TIFFANY & CO
Form 10-Q
May 23, 2018

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-9494
TIFFANY & CO.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: (212) 755-8000
Former name, former address and former fiscal year, if changed since last report
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: Common Stock, $0.01 par value, 124,241,267 shares outstanding at the close of business on April 30, 2018

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

	April 30, 2018	January 31, 2018	April 30, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	$999.2	$970.7	$838.8
Short-term investments	212.7	320.5	121.2
Accounts receivable, net	227.7	231.2	233.1
Inventories, net	2,317.6	2,253.5	2,197.4
Prepaid expenses and other current assets	223.0	207.4	204.0
Total current assets	3,980.2	3,983.3	3,594.5
Property, plant and equipment, net	965.6	990.5	920.8
Deferred income taxes	187.3	188.2	296.9
Other assets, net	317.5	306.1	294.0
	$5,450.6	$5,468.1	$5,106.2
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	$96.7	$120.6	$190.6
Accounts payable and accrued liabilities	380.6	437.4	281.4
Income taxes payable	124.3	89.4	35.3
Merchandise credits and deferred revenue	82.7	77.4	75.2
Total current liabilities	684.3	724.8	582.5
Long-term debt	882.9	882.9	880.5
Pension/postretirement benefit obligations	290.7	287.4	322.8
Deferred gains on sale-leasebacks	38.0	40.5	44.9
Other long-term liabilities	286.1	284.3	200.8
Commitments and contingencies			
Stockholders' equity:			
Preferred Stock, $0.01 par value; authorized 2.0 shares, none issued and outstanding	—	—	—
Common Stock, $0.01 par value; authorized 240.0 shares, issued and outstanding 124.2, 124.5, 124.7	1.2	1.2	1.2
Additional paid-in capital	1,259.6	1,256.0	1,196.5
Retained earnings	2,159.0	2,114.2	2,104.6
Accumulated other comprehensive loss, net of tax	(166.1)	(138.0)	(242.8)
Total Tiffany & Co. stockholders' equity	3,253.7	3,233.4	3,059.5
Non-controlling interests	14.9	14.8	15.2
Total stockholders' equity	3,268.6	3,248.2	3,074.7
	$5,450.6	$5,468.1	$5,106.2

See notes to condensed consolidated financial statements.

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

	Three Months Ended April 30,	
	2018	2017
Net sales	$1,033.2	$899.6
Cost of sales	382.3	340.5
Gross profit	650.9	559.1
Selling, general and administrative expenses	446.6	409.5
Earnings from operations	204.3	149.6
Interest expense and financing costs	9.9	10.6
Other expense, net	3.9	2.9
Earnings from operations before income taxes	190.5	136.1
Provision for income taxes	48.2	43.2
Net earnings	$142.3	$92.9
Net earnings per share:		
Basic	$1.14	$0.75
Diluted	$1.14	$0.74
Weighted-average number of common shares:		
Basic	124.4	124.6
Diluted	125.0	125.3

See notes to condensed consolidated financial statements.

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

	Three Months Ended April 30,	
	2018	2017
Net earnings	$142.3	$92.9
Other comprehensive (loss) earnings, net of tax		
Foreign currency translation adjustments	(25.0)	12.1
Unrealized gain on marketable securities	—	0.1
Unrealized loss on hedging instruments	(7.3)	(1.0)
Unrealized gain on benefit plans	2.4	2.2
Total other comprehensive (loss) earnings, net of tax	(29.9)	13.4
Comprehensive earnings	$112.4	$106.3

See notes to condensed consolidated financial statements.

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

	Total Stockholders' Equity	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock		Additional Paid-In Capital	Non-Controlling Interests
				Shares	Amount		
Balance at January 31, 2018	$ 3,248.2	$ 2,114.2	$ (138.0)	124.5	$ 1.2	$ 1,256.0	$ 14.8
Exercise of stock options and vesting of restricted stock units	4.5	—	—	0.2	—	4.5	—
Shares withheld related to net share settlement of share-based compensation	(6.5)	—	—	(0.1)	—	(6.5)	—
Share-based compensation expense	9.0	—	—	—	—	9.0	—
Purchase and retirement of Common Stock	(40.5)	(37.1)	—	(0.4)	—	(3.4)	—
Cash dividends on Common Stock	(62.2)	(62.2)	—	—	—	—	—
Accrued dividends on share-based awards	(0.3)	(0.3)	—	—	—	—	—
Other comprehensive loss, net of tax	(29.9)	—	(29.9)	—	—	—	—
Cumulative effect adjustment from adoption of new accounting standards	3.9	2.1	1.8	—	—	—	—
Net earnings	142.3	142.3	—	—	—	—	—
Non-controlling interests	0.1	—	—	—	—	—	0.1
Balance at April 30, 2018	$ 3,268.6	$ 2,159.0	$ (166.1)	124.2	$ 1.2	$ 1,259.6	$ 14.9

See notes to condensed consolidated financial statements.

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

	Three Months Ended April 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$142.3	$92.9
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	53.8	50.9
Amortization of gain on sale-leasebacks	(2.2)	(2.0)
Provision for inventories	11.2	4.8
Deferred income taxes	1.5	2.9
Provision for pension/postretirement benefits	8.4	9.4
Share-based compensation expense	9.0	7.5
Changes in assets and liabilities:		
Accounts receivable	(11.8)	(6.3)
Inventories	(93.7)	(33.1)
Prepaid expenses and other current assets	(1.8)	(15.4)
Accounts payable and accrued liabilities	(54.1)	(38.4)
Income taxes payable	25.3	36.3
Merchandise credits and deferred revenue	11.5	7.9
Other, net	0.4	(3.7)
Net cash provided by operating activities	99.8	113.7
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments	(15.9)	(75.7)
Proceeds from sales of marketable securities and short-term investments	107.7	12.9
Capital expenditures	(36.9)	(35.3)
Other, net	—	1.8
Net cash provided by (used in) investing activities	54.9	(96.3)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repayments of) proceeds from credit facility borrowings, net	(6.8)	1.6
Repayment of other credit facility borrowings	(14.5)	(39.2)
Repurchase of Common Stock	(40.5)	(11.5)
Proceeds from exercised stock options	4.3	6.4
Payments related to tax withholding for share-based payment arrangements	(6.3)	(6.8)
Cash dividends on Common Stock	(62.2)	(56.1)
Net cash used in financing activities	(126.0)	(105.6)
Effect of exchange rate changes on cash and cash equivalents	(0.2)	(1.0)
Net increase (decrease) in cash and cash equivalents	28.5	(89.2)
Cash and cash equivalents at beginning of year	970.7	928.0
Cash and cash equivalents at end of three months	$999.2	$838.8

See notes to condensed consolidated financial statements.

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

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements include the accounts of Tiffany & Co. (also referred to as the "Registrant") and its subsidiaries (the "Company") in which a controlling interest is maintained. Controlling interest is determined by majority ownership interest and the absence of substantive third-party participating rights or, in the case of variable interest entities ("VIEs"), if the Company has the power to significantly direct the activities of a VIE, as well as the obligation to absorb significant losses of or the right to receive significant benefits from the VIE. Intercompany accounts, transactions and profits have been eliminated in consolidation. The interim financial statements are unaudited and, in the opinion of management, include all adjustments (which represent normal recurring adjustments) necessary to fairly state the Company's financial position as of April 30, 2018 and 2017 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2018 are derived from the audited financial statements, which are included in the Company's Annual Report on Form 10-K and should be read in connection with these financial statements. As permitted by the rules of the Securities and Exchange Commission, these financial statements do not include all disclosures required by generally accepted accounting principles.

The Company's business is seasonal in nature, with the fourth quarter typically representing approximately one-third of annual net sales and a higher percentage of annual net earnings. Therefore, the results of its operations for the three months ended April 30, 2018 and 2017 are not necessarily indicative of the results of the entire fiscal year.

