

SOTHEBYS  
Form DEFA14A  
April 08, 2014

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

**SCHEDULE 14A**  
**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant ☒ x

Filed by a Party other than the Registrant ☐ ..

Check the appropriate box:

- ☐ .. Preliminary proxy statement
- ☐ .. **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- ☐ .. Definitive Proxy Statement
- ☒ x Definitive Additional Materials
- ☐ .. Soliciting Material Pursuant to § 240.14a-12

**SOTHEBY S**

**(Name of Registrant as Specified in Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if Other Than Registrant)**

Payment of Filing Fee (Check the appropriate box):

x No fee required.

.. Fee computed below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

April 2014  
Forward-looking  
Statements:  
This  
presentation  
contains  
certain  
forward-looking  
statements  
(as  
such  
term  
is  
defined  
in  
Company. See Statement on Forward-Looking Statements in the Appendix to this presentation.  
the  
Securities  
and  
Exchange  
Act  
of  
1934,  
as  
amended)  
relating  
to  
future  
events

and  
the  
financial  
performance  
of  
the

2  
AGENDA

Summary Observations

Sotheby's Is a Market Leader with Outstanding Results Driving Superior  
Shareholder Returns

Sotheby's Capital Allocation Strategy Creates and Delivers Long Term Value to Shareholders

Sotheby's Has the Right Board and Leadership to Deliver Shareholder Value Now and into the Future

Third Point Has Made No Case That Change Is Warranted; Mr. Loeb's Slate Adds No Incremental Relevant Expertise to Your Board

SUMMARY OBSERVATIONS



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OVERVIEW OF SOTHEBY'S

Financial Services

(2% of Revenues)

Agency

(93% of Revenues)

Key Facts

High value market maker in the art and collectibles market place, adding value through expertise

Matches buyers and sellers through the auction or private sale process

Expertise in valuing art and relationships create opportunities to provide liquidity to clients

Provides art owners with financing secured by works of art, through near-term auction advances and general purpose term loans

SFS supports activity in the core Agency business and generated ~10% of Sotheby's Agency auction sales during past 5 years

Unique market position and relationships create attractive investment opportunities

Directly purchases and resells works of art

Includes retail wine sales

Revenues by Region<sup>1</sup>

Three Business Segments

Note: Percentages do not add to 100% due to Other revenue and rounding.

1

Revenue by region based on auction sale location.

Sotheby's Is the Only Publicly Traded Investment Opportunity in the Art Market and Has No Relevant Public Market Comparables

Revenues by Category

United

States

41%

U.K.

27%

China

18%

France

5%

Switzerland

5%

Rest of

World

4%

Other  
Paintings  
9%  
Old Masters  
4%  
Contemporary  
27%  
Impressionist  
22%  
Asian  
17%  
Other  
11%  
Jewelry  
10%

Strong Prospects for Growth

- o
- 90 locations in 40 countries
- o
- 9 auction sales rooms around the world
- o
- Received bids from over 100 countries in 2013

Industry Leader with Global Presence

- o
- One of only two global auction franchises and the fastest growing auction house in 2013 and Q1 2014, following a diversified path to growth
- o
- Global, enduring brand serving high net worth individuals
- o
- No company better positioned as wealth creation leads to additional collectors
- Principal  
(4% of Revenues)

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HISTORY OF DELIVERING SHAREHOLDER VALUE

One Year TSR

Five Year TSR

Ten Year TSR

Source: Bloomberg; market data as of April 4, 2014

Note: Ten year TSR for S&P Global Luxury Index is indexed as of June 30, 2005, when the index began trading  
Sotheby's Has Outperformed All Relevant Indices

Over the Past One, Five and Ten Year Periods

S&P Global

Luxury Index

S&P Midcap

Russell 3000

23%

23%

29%

36%

153%

181%

264%

352%

109%

157%

150%

305%

6

RECENT BOARD & MANAGEMENT ACCOMPLISHMENTS

Expanded into key emerging markets with attractive dynamics and growth potential

New  
offices

and  
gallery  
spaces  
in  
key  
markets

-  
Beijing,  
Moscow,  
Istanbul,  
Doha,  
S  
2  
Gallery  
in  
London

New clients generated approximately one-third of 2013 transaction volume

Private sales of art, now one of Sotheby's most successful channels

o  
Private sales of \$1.2 billion in 2013, a 30% increase from 2012

Growth of art-related financial services business

o  
Average loan portfolio of \$434 million in 2013 (+180% vs. 2009 average loan portfolio)

Major  
investments  
in  
digital  
strategy,  
including  
the  
BIDNow  
online  
bidding  
platform,  
which  
saw  
a  
21%  
increase in transactions by clients in 2013

Implemented new Capital Allocation and Financial Policy Plan

o  
\$300 million special dividend in March 2014  
o  
Commenced \$150 million share repurchase program  
o

Evaluating  
near-term  
capital  
return  
from  
the  
loan  
book  
and  
real  
estate  
(New  
York  
headquarters  
and  
UK New Bond Street flagship property)

Began process of debt-financing loans that are eligible collateral under the new SFS ABL, with  
a significant level of new loans now meeting 20%+ ROE threshold target

o  
New framework for annual return of any excess capital

o  
Framework for evaluating investments (15% ROIC target rate in the Agency business and 20% ROE  
target in the Financial Services business)

Increased  
Global  
Footprint  
Expansion  
Across  
Multiple  
Channels  
Efficient  
Capital  
Allocation

Board and Management Maintain a Keen Focus on Delivering Shareholder  
Value Through Growth Opportunities and Prudent Capital Allocation

|



THIRD PARTIES ARE SUPPORTIVE OF SOTHEBY'S

Recent Commentary Has Acknowledged Sotheby's  
Strong Performance in Key Collecting Categories and Regions

**But Sotheby's is no slouch in China, despite Loeb's suggestion to the contrary.**  
Like

Christie's, it now runs sales in the PRC. And its record in Hong Kong is illustrious. Including  
auctions there, in Beijing and globally, **the company's Asian art sales increased 50**

percent in 2013, faster than at Christie's.

-

January 22, 2014

We Believe BID Has a Balanced Approach to Market Share

In our view, BID is

balancing optionality to go after market share with stronger revenues at the expense of margins, or to focus the business on profitable growth with a less aggressive revenue approach **we believe the current focus on greater profitability is more prudent for** BID, & for shareholders.

-

March 6, 2014

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-

February 6, 2014

Sotheby's and Christie's. **Sotheby's remains our top stock pick.**

**Record**

London

Impressionist

Art

evening

sale

results

and

demand

was

exceptionally

robust

across

most

lots

The

art

cycle

is

still

going

strong

as

evidenced

by

recent

results

at

.

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EFFECTIVE LEADERSHIP AND STRONG GOVERNANCE  
FOCUSED ON LONG TERM VALUE CREATION

Independent Board with strong business leaders

Robust Lead Independent Director role

Directors with relevant experience and expertise across sectors and companies

Addition of new directors balances institutional knowledge with new perspectives

Majority  
vote  
standard  
in  
uncontested  
elections  
to

promote  
Board  
accountability

Strong shareholder engagement program, including specific guidelines to support direct  
communications between shareholders and Board members

Ongoing commitment to return capital to shareholders

Close alignment of performance and pay

360-degree  
evaluations in the Board's assessment of both individual director  
performance and the contributions of Board committees

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#### CONSISTENT HISTORY OF SHAREHOLDER ENGAGEMENT

Sotheby's has a long track record and culture of proactive and open dialogue with its shareholders

Consistent with this philosophy, Sotheby's promptly sought meetings with Marcato Capital Management and Third Point soon after each announced major holdings

Sotheby's proactively sought input from its shareholders during the development of the Capital Allocation and Financial Policy Review (CAR)

o  
Upon initiating the CAR, members of Sotheby's management reached out to top shareholders to discuss the process and solicit feedback

o  
In particular, Sotheby's reached out to both Marcato Capital Management and Third Point to offer an opportunity to sign an NDA, see advanced drafts of the CAR and offer their input and advice

o  
Sotheby's briefed Marcato and Third Point on the preliminary conclusions of the review and considered each investor's feedback in the development of the final framework

o  
In late January, Sotheby's published the results of the CAR and again reached out to top shareholders to review the materials

Throughout 2014, Sotheby's continued its engagement with Marcato on the Company's approach to capital allocation and return

Sotheby's has also maintained an active dialogue with Third Point, and in early 2014 offered Dan Loeb a board seat in an attempt to reach a settlement and avoid a distracting proxy contest

Sotheby's Has Consistently Engaged In an Active and Open Dialogue with Shareholders

10  
SOTHEBY'S BOARD IS COMMITTED TO PURSUING  
THE  
BEST  
INTERESTS  
OF  
ALL

## SHAREHOLDERS

Sotheby's held numerous discussions with Third Point to learn and understand its views

Sotheby's entered into a non-disclosure agreement with Third Point in January 2014 to discuss Capital Allocation and Financial Policy Review

Before Sotheby's announced the Capital Allocation and Financial Policy Review results, Mr. Loeb indicated to management that he supported the plan and thought it was well done

Sotheby's offered Mr. Loeb a Board seat and membership on three key board committees to reach a resolution and avoid a costly and disruptive proxy contest and Mr. Loeb indicated he was inclined to accept the offer

However, Mr. Loeb abruptly launched his proxy campaign in the midst of constructive dialogue, casting doubt on his ability to work effectively as a Board member

The  
Board  
has  
concluded  
that  
Mr.  
Loeb  
and  
his  
nominees  
would  
add  
no  
incremental,  
relevant  
skills,  
experience or expertise to the Sotheby's Board

The Board is concerned Mr. Loeb and his nominees would be advocates only for Mr. Loeb's interests rather than those of ALL shareholders based on:  
o  
Mr. Loeb's behavior with Sotheby's and the fact that he has not articulated any reason for change  
o  
His history as a short time Board member at other companies  
o  
The self-interested transaction he executed to sell shares back to Yahoo!



