TIFFANY & CO
Form 10-Q
May 27, 2015
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, 2015

OR

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

For the transition period from to

Commission file number: 1-9494

TIFFANY & CO.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: Common Stock, $.01 par value, 129,158,525 shares outstanding at the close of business on April 30, 2015.

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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, 2015	January 31, 2015	April 30, 2014
ASSETS			
Current assets:			
Cash and cash equivalents	$675.8	$730.0	$359.3
Short-term investments	39.6	1.5	21.9
Accounts receivable, less allowances of $10.0, $10.6 and $9.9	192.5	195.2	194.6
Inventories, net	2,363.0	2,362.1	2,418.4
Deferred income taxes	101.5	102.6	102.3
Prepaid expenses and other current assets	207.6	220.0	236.8
Total current assets	3,580.0	3,611.4	3,333.3
Property, plant and equipment, net	897.0	899.5	848.4
Deferred income taxes	323.6	323.4	260.1
Other assets, net	349.4	346.3	383.7
	$5,150.0	$5,180.6	$4,825.5
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	$197.1	$234.0	$241.0
Accounts payable and accrued liabilities	271.4	318.0	306.1
Income taxes payable	44.6	39.9	26.1
Merchandise and other customer credits	72.2	66.1	67.5
Total current liabilities	585.3	658.0	640.7
Long-term debt	882.1	882.5	750.8
Pension/postretirement benefit obligations	532.2	524.2	273.7
Deferred gains on sale-leasebacks	62.8	64.5	80.2
Other long-term liabilities	201.3	200.7	219.5
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 129.2, 129.3 and 129.0	1.3	1.3	1.3
Additional paid-in capital	1,178.1	1,173.6	1,128.4
Retained earnings	1,976.2	1,950.7	1,757.7
Accumulated other comprehensive loss, net of tax	(285.5)	(290.5)	(42.1)
Total Tiffany & Co. stockholders' equity	2,870.1	2,835.1	2,845.3
Non-controlling interests	16.2	15.6	15.3
Total stockholders' equity	2,886.3	2,850.7	2,860.6
	$5,150.0	$5,180.6	$4,825.5

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,	
	2015	2014
Net sales	$962.4	$1,012.1
Cost of sales	393.4	422.6
Gross profit	569.0	589.5
Selling, general and administrative expenses	399.0	379.7
Earnings from operations	170.0	209.8
Interest and other expenses, net	9.3	16.3
Earnings from operations before income taxes	160.7	193.5
Provision for income taxes	55.8	67.9
Net earnings	$104.9	$125.6
Net earnings per share:		
Basic	$0.81	$0.97
Diluted	$0.81	$0.97
Weighted-average number of common shares:		
Basic	129.2	128.9
Diluted	129.8	129.8

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,	
	2015	2014
Net earnings	$104.9	$125.6
Other comprehensive earnings (loss), net of tax		
Foreign currency translation adjustments	3.6	17.2
Unrealized gain on marketable securities	1.1	0.8
Unrealized loss on hedging instruments	(4.4)	(3.5)
Net unrealized gain on benefit plans	4.7	2.0
Total other comprehensive earnings, net of tax	5.0	16.5
Comprehensive earnings	$109.9	$142.1

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, 2015	$ 2,850.7	$ 1,950.7	$ (290.5)	129.3	$ 1.3	$ 1,173.6	$ 15.6
Exercise of stock options and vesting of restricted stock units ("RSUs")	(1.1)	—	—	0.3	—	(1.1)	—
Tax effect of exercise of stock options and vesting of RSUs	1.7	—	—	—	—	1.7	—
Share-based compensation expense	6.8	—	—	—	—	6.8	—
Purchase and retirement of Common Stock	(33.1)	(30.2)	—	(0.4)	—	(2.9)	—
Cash dividends on Common Stock	(49.2)	(49.2)	—	—	—	—	—
Other comprehensive earnings, net of tax	5.0	—	5.0	—	—	—	—
Net earnings	104.9	104.9	—	—	—	—	—
Non-controlling interests	0.6	—	—	—	—	—	0.6
Balance at April 30, 2015	$ 2,886.3	$ 1,976.2	$ (285.5)	129.2	$ 1.3	$ 1,178.1	$ 16.2