Certain prior year amounts have been reclassified to conform with the current year presentation. The Company adopted Accounting Standards Update ("ASU") 2017-07 - Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, on February 1, 2018. Certain provisions of this ASU require retrospective application and, as a result, non-service cost components of the net periodic benefit cost for the three months ended April 30, 2017 were reclassified within the Condensed Consolidated Statement of Earnings. See "Note 2. New Accounting Standards" for additional information.

2. NEW ACCOUNTING STANDARDS

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02 – Leases, which requires an entity that leases assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either financing or operating, similar to current accounting requirements, with the applicable classification determining the pattern of expense recognition in the statement of earnings. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 and must be adopted using a modified retrospective approach, which currently requires lessees and lessors to recognize and measure all leases within the scope of this ASU as of the beginning of the earliest comparative period presented in the Company's financial statements. Management continues to evaluate the impact of this ASU on the consolidated financial statements, but expects that adoption will result in a significant increase in the Company's assets and liabilities. The Company's implementation project team has completed the assessment phase of the project, during which the project team compiled information to evaluate the Company's real estate, personal property and other arrangements that may meet the definition of a lease under this ASU and identified areas that may require the development of additional processes and policies. The Company's implementation project team is continuing the solution development phase of the project, which includes the development and implementation of any such additional processes and policies, collection of key data for each leased asset to be utilized throughout this phase of the project and selection of the practical expedients permitted under the ASU.

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

In August 2017, the FASB issued ASU 2017-12 - Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities, which expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedged items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The amendments in this ASU must be applied on a modified retrospective basis, while presentation and disclosure requirements set forth under this ASU are required prospectively in all interim periods and fiscal years ending after the date of adoption. Management is currently evaluating the impact of this ASU on the consolidated financial statements. The simplifications to the application of hedge accounting may result in management's expanding the use of hedge accounting in future periods.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax effects from Accumulated Other Comprehensive Income, which allows for the reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for the tax effects on deferred tax items included within AOCI (referred to in the ASU as "stranded tax effects") resulting from the reduction of the U.S. federal statutory income tax rate to 21% from 35% that was effected by the 2017 U.S. Tax Cuts and Jobs Act (the "2017 Tax Act"). ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The adoption of ASU 2018-02 will result in a reclassification from AOCI to retained earnings, and will have no impact on the Company's results of operations, financial position or cash flows. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

Recently Adopted Accounting Standards

In May 2014, the FASB issued ASU 2014-09 – Revenue from Contracts with Customers, to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. The core principle of the guidance is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies need to use more judgment and make more estimates than under previous guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14 – Revenue from Contracts with Customers: Deferral of the Effective Date, deferring the effective date of ASU 2014-09 for one year to interim and annual reporting periods beginning after December 15, 2017. Early adoption was also permitted as of the original effective date (interim and annual periods beginning after December 15, 2016) and full or modified retrospective application was permitted. Subsequently, the FASB issued a number of ASU's amending ASU 2014-09 and providing further guidance related to revenue recognition, which management evaluated. The effective date and transition requirements for these amendments are the same as ASU 2014-09, as amended by ASU 2015-14. Management adopted this guidance on February 1, 2018 using the modified retrospective approach. The impact of the adoption of ASU 2014-09 on the Company's condensed consolidated financial statements is as follows:

• The Company's revenue is primarily generated from the sale of finished products to customers (primarily through the retail, e-commerce or wholesale channels). The Company's performance obligations underlying such sales, and the timing of revenue recognition related thereto, remain substantially unchanged following the adoption of this ASU.

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- The Company now recognizes breakage income on gift cards and merchandise credits (which represents income recognized from the customer's unexercised right to receive merchandise through the redemption of such gift cards and merchandise credits) based on the historical pattern of gift card and merchandise credit redemptions. Breakage income recognized during the three months ended April 30, 2018 was not significant.

- This ASU requires sales returns reserves to be presented on a gross basis on the condensed consolidated balance sheet, with the asset related to inventory expected to be returned recorded outside of Accounts receivable, net. Prior to the adoption of this ASU, sales returns reserves were recorded on a net basis within Accounts receivable, net.

The impact of the adoption of ASU 2014-09 on the Company's condensed consolidated balance sheet was as follows:

	April 30, 2018		
(in millions)	As Reported	Balances Without Adoption of ASC 606	Effect of Adoption Increase/(Decrease)
Assets			
Accounts receivable, net	$227.7	$241.0	$ (13.3)
Prepaid expenses and other current assets	223.0	209.7	13.3

There was no significant impact from the adoption of ASU 2014-09 on the Company's condensed consolidated statement of earnings or condensed consolidated statement of cash flows.

In August 2016, the FASB issued ASU 2016-15 – Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which provides guidance on eight specific cash flow issues in an effort to reduce diversity in practice in how certain transactions are classified within the statement of cash flows. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption was permitted and the amendments are applied using a retrospective method. Management adopted this ASU on February 1, 2018. The adoption of this ASU did not have any impact on the condensed consolidated statements of cash flows and related disclosures.

In October 2016, the FASB issued ASU 2016-16 – Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. This ASU eliminates the requirement to defer the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. Therefore, under the new guidance, an entity recognizes the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption was permitted as of the first interim period of 2017. The amendments in this ASU are applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Management adopted this ASU on February 1, 2018. The adoption of this ASU did not have any impact on the condensed consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07 - Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Under this ASU, only the service cost component of the net periodic benefit cost is presented in the same income statement line item as other employee compensation costs arising from services rendered during the period, while the non-service cost components of net periodic benefit cost are required to be presented in the income statement separate from Earnings from operations. In addition, only the service cost component is eligible for capitalization in assets. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The amendments in this ASU are applied retrospectively for the presentation of the components of net periodic benefit cost other than service cost in the statement of earnings, and prospectively for the capitalization of the service cost component. Management adopted this ASU on February 1, 2018 using the practical expedient permitted by this ASU and reclassified the non-service cost components of the net periodic benefit cost from within Earnings

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from operations to Other expenses, net. This increased Earnings from operations for the three months ended April 30, 2017 by $4.0 million (with $1.5 million reclassified from Cost of sales and $2.5 million reclassified from Selling, general and administrative expenses), but had no impact on Net earnings. The requirement set forth under this ASU that allows only the service cost component of net periodic benefit cost to be capitalized did not have a significant impact on the Company's results of operations.

In May 2017, the FASB issued ASU 2017-09 - Compensation-Stock Compensation: Scope of Modification Accounting, clarifying when a change to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. This ASU is effective prospectively for annual periods beginning after December 15, 2017 and early adoption was permitted. Management adopted this ASU on February 1, 2018 and will apply the provisions of this ASU to any share-based payment awards modified on or after February 1, 2018.

3. RECEIVABLES AND REVENUE RECOGNITION

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

For the receivables associated with Tiffany & Co. credit cards ("Credit Card Receivables"), management uses various indicators to determine whether to extend credit to customers and the amount of credit. Such indicators include reviewing prior experience with the customer, including sales and collection history, and using applicants' credit reports and scores provided by credit rating agencies. Certain customers may be granted payment terms which permit purchases above a minimum amount to be paid for in equal monthly installments over a period not to exceed 12 months (together with Credit Card Receivables, "Credit Receivables"). Credit Receivables require minimum balance payments. An account is classified as overdue if a minimum balance payment has not been received within the allotted time frame (generally 30 days), after which internal collection efforts commence. In order for the account to return to current status, full payment on all past due amounts must be received by the Company. For all Credit Receivables, once all internal collection efforts have been exhausted and management has reviewed the account, the account balance is written off and may be sent for external collection or legal action. At April 30, 2018 and 2017, the carrying amount of the Credit Receivables (recorded in Accounts receivable, net) was $72.8 million and $76.0 million, respectively, of which 97% was considered current in both periods. The allowance for doubtful accounts for estimated losses associated with the Credit Receivables ($1.3 million at April 30, 2018 and $1.1 million at April 30, 2017) was determined based on the factors discussed above. Finance charges earned on Credit Receivables were not significant.