SOTHEBY S IS A MARKET LEADER WITH OUTSTANDING  
RESULTS DRIVING SUPERIOR SHAREHOLDER RETURNS

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SOTHEBY'S HAS DELIVERED STRONG FINANCIAL PERFORMANCE

Consolidated

Sales:

\$6.3

billion

Aggregate

Auction

Sales:

\$5.1

billion

Revenues:  
\$854 million

Revenue  
Growth:  
11.1%

EBITDA:  
\$245 million<sup>1</sup>

EBITDA  
Margin:  
28.7%<sup>1</sup>

Financial  
Services  
Loan  
Portfolio:  
\$474  
million

Loan  
Portfolio  
Growth:  
11.6%  
Market  
Valuation  
Financial  
Performance  
(2013)

Share Price:  
\$42.89

Market  
Capitalization:  
~\$3.0  
billion

10 Year TSR:  
305%

Source: Bloomberg and company filings; market data as of April 4, 2014

Note: Balance sheet data as of 31-Dec-2013

<sup>1</sup>

EBITDA and EBITDA Margin are non-GAAP measures. See non-GAAP reconciliation in the Appendix to this presentation.  
Capital  
Return

Regular  
Quarterly  
Dividend:  
\$0.10

Special  
Dividend:  
\$4.34  
(paid  
March  
17)

Share  
Repurchases  
(year-to-date):  
\$25  
million

Commitment to return excess capital to  
shareholders annually

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#### VIBRANT AND GROWING GLOBAL ART MARKET

The global art market was estimated at \$64 billion in 2013, up from \$36 billion in 2001, an approximately 80% increase

In 2013, the combined auction sales of Sotheby's and Christie's reached \$11.0 billion, up from \$5.9 billion in 2003

An annual growth rate of approximately 6% over the 10 year period

Source: TEFAF Art Market Report 2014 and 2002

Note: Art market figures converted from euros to dollars at 1.35.

\$15.4 billion

\$12.8 billion

\$3.8 billion

\$24.3 billion

Sotheby's Platform and Footprint Designed to

Reach All Key Channels and Regions in a Growing Market

Global Art Market

\$64 billion

Auction Sales

\$11 billion

The

private

sales

market

is

currently

estimated

at

approximately

53%

of

the

global art market, which approximates historic levels

Private Sales

53% of Art Market

Sales by Key Country

United States

China

England

France

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UNIQUELY POSITIONED TO CAPTURE OPPORTUNITY  
FROM CONTINUED WEALTH ACCUMULATION

Global Ultra High Net Worth  
Population Is Growing

Creating Tremendous Business

Opportunities that Sotheby's is Seizing

Significant growth forecasted from **2013 to 2023**,  
with particularly robust growth within  
new markets covered by Sotheby's global  
footprint

Ultra high net worth population has grown  
59% over last decade

In 2007-2012, even through the financial  
crisis, high net worth individual investable  
wealth grew at **2.6% CAGR, above 1.6%**  
GDP CAGR

Asia

Sotheby's is uniquely positioned to capture  
this opportunity due to deep expertise,  
longstanding relationships, and strength of  
brand across the art world

+43%

Latin America

+42%

Middle East

+35%

Source: Knight Frank, The Wealth Report 2014.

o

Private Sales.

In-depth knowledge of  
owners and keen ability to connect  
them with interested buyers

o

Geographic Growth.

Expansion into  
key markets across the world,  
including emerging markets in Asia,  
the Middle East, Russia and Latin  
America

o

Contemporary Art.

Record auction  
results in 2013 supported by significant  
market expertise and experience



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#### RAPID EXPANSION AND PRESENCE IN GROWING ASIAN MARKET

Over the last five years, the Chinese art market has been the fastest growing art market

in  
the  
world,  
reaching  
\$15  
billion  
in  
2013

The emerging Chinese art market presents new opportunities to drive global sales by engaging and educating a growing population of wealthy collectors

In September 2012, Sotheby's became the first international auction house to establish a presence in Beijing

Celebrating 40 years in Hong Kong, Sotheby's October 2013 sales series generated \$538 million, the highest total ever for any global auction house in Asia, and over 100% higher than the prior year total of \$262 million

In December 2013, Sotheby's first commercial auction in mainland China raised \$37 million and set a

record  
for  
Chinese-French  
artist  
Zao  
Wou-Ki in Beijing

Sotheby's  
Spring  
Hong  
Kong  
sales  
totaled  
\$438  
million,  
a  
56%

increase over the prior year, with three works bringing over HKD\$100 million and auction records for Jadeite Jewelry, Chinese Ceramics and any Southeast Asian Artist

Source: TEFAF Art Market Report 2014

Note: Art market figures converted from euros to dollars at 1.35.

In 2013, Private Sales increased by 30% or \$272.5 million and now represent nearly 20% of Sotheby's Consolidated Sales and 50% market share with traditional competitor

Leverage existing expertise and knowledge to

enhance Sotheby's Private Sales initiatives

Opened dedicated private sales galleries in New York, London and Hong Kong

Approximately 215%

Growth in Private

Sales

since

2008

(~26% CAGR)

Over the Past Several Years Sotheby's Has Dedicated Significant Management and Specialist Talent to the Rapidly Growing Private Sales Arena

**RAPIDLY EXPANDING PRESENCE IN THE PRIVATE SALES MARKET**

16

Countries that participated in Sotheby's Contemporary Art sales last year

SOTHEBY'S EXCELLENCE IN CONTEMPORARY ART

~\$381m

200%

13

67

26

34%

11

Total sales at the November

2013 Evening Sale, the highest

ever in Company history

Increase in activity among Asian

collectors in Sotheby's Contemporary

Art sales last year

Contemporary works over \$20 million

sold at auction in 2013, nearly double

the 2012 figure

Contemporary specialists with a

decade or more at Sotheby's

Buyers in Sotheby's 2013

Contemporary sales participating for

the first time

Consecutive Contemporary Art

Evening Auctions with a sell-through

rate exceeding 80%

Sotheby's

Contemporary

Art

Sales

Have

Increased

by

528%

Over

the

Last

Ten

Years

17

Sotheby's Commands a Large Share of the Contemporary Art Market and Continues

to

Win

Many

of

the

Most

Sought

After

and

Profitable

Works

of

Art

in

This

Space

Andy Warhol, Silver Car Crash

(Double Disaster)

Sold at Auction in 2013 for \$105.5mm

Mark Rothko, No 1

Sold at Auction in 2013

for \$75.1mm



Sotheby's BIDnow  
live auction platform enables bidders to participate in  
auctions from anywhere, at any time and on nearly any smart device

Audubon's Birds of America  
achieved new record for online purchase in a live

Sotheby's auction at \$3.5 million

Continuous  
enhancement  
of  
BIDnow  
drove  
significant  
increase  
in  
client  
usage  
in 2013 including:  
o  
45%  
increase  
in  
online  
bidding  
vs.  
2012  
o  
50%  
increase  
in  
Asian  
client  
traffic  
o  
25%  
increase  
in  
time  
spent  
on  
mobile  
devices

BIDNow  
regularly registers bids **over \$1 million**

In 2013, **33%** of online bidders were new to Sotheby's

In the last year, digital delivery tripled the distribution of catalogues

Sotheby's actively engages across social media platforms to attract and retain clients

Original content  
a key differentiator

is read by clients in more than **180**  
countries

Sotheby's is aggressively exploring collaborations and additional innovations to  
expand our digital business

In 2013, Sotheby's Achieved a 45% Increase in Online Bidding Through the  
Company's BIDnow

Platform Regularly Registering Bids Exceeding \$1 Million

82,500+

Followers

33,000+

Followers

17,500+

Followers

57,500+

Followers

SUCCESSFUL STRATEGY FOR DIGITAL CLIENT ENGAGEMENT

ACROSS ONLINE AND SOCIAL MEDIA PLATFORMS

Significant Investment in Digital Strategy to Increase

Global Client Engagement and Build New Audiences in Key Markets

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SOTHEBY'S CAPITAL ALLOCATION STRATEGY CREATES AND  
DELIVERS LONG TERM VALUE TO SHAREHOLDERS

Upfront Capital  
Return (March 2014)

Distributed excess available cash to  
shareholders via a special dividend  
of **\$300 million** paid in March 2014

\$25  
million  
accelerated  
share  
repurchase completed in March  
2014

SOTHEBY'S ONGOING COMMITMENT TO CREATE LONG TERM VALUE  
AND RETURN CAPITAL TO SHAREHOLDERS  
Near-Term  
Initiatives

Loan  
Book

Began process of debt-financing  
loans that are eligible collateral  
under new SFS ABL

Significant level of new loans now  
meeting 20%+ ROE threshold  
target

A majority of ~\$150-200 million to  
be available by March 2015  
Ongoing Value Creation  
and Return of Capital

Note: See Statement on Forward-Looking Statements in the Appendix to this presentation.

Initial Return + Potential Near Term Capital Return from Loan Book and Real Estate + Annual Return of Excess  
Capital = Meaningful Long Term Value Creation and Return for Shareholders  
20

Annual return of excess  
capital primarily via a special  
dividend

Annual share repurchases  
primarily to offset employee  
stock dilution

Disciplined investments in  
growth opportunities  
Near-Term  
Initiatives  
Real Estate

York Avenue Headquarters  
Review process to  
conclude in 2014

UK flagship New Bond

Street review  
underway

Consider prudent leverage targets for the Company's core Agency business (adjusted debt to EBITDA of 3.5x to 4.0x through-the-cycle)

Assess and recalibrate sources and uses of capital reserves / liquidity annually, taking into account relevant changes in the business

Target a minimum of 15% ROIC on growth opportunities (20% ROE for Sotheby's Financial Services) and allocate capital to initiatives that provide an appropriate rate of return

Execute annual share repurchase program primarily to offset employee stock dilution



All excess capital will be returned to shareholders primarily via annual special dividends

#### FRAMEWORK FOR RETURNING CAPITAL TO SHAREHOLDERS

Through Our Capital Allocation and Financial Policy Review Process, We

Have

Established

Key

Principles

to

Determine

Amounts

and

Process

for

Returning

Excess Capital to Shareholders on an Ongoing Basis

Note: EBITDA is a non-GAAP measure. Adjusted Debt to EBITDA would reflect typical ratings agency adjustments to both depreciation and operating leases.

Any special dividend will be disclosed in conjunction with the release of full year results

and paid shortly thereafter

Management retains flexibility to review appropriate means for returning capital to shareholders (e.g. special dividends vs. share repurchases)

1

2

3

4

5

21

22

## FRAMEWORK FOR EVALUATING INVESTMENTS

Threshold Test.

o

15% return on invested capital threshold over the life of the investment. Investment opportunities must strengthen the core Agency business or provide unique opportunities

to expand into adjacencies

o

20% return on equity threshold for Sotheby's Financial Services

Basis

for

Thresholds.

The

threshold

ROIC

rate

is

based

on

an

approximation

of

Sotheby's

weighted average cost of capital over time

Capital

Allocation

Decision.

Investments

that

meet

the

thresholds

will

be

evaluated

further

and capital will be allocated to those projects offering the highest risk-adjusted returns

Sotheby's Will Evaluate Potential Investments

According to a Targeted Return Requirement

The review undertaken looks thorough concluded that the firm's art auction and private sales business should be funded separately from its art lending activities. Using more outside leverage for the finance side will help release cash to pay the dividend...**it's all rational and laid out with unusual clarity, which** pleased analysts on Wednesday's conference call.

