

TIFFANY & CO  
Form 10-Q  
August 27, 2013  
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 July 31, 2013

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 Ave. 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, 127,945,000 shares outstanding at the close of business on July 31, 2013.

Table of Contents

TIFFANY & CO. AND SUBSIDIARIES  
 INDEX TO FORM 10-Q  
 FOR THE QUARTER ENDED JULY 31, 2013

|  | PAGE |
|--|------|
| <u>PART I – FINANCIAL INFORMATION</u>  |      |
| Item 1. <u>Financial Statements</u>  |      |
| <u>Condensed Consolidated Balance Sheets - July 31, 2013, January 31, 2013 and July 31, 2012 (Unaudited)</u>                               | 3    |
| <u>Condensed Consolidated Statements of Earnings - for the three and six months ended July 31, 2013 and 2012 (Unaudited)</u>               | 4    |
| <u>Condensed Consolidated Statements of Comprehensive Earnings - for the three and six months ended July 31, 2013 and 2012 (Unaudited)</u> | 5    |
| <u>Condensed Consolidated Statement of Stockholders' Equity - for the six months ended July 31, 2013 (Unaudited)</u>                       | 6    |
| <u>Condensed Consolidated Statements of Cash Flows - for the six months ended July 31, 2013 and 2012 (Unaudited)</u>                       | 7    |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>  | 8    |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                       | 19   |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 28   |
| Item 4. <u>Controls and Procedures</u>   | 29   |
| <u>PART II – OTHER INFORMATION</u>   |      |
| Item 1. <u>Legal Proceedings</u>   | 30   |
| Item 1A. <u>Risk Factors</u>   | 31   |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 31   |
| Item 6. <u>Exhibits</u>  | 32   |
| (a) Exhibits   |      |

Table of Contents

## PART I. Financial Information

## Item 1. Financial Statements

## TIFFANY &amp; CO. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except per share amounts)

|  | July 31, 2013 | January 31, 2013 | July 31, 2012 |
|--|---------------|------------------|---------------|
| <b>ASSETS</b>  |               |                  |               |
| Current assets:  |               |                  |               |
| Cash and cash equivalents  | \$489,664     | \$504,838        | \$366,080     |
| Accounts receivable, less allowances of \$8,918, \$9,710 and \$10,353  | 161,746       | 173,998          | 171,463       |
| Inventories, net   | 2,328,510     | 2,234,334        | 2,230,474     |
| Deferred income taxes  | 77,948        | 79,508           | 105,212       |
| Prepaid expenses and other current assets  | 182,049       | 158,911          | 131,485       |
| Total current assets   | 3,239,917     | 3,151,589        | 3,004,714     |
| Property, plant and equipment, net   | 814,593       | 818,838          | 777,387       |
| Deferred income taxes  | 309,823       | 306,385          | 276,451       |
| Other assets, net  | 367,385       | 354,038          | 266,194       |
|  | \$4,731,718   | \$4,630,850      | \$4,324,746   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |               |                  |               |
| Current liabilities:   |               |                  |               |
| Short-term borrowings  | \$207,412     | \$194,034        | \$155,137     |
| Accounts payable and accrued liabilities   | 276,810       | 295,424          | 259,608       |
| Income taxes payable   | 36,731        | 30,487           | 26,901        |
| Merchandise and other customer credits   | 67,921        | 66,647           | 63,112        |
| Total current liabilities  | 588,874       | 586,592          | 504,758       |
| Long-term debt   | 756,807       | 765,238          | 784,409       |
| Pension/postretirement benefit obligations   | 342,361       | 361,246          | 316,319       |
| Deferred gains on sale-leasebacks  | 86,688        | 96,724           | 112,285       |
| Other long-term liabilities  | 221,692       | 209,732          | 198,176       |
| 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 127,945, 126,934 and 126,638 | 1,279         | 1,269            | 1,266         |
| Additional paid-in capital   | 1,061,849     | 1,019,997        | 998,720       |
| Retained earnings  | 1,778,490     | 1,671,341        | 1,509,806     |
| Accumulated other comprehensive loss, net of tax   | (119,318)     | (93,875)         | (113,302)     |
| Total Tiffany & Co. stockholders' equity   | 2,722,300     | 2,598,732        | 2,396,490     |
| Non-controlling interests  | 12,996        | 12,586           | 12,309        |
| Total stockholders' equity   | 2,735,296     | 2,611,318        | 2,408,799     |
|  | \$4,731,718   | \$4,630,850      | \$4,324,746   |

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 July 31, |           | Six Months Ended July 31, |             |
|--|-----------------------------|-----------|---------------------------|-------------|
|  | 2013                        | 2012      | 2013                      | 2012        |
| Net sales                                    | \$925,884                   | \$886,569 | \$1,821,368               | \$1,705,739 |
| Cost of sales                                | 393,755                     | 387,407   | 786,015                   | 737,559     |
| Gross profit                                 | 532,129                     | 499,162   | 1,035,353                 | 968,180     |
| Selling, general and administrative expenses | 355,243                     | 344,582   | 717,309                   | 678,615     |
| Earnings from operations                     | 176,886                     | 154,580   | 318,044                   | 289,565     |
| Interest and other expenses, net             | 14,694                      | 14,250    | 27,406                    | 24,804      |
| Earnings from operations before income taxes | 162,192                     | 140,330   | 290,638                   | 264,761     |
| Provision for income taxes                   | 55,411                      | 48,529    | 100,280                   | 91,426      |
| Net earnings                                 | \$106,781                   | \$91,801  | \$190,358                 | \$173,335   |
| Net earnings per share:                      |                             |           |                           |             |
| Basic  | \$0.84                      | \$0.72    | \$1.49                    | \$1.37      |
| Diluted                                      | \$0.83                      | \$0.72    | \$1.48                    | \$1.36      |
| Weighted-average number of common shares:    |                             |           |                           |             |
| Basic  | 127,826                     | 126,631   | 127,572                   | 126,677     |
| Diluted                                      | 128,771                     | 127,663   | 128,606                   | 127,920     |

See notes to condensed consolidated financial statements.

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

(Unaudited)

(in thousands)

|   | Three Months Ended July 31, |           | Six Months Ended July 31, |           |
|---|-----------------------------|-----------|---------------------------|-----------|
|   | 2013                        | 2012      | 2013                      | 2012      |
| Net earnings                                    | \$106,781                   | \$91,801  | \$190,358                 | \$173,335 |
| Other comprehensive (loss) earnings, net of tax |                             |           |                           |           |
| Foreign currency translation adjustments        | (15,346                     | ) (21,720 | ) (30,784                 | ) (20,280 |
| Unrealized (loss) gain on marketable securities | (920                        | ) 2       | (105                      | ) 716     |
| Unrealized loss on hedging instruments          | (2,977                      | ) (14,576 | ) (190                    | ) (13,613 |
| Net unrealized gain on benefit plans            | 2,712                       | 2,450     | 5,636                     | 5,005     |
| Total other comprehensive loss, net of tax      | (16,531                     | ) (33,844 | ) (25,443                 | ) (28,172 |
| Comprehensive earnings                          | \$90,250                    | \$57,957  | \$164,915                 | \$145,163 |

See notes to condensed consolidated financial statements.

Table of Contents

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

|  | Total<br>Stockholders'<br>Equity | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Non-<br>controlling<br>Interests |
|--|----------------------------------|----------------------|---|------------------------|------------------------|----------------------------------|----------------------------------|
| Balances, January 31,<br>2013  | \$2,611,318                      | \$1,671,341          | \$ (93,875 )                                  | 126,934                | \$1,269                | \$1,019,997                      | \$12,586                         |
| Exercise of stock options<br>and vesting of restricted<br>stock units ("RSUs") | 15,505                           | —                    | —   | 1,011                  | 10                     | 15,495                           | —                                |
| Tax effect of exercise of<br>stock options and vesting<br>of RSUs              | 10,892                           | —                    | —   | —                      | —                      | 10,892                           | —                                |
| Share-based<br>compensation expense  | 15,465                           | —                    | —   | —                      | —                      | 15,465                           | —                                |
| Cash dividends on<br>Common Stock  | (83,209 )                        | (83,209 )            | —   | —                      | —                      | —                                | —                                |
| Other comprehensive<br>loss, net of tax  | (25,443 )                        | —                    | (25,443 )                                     | —                      | —                      | —                                | —                                |
| Net earnings   | 190,358                          | 190,358              | —   | —                      | —                      | —                                | —                                |
| Non-controlling interests  | 410                              | —                    | —   | —                      | —                      | —                                | 410                              |
| Balances, July 31, 2013  | \$2,735,296                      | \$1,778,490          | \$ (119,318 )                                 | 127,945                | \$1,279                | \$1,061,849                      | \$12,996                         |

See notes to condensed consolidated financial statements.

