TIFFANY & CO
Form 10-Q
August 25, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-9494
TIFFANY & CO.
(Exact name of registrant as specified in its charter)

Delaware	13-3228013
(State of incorporation)	(I.R.S. Employer Identification No.)
727 Fifth Avenue, New York, NY	10022
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 755-8000
Former name, former address and former fiscal year, if changed since last report
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x	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 x
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, 124,891,690 shares outstanding at the close of business on July 31, 2016.

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PART I. Financial Information

Item 1. Financial Statements
TIFFANY & CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in millions, except per share amounts)

	July 31, 2016	January 31, 2016	July 31, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$666.3	$843.6	$758.5
Short-term investments	53.8	43.0	12.9
Accounts receivable, less allowances of $10.5, $11.5 and $9.8	216.4	206.4	180.3
Inventories, net	2,324.8	2,225.0	2,357.7
Prepaid expenses and other current assets	215.4	190.4	202.9
Total current assets	3,476.7	3,508.4	3,512.3
Property, plant and equipment, net	944.8	935.8	898.4
Deferred income taxes	367.0	382.8	435.7
Other assets, net	314.4	294.6	325.6
	$5,102.9	$5,121.6	$5,172.0
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	$207.1	$221.6	$196.8
Current portion of long-term debt	94.8	84.2	—
Accounts payable and accrued liabilities	300.7	329.1	310.2
Income taxes payable	30.5	27.1	38.3
Merchandise credits and deferred revenue	64.5	67.9	73.9
Total current liabilities	697.6	729.9	619.2
Long-term debt	790.5	790.0	870.1
Pension/postretirement benefit obligations	442.1	428.1	538.9
Deferred gains on sale-leasebacks	53.2	55.1	59.5
Other long-term liabilities	190.8	189.0	189.6
Commitments and contingencies			
Stockholders' equity:			
Preferred Stock, $0.01 par value; authorized 2.0 shares, none issued and outstanding	—	—	—
Common Stock, $0.01 par value; authorized 240.0 shares, issued and outstanding 124.9, 126.8 and 128.9	1.3	1.3	1.3
Additional paid-in capital	1,175.9	1,175.7	1,184.7
Retained earnings	1,967.2	2,012.5	2,008.7
Accumulated other comprehensive loss, net of tax	(232.2)	(278.1)	(316.7)
Total Tiffany & Co. stockholders' equity	2,912.2	2,911.4	2,878.0
Non-controlling interests	16.5	18.1	16.7
Total stockholders' equity	2,928.7	2,929.5	2,894.7
	$5,102.9	$5,121.6	$5,172.0

See notes to condensed consolidated financial statements.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Net sales	$931.6	$990.5	$1,822.9	$1,953.0
Cost of sales	354.5	397.5	700.3	791.0
Gross profit	577.1	593.0	1,122.6	1,162.0
Selling, general and administrative expenses	402.2	420.2	813.1	819.2
Earnings from operations	174.9	172.8	309.5	342.8
Interest and other expenses, net	13.4	13.6	24.8	22.9
Earnings from operations before income taxes	161.5	159.2	284.7	319.9
Provision for income taxes	55.8	54.3	91.5	110.2
Net earnings	$105.7	$104.9	$193.2	$209.7
Net earnings per share:				
Basic	$0.84	$0.81	$1.54	$1.62
Diluted	$0.84	$0.81	$1.53	$1.62
Weighted-average number of common shares:				
Basic	125.3	129.0	125.7	129.1
Diluted	125.6	129.6	126.1	129.7

See notes to condensed consolidated financial statements.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Net earnings	$105.7	$104.9	$193.2	$209.7
Other comprehensive earnings (loss), net of tax				
Foreign currency translation adjustments	(24.6)	(31.8)	27.1	(28.2)
Unrealized gain (loss) on marketable securities	0.9	(1.2)	2.0	(0.1)
Unrealized gain (loss) on hedging instruments	8.1	(2.7)	12.4	(7.1)
Net unrealized gain on benefit plans	2.0	4.5	4.4	9.2
Total other comprehensive (loss) earnings, net of tax	(13.6)	(31.2)	45.9	(26.2)
Comprehensive earnings	$92.1	$73.7	$239.1	$183.5

See notes to condensed consolidated financial statements.