At April 30, 2018, accounts receivable allowances totaled $29.9 million compared to $17.2 million at January 31, 2018 and $12.7 million at April 30, 2017, with $13.3 million of the increase at April 30, 2018 due to the adoption of ASU 2014-09, which requires sales returns reserves to be presented on a gross basis on the condensed consolidated balance sheet, with the asset related to inventory expected to be returned recorded outside of Accounts receivable, net.

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Revenue Recognition. The following table disaggregates the Company's net sales by major source:

	Three Months Ended April 30,	
(in millions)	2018	2017
Net sales*:		
Jewelry collections	$529.3	$449.9
Engagement jewelry	294.5	264.6
Designer jewelry	128.4	115.4
All other	81.0	69.7
	$1,033.2	$899.6

*Certain reclassifications within the jewelry categories have been made to the prior year amounts to conform to the current year category presentation.

The Company's performance obligations consist primarily of transferring control of merchandise to customers. Sales are recognized upon transfer of control, which occurs when merchandise is taken in an "over-the-counter" transaction or upon receipt by a customer in a shipped transaction, such as through the Internet and catalog channels. Sales are reported net of returns, sales tax and other similar taxes. The Company excludes from the measurement of the transaction price all taxes assessed by a governmental authority and collected by the entity from a customer.

Shipping and handling fees billed to customers are recognized in net sales when control of the underlying merchandise is transferred to the customer. The related shipping and handling charges incurred by the Company are included in Cost of sales.

The Company maintains a reserve for potential product returns and records (as a reduction to sales and cost of sales) its provision for estimated product returns, which is determined based on historical experience.

As a practical expedient, the Company does not adjust the promised amount of consideration for the effects of a significant financing component when management expects, at contract inception, that the period between the transfer of a product to a customer and when the customer pays for that product is one year or less.

Additionally, outside of the U.S., the Company operates certain TIFFANY & CO. stores within various department stores. Sales transacted at these store locations are recognized upon transfer of control, which occurs when merchandise is taken in an "over-the-counter" transaction. The Company and these department store operators have distinct responsibilities and risks in the operation of such TIFFANY & CO. stores. The Company (i) owns and manages the merchandise; (ii) establishes retail prices; (iii) has merchandising, marketing and display responsibilities; and (iv) in almost all locations provides retail staff and bears the risk of inventory loss. The department store operators (i) provide and maintain store facilities; (ii) in almost all locations assume retail credit and certain other risks; and (iii) act for the Company in the sale of merchandise. In return for their services and use of their facilities, the department store operators retain a portion of net retail sales made in TIFFANY & CO. stores which is recorded as commission expense within Selling, general and administrative expenses.

Merchandise Credits and Deferred Revenue. Merchandise credits and deferred revenue primarily represent outstanding gift cards sold to customers and outstanding credits issued to customers for returned merchandise. All such outstanding items may be tendered for future merchandise purchases. A gift card liability is established when the gift card is sold. A merchandise credit liability is established when a merchandise credit is issued to a customer for a returned item and the original sale is reversed. These liabilities are relieved when revenue is recognized for transactions in which a merchandise credit or gift card is used as a form of payment.

If merchandise credits or gift cards are not redeemed over an extended period of time (for example, approximately three to five years in the U.S.), the value associated with the merchandise credits or gift cards may be subject to remittance to the applicable jurisdiction in accordance with unclaimed property laws. The

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Company determines the amount of breakage income to be recognized on gift cards and merchandise credits using historical experience to estimate amounts that will ultimately not be redeemed. The Company recognizes such breakage income in proportion to redemption rates of the overall population of gift cards and merchandise credits.

In the three months ended April 30, 2018, the Company recognized net sales of approximately $17.0 million related to the Merchandise credits and deferred revenue balance that existed at January 31, 2018.

4. INVENTORIES

(in millions)	April 30, 2018	January 31, 2018	April 30, 2017
Finished goods	$1,309.9	$1,314.6	$1,269.8
Raw materials	871.7	821.4	831.7
Work-in-process	136.0	117.5	95.9
Inventories, net	$2,317.6	$2,253.5	$2,197.4

5. INCOME TAXES

In December 2017, the 2017 Tax Act was enacted in the U.S. This enactment resulted in a number of significant changes to U.S. federal income tax law for U.S. taxpayers, including a reduction of the statutory U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. Changes in tax law are accounted for in the period of enactment. As such, the Company's consolidated financial statements for its fiscal year ended January 31, 2018 reflected the estimated immediate tax effect of the 2017 Tax Act, which included an estimated net tax expense of $146.2 million consisting of:

- Estimated tax expense of $94.8 million for the impact of the reduction in the U.S statutory tax rate on the Company's deferred tax assets and liabilities;
- Estimated tax expense of $56.0 million for the one-time transition tax via a mandatory deemed repatriation of post-1986 undistributed foreign earnings and profits (the "Transition Tax"); and
- A tax benefit of $4.6 million resulting from the effect of the 21% statutory tax rate for the month of January 2018 on the Company's annual statutory tax rate for the year ended January 31, 2018.

Additionally, in December 2017, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Act. SAB 118 also provides a measurement period for companies to evaluate the impacts of the 2017 Tax Act on their financial statements. This measurement period begins in the reporting period that includes the enactment date and ends when an entity has obtained, prepared and analyzed the information that was needed in order to complete the accounting requirements, and cannot exceed one year. The Company adopted the provisions of SAB 118 in the fourth quarter of fiscal 2017.

Consistent with SAB 118, for the year ended January 31, 2018, the Company calculated and recorded reasonable estimates for the impact of the Transition Tax and the remeasurement of its deferred tax assets and deferred tax liabilities, as set forth above. The resulting charges represented provisional amounts for which the Company's analysis was incomplete but a reasonable estimate could be determined and recorded during the fourth quarter of 2017.

During the three months ended April 30, 2018, on the basis of additional guidance that became available, the Company recognized a measurement-period adjustment to decrease the estimated Transition Tax obligation by $3.2 million, with a corresponding offset to the Provision for income taxes, resulting in a total estimated Transition Tax obligation recognized to date of $52.8 million. However, the Company is continuing to gather additional information and refine its analysis to more precisely compute the amount of the Transition Tax and, as a result, the Company's accounting for this item is not yet complete.

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The Company also adopted the provisions of SAB 118 as it relates to the assertion of the indefinite reinvestment of foreign earnings and profits. The impact of the 2017 Tax Act on the Company's assertion to indefinitely reinvest foreign earnings remains incomplete as the Company continues to analyze the relevant provisions of the 2017 Tax Act and related accounting guidance. Therefore, a provisional estimate has not been recorded or disclosed as it relates to the potential tax consequences of an actual repatriation of unremitted foreign earnings. The Company will account for the tax on global intangible low-taxed income ("GILTI") as a period cost and thus has not adjusted any of the deferred tax assets and liabilities of its foreign subsidiaries in connection with the 2017 Tax Act. As the Company refines its provisional estimate calculations, further analyzes provisions of the 2017 Tax Act and any subsequent guidance related thereto, these provisional estimates could be affected, which could have a material impact on the Company's future financial results. Additionally, further regulatory or GAAP accounting guidance regarding the 2017 Tax Act could also materially affect the Company's future financial results.