Table of Contents

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

|   | Six Months Ended July 31, |              |
|---|---------------------------|--------------|
|   | 2013                      | 2012         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                           |              |
| Net earnings  | \$ 190,358                | \$ 173,335   |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: |                           |              |
| Depreciation and amortization   | 86,323                    | 79,167       |
| Amortization of gain on sale-leasebacks   | (4,733                    | ) (5,425 )   |
| Excess tax benefits from share-based payment arrangements                                     | (10,832                   | ) (10,020 )  |
| Provision for inventories   | 17,421                    | 16,405       |
| Deferred income taxes   | (8,343                    | ) (22,599 )  |
| Provision for pension/postretirement benefits   | 24,505                    | 23,010       |
| Share-based compensation expense  | 15,309                    | 15,615       |
| Changes in assets and liabilities:  |                           |              |
| Accounts receivable   | 6,673                     | 9,346        |
| Inventories   | (143,437                  | ) (185,552 ) |
| Prepaid expenses and other current assets   | (26,505                   | ) (18,660 )  |
| Accounts payable and accrued liabilities  | (22,857                   | ) (72,826 )  |
| Income taxes payable  | 20,196                    | (18,247 )    |
| Merchandise and other customer credits  | 2,018                     | 290          |
| Other, net  | (26,016                   | ) (41,924 )  |
| Net cash provided by (used in) operating activities   | 120,080                   | (58,085 )    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                           |              |
| Purchases of marketable securities and short-term investments                                 | (616                      | ) (12,903 )  |
| Proceeds from sale of marketable securities and short-term investments                        | —                         | 19,289       |
| Capital expenditures  | (86,686                   | ) (96,952 )  |
| Notes receivable funded   | (3,050                    | ) (1,000 )   |
| Proceeds from notes receivable  | 484                       | —            |
| Net cash used in investing activities   | (89,868                   | ) (91,566 )  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                           |              |
| Proceeds from credit facility borrowings, net   | 3,244                     | 34,929       |
| Proceeds from other credit facility borrowings  | 82,643                    | 10,481       |
| Repayment of other credit facility borrowings   | (68,100                   | ) —          |
| Repayment of long-term debt   | —                         | (60,000 )    |
| Proceeds from issuance of long-term debt  | —                         | 250,000      |
| Repurchase of Common Stock  | —                         | (54,107 )    |
| Proceeds from exercise of stock options   | 15,505                    | 4,922        |
| Excess tax benefits from share-based payment arrangements                                     | 10,832                    | 10,020       |
| Cash dividends on Common Stock  | (83,209                   | ) (77,307 )  |
| Payment for settlement of interest rate swaps   | —                         | (29,335 )    |
| Financing fees  | (893                      | ) (1,085 )   |
| Net cash (used in) provided by financing activities   | (39,978                   | ) 88,518 )   |
| Effect of exchange rate changes on cash and cash equivalents                                  | (5,408                    | ) (6,741 )   |
| Net decrease in cash and cash equivalents   | (15,174                   | ) (67,874 )  |
| Cash and cash equivalents at beginning of year  | 504,838                   | 433,954      |
| Cash and cash equivalents at end of six months  | \$ 489,664                | \$ 366,080   |

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. 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, 2013 and 2012 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2013 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 at least 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, 2013 and 2012 are not necessarily indicative of the results of the entire fiscal year.

2. NEW ACCOUNTING STANDARDS

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists", which requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss ("NOL") carryforward, a similar tax loss, or a tax credit carryforward. If an NOL carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The new guidance is effective for fiscal years beginning after December 15, 2013 and earlier adoption is permitted. The Company is currently evaluating the impact of the new guidance; however, management does not believe it will have a material effect on the Company's financial position or earnings.

3. 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 accounts receivable 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, 2013 and 2012, the carrying amount of the Credit Card Receivables (recorded in accounts receivable, net) was \$49,948,000 and \$50,831,000, of which 97% were considered current in both periods. The allowance for doubtful accounts for estimated losses associated with the Credit Card Receivables (approximately \$1,500,000 at both July 31, 2013 and 2012) was determined based on the factors discussed above. Finance charges on Credit Card accounts are not significant.

Table of Contents

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. As of July 31, 2013, the current portion of the carrying amount of financing arrangements including accrued interest was \$7,807,000 and was recorded in prepaid expenses and other current assets. As of July 31, 2013 and 2012, the non-current portion of the carrying amount of financing arrangements including accrued interest was \$64,425,000 and \$58,507,000 and was included in other assets, net. The Company has not recorded any material impairment charges on such loans as of July 31, 2013 and 2012.

**4. INVENTORIES**

| (in thousands)   | July 31,<br>2013 | January 31,<br>2013 | July 31,<br>2012 |
|------------------|------------------|---------------------|------------------|
| Finished goods   | \$1,370,966      | \$1,291,235         | \$1,267,705      |
| Raw materials    | 843,380          | 790,732             | 771,834          |
| Work-in-process  | 114,164          | 152,367             | 190,935          |
| Inventories, net | \$2,328,510      | \$2,234,334         | \$2,230,474      |

**5. INCOME TAXES**

The effective income tax rate for the three months ended July 31, 2013 was 34.2% versus 34.6% in the prior year. The effective income tax rate was 34.5% for the six months ended July 31, 2013 and 2012.

During the six months ended July 31, 2013, the change in the gross amount of unrecognized tax benefits and accrued interest and penalties was not significant.

The Company 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. Ongoing audits where subsidiaries have a material presence include New York state (tax years 2008–2011), New York City (tax years 2009–2010), as well as an audit that is being conducted by the Internal Revenue Service (tax years 2006–2009). Tax years from 2005–present are open to examination in U.S. Federal and various state, local and foreign jurisdictions. The Company believes that its tax positions comply with applicable tax laws and that it has adequately provided for these matters. However, the audits may result in proposed assessments where the ultimate resolution may result in the Company owing additional taxes. Management anticipates that it is reasonably possible that the total gross amount of unrecognized tax benefits will decrease by approximately \$20,000,000 in the next 12 months, a portion of which may affect the effective tax rate; however, management does not currently anticipate a significant effect on net earnings. Future developments may result in a change in this assessment.

**6. EARNINGS PER SHARE**

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

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

| (in thousands)  | Three Months Ended July<br>31, |          | Six Months Ended July 31, |           |
|---|--------------------------------|----------|---------------------------|-----------|
|   | 2013                           | 2012     | 2013                      | 2012      |
| Net earnings for basic and diluted EPS                | \$106,781                      | \$91,801 | \$190,358                 | \$173,335 |
| Weighted-average shares for basic EPS                 | 127,826                        | 126,631  | 127,572                   | 126,677   |
| Incremental shares based upon the assumed exercise of | 945                            | 1,032    | 1,034                     | 1,243     |

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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| stock options and unvested restricted stock units |         |         |         |         |
| Weighted-average shares for diluted EPS           | 128,771 | 127,663 | 128,606 | 127,920 |

9

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## Table of Contents

For the three months ended July 31, 2013 and 2012, there were 412,000 and 1,026,000 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, 2013 and 2012, there were 589,000 and 886,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

### 7. HEDGING INSTRUMENTS

#### Background Information

The Company uses derivative financial instruments, including interest rate swaps, forward contracts, put option contracts and net-zero-cost collar arrangements (combination of call and put option contracts) to mitigate 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 the six months ended July 31, 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 additional debt which was incurred in July 2012. The Company accounted for the forward-starting interest rate swaps as cash flow hedges. The Company settled the interest rate swaps in the three months ended July 31, 2012 and paid \$29,335,000 .

**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 liabilities, 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 put option contracts’ cash flows. These foreign exchange forward contracts and put option contracts are designated and

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

10

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As of July 31, 2013, the notional amount of foreign exchange forward contracts accounted for as cash flow hedges was \$170,968,000 and the notional amount of foreign exchange forward contracts accounted for as undesignated hedges was \$27,247,000. The term of all outstanding foreign exchange forward and put option contracts as of July 31, 2013 ranged from less than one month to 12 months.

Precious Metal Collars & 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 minimize 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. 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 July 31, 2013, there were approximately 15,500 ounces of platinum and 263,000 ounces of silver precious metal derivative instruments outstanding.

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 July 31,<br>2013                                |   | 2012  |   |
|--|--|---|---|---|
|  | Pre-Tax Gain<br>(Loss) Recognized<br>in OCI (Effective<br>Portion) | Gain (Loss)<br>Reclassified from<br>Accumulated OCI<br>into Earnings<br>(Effective Portion) | Pre-Tax Loss<br>Recognized<br>in OCI<br>(Effective Portion)           | Loss Reclassified<br>from Accumulated<br>OCI into Earnings<br>(Effective Portion) |
| <b>Derivatives in Cash Flow Hedging Relationships:</b> |  |   |   |   |
| Foreign exchange forward contracts <sup>a</sup>        | \$ 191   | \$ 3,139  | \$ (3,824   | ) \$(1,732  |
| Put option contracts <sup>a</sup>                      | (8   | ) 662   | (308  | ) (6  |
| Precious metal forward contracts <sup>a</sup>          | (2,415   | ) (1,008  | ) (4,800  | ) (2,084  |
| Forward-starting interest rate swaps <sup>b</sup>      | —  | (386  | ) (18,650   | ) (134  |
|  | \$ (2,232  | ) \$ 2,407  | \$ (27,582  | ) \$(3,956  |
|  | <b>Six Months Ended July 31,<br/>2013</b>                          |   | <b>2012</b>   |   |
| (in thousands)   | Pre-Tax Gain<br>(Loss) Recognized<br>in OCI (Effective<br>Portion) | Gain (Loss)<br>Reclassified from<br>Accumulated OCI<br>into Earnings<br>(Effective Portion) | Pre-Tax Gain<br>(Loss)<br>Recognized<br>in OCI<br>(Effective Portion) | Loss Reclassified<br>from Accumulated<br>OCI into Earnings<br>(Effective Portion) |
| <b>Derivatives in Cash Flow Hedging Relationships:</b> |  |   |   |   |
| Foreign exchange forward contracts <sup>a</sup>        | \$ 9,367   | \$ 5,068  | \$ 4,261  | \$ (4,313   |
| Put option contracts <sup>a</sup>                      | 1,270  | 930   | (409  | ) (129  |
| Precious metal forward contracts <sup>a</sup>          | (7,399   | ) (1,933  | ) (7,712  | ) (3,139  |
| Forward-starting interest rate swaps <sup>b</sup>      | —  | (776  | ) (26,511   | ) (134  |
|  | \$ 3,238   | \$ 3,289  | \$ (30,371  | ) \$(7,715  |

<sup>a</sup> The gain or loss recognized in earnings is included within Cost of sales.

