u>3</u>  |
| <u>Condensed Consolidated Statements of Comprehensive Earnings - for the three months ended April 30, 2016 and 2015 (Unaudited)</u> | <u>4</u>  |
| <u>Condensed Consolidated Statement of Stockholders' Equity - for the three months ended April 30, 2016 (Unaudited)</u>             | <u>5</u>  |
| <u>Condensed Consolidated Statements of Cash Flows - for the three months ended April 30, 2016 and 2015 (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>35</u> |
| Item 4. <u>Controls and Procedures</u>                                                                                              | <u>36</u> |
| <u>PART II - OTHER INFORMATION</u>                                                                                                  |           |
| Item 1. <u>Legal Proceedings</u>                                                                                                    | <u>37</u> |
| Item 1A. <u>Risk Factors</u>                                                                                                        | <u>38</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                                          | <u>39</u> |
| Item 6. <u>Exhibits</u>                                                                                                             | <u>40</u> |

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)

|                                                                                                        | April 30,<br>2016 | January<br>31, 2016 | April 30,<br>2015 |
|--------------------------------------------------------------------------------------------------------|-------------------|---------------------|-------------------|
| <b>ASSETS</b>                                                                                          |                   |                     |                   |
| 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         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                            |                   |                     |                   |
| 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.

TIFFANY &amp; CO.



Table of Contents

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

|                                              | Three Months<br>Ended April<br>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.

TIFFANY & CO.

3

---

Table of Contents

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.

TIFFANY & CO.

4

---

Table of Contents

## TIFFANY &amp; CO. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

(in millions)

|                                                                          | Total<br>Stockholders'<br>Equity | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Common Stock<br>Shares | Amount | Additional<br>Paid-In<br>Capital | Non-<br>controlling<br>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.

TIFFANY &amp; CO.

5

Table of Contents

## TIFFANY &amp; CO. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)

|                                                                                     | Three Months Ended<br>April 30, |         |
|-------------------------------------------------------------------------------------|---------------------------------|---------|
|                                                                                     | 2016                            | 2015    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                        |                                 |         |
| 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   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                        |                                 |         |
| 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)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                        |                                 |         |
| 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.

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 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

TIFFANY & CO.

7

---

## Table of Contents

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.

TIFFANY & CO.

8

---

Table of Contents

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      |

TIFFANY & CO.

Table of Contents

## 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:

|                                                                                                         | Three Months<br>Ended April<br>30, |         |
|---------------------------------------------------------------------------------------------------------|------------------------------------|---------|
| (in millions)                                                                                           | 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.

TIFFANY & CO.

10

---

Table of Contents

## 7. DEBT

| (in millions)                                             | April<br>30,<br>2016 | January 31,<br>2016 | April<br>30,<br>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 <sup>a, b</sup>      | \$92.5               | \$84.2              | \$84.0               |
| 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> | 250.0                | 250.0               | 250.0                |
| 2014 4.90% Senior Notes, due October 2044 <sup>a, d</sup> | 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              |

<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.

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.

TIFFANY & CO.

11

---

## Table of Contents

•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.

TIFFANY & CO.

Table of Contents

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<br>Amount | USD<br>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.

TIFFANY & CO.

13

---

Table of Contents

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 April 30,                              |                                                           | 2015                                                      |                                                           |
|---------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------|
|                                                   | 2016                                                      | 2015                                                      | 2016                                                      | 2015                                                      |
|                                                   | Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion) | Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion) | Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion) | Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion) |
| Derivatives in Cash Flow Hedging Relationships:   |                                                           |                                                           |                                                           |                                                           |
| Foreign exchange forward contracts <sup>a</sup>   | \$ (13.9)                                                 | \$ 3.5                                                    | \$ 1.0                                                    | \$ 4.2                                                    |
| Precious metal forward contracts <sup>a</sup>     | 21.6                                                      | (2.7 )                                                    | (5.1 )                                                    | (1.0 )                                                    |
| Precious metal collars <sup>a</sup>               | 0.3                                                       | —                                                         | —                                                         | —                                                         |
| Forward-starting interest rate swaps <sup>b</sup> | —                                                         | (0.4 )                                                    | —                                                         | (0.4 )                                                    |
|                                                   | \$ 8.0                                                    | \$ 0.4                                                    | \$ (4.1)                                                  | \$ 2.8                                                    |

<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 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.