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

	Total Stockholders' Equity	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Non-controlling Interests
Balance at January 31, 2016	$ 2,929.5	$ 2,012.5	$ (278.1)	126.8	$ 1.3	$ 1,175.7	$ 18.1
Exercise of stock options and vesting of restricted stock units ("RSUs")	8.3	—	—	0.4	—	8.3	—
Tax effect of exercise of stock options and vesting of RSUs	(0.7)	—	—	—	—	(0.7)	—
Share-based compensation expense	10.7	—	—	—	—	10.7	—
Purchase and retirement of Common Stock	(149.9)	(131.8)	—	(2.3)	—	(18.1)	—
Cash dividends on Common Stock	(106.7)	(106.7)	—	—	—	—	—
Other comprehensive earnings, net of tax	45.9	—	45.9	—	—	—	—
Net earnings	193.2	193.2	—	—	—	—	—
Non-controlling interests	(1.6)	—	—	—	—	—	(1.6)
Balance at July 31, 2016	$ 2,928.7	$ 1,967.2	$ (232.2)	124.9	$ 1.3	$ 1,175.9	$ 16.5

See notes to condensed consolidated financial statements.

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

	Six Months Ended July 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$193.2	$209.7
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	105.0	98.4
Amortization of gain on sale-leasebacks	(4.3)	(4.1)
Excess tax benefits from share-based payment arrangements	(0.5)	(2.1)
Provision for inventories	8.6	13.7
Deferred income taxes	(1.9)	(10.8)
Provision for pension/postretirement benefits	22.7	32.8
Share-based compensation expense	10.5	14.2
Impairment charge	—	9.6
Changes in assets and liabilities:		
Accounts receivable	(3.2)	9.9
Inventories	(62.9)	(36.0)
Prepaid expenses and other current assets	(1.8)	(4.7)
Accounts payable and accrued liabilities	(42.1)	(28.0)
Income taxes payable	(12.2)	5.7
Merchandise credits and deferred revenue	(4.2)	8.4
Other, net	(0.9)	(6.8)
Net cash provided by operating activities	206.0	309.9
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments	(46.5)	(52.3)
Proceeds from sales of marketable securities and short-term investments	36.9	59.8
Capital expenditures	(101.4)	(98.4)
Net cash used in investing activities	(111.0)	(90.9)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of credit facility borrowings, net	(5.9)	(28.1)
Proceeds from other credit facility borrowings	56.0	5.2
Repayment of other credit facility borrowings	(70.7)	(11.3)
Repurchase of Common Stock	(149.9)	(55.8)
Proceeds from exercised stock options	11.0	1.2
Excess tax benefits from share-based payment arrangements	0.5	2.1
Cash dividends on Common Stock	(106.7)	(100.7)
Distribution to non-controlling interest	(2.0)	—
Financing fees	(0.8)	(0.2)
Net cash used in financing activities	(268.5)	(187.6)
Effect of exchange rate changes on cash and cash equivalents	(3.8)	(2.9)
Net (decrease) increase in cash and cash equivalents	(177.3)	28.5
Cash and cash equivalents at beginning of year	843.6	730.0
Cash and cash equivalents at end of six months	$666.3	$758.5

See notes to condensed consolidated financial statements.

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

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements include the accounts of Tiffany & Co. (also referred to as the Registrant) and its subsidiaries (the "Company") in which a controlling interest is maintained. Controlling interest is determined by majority ownership interest and the absence of substantive third-party participating rights or, in the case of variable interest entities ("VIEs"), if the Company has the power to significantly direct the activities of a VIE, as well as the obligation to absorb significant losses of or the right to receive significant benefits from the VIE. Intercompany accounts, transactions and profits have been eliminated in consolidation. The interim statements are unaudited and, in the opinion of management, include all adjustments (which represent normal recurring adjustments) necessary to fairly state the Company's financial position as of July 31, 2016 and 2015 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2016 is derived from the audited financial statements, which are included in the Company's Annual Report on Form 10-K and should be read in connection with these financial statements. As permitted by the rules of the Securities and Exchange Commission, these financial statements do not include all disclosures required by generally accepted accounting principles.

The Company's business is seasonal in nature, with the fourth quarter typically representing approximately one-third of annual net sales and a higher percentage of annual net earnings. Therefore, the results of its operations for the three and six months ended July 31, 2016 and 2015 are not necessarily indicative of the results of the entire fiscal year.