-

January 29, 2014

**We are impressed with BID's new plan which we believe thoughtfully** separates BID's Agency & Financial Services businesses, adds leverage to each, and specifies BID's commitment to return capital to shareholders primarily via Annual Special Dividends.

-

January 29, 2014

**We believe this was a good step (the company is becoming more** shareholder-focused and more transparent)

-

January 29, 2014

**SOTHEBY'S RECEIVED WIDESPREAD PRAISE REGARDING**  
**THE RESULTS OF THE CAPITAL ALLOCATION REVIEW**

In  
Conversations  
With  
Management,  
Mr.  
Loeb  
Characterized  
the  
Company's  
Capital  
Allocation  
and  
Financial  
Policy  
Plan  
as  
the  
Right  
Approach,  
Striking  
a  
Balance  
Between  
Returning  
Capital  
to  
Shareholders  
and  
Continuing  
to  
Invest  
in  
the  
Business

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SOTHEBY'S ONGOING COST STRUCTURE REVIEW & PROGRESS  
Sotheby's Annual Planning Process Identified Opportunities for  
Savings of \$22 million in 2014, Equivalent to ~10% of 2013 Operating Income

Expects  
to  
reduce

professional  
fees  
by  
approximately  
\$9  
million,

or  
15%,  
in  
2014

Note: Savings of \$22 million in 2014 includes reduction of direct costs of auction services that would equate to \$5 million in savings in 2013.

Professional  
Fees

Reduce  
marketing  
expenses  
by  
approximately  
\$4  
million,

or  
17%,  
in  
2014,

reflecting a more targeted approach to spending on core strategic priorities

Other General  
and  
Administrative  
Expenses

Spending  
reductions  
of  
approximately  
\$4  
million  
across  
other  
categories

of  
general and administrative expenses  
Direct Costs  
of Auction  
Services

Reduce  
direct  
costs

of  
auction  
services  
as  
a  
Percent  
of  
Net  
Auction  
Sales  
by  
approximately  
10  
basis  
points  
in  
2014  
Marketing  
Expenses  
Cost  
Saving  
Is  
a  
Priority  
and  
the  
Board  
and  
Management  
Have  
Made  
Significant  
Progress to Date and Will Vigorously and Continuously Pursue Additional Efficiencies  
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Behind the Sotheby's brand is a 270 year history of providing exceptional service to clients worldwide through art, auctions, real estate and more

The Sotheby's brand connotes a reputation of expertise, credibility, trust and prestige

In addition to core auction, financial services, and private sales business, the Sotheby's brand has also been applied to:

- o Sotheby's International Realty through a licensing agreement
- o High-end retail wine sales
- o Diamond retail sales
- o Sotheby's Institute of Art, which continues to expand its global presence and relevance in key art markets
- o Sotheby's Imprint, which offers print management and distribution services for premiere brands

In 2013, Domenico De Sole joined as Lead Independent Director, with luxury brand expertise from his time at Tom Ford and Gucci

In 2014, Alfredo Gangotena joined as Chief Marketing Officer, with an accomplished record of defining, managing and promoting global brands such as MasterCard Worldwide, Hutchison-Priceline, and Henkel Group

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Sotheby's is Enormously Protective of the Brand and Carefully Evaluates Brand Usage Opportunities

Against the

Potential

Value

and

Risk

to

the

Overall

Business

SOTHEBY'S IS ONE OF THE MOST  
RECOGNIZED LUXURY BRANDS IN THE WORLD

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Investment Opportunities

Increased investment in private sale initiatives

Increased loan portfolio at Sotheby's Financial Services

Opportunistic principal activities

Expansion into new collecting categories

Further investment in emerging markets

Continued expansion of digital engagement

Leverage Sotheby's brand in complementary products or  
Pursue Opportunities that Strengthen the Core Agency Business;  
Increase Exposure to Fast Growing New Markets;  
Expand the Breadth and Profitability of the Sotheby's Brand  
services

STRATEGY FOR CONTINUED GROWTH

SOTHEBY S HAS THE RIGHT BOARD AND LEADERSHIP TO  
DELIVER SHAREHOLDER VALUE NOW AND INTO THE FUTURE

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**CONSISTENT HISTORY OF SHAREHOLDER ENGAGEMENT  
AND SHARP FOCUS ON DELIVERING VALUE**

Sotheby's Board and Management Have Demonstrated a Long, Unwavering Commitment to Shareholder Value and Shareholder Engagement, and Continue to be Responsive to Feedback

Shaped in 2013 with input solicited from a number of investors

After results were announced early in 2014, Sotheby's again engaged top shareholders, who provided positive feedback on framework and policy

Capital  
Allocation  
Review  
Executive  
Compensation  
Corporate  
Governance

In 2013, Sotheby's solicited feedback from investors on executive compensation and made significant changes to improve the program and address shareholder concerns

Engaged in substantial outreach to the majority of shares outstanding

Continuous review and enhancement of governance guidelines, including recent changes to support direct communication between shareholders and Board members

A Board focused on constant renewal and improvement, including 360 degree director evaluation, with a balanced set of experience and skills relevant to our business and building shareholder value

29

SOUND CORPORATE GOVERNANCE POLICIES AND PRACTICES

Independent Board with New Perspectives



## Sound Governance Practices

### Recently Enhanced Corporate Governance Guidelines

1

Source: Spencer Stuart Board Index 2013

2

Source: Wall Street Journal

Robust Lead Independent Director role; new Lead Independent Director, Domenico De Sole, was appointed in December 2013

Average

tenure

of

~7.1

years

versus

an

average

of

~8.6

years

for

the

S&P

500<sup>1</sup>

and

~10.8

years

for

the

S&P

1500<sup>2</sup>

Board members recognized as respected leaders in their fields

Annually elected directors

Majority vote standard for election of directors

Majority vote standard to amend bylaws/charter and approve M&A transactions

Engage regularly with shareholders and seek feedback

shareholders and facilitating director evaluations

Mandatory retirement guidelines for non-management directors

Guidelines to support direct communication between shareholders and members of the Board

Updated director stock ownership guidelines to require periodic review

Revisions to executive compensation program intended to make equity awards more long term focused

360 degree

evaluation in the Board's assessment of both individual directors and Board committees  
Sotheby's Is Committed to Effective Independent Board Leadership and  
Governance Practices Focused on Shareholder Value Creation

10  
of  
12  
directors  
are  
independent;  
five  
new  
independent  
directors  
will  
have  
been  
added  
since  
2011  
Expanded  
responsibilities  
Director,  
codifying  
practices,  
including  
existing  
of  
Lead  
Independent  
on  
engaging  
with

30

BOARD WITH DISTINCT KNOWLEDGE AND EXPERTISE  
CRITICAL TO THE COMPANY'S SUCCESS

12 Highly Qualified Directors; 10 Independent Directors;

5 Will Have Been Added Since 2011

Jessica Bibliowicz

Former Chairman and

Chief Executive  
Officer of National  
Financial Partners  
Domenico De Sole  
Chairman of Tom Ford  
International  
The Duke of Devonshire  
Chancellor of the  
University of Derby  
Daniel Meyer  
President of Union  
Square Hospitality Group  
(incl. Shake Shack and  
Union Square Café)  
Allen Questrom  
Former CEO of  
Federated Department  
Stores, Neiman  
Marcus, Barney's and  
J.C. Penney  
Marsha E. Simms  
Partner at Weil, Gotshal  
& Manges until  
retirement in 2010  
Diana L. Taylor  
Former Superintendent  
of Banks of New York  
State  
Dennis M. Weibling  
Managing Director of  
Rally Capital and  
Former President of  
Eagle River  
Note: Shading indicates new directors since 2011. Jessica Bibliowicz and Kevin Conroy are new nominees in 2014.  
John M. Angelo  
Chief Executive Officer  
of Angelo, Gordon &  
Company  
Kevin Conroy  
President of Univision  
Interactive and  
Enterprise  
Development  
Robert S. Taubman  
Chairman, President and  
CEO of Taubman Centers  
Member, University of  
Michigan Investment  
Advisory Committee  
William F. Ruprecht

President and Chief  
Executive Officer of  
Sotheby's

31  
Law  
Banking  
Digital, Media, Advertising,  
Communications and Marketing  
Leading and profitably growing  
public and private companies

(Current / Former CEOs)

Experience in key growth  
markets for Sotheby's

SOTHEBY'S BOARD HAS UNIQUE, BROAD AND

COMPLEMENTARY RANGE OF EXPERTISE AND CAPABILITIES

Sotheby's Current Board Has the Relevant Experiences and Qualifications

Necessary to Continue to Deliver Effective and Independent Oversight and Direction

Art World Relationships

Capital Markets

High-End Luxury Goods

Real Estate

Client Service

International Management

Corporate Governance

Entrepreneurship

Capital Allocation

Value Creation

Money Management

32

**SOUND COMPENSATION PRACTICES**

**SHAPED BY A RESPONSIVE BOARD**

Sotheby's Board Proactively Engages with Shareholders and  
Provides Solutions to Address Shareholder Concerns

After

last



year s  
annual  
say-on-pay  
vote,  
the  
Compensation  
Committee  
led  
a  
thorough  
review of pay practices and CD&A disclosure

Our Compensation Committee engaged in substantial outreach to Sotheby s largest shareholders, who represented more than the majority of shares outstanding, to fully understand shareholder concerns and solicit input on Sotheby s pay practices

Our Compensation Committee worked intensively with independent compensation experts Semler Brossy on a top-to-bottom review, with shareholder comments integral to the process In response to shareholder feedback, Sotheby s Compensation Committee took the following actions:

- Expanded disclosure on performance measures, calculation of Sotheby s incentive compensation pool, market check for compensation decisions, and individual incentive payout rationale
- Eliminated retesting for long term incentive grants
- vest of long term awards rather than annual vest
- Modified executive equity award structure to be more long term focused with three-year cliff

33  
SOTHEBY'S SHAREHOLDER RIGHTS PLAN  
Sotheby's  
shareholder  
rights  
plan  
is

shareholder  
friendly

One-year term automatically expiring in October 2014

Shareholder approval is required to extend rights plan beyond October 2014

Permits passive investors to accumulate as much as 20%

Does not apply to majority-approved third-party bids to acquire the whole company

The  
shareholder  
rights  
plan  
is  
an  
important  
tool  
to  
ensure  
ALL  
Sotheby's  
shareholders  
are  
treated  
fairly, including in the context of rapid accumulations by 13D filers and certain short-term focused  
holders

Allows the Board and shareholders time to make informed judgments after considering the interests of all  
shareholders  
Sotheby's  
Board  
and  
Management  
View  
the  
Shareholder  
Rights  
Plan  
as  
an  
Important  
Tool  
to  
Ensure  
ALL  
Shareholders  
Are  
Treated  
Fairly;

Mr. Loeb Has Made Clear That He Seeks Relief from the Rights Plan to Buy Shares with Votes After the Record Date in Order to Win the Proxy Contest

To win a proxy battle, Third Point would start with the 10% it can vote, but for the remainder of their vote they would need to convince their fellow stockholders if activists can't do that without acquiring more voting power for themselves, then it seems to me they are essentially admitting that to win they need the very elements of control without paying a control premium which the pill is legitimately designed to prevent being bought at a bargain price.