TIFFANY & CO.

14

---

Table of Contents

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<br>Fair<br>Value |
|----------------------------------------------------|-------------------------|------------|---------|------------------------|
|                                                    | Level<br>1              | Level<br>2 | Level 3 |                        |
| Marketable securities <sup>a</sup>                 | \$34.2                  | \$—        | \$—     | —\$34.2                |
| Time deposits <sup>b</sup>                         | 10.3                    | —          | —       | 10.3                   |
| Derivatives designated as hedging instruments:     |                         |            |         |                        |
| Precious metal forward contracts <sup>c</sup>      | —                       | 9.2        | —       | 9.2                    |
| Precious metal collars <sup>c</sup>                | —                       | 0.9        | —       | 0.9                    |
| Foreign exchange forward contracts <sup>c</sup>    | —                       | 0.6        | —       | 0.6                    |
| Derivatives not designated as hedging instruments: |                         |            |         |                        |
| Foreign exchange forward contracts <sup>c</sup>    | —                       | 0.2        | —       | 0.2                    |
| Total financial assets                             | \$44.5                  | \$10.9     | \$—     | —\$55.4                |
| (in millions)                                      | Estimated Fair<br>Value |            | Level 3 | Total<br>Fair<br>Value |
|                                                    | Level<br>1              | Level 2    |         |                        |
| Derivatives designated as hedging instruments:     |                         |            |         |                        |
| Precious metal collars <sup>d</sup>                | \$—\$0.5                | \$—        | —       | —\$0.5                 |
| Foreign exchange forward contracts <sup>d</sup>    | —14.8                   | —          | —       | 14.8                   |
| Derivatives not designated as hedging instruments: |                         |            |         |                        |
| Foreign exchange forward contracts <sup>d</sup>    | —2.0                    | —          | —       | 2.0                    |
| Total financial liabilities                        | \$—\$17.3               | \$—        | —       | —\$17.3                |

TIFFANY & CO.

Table of Contents

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)                                      | Level 1 | Level 2 | Level 3 | Total Fair Value |
|----------------------------------------------------|---------|---------|---------|------------------|
| Marketable securities <sup>a</sup>                 | \$55.5  | \$—     | \$—     | —\$55.5          |
| Time deposits <sup>b</sup>                         | 39.6    | —       | —       | 39.6             |
| Derivatives designated as hedging instruments:     |         |         |         |                  |
| Precious metal forward contracts <sup>c</sup>      | —       | 0.3     | —       | 0.3              |
| Foreign exchange forward contracts <sup>c</sup>    | —       | 10.3    | —       | 10.3             |
| Derivatives not designated as hedging instruments: |         |         |         |                  |
| Foreign exchange forward contracts <sup>c</sup>    | —       | 1.0     | —       | 1.0              |
| Total financial assets                             | \$95.1  | \$11.6  | \$—     | —\$106.7         |

| (in millions)                                      | Level 1 | Level 2 | Level 3 | Total Fair Value |
|----------------------------------------------------|---------|---------|---------|------------------|
| Derivatives designated as hedging instruments:     |         |         |         |                  |
| Precious metal forward contracts <sup>d</sup>      | \$—4.7  | \$—     | \$—     | —\$4.7           |
| Foreign exchange forward contracts <sup>d</sup>    | —0.3    | —       | —       | 0.3              |
| Derivatives not designated as hedging instruments: |         |         |         |                  |
| Foreign exchange forward contracts <sup>d</sup>    | —5.0    | —       | —       | 5.0              |
| Total financial liabilities                        | \$—10.0 | \$—     | \$—     | —\$10.0          |

<sup>a</sup> Included within Other assets, net.