Certain prior year amounts have been reclassified to conform with the current year presentation. The Company adopted ASU No. 2015-17 – Income Taxes: Balance Sheet Classification of Deferred Taxes, on a retrospective basis, as of January 31, 2016. Accordingly, current deferred taxes were reclassified to noncurrent on the July 31, 2015 Condensed Consolidated Balance Sheet, which increased noncurrent assets by $101.4 million and noncurrent liabilities by $0.2 million. The Company also adopted ASU No. 2015-03 – Simplifying the Presentation of Debt Issuance Costs, on a retrospective basis, as of February 1, 2016. Accordingly, debt issuance costs of $8.1 million and $8.5 million were reclassified from other assets, net to a direct deduction from long-term debt at January 31, 2016 and July 31, 2015, respectively.

2. NEW ACCOUNTING STANDARDS

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

- In March 2016, ASU No. 2016-08 – Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), to clarify the implementation

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guidance on principal versus agent considerations, specifically including indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer.

- In April 2016, ASU No. 2016-10 – Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, to clarify the identification of performance obligations as well as the licensing implementation guidance.
- In May 2016, ASU No. 2016-11 – Revenue Recognition and Derivatives and Hedging, updating ASU 2014-09 by rescinding certain Accounting Standards Codification including "Revenue and Expense Recognition for Freight Services in Process", "Accounting for Shipping and Handling Fees and Costs" and "Accounting for Consideration Given by a Vendor to a Customer".
- In May 2016, ASU No. 2016-12 – Revenue from Contracts with Customers: Narrow Scope Improvements and Practical Expedients, which clarifies certain core recognition principles including collectability, sales tax presentation, and contract modifications, as well as identifies disclosures no longer required if the full retrospective transition method is adopted.

The effective date and transition requirements for these amendments are the same as ASU 2014-09, as amended by ASU 2015-14. Management is currently evaluating the impact of the new guidance on the consolidated financial statements.

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

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

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

In June 2016, the FASB issued ASU 2016-13 – Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments. ASU 2016-13 amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. The new standard applies to financial assets measured at amortized cost basis, including receivables that result from revenue transactions and held-to-maturity debt securities. The ASU is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

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3. RECEIVABLES AND FINANCING ARRANGEMENTS

Receivables. The Company's accounts receivable, net primarily consists of amounts due from Credit Receivables (defined below), department store operators that host TIFFANY & CO. boutiques in their stores, third-party credit card issuers and wholesale customers. The Company maintains an allowance for doubtful accounts for estimated losses associated with the accounts receivable recorded on the balance sheet. The allowance is determined based on a combination of factors including, but not limited to, the length of time that the receivables are past due, management's knowledge of the customer, economic and market conditions and historical write-off experiences.

For the receivables associated with Tiffany & Co. credit cards ("Credit Card Receivables"), management uses various indicators to determine whether to extend credit to customers and the amount of credit. Such indicators include reviewing prior experience with the customer, including sales and collection history, and using applicants' credit reports and scores provided by credit rating agencies. Certain customers may be granted payment terms which permit purchases above a minimum amount to be paid for in equal monthly installments over a period not to exceed 12 months (together with Credit Card Receivables, "Credit Receivables"). Credit Receivables require minimum balance payments. An account is classified as overdue if a minimum balance payment has not been received within the allotted timeframe (generally 30 days), after which internal collection efforts commence. For all Credit Receivables recorded on the balance sheet, once all internal collection efforts have been exhausted and management has reviewed the account, the account balance is written off and may be sent for external collection or legal action. At July 31, 2016 and 2015, the carrying amount of the Credit Receivables (recorded in accounts receivable, net) was $70.9 million and $61.8 million, of which 97% was considered current in both periods. The allowance for doubtful accounts for estimated losses associated with the Credit Receivables (approximately $1.0 million at July 31, 2016 and July 31, 2015) was determined based on the factors discussed above. Finance charges earned on Credit Card Receivables are not significant.