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,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$104.9	$125.6
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	48.9	49.9
Amortization of gain on sale-leasebacks	(2.1)	(2.4)
Excess tax benefits from share-based payment arrangements	(1.8)	(7.5)
Provision for inventories	8.9	8.3
Deferred income taxes	—	12.6
Provision for pension/postretirement benefits	17.1	10.4
Share-based compensation expense	6.7	6.8
Changes in assets and liabilities:		
Accounts receivable	2.5	(4.3)
Inventories	(3.6)	(91.6)
Prepaid expenses and other current assets	2.3	(16.3)
Accounts payable and accrued liabilities	(59.1)	(40.2)
Income taxes payable	16.3	33.0
Merchandise and other customer credits	5.7	(3.1)
Other, net	(3.1)	(4.6)
Net cash provided by operating activities	143.6	76.6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments	(39.0)	(0.3)
Proceeds from sales of marketable securities and short-term investments	1.0	—
Capital expenditures	(37.4)	(35.2)
Proceeds from notes receivable	—	3.5
Net cash used in investing activities	(75.4)	(32.0)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of credit facility borrowings, net	(27.6)	(11.4)
Proceeds from other credit facility borrowings	—	2.4
Repayment of other credit facility borrowings	(11.3)	(1.0)
Repurchase of Common Stock	(33.1)	(7.1)
Proceeds from exercised stock options	0.5	20.6
Excess tax benefits from share-based payment arrangements	1.8	7.5
Cash dividends on Common Stock	(49.2)	(43.8)
Financing fees	(0.1)	(0.1)
Net cash used in financing activities	(119.0)	(32.9)
Effect of exchange rate changes on cash and cash equivalents	(3.4)	1.8
Net (decrease)/increase in cash and cash equivalents	(54.2)	13.5
Cash and cash equivalents at beginning of year	730.0	345.8
Cash and cash equivalents at end of three months	$675.8	$359.3

See notes to condensed consolidated financial statements.

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

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements include the accounts of Tiffany & Co. (also referred to as the Registrant) and its subsidiaries (the "Company") in which a controlling interest is maintained. Controlling interest is determined by majority ownership interest and the absence of substantive third-party participating rights or, in the case of variable interest entities ("VIEs"), if the Company has the power to significantly direct the activities of a VIE, as well as the obligation to absorb significant losses of or the right to receive significant benefits from the VIE. Intercompany accounts, transactions and profits have been eliminated in consolidation. The interim statements are unaudited and, in the opinion of management, include all adjustments (which represent normal recurring adjustments) necessary to fairly state the Company's financial position as of April 30, 2015 and 2014 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2015 is derived from the audited financial statements, which are included in the Company's Annual Report on Form 10-K and should be read in connection with these financial statements. As permitted by the rules of the Securities and Exchange Commission, these financial statements do not include all disclosures required by generally accepted accounting principles.

The Company's business is seasonal in nature, with the fourth quarter typically representing approximately one-third of annual net sales and a higher percentage of annual net earnings. Therefore, the results of its operations for the three months ended April 30, 2015 and 2014 are not necessarily indicative of the results of the entire fiscal year.

2. NEW ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 – Revenue From Contracts with Customers, to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards. The core principle of the guidance is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This ASU is effective retrospectively for fiscal years and interim periods within those years beginning after December 15, 2016 and early adoption is not permitted. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02 – Amendments to the Consolidation Analysis, which amends the criteria for determining which entities are considered VIEs, amends the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2015 and early adoption is permitted. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03 – Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity will present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This ASU is effective retrospectively for interim and annual

periods beginning after December 15, 2015. The Company expects to adopt this ASU beginning on February 1, 2016 and the adoption of the new

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guidance is not expected to have a material impact on the Company’s financial condition and financial statement disclosures.