<sup>b</sup> Included within Short-term investments.

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

<sup>d</sup> 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

TIFFANY & CO.

16

---

## Table of Contents

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.

TIFFANY & CO.

17

---

Table of Contents

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.

TIFFANY & CO.

18

---

## Table of Contents

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.

TIFFANY & CO.

19

---

## Table of Contents

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.

TIFFANY & CO.

20

---

Table of Contents

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,<br>2016 | January<br>31, 2016 | April 30,<br>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:

|                                                                            | Three<br>Months<br>Ended April<br>30, |        |
|----------------------------------------------------------------------------|---------------------------------------|--------|
| (in millions)                                                              | 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 <sup>a</sup> | (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 <sup>b</sup>             | 3.9                                   | 7.8    |
| Amortization of prior service credit included in net earnings <sup>b</sup> | (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  |

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

TIFFANY & CO.



Table of Contents

- 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<br>Ended April<br>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<br>Benefits          |        | Other<br>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 |

TIFFANY & CO.  
22

---

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 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<br>Ended April<br>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.

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<br>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.

TIFFANY & CO.

24

---

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. 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.

TIFFANY & CO.

25

---

Table of Contents

## 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 Translation<br>Reported Effect | Constant-<br>Exchange-<br>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 )                                |

TIFFANY &amp; CO.

26

Table of Contents

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 <sup>a</sup> | Specific cost-reduction initiatives <sup>b</sup> | Non-GAAP   |
|----------------------------------------------|-----------|---------------------------------|--------------------------------------------------|------------|
| Year Ended January 31, 2016                  |           |                                 |                                                  |            |
| Selling, general and administrative expenses | \$1,731.2 | \$ (37.9 )                      | \$ (8.8 )                                        | \$ 1,684.5 |
| Earnings from operations                     | 760.1     | 37.9                            | 8.8                                              | 806.8      |
| Net earnings                                 | 463.9     | 24.3                            | 5.6                                              | 493.8      |
| Diluted earnings per share                   | 3.59      | 0.19                            | 0.05                                             | 3.83       |

<sup>a</sup> Expenses associated with impairment charges related to a financing arrangement with Koidu Limited (see "Financing Arrangements with Diamond Mining and Exploration Companies").

<sup>b</sup> Expenses associated with specific cost-reduction initiatives which included severance related to staffing reductions and subleasing of certain office space for which only a portion of the Company's future rent obligations will be recovered.

## 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 in comparable store sales if that store resulted from a relocation 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.

## Net Sales

Net sales by segment were as follows:

|               | First Quarter |         |                     |
|---------------|---------------|---------|---------------------|
| (in millions) | 2016          | 2015    | Increase/(Decrease) |
| Americas      | \$403.4       | \$443.7 | (9 )%               |
| Asia-Pacific  | 238.2         | 259.0   | (8 )                |
| Japan         | 131.1         | 121.8   | 8                   |
| Europe        | 97.1          | 106.7   | (9 )                |
| Other         | 21.5          | 31.2    | (30 )               |
|               | \$891.3       | \$962.4 | (7 )%               |

In the first quarter of 2016, worldwide net sales decreased \$71.1 million, or 7%, due to declines in all regions except Japan, with sales on a constant-exchange rate basis also declining 7%.

By product category, as reported in U.S. dollars on a GAAP basis, the statement, fine & solitaire jewelry category decreased \$29.6 million, or 14% (reflecting decreases across the category); the fashion jewelry category decreased \$23.0 million, or 6% (reflecting decreases across the category, led by silver jewelry); and the engagement jewelry & wedding bands category decreased \$11.3 million, or 4% (reflecting a shift in sales mix to wedding bands).

TIFFANY & CO.