Financing Arrangements. The Company has provided financing to diamond mining and exploration companies in order to obtain rights to purchase the mine's output (see "Note 10. Commitments and Contingencies"). Management evaluates these financing arrangements for potential impairment by reviewing the parties' financial statements along with projections and business, operational and other economic factors on a periodic basis. At July 31, 2016 and 2015, the current portion of the carrying amount of financing arrangements including accrued interest was $3.0 million and $2.2 million and was recorded in prepaid expenses and other current assets. At July 31, 2016 and 2015, the non-current portion of the net carrying amount of financing arrangements including accrued interest was $19.2 million and $47.7 million and was included in other assets, net.

As of July 31, 2016, the Company had a $43.8 million loan receivable under a financing arrangement (the "Loan") with Koidu Limited (previously Koidu Holdings S.A.) ("Koidu"). The Company recorded impairment charges totaling $37.9 million during the fiscal year ended January 31, 2016 related to the Loan, including an impairment charge of $9.6 million recorded in the three months ended July 31, 2015. The net carrying amount of the Loan was $5.9 million as of July 31, 2016. The Company intends to continue to participate in discussions with Koidu and certain of Koidu's stakeholders as part of management's ongoing evaluation of the collectability of the Loan and the accrual of interest income. See "Note 10. Commitments and Contingencies" for additional information on this financing arrangement.

Management has not recorded any impairment charges on such loans in the three and six months ended July 31, 2016.

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4. INVENTORIES

(in millions)	July 31, 2016	January 31, 2016	July 31, 2015
Finished goods	$1,362.0	$1,292.9	$1,347.8
Raw materials	843.5	813.7	896.9
Work-in-process	119.3	118.4	113.0
Inventories, net	$2,324.8	$2,225.0	$2,357.7

5. INCOME TAXES

The effective income tax rate for the three months ended July 31, 2016 was 34.5% versus 34.2% in the prior year. The effective income tax rate for the six months ended July 31, 2016 was 32.1% versus 34.4% in the prior year.

At July 31, 2016, the Company's gross uncertain tax positions decreased by $7.0 million and gross accrued interest and penalties decreased by $0.4 million from January 31, 2016, primarily as a result of the conclusion of a tax examination during the three months ended April 30, 2016. This settlement resulted in an income tax benefit of $6.6 million for the six months ended July 31, 2016, and reduced the effective income tax rate by 2.3 percentage points versus the prior year. During the three months ended July 31, 2016, the change in the Company's gross uncertain tax positions and gross accrued interest and penalties was not significant.

The Company conducts business globally, and, as a result, is subject to taxation in the U.S. and various state and foreign jurisdictions. As a matter of course, tax authorities regularly audit the Company. The Company's tax filings are currently being examined by a number of tax authorities in several jurisdictions. Ongoing audits where subsidiaries have a material presence include New York City (tax years 2011–2013) and New York State (tax years 2012-2014). Tax years from 2010-present are open to examination in the U.S. Federal jurisdiction and 2006–present are open to examination in various state, local and foreign jurisdictions. As part of these audits, the Company engages in discussions with taxing authorities regarding tax positions. As of July 31, 2016, unrecognized tax benefits are not expected to change materially in the next 12 months. Future developments may result in a change in this assessment.

6. EARNINGS PER SHARE

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

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

	Three Months Ended July 31,		Six Months Ended July 31,	
(in millions)	2016	2015	2016	2015
Net earnings for basic and diluted EPS	$105.7	$104.9	$193.2	$209.7
Weighted-average shares for basic EPS	125.3	129.0	125.7	129.1
Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units	0.3	0.6	0.4	0.6
Weighted-average shares for diluted EPS	125.6	129.6	126.1	129.7

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For the three months ended July 31, 2016 and 2015, there were 1.6 million and 0.7 million stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect. For the six months ended July 31, 2016 and 2015, there were 1.5 million and 0.7 million stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

7. DEBT

(in millions)	July 31, 2016	January 31, 2016	July 31, 2015
Short-term borrowings:			
Credit Facilities	$73.8	$ 76.6	$62.4
Other credit facilities	133.3	145.0	134.4
	$207.1	$ 221.6	$196.8
Long-term debt:			
Unsecured Senior Notes:			
2010 1.72% Notes, due September 2016 [a, b]	$94.8	$84.2	$80.5
2012 4.40% Series B Notes, due July 2042 [c]	250.0	250.0	250.0
2014 3.80% Senior Notes, due October 2024 [a, d]	250.0	250.0	250.0
2014 4.90% Senior Notes, due October 2044 [a, d]	300.0	300.0	300.0
	894.8	884.2	880.5
Less current portion of long-term debt	94.8	84.2	—
Less unamortized discounts and debt issuance costs	9.5	10.0	10.4
	$790.5	$790.0	$870.1

[a] These agreements require lump sum repayments upon maturity.