The effective income tax rate for the three months ended April 30, 2018 was 25.3% compared to 31.7% in the prior year. The effective income tax rate for the three months ended April 30, 2018 was reduced by 170 basis points due to the recognition of an income tax benefit of $3.2 million related to a reduction in the estimated obligation for the Transition Tax. The effective income tax rate for the three months ended April 30, 2017 was reduced by 180 basis points due to an income tax benefit of $2.4 million resulting from the implementation of ASU 2016-09, which requires excess tax benefits and/or shortfalls related to exercises and vesting of share-based compensation to be recorded in the provision for income taxes rather than in additional paid in capital. The remaining decrease in the effective income tax rate for the three months ended April 30, 2018 compared to the prior year is primarily due to the enactment of 2017 Tax Act, including the reduction in the statutory U.S. federal corporate income tax rate and the introduction of the foreign derived intangible income deduction, which are partly offset by the GILTI inclusion.

During the three months ended April 30, 2018, the change in the gross amount of unrecognized tax benefits and accrued interest and penalties was not significant.

The Company conducts business globally, and, as a result, is subject to taxation in the U.S. and various state and foreign jurisdictions. As a matter of course, tax authorities regularly audit the Company. The Company's tax filings are currently being examined by a number of tax authorities in several jurisdictions, both in the U.S. and in foreign jurisdictions. Ongoing audits where subsidiaries have a material presence include New York City (tax years 2011–2013) and New York State (tax years 2012–2014). Tax years from 2010–present are open to examination in the U.S. Federal jurisdiction and 2006–present are open in various state, local and foreign jurisdictions. As part of these audits, the Company engages in discussions with taxing authorities regarding tax positions. As of April 30, 2018, unrecognized tax benefits are not expected to change significantly in the next 12 months. Future developments may result in a change in this assessment.

6. EARNINGS PER SHARE

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

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

	Three Months Ended April 30,	
(in millions)	2018	2017
Net earnings for basic and diluted EPS	$142.3	$92.9

Weighted-average shares for basic EPS	124.4	124.6
Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units	0.6	0.7
Weighted-average shares for diluted EPS	125.0	125.3

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For the three months ended April 30, 2018 and 2017, there were 0.9 million stock options and restricted stock units in each period that were excluded from the computations of earnings per diluted share due to their antidilutive effect.

7. DEBT

(in millions)	April 30, 2018	January 31, 2018	April 30, 2017
Short-term borrowings:			
Credit Facilities	$ 26.1	$ 33.5	$ 93.6
Other credit facilities	70.6	87.1	97.0
	$ 96.7	$ 120.6	$ 190.6
Long-term debt:			
Unsecured Senior Notes:			
2012 4.40% Series B Senior Notes, due July 2042 [a]	$250.0	$250.0	$250.0
2014 3.80% Senior Notes, due October 2024 [b, c]	250.0	250.0	250.0
2014 4.90% Senior Notes, due October 2044 [b, c]	300.0	300.0	300.0
2016 0.78% Senior Notes, due August 2026 [b, d]	91.7	91.9	89.9
	891.7	891.9	889.9
Less unamortized discounts and debt issuance costs	8.8	9.0	9.4
	$882.9	$882.9	$880.5

a The agreements governing these Senior Notes require repayments of $50.0 million in aggregate every five years beginning in 2022.

b These agreements require lump sum repayments upon maturity.

c These Senior Notes were issued at a discount, which will be amortized until the debt maturity.

d These Senior Notes were issued at par, ¥10.0 billion.

At April 30, 2018, the Company was in compliance with all debt covenants.

8. HEDGING INSTRUMENTS

Background Information

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

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

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

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- 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 is reported as other comprehensive income ("OCI") and is recognized in current earnings in the period or periods during which the hedged transaction affects current earnings. Amounts excluded from the effectiveness calculation and any ineffective portions of the change in fair value of the derivative are recognized in current earnings.

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

Derivative Instruments Not Designated as Hedging Instruments. Derivative instruments which do not meet the criteria to be designated as a hedge are recorded on the condensed consolidated balance sheet at their fair values, as either assets or liabilities, with an offset to current earnings. The gains or losses on undesignated foreign exchange forward contracts substantially offset foreign exchange losses or gains on the underlying liabilities or transactions being hedged.

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

Types of Derivative Instruments

Interest Rate Swaps – In 2012, the Company entered into forward-starting interest rate swaps to hedge the impact of interest rate volatility on future interest payments associated with the anticipated incurrence of $250.0 million of additional debt which was incurred in July 2012. The Company accounted for the forward-starting interest rate swaps as cash flow hedges. The Company settled the interest rate swap in 2012 and recorded an unrealized loss within accumulated other comprehensive loss. As of April 30, 2018, $18.2 million remains recorded as an unrealized loss in accumulated other comprehensive loss, which is being amortized over the term of the 2042 Notes to which the interest rate swaps related.

In 2014, the Company entered into forward-starting interest rate swaps to hedge the impact of interest rate volatility on future interest payments associated with the anticipated incurrence of long-term debt which was incurred in September 2014. The Company accounted for the forward-starting interest rate swaps as cash flow hedges. The Company settled the interest rate swap in 2014 and recorded an unrealized loss within accumulated other comprehensive loss. As of April 30, 2018, $3.6 million remains recorded as an unrealized loss in accumulated other comprehensive loss, which is being amortized over the terms of the respective 2024 Notes or 2044 Notes to which the interest rate swaps related.

Cross-currency Swaps – The Company entered into cross-currency swaps to hedge the foreign currency exchange risk associated with Japanese yen-denominated intercompany loans. These cross-currency swaps are designated and accounted for as cash flow hedges. As of April 30, 2018, the notional amounts of cross-currency swaps accounted for as cash flow hedges and the respective maturity dates were as follows:

Cross-Currency Swap	Notional Amount

Effective Date	Maturity Date	(in billions)	(in millions)
July 2016	October 1, 2024	¥10.6	$ 100.0
March 2017	April 1, 2027	11.0	96.1
May 2017	April 1, 2027	5.6	50.0

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

As of April 30, 2018, the notional amounts of foreign exchange forward contracts were as follows:

(in millions)		Notional Amount	USD Equivalent
Derivatives designated as hedging instruments:			
Japanese yen	¥	16,124.5	$148.7
British pound	£	12.7	17.4
Derivatives not designated as hedging instruments:			
U.S. dollar	$	59.3	$59.3
Euro	€	10.1	13.9
Australian dollar	AU$	23.7	18.4
British pound	£	7.4	10.5
Czech koruna	CZK	124.6	6.1
Chinese yuan	CNY	18.1	2.9
Hong Kong dollar	HKD	39.0	5.0
Japanese yen	¥	1,080.7	10.0
Korean won		20,498.4	19.2
New Zealand dollar	NZ$	11.7	8.6
Singapore dollar	S$	29.9	22.8

The maximum term of the Company's outstanding foreign exchange forward contracts as of April 30, 2018 is 12 months.

Precious Metal Collars and Forward Contracts – The Company periodically hedges a portion of its forecasted purchases of precious metals for use in its internal manufacturing operations in order to manage the effect of volatility in precious metal prices. The Company may use either a combination of call and put option contracts in net-zero-cost collar arrangements ("precious metal collars") or forward contracts. For precious metal collars, if the price of the precious metal at the time of the expiration of the precious metal collar is within the call and put price, the precious metal collar expires at no cost to the Company. The Company accounts for its precious metal collars and forward contracts as cash flow hedges. The Company assesses hedge effectiveness based on the total changes in the precious metal collars and forward contracts' cash flows. As of April 30, 2018, the maximum term over which the Company is hedging its exposure to the variability of future cash flows for all forecasted precious metals transactions is 14 months. As of April 30, 2018, there were precious metal derivative instruments outstanding for approximately 36,000 ounces of platinum, 720,000 ounces of silver and 28,800 ounces of gold.

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

	Three Months Ended April 30,			
	2018		2017	
(in millions)	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Pre-Tax Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Pre-Tax Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange forward contracts [a]	$1.8	$ 1.6	$ (3.2)	$ (2.8)
Precious metal collars [a]	—	0.1	0.1	—
Precious metal forward contracts [a]	(5.6)	0.4	0.3	(0.9)
Cross-currency swaps [b]	(3.4)	0.6	(7.5)	(4.9)
Forward-starting interest rate swaps [c]	—	(0.4)	—	(0.4)
	$(7.2)	$ 2.3	$ (10.3)	$ (9.0)

aThe gain or loss recognized in earnings is included within Cost of sales.
bThe gain or loss recognized in earnings is included within Other expense, net.
cThe gain or loss recognized in earnings is included within Interest expense and financing costs.