## Table of Contents

Changes in net sales by reportable segment were as follows:

| (in millions) | Comparable<br>Store Sales | Non-comparable<br>Store Sales | Wholesale/Other | Total    |
|---------------|---------------------------|-------------------------------|-----------------|----------|
| Americas      | \$ (38.0 )                | \$ 1.9                        | \$ (4.2 )       | \$(40.3) |
| Asia-Pacific  | (35.6 )                   | 15.9                          | (1.1 )          | (20.8 )  |
| Japan         | 12.5                      | (0.5 )                        | (2.7 )          | 9.3      |
| Europe        | (14.6 )                   | 4.2                           | 0.8             | (9.6 )   |

Americas. Total sales decreased \$40.3 million, or 9%, and comparable store sales decreased \$38.0 million, or 10%. On a constant-exchange rate basis, total sales decreased 8% and comparable store sales decreased 9%, which management attributed to lower sales to U.S. customers as well as lower foreign tourist spending in the U.S.

Changes in jewelry sales relative to the prior year were as follows:

|                         | Average<br>Price per<br>Unit<br>Sold, as<br>reported | Currency<br>Translation | Average Price per Unit<br>Sold,<br>constant-exchange-rate<br>basis | Number<br>of<br>Units<br>Sold |
|-------------------------|------------------------------------------------------|-------------------------|--------------------------------------------------------------------|-------------------------------|
| Change in Jewelry Sales | (1 )%                                                | (1 )%                   | —%                                                                 | (7 )%                         |

The decrease in the number of jewelry units sold reflected decreases across all categories, particularly in fashion silver jewelry. The average price per jewelry unit sold, on a constant-exchange-rate basis, was in line with the prior year which management attributed to price increases offset by a shift in sales mix toward the fashion jewelry category and to wedding bands within the engagement jewelry & wedding bands category.

Asia-Pacific. Total sales decreased \$20.8 million, or 8%, and comparable store sales decreased \$35.6 million, or 15%. On a constant-exchange-rate basis, total sales decreased 5% as growth in China and Korea was offset by continued significant declines in Hong Kong and more moderate declines in other markets, and comparable store sales decreased 12%.

Changes in jewelry sales relative to the prior year were as follows:

|                         | Average<br>Price per<br>Unit<br>Sold, as<br>reported | Currency<br>Translation | Average Price per Unit<br>Sold,<br>constant-exchange-rate<br>basis | Number<br>of<br>Units<br>Sold |
|-------------------------|------------------------------------------------------|-------------------------|--------------------------------------------------------------------|-------------------------------|
| Change in Jewelry Sales | (4 )%                                                | (3 )%                   | (1 )%                                                              | (4 )%                         |

The decrease in the number of jewelry units sold was largely attributed to declines across the fashion jewelry category. Management attributed the decrease in the average price per jewelry unit sold, on a constant-exchange-rate basis, to a shift in sales mix toward wedding bands within the engagement jewelry & wedding band category and declines in statement jewelry sales.

Japan. Total sales increased \$9.3 million, or 8%, and comparable store sales increased \$12.5 million, or 12%. On a constant-exchange-rate basis, total sales increased 1% due to a 5% increase in comparable store sales offset by a decrease in wholesale sales. Management attributed the increase in total sales and comparable store sales on a constant-exchange-rate basis to increased spending by local customers.

Changes in jewelry sales relative to the prior year were as follows:

Edgar Filing: TIFFANY & CO - Form 10-Q

|                         | Average<br>Price per<br>Unit<br>Sold, as<br>reported | Currency<br>Translation | Average Price per Unit<br>Sold,<br>constant-exchange-rate<br>basis | Number<br>of<br>Units<br>Sold |
|-------------------------|------------------------------------------------------|-------------------------|--------------------------------------------------------------------|-------------------------------|
| Change in Jewelry Sales | (2 )%                                                | 6 %                     | (8 )%                                                              | 9 %                           |

TIFFANY & CO.

28

---

Table of Contents

The increase in number of jewelry units sold primarily reflected increases in the fashion jewelry category. Management attributed the decrease in the average price per jewelry unit sold, on a constant-exchange-rate basis, to a shift in sales mix within the fashion jewelry category.

