

TIFFANY & CO
Form 10-Q
May 23, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 1-9494

TIFFANY & CO.

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

13-3228013

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

727 Fifth Avenue, New York, NY

(Address of principal executive offices)

10022

(Zip Code)

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

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

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

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

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

Large accelerated filer Accelerated filer

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: Common Stock, \$.01 par value, 129,044,397 shares outstanding at the close of business on April 30, 2014.

Table of Contents

TIFFANY & CO. AND SUBSIDIARIES
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED APRIL 30, 2014

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1.	<u>Financial Statements</u>
	<u>Condensed Consolidated Balance Sheets – April 30, 2014, January 31, 2014 and April 30, 2013 (Unaudited)</u>
	<u>3</u>
	<u>Condensed Consolidated Statements of Earnings – for the three months ended April 30, 2014 and 2013 (Unaudited)</u>
	<u>4</u>
	<u>Condensed Consolidated Statements of Comprehensive Earnings – for the three months ended April 30, 2014 and 2013 (Unaudited)</u>
	<u>5</u>
	<u>Condensed Consolidated Statement of Stockholders' Equity – for the three months ended April 30, 2014 (Unaudited)</u>
	<u>6</u>
	<u>Condensed Consolidated Statements of Cash Flows – for the three months ended April 30, 2014 and 2013 (Unaudited)</u>
	<u>7</u>
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>
	<u>8</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>19</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	<u>28</u>
Item 4.	<u>Controls and Procedures</u>
	<u>29</u>
<u>PART II – OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u>
	<u>30</u>
Item 1A.	<u>Risk Factors</u>
	<u>31</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	<u>31</u>
Item 6.	<u>Exhibits</u>
	<u>32</u>
	(a) Exhibits

Table of Contents

PART I. Financial Information

Item 1. Financial Statements

TIFFANY & CO. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except per share amounts)

	April 30, 2014	January 31, 2014	April 30, 2013
ASSETS			
Current assets:			
Cash and cash equivalents	\$359,314	\$345,778	\$464,916
Short-term investments	21,901	21,257	125
Accounts receivable, less allowances of \$9,906, \$10,337 and \$10,153	194,571	188,814	181,715
Inventories, net	2,418,395	2,326,580	2,280,390
Deferred income taxes	102,310	101,012	80,568
Prepaid expenses and other current assets	236,815	244,947	176,769
Total current assets	3,333,306	3,228,388	3,184,483
Property, plant and equipment, net	848,432	855,095	807,875
Deferred income taxes	260,144	278,390	305,294
Other assets, net	383,632	390,478	368,104
	\$4,825,514	\$4,752,351	\$4,665,756
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	\$240,956	\$252,365	\$216,898
Accounts payable and accrued liabilities	306,088	342,090	280,956
Income taxes payable	26,135	31,976	30,817
Merchandise and other customer credits	67,539	70,309	69,213
Total current liabilities	640,718	696,740	597,884
Long-term debt	750,826	751,154	757,191
Pension/postretirement benefit obligations	273,682	268,112	336,739
Deferred gains on sale-leasebacks	80,208	81,865	89,493
Other long-term liabilities	219,491	220,512	220,003
Commitments and contingencies			
Stockholders' equity:			
Preferred Stock, \$0.01 par value; authorized 2,000 shares, none issued and outstanding	—	—	—
Common Stock, \$0.01 par value; authorized 240,000 shares, issued and outstanding 129,044, 128,312 and 127,579	1,290	1,283	1,275
Additional paid-in capital	1,128,439	1,095,304	1,039,023
Retained earnings	1,757,653	1,682,398	1,714,170
Accumulated other comprehensive loss, net of tax	(42,067	) (58,548	) (102,787
Total Tiffany & Co. stockholders' equity	2,845,315	2,720,437	2,651,681
Non-controlling interests	15,274	13,531	12,765
Total stockholders' equity	2,860,589	2,733,968	2,664,446
	\$4,825,514	\$4,752,351	\$4,665,756

See notes to condensed consolidated financial statements.

Table of ContentsTIFFANY & CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in thousands, except per share amounts)

	Three Months Ended April 30,	
	2014	2013
Net sales	\$1,012,132	\$895,484
Cost of sales	422,606	392,260
Gross profit	589,526	503,224
Selling, general and administrative expenses	379,733	362,066
Earnings from operations	209,793	141,158
Interest and other expenses, net	16,276	12,712
Earnings from operations before income taxes	193,517	128,446
Provision for income taxes	67,908	44,869
Net earnings	\$125,609	\$83,577
Net earnings per share:		
Basic	\$0.97	\$0.66
Diluted	\$0.97	\$0.65
Weighted-average number of common shares:		
Basic	128,933	127,318
Diluted	129,795	128,441
See notes to condensed consolidated financial statements.		