The pre-tax gains (losses) on derivatives not designated as hedging instruments were not significant in the three months ended April 30, 2018 and 2017. There was no material ineffectiveness related to the Company's hedging instruments for the three months ended April 30, 2018 and 2017. The Company expects approximately $3.4 million of net pre-tax derivative losses included in accumulated other comprehensive loss at April 30, 2018 will be reclassified into earnings within the next 12 months. The actual amount reclassified will vary due to fluctuations in foreign currency exchange rates and precious metal prices.

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

Concentration of Credit Risk

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

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

Financial assets and liabilities carried at fair value at April 30, 2018 are classified in the table below in one of the three categories described above:

(in millions)	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Marketable securities [a]	$37.1	$ —	$ —	$37.1
Time deposits [b]	212.7	—	—	212.7
Derivatives designated as hedging instruments:				
Precious metal forward contracts [c]	—	1.8	—	1.8
Foreign exchange forward contracts [c]	—	0.9	—	0.9
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [c]	—	1.4	—	1.4
Total financial assets	$249.8	$ 4.1	$ —	$253.9

(in millions)	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Financial liabilities				
Derivatives designated as hedging instruments:				
Precious metal forward contracts [d]	$ —	$5.0	$ —	$5.0
Foreign exchange forward contracts [d]	—	2.4	—	2.4
Cross-currency swaps [d]	—	23.6	—	23.6
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [d]	—	0.8	—	0.8
Total financial liabilities	$ —	$31.8	$ —	$31.8

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Financial assets and liabilities carried at fair value at January 31, 2018 are classified in the table below in one of the three categories described above:

(in millions)	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Marketable securities [a]	$22.5	$—	$ —	$22.5
Time deposits [b]	320.5	—	—	320.5
Derivatives designated as hedging instruments:				
Precious metal forward contracts [c]	—	3.6	—	3.6
Foreign exchange forward contracts [c]	—	0.1	—	0.1
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [c]	—	1.0	—	1.0
Total financial assets	$343.0	$4.7	$ —	$347.7

(in millions)	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Financial liabilities				
Derivatives designated as hedging instruments:				
Precious metal forward contracts [d]	$—	$1.9	$ —	$1.9
Foreign exchange forward contracts [d]	—	4.8	—	4.8
Cross-currency swaps [d]	—	20.2	—	20.2
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [d]	—	1.4	—	1.4
Total financial liabilities	$—	$28.3	$ —	$28.3

Financial assets and liabilities carried at fair value at April 30, 2017 are classified in the table below in one of the three categories described above:

(in millions)	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Marketable securities [a]	$36.9	$—	$ —	$36.9
Time deposits [b]	121.2	—	—	121.2
Derivatives designated as hedging instruments:				
Precious metal forward contracts [c]	—	3.9	—	3.9
Precious metal collars [c]	—	0.5	—	0.5
Foreign exchange forward contracts [c]	—	6.6	—	6.6
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [c]	—	1.8	—	1.8
Total financial assets	$158.1	$12.8	$ —	$170.9

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(in millions)	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Financial liabilities				
Derivatives designated as hedging instruments:				
Precious metal forward contracts [d]	$—	$5.7	$—	$5.7
Precious metal collars [d]	—	0.4	—	0.4
Foreign exchange forward contracts [d]	—	1.7	—	1.7
Cross-currency swaps [d]	—	7.9	—	7.9
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [d]	—	0.4	—	0.4
Total financial liabilities	$—	$16.1	$—	$16.1

[a] Included within Other assets, net.

[b] Included within Short-term investments.

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

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

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to the short-term maturities of these assets and liabilities and as such are 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 $1.0 billion and $1.1 billion at April 30, 2018 and 2017 and the corresponding fair value was $1.0 billion and $1.1 billion, respectively.

10. COMMITMENTS AND CONTINGENCIES

Arbitration Award. On December 21, 2013, an award was issued (the "Arbitration Award") in favor of The Swatch Group Ltd. ("Swatch") and its wholly-owned subsidiary Tiffany Watch Co. ("Watch Company"; Swatch and Watch Company, together, the "Swatch Parties") in an arbitration proceeding (the "Arbitration") between the Registrant and its wholly-owned subsidiaries, Tiffany and Company and Tiffany (NJ) Inc. (the Registrant and such subsidiaries, together, the "Tiffany Parties") and the Swatch Parties.

The Arbitration was initiated in June 2011 by the Swatch Parties, who sought damages for alleged breach of agreements entered into by and among the Swatch Parties and the Tiffany Parties in December 2007 (the "Agreements"). The Agreements pertained to the development and commercialization of a watch business and, among other things, contained various licensing and governance provisions and approval requirements relating to business, marketing and branding plans and provisions allocating profits relating to sales of the watch business between the Swatch Parties and the Tiffany Parties.

In general terms, the Swatch Parties alleged that the Tiffany Parties breached the Agreements by obstructing and delaying development of Watch Company’s business and otherwise failing to proceed in good faith. The Swatch Parties sought damages based on alternate theories ranging from CHF 73.0 million (or approximately $74.0 million at April 30, 2018) (based on its alleged wasted investment) to CHF 3.8 billion (or approximately $3.8 billion at April 30, 2018) (calculated based on alleged future lost profits of the Swatch Parties and their affiliates over the entire term of the Agreements).

The Registrant believes that the claims of the Swatch Parties are without merit. In the Arbitration, the Tiffany Parties defended against the Swatch Parties' claims vigorously, disputing both the merits of the claims and the calculation of the alleged damages. The Tiffany Parties also asserted counterclaims for damages attributable to breach by the Swatch Parties, stemming from the Swatch Parties' September 12,

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2011 public issuance of a Notice of Termination purporting to terminate the Agreements due to alleged material breach by the Tiffany Parties, and for termination due to such breach. In general terms, the Tiffany Parties alleged that the Swatch Parties did not have grounds for termination, failed to meet the high standard for proving material breach set forth in the Agreements and failed to provide appropriate management, distribution, marketing and other resources for TIFFANY & CO. brand watches and to honor their contractual obligations to the Tiffany Parties regarding brand management. The Tiffany Parties' counterclaims sought damages based on alternate theories ranging from CHF 120.0 million (or approximately $121.0 million at April 30, 2018) (based on its wasted investment) to approximately CHF 540.0 million (or approximately $547.0 million at April 30, 2018) (calculated based on alleged future lost profits of the Tiffany Parties).

The Arbitration hearing was held in October 2012 before a three-member arbitral panel convened in the Netherlands pursuant to the Arbitration Rules of the Netherlands Arbitration Institute (the "Rules"), and the Arbitration record was completed in February 2013.

Under the terms of the Arbitration Award, and at the request of the Swatch Parties and the Tiffany Parties, the Agreements were deemed terminated. The Arbitration Award stated that the effective date of termination was March 1, 2013. Pursuant to the Arbitration Award, the Tiffany Parties were ordered to pay the Swatch Parties damages of CHF 402.7 million (the "Arbitration Damages"), as well as interest from June 30, 2012 to the date of payment, two-thirds of the cost of the Arbitration and two-thirds of the Swatch Parties' legal fees, expenses and costs. These amounts were paid in full in January 2014.

Prior to the ruling of the arbitral panel, no accrual was established in the Company's consolidated financial statements because management did not believe the likelihood of an award of damages to the Swatch Parties was probable. As a result of the ruling, in the fourth quarter of 2013, the Company recorded a charge of $480.2 million, which included the damages, interest, and other costs associated with the ruling and which was classified as Arbitration award expense in the consolidated statement of earnings.