Europe. Total sales decreased \$9.6 million, or 9%, and comparable store sales decreased \$14.6 million, or 15%. On a constant-exchange-rate basis, total sales decreased 7% and comparable store sales decreased 14% due to declines across most of the region, led by France, which management attributed to lower spending by foreign tourists.

Changes in jewelry sales relative to the prior year were as follows:

|                         | Average<br>Price per<br>Unit<br>Sold, as<br>reported | Currency<br>Translation | Average Price per Unit<br>Sold,<br>constant-exchange-rate<br>basis | Number<br>of<br>Units<br>Sold |
|-------------------------|------------------------------------------------------|-------------------------|--------------------------------------------------------------------|-------------------------------|
| Change in Jewelry Sales | 1 %                                                  | (2 )%                   | 3 %                                                                | (11 )%                        |

The decrease in the number of jewelry units sold reflected decreases across all categories, especially in fashion silver jewelry. Management attributed the increase in average price per jewelry unit sold, on a constant-exchange-rate basis, to price increases and a shift in sales mix toward higher-priced products within the statement, fine & solitaire jewelry category.

Other. Other sales decreased \$9.7 million, or 30%, due to declines in retail and wholesale sales within the Emerging Markets region.

Store Data. In the first quarter of 2016, the Company opened two Company-operated stores in Europe (in Italy) while closing one in Japan.

## Gross Margin

|                                           | First Quarter |         |
|-------------------------------------------|---------------|---------|
| (dollars in millions)                     | 2016          | 2015    |
| Gross profit                              | \$545.6       | \$569.0 |
| Gross profit as a percentage of net sales | 61.2 %        | 59.1 %  |

Gross margin (gross profit as a percentage of net sales) increased 2.1 percentage points reflecting favorable product input costs and the effect of a shift in sales mix towards higher-margin products, as well as price increases, partly offset by the effect of currency translation and lack of sales leverage on fixed costs.

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, although significant increases in product input costs or weakening foreign currencies can affect gross margin negatively over the short-term unless and until management makes necessary price adjustments. 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 first quarters of 2016 and 2015 across most geographic regions and product categories.

Selling, General and Administrative ("SG&A") Expenses  
First Quarter

Edgar Filing: TIFFANY & CO - Form 10-Q

|                                            |         |         |
|--------------------------------------------|---------|---------|
| (dollars in millions)                      | 2016    | 2015    |
| SG&A expenses                              | \$411.0 | \$399.0 |
| SG&A expenses as a percentage of net sales | 46.1 %  | 41.4 %  |

TIFFANY & CO.

29

---

Table of Contents

SG&A expenses increased \$12.0 million, or 3%, in the first quarter of 2016, largely reflecting (i) increased store occupancy and depreciation expenses of \$5.6 million (related to new and existing stores) and (ii) increased labor costs of \$3.6 million. SG&A expenses as a percentage of net sales increased 4.7 percentage points due to the lack of sales leverage on operating expenses. There was no significant translation effect on SG&A expense growth from changes in foreign currencies.

## Earnings from Operations

|                                         | First Quarter |   |         |   |
|-----------------------------------------|---------------|---|---------|---|
| (dollars in millions)                   | 2016          |   | 2015    |   |
| Earnings from operations                | \$134.6       |   | \$170.0 |   |
| Operating margin                        | 15.1          | % | 17.7    | % |
| Percentage point change from prior year | (2.6          | ) | (3.0    | ) |

Earnings from operations decreased \$35.4 million, or 21%, in the first quarter of 2016 and operating margin decreased 2.6 percentage points reflecting higher SG&A expenses and the resulting lack of sales leverage on SG&A expenses, which was only partly offset by higher gross margin.