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

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

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

In July 2016, the Registrant's wholly owned subsidiary, Tiffany & Co. (Shanghai) Commercial Company Limited ("Tiffany-Shanghai"), entered into a three-year multi-bank revolving credit agreement (the "Tiffany-Shanghai Credit Agreement"). The Tiffany-Shanghai Credit Agreement has an aggregate borrowing limit of RMB 990.0 million ($148.7 million at July 31, 2016). The Tiffany-Shanghai Credit Agreement, which matures in July 2019, was made available to refinance amounts outstanding under Tiffany-Shanghai's previously existing RMB 930.0 million three-year multi-bank revolving credit agreement (the "2013 Agreement"), which expired pursuant to its terms on July 19, 2016, as well as for Tiffany-Shanghai's ongoing general working capital requirements. The six lenders party to the Credit Agreement will make loans, upon Tiffany-Shanghai's request, for periods of up to 12 months at the applicable interest rates as announced by the People's Bank of China (provided, that if such announced rate is below zero, the applicable interest rate shall be deemed to be zero). In connection with the Tiffany-Shanghai Credit Agreement, in July 2016 the Registrant entered into a Guaranty Agreement by and between the Registrant and the facility agent under the Tiffany-Shanghai Credit Agreement (the "Guaranty"). At July 31, 2016, there was $107.1 million available to be borrowed under the Credit Agreement and $41.6 million was outstanding at a weighted-average interest rate of 4.35%.

The Tiffany-Shanghai Credit Agreement contains covenants affirmative and negative which are substantially similar to those set forth in the 2013 Agreement including, among others, covenants that limit Tiffany-Shanghai's ability to pay certain dividends, incur liens and incur certain indebtedness, and

the Guaranty requires maintenance by the Registrant of specific financial covenants and ratios, in addition to other requirements and limitations which are substantially similar to the guaranty entered into by the Registrant in respect of the 2013 Agreement.

Excluding the Tiffany-Shanghai Credit Agreement and Guaranty, there have been no material changes to the agreements governing the Credit Facilities or Senior Notes referenced in the table above since January 31, 2016.

At July 31, 2016, the Company was in compliance with all debt covenants.

8. HEDGING INSTRUMENTS

Background Information

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

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

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

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

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

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

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

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Types of Derivative Instruments

Interest Rate Swaps – In 2012, the Company entered into forward-starting interest rate swaps to hedge the impact of interest rate volatility on future interest payments associated with the anticipated incurrence of $250.0 million of additional debt which was incurred in July 2012. The Company accounted for the forward-starting interest rate swaps as cash flow hedges. As of July 31, 2016, $20.4 million remains recorded as an unrealized loss in accumulated other comprehensive loss, which is being amortized over the term of the 2042 Notes to which the interest rate swaps related.

In 2014, the Company entered into forward-starting interest rate swaps to hedge the impact of interest rate volatility on future interest payments associated with the anticipated incurrence of long-term debt which was incurred in September 2014. The Company accounted for the forward-starting interest rate swaps as cash flow hedges. The Company settled the interest rate swap in 2014 and recorded an unrealized loss within accumulated other comprehensive loss. As of July 31, 2016, $3.9 million remains recorded as an unrealized loss and is being amortized over the terms of the respective 2024 Notes or 2044 Notes to which the interest rate swaps related.

Cross-currency Swaps – In July 2016, the Company entered into cross-currency swaps to hedge the foreign exchange risk associated with Japanese yen-denominated intercompany loans. These cross-currency swaps are designated and accounted for as cash flow hedges. As of July 31, 2016, the notional amount of cross-currency swaps accounted for as cash flow hedges was approximately ¥10.6 billion or $100.0 million. The cross-currency swaps have a term ending on October 1, 2024.