On March 31, 2014, the Tiffany Parties took action in the District Court of Amsterdam to annul the Arbitration Award. Generally, arbitration awards are final; however, Dutch law does provide for limited grounds on which arbitral awards may be set aside. The Tiffany Parties petitioned to annul the Arbitration Award on these statutory grounds. These grounds include, for example, that the arbitral tribunal violated its mandate by changing the express terms of the Agreements.

A three-judge panel presided over the annulment hearing on January 19, 2015, and, on March 4, 2015, issued a decision in favor of the Tiffany Parties. Under this decision, the Arbitration Award was set aside. However, the Swatch Parties took action in the Dutch courts to appeal the District Court's decision, and a three-judge panel of the Appellate Court of Amsterdam presided over an appellate hearing in respect of the annulment, and the related claim by the Tiffany Parties for the return of the Arbitration Damages and related costs, on June 29, 2016. The Appellate Court issued its decision on April 25, 2017, finding in favor of the Swatch Parties and ordering the Tiffany Parties to reimburse the Swatch Parties EUR 6,340 in legal costs. The Tiffany Parties have taken action to appeal the decision of the Appellate Court to the Supreme Court of the Netherlands. As such, the Arbitration Award may ultimately be set aside by the Supreme Court. Registrant's management believes it is likely that the Supreme Court will issue its decision at a future date during Registrant's fiscal year ending January 31, 2019. However, it is possible that such decision could be later issued or that such decision could require the Appellate Court to reconsider certain elements of the dispute and, as such, the annulment action may not be ultimately resolved until, at the earliest, Registrant's fiscal year ending January 31, 2020.

If the Arbitration Award is finally annulled, management anticipates that the claims and counterclaims that formed the basis of the Arbitration, and potentially additional claims and counterclaims, will be litigated in court proceedings between and among the Swatch Parties and the Tiffany Parties. The identity and location of the courts that would hear such actions have not been determined at this time.

In any litigation regarding the claims and counterclaims that formed the basis of the arbitration, issues of liability and damages will be pled and determined without regard to the findings of the arbitral panel. As such, it is possible that a court could find that the Swatch Parties were in material breach of their obligations under the Agreements, that the Tiffany Parties were in material breach of their obligations under the Agreements or that neither the Swatch Parties nor the Tiffany Parties were in material breach. If the Swatch Parties' claims of liability were accepted by the court, the damages award cannot be reasonably estimated at this time, but could exceed the Arbitration Damages and could have a material adverse effect on the Registrant's consolidated financial statements or liquidity.

Management has not established any accrual in the Company's condensed consolidated financial statements for the month ended April 30, 2018 related to the annulment process or any potential subsequent litigation because it does not believe that the final annulment of the Arbitration Award and a subsequent award of damages exceeding the Arbitration Damages is probable.

Other Litigation Matters. The Company is from time to time involved in routine litigation incidental to the conduct of its business, including proceedings to protect its trademark rights, litigation with parties claiming infringement of patents and other intellectual property rights by the Company, litigation instituted by persons alleged to have been injured upon premises under the Company's control and litigation with present and former employees and customers. Although litigation with present and former employees is routine and incidental to the conduct of the Company's business, as well as for any business employing significant numbers of employees, such litigation can result in large monetary awards when a civil jury is allowed to determine compensatory and/or punitive damages for actions such as those claiming discrimination on the basis of age, gender, race, religion, disability or other legally-protected characteristic or for termination of employment that is wrongful or in violation of implied contracts. However, the Company believes that all such litigation currently pending to which it is a party or to which its properties are subject will be resolved without any material adverse effect on the Company's financial position, earnings or cash flows.

Gain Contingency. On February 14, 2013, Tiffany and Company and Tiffany (NJ) LLC (collectively, the "Tiffany plaintiffs") initiated a lawsuit against Costco Wholesale Corp. ("Costco") for trademark infringement, false designation of origin and unfair competition, trademark dilution and trademark counterfeiting (the "Costco Litigation"). The Tiffany plaintiffs sought injunctive relief, monetary recovery and statutory damages on account of Costco's use of "Tiffany" on signs in the jewelry cases at Costco stores used to describe certain diamond engagement rings that were not manufactured by Tiffany. Costco filed a counterclaim arguing that the TIFFANY trademark was a generic term for multi-pronged ring settings and seeking to have the trademark invalidated, modified or partially canceled in that respect. On September 8, 2015, the U.S. District Court for the Southern District of New York (the "Court") granted the Tiffany plaintiffs' motion for summary judgment of liability in its entirety, dismissing Costco's genericism counterclaim and finding that Costco was liable for trademark infringement, trademark counterfeiting and unfair competition under New York law in its use of "Tiffany" on the above-referenced signs. On September 29, 2016, a civil jury rendered its verdict, finding that Costco's profits on the sale of the infringing rings should be awarded at $5.5 million, and further finding that an award of punitive damages was warranted. On October 5, 2016, the jury awarded $8.25 million in punitive damages. The aggregate award of $13.75 million was not final, as it was subject to post-verdict motion practice and ultimately to adjustment by the Court. On August 14, 2017, the Court issued its ruling, finding that the Tiffany plaintiffs are entitled to recover (i) $11.1 million in respect of Costco's profits on the sale of the infringing rings (which amount is three times the amount of such profits, as determined by the Court), (ii) prejudgment interest on such amount (calculated at the applicable statutory rate) from February 15, 2013 through August 14, 2017, (iii) an additional $8.25 million in punitive damages, and (iv) Tiffany's reasonable attorneys' fees (which will be determined at a later date), and, on August 24, 2017, the Court entered judgment in the amount of $21.0 million in favor of the Tiffany plaintiffs (reflecting items (i) through (iii) above). Costco has filed an appeal from the judgment, as well as a motion in the Court for a new trial. The appeal has been automatically stayed pending determination of the Court motion. Costco has also filed an appeal bond to secure the amount of the judgment entered by the Court pending appeal, so the Tiffany plaintiffs will be unable to enforce the judgment while the motion for a new trial and the appeal are pending. As such, the Company has not recorded any amount in its condensed consolidated financial statements related to this gain contingency as of April 30, 2018, and expects that this matter will not ultimately be resolved until, at the earliest, a future date during the Company's fiscal year ending January 31, 2019.

Environmental Matter. In 2005, the U.S. Environmental Protection Agency ("EPA") designated a 17-mile stretch of the Passaic River (the "River") part of the Diamond Alkali "Superfund" site. This designation resulted from the detection of hazardous substances emanating from the site, which was previously home to the Diamond Shamrock Corporation, a manufacturer of pesticides and herbicides. Under the Superfund law,

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the EPA will negotiate with potentially responsible parties to agree on remediation approaches and may also enter into settlement agreements pursuant to an allocation process.

The Company, which operated a silverware manufacturing facility near a tributary of the River from approximately 1897 to 1985, is one of more than 300 parties (the "Potentially Responsible Parties") designated in litigation as potentially responsible parties with respect to the River. The EPA issued general notice letters to 125 of these parties. The Company, along with approximately 70 other Potentially Responsible Parties (collectively, the "Cooperating Parties Group" or "CPG") voluntarily entered into an Administrative Settlement Agreement and Order on Consent ("AOC") with the EPA in May 2007 to perform a Remedial Investigation/Feasibility Study (the "RI/FS") of the lower 17 miles of the River. In June 2012, most of the CPG voluntarily entered into a second AOC related to focused remediation actions at Mile 10.9 of the River. The actions under the Mile 10.9 AOC are complete (except for continued monitoring), the Remedial Investigation ("RI") portion of the RI/FS was submitted to the EPA on February 19, 2015, and the Feasibility Study ("FS") portion of the RI/FS was submitted to the EPA on April 30, 2015. The Company nonetheless remained in the CPG until October 24, 2017. The Company has accrued for its financial obligations under both AOCs, which have not been material to its financial position or results of operations in previous financial periods or on a cumulative basis.