Results by segment are as follows:

| (in millions)                  | First<br>Quarter<br>2016 | % of Net<br>Sales | First<br>Quarter<br>2015 | % of Net<br>Sales |
|--------------------------------|--------------------------|-------------------|--------------------------|-------------------|
| Earnings from operations*:     |                          |                   |                          |                   |
| Americas                       | \$58.7                   | 14.5 %            | \$72.3                   | 16.3 %            |
| Asia-Pacific                   | 60.0                     | 25.2              | 72.7                     | 28.1              |
| Japan                          | 44.4                     | 33.9              | 43.8                     | 35.9              |
| Europe                         | 10.3                     | 10.6              | 15.4                     | 14.4              |
| Other                          | 1.8                      | 8.4               | 2.0                      | 6.8               |
|                                | 175.2                    |                   | 206.2                    |                   |
| Unallocated corporate expenses | (40.6 )                  | (4.6 )%           | (36.2 )                  | (3.8 )%           |
| Earnings from operations       | \$134.6                  | 15.1 %            | \$170.0                  | 17.7 %            |

\*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 first quarter of 2016 compared with 2015 was as follows:

•Americas – the ratio decreased 1.8 percentage points due to a decrease in net sales resulting in a lack of sales leverage on operating expenses, partly offset by an improvement in gross margin;

•Asia-Pacific – the ratio decreased 2.9 percentage points due to a decrease in net sales resulting in a lack of sales leverage on operating expenses, partly offset by an improvement in gross margin;

•Japan – the ratio decreased 2.0 percentage points primarily due to a decrease in gross margin attributable to currency translation;

•Europe – the ratio decreased 3.8 percentage points due to a decrease in net sales resulting in a lack of sales leverage on operating expenses, partly offset by an improvement in gross margin; and

•Other – the ratio increased 1.6 percentage points primarily due to an improvement in gross margin offset by the lack of sales leverage on operating expenses.

Unallocated corporate expenses include 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,

TIFFANY & CO.



Table of Contents

legal and human resources departments. Unallocated corporate expenses increased by \$4.4 million in the first quarter of 2016.

## Interest and Other Expenses, net

Interest and other expenses, net increased \$2.2 million, or 23%, in the first quarter of 2016 primarily due to lower interest income.

## Provision for Income Taxes

The effective income tax rate for the first quarter of 2016 was 29.0% versus 34.7% in the prior year. The effective income tax rate for the first quarter of 2016 included a decrease of 5.4 percentage points due to an income tax benefit of \$6.6 million, or \$0.05 per diluted share, from the conclusion of a tax examination.

## 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)                                         | First Quarter |           |
|-------------------------------------------------------|---------------|-----------|
|                                                       | 2016          | 2015      |
| Net cash provided by (used in):                       |               |           |
| Operating activities                                  | \$79.1        | \$143.6   |
| Investing activities                                  | (12.7 )       | (75.4 )   |
| Financing activities                                  | (131.5 )      | (119.0 )  |
| Effect of exchange rates on cash and cash equivalents | 1.1           | (3.4 )    |
| Net decrease in cash and cash equivalents             | \$(64.0)      | \$(54.2 ) |

## Operating Activities

The Company had a net cash inflow from operating activities of \$79.1 million in the first quarter of 2016 compared with \$143.6 million in the first quarter of 2015. The variance is primarily due to increased inventory purchases.

**Working Capital.** Working capital (current assets less current liabilities) and the corresponding current ratio (current assets divided by current liabilities) were \$2.8 billion and 4.9 at April 30, 2016, compared with \$2.8 billion and 4.8 at January 31, 2016 and \$2.9 billion and 5.9 at April 30, 2015.

Accounts receivable, less allowances at April 30, 2016 were 7% higher than January 31, 2016 and 15% higher than April 30, 2015 partly reflecting the timing of collections at quarter end as well as in-house credit related to both statement jewelry and wholesale sales. The strengthening of the Japanese Yen had the effect of increasing accounts receivable, less allowances by 3% from January 31, 2016. Therefore, when excluding that effect, accounts receivable, less allowances would have increased 4% from January 31, 2016. There was no significant translation effect on the

increase in accounts receivable, less allowances from April 30, 2015.

Inventories, net at April 30, 2016 were 4% higher than January 31, 2016 and 2% lower than April 30, 2015. When compared to January 31, 2016, finished goods inventories rose 5% and combined raw material and work-in-process inventories rose 3% due to increased purchases to support new products. When compared to April 30, 2015,

TIFFANY & CO.