<sup>b</sup> The gain or loss recognized in earnings is included within Interest and other expenses, net.

The gains and losses on derivatives not designated as hedging instruments were not significant in the three and six months ended July 31, 2013 and 2012. There was no material ineffectiveness related to the Company's hedging instruments for the periods ended July 31, 2013 and 2012. The Company expects approximately \$17,896,000 of net pre-tax derivative gains included in accumulated other comprehensive income at July 31, 2013 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, refer to “Note 8. 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.

#### 8. 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 mutual funds, time deposits and derivative instruments. The Company’s interest rate swaps were primarily valued using the 3-month LIBOR rate. The Company’s put option contracts, as well as its foreign exchange forward 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 7. Hedging Instruments.”

Financial assets and liabilities carried at fair value at July 31, 2013 are classified in the table below in one of the three categories described above:

| (in thousands)  | Carrying<br>Value | Estimated Fair Value |          |         | Total Fair<br>Value |
|---|-------------------|----------------------|----------|---------|---------------------|
|   |                   | Level 1              | Level 2  | Level 3 |                     |
| Marketable securities <sup>a</sup>                    | \$49,343          | \$49,343             | \$—      | \$—     | \$49,343            |
| Derivatives designated as hedging<br>instruments:     |                   |                      |          |         |                     |
| Precious metal forward contracts <sup>b</sup>         | 212               | —                    | 212      | —       | 212                 |
| Foreign exchange forward contracts <sup>b</sup>       | 18,744            | —                    | 18,744   | —       | 18,744              |
| Derivatives not designated as hedging<br>instruments: |                   |                      |          |         |                     |
| Foreign exchange forward contracts <sup>b</sup>       | 172               | —                    | 172      | —       | 172                 |
| Total financial assets                                | \$68,471          | \$49,343             | \$19,128 | \$—     | \$68,471            |

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 <sup>c</sup>      | \$3,470        | \$—                  | \$3,470 | \$—     | \$3,470          |
| Foreign exchange forward contracts <sup>c</sup>    | 617            | —                    | 617     | —       | 617              |
| Derivatives not designated as hedging instruments: |                |                      |         |         |                  |
| Foreign exchange forward contracts <sup>c</sup>    | 25             | —                    | 25      | —       | 25               |
| Total financial liabilities                        | \$4,112        | \$—                  | \$4,112 | \$—     | \$4,112          |

Financial assets and liabilities carried at fair value at July 31, 2012 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 <sup>a</sup>                 | \$41,155       | \$41,155             | \$—     | \$—     | \$41,155         |
| Time deposits <sup>b</sup>                         | 1,357          | 1,357                | —       | —       | 1,357            |
| Derivatives designated as hedging instruments:     |                |                      |         |         |                  |
| Precious metal forward contracts <sup>b</sup>      | 23             | —                    | 23      | —       | 23               |
| Put option contracts <sup>b</sup>                  | 152            | —                    | 152     | —       | 152              |
| Foreign exchange forward contracts <sup>b</sup>    | 1,414          | —                    | 1,414   | —       | 1,414            |
| Derivatives not designated as hedging instruments: |                |                      |         |         |                  |
| Foreign exchange forward contracts <sup>b</sup>    | 423            | —                    | 423     | —       | 423              |
| Total financial assets                             | \$44,524       | \$42,512             | \$2,012 | \$—     | \$44,524         |
| (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 <sup>c</sup>      | \$3,946        | \$—                  | \$3,946 | \$—     | \$3,946          |
| Foreign exchange forward contracts <sup>c</sup>    | 382            | —                    | 382     | —       | 382              |
| Derivatives not designated as hedging instruments: |                |                      |         |         |                  |
| Foreign exchange forward contracts <sup>c</sup>    | 77             | —                    | 77      | —       | 77               |
| Total financial liabilities                        | \$4,405        | \$—                  | \$4,405 | \$—     | \$4,405          |

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

<sup>b</sup> Included within Prepaid expenses and other current assets.

<sup>c</sup> Included within Accounts payable and accrued liabilities.

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 \$964,219,000 and \$939,546,000 and the corresponding fair value was approximately \$1,100,000,000 at both July 31, 2013 and 2012.



## 9. DEBT

In July 2013, Tiffany & Co.'s indirect, wholly-owned subsidiary, Tiffany & Co. (Shanghai) Commercial Company Limited (“Tiffany-Shanghai”), entered into a three-year multi-bank revolving credit agreement (the “Credit Agreement”). The Credit Agreement has an aggregate borrowing limit of RMB 930,000,000 (\$151,676,000 at July 31, 2013). The Credit Agreement will be available for Tiffany-Shanghai's general working capital requirements, including repayment of a portion of the indebtedness under Tiffany-Shanghai's existing bank loan facilities. The Credit Agreement contains affirmative and negative covenants usual and customary for facilities of this size and purpose. 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. There was \$57,083,000 outstanding and \$94,593,000 available to be borrowed under the Credit Agreement at July 31, 2013. The interest rate applicable to the outstanding borrowings at July 31, 2013 was 6.0%. The Credit Agreement matures in July 2016.

There was \$207,412,000 outstanding and \$642,935,000 available under all revolving credit facilities (including the Credit Agreement discussed above) at July 31, 2013. The weighted-average interest rate for the outstanding amount at July 31, 2013 was 3.45%.

## 10. COMMITMENTS AND CONTINGENCIES

Leases. In April 2010, Tiffany and Company (“Tiffany”), the Company’s principal operating subsidiary, committed to a plan to consolidate and relocate its New York headquarters staff to a single leased location in New York City from three separate locations leased in midtown Manhattan. The move occurred in June 2011. Tiffany subleased most of those previously occupied properties through the end of their lease terms which run through 2015, but has recovered only a portion of its rent obligations due to market conditions.

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 accrued exit charges:

(in thousands)

|   |           |   |
|---|-----------|---|
| Balance at January 31, 2013                     | \$ 16,164 |   |
| Cash payments, net of estimated sublease income | (1,518)   | ) |
| Interest accretion                              | 108       |   |
| Balance at April 30, 2013                       | 14,754    |   |
| Cash payments, net of estimated sublease income | (1,518)   | ) |
| Interest accretion                              | 98        |   |
| Balance at July 31, 2013                        | \$ 13,334 |   |

Diamond sourcing activities. In March 2011, Laurelton Diamonds, Inc. (“Laurelton”), a direct, wholly-owned subsidiary of the Company, as lender, entered into a \$50,000,000 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 now acquires diamonds. On March 29, 2013, the Company entered into an amendment relating to the Loan, deferring principal and interest payments due in 2013 to subsequent years. The Loan, as amended, is required to be repaid in full by March 2017 through semi-annual payments scheduled to begin in March 2014.

Litigation. On June 24, 2011, The Swatch Group Ltd. (“Swatch”) and its wholly-owned subsidiary Tiffany Watch Co. (“Watch Company”; Swatch and Watch Company, together, the “Swatch Parties”), initiated an arbitration proceeding against the Registrant and its wholly-owned subsidiaries, Tiffany and Company and Tiffany (NJ) Inc. (the Registrant and such subsidiaries, together, the “Tiffany Parties”), seeking damages for alleged breach of agreements entered into by and among the Swatch Parties and the Tiffany Parties that came into effect in December 2007 (the “Agreements”). The Agreements pertain 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.

14

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Table of Contents

All claims and counterclaims between and among the Swatch Parties and the Tiffany Parties under the Agreements will be determined through a confidential arbitration (the "Arbitration"). The Arbitration is pending before a three member arbitral panel (the "Panel") convened pursuant to the Arbitration Rules of the Netherlands Arbitration Institute in the Netherlands.

On September 12, 2011, the Swatch Parties publicly issued a Notice of Termination purporting to terminate the Agreements due to alleged material breach by the Tiffany Parties.

On December 23, 2011, the Swatch Parties filed a Statement of Claim in the Arbitration providing additional detail with regard to the allegations by the Swatch Parties and setting forth their damage claims. In general terms, the Swatch Parties allege that the Tiffany Parties have breached the Agreements by obstructing and delaying development of Watch Company's business and otherwise failing to proceed in good faith. The Swatch Parties seek damages based on alternate theories ranging from CHF 73,000,000 (or approximately \$79,000,000 at July 31, 2013) (based on alleged wasted investment) to CHF 3,800,000,000 (or approximately \$4,100,000,000 at July 31, 2013) (calculated based on alleged future lost profits of the Swatch Parties and their affiliates over the entire term of the Agreements).

The Registrant believes that the claims of the Swatch Parties are without merit and has defended vigorously and (together with the other Tiffany Parties) filed a Statement of Defense and Counterclaim on March 9, 2012. As detailed in the filing, the Tiffany Parties disputed both the merits of the Swatch Parties' claims and the calculation of the alleged damages. The Tiffany Parties also asserted counterclaims for damages attributable to breach by the Swatch Parties and for termination due to such breach. In general terms, the Tiffany Parties allege 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 seek damages based on alternate theories ranging from CHF 120,000,000 (or approximately \$129,000,000 at July 31, 2013) (based on wasted investment) to approximately CHF 540,000,000 (or approximately \$581,000,000 at July 31, 2013) (calculated based on future lost profits of the Tiffany Parties).