Table of Contents

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

	Three Months Ended April 30,		
	2014	2013	
Net earnings	\$ 125,609	\$ 83,577	
Other comprehensive earnings (loss), net of tax			
Foreign currency translation adjustments	17,151	(15,438)
Unrealized gain on marketable securities	767	815	
Unrealized (loss) gain on hedging instruments	(3,479	) 2,787	
Net unrealized gain on benefit plans	2,042	2,924	
Total other comprehensive earnings (loss), net of tax	16,481	(8,912)
Comprehensive earnings	\$ 142,090	\$ 74,665	
See notes to condensed consolidated financial statements.			

Table of Contents

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

	Total Stockholders' Equity	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Non- controlling Interests
Balances, January 31, 2014	\$2,733,968	\$1,682,398	\$ (58,548)	128,312	\$1,283	\$1,095,304	\$13,531
Exercise of stock options and vesting of restricted stock units ("RSUs")	16,385	—	—	769	8	16,377	—
Tax effect of exercise of stock options and vesting of RSUs	7,593	—	—	—	—	7,593	—
Share-based compensation expense	6,913	—	—	—	—	6,913	—
Issuance of Common Stock under Employee Profit Sharing and Retirement Savings Plan	3,925	—	—	45	—	3,925	—
Purchase and retirement of Common Stock	(7,146)	(6,553)	—	(82)	(1)	(592)	—
Cash dividends on Common Stock	(43,801)	(43,801)	—	—	—	—	—
Other comprehensive earnings, net of tax	16,481	—	16,481	—	—	—	—
Net earnings	125,609	125,609	—	—	—	—	—
Redemption of non-controlling interest	—	—	—	—	—	(1,081)	1,081
Non-controlling interests	662	—	—	—	—	—	662
Balances, April 30, 2014	\$2,860,589	\$1,757,653	\$ (42,067)	129,044	\$1,290	\$1,128,439	\$15,274

See notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended April 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$125,609	\$83,577
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	49,857	43,510
Amortization of gain on sale-leasebacks	(2,361)	(2,396)
Excess tax benefits from share-based payment arrangements	(7,498)	(6,078)
Provision for inventories	8,289	9,602
Deferred income taxes	12,585	(6,026)
Provision for pension/postretirement benefits	10,430	13,796
Share-based compensation expense	6,845	7,178
Changes in assets and liabilities:		
Accounts receivable	(4,279)	(12,149)
Inventories	(91,630)	(78,617)
Prepaid expenses and other current assets	(16,260)	(17,199)
Accounts payable and accrued liabilities	(40,200)	(17,097)
Income taxes payable	33,044	9,148
Merchandise and other customer credits	(3,102)	2,922
Other, net	(4,713)	(27,888)
Net cash provided by operating activities	76,616	2,283
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments	(346)	(298)
Capital expenditures	(35,162)	(34,542)
Notes receivable funded	—	(3,000)
Proceeds from notes receivable	3,486	—
Net cash used in investing activities	(32,022)	(37,840)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repayment of) proceeds from credit facility borrowings, net	(11,389)	27,916
Other proceeds from credit facility borrowings	2,405	3,237
Other repayments of credit facility borrowings	(964)	(4,004)
Repurchase of Common Stock	(7,146)	—
Proceeds from exercised stock options	20,625	5,316
Excess tax benefits from share-based payment arrangements	7,498	6,078
Cash dividends on Common Stock	(43,801)	(40,748)
Financing fees	(84)	—
Net cash used in financing activities	(32,856)	(2,205)
Effect of exchange rate changes on cash and cash equivalents	1,798	(2,160)
Net increase/(decrease) in cash and cash equivalents	13,536	(39,922)
Cash and cash equivalents at beginning of year	345,778	504,838
Cash and cash equivalents at end of three months	\$359,314	\$464,916
See notes to condensed consolidated financial statements.		

Table of Contents

TIFFANY & CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements include the accounts of Tiffany & Co. (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, 2014 and 2013 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2014 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, 2014 and 2013 are not necessarily indicative of the results of the entire fiscal year.