31

---

Table of Contents

finished goods inventories decreased 2% and combined raw material and work-in-process inventories decreased 1%. The strengthening of the Japanese Yen had the effect of increasing inventories, net by 2% from January 31, 2016. Therefore, when excluding that effect, inventories, net would have increased 2% from January 31, 2016. There was no significant translation effect on the change in inventories, net from April 30, 2015.

## Investing Activities

The Company had net cash outflows from investing activities of \$12.7 million in the first quarter of 2016 compared with \$75.4 million in the first quarter of 2015 driven by net proceeds from the sale of marketable securities.

Marketable Securities and Short-Term Investments. The Company invests a portion of its cash in marketable securities and short-term investments. The Company received net proceeds from the sale of marketable securities and short-term investments of \$32.9 million during the first quarter of 2016 compared with net purchases of \$38.0 million during the first quarter of 2015.

## Financing Activities

The Company had net cash outflows from financing activities of \$131.5 million in the first quarter of 2016 compared with \$119.0 million in 2015. Year-over-year changes in cash flows from financing activities were largely driven by increased share repurchases partly offset by lower repayments of borrowings and an increase in proceeds from the exercise of stock options.

Recent Borrowings. The Company had net repayments of borrowings as follows:

|                                                | First Quarter |          |
|------------------------------------------------|---------------|----------|
| (in millions)                                  | 2016          | 2015     |
| Short-term borrowings:                         |               |          |
| Repayments of credit facility borrowings, net  | \$(5.4 )      | \$(27.6) |
| Proceeds from other credit facility borrowings | 7.1           | —        |
| Repayments of other credit facility borrowings | (14.2 )       | (11.3 )  |
| Net repayments of total borrowings             | \$(12.5)      | \$(38.9) |

Under all of the Company's credit facilities, at April 30, 2016 there were \$220.1 million of borrowings, \$5.5 million of letters of credit issued but not outstanding and \$804.3 million available for borrowing. At April 30, 2015, there were \$197.1 million of borrowings, \$6.4 million of letters of credit issued but not outstanding and \$808.9 million available for borrowing. The weighted-average interest rate for the amount outstanding at April 30, 2016 was 2.78% compared with 3.40% at April 30, 2015.

The ratio of total debt (short-term borrowings, current portion of long-term debt and long-term debt) to stockholders' equity was 37% at April 30, 2016, January 31, 2016 and April 30, 2015.

At April 30, 2016, 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 ("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

TIFFANY & CO.

32

---

Table of Contents

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.

The Company's share repurchase activity was as follows:

|                                         | First Quarter |         |
|-----------------------------------------|---------------|---------|
| (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 |

At April 30, 2016, approximately \$415.9 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 output from mines owned by these companies. At April 30, 2016, there was \$43.8 million of principal outstanding under a financing arrangement (the "Loan") with Koidu Limited (previously Koidu Holdings S.A.) ("Koidu"). The Loan, which was entered into between Koidu and Laurelton Diamonds, Inc., a wholly owned subsidiary of the Company, in March 2011, originally provided that repayments of principal would begin in March 2013. However, in March 2013, the Company agreed to Koidu's request to defer the principal and interest payments due in 2013 to subsequent years and, in March 2014, the Company agreed to Koidu's request to provide for monthly rather than semi-annual payments of the principal payments due in 2014. The Company received such scheduled monthly payments from Koidu in 2014. On April 30, 2015, the Company also agreed to defer Koidu's principal payment due on March 30, 2015 ("2015 Amendment"), subject to certain conditions set forth in the 2015 Amendment, which were met in June 2015.

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 2015. Additionally, the Company ceased accruing interest income on the outstanding Loan balance as of July 31, 2015.

During the first quarter of 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. Additionally, future developments may result in Koidu defaulting under

its diamond supply agreement with the Company, in which case the Company would lose access to the mine's output, although management believes this would not have a material impact on 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.

TIFFANY & CO.