The arbitration hearing was held in October 2012. At the hearing, witnesses were examined and the Panel ordered additional briefs and submissions to complete the record. The record was completed in mid-February 2013, and the Panel will issue its decision at an undetermined future date. It is possible that the Panel will find neither the Swatch Parties nor the Tiffany Parties to be in material breach of their respective obligations under the Agreements; should that be the conclusion of the Panel, both sides have asked the Panel to determine that the Agreements be deemed terminated as of October 1, 2013.

Management has not included any accrual in the condensed consolidated financial statements related to the Arbitration as a result of its assessment that an award of damages to the Swatch Parties in the Arbitration is not probable. If the Swatch Parties' claims were accepted on their merits, the damages award cannot be reasonably estimated at this time but could have a material adverse effect on the Registrant's consolidated financial statements or liquidity.

If, as requested by both parties, the Arbitration tribunal determines that the Agreements should be terminated, the Swatch Parties will no longer be responsible for the manufacture and distribution, through third party retailers, of TIFFANY & CO. brand watches. However, the Company intends to produce and distribute TIFFANY & CO. brand watches through alternative arrangements following termination of the Agreements. Royalties payable to the Tiffany Parties by Watch Company under the Agreements have not been significant in any year. Watches manufactured by Watch Company and sold in TIFFANY & CO. stores constituted 1% of worldwide net sales in 2012, 2011 and 2010. Other. In the three months ended April 30, 2013, the Company implemented specific cost reduction initiatives and recorded \$9,379,000 of expense within selling, general and administrative expenses. These cost reduction initiatives included severance related to staffing reductions (substantially all of which was paid by the end of the second quarter of 2013) and subleasing of certain office space for which only a portion of the Company's future rent obligations will be recovered.



Table of Contents

## 11. STOCKHOLDERS' EQUITY

## Accumulated Other Comprehensive (Loss) Gain

| (in thousands)   | July 31,<br>2013 | January 31,<br>2013 | July 31,<br>2012 |
|--|------------------|---------------------|------------------|
| Accumulated other comprehensive (loss) gain, net of tax: |                  |                     |                  |
| Foreign currency translation adjustments                 | \$13,280         | \$44,064            | \$28,929         |
| Deferred hedging loss                                    | (3,397           | ) (3,207            | ) (22,342        |
| Unrealized gain on marketable securities                 | 1,744            | 1,849               | 846              |
| Net unrealized loss on benefit plans                     | (130,945         | ) (136,581          | ) (120,735       |
|  | \$ (119,318      | ) \$ (93,875        | ) \$ (113,302    |

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

| (in thousands)  | Three Months Ended July<br>31, |              | Six Months Ended July 31, |              |
|---|--------------------------------|--------------|---------------------------|--------------|
|   | 2013                           | 2012         | 2013                      | 2012         |
| Foreign currency translation adjustments  | \$(15,459                      | ) \$(20,967  | ) \$(33,352               | ) \$(21,353  |
| Income tax benefit (expense)  | 113                            | (753         | ) 2,568                   | 1,073        |
| Foreign currency adjustments, net of tax  | (15,346                        | ) (21,720    | ) (30,784                 | ) (20,280    |
| Unrealized (loss) gain on marketable securities                                   | (1,076                         | ) 5          | 190                       | 1,102        |
| Income tax benefit (expense)  | 156                            | (3           | ) (295                    | ) (386       |
| Unrealized (loss) gain on marketable securities, net of tax                       | (920                           | ) 2          | (105                      | ) 716        |
| Unrealized (loss) gain on hedging instruments                                     | (2,232                         | ) (27,582    | ) 3,238                   | (30,371      |
| Reclassification adjustment for (gain) loss included in net earnings <sup>a</sup> | (2,407                         | ) 4,013      | (3,289                    | ) 7,763      |
| Income tax benefit (expense)  | 1,662                          | 8,993        | (139                      | ) 8,995      |
| Unrealized gain on hedging instruments, net of tax                                | (2,977                         | ) (14,576    | ) (190                    | ) (13,613    |
| Amortization of net loss included in net earnings <sup>b</sup>                    | 4,315                          | 3,907        | 9,611                     | 7,993        |
| Amortization of prior service cost included in net earnings <sup>b</sup>          | 78                             | 89           | 156                       | 178          |
| Income tax expense  | (1,681                         | ) (1,546     | ) (4,131                  | ) (3,166     |
| Net unrealized gain on benefit plans, net of tax                                  | 2,712                          | 2,450        | 5,636                     | 5,005        |
| Total other comprehensive loss, net of tax  | \$ (16,531                     | ) \$ (33,844 | ) \$ (25,443              | ) \$ (28,172 |

<sup>a</sup> These (gains) losses are reclassified into Interest and other expenses and Cost of sales, net (see Note 7. Hedging Instruments for additional details).

<sup>b</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension costs (see Note 12. Employee Benefit Plans for additional details).

The Company's Board of Directors declared quarterly dividends which totaled \$0.34 and \$0.32 per share of Common Stock in the three months ended July 31, 2013 and 2012 and \$0.66 and \$0.61 per share of Common Stock in the six months ended July 31, 2013 and 2012.



Table of Contents

## 12. EMPLOYEE BENEFIT PLANS

The Company maintains several pension and retirement plans, and also provides certain health-care and life insurance benefits.

Net periodic pension and other postretirement benefit expense included the following components:

| (in thousands)                     | Three Months Ended July 31, |           |                               |         |
|------------------------------------|-----------------------------|-----------|-------------------------------|---------|
|                                    | Pension Benefits            |           | Other Postretirement Benefits |         |
|                                    | 2013                        | 2012      | 2013                          | 2012    |
| Net Periodic Benefit Cost:         |                             |           |                               |         |
| Service cost                       | \$4,521                     | \$4,622   | \$673                         | \$489   |
| Interest cost                      | 6,639                       | 6,811     | 653                           | 624     |
| Expected return on plan assets     | (6,170                      | ) (5,322  | ) —                           | —       |
| Amortization of prior service cost | 243                         | 254       | (165                          | ) (165  |
| Amortization of net loss           | 4,305                       | 3,988     | 10                            | (81     |
| Net expense                        | \$9,538                     | \$10,353  | \$1,171                       | \$867   |
|                                    | Six Months Ended July 31,   |           |                               |         |
|                                    | Pension Benefits            |           | Other Postretirement Benefits |         |
| (in thousands)                     | 2013                        | 2012      | 2013                          | 2012    |
| Net Periodic Benefit Cost:         |                             |           |                               |         |
| Service cost                       | \$9,577                     | \$9,038   | \$1,396                       | \$1,191 |
| Interest cost                      | 13,504                      | 13,398    | 1,381                         | 1,420   |
| Expected return on plan assets     | (11,120                     | ) (10,208 | ) —                           | —       |
| Amortization of prior service cost | 486                         | 508       | (330                          | ) (330  |
| Amortization of net loss           | 9,505                       | 7,978     | 106                           | 15      |
| Net expense                        | \$21,952                    | \$20,714  | \$2,553                       | \$2,296 |

## 13. SEGMENT INFORMATION

The Company's reportable segments are as follows:

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

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

Europe includes sales in 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. Other consists of wholesale sales of TIFFANY & CO. merchandise to independent distributors for resale in certain emerging markets (primarily in the Middle East and Russia) and beginning in July 2012 retail sales in five TIFFANY & CO. stores in the United Arab Emirates which were converted from independently-operated to Company-operated stores. In addition, Other includes wholesale sales of diamonds obtained through bulk purchases that were subsequently deemed not suitable for the Company's needs as well as earnings received from third-party licensing agreements.

Table of Contents

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

| (in thousands)                      | Three Months Ended July 31, |           | Six Months Ended July 31, |             |
|-------------------------------------|-----------------------------|-----------|---------------------------|-------------|
|                                     | 2013                        | 2012      | 2013                      | 2012        |
| Net sales:                          |                             |           |                           |             |
| Americas                            | \$443,856                   | \$433,989 | \$851,553                 | \$819,663   |
| Asia-Pacific                        | 208,325                     | 174,138   | 431,752                   | 369,208     |
| Japan                               | 136,395                     | 158,663   | 280,922                   | 300,452     |
| Europe                              | 111,247                     | 100,214   | 204,233                   | 188,121     |
| Total reportable segments           | 899,823                     | 867,004   | 1,768,460                 | 1,677,444   |
| Other                               | 26,061                      | 19,565    | 52,908                    | 28,295      |
|                                     | \$925,884                   | \$886,569 | \$1,821,368               | \$1,705,739 |
| Earnings (losses) from operations*: |                             |           |                           |             |
| Americas                            | \$87,731                    | \$83,866  | \$146,693                 | \$139,807   |
| Asia-Pacific                        | 49,882                      | 35,026    | 105,341                   | 86,086      |
| Japan                               | 48,235                      | 50,266    | 101,654                   | 92,826      |
| Europe                              | 22,338                      | 20,597    | 36,616                    | 37,252      |
| Total reportable segments           | 208,186                     | 189,755   | 390,304                   | 355,971     |
| Other                               | (1,188                      | ) (2,158  | ) (344                    | ) (3,939    |
|                                     | \$206,998                   | \$187,597 | \$389,960                 | \$352,032   |

\* Represents earnings (losses) from operations before unallocated corporate expenses, other operating expense and interest and other expenses, net.

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 July 31, |           | Six Months Ended July 31, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2013                        | 2012      | 2013                      | 2012      |
| Earnings from operations for segments        | \$206,998                   | \$187,597 | \$389,960                 | \$352,032 |
| Unallocated corporate expenses               | (30,112                     | ) (33,017 | ) (62,537                 | ) (62,467 |
| Interest and other expenses, net             | (14,694                     | ) (14,250 | ) (27,406                 | ) (24,804 |
| Other operating expense                      | —                           | —         | (9,379                    | ) —       |
| Earnings from operations before income taxes | \$162,192                   | \$140,330 | \$290,638                 | \$264,761 |

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 six months ended July 31, 2013 represents expenses related to specific cost reduction initiatives. See "Note 10. Commitments and Contingencies."