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

As of July 31, 2016, the notional amounts of foreign exchange forward contracts accounted for as cash flow hedges were as follows:

(in millions)		Notional Amount	USD Equivalent
Derivatives designated as hedging instruments:			
Japanese yen	¥	17,255.1	$150.7
British pound	£	15.1	21.9
Derivatives not designated as hedging instruments:			
U.S. dollar	$	73.1	$73.1
Euro	€	25.4	28.6
British pound	£	3.9	5.1
Chilean peso		2,622.9	3.9
Chinese yuan	¥	46.9	7.0
Japanese yen	¥	483.5	4.6
Korean won		15,011.6	12.5
Hong Kong dollar	HK$	58.2	7.4
Mexican peso		196.1	10.7
New Zealand dollar	NZ$	5.1	3.6
Singapore dollar	S$	23.7	17.7
Swiss franc	Fr.	3.4	3.4

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The maximum term of the Company's outstanding foreign exchange forward contracts as of July 31, 2016 is 12 months.

Precious Metal Collars and Forward Contracts – The Company periodically hedges a portion of its forecasted purchases of precious metals for use in its internal manufacturing operations in order to manage the effect of volatility in precious metal prices. The Company may use either a combination of call and put option contracts in net-zero-cost collar arrangements ("precious metal collars") or forward contracts. For precious metal collars, if the price of the precious metal at the time of the expiration of the precious metal collar is within the call and put price, the precious metal collar expires at no cost to the Company. The Company accounts for its precious metal collars and forward contracts as cash flow hedges. The Company assesses hedge effectiveness based on the total changes in the precious metal collars and forward contracts' cash flows. As of July 31, 2016, the maximum term over which the Company is hedging its exposure to the variability of future cash flows for all forecasted transactions is 24 months. As of July 31, 2016, there were precious metal derivative instruments outstanding for approximately 72,000 ounces of platinum, 1,380,000 ounces of silver and 47,500 ounces of gold.

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

	Three Months Ended July 31,			
	2016		2015	
(in millions)	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Pre-Tax Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Pre-Tax Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange forward contracts [a]	$(1.2)	$ 0.8	$6.9	$ 5.2
Precious metal forward contracts [a]	14.5	(2.4)	(7.9)	(1.4)
Precious metal collars [a]	0.2	—	—	—
Cross-currency swaps [b]	(3.6)	(0.7)	—	—
Forward-starting interest rate swaps [b]	—	(0.4)	—	(0.4)
	$9.9	$ (2.7)	$(1.0)	$ 3.4

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(in millions)	Six Months Ended July 31, 2016 Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	2016 Pre-Tax Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	2015 Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	2015 Pre-Tax Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange forward contracts [a]	$(15.1)	$ 4.4	$8.0	$ 9.5
Precious metal forward contracts [a]	36.1	(5.1)	(13.1)	(2.5)
Precious metal collars [a]	0.5	—	—	—
Cross-currency swaps [b]	(3.6)	(0.7)	—	—
Forward-starting interest rate swaps [b]	—	(0.8)	—	(0.8)
	$17.9	$ (2.2)	$(5.1)	$ 6.2

aThe gain or loss recognized in earnings is included within Cost of sales.
bThe gain or loss recognized in earnings is included within Interest and other expenses, net.

The pre-tax (losses) gains on derivatives not designated as hedging instruments were $(1.9) million and $3.9 million in the three months ended July 31, 2016 and 2015 and $(7.6) million and $0.9 million in the six months ended July 31, 2016 and 2015. These pre-tax (losses) gains on derivatives not designated as hedging instruments were included in interest and other expenses, net. There was no material ineffectiveness related to the Company's hedging instruments for the periods ended July 31, 2016 and 2015. The Company expects approximately $16.6 million of net pre-tax derivative losses included in accumulated other comprehensive income at July 31, 2016 will be reclassified into earnings within the next 12 months. This amount will vary due to fluctuations in foreign currency exchange rates and precious metal prices.

For information regarding the location and amount of the derivative instruments in the Condensed Consolidated Balance Sheet, see "Note 9. Fair Value of Financial Instruments."

Concentration of Credit Risk

A number of major international financial institutions are counterparties to the Company's derivative financial instruments. The Company enters into derivative financial instrument agreements only with counterparties meeting certain credit standards (a credit rating of A-/A2 or better at the time of the agreement) and limits the amount of agreements or contracts it enters into with any one party. The Company may be exposed to credit losses in the event of nonperformance by individual counterparties or the entire group of counterparties.