2. RECEIVABLES AND FINANCING ARRANGEMENTS

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

For the receivables associated with Tiffany & Co. credit cards ("Credit Card Receivables"), the Company uses various indicators to determine whether to extend credit to customers and the amount of credit. Such indicators include reviewing prior experience with the customer, including sales and collection history, and using applicants' credit reports and scores provided by credit rating agencies. Credit Card Receivables require minimum balance payments. The Company classifies a Credit Card account as overdue if a minimum balance payment has not been received within the allotted timeframe (generally 30 days), after which internal collection efforts commence. For all Credit Card Receivables recorded on the balance sheet, once all internal collection efforts have been exhausted and management has reviewed the account, the account balance is written off and may be sent for external collection or legal action. At April 30, 2014 and 2013, the carrying amount of the Credit Card Receivables (recorded in accounts receivable, net) was \$59,823,000 and \$53,160,000, of which 97% and 98% were considered current, respectively. The allowance for doubtful accounts for estimated losses associated with the Credit Card Receivables (approximately \$1,000,000 at April 30, 2014 and \$1,500,000 at April 30, 2013) was determined based on the factors discussed above. Finance charges earned on Credit Card accounts are not significant.

Financing Arrangements. The Company may, from time to time, provide financing to diamond mining and exploration companies in order to obtain rights to purchase the mine's output. Management evaluates these and any other financing arrangements that may arise for potential impairment by reviewing the parties' financial statements and projections and business, operational and other economic factors on a periodic basis. At April 30, 2014 and 2013,

the current portion of the carrying amount of financing arrangements including accrued interest was \$19,095,000 and \$7,065,000 and was recorded in prepaid expenses and other current assets. At April 30, 2014 and 2013, the non-current

8

Table of Contents

portion of the carrying amount of financing arrangements including accrued interest was \$51,459,000 and \$65,460,000 and was included in other assets, net. The Company has not recorded any material impairment charges on such loans as of April 30, 2014 and 2013.

3. INVENTORIES

(in thousands)	April 30, 2014	January 31, 2014	April 30, 2013
Finished goods	\$1,365,299	\$1,333,926	\$1,341,369
Raw materials	920,982	874,799	812,530
Work-in-process	132,114	117,855	126,491
Inventories, net	\$2,418,395	\$2,326,580	\$2,280,390

4. INCOME TAXES

The effective income tax rate for the three months ended April 30, 2014 was 35.1% versus 34.9% in the prior year. The effective income tax rate for the three months ended April 30, 2014 includes an increase of 2.0 percentage points due to the one-time impact of changes in tax legislation offset by the favorable impact of a valuation allowance release of 1.3 percentage points.

During the three months ended April 30, 2014, the change in the gross amount of unrecognized tax benefits and accrued interest and penalties was not significant.

The Company conducts business globally, and as a result, is subject to taxation in the U.S. and various state and foreign jurisdictions. As a matter of course, various taxing authorities regularly audit the Company. The Company's tax filings are currently being examined by a number of tax authorities in various jurisdictions. An audit is being conducted by the Internal Revenue Service (tax years 2006–2009). Tax years from 2006–present are open to examination in U.S. Federal and various state, local and foreign jurisdictions. As part of these audits, the Company engages in discussions with the taxing authorities regarding tax positions. Management believes it is reasonably possible that the total gross amount provided for unrecognized tax benefits will decrease by approximately \$20,000,000 in the next 12 months, primarily due to the potential settlement of outstanding tax matters and closing of audits. If the Company does recognize such a decrease, management does not currently anticipate a significant effect on net earnings. Future developments may result in a change in this assessment.

5. EARNINGS PER SHARE

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

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

(in thousands)	Three Months Ended April 30,	
	2014	2013
Net earnings for basic and diluted EPS	\$125,609	\$83,577
Weighted-average shares for basic EPS	128,933	127,318
Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units	862	1,123
Weighted-average shares for diluted EPS	129,795	128,441

Table of Contents

For the three months ended April 30, 2014 and 2013, there were 324,000 and 765,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

6. HEDGING INSTRUMENTS

Background Information

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

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

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

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

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

Types of Derivative Instruments

Interest Rate Swaps – In 2012, the Company entered into forward-starting interest rate swaps to hedge the impact of interest rate volatility on future interest payments associated with the anticipated incurrence of \$250,000,000 of additional debt which was incurred in July 2012. The Company accounted for the forward-starting interest rate swaps as cash flow hedges.