-

Wall Street Journal, 01-April-2014

THIRD POINT HAS MADE NO CASE THAT CHANGE IS WARRANTED;  
MR. LOEB S SLATE ADDS NO INCREMENTAL RELEVANT EXPERTISE  
TO YOUR BOARD

35

SUMMARY OF INTERACTIONS WITH THIRD POINT

Between August 2013 and February 2014, Board members and management had six in-person meetings and numerous conference calls with Mr. Loeb

Offered to allow Mr. Loeb to review our capital allocation plan in depth if he agreed to a non-disclosure

agreement  
in  
January  
2014;  
he  
agreed  
and  
indicated  
to  
management  
that  
he  
supported  
the  
plan  
and  
thought it was well done

During  
discussions  
with  
members  
of  
the  
Board  
and  
management,  
Mr.  
Loeb  
reiterated  
his  
desire  
to  
join  
the Board

Mr.  
Loeb  
also  
expressed  
that  
he  
was  
willing  
to  
work  
with  
Mr.  
Ruprecht

Mr. Loeb also commended Sotheby's on the Capital Allocation Review and results Meetings with Management

Third Point has held shares in Sotheby's for approximately one year

Third Point initially filed a 13D in August 2013, disclosing a 5.7% stake

In October 2013, Third Point sent an open letter disclosing a 9.3% stake and destabilizing demands:

- o Resignation of and search for new CEO
- o Addition of several new directors
- o Revamped strategy
- Ownership
- and Letter to Board

Sotheby's engaged in multiple discussions with Third Point in February 2014 in an effort to reach a resolution and avoid a costly and disruptive proxy battle

Mr. Loeb was offered a seat on the Board, recognizing his ownership position and signaling an attempt at an amicable resolution

Sotheby's  
Attempt at a  
Resolution  
Proxy Fight  
Launch

In the midst of a constructive settlement negotiation, which your Lead Independent Director pursued aggressively with the full support of the Board, Mr. Loeb launched an abrupt proxy contest for three directors



36

THIRD POINT NOMINEES

Daniel S. Loeb

Mr. Loeb's Nominees Add No Incremental Experience to the Board

Harry J. Wilson

Olivier Reza

Art/Auction Expertise:

Luxury Expertise:

Digital Media/Communications:

Client Service:

Art/Auction Expertise:

Luxury Expertise:

Digital Media/Communications:

Client Service:

Art/Auction Expertise:

Luxury Expertise:

Digital Media/Communications:

Client Service:

No experience

Limited experience

Current

position:

CEO

of

Third

Point

LLC

Experience:

Asset

management

Public

company

board

service:

No

current

boards;

average  
tenure  
of  
one  
to  
two years on previous boards

Current  
position:  
Chairman  
&  
CEO,  
MAEVA  
Group  
Experience:  
Restructuring  
(notably  
in  
relation  
to  
auto  
industry  
bankruptcies)  
Public  
company  
board  
service:  
Visteon  
(auto  
parts  
company)

since  
soon  
after company emerged from bankruptcy. Served briefly as member of Yahoo!  
board (nominated by Third Point) and resigned when Yahoo! repurchased  
Third Point stake. Additional Third Point associations include Loeb being  
among top 20 contributors to Wilson's failed 2010 campaign for New York  
State Comptroller

Current  
position:  
Managing  
Partner  
of  
Myro  
Capital,  
providing  
services

to  
his  
family members and associated entities including those associated with the  
jewelry business of Alexandre Reza (his father)

Experience:

Most

of

career

in

investment

banking;

recently

joined

family s

jewelry business

Public

company

board

service:

None

37

MR. LOEB S BOARD EXPERIENCE

Company

Tenure

Overview

<1 Year

Third Point announced that it would nominate 6 directors to the Board in February 2007

Pogo agreed to expand the Board from 8 to 10 directors and appointed Mr. Loeb and an associate to the Board on July 1, 2007

Pogo subsequently announced acquisition by Plains on July 17, 2007  
~1 Year

Joined Board along with two other nominees in May 2012

Stepped down in July 2013 after negotiating a private transaction under which Yahoo! agreed to repurchase ~40mm of Loeb's shares  
~1 Year

Loeb appointed to Board in May 2006 following proxy fight, resigned in June 2007

During that period, shares of Massey declined more than 30%, underperforming the S&P 500 by nearly 50%; in the six months following his resignation, shares of Massey outperformed the S&P 500 by ~30%

1  
1  
Measured from May 16, 2006, the date of the Massey annual meeting, through June 13, 2007, the date of Mr. Loeb's resignation  
Mr. Loeb's Board Experience Highlights the Short-Term Nature of His Representation of Shareholders as a Director

38

Company

Tenure

Overview

~1 Year

No publicly disclosed activism

Third Point was granted one Board seat  
~2 Years

Mr. Loeb was appointed to the Board in December 2005 and resigned in March 2007

During Mr. Loeb's tenure as a Board member, Ligand shares remained at approximately the same price and underperformed the S&P 500 by ~12%  
1  
~2 Years

Mr. Loeb had been a member of the Board of Directors of the private Company since May 2006

Mr. Loeb disclosed a 30.4% stake in the Company on June 26, 2007, purchasing shares through a private placement completed simultaneously with the close of the Company's IPO on June 19, 2007

From the close of the Company's IPO to Mr. Loeb's resignation effective March 11, 2008, shares of Biofuel underperformed the S&P 500 by over ~40%

#### MR. LOEB'S BOARD EXPERIENCE (CONT'D.)

1

Measured from December 8, 2005 through March 1, 2007.

Mr. Loeb's Board Experience Highlights the Short-Term Nature of His Representation of Shareholders as a Director



39

THIRD POINT HAS MADE NO CASE THAT CHANGE IS WARRANTED

Independent Board with

Diverse Perspectives

10

of

Sotheby's

12

directors

are

independent,

with

5  
new  
independent  
directors  
to  
be  
added since 2011

Sotheby's Board provides unique, broad, and complementary expertise in art, luxury goods, digital media, international business and operations  
Leader in High Growth  
Asian Art Market

In September 2012, Sotheby's became the first international auction house to establish a presence in Beijing

Celebrating 40 years in Hong Kong, Sotheby's October 2013 sales generated \$538 million, the highest total ever for any global auction house in Asia  
Increased Private Sales

Private sales have increased approximately 315% since 2008 and by ~30% in 2013 alone, and represent almost 20% of consolidated sales  
Leader in Contemporary Art  
Auction Market

Sotheby's Contemporary Art sales have increased by over 500% since 2003

In November 2013, Sotheby's Contemporary Evening sale set numerous records  
Robust Online Presence

45%  
increase  
in  
online  
bidding  
through  
the  
company's  
BIDnow  
platform

Aggressively exploring opportunities for collaboration and innovation to drive future growth in digital platform  
Brand Leverage

Sotheby's has successfully leveraged its brand for a variety of activities including retail wine sales, retail diamond sales and realty  
Focus on Cost Saving  
and Efficiency

Management has identified \$22 million of cost savings in 2014 and is aggressively pursuing additional efficiencies

Board is committed to continuous cost improvement

Shareholder Friendly

Rights Plan

Shareholder friendly rights plan, with a one year term expiring in October 2014

Mr. Loeb wants relief from the rights plan to buy votes

40

MR. LOEB'S SELF-INTERESTED TRANSACTION WITH YAHOO!

Gabelli & Company -

July 23, 2013

**This deal looks bad.** We believe Yahoo's aggressive share repurchase program will likely add shareholder value at current prices and large, privately negotiated share repurchases, executed at market, are not in themselves questionable. However, this transaction is colored by Third Point's insider status. Moreover, Third Point is giving up its Board representation as part

of this deal, which **smacks of greenmail**. Why didn't Yahoo just tender for 40 million shares and allow all shareholders to participate? Perhaps Yahoo could have received a better price.

Source: Gabelli & Company Research, New York Times

New York Times -

July 23, 2013

**The share repurchase has the whiff of greenmail**, with Business Insider's Henry Blodget going as far as to call insider trading the sale is arguably suspect in terms of its timing. Right now, Yahoo's valuation is floating on two pontoons. **The** first and biggest driver of Yahoo's share gains over the last few years has been its stake in the Chinese Internet giant Alibaba Group

gaining from the unexpected Alibaba rise but not the restructuring he advocated, leaving just before things get hard and the wave crashes. Mr. Loeb's exit raises the question of whether he was out to create true value or merely stir the pot to get a quick hit and \$600 million in profit so far from Yahoo. Mr. Loeb's promise at the beginning was to provide

all-star

directors,

not

all-star

directors

for

about

a

year

via a corporate stock buyback, he would have been unlikely to get the same price. In addition, the volume would have meant that trading costs would have whittled away at some of his profit.

In this light, Mr. Loeb's departure is being viewed as riding the wave of hype over Yahoo. **He is**

Had Mr. Loeb sold directly in the market rather than

41

SOTHEBY'S HAS THE RIGHT BOARD, LEADERSHIP TEAM AND STRATEGY IN PLACE TO DELIVER VALUE FOR ALL SOTHEBY'S SHAREHOLDERS NOW AND OVER THE LONG TERM

Sotheby's Is a Market Leader with Outstanding Results and Superior Shareholder Returns

Sotheby's benefits from a solid financial foundation

Our Board is independent and has the strength, diversity, experience and qualifications to continue to provide excellent oversight and continue delivering value for shareholders

Our Board is committed to sound corporate governance practices

Sotheby's has engaged frequently with Third Point and other shareholders, and our Board is committed to aggressively pursuing the best interests of ALL

Sotheby's shareholders. We believe shareholders should question whether Mr. Loeb will do the same

Sotheby's Board has concluded that Mr. Loeb's nominees add no relevant skills, experience or expertise that is not already effectively represented on the Board

Through his interactions with Sotheby's Board, Mr. Loeb has shown that he would be a disruptive director

Your Vote Is Important -

We Encourage You to Vote Your Shares in

Support of Your Board on the GREEN Proxy Card

APPENDIX

\*  
\*  
\*  
\*  
\*  
\*  
\*  
\*



43  
APPENDIX  
NON-GAAP MEASURES

GAAP  
refers  
to

generally  
accepted  
accounting  
principles  
in  
the  
United  
States  
of  
America.  
In  
this  
presentation,  
financial  
measures  
are  
presented  
in  
accordance  
with  
GAAP  
and  
also  
on  
a  
non-GAAP  
basis.  
Non-GAAP  
measures  
are  
intended  
to  
supplement,  
not  
substitute  
for,  
GAAP  
comparable  
measures.  
Investors  
are  
urged  
to  
consider  
carefully  
the  
comparable  
GAAP  
measures  
and

reconciliations  
provided  
herein.