#### 14. SUBSEQUENT EVENT

On August 15, 2013, the Company's Board of Directors approved a quarterly dividend of \$0.34 per share of Common Stock. This dividend will be paid on October 10, 2013 to stockholders of record on September 20, 2013.

Table of Contents

PART I. Financial Information

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"). Tiffany & Co.'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 116 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 67 TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products in certain markets through Internet and wholesale operations;

Japan includes sales in 54 TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products through business-to-business, Internet and wholesale operations;

Europe includes sales in 35 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. Other consists of wholesale sales of TIFFANY & CO. merchandise to independent distributors for resale in certain emerging markets (primarily in the Middle East and Russia) and beginning in July 2012 retail sales in five TIFFANY & CO. stores in the United Arab Emirates ("U.A.E.") which were converted from independently-operated to Company-operated stores. In addition, Other includes wholesale sales of diamonds obtained through bulk purchases that were subsequently deemed not suitable for the Company's needs as well as earnings received from third-party licensing agreements.

All references to years relate to fiscal years ended or ending on January 31 of the following calendar year.

HIGHLIGHTS

Worldwide net sales increased 4% to \$925,884,000 in the three months ("second quarter") ended July 31, 2013 and 7% in the six months ("first half") ended July 31, 2013 to \$1,821,368,000. On a constant-exchange-rate basis (see "Non-GAAP Measures" below), worldwide net sales increased 8% in the second quarter and 10% in the first half due to sales growth in all regions and comparable store sales increased 5% in the second quarter and 7% in the first half.

Earnings from operations increased 14% in the second quarter primarily due to an improvement in gross margin.

Net earnings increased 16% to \$106,781,000, or \$0.83 per diluted share in the second quarter. Net earnings increased 10% to \$190,358,000, or \$1.48 per diluted share in the first half ended July 31, 2013. Excluding expenses related to specific cost reduction initiatives (see "Non-GAAP Measures" below), net earnings increased 13%.

RESULTS OF OPERATIONS

Non-GAAP Measures

The Company reports information in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The Company's management does not, nor does it suggest that investors should, consider non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. The Company presents such non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate the Company's operating results.

Table of Contents

Net Sales. The Company's reported sales reflect either a translation-related benefit from strengthening foreign currencies or a detriment from a strengthening U.S. dollar. Internally, management monitors its sales performance on a non-GAAP basis that eliminates the positive or negative effects that result from translating sales made outside the U.S. into U.S. dollars ("constant-exchange-rate basis"). Management believes this constant-exchange-rate basis provides a more representative assessment of sales performance and provides better comparability between reporting periods. The following table reconciles sales percentage increases (decreases) from the GAAP to the non-GAAP basis versus the previous year:

|                         | Second Quarter 2013 vs. 2012 |                    |                              | First Half 2013 vs. 2012 |                    |                              |   |
|-------------------------|------------------------------|--------------------|------------------------------|--------------------------|--------------------|------------------------------|---|
|                         | GAAP Reported                | Translation Effect | Constant-Exchange-Rate Basis | GAAP Reported            | Translation Effect | Constant-Exchange-Rate Basis |   |
| Net Sales:              |                              |                    |                              |                          |                    |                              |   |
| Worldwide               | 4                            | % (4               | )% 8                         | % 7                      | % (3               | )% 10                        | % |
| Americas                | 2                            | % —                | 2                            | % 4                      | % —                | % 4                          | % |
| Asia-Pacific            | 20                           | % —                | % 20                         | % 17                     | % —                | % 17                         | % |
| Japan                   | (14                          | )% (21             | )% 7                         | % (7                     | )% (21             | )% 14                        | % |
| Europe                  | 11                           | % 1                | % 10                         | % 9                      | % —                | % 9                          | % |
| Comparable Store Sales: |                              |                    |                              |                          |                    |                              |   |
| Worldwide               | 1                            | % (4               | )% 5                         | % 3                      | % (4               | )% 7                         | % |
| Americas                | —                            | % —                | % —                          | % 1                      | % —                | % 1                          | % |
| Asia-Pacific            | 13                           | % —                | % 13                         | % 11                     | % —                | % 11                         | % |
| Japan                   | (13                          | )% (21             | )% 8                         | % (6                     | )% (20             | )% 14                        | % |
| Europe                  | 8                            | % 1                | % 7                          | % 6                      | % —                | % 6                          | % |

Statement of Earnings. Internally, management monitors its statement of earnings excluding specific cost reduction initiatives. Management believes excluding such items presents the Company's results on a more comparable basis to the corresponding period in the prior year, thereby providing investors with an additional perspective to analyze the results of operations of the Company. The following table reconciles GAAP amounts to non-GAAP amounts:

| (in thousands)  | GAAP      | Cost reduction initiatives <sup>a</sup><br>(decrease)/increase | Non-GAAP    |
|---|-----------|--|-------------|
| Six months ended July 31, 2013                        |           |  |             |
| Selling, general and administrative expenses ("SG&A") | \$717,309 | \$(9,379   | ) \$707,930 |
| Earnings from operations                              | 318,044   | 9,379  | 327,423     |
| Net earnings  | 190,358   | 5,785  | 196,143     |

In the six months ended July 31, 2013, the Company implemented specific cost reduction initiatives which included a severance related to staffing reductions and subleasing of certain office space for which only a portion of the Company's future rent obligations will be recovered.

**Comparable Store Sales**

Comparable store sales include only sales transacted in Company-operated stores. A store's sales are included in comparable store sales when the store has been open for more than 12 months. In markets other than Japan, sales for relocated stores are included in comparable store sales if the relocation occurs within the same geographical market. In Japan, sales for a new store are not included if the store was relocated from one department store to another or from a department store to a free-standing location. In all markets, the results of a store in which the square footage has been expanded or reduced remain in the comparable store base.



Table of Contents

## Net Sales

Net sales by segment were as follows:

| (in thousands) | Second Quarter |           |                         | First Half    |             |                         |    |
|----------------|----------------|-----------|-------------------------|---------------|-------------|-------------------------|----|
|                | 2013           | 2012      | Increase/<br>(Decrease) | 2013          | 2012        | Increase/<br>(Decrease) |    |
| Americas       | \$443,856      | \$433,989 | 2                       | % \$851,553   | \$819,663   | 4                       | %  |
| Asia-Pacific   | 208,325        | 174,138   | 20                      | % 431,752     | 369,208     | 17                      | %  |
| Japan          | 136,395        | 158,663   | (14                     | )% 280,922    | 300,452     | (7                      | )% |
| Europe         | 111,247        | 100,214   | 11                      | % 204,233     | 188,121     | 9                       | %  |
| Other          | 26,061         | 19,565    | 33                      | % 52,908      | 28,295      | 87                      | %  |
|                | \$925,884      | \$886,569 | 4                       | % \$1,821,368 | \$1,705,739 | 7                       | %  |

There was no meaningful effect from translation on sales for any segment other than Japan as discussed below. See "Non-GAAP Measures" for additional information.

**Americas.** Total sales in the Americas increased \$9,867,000, or 2%, in the second quarter due to an increase in the average price per jewelry unit sold largely offset by fewer jewelry units sold. Comparable store sales were equal to the prior year despite growth in New York flagship store sales and non-comparable store sales grew \$12,588,000.

Total sales in the Americas increased \$31,890,000, or 4%, in the first half due to an increase in the average price per jewelry unit sold partly offset by fewer jewelry units sold. Comparable store sales increased \$9,773,000, or 1%, with stronger growth in the New York flagship store that, in part, benefited from purchases by customers who attended Tiffany's Blue Book event in the first quarter of 2013. Non-comparable store sales grew \$24,476,000.

**Asia-Pacific.** Total sales in Asia-Pacific increased \$34,187,000, or 20%, in the second quarter primarily due to an increase in the number of jewelry units sold as well as an increase in the average price per jewelry unit sold. Comparable store sales increased \$20,970,000, or 13%, and non-comparable store sales grew \$9,959,000, primarily due to strong sales in Greater China.

Total sales in Asia-Pacific increased \$62,544,000 or 17%, in the first half due to an increase in the number of jewelry units sold and in the average price per jewelry unit sold. Comparable store sales increased \$36,928,000, or 11%, primarily due to strong sales in Greater China. Non-comparable store sales grew \$20,162,000.

**Japan.** Total sales in Japan decreased \$22,268,000, or 14%, in the second quarter and comparable store sales decreased \$19,342,000, or 13%, due to currency translation. On a constant-exchange-rate basis, Japan sales increased 7% due to an increase in the average price per jewelry unit sold partly offset by a decrease in the number of jewelry units sold and comparable store sales increased 8%.

Total sales in Japan decreased \$19,530,000, or 7%, in the first half and comparable store sales decreased \$15,853,000, or 6%, due to currency translation. On a constant-exchange-rate basis, Japan sales increased 14% due to an increase in the average price per jewelry unit sold partly offset by a decrease in the number of jewelry units sold and comparable store sales increased 14%.

**Europe.** Total sales in Europe increased \$11,033,000, or 11%, in the second quarter due to an increase in the average price per jewelry unit sold and in the number of jewelry units sold. Comparable store sales increased \$7,717,000, or 8% reflecting growth in the United Kingdom and most of continental Europe.