The FS presented and evaluated three options for remediating the lower 17 miles of the River, including the approach recommended by the EPA in its Focused Feasibility Study discussed below, as well as a fourth option of taking no action, and recommended an approach for a targeted remediation of the entire 17-mile stretch of the River. The estimated cost of the approach recommended by the CPG in the FS is approximately $483.0 million. The RI and FS are being reviewed by the EPA and other governmental agencies and stakeholders. Ultimately, the Company expects that the EPA will identify and negotiate with any or all of the potentially responsible parties regarding any remediation action that may be necessary, and issue a Record of Decision with a proposed approach to remediating the entire lower 17-mile stretch of the River.

Separately, on April 11, 2014, the EPA issued a proposed plan for remediating the lower eight miles of the River, which is supported by a Focused Feasibility Study (the "FFS"). The FFS evaluated three remediation options, as well as a fourth option of taking no action. Following a public review and comment period and the EPA's review of comments received, the EPA issued a Record of Decision on March 4, 2016 that set forth a remediation plan for the lower eight miles of the River (the "RoD Remediation"). The RoD Remediation is estimated by the EPA to cost $1.38 billion. The Record of Decision did not identify any party or parties as being responsible for the design of the remediation or for the remediation itself. The EPA did note that it estimates the design of the necessary remediation activities will take three to four years, with the remediation to follow, which is estimated to take an additional six years to complete.

On March 31, 2016, the EPA issued a letter to approximately 100 companies (including the Company) (collectively, the "notified companies") notifying them of potential liability for the RoD Remediation and of the EPA’s planned approach to addressing the cost of the RoD Remediation, which included the possibility of a de-minimis cash-out settlement (the "settlement option") for certain parties. In April of 2016, the Company notified the EPA of its interest in pursuing the settlement option, and accordingly recorded an immaterial liability representing its best estimate of its minimum liability for the RoD Remediation, which reflects the possibility of a de-minimis settlement. On March 30, 2017, the EPA issued offers related to the settlement option to 20 parties; while the Company was not one of the parties receiving such an offer, the EPA has indicated that the settlement option may be made available to additional parties beyond those notified on March 30, 2017. Although the EPA must determine which additional parties are eligible for the settlement option, the Company does not expect any settlement amount that it might agree with the EPA to be material to its financial position, results of operations or cash flows.

Unrelated to the settlement option, the EPA also announced, in October 2016, that it entered into a legal agreement with one of the notified companies, pursuant to which such company agreed to spend $165.0 million to perform the engineering and design work required in advance of the clean-up contemplated by the RoD Remediation (the "RoD Design Phase"). That company has waived any rights to collect contribution for those costs from the Company.

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In the absence of a viable settlement option, the Company is unable to determine its participation in the overall RoD Remediation (of which the RoD Design Phase is only a part), if any, relative to the other potentially responsible parties or the allocation of the estimated cost thereof among the potentially responsible parties, until such time as the EPA reaches an agreement with any potentially responsible party or parties to fund the overall RoD Remediation (or pursues legal or administrative action to require any potentially responsible party or parties to perform, or pay for, the overall RoD Remediation). With respect to the RI/FS (which is distinct from the RoD Remediation), until a Record of Decision is issued with respect to the RI/FS, neither the ultimate remedial approach for the remaining upper nine miles of the relevant 17-mile stretch of the River and its cost, nor the Company's participation, if any, relative to the other potentially responsible parties in this approach and cost, can be determined.

As such, the Company's liability, if any, beyond that already recorded for (1) its obligations under the 2007 AOC and the Mile 10.9 AOC, and (2) its estimate related to a de-minimis cash-out settlement for the RoD Remediation, cannot be determined at this time. However, the Company does not expect that its ultimate liability related to the relevant 17-mile stretch of the River will be material to its financial position, in light of the number of companies that have previously been identified as Potentially Responsible Parties (i.e., the more than 300 parties that were initially designated in litigation as potentially responsible parties), which includes, but goes well beyond those approximately 70 CPG member companies that participated in the 2007 AOC and the Mile 10.9 AOC, and the Company's relative participation in the costs related to the 2007 AOC and Mile 10.9 AOC. It is nonetheless possible that any resulting liability when the uncertainties discussed above are resolved could be material to the Company's results of operations or cash flows in the period in which such uncertainties are resolved.

11. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Loss

(in millions)	April 30, 2018	January 31, 2018	April 30, 2017
Accumulated other comprehensive (loss) earnings, net of tax:			
Foreign currency translation adjustments	$(73.0)	$ (48.0)	$(131.6)
Unrealized (loss) gain on marketable securities [a]	—	(1.8)	0.9
Deferred hedging loss	(30.2)	(22.9)	(17.1)
Net unrealized loss on benefit plans	(62.9)	(65.3)	(95.0)
	$(166.1)	$ (138.0)	$(242.8)

[a] The Company adopted ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, on February 1, 2018 using the modified retrospective method. Under ASU 2016-01, the Company recognizes both realized and unrealized gains and losses on marketable securities in Other expense, net. Previously, unrealized gains and losses were recorded as a separate component of stockholders' equity.

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Additions to and reclassifications out of accumulated other comprehensive earnings (loss) were as follows:

(in millions)	Three Months Ended April 30, 2018	2017
Foreign currency translation adjustments	$(25.4)	$12.4
Income tax benefit (expense)	0.4	(0.3)
Foreign currency translation adjustments, net of tax	(25.0)	12.1
Unrealized gain on marketable securities	—	0.4
Income tax expense	—	(0.3)
Unrealized gain on marketable securities, net of tax	—	0.1
Unrealized loss on hedging instruments	(7.2)	(10.3)
Reclassification adjustment for (gain) loss included in net earnings [a]	(2.3)	9.0
Income tax benefit	2.2	0.3
Unrealized loss on hedging instruments, net of tax	(7.3)	(1.0)
Amortization of net loss included in net earnings [b]	3.3	3.5
Amortization of prior service credit included in net earnings [b]	(0.2)	(0.1)
Income tax expense	(0.7)	(1.2)
Net unrealized gain on benefit plans, net of tax	2.4	2.2
Total other comprehensive (loss) earnings, net of tax	$(29.9)	$13.4

a These (gains) losses are reclassified into Cost of Sales, Interest expense and financing costs and Other expense, net (see "Note 8. Hedging Instruments" for additional details).

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

Share Repurchase Program. In January 2016, the Registrant's Board of Directors approved a share repurchase program (the "2016 Program") which authorizes the Company to repurchase up to $500.0 million of its Common Stock through open market transactions, block trades or privately negotiated transactions. Purchases under the 2016 Program have been executed under a written plan for trading securities as specified under Rule 10b5-1 promulgated under the Securities and Exchange Act of 1934, as amended, the terms of which are within the Company's discretion, subject to applicable securities laws, and are based on market conditions and the Company's liquidity needs. As of April 30, 2018, $170.8 million remained available for share repurchases under the 2016 Program. The 2016 Program was originally scheduled to expire on January 31, 2019. However, on May 22, 2018, the Registrant's Board of Directors approved a new share repurchase program, which will replace the 2016 Program. Approximately $160.0 million remained available for repurchase under the 2016 Program at May 22, 2018. See "Note 14. Subsequent Events" for additional information regarding the new share repurchase program.

The Company's share repurchase activity was as follows:

(in millions, except per share amounts)	Three Months Ended April 30, 2018	2017
Cost of repurchases	$40.5	$11.5
Shares repurchased and retired	0.4	0.1
Average cost per share	$99.48	$93.48

Cash Dividends. The Company's Board of Directors declared quarterly dividends of $0.50 and $0.45 per share of Common Stock in the three months ended April 30, 2018 and 2017, respectively.