Sotheby's  
defines  
EBITDA  
as  
net  
income  
(loss),  
excluding  
income  
tax  
expense  
(benefit),  
interest  
expense,  
interest  
income,  
and  
depreciation  
and  
amortization  
expense.

Sotheby s  
defines  
Adjusted  
Debt  
as  
total  
debt,  
plus  
an  
estimate  
of  
debt-like  
items  
typically  
included  
in  
debt  
calculations  
of  
rating  
agencies,  
such  
as  
unfunded  
pensions

and  
operating  
leases.  
For  
the  
purposes  
of  
this  
presentation,  
the  
target  
Adjusted  
Debt  
to  
EBITDA  
ratio  
for  
the  
Agency  
business  
was  
contemplated  
by  
management  
by  
including  
the  
impact  
of  
such  
ratings  
agency  
adjustments  
to  
total  
debt  
and  
EBITDA.

We  
caution  
investors  
that  
amounts  
presented  
in  
accordance  
with  
Sotheby's  
definitions

of  
EBITDA,  
Adjusted  
Debt,  
and  
the  
target  
Adjusted  
Debt  
to  
EBITDA  
ratio  
for  
the  
Agency  
business  
may  
not  
be  
comparable  
to  
similar  
measures  
disclosed  
by  
other  
companies  
because  
not  
all  
companies  
and  
analysts  
calculate  
such  
measures  
in  
the  
same  
manner.  
Management  
believes  
that  
EBITDA,  
Adjusted  
Debt,  
and  
the  
target  
Adjusted

Debt  
to  
EBITDA  
ratio  
for  
the  
Agency  
business  
provide  
important  
supplemental  
measures  
of  
Sotheby's  
performance  
and  
that  
these  
measures  
may  
be  
used  
by  
securities  
analysts,  
investors,  
financial  
institutions,  
and  
other  
interested  
parties  
in  
the  
evaluation  
of  
Sotheby's.  
Management  
also  
utilizes  
EBITDA  
in  
analyzing  
Sotheby's  
performance  
and  
in  
the  
determination  
of

annual  
incentive  
compensation.

44  
APPENDIX  
(US\$ in millions)  
EBITDA  
2013  
GAAP Net income (loss)  
\$130



Adjustments

:

Income tax expense (benefit) related to continuing operations

\$56

Income tax expense related to discontinued operations

-

Income tax benefit related to cumulative effect of accounting change

-

Income tax expense (benefit) related to equity in earnings of investees

-

Interest income

(3)

Interest expense

43

Depreciation and amortization expense

19

EBITDA

\$245

45  
APPENDIX  
INDUSTRY / MARKET DATA:  
Industry  
and  
market  
data

used  
in  
this  
presentation  
have  
been  
obtained  
from  
industry  
publications  
and  
sources  
as  
well  
as  
from  
third-party  
research  
reports  
prepared  
for  
other  
purposes.  
The  
data  
obtained  
from  
these  
sources  
has  
not  
been  
independently  
verified  
and  
no  
guarantee  
is  
made  
of  
the  
data's  
accuracy  
and  
completeness.  
FORWARD LOOKING STATEMENTS:  
This  
presentation  
contains  
certain

forward  
looking  
statements,  
as  
such  
term  
is  
defined  
in  
Section  
21E  
of  
the  
Securities  
Exchange  
Act  
of  
1934,  
as  
amended,  
relating  
to  
future  
events  
and  
the  
financial  
performance  
of  
the  
Company.  
Such  
statements  
are  
only  
predictions  
and  
involve  
risks  
and  
uncertainties,  
resulting  
in  
the  
possibility  
that  
the  
actual  
events  
or

performance  
will  
differ  
materially  
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such  
predictions.  
As  
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readers  
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cautioned  
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place  
undue  
reliance  
on  
forward-  
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statements,  
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speak  
only  
as  
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management's  
plans,  
assumptions  
and  
expectations  
as  
of  
the  
date  
hereof.  
Major  
factors  
which  
the  
Company  
believes  
could  
cause  
the  
actual  
results  
to  
differ  
materially

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predicted  
results  
in  
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looking  
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include,  
but  
are  
not  
limited  
to,  
the  
risks  
identified  
below  
under  
Risk  
Factors,  
which  
are  
not  
ranked  
in  
any  
particular  
order.  
In  
addition  
to  
the  
considerations  
and  
factors  
referred  
to  
under  
Risk  
Factors  
and  
in  
prior  
filings  
and  
releases,  
major  
factors

which  
the  
Company  
believes  
could  
cause  
actual  
events  
to  
differ  
materially  
include,  
but  
are  
not  
limited  
to,  
the  
overall  
strength  
of  
the  
international  
economy  
and  
financial  
markets,  
political  
conditions  
in  
various  
nations,  
competition  
with  
other  
auctioneers  
and  
art  
dealers,  
the  
success  
of  
the  
Company's  
risk  
reduction  
and  
margin  
improvement  
efforts,

the  
amount  
of  
quality  
property  
being  
consigned  
to  
art  
auction  
houses,  
the  
marketability  
at  
auction  
of  
such  
property,  
the  
success  
of  
the  
Company's  
future  
auction  
sales  
and  
the  
reception  
of  
the  
results  
from  
the  
Company's  
announced  
capital  
allocation  
and  
financial  
review  
and  
other  
initiatives,  
including  
but  
not  
limited  
to  
its



cost  
reduction  
initiatives,  
review  
of  
its  
real  
estate  
portfolio  
and  
related  
alternatives  
and  
its  
plans  
and  
framework  
for  
returning  
capital  
to  
stockholders  
and  
optimizing  
its  
capital  
structure  
and  
financial  
policies.  
The  
Company  
disclaims  
any  
duty  
to  
update  
or  
alter  
any  
forward-looking  
statements,  
except  
as  
required  
by  
applicable  
law.  
**RISK FACTORS:**  
The

global  
economy  
and  
the  
financial  
markets  
and  
political  
conditions  
of  
various  
countries  
may  
negatively  
affect  
Sotheby's  
business  
and  
clients,  
as  
well  
as  
the  
supply  
of  
and  
demand  
for  
works  
of  
art.  
The  
international  
art  
market  
is  
influenced  
over  
time  
by  
the  
overall  
strength  
and  
stability  
of  
the  
global  
economy  
and

the  
financial  
markets  
of  
various  
countries,  
although  
this  
correlation  
may  
not  
be  
immediately  
evident.

In  
addition,  
global  
political  
conditions  
and  
world  
events  
may  
affect  
Sotheby's  
business  
through  
their  
effect  
on  
the  
economies  
of  
various  
countries,  
as  
well  
as  
on  
the  
willingness  
of  
potential  
buyers  
and  
sellers  
to  
purchase  
and  
sell

art  
in  
the  
wake  
of  
economic  
uncertainty.  
Sotheby's  
business  
can  
be  
particularly  
influenced  
by  
the  
economies,  
financial  
markets  
and  
political  
conditions  
of  
the  
U.S.,  
the  
U.K.,  
China  
and  
the  
other  
major  
countries  
or  
territories  
of  
Europe  
and  
Asia  
(including  
the  
Middle  
East).  
Accordingly,  
weakness  
in  
those  
economies  
and  
financial  
markets

can  
adversely  
affect  
the  
supply  
of  
and  
demand  
for  
works  
of  
art  
and  
Sotheby's  
business.  
Furthermore,  
global  
political  
conditions  
may  
also  
influence  
the  
enactment  
of  
legislation  
that  
could  
adversely  
impact  
Sotheby's  
business.

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APPENDIX  
RISK  
FACTORS  
(CONTINUED):  
Government  
laws

and  
regulations  
may  
restrict  
or  
limit  
Sotheby's  
business  
or  
impact  
the  
value  
of  
its  
real  
estate  
assets.  
Many  
of  
Sotheby's  
activities  
are  
subject  
to  
laws  
and  
regulations  
including,  
but  
not  
limited  
to,  
import  
and  
export  
regulations,  
cultural  
property  
ownership  
laws,  
data  
protection  
and  
privacy  
laws,  
anti-money  
laundering  
laws,  
antitrust  
laws,

copyright  
and  
resale  
royalty  
laws,  
laws  
and  
regulations  
involving  
sales,  
use,  
value-added  
and  
other  
indirect  
taxes,  
and  
regulations  
related  
to  
the  
use  
of  
real  
estate.  
In  
addition,  
Sotheby's  
is  
subject  
to  
local  
auction  
regulations,  
such  
as  
New  
York  
City  
Auction  
Regulations  
Subchapter  
M  
of  
Title  
6  
§§  
2-121-2-125,  
et.  
seq.