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9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Level 1 – Quoted prices in active markets for identical assets or liabilities and are considered to be most reliable.

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

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

The Company's derivative instruments are considered Level 2 instruments for the purposes of determining fair value. The Company's foreign exchange forward contracts, as well as put option contracts and cross-currency swaps, are primarily valued using the appropriate foreign exchange spot rates. The Company's precious metal forward contracts and collars are primarily valued using the relevant precious metal spot rate. The Company's interest rate swaps were primarily valued using the 3-month LIBOR rate. For further information on the Company's hedging instruments and program, see "Note 8. Hedging Instruments."

Financial assets and liabilities carried at fair value at July 31, 2016 are classified in the table below in one of the three categories described above:

	Estimated Fair Value			Total
(in millions)	Level 1	Level 2	Level 3	Fair Value
Marketable securities [a]	$35.5	$—	$ —	$35.5
Time deposits [b]	53.8	—	—	53.8
Derivatives designated as hedging instruments:				
Precious metal forward contracts [c]	—	22.2	—	22.2
Precious metal collars [c]	—	1.4	—	1.4
Foreign exchange forward contracts [c]	—	2.1	—	2.1
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [c]	—	1.3	—	1.3
Total financial assets	$89.3	$27.0	$ —	$116.3

	Estimated Fair Value			Total
(in millions)	Level 1	Level 2	Level 3	Fair Value
Derivatives designated as hedging instruments:				
Precious metal collars [d]	$—	$0.7	$ —	$0.7
Foreign exchange forward contracts [d]	—	14.3	—	14.3
Cross-currency swaps [d]	—	3.6	—	3.6
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [d]	—	2.8	—	2.8
Total financial liabilities	$—	$21.4	$ —	$21.4

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Financial assets and liabilities carried at fair value at July 31, 2015 are classified in the table below in one of the three categories described above:

(in millions)	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Marketable securities [a]	$35.5	$—	$ —	$35.5
Time deposits [b]	12.9	—	—	12.9
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts [c]	—	11.1	—	11.1
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [c]	—	3.6	—	3.6
Total financial assets	$48.4	$14.7	$ —	$63.1

(in millions)	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Derivatives designated as hedging instruments:				
Precious metal forward contracts [d]	$—	$ 8.7	$ —	$ 8.7
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [d]	—	0.1	—	0.1
Total financial liabilities	$—	$ 8.8	$ —	$ 8.8

[a] Included within Other assets, net.

[b] Included within Short-term investments.

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

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

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates carrying value due to the short-term maturities of these assets and liabilities and as such is measured using Level 1 inputs. The fair value of debt with variable interest rates approximates carrying value and is measured using Level 2 inputs. The fair value of debt with fixed interest rates was determined using the quoted market prices of debt instruments with similar terms and maturities, which are considered Level 2 inputs. The total carrying value of short-term borrowings, current portion of long-term debt and long-term debt was $1.1 billion and the corresponding fair value was approximately $1.1 billion at July 31, 2016 and 2015.

10. COMMITMENTS AND CONTINGENCIES

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

In consideration of its diamond supply agreements, the Company has provided financing to certain suppliers of its rough diamonds. In March 2011, Laurelton Diamonds, Inc. ("Laurelton"), a wholly owned subsidiary of the Company, as lender, entered into a $50.0 million amortizing term loan facility agreement (the "Loan") with Koidu Limited (previously Koidu Holdings S.A.) ("Koidu"), as borrower, and BSG Resources Limited, as a limited guarantor. Koidu operates a kimberlite diamond mine in Sierra Leone (the "Mine") from which Laurelton acquires diamonds. Koidu was required under the terms of the Loan to apply the proceeds of the Loan to capital expenditures necessary to increase the output of the Mine, among other purposes. As of July 31, 2011, the Loan was fully funded. In consideration of the Loan, Laurelton entered into a supply agreement, pursuant to which Laurelton is required to purchase at

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fair market value certain diamonds recovered from the Mine that meet Laurelton's quality standards. The assets of Koidu, including all equipment and rights in respect of the Mine, are subject to the security interest of a lender that is not affiliated with the Company. The Loan is partially secured by the diamonds, if any, that have been extracted from the Mine and that have not been sold to third parties. The Company has evaluated the variable interest entity consolidation re