Foreign Exchange Forward and Put Option Contracts – The Company uses foreign exchange forward contracts or put option contracts to offset the foreign currency exchange risks associated with foreign currency-denominated exposures, intercompany transactions and forecasted purchases of merchandise between entities with differing functional currencies. For put option contracts, if the market exchange rate at the time of the put option contract's

expiration is stronger than the contracted exchange rate, the Company allows the put option contract to expire, limiting its loss to the cost of the put option contract. The Company assesses hedge effectiveness based on the total changes in the foreign exchange forward and put option contracts' cash flows. These foreign exchange forward contracts and put option contracts

Table of Contents

are designated and accounted for as either cash flow hedges or economic hedges that are not designated as hedging instruments.

As of April 30, 2014, the notional amount of foreign exchange forward contracts accounted for as cash flow hedges was \$163,464,000 and the notional amount of foreign exchange forward contracts accounted for as undesignated hedges was \$50,683,000. The term of all outstanding foreign exchange forward contracts as of April 30, 2014 ranged from less than one month to 12 months.

Precious Metal Forward Contracts – The Company periodically hedges a portion of its forecasted purchases of precious metals for use in its internal manufacturing operations through the use of forward contracts in order to minimize the effect of volatility in precious metal prices. The Company accounts for its precious metal forward contracts as cash flow hedges. The Company assesses hedge effectiveness based on the total changes in the precious metal forward contracts' cash flows. The maximum term over which the Company is hedging its exposure to the variability of future cash flows for all forecasted transactions is 12 months. As of April 30, 2014, there were precious metal derivative instruments outstanding for approximately 17,000 ounces of platinum and 527,000 ounces of silver.

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

(in thousands)	Three Months Ended April 30, 2014		2013	
	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Pre-Tax Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Pre-Tax Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange forward contracts ^a	\$(144	) \$7,373	\$9,176	\$1,929
Put option contracts ^a	—	—	1,278	268
Precious metal forward contracts ^a	412	(1,503	) (4,984	) (925
Forward-starting interest rate swaps ^b	—	(373	) —	(390
	\$268	\$5,497	\$5,470	\$882

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

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

The gains and losses on derivatives not designated as hedging instruments were not significant in the periods ended April 30, 2014 and 2013. There was no material ineffectiveness related to the Company's hedging instruments for the periods ended April 30, 2014 and 2013. The Company expects approximately \$6,600,000 of net pre-tax derivative gains included in accumulated other comprehensive income at April 30, 2014 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 7. Fair Value of Financial Instruments."

Table of Contents

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.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The Company uses the market approach to measure fair value for its marketable securities, time deposits and derivative instruments. 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 are primarily valued using the relevant precious metal spot rate. For further information on the Company's hedging instruments and program, see "Note 6. Hedging Instruments."

Financial assets and liabilities carried at fair value at April 30, 2014 are classified in the table below in one of the three categories described above:

(in thousands)	Carrying Value	Estimated Fair Value			Total Fair Value
		Level 1	Level 2	Level 3	
Marketable securities ^a	\$53,393	\$53,393	\$—	\$—	\$53,393
Time deposits ^b	21,901	21,901	—	—	21,901
Derivatives designated as hedging instruments:					
Precious metal forward contracts ^c	197	—	197	—	197
Foreign exchange forward contracts ^c	3,799	—	3,799	—	3,799
Total financial assets	\$79,290	\$75,294	\$3,996	\$—	\$79,290

Table of Contents

(in thousands)	Carrying Value	Estimated Fair Value			Total Fair Value
		Level 1	Level 2	Level 3	
Derivatives designated as hedging instruments:					
Precious metal forward contracts ^d	\$1,077	\$—	\$1,077	\$—	\$1,077
Foreign exchange forward contracts ^d	303	—	303	—	303
Total financial liabilities	\$1,380	\$—	\$1,380	\$—	\$1,380

Financial assets and liabilities carried at fair value at April 30, 2013 are classified in the table below in one of the three categories described above:

(in thousands)	Carrying Value	Estimated Fair Value			Total Fair Value
		Level 1	Level 2	Level 3	
Marketable securities ^a	\$50,067	\$50,067	\$—	\$—	\$50,067
Time deposits ^b	125	125	—	—	125
Derivatives designated as hedging instruments:					
Precious metal forward contracts ^c	205	—	205	—	205
Foreign exchange forward contracts ^c	24,183	—	24,183	—	24,183
Total financial assets	\$74,580	\$50,192	\$24,388	\$—	\$74,580

(in thousands)	Carrying Value	Estimated Fair Value			Total Fair Value
		Level 1	Level 2	Level 3	
Derivatives designated as hedging instruments:					
Precious metal forward contracts ^d	\$4,047	\$—	\$4,047	\$—	\$4,047
Foreign exchange forward contracts ^d	80	—	80	—	80
Total financial liabilities	\$4,127	\$—	\$4,127	\$—	\$4,127

aIncluded within Other assets, net.

bIncluded within Short-term investments.

cIncluded within Prepaid expenses and other current assets.

dIncluded within Accounts payable and accrued liabilities.