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Cumulative effect adjustment from adoption of new accounting standards. The amounts presented within this line item on the condensed consolidated statement of stockholders' equity represent the effects of the Company's adoption, on a modified retrospective basis, of ASU 2014-09, Revenue from Contracts with Customers (as discussed in "Note 2. New Accounting Standards") and ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (as discussed above).

12. EMPLOYEE BENEFIT PLANS

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

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

	Three Months Ended April 30,			
	Pension Benefits		Other Postretirement Benefits	
(in millions)	2018	2017	2018	2017
Net Periodic Benefit Cost:				
Service cost	$4.5	$4.7	$ 0.7	$ 0.7
Interest cost	7.6	8.0	0.8	0.8
Expected return on plan assets	(8.3)	(8.2)	—	—
Amortization of prior service cost (credit)	—	0.1	(0.2)	(0.2)
Amortization of net loss	3.3	3.5	—	—
Net expense	$7.1	$8.1	$ 1.3	$ 1.3

The components of net periodic benefit cost other than the service cost component are included in Other expense, net on the condensed consolidated statements of earnings.

13. SEGMENT INFORMATION

The Company's reportable segments are as follows:

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

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

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

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

- Other consists of all non-reportable segments. Other includes the Emerging Markets region, which includes sales in Company-operated TIFFANY & CO. stores and wholesale operations in the Middle East. In addition, Other includes wholesale sales of diamonds, as well as earnings received from third-party licensing agreements.

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

(in millions)	Three Months Ended April 30, 2018	2017
Net sales:		
Americas	$425.3	$391.7
Asia-Pacific	328.6	257.3
Japan	150.6	128.4
Europe	107.0	94.6
Total reportable segments	1,011.5	872.0
Other	21.7	27.6
	$1,033.2	$899.6
Earnings from operations*:		
Americas	$74.9	$62.4
Asia-Pacific	100.1	73.1
Japan	58.3	42.8
Europe	14.2	13.6
Total reportable segments	247.5	191.9
Other	2.3	3.1
	$249.8	$195.0

* Represents earnings from operations before (i) unallocated corporate expenses, (ii) Interest expense and financing costs and (iii) Other expense, 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 millions)	Three Months Ended April 30, 2018	2017
Earnings from operations for segments	$249.8	$195.0
Unallocated corporate expenses	(45.5)	(45.4)
Interest expense and financing costs	(9.9)	(10.6)
Other expenses, net	(3.9)	(2.9)
Earnings from operations before income taxes	$190.5	$136.1

Unallocated corporate expenses include 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.

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14. Subsequent Event

On May 22, 2018, the Registrant's Board of Directors approved a new share repurchase program. This new program, which is effective June 1, 2018 and expires on January 31, 2022, authorizes the Company to repurchase up to $1.0 billion of its Common Stock through open market transactions, including through Rule 10b5-1 plans and one or more accelerated share repurchase or other structured repurchase transactions, and/or privately negotiated transactions. Purchases under this new program are discretionary and will be made from time to time based on market conditions and the Company's liquidity needs. This new program will replace the Company's 2016 Program announced in January 2016 (see "Note 11. Stockholders' Equity").

Under this new program, the Registrant's Board of Directors also approved the repurchase of $250.0 million of the Company's Common Stock through an accelerated share repurchase transaction, which the Company expects to enter into during its fiscal quarter ending July 31, 2018, subject to market conditions.

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

OVERVIEW

Tiffany & Co. (the "Registrant") is a holding company that operates through Tiffany and Company ("Tiffany") and the Registrant's other subsidiary companies (collectively, the "Company"). The Registrant, through its subsidiaries, designs and manufactures products and operates TIFFANY & CO. retail stores worldwide, and also sells its products through Internet, catalog, business-to-business and wholesale operations. The Company's principal merchandise offering is jewelry (representing 91% of worldwide net sales in the fiscal year ended January 31, 2018); it also sells timepieces, leather goods, sterling silverware (other than jewelry), china, crystal, stationery, eyewear, fragrances and other accessories.

The Company's reportable segments are as follows:

- Americas includes sales in 123 Company-operated TIFFANY & CO. stores in the United States ("U.S."), Canada and Latin America, as well as sales of TIFFANY & CO. products in certain markets through Internet, catalog, business-to-business and wholesale operations;

- Asia-Pacific includes sales in 87 Company-operated TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products in certain markets through Internet and wholesale operations;

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

- Europe includes sales in 46 Company-operated TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products in certain markets through Internet and wholesale operations; and

- Other consists of all non-reportable segments. Other includes the Emerging Markets region, which includes sales in four Company-operated TIFFANY & CO. stores and wholesale operations in the Middle East. In addition, Other includes wholesale sales of diamonds, as well as earnings received from third-party licensing agreements.

SUMMARY OF FIRST QUARTER RESULTS

- Worldwide net sales increased 15% to $1,033.2 million in the three months ("first quarter") ended April 30, 2018, reflecting geographically broad-based sales growth; comparable sales increased 10%. On a constant-exchange-rate basis (see "Non-GAAP Measures" below), worldwide net sales increased 11% in the first quarter and comparable sales increased 7%.

- Earnings from operations as a percentage of net sales ("operating margin") increased 320 basis points due to sales leverage on selling, general and administrative ("SG&A") expenses and an increase in gross margin.

- Net earnings increased 53% to $142.3 million, or $1.14 per diluted share, from $92.9 million, or $0.74 per diluted share, in the prior year due to the above factors and a lower effective income tax rate.

- Inventories, net increased 5% from April 30, 2017.

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RESULTS OF OPERATIONS

Non-GAAP Measures

The Company reports information in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). Internally, management also monitors and measures its performance using certain sales and earnings measures that include or exclude amounts, or are subject to adjustments that have the effect of including or excluding amounts, from the most directly comparable GAAP measure ("non-GAAP financial measures"). The Company presents such non-GAAP financial measures in reporting its financial results to provide investors with useful supplemental information that will allow them to evaluate the Company's operating results using the same measures that management uses to monitor and measure its performance. 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. These non-GAAP financial measures presented here may not be comparable to similarly-titled measures used by other companies.

Net Sales. The Company's reported net sales reflect either a translation-related benefit from strengthening foreign currencies or a detriment from a strengthening U.S. dollar. Internally, management monitors and measures its sales performance on a non-GAAP basis that eliminates the positive or negative effects that result from translating sales made outside the U.S. into U.S. dollars ("constant-exchange-rate basis"). Sales on a constant-exchange-rate basis are calculated by taking the current year's sales in local currencies and translating them into U.S. dollars using the prior year's foreign currency exchange rates. Management believes this constant-exchange-rate basis provides a useful supplemental basis for the assessment of sales performance and of comparability between reporting periods. The following table reconciles the sales percentage increases (decreases) from the GAAP to the non-GAAP basis versus the previous year:

	First Quarter 2018 vs. 2017		
	GAAP Reported	Translation Effect	Constant-Exchange-Rate Basis
Net Sales:			
Worldwide	15 %	4 %	11 %
Americas	9	1	8
Asia-Pacific	28	5	23
Japan	17	5	12
Europe	13	12	1
Other	(21)	—	(21)
Comparable Sales:			
Worldwide	10 %	3 %	7 %
Americas	9	—	9
Asia-Pacific	14	5	9
Japan	14	5	9
Europe	2	11	(9)
Other	(7)	—	(7)

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Beginning in the first quarter of 2018, the Company revised its definition of comparable sales (see "Comparable Sales" below) to include e-commerce and catalog sales, in addition to sales transacted in Company-operated stores open for more than 12 months. The following table reconciles the comparable sales percentage increases (decreases) from the GAAP to the non-GAAP basis versus the previous year for the first quarter of 2017:

First Quarter 2017 vs. 2016 As Revised			First Quarter 2017 vs. 2016 As Previously Reported
GAAP Reported	Translation Effect	Constant-	