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Total sales in Europe increased \$16,112,000, or 9%, in the first half due to an increase in the average price per jewelry unit sold and in the number of jewelry units sold. Comparable store sales increased \$10,852,000, or 6%, reflecting growth in the United Kingdom and most of continental Europe and non-comparable store sales increased \$4,085,000.

Other. Other sales increased \$6,496,000, or 33%, in the second quarter and \$24,613,000, or 87%, in the first half primarily due to the conversion of five independently-operated stores in the Middle East to Company-operated stores in July 2012.

Table of Contents

Product Category Information. In the three months ended July 31, 2013, worldwide net sales increased \$39,315,000, or 4%, primarily driven by an increase of \$38,817,000, or 25%, in the statement, fine & solitaire jewelry category.

In the six months ended July 31, 2013, worldwide net sales increased \$115,629,000, or 7%, primarily driven by increases of \$86,654,000, or 30%, in the statement, fine & solitaire jewelry category and \$37,617,000, or 7%, in the engagement jewelry & wedding bands category.

Store Data. Management currently expects to add 14 (net) Company-operated TIFFANY & CO. stores in 2013, increasing the store base by 5%, including 6 stores in the Americas, 7 stores in Asia-Pacific and 3 stores in Europe while closing one store in Asia-Pacific and one store in Japan. The following table shows locations which have already been opened or closed, or where plans have been finalized:

| Location                                 | Actual Openings<br>(Closings)<br>Year-to-Date 2013 | Expected Openings<br>2013 |
|--|--|---------------------------|
| Americas:                                |  |                           |
| Villahermosa, Mexico                     | Second Quarter                                     |                           |
| Curitiba, Brazil                         |  | Third Quarter             |
| Paramus – Garden State Plaza, New Jersey |  | Third Quarter             |
| Cleveland, Ohio                          |  | Third Quarter             |
| West Edmonton, Canada                    |  | Third Quarter             |
| New Orleans, Louisiana                   |  | Fourth Quarter            |
| Asia-Pacific:                            |  |                           |
| Taichung – Sogo, Taiwan                  | (First Quarter)                                    |                           |
| Xi'an Zhongda – China                    | First Quarter                                      |                           |
| Causeway Bay – Times Square, Hong Kong   | Second Quarter                                     |                           |
| Jinan – Guihe Plaza, China               |  | Third Quarter             |
| Chengdu – IFC Mall, China                |  | Fourth Quarter            |
| Japan:                                   |  |                           |
| Tokyo – Ginza Matsuzakaya                | (Second Quarter)                                   |                           |
| Europe:                                  |  |                           |
| Verona, Italy                            | Second Quarter                                     |                           |
| Stuttgart, Germany                       |  | Third Quarter             |
| Gross Margin                             |  |                           |

|   | Second Quarter |        | First Half |        |   |
|---|----------------|--------|------------|--------|---|
|   | 2013           | 2012   | 2013       | 2012   | % |
| Gross profit as a percentage of net sales | 57.5           | % 56.3 | % 56.8     | % 56.8 | % |

Gross margin (gross profit as a percentage of net sales) increased by 1.2 percentage points in the second quarter and was equal to the prior year primarily benefiting from diminishing product cost pressures and price increases taken in the first half of 2013 while a shift in sales mix toward higher-priced, lower margin products continued to impact gross margin.

Management periodically reviews and adjusts its retail prices when appropriate to address product cost increases, specific market conditions and longer-term changes in foreign currencies/U.S. dollar relationships. Its strategy is to continue that approach, when appropriate, in the future. Among the market conditions that the Company addresses are consumer demand for the product category involved, which may be influenced by consumer confidence, and competitive pricing conditions. The Company uses derivative instruments to mitigate foreign exchange and precious metal price exposures (see "Item 1. Notes to Condensed Consolidated Financial Statements – Note 7. Hedging Instruments"). The Company increased prices in the first half of 2013 across all geographic regions and product



categories as retail price increases taken by the Company in 2011 and 2012 were not sufficient to offset commodity cost pressures experienced in recent years.

Table of Contents

## Selling, General and Administrative Expenses

|  | Second Quarter |        | First Half |        |   |
|--|----------------|--------|------------|--------|---|
|  | 2013           | 2012   | 2013       | 2012   |   |
| SG&A expenses as a percentage of net sales | 38.4           | % 38.9 | % 39.4     | % 39.8 | % |

SG&A expenses increased \$10,661,000 or 3%, in the second quarter primarily due to increased store occupancy and depreciation expenses of \$8,060,000 related to new and existing stores and increased marketing expenses of \$3,602,000. In the second quarter, changes in foreign currency exchange rates had the effect of decreasing SG&A expenses by 3% as compared to the prior year. SG&A expenses as a percentage of net sales decreased 0.5 percentage point.

SG&A expenses increased \$38,694,000, or 6%, in the first half. The Company had recorded expenses of \$9,379,000 in the first quarter of 2013 associated with specific cost reduction initiatives (see “Non-GAAP Measures.”) Excluding these charges, SG&A expenses increased \$29,315,000, or 4%, primarily due to increased store occupancy and depreciation expenses of \$20,282,000 related to new and existing stores and increased marketing expenses of \$8,918,000 tied to the Blue Book event held in the first quarter. In the first half, changes in foreign currency exchange rates had the effect of decreasing SG&A expenses by 2% as compared to the prior year. SG&A expenses as a percentage of net sales decreased 0.4 percentage point and would have decreased 0.9 percentage point, when excluding the items noted above, due to the leveraging effect of fixed costs.

## Earnings from Operations

| (in thousands)                      | Second<br>Quarter<br>2013 | % of Net<br>Sales | Second<br>Quarter<br>2012 | % of Net<br>Sales |    |
|-------------------------------------|---------------------------|-------------------|---------------------------|-------------------|----|
| Earnings (losses) from operations*: |                           |                   |                           |                   |    |
| Americas                            | \$87,731                  | 19.8              | % \$83,866                | 19.3              | %  |
| Asia-Pacific                        | 49,882                    | 23.9              | % 35,026                  | 20.1              | %  |
| Japan                               | 48,235                    | 35.4              | % 50,266                  | 31.7              | %  |
| Europe                              | 22,338                    | 20.1              | % 20,597                  | 20.6              | %  |
| Other                               | (1,188                    | ) (4.6            | )% (2,158                 | ) (11.0           | )% |
|                                     | 206,998                   |                   | 187,597                   |                   |    |
| Unallocated corporate expenses      | (30,112                   | ) (3.3            | )% (33,017                | ) (3.7            | )% |
| Earnings from operations            | \$ 176,886                | 19.1              | % \$ 154,580              | 17.4              | %  |

\*Percentages represent earnings (losses) from operations as a percentage of each segment’s net sales.

Earnings from operations increased 14% in the second quarter. On a segment basis, the ratio of earnings (losses) from operations to each segment’s net sales in the second quarter of 2013 compared with 2012 was as follows:

- Americas – the ratio increased 0.5 percentage point resulting from an improvement in gross margin partly offset by increased operating expenses related to marketing and the opening of new stores;
- Asia-Pacific – the ratio increased 3.8 percentage points primarily due to the sales leveraging of operating expenses as well as an improvement in gross margin;
- Japan – the ratio increased 3.7 percentage points primarily due to an improvement in gross margin (which includes a benefit from the Company’s ongoing program to utilize forward contracts for a portion of forecasted merchandise purchases) as well as sales leveraging of operating expenses;
- Europe – the ratio decreased 0.5 percentage point due to increased store-related operating expenses partly offset by an improvement in gross margin; and
- Other – the ratio improved 6.4 percentage points due to incremental retail sales from five TIFFANY & CO. stores in the U.A.E. which were converted from independently-operated to Company-operated stores in July 2012.



Table of Contents

| (in thousands)                      | First Half<br>2013 | % of Net<br>Sales | First Half<br>2012 | % of Net<br>Sales |    |
|-------------------------------------|--------------------|-------------------|--------------------|-------------------|----|
| Earnings (losses) from operations*: |                    |                   |                    |                   |    |
| Americas                            | \$ 146,693         | 17.2              | % \$ 139,807       | 17.1              | %  |
| Asia-Pacific                        | 105,341            | 24.4              | % 86,086           | 23.3              | %  |
| Japan                               | 101,654            | 36.2              | % 92,826           | 30.9              | %  |
| Europe                              | 36,616             | 17.9              | % 37,252           | 19.8              | %  |
| Other                               | (344               | ) (0.7            | )% (3,939          | ) (13.9           | )% |
|                                     | 389,960            |                   | 352,032            |                   |    |
| Unallocated corporate expenses      | (62,537            | ) (3.4            | )% (62,467         | ) (3.7            | )% |
| Other operating expense             | (9,379             | )                 | —                  |                   |    |
| Earnings from operations            | \$ 318,044         | 17.5              | % \$ 289,565       | 17.0              | %  |

\* Percentages represent earnings (losses) from operations as a percentage of each segment's net sales.

Earnings from operations increased 10% in the first half. On a segment basis, the ratio of earnings (losses) from operations to each segment's net sales in the first half of 2013 compared with 2012 was as follows:

Americas – the ratio increased 0.1 percentage point primarily due to the improved sales leveraging of operating expenses substantially offset by a decline in gross margin;

- Asia-Pacific – the ratio increased 1.1 percentage points due to the sales leveraging of operating expenses and an improvement in gross margin;

Japan – the ratio increased 5.3 percentage points primarily due to an improvement in gross margin (which includes a benefit from the Company's ongoing program to utilize forward contracts for a portion of forecasted merchandise purchases) as well as sales leveraging of operating expenses;

Europe – the ratio decreased 1.9 percentage points primarily due to increased store-related operating expenses as well as a decline in gross margin;

- Other – the ratio improved 13.2 percentage points due to retail sales from five TIFFANY & CO. stores in the U.A.E. which were converted from independently-operated to Company-operated stores in July 2012.