Such regulations currently do not impose a material impediment to the worldwide business of Sotheby's, but do affect the art market generally. A material adverse change in such regulations, such as the Equity for Visual Artists bill introduced in the U.S. Congress which would impose a 7% resale royalty on

sales  
of  
art  
through  
large  
auction  
houses,  
could  
affect  
Sotheby's  
business.  
Additionally,  
export  
and  
import  
laws  
and  
cultural  
property  
ownership  
laws  
could  
affect  
the  
availability  
of  
certain  
kinds  
of  
property  
for  
sale  
at  
Sotheby's  
principal  
auction  
locations,  
increase  
the  
cost  
of  
moving  
property  
to  
such  
locations,  
or  
expose  
Sotheby's  
to

legal  
claims  
or  
government  
inquiries.  
Foreign  
currency  
exchange  
rate  
movements  
can  
significantly  
impact  
Sotheby's  
results  
of  
operations  
and  
financial  
condition.  
Sotheby's  
has  
operations  
throughout  
the  
world,  
with  
approximately  
59%  
of  
its  
revenues  
earned  
outside  
of  
the  
U.S.  
in  
2013.  
Additionally,  
Sotheby's  
has  
significant  
assets  
and  
liabilities  
denominated  
in  
the  
Pound

Sterling,  
the  
Euro,  
and  
the  
Swiss  
Franc.  
Revenues,  
expenses,  
gains,  
and  
losses  
recorded  
in  
foreign  
currencies  
are  
translated  
using  
the  
monthly  
average  
exchange  
rates  
prevailing  
during  
the  
period  
in  
which  
they  
are  
recognized.  
Assets  
and  
liabilities  
recorded  
in  
foreign  
currencies  
are  
translated  
at  
the  
exchange  
rate  
on  
the  
balance  
sheet

date.  
Accordingly,  
fluctuations  
in  
foreign  
currency  
exchange  
rates,  
particularly  
for  
the  
Pound  
Sterling,  
the  
Euro,  
and  
the  
Swiss  
Franc  
can  
significantly  
impact  
Sotheby's  
results  
of  
operations  
and  
financial  
condition.  
Competition  
in  
the  
international  
art  
market  
is  
intense  
and  
may  
adversely  
impact  
Sotheby's  
results  
of  
operations.  
Sotheby's  
competes  
with  
other  
auctioneers

and  
art  
dealers  
to  
obtain  
valuable  
consignments  
to  
offer  
for  
sale  
either  
at  
auction  
or  
through  
private  
sale.  
The  
level  
of  
competition  
is  
intense  
and  
can  
adversely  
impact  
Sotheby's  
ability  
to  
obtain  
valuable  
consignments  
for  
sale,  
as  
well  
as  
the  
commission  
margins  
achieved  
on  
such  
consignments.  
Sotheby's  
cannot  
be  
assured

of  
the  
amount  
and  
quality  
of  
property  
consigned  
for  
sale,  
which  
may  
cause  
significant  
variability  
in  
its  
financial  
results.  
The  
amount  
and  
quality  
of  
property  
consigned  
for  
sale  
is  
influenced  
by  
a  
number  
of  
factors  
not  
within  
Sotheby's  
control.  
Many  
major  
consignments,  
and  
specifically  
single-owner  
sale  
consignments,  
often  
become  
available

as  
a  
result  
of  
the  
death  
or  
financial  
or  
marital  
difficulties  
of  
the  
owner,  
all  
of  
which  
are  
unpredictable  
and  
may  
cause  
significant  
variability  
in  
Sotheby's  
financial  
results  
from  
period  
to  
period.  
The  
demand  
for  
art  
is  
unpredictable,  
which  
may  
cause  
significant  
variability  
in  
Sotheby's  
results  
of  
operations.  
The  
demand



for  
art  
is  
influenced  
not  
only  
by  
overall  
economic  
conditions,  
but  
also  
by  
changing  
trends  
in  
the  
art  
market  
as  
to  
which  
collecting  
categories  
and  
artists  
are  
most  
sought  
after  
and  
by  
the  
collecting  
preferences  
of  
individual  
collectors,  
all  
of  
which  
are  
difficult  
to  
predict  
and  
which  
may  
adversely  
impact

the  
ability  
of  
Sotheby's  
to  
obtain  
and  
sell  
consigned  
property,  
potentially  
causing  
significant  
variability  
in  
Sotheby's  
results  
of  
operations  
from  
period  
to  
period.

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APPENDIX  
RISK FACTORS (CONTINUED):  
The  
loss  
of  
key

personnel  
could  
adversely  
impact  
Sotheby's  
ability  
to  
compete.  
Sotheby's  
is  
largely  
a  
service  
business  
in  
which  
the  
ability  
of  
its  
employees  
to  
develop  
and  
maintain  
relationships  
with  
potential  
sellers  
and  
buyers  
of  
works  
of  
art  
is  
essential  
to  
its  
success.  
Moreover,  
Sotheby's  
business  
is  
unique,  
making  
it  
important  
to  
retain

key  
specialists  
and  
members  
of  
management.  
Accordingly,  
Sotheby's  
business  
is  
highly  
dependent  
upon  
its  
success  
in  
attracting  
and  
retaining  
qualified  
personnel.  
The  
strategic  
initiatives  
being  
implemented  
by  
Sotheby's  
may  
not  
succeed.  
Sotheby's  
strategic  
initiatives  
are  
focused  
on  
extending  
the  
breadth  
and  
depth  
of  
its  
relationships  
with  
its  
most  
valuable  
clients,

developing  
a  
presence  
in  
China  
and  
other  
emerging  
markets,  
growing  
private  
sales,  
and  
leveraging  
and  
growing  
the  
Finance  
segment  
client  
loan  
portfolio.  
Sotheby's  
future  
operating  
results  
are  
dependent,  
in  
part,  
on  
management's  
success  
in  
implementing  
these  
and  
other  
strategic  
initiatives.  
Furthermore,  
the  
inability  
of  
Sotheby's  
to  
successfully  
implement  
its  
strategic

initiatives  
could  
result  
in,  
among  
other  
things,  
the  
loss  
of  
clients,  
the  
loss  
of  
key  
personnel,  
the  
impairment  
of  
assets,  
and  
inefficiencies  
from  
operating  
in  
new  
and  
emerging  
markets.  
Also,  
Sotheby's  
short-term  
operating  
results  
and  
liquidity  
could  
be  
unfavorably  
impacted  
by  
the  
implementation  
of  
its  
strategic  
plans.  
Sotheby's  
joint  
venture

in  
China  
is  
a  
foreign-invested  
enterprise  
under  
Chinese  
law.

As  
such,  
enforcement  
of  
certain  
of  
Sotheby's  
rights  
within  
the  
joint  
venture  
are  
subject  
to  
approval  
from  
the  
Chinese  
government,  
which  
could  
limit  
the  
ability  
of  
the  
joint  
venture  
to  
operate  
and  
succeed.

In  
September  
2012,  
Sotheby's  
received  
approval  
from  
the



Chinese  
government  
to  
form  
and  
operate  
a  
10-year  
equity  
joint  
venture  
with  
Beijing  
GeHua  
Art  
Company  
in  
China,  
which  
management  
believes  
will  
strategically  
enhance  
Sotheby's  
long-term  
presence  
in  
mainland  
China  
and  
allow  
it  
to  
capitalize  
on  
the  
opportunities  
presented  
by  
the  
Chinese  
art  
market.  
Because  
the  
joint  
venture  
is  
a

foreign-invested  
enterprise  
under  
Chinese  
law,  
all  
changes  
in  
shareholding  
and  
constitution  
of  
the  
joint  
venture  
will  
be  
subject  
to  
approval  
by  
the  
Chinese  
government,  
including  
in  
the  
event  
Sotheby's  
is  
seeking  
to  
terminate  
the  
joint  
venture  
agreement,  
exercise  
its  
put  
option,  
or  
wind-up  
the  
joint  
venture.  
Accordingly,  
Sotheby's  
ability  
to

successfully  
operate  
the  
joint  
venture  
and  
enforce  
the  
joint  
venture  
agreement  
provisions  
could  
be  
constrained  
by  
the  
Chinese  
government  
and  
other  
unforeseen  
circumstances.  
Sotheby's  
is  
currently  
in  
negotiations  
with  
the  
Chinese  
government  
to  
obtain  
the  
license  
required  
to  
operate  
as  
a  
Foreign-Invested  
Commercial  
Enterprise  
in  
order  
to  
establish  
a  
wholly-owned

subsidiary  
in  
China.  
Sotheby's  
negotiations  
to  
obtain  
the  
license  
required  
to  
operate  
as  
a  
Foreign-  
Invested  
Commercial  
Enterprise  
in  
China  
may  
not  
be  
successful.  
Sotheby's  
establishment  
of  
a  
wholly-owned  
subsidiary  
in  
China  
is  
subject  
to  
the  
receipt  
of  
a  
license  
from  
the  
Chinese  
government.  
Sotheby's  
may  
not  
be  
successful  
in

obtaining  
this  
license,  
which  
could  
delay  
or  
inhibit  
its  
ability  
to  
further  
implement  
its  
strategic  
initiatives  
in  
China.

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APPENDIX  
RISK  
FACTORS  
(CONTINUED):  
Sotheby's  
capital

allocation  
and  
financial  
policies  
may  
impact  
its  
liquidity,  
financial  
condition,  
market  
capitalization  
and  
business,  
and  
Sotheby's  
ongoing  
ability  
to  
return  
capital  
to  
its  
shareholders  
(and  
the  
size  
and  
timing  
of  
such  
return)  
is  
subject  
to  
ongoing  
business  
variables.  
In  
September  
2013,  
the  
Board  
of  
Directors  
announced  
a  
review  
of  
Sotheby's

capital  
allocation  
and  
financial  
policies  
in  
an  
effort  
to  
evaluate  
ongoing  
ways  
to  
deliver  
value  
to  
its  
shareholders,  
including  
through  
balance  
sheet  
optimization  
and  
potential  
return  
of  
capital  
strategies.  
Key  
considerations  
with  
respect  
to  
such  
assessment  
included,  
but  
was  
not  
limited  
to,  
the  
potential  
use  
of  
incremental  
debt  
to  
fund



segments  
of  
Sotheby's  
operations,  
ongoing  
funding  
requirements  
for  
certain  
of  
Sotheby's  
strategic  
initiatives,  
both  
announced  
and  
contemplated,  
the  
value  
of  
Sotheby's  
real  
estate  
properties,  
and  
the  
potential  
tax  
implications  
of  
any  
of  
the  
actions  
considered.  
The  
actions  
taken  
by  
Sotheby's  
based  
on  
its  
review  
of  
its  
capital  
allocation  
and  
financial

policies  
may  
impact  
its  
current  
and  
future  
liquidity,  
financial  
condition,  
market  
capitalization  
and  
business.  
In  
addition,  
the  
amount  
and  
timing  
of  
Sotheby's  
return  
of  
capital  
to  
shareholders  
depends  
on  
various  
factors,  
including  
the  
outcome  
of  
Sotheby's  
review  
of  
strategies  
with  
respect  
to  
its  
real  
estate  
properties,  
the  
amount  
of  
excess

cash  
generated  
by  
the  
business  
in  
the  
future,  
and  
the  
amount  
of  
capital  
that  
may  
be  
required  
to  
support  
Sotheby's  
future  
liquidity  
needs,  
among  
other  
factors.  
A  
small  
number  
of  
shareholders  
may  
ultimately  
impact  
Sotheby's  
business.  
As  
of  
December  
31,  
2013,  
management  
believes  
that  
two  
of  
Sotheby's  
largest  
shareholders  
control

approximately  
16%  
of  
Sotheby's  
Common  
Stock.  
These  
two  
significant  
shareholders,  
either  
individually  
or  
acting  
together,  
may  
be  
able  
to  
exercise  
significant  
influence  
over  
matters  
requiring  
shareholder  
approval,  
including  
the  
election  
of  
directors  
and  
approval  
of  
significant  
corporate  
transactions.  
A  
breach  
of  
the  
security  
measures  
protecting  
Sotheby's  
global  
network  
of  
information