The fair value of derivatives not designated as hedging instruments was not significant in the periods ended April 30, 2014 and 2013. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates carrying value due to the short-term maturities of these assets and liabilities and would be measured using Level 1 inputs. The fair value of debt with variable interest rates approximates carrying value and is measured using Level 2 inputs. The fair value of debt with fixed interest rates was determined using the quoted market prices of debt instruments with similar terms and maturities, which are considered Level 2 inputs. The total carrying value of short-term borrowings and long-term debt was \$991,782,000 and \$974,089,000 and the corresponding fair value was approximately \$1,100,000,000 at both April 30, 2014 and 2013.

8. COMMITMENTS AND CONTINGENCIES

Litigation. 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.

Table of Contents

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"), and the 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 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 73,000,000 (or approximately \$83,000,000 at April 30, 2014) (based on its alleged wasted investment) to CHF 3,800,000,000 (or approximately \$4,300,000,000 at April 30, 2014) (calculated based on alleged future lost profits of the Swatch Parties and their affiliates over the entire term of the Agreements).

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 120,000,000 (or approximately \$136,000,000 at April 30, 2014) (based on its wasted investment) to approximately CHF 540,000,000 (or approximately \$611,000,000 at April 30, 2014) (calculated based on alleged future lost profits of the Tiffany Parties).

Under the terms of the Arbitration Award, and at the request of the Swatch Parties and the Tiffany Parties, the Agreements were deemed terminated as of March 1, 2013. Pursuant to the Arbitration Award, the Tiffany Parties were ordered to pay the Swatch Parties damages of CHF 402,737,000 (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, and, in the fourth quarter of 2013, the Company recorded a charge of \$480,211,000 which had been classified as Arbitration award expense in the consolidated statement of earnings for the fiscal year ended January 31, 2014.

On March 31, 2014, the Tiffany Parties took action in the courts of the Netherlands 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 have 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.

Management expects that the annulment action will not be ultimately resolved for at least two years; however, 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 cannot be determined at this time.

In any such litigation, 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

Table of Contents

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.

Management has not established any accrual in the Company's condensed consolidated financial statements as of April 30, 2014 related to the annulment process or any potential subsequent litigation because it does not believe that an annulment of the Arbitration Award and the subsequent award of damages exceeding the Arbitration Damages is probable.

The Company is proceeding with plans to design, produce, market and distribute TIFFANY & CO. brand watches through a Swiss subsidiary. The effective development and growth of this watch business will require additional resources and will involve risks and uncertainties.

Leases. In April 2010, Tiffany committed to a plan to consolidate and relocate its New York headquarters staff to a single leased location in Manhattan. The Company recorded accrued exit charges of \$30,884,000 during the second quarter of 2011 within other long-term liabilities associated with the relocation. The following is a reconciliation of the remaining accrued exit charges:

(in thousands)		
Balance at January 31, 2014	\$10,465	
Cash payments, net of estimated sublease income	(1,518)
Interest accretion	69	
Balance at April 30, 2014	\$9,016	

9. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Loss

(in thousands)	April 30, 2014	January 31, 2014	April 30, 2013
Accumulated other comprehensive earnings (loss), net of tax:			
Foreign currency translation adjustments	\$33,997	\$16,846	\$28,626
Unrealized gain on marketable securities	3,444	2,677	2,664
Deferred hedging loss	(10,086	) (6,607	) (420
Net unrealized loss on benefit plans	(69,422	) (71,464	) (133,657
	\$ (42,067	) \$ (58,548	) \$ (102,787