Unallocated corporate expenses include costs related to administrative support functions which the Company does not allocate to its segments. Such unallocated costs include those for centralized information technology, finance, legal and human resources departments. Unallocated corporate expenses as a percentage of net sales declined in the second quarter and first half.

Other operating expense in the first half of 2013 represents expenses related to specific cost reduction initiatives. See "Note 10. Commitments and Contingencies."

Interest and Other Expenses, net

Interest and other expenses, net increased \$444,000, or 3%, in the second quarter of 2013 and \$2,602,000, or 10%, in the first half of 2013 primarily due to increased interest expense related to increased debt.

Provision for Income Taxes

The effective income tax rate for the second quarter of 2013 was 34.2% versus 34.6% in the prior year. The effective income tax rate was 34.5% for the first half of 2013 and 2012.

Table of Contents

## 2013 Outlook

Management expects net earnings in a range of \$3.50–\$3.60 per diluted share, compared with \$3.43–3.53 per dilute share in the previous outlook and \$3.25 per diluted share in 2012. This is based on the following assumptions, which are approximate and may or may not prove valid, and which should be read in conjunction with risk factors disclosed in Part I, Item 1A in the Registrant’s Annual Report on Form 10-K for the fiscal year ended January 31, 2013:

- Worldwide net sales increasing by a mid-single-digit percentage in U.S. dollars (a high-single-digit percentage increase on a constant-exchange-rate basis).

- The opening of 14 (net) Company-operated stores including 6 in the Americas, 7 in Asia-Pacific, 3 in Europe and closing one in Japan and one in Asia-Pacific.

- Operating earnings increasing at a higher rate than sales growth. This assumes gross margin at least equal to the prior year (the benefits from favorable product costs and price increases being offset by sales mix skewed toward higher-priced, lower margin product categories), and an improvement in the SG&A expense ratio due to sales leverage on fixed costs.

- Interest and other expenses, net of \$58,000,000.

- An effective income tax rate of 35%.

- This forecast excludes \$0.05 per diluted share of expenses tied to specific cost reduction initiatives that were recorded in the first quarter.

- An increase in net inventories of 5%, capital expenditures of \$230,000,000 (versus \$220,000,000 in 2012) and free cash flow (cash flow from operating activities less capital expenditures) of \$300,000,000 (versus \$109,000,000 in 2012).

## New Accounting Standards

See "Item 1. Notes to Condensed Consolidated Financial Statements - Note 2. New Accounting Standards."

## LIQUIDITY AND CAPITAL RESOURCES

The Company’s liquidity needs have been, and are expected to remain, primarily a function of its ongoing, seasonal and expansion-related working capital requirements and capital expenditure needs. Over the long term, the Company manages its cash and capital structure to maintain a strong financial position that provides flexibility to pursue strategic initiatives. Management regularly assesses its working capital needs, capital expenditure requirements, debt service, dividend payouts, share repurchases and future investments. Management believes that cash on hand, internally-generated cash flows, the funds available under its revolving credit facilities and the ability to access the debt and capital markets are sufficient to support the Company’s liquidity and capital requirements for the foreseeable future.

The following table summarizes cash flows from operating, investing and financing activities:

| (in thousands)  | First Half<br>2013 | 2012        |   |
|---|--------------------|-------------|---|
| Net cash provided by (used in):                       |                    |             |   |
| Operating activities                                  | \$ 120,080         | \$(58,085   | ) |
| Investing activities                                  | (89,868            | ) (91,566   | ) |
| Financing activities                                  | (39,978            | ) 88,518    |   |
| Effect of exchange rates on cash and cash equivalents | (5,408             | ) (6,741    | ) |
| Net decrease in cash and cash equivalents             | \$(15,174          | ) \$(67,874 | ) |

## Operating Activities

The Company had a net cash inflow from operating activities of \$120,080,000 in the first half of 2013 compared with an outflow of \$58,085,000 in the same period in 2012. The variance is primarily due to a decelerated rate of inventory growth as well as decreased outflows associated with payables and accrued liabilities. Additionally, the first half of

2013 includes the Company's contribution of \$30,000,000 to its pension plan versus a contribution of \$35,000,000 to its pension plan in the comparable period in 2012, which is reflected in Other, net on the Condensed Consolidated Statements of Cash Flows.

Table of Contents

Working Capital. Working capital (current assets less current liabilities) and the corresponding current ratio (current assets divided by current liabilities) were \$2,651,043,000 and 5.5 at July 31, 2013, compared with \$2,564,997,000 and 5.4 at January 31, 2013 and \$2,499,956,000 and 6.0 at July 31, 2012.

Accounts receivable, less allowances at July 31, 2013 were 7% and 6% lower than January 31, 2013 and July 31, 2012. When excluding the effect of foreign currency translation, primarily from the weaker Japanese yen, accounts receivable, less allowances would have been 4% lower than January 31, 2013 due to the seasonality of the Company's business and would have increased 1% compared to July 31, 2012.

Inventories, net at July 31, 2013 were 4% higher than both January 31, 2013 and July 31, 2012. Net inventories rose 5% and 7% from January 31, 2013 and July 31, 2012 when excluding the effect of foreign currency translation, primarily from the weaker Japanese yen. Finished goods inventories rose 6% and 8% from January 31, 2013 and July 31, 2012 due to increased inventory levels related to new stores and expanded product assortments. Combined raw material and work-in-process inventories increased 2% from January 31, 2013 and decreased less than 1% from July 31, 2012.

Investing Activities

The Company had a net cash outflow from investing activities of \$89,868,000 in the second quarter of 2013 compared with an outflow of \$91,566,000 in the second quarter of 2012. The decreased outflow in the current year is primarily due to a decrease in the purchases and sales of marketable securities and short-term investments as well as a decrease in capital expenditures.

Financing Activities

The Company had a net cash outflow from financing activities of \$39,978,000 in the first half of 2013 compared with an inflow of \$88,518,000 in the first half of 2012. Year-over-year changes in cash flows from financing activities are largely driven by borrowings. Additionally, the Company did not repurchase any of its Common Stock in the first half of 2013.

Recent Borrowings. The Company had net proceeds from short-term and long-term borrowings as follows:

| (in thousands)                                 | First Half<br>2013 | 2012      |
|--|--------------------|-----------|
| Short-term borrowings:                         |                    |           |
| Proceeds from credit facility borrowings, net  | \$3,244            | \$34,929  |
| Proceeds from other credit facility borrowings | 82,643             | 10,481    |
| Repayment of other credit facility borrowings  | (68,100)           | —         |
| Net proceeds from short-term borrowings        | 17,787             | 45,410    |
| Long-term borrowings:                          |                    |           |
| Repayments                                     | —                  | (60,000)  |
| Proceeds                                       | —                  | 250,000   |
| Net proceeds from long-term borrowings         | —                  | 190,000   |
| Net proceeds from total borrowings             | \$17,787           | \$235,410 |

In July 2013, Tiffany & Co.'s indirect, wholly-owned subsidiary, Tiffany & Co. (Shanghai) Commercial Company Limited (“Tiffany-Shanghai”), entered into a three-year multi-bank revolving credit agreement (the “Credit Agreement”). The Credit Agreement has an aggregate borrowing limit of RMB 930,000,000 (\$151,676,000 at July 31, 2013). The Credit Agreement will be available for Tiffany-Shanghai's general working capital requirements, including repayment of a portion of the indebtedness under Tiffany-Shanghai's existing bank loan facilities. The Credit Agreement contains affirmative and negative covenants usual and customary for facilities of this size and purpose. 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. There was \$57,083,000 outstanding and \$94,593,000 available to be borrowed under the Credit Agreement at July 31, 2013. The interest rate applicable to the outstanding borrowings at July 31, 2013 was 6.0%. The Credit Agreement matures in July 2016.

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There was \$207,412,000 outstanding and \$642,935,000 available under all revolving credit facilities (including the Credit Agreement discussed above) at July 31, 2013. The weighted-average interest rate for the outstanding amount at July 31, 2013 was 3.45%.



Table of Contents

The ratio of total debt (short-term borrowings and long-term debt) to stockholders' equity was 35% at July 31, 2013, 37% at January 31, 2013 and 39% at July 31, 2012.

At July 31, 2013, the Company was in compliance with all debt covenants.

Share Repurchases. The Company's share repurchase activity was as follows:

| (in thousands, except per share amounts) | Second Quarter |         | First Half |          |
|--|----------------|---------|------------|----------|
|  | 2013           | 2012    | 2013       | 2012     |
| Cost of repurchases                      | \$—            | \$7,622 | \$—        | \$54,107 |
| Shares repurchased and retired           | —              | 113     | —          | 813      |
| Average cost per share                   | \$—            | \$67.23 | \$—        | \$66.54  |

In January 2011, the Company's Board of Directors approved a new stock repurchase program ("2011 Program") and terminated the previously existing program. The 2011 Program authorizes the Company to repurchase up to \$400,000,000 of its Common Stock through open market or private transactions. The timing of repurchases and the actual number of shares to be repurchased depend on a variety of discretionary factors such as stock price, cash-flow forecasts and other market conditions. In January 2013, the Board of Directors extended the expiration of the 2011 Program to January 31, 2014 and approximately \$163,794,000 remained available for share repurchases under this authorization.

**Contractual Obligations**

Management anticipates that it is reasonably possible that the total gross amount of unrecognized tax benefits will decrease by approximately \$20,000,000 in the next 12 months, a portion of which may affect the effective tax rate; however, management does not currently anticipate a significant effect on net earnings. Future developments may result in a change in this assessment.