systems  
and  
those  
of  
certain  
third-party  
service  
providers  
utilized  
by  
Sotheby's  
may  
occur.  
Sotheby's  
is  
dependent  
on  
a  
global  
network  
of  
information  
systems  
to  
conduct  
its  
business  
and  
is  
committed  
to  
maintaining  
a  
strong  
infrastructure  
to  
secure  
these  
systems.  
As  
part  
of  
its  
information  
systems  
infrastructure,  
Sotheby's  
relies,  
to  
a

certain  
extent,  
upon  
third-party  
service  
providers  
to  
perform  
services  
related  
to  
BIDnowTM,  
retail  
wine  
e-commerce  
and  
website  
server  
hosting.  
While  
these  
third-party  
service  
providers  
offer  
unique  
and  
specialized  
information  
security  
measures,  
certain  
elements  
of  
Sotheby's  
global  
information  
system  
security  
are  
outside  
management's  
direct  
control  
due  
to  
the  
use  
of  
these

service providers. These third-party service providers are contractually obligated to host and maintain the service in a professional manner, in accordance with the rules and standards generally accepted within the industry. This includes conventional security measures such as firewall, password and encryption protection, breach notification requirements, and PCI practices for

credit  
card  
processing  
services.  
A  
breach  
of  
the  
security  
measures  
protecting  
Sotheby's  
information  
systems  
could  
adversely  
impact  
its  
operations,  
reputation,  
and  
brand.  
Sotheby's  
business  
continuity  
plans  
may  
not  
be  
effective  
in  
addressing  
the  
impact  
of  
unexpected  
events  
that  
could  
impact  
its  
business.  
Sotheby's  
inability  
to  
successfully  
implement  
its  
business  
continuity



plans  
in  
the  
wake  
of  
an  
unexpected  
event,  
such  
as  
an  
act  
of  
God  
or  
a  
terrorist  
attack  
occurring  
near  
one  
of  
its  
major  
selling  
and/or  
sourcing  
offices  
and/or  
any  
other  
unexpected  
event,  
could  
disrupt  
its  
ability  
to  
operate  
and  
adversely  
impact  
its  
operations.

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APPENDIX  
RISK  
FACTORS  
(CONTINUED):  
Sotheby's  
relies

on  
a  
small  
number  
of  
clients  
who  
make  
a  
significant  
contribution  
to  
its  
revenues,  
profitability  
and  
operating  
cash  
flows.

Sotheby's  
relies

on  
a  
small  
number  
of  
clients  
who  
make  
a  
significant  
contribution  
to  
its  
revenues,  
profitability,  
and  
operating  
cash  
flows.

Accordingly,  
Sotheby's  
revenues,  
profitability,  
and  
operating  
cash  
flows  
are  
highly

dependent  
upon  
its  
ability  
to  
develop  
and  
maintain  
relationships  
with  
this  
small  
group  
of  
clients,  
as  
well  
as  
the  
financial  
strength  
of  
these  
clients.  
Subject  
to  
management  
approval  
under  
Sotheby's  
policy,  
Sotheby's  
may  
pay  
the  
consignor  
the  
net  
sale  
proceeds  
from  
an  
auction  
or  
private  
sale  
before  
payment  
is  
collected

from  
the  
buyer  
and/or  
may  
allow  
the  
buyer  
to  
take  
possession  
of  
purchased  
property  
before  
payment  
is  
received.  
In  
these  
situations,  
Sotheby's  
is  
exposed  
to  
losses  
in  
the  
event  
the  
buyer  
does  
not  
make  
payment.  
Under  
the  
standard  
terms  
and  
conditions  
of  
its  
auction  
and  
private  
sales,  
Sotheby's  
is  
not

obligated  
to  
pay  
the  
consignor  
for  
property  
that  
has  
not  
been  
paid  
for  
by  
the  
buyer.  
However,  
in  
certain  
instances  
and  
subject  
to  
management  
approval  
under  
Sotheby's  
policy,  
the  
consignor  
may  
be  
paid  
the  
net  
sale  
proceeds  
before  
payment  
is  
collected  
from  
the  
buyer  
while  
Sotheby's  
retains  
possession  
of  
the

property.

In

such

situations,

if

the

buyer

does

not

make

payment,

Sotheby's

will

take

title

to

the

property,

but

could

be

exposed

to

losses

if

the

value

of

the

property

declines.

In

certain

other

situations

and

subject

to

management

approval

under

Sotheby's

policy,

the

buyer

is

allowed

to

take

possession

of  
purchased  
property  
before  
making  
payment.  
In  
these  
situations,  
Sotheby's  
is  
liable  
to  
the  
seller  
for  
the  
net  
sale  
proceeds  
whether  
or  
not  
the  
buyer  
makes  
payment  
and  
would  
incur  
losses  
in  
the  
event  
of  
buyer  
default.  
Sotheby's  
ability  
to  
collect  
auction  
receivables  
may  
be  
adversely  
impacted  
by  
buyers  
from



emerging  
markets,  
as  
well  
as  
by  
the  
banking  
and  
foreign  
currency  
laws  
and  
regulations,  
and  
judicial  
systems  
of  
the  
countries  
in  
which  
it  
operates  
and  
in  
which  
its  
clients  
reside.  
Sotheby's  
operates  
in  
40  
countries  
and  
has  
a  
worldwide  
client  
base  
that  
has  
grown  
in  
recent  
years  
due  
in  
part

to  
a  
dramatic  
increase  
in  
the  
activity  
of  
buyers  
from  
emerging  
markets,  
and  
in  
particular,  
China.  
The  
collection  
of  
auction  
receivables  
related  
to  
buyers  
from  
emerging  
markets  
may  
be  
adversely  
impacted  
by  
the  
buyer's  
lack  
of  
familiarity  
with  
the  
auction  
process  
and  
the  
buyer's  
financial  
condition.  
Sotheby's  
ability  
to  
collect

auCTION  
receivables  
may  
also  
be  
adversely  
impacted  
by  
the  
banking  
and  
foreign  
currency  
laws  
and  
regulations  
regarding  
the  
movement  
of  
funds  
out  
of  
certain  
countries,  
as  
well  
as  
by  
Sotheby's  
ability  
to  
enforce  
its  
rights  
as  
a  
creditor  
in  
jurisdictions  
where  
the  
applicable  
laws  
and  
regulations  
may  
be  
less  
defined,

particularly  
in  
emerging  
markets.  
Demand  
for  
art-related  
financing  
is  
unpredictable,  
which  
may  
cause  
variability  
in  
Sotheby's  
results  
of  
operations.  
Sotheby's  
business  
is,  
in  
part,  
dependent  
on  
the  
demand  
for  
art-related  
financing,  
which  
can  
be  
significantly  
influenced  
by  
overall  
economic  
conditions  
and  
by  
the  
often  
unpredictable  
financial  
requirements  
of  
owners  
of

major  
art  
collections.  
Accordingly,  
the  
financial  
results  
of  
Sotheby's  
Finance  
segment  
are  
subject  
to  
variability  
from  
period  
to  
period.  
The  
ability  
of  
Sotheby's  
to  
realize  
proceeds  
from  
the  
sale  
of  
collateral  
for  
Finance  
segment  
loans  
may  
be  
delayed  
or  
limited.  
In  
situations  
when  
there  
are  
competing  
claims  
on  
the  
collateral

for  
Finance  
segment  
loans  
and/or  
when  
a  
borrower  
becomes  
subject  
to  
bankruptcy  
or  
insolvency  
laws,  
Sotheby's  
ability  
to  
realize  
proceeds  
from  
the  
sale  
of  
its  
collateral  
may  
be  
limited  
or  
delayed.

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APPENDIX  
RISK  
FACTORS  
(CONTINUED):  
The  
value

of  
the  
property  
held  
in  
inventory  
and  
the  
property  
pledged  
as  
collateral  
for  
Finance  
segment  
loans  
is  
subjective  
and  
often  
fluctuates,  
exposing  
Sotheby's  
to  
losses  
and  
significant  
variability  
in  
its  
results  
of  
operations.  
The  
market  
for  
fine  
art,  
decorative  
art,  
and  
high-end  
jewelry  
is  
not  
a  
highly  
liquid  
trading  
market.



As  
a  
result,  
the  
valuation  
of  
these  
items  
is  
inherently  
subjective  
and  
their  
realizable  
value  
often  
fluctuates  
over  
time.  
Accordingly,  
Sotheby's  
is  
at  
risk  
both  
as  
to  
the  
realizable  
value  
of  
the  
property  
held  
in  
inventory  
and  
as  
to  
the  
realizable  
value  
of  
the  
property  
pledged  
as  
collateral  
for  
client

loans.  
In  
estimating  
the  
realizable  
value  
of  
the  
property  
held  
in  
inventory  
and  
the  
property  
pledged  
as  
collateral  
for  
Finance  
segment  
loans,  
management  
relies  
on  
the  
opinions  
of  
Sotheby's  
specialists,  
who  
consider  
the  
following  
complex  
array  
of  
factors  
when  
valuing  
these  
items:  
(i)  
whether  
the  
property  
is  
expected  
to  
be

offered  
at  
auction  
or  
sold  
privately,  
in  
the  
ordinary  
course  
of  
Sotheby's  
business;  
(ii)  
the  
supply  
and  
demand  
for  
the  
property,  
taking  
into  
account  
economic  
conditions  
and,  
when  
relevant,  
changing  
trends  
in  
the  
art  
market  
as  
to  
which  
collecting  
categories  
and  
artists  
are  
most  
sought  
after;  
and  
(iii)  
recent  
sale

prices  
achieved  
for  
comparable  
items  
within  
a  
particular  
collecting  
category  
and/or  
by  
a  
particular  
artist.  
If  
there  
is  
evidence  
that  
the  
estimated  
realizable  
value  
of  
a  
specific  
item  
held  
in  
inventory  
is  
less  
than  
its  
carrying  
value,  
a  
loss  
is  
recorded  
to  
reflect  
management's  
revised  
estimate  
of  
realizable  
value.  
In

addition,  
if  
the  
estimated  
realizable  
value  
of  
the  
property  
pledged  
as  
collateral  
for  
a  
client  
loan  
is  
less  
than  
the  
corresponding  
loan  
balance,  
management  
assesses  
whether  
it  
is  
necessary  
to  
record  
a  
loss  
to  
reduce  
the  
carrying  
value  
of  
the  
loan,  
after  
taking  
into  
account  
the  
ability  
of  
the  
borrower

to  
repay  
any  
shortfall  
between  
the  
value  
of  
the  
collateral  
and  
the  
amount  
of  
the  
loan.  
These  
factors  
may  
cause  
significant  
variability  
in  
Sotheby's  
financial  
results  
from  
period  
to  
period.  
Sotheby's  
could  
be  
exposed  
to  
losses  
and/or  
reputational  
harm  
as  
a  
result  
of  
various  
claims  
and  
lawsuits  
incidental  
to  
the

ordinary  
course  
of  
its  
business.  
Sotheby's  
becomes  
involved  
in  
various  
legal  
proceedings,  
lawsuits,  
and  
other  
claims  
incidental  
to  
the  
ordinary  
course  
of  
its  
business.  
Management  
is  
required  
to  
assess  
the  
likelihood  
of  
any  
adverse  
judgments  
or  
outcomes  
in  
these  
matters,  
as  
well  
as  
potential  
ranges  
of  
probable  
or  
reasonably  
possible

losses.