Table of Contents

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

(in thousands)	Three Months Ended April 30,	
	2014	2013
Foreign currency translation adjustments	\$17,348	\$(17,893)
Income tax (expense) benefit	(197)	2,455
Foreign currency adjustments, net of tax	17,151	(15,438)
Unrealized gain on marketable securities	1,219	1,266
Income tax expense	(452)	(451)
Unrealized gain on marketable securities, net of tax	767	815
Unrealized gain on hedging instruments	268	5,470
Reclassification adjustment for gain included in net earnings ^a	(5,497)	(882)
Income tax benefit (expense)	1,750	(1,801)
Unrealized (loss) gain on hedging instruments, net of tax	(3,479)	2,787
Amortization of net loss included in net earnings ^b	3,408	5,296
Amortization of prior service (credit) cost included in net earnings ^b	(108)	78
Income tax expense	(1,258)	(2,450)
Net unrealized gain on benefit plans, net of tax	2,042	2,924
Total other comprehensive gain (loss), net of tax	\$16,481	\$(8,912)

^a These gains are reclassified into Interest and other expenses, net and Cost of sales (see "Note 6. Hedging Instruments" for additional details).

^b These accumulated other comprehensive loss components are included in the computation of net periodic pension costs (see "Note 10. Employee Benefit Plans" for additional details).

Cash Dividends. The Company's Board of Directors declared quarterly dividends of \$0.34 and \$0.32 per share of Common Stock in the three months ended April 30, 2014 and 2013.

Share Repurchase Program. In March 2014, the Company's Board of Directors approved a share repurchase program which authorizes the Company to repurchase up to \$300,000,000 of its Common Stock through open market transactions. Purchases are discretionary and will be made from time to time based on market conditions and the Company's liquidity needs. The program will expire on March 31, 2017.

The Company's share repurchase activity was as follows:

(in thousands, except per share amounts)	Three Months Ended April 30, 2014
Cost of repurchases	\$7,146
Shares repurchased and retired	82
Average cost per share	\$86.95

At April 30, 2014, approximately \$292,854,000 remained available for share repurchases under this authorization.

Table of Contents

10. 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:

(in thousands)	Three Months Ended April 30,			
	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Net Periodic Benefit Cost:				
Service cost	\$4,623	\$5,056	\$595	\$723
Interest cost	7,130	6,865	672	728
Expected return on plan assets	(5,890	) (4,950) —	—
Amortization of prior service cost (credit)	60	243	(168	) (165
Amortization of net loss	3,401	5,200	7	96
Net expense	\$9,324	\$12,414	\$1,106	\$1,382

11. SEGMENT INFORMATION

The Company's reportable segments are as follows:

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

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

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

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

Other consists of all non-reportable segments, including (i) retail sales in Company-operated TIFFANY & CO. stores and wholesale distribution in the Emerging Markets region; (ii) wholesale sales of diamonds; and (iii) licensing agreements.

Table of Contents

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

(in thousands)	Three Months Ended April 30,	
	2014	2013
Net sales:		
Americas	\$438,688	\$407,697
Asia-Pacific	260,944	223,427
Japan	173,894	144,527
Europe	101,285	92,986
Total reportable segments	974,811	868,637
Other	37,321	26,847
	\$1,012,132	\$895,484
Earnings from operations*:		
Americas	\$81,484	\$58,962
Asia-Pacific	71,841	55,459
Japan	71,496	53,419
Europe	16,972	14,278
Total reportable segments	241,793	182,118
Other	2,264	844
	\$244,057	\$182,962

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

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 thousands)	Three Months Ended April 30,	
	2014	2013
Earnings from operations for segments	\$244,057	\$182,962
Unallocated corporate expenses	(34,264	) (32,425
Interest and other expenses, net	(16,276	) (12,712
Other operating expense	—	(9,379
Earnings from operations before income taxes	\$193,517	\$128,446

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.

Other operating expense in the three months ended April 30, 2013 was related to specific cost-reduction initiatives. These cost-reduction initiatives 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.

12. SUBSEQUENT EVENT

On May 22, 2014, the Company's Board of Directors approved a 12% increase in the quarterly dividend rate, increasing it from \$0.34 per share of Common Stock to a new rate of \$0.38. This dividend will be paid on July 10, 2014 to shareholders of record on June 20, 2014.

Table of Contents

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

OVERVIEW

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

The Company's reportable segments are as follows:

Americas includes sales in 121 Company-operated TIFFANY & CO. stores in the United States, Canada and Latin America, as well as sales of TIFFANY & CO. products in certain markets through business-to-business, Internet, catalog and wholesale operations;

Asia-Pacific includes sales in 72 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 business-to-business, Internet and wholesale operations;

Europe includes sales in 38 Company-operated TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products in certain markets through Internet and wholesale operations; and