The Company's contractual cash obligations and commercial commitments at July 31, 2013 and the effects such obligations and commitments are expected to have on the Company's liquidity and cash flows in future periods have not changed significantly since January 31, 2013.

**Seasonality**

As a jeweler and specialty retailer, the Company's business is seasonal in nature, with the fourth quarter typically representing at least one-third of annual net sales and a higher percentage of annual net earnings. Management expects such seasonality to continue.

**Forward-Looking Statements**

This quarterly report on Form 10-Q contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 concerning the Company's goals, plans and projections with respect to store openings and closings, sales, retail prices, gross margin, products, growth opportunities, expenses, effective tax rate, net earnings and net earnings per share, inventories, capital expenditures, cash flow and liquidity. In addition, management makes other forward-looking statements from time to time concerning objectives and expectations. One can identify these forward-looking statements by the fact that they use words such as "believes," "intends," "plans," and "expects" and other words and terms of similar meaning and expression in connection with any discussion of future operating or financial performance. One can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Such forward-looking statements are based on management's current plan and involve inherent risks, uncertainties and assumptions that could cause actual outcomes to differ materially from the current plan. The Company has included important factors in the cautionary statements included in its 2012 Annual Report on Form 10-K and in this quarterly report, particularly under "Item 1A. Risk Factors," that the Company believes could cause actual results to differ materially from any forward-looking statement.

Although the Company believes it has been prudent in its plans and assumptions, no assurance can be given that any goal or plan set forth in forward-looking statements can or will be achieved, and readers are cautioned not to place undue reliance on such statements which speak only as of the date this quarterly report was first filed with the Securities and Exchange Commission. The Company undertakes no obligation to update any of the forward-looking information included in this document, whether as a result of new information, future events, changes in expectations

or otherwise.

27

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Table of Contents

PART I. Financial Information

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from fluctuations in foreign currency exchange rates, precious metal prices and interest rates, which could affect its consolidated financial position, earnings and cash flows. The Company manages its exposure to market risk through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company uses derivative financial instruments as risk management tools and not for trading or speculative purposes, and does not maintain such instruments that may expose the Company to significant market risk.

Foreign Currency Risk

The Company uses foreign exchange forward contracts or put option contracts to offset 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 fair value of foreign exchange forward contracts and put option contracts is sensitive to changes in foreign exchange rates. Gains or losses on foreign exchange forward contracts substantially offset losses or gains on the liabilities and transactions being hedged. 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 term of all outstanding foreign exchange forward and put option contracts as of July 31, 2013 ranged from less than one month to 12 months.

Precious Metal Price Risk

The Company periodically hedges a portion of its forecasted purchases of precious metals for use in its internal manufacturing operations in order to minimize the effect of volatility in precious metals 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 maximum term over which the Company is hedging its exposure to the variability of future cash flows for all forecasted transactions is 12 months.

Table of Contents

PART I. Financial Information

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), the Registrant's chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, the Registrant's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Registrant in the reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

In the ordinary course of business, the Registrant reviews its system of internal control over financial reporting and makes changes to its systems and processes to improve controls and increase efficiency, while ensuring that the Registrant maintains an effective internal control environment. Changes may include such activities as implementing new, more efficient systems and automating manual processes.

The Registrant's chief executive officer and chief financial officer have determined that there have been no changes in the Registrant's internal control over financial reporting during the most recently completed fiscal quarter covered by this report identified in connection with the evaluation described above that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

The Registrant's management, including its chief executive officer and chief financial officer, necessarily applied their judgment in assessing the costs and benefits of such controls and procedures. By their nature, such controls and procedures cannot provide absolute certainty, but can provide reasonable assurance regarding management's control objectives. Our chief executive officer and our chief financial officer have concluded that the Registrant's disclosure controls and procedures are (i) designed to provide such reasonable assurance and (ii) are effective at that reasonable assurance level.

Table of Contents

PART II. Other Information

Item 1. Legal Proceedings

On June 24, 2011, The Swatch Group Ltd. (“Swatch”) and its wholly-owned subsidiary Tiffany Watch Co. (“Watch Company”; Swatch and Watch Company, together, the “Swatch Parties”), initiated an arbitration proceeding against the Registrant and its wholly-owned subsidiaries, Tiffany and Company and Tiffany (NJ) Inc. (the Registrant and such subsidiaries, together, the “Tiffany Parties”), seeking damages for alleged breach of agreements entered into by and among the Swatch Parties and the Tiffany Parties that came into effect in December 2007 (the “Agreements”). The Agreements pertain 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.

All claims and counterclaims between and among the Swatch Parties and the Tiffany Parties under the Agreements will be determined through a confidential arbitration (the “Arbitration”). The Arbitration is pending before a three-member arbitral panel (the “Panel”) convened pursuant to the Arbitration Rules of the Netherlands Arbitration Institute in the Netherlands.

On September 12, 2011, the Swatch Parties publicly issued a Notice of Termination purporting to terminate the Agreements due to alleged material breach by the Tiffany Parties.

On December 23, 2011, the Swatch Parties filed a Statement of Claim in the Arbitration providing additional detail with regard to the allegations by the Swatch Parties and setting forth their damage claims. In general terms, the Swatch Parties allege that the Tiffany Parties have breached the Agreements by obstructing and delaying development of Watch Company’s business and otherwise failing to proceed in good faith. The Swatch Parties seek damages based on alternate theories ranging from CHF 73,000,000 (or approximately \$79,000,000 at July 31, 2013) (based on alleged wasted investment) to CHF 3,800,000,000 (or approximately \$4,100,000,000 at July 31, 2013) (calculated based on alleged future lost profits of the Swatch Parties and their affiliates over the entire term of the Agreements).

The Registrant believes that the claims of the Swatch Parties are without merit and has defended vigorously and (together with the other Tiffany Parties) filed a Statement of Defense and Counterclaim on March 9, 2012. As detailed in the filing, the Tiffany Parties disputed both the merits of the Swatch Parties’ claims and the calculation of the alleged damages. The Tiffany Parties also asserted counterclaims for damages attributable to breach by the Swatch Parties and for termination due to such breach. In general terms, the Tiffany Parties allege 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 seek damages based on alternate theories ranging from CHF 120,000,000 (or approximately \$129,000,000 at July 31, 2013) (based on wasted investment) to approximately CHF 540,000,000 (or approximately \$581,000,000 at July 31, 2013) (calculated based on future lost profits of the Tiffany Parties).

The arbitration hearing was held in October 2012. At the hearing, witnesses were examined and the Panel ordered additional briefs and submissions to complete the record. The record was completed in mid-February 2013, and the Panel will issue its decision at an undetermined future date. It is possible that the Panel will find neither the Swatch Parties nor the Tiffany Parties to be in material breach of their respective obligations under the Agreements; should that be the conclusion of the Panel, both sides have asked the Panel to determine that the Agreements be deemed terminated as of October 1, 2013.

Management has not included any accrual in the condensed consolidated financial statements related to the Arbitration as a result of its assessment that an award of damages to the Swatch Parties in the Arbitration is not probable. If the Swatch Parties’ claims were accepted on their merits, the damages award cannot be reasonably estimated at this time but could have a material adverse effect on the Registrant’s consolidated financial statements or liquidity.

If, as requested by both parties, the Arbitration tribunal determines that the Agreements should be terminated, the Swatch Parties will no longer be responsible for the manufacture and distribution, through third party retailers, of TIFFANY & CO. brand watches. However, the Company intends to produce and distribute TIFFANY & CO. brand

watches through alternative arrangements following termination of the Agreements. Royalties payable to the Tiffany Parties by Watch Company under the Agreements have not been significant in any year. Watches manufactured by Watch Company and sold in TIFFANY & CO. stores constituted 1% of worldwide net sales in 2012, 2011 and 2010.

Table of Contents

## Item 1A. Risk Factors

For information regarding risk factors, please refer to Part I, Item 1A in the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2013.

## PART II. Other Information

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

The following table contains the Company's stock repurchases of equity securities in the second quarter of 2013:

## Issuer Purchases of Equity Securities

| Period                        | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares, (or Units) that May Yet Be Purchased Under the Plans or Programs |
|-------------------------------|---|--|---|--|
| May 1, 2013 to May 31, 2013   | —   | —  | —   | \$ 163,794,000   |
| June 1, 2013 to June 30, 2013 | —   | —  | —   | \$ 163,794,000   |
| July 1, 2013 to July 31, 2013 | —   | —  | —   | \$ 163,794,000   |
| TOTAL                         | —   | —  | —   | \$ 163,794,000   |

In January 2011, the Company's Board of Directors approved a new stock repurchase program ("2011 Program") and terminated the previously existing program. The 2011 Program authorizes the Company to repurchase up to \$400,000,000 of its Common Stock through open market or private transactions. In January 2013, the Board of Directors extended the expiration date of the 2011 Program to January 31, 2014.

Table of Contents

Item 6. Exhibits

(a) Exhibits:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following financial information from Tiffany & Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2013, filed with the SEC, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Earnings; (iii) the Condensed Consolidated Statements of Comprehensive Earnings; (iv) the Condensed Consolidated Statement of Stockholders' Equity; (v) the Condensed Consolidated Statements of Cash Flows; and (vi) the Notes to the Condensed Consolidated Financial Statements.

32

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Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TIFFANY & CO.  
(Registrant)

Date: August 27, 2013

By: /s/ Patrick F. McGuiness  
Patrick F. McGuiness  
Senior Vice President and  
Chief Financial Officer  
(principal financial officer)