A  
determination  
of  
the  
amount  
of  
losses,  
if  
any,  
to  
be  
recorded  
or  
disclosed  
as  
a  
result  
of  
these  
contingencies  
is  
based  
on  
a  
careful  
analysis  
of  
each  
individual  
exposure  
with,  
in  
some  
cases,  
the  
assistance  
of  
outside  
legal  
counsel.  
The  
amount  
of  
losses  
recorded  
or  
disclosed  
for  
such



contingencies  
may  
change  
in  
the  
future  
due  
to  
new  
developments  
in  
each  
matter  
or  
a  
change  
in  
settlement  
strategy.  
Sotheby's  
could  
be  
exposed  
to  
reputational  
harm  
as  
a  
result  
of  
wrongful  
actions  
by  
certain  
third  
parties.  
Sotheby's  
is  
involved  
in  
various  
business  
arrangements  
and  
ventures  
with  
unaffiliated  
third  
parties.  
Wrongful

actions  
by  
such  
parties  
could  
harm  
Sotheby's  
brand  
and  
reputation.  
Sotheby's  
could  
be  
exposed  
to  
losses  
in  
the  
event  
of  
title  
or  
authenticity  
claims.  
The  
assessment  
of  
property  
offered  
for  
auction  
or  
private  
sale  
can  
involve  
potential  
claims  
regarding  
title  
and  
authenticity.  
Items  
sold  
by  
Sotheby's  
may  
be  
subject  
to

statutory  
warranties  
as  
to  
title  
and  
to  
a  
limited  
guarantee  
as  
to  
authenticity  
under  
the  
Conditions  
of  
Sale  
and  
Terms  
of  
Guarantee  
that  
are  
published  
in  
Sotheby's  
auction  
sale  
catalogues  
and  
the  
terms  
stated  
in,  
and  
the  
laws  
applicable  
to,  
agreements  
governing  
private  
sale  
transactions.  
The  
authentication  
of  
the  
items

offered  
by  
Sotheby's  
is  
based  
on  
scholarship  
and  
research,  
but  
necessarily  
requires  
a  
degree  
of  
judgment  
from  
Sotheby's  
specialists.  
In  
the  
event  
of  
a  
title  
or  
authenticity  
claim  
against  
Sotheby's,  
Sotheby's  
may  
have  
recourse  
against  
the  
seller  
of  
the  
property  
and  
may  
have  
the  
benefit  
of  
insurance,  
but  
a  
claim

could  
nevertheless  
expose  
Sotheby's  
to  
losses  
and  
to  
reputational  
risk.

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APPENDIX  
RISK  
FACTORS  
(CONTINUED):  
Auction  
guarantees

create  
the  
risk  
of  
loss  
resulting  
from  
the  
potential  
inaccurate  
valuation  
of  
art.  
As  
discussed  
above,  
the  
market  
for  
fine  
art,  
decorative  
art,  
and  
high-end  
jewelry  
is  
not  
a  
highly  
liquid  
trading  
market  
and,  
as  
a  
result,  
the  
valuation  
of  
these  
items  
is  
inherently  
subjective.  
Accordingly,  
Sotheby's  
is  
at  
risk

with  
respect  
to  
management's  
ability  
to  
estimate  
the  
likely  
selling  
prices  
of  
property  
offered  
with  
auction  
guarantees.  
If  
management's  
judgments  
about  
the  
likely  
selling  
prices  
of  
property  
offered  
with  
auction  
guarantees  
prove  
to  
be  
inaccurate,  
there  
could  
be  
a  
significant  
adverse  
impact  
on  
Sotheby's  
results  
of  
operations,  
financial  
condition,  
and



liquidity.  
Sotheby's  
could  
be  
exposed  
to  
losses  
in  
the  
event  
of  
nonperformance  
by  
its  
counterparties  
in  
auction  
guarantee  
risk  
and  
reward  
sharing  
arrangements.

In  
certain  
situations,  
Sotheby's  
reduces  
its  
financial  
exposure  
under  
auction  
guarantees  
through  
risk  
and  
reward  
sharing  
arrangements.  
Sotheby's  
counterparties  
to  
these  
risk  
and  
reward  
sharing  
arrangements  
are

typically  
major  
international  
art  
dealers  
or  
major  
art  
collectors.  
Sotheby's  
could  
be  
exposed  
to  
losses  
in  
the  
event  
any  
of  
these  
counterparties  
do  
not  
perform  
according  
to  
the  
terms  
of  
these  
contractual  
arrangements.  
Future  
costs  
and  
obligations  
related  
to  
Sotheby's  
U.K.  
Pension  
Plan  
are  
dependent  
on  
unpredictable  
factors,  
which  
may

cause  
significant  
variability  
in  
employee  
benefit  
costs.  
Future  
costs  
and  
obligations  
related  
to  
Sotheby's  
defined  
benefit  
pension  
plan  
in  
the  
U.K.  
are  
heavily  
influenced  
by  
changes  
in  
interest  
rates,  
investment  
performance  
in  
the  
debt  
and  
equity  
markets,  
changes  
in  
statutory  
requirements  
in  
the  
U.K.,  
and  
actuarial  
assumptions,  
each  
of  
which

is  
unpredictable  
and  
may  
cause  
significant  
variability  
in  
Sotheby's  
employee  
benefit  
costs.  
Tax  
matters  
may  
cause  
significant  
variability  
in  
Sotheby's  
financial  
results.  
Sotheby's  
operates  
in  
many  
tax  
jurisdictions  
throughout  
the  
world  
and  
the  
provision  
for  
income  
taxes  
involves  
a  
significant  
amount  
of  
management  
judgment  
regarding  
interpretation  
of  
relevant  
facts  
and

laws  
in  
the  
jurisdictions  
in  
which  
Sotheby's  
operates.  
Sotheby's  
effective  
income  
tax  
rate  
can  
vary  
significantly  
between  
periods  
due  
to  
a  
number  
of  
complex  
factors  
including,  
but  
not  
limited  
to:  
(i)  
future  
changes  
in  
applicable  
laws;  
(ii)  
projected  
levels  
of  
taxable  
income;  
(iii)  
pre-tax  
income  
being  
lower  
than  
anticipated  
in

countries  
with  
lower  
statutory  
rates  
or  
higher  
than  
anticipated  
in  
countries  
with  
higher  
statutory  
rates;  
(iv)  
increases  
or  
decreases  
to  
valuation  
allowances  
recorded  
against  
deferred  
tax  
assets;  
(v)  
tax  
audits  
conducted  
by  
various  
tax  
authorities;  
(vi)  
adjustments  
to  
income  
taxes  
upon  
the  
finalization  
of  
income  
tax  
returns;  
(vii)  
the  
ability

to  
claim  
foreign  
tax  
credits;  
(viii)  
the  
repatriation  
of  
foreign  
earnings  
for  
which  
Sotheby's  
has  
not  
previously  
provided  
income  
taxes;  
and  
(ix)  
tax  
planning  
strategies.  
Sotheby's  
clients  
reside  
in  
various  
tax  
jurisdictions  
throughout  
the  
world.  
To  
the  
extent  
that  
there  
are  
changes  
to  
tax  
laws  
or  
tax  
reporting  
obligations  
in

any  
of  
these  
jurisdictions,  
such  
changes  
could  
adversely  
impact  
the  
ability  
and/or  
willingness  
of  
clients  
to  
purchase  
or  
sell  
works  
of  
art  
through  
Sotheby's.  
Additionally,  
Sotheby's  
is  
subject  
to  
laws  
and  
regulations  
in  
many  
countries  
involving  
sales,  
use,  
value-added  
and  
other  
indirect  
taxes  
which  
are  
assessed  
by  
various  
governmental  
authorities



and  
imposed  
on  
certain  
revenue-producing  
transactions  
between  
Sotheby's  
and  
its  
clients.

The  
application  
of  
these  
laws  
and  
regulations  
to  
Sotheby's  
unique  
business  
and  
global  
client  
base,  
and  
the  
estimation  
of  
any  
related  
liabilities,  
is  
complex  
and  
requires  
a  
significant  
amount  
of  
judgment.  
These  
indirect  
tax  
liabilities  
are  
generally  
not  
those

of  
Sotheby's  
unless  
it  
fails  
to  
collect  
the  
correct  
amount  
of  
sales,  
use,  
value-added,  
or  
other  
indirect  
taxes.  
Failure  
to  
collect  
the  
correct  
amount  
of  
indirect  
tax  
on  
a  
transaction  
may  
expose  
Sotheby's  
to  
claims  
from  
tax  
authorities.

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APPENDIX

RISK FACTORS (CONTINUED):

Insurance coverage for artwork may become more difficult to obtain, exposing Sotheby's to losses for artwork in Sotheby's possession. Sotheby's maintains insurance coverage through brokers and underwriters for the works of art it owns and for works of art consigned to it, exhibited and stored at Sotheby's facilities around the world. An inability to adequately insure such works of art due to limited market could, in the future, have a material adverse impact on Sotheby's business.

Due to the nature of its business, valuable works of art are exhibited and stored at Sotheby's facilities around the world. Such works of art could be subject to damage or theft, which could have a material adverse effect on Sotheby's business and reputation. Valuable works of art are exhibited and stored at Sotheby's facilities around the world. Although Sotheby's maintains state of the art security at its premises, valuable artworks may be subject to damage or theft. The damage or theft of valuable property despite Sotheby's security measures could have a material adverse impact on Sotheby's business and reputation. Sotheby's maintains insurance coverage for the works of art that are exhibited at its facilities, which could significantly mitigate any potential losses resulting from the damage or theft of such works of art.

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IMPORTANT ADDITIONAL INFORMATION

Sotheby's,

its

directors,

director

nominees

and  
certain  
of  
its  
executive  
officers  
are  
participants  
in  
the  
solicitation  
of  
proxies  
from  
Sotheby's  
stockholders  
in  
connection  
with  
Sotheby's  
2014  
Annual  
Meeting  
of  
Stockholders.  
Sotheby's  
has  
filed  
its  
definitive  
proxy  
statement  
and  
form  
of  
GREEN  
proxy  
card  
with  
the  
U.S.  
Securities  
and  
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