33

---

## Table of Contents

### Contractual Obligations

At April 30, 2016, the Company's gross uncertain tax position decreased by \$6.6 million from January 31, 2016 primarily as a result of the conclusion of a tax examination. 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.

The Company's contractual cash obligations and commercial commitments at April 30, 2016 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, 2016.

### 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.

### 2016 Outlook

For the fiscal year ending January 31, 2017, management is now forecasting full year earnings per diluted share to decline by a mid-single-digit percentage from 2015's adjusted earnings per diluted share (which excluded the loan impairment and certain staffing and occupancy charges described above in "Non-GAAP Measures"). Management also expects earnings per diluted share in the second quarter to decline by a similar rate as occurred in the first quarter. The forecast is based on the following full-year 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, 2016:

- Worldwide net sales declining by a low-single-digit percentage from the prior year.
- Increasing worldwide gross retail square footage by 2%, net through 11 store openings, 6 relocations and 10 closings.
- Operating margin below the prior year's 19.7% (excluding the prior year's charges described above in "Non-GAAP Measures") due to an expected increase in gross margin more than offset by SG&A expense growth.
- Interest and other expenses, net unchanged from 2015.
- An effective income tax rate slightly lower than the prior year.
- A modest year-over-year strengthening of the U.S. dollar.
- Net inventories unchanged from the prior year.
- Capital expenditures of \$260.0 million.
- Free cash flow (net cash provided by operating activities less capital expenditures) of at least \$400.0 million.

TIFFANY & CO.

## Table of Contents

### 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, interest and other expenses, net, 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 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.

### 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 April 30, 2016 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 a combination of call and put option contracts in net-zero-cost collar arrangements ("precious metal collars") or forward contracts in order to manage the effect of volatility in precious metal prices. The maximum term of the Company's outstanding precious metal collars and forward contracts as of April 30, 2016 is 24 months.

TIFFANY & CO.

Table of Contents

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Based on his 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 principal executive officer and principal 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 principal executive officer and principal 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 principal executive officer and principal financial officer has 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 principal executive officer and principal financial officer, necessarily applied his 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 principal executive officer and principal financial officer has 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.

36

---

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 \$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.

TIFFANY & CO.

37

---

## 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 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 TIFANY & CO. brand watches, which have been designed, produced, marketed and distributed through certain of the Company's Swiss subsidiaries. The effective development and growth of this watch business has required and will continue to require additional resources and involves risks and uncertainties.

**Other 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.

Item 1A. Risk Factors

For information regarding risk factors, please refer to Part I, Item 1A in the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2016.

TIFFANY & CO.

38

---

Table of Contents

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

## Issuer Purchases of Equity Securities

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. 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.

The following table contains the Company's purchases of equity securities in the first quarter of 2016:

| 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) |
|---------------------------------------|-------------------------------------------------|--------------------------------------------|-------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| February 1, 2016 to February 29, 2016 | 608,922                                         | \$ 63.25                                   | 608,922                                                                                         | \$ 455.5                                                                                                                                  |
| March 1, 2016 to March 31, 2016       | 398,611                                         | \$ 69.12                                   | 398,611                                                                                         | \$ 427.9                                                                                                                                  |
| April 1, 2016 to April 30, 2016       | 166,696                                         | \$ 71.99                                   | 166,696                                                                                         | \$ 415.9                                                                                                                                  |
| TOTAL                                 | 1,174,229                                       | \$ 66.48                                   | 1,174,229                                                                                       | \$ 415.9                                                                                                                                  |

TIFFANY & CO.

39

---

Table of Contents

Item 6. Exhibits

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

| Exhibit<br>No. | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12.1           | Ratio of Earnings to Fixed Charges.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 31             | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 32             | 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 101            | The following financial information from Tiffany & Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2016, 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.

40

---

## 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: May 25, 2016 TIFFANY & CO.  
(Registrant)

By: /s/ John S. Barresi  
John S. Barresi  
Vice President, Controller  
(Chief Accounting Officer)

TIFFANY &amp; CO.

41