In April 2015, the FASB issued ASU No. 2015-05 – Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement (an update to Subtopic 350-40, Intangibles – Goodwill and Other – Internal-Use Software), which provides guidance on accounting for cloud computing fees. If a cloud computing arrangement includes a software license, then the customer should account for the license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the arrangement should be accounted for as a service contract. This ASU is effective for arrangements entered into, or materially modified, in interim and annual periods beginning after December 15, 2015. Retrospective application is permitted but not required. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

3. RECEIVABLES AND FINANCING ARRANGEMENTS

Receivables. The Company maintains an allowance for doubtful accounts for estimated losses associated with the accounts receivable recorded on the balance sheet. The allowance is determined based on a combination of factors including, but not limited to, the length of time that the receivables are past due, 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. Credit Card Receivables require minimum balance payments. A Credit Card account is classified as overdue if a minimum balance payment has not been received within the allotted timeframe (generally 30 days), after which internal collection efforts commence. For all Credit Card Receivables recorded on the balance sheet, once all internal collection efforts have been exhausted and management has reviewed the account, the account balance is written off and may be sent for external collection or legal action. At April 30, 2015 and 2014, the carrying amount of the Credit Card Receivables (recorded in accounts receivable, net) was $68.0 million and $59.8 million, of which 97% was considered current in both periods. The allowance for doubtful accounts for estimated losses associated with the Credit Card Receivables (approximately $1.0 million at April 30, 2015 and 2014) was determined based on the factors discussed above. Finance charges earned on Credit Card accounts are not significant.

Financing Arrangements. The Company has provided financing to diamond mining and exploration companies in order to obtain rights to purchase the mine's output (see "Note 9. Commitments and Contingencies"). Management evaluates these financing arrangements for potential impairment by reviewing the parties' financial statements along with projections and business, operational and other economic factors on a periodic basis. At April 30, 2015 and 2014, the current portion of the carrying amount of financing arrangements including accrued interest was $21.0 million and $19.1 million and was recorded in prepaid expenses and other current assets. At April 30, 2015 and 2014, the non-current portion of the carrying amount of financing arrangements including accrued interest was $41.3 million and $51.5 million and was included in other assets, net. The Company recorded no material impairment charges on such loans as of April 30, 2015 and 2014.

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4. INVENTORIES

(in millions)	April 30, 2015	January 31, 2015	April 30, 2014
Finished goods	$1,396.5	$1,386.8	$1,365.3
Raw materials	872.8	866.9	921.0
Work-in-process	93.7	108.4	132.1
Inventories, net	$2,363.0	$2,362.1	$2,418.4

5. INCOME TAXES

The effective income tax rate for the three months ended April 30, 2015 was 34.7% versus 35.1% in the prior year. The effective income tax rate for the three months ended April 30, 2014 included an increase of 2.0 percentage points due to the one-time impact of changes in tax legislation partly offset by the favorable impact of a valuation allowance release of 1.3 percentage points.

During the three months ended April 30, 2015, 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. Ongoing audits where subsidiaries have a material presence include New York City (tax years 2011–2012), as well as an audit that is being conducted by the IRS (tax years 2010–2012). Tax years from 2006–present are open to examination in U.S. Federal and various state, local and foreign jurisdictions. As part of these audits, the Company engages in discussions with taxing authorities regarding tax positions. As of April 30, 2015, unrecognized tax benefits are not expected to change materially in the next 12 months. Future developments may result in a change in this assessment.

6. EARNINGS PER SHARE

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

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

	Three Months Ended April 30,	
(in millions)	2015	2014
Net earnings for basic and diluted EPS	$104.9	$125.6
Weighted-average shares for basic EPS	129.2	128.9
Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units	0.6	0.9
Weighted-average shares for diluted EPS	129.8	129.8

For the three months ended April 30, 2015 and 2014, there were 0.7 million and 0.3 million stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

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7. HEDGING INSTRUMENTS

Background Information

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

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

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

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

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

Types of Derivative Instruments

Interest Rate Swaps – In 2012, the Company entered into forward-starting interest rate swaps to hedge the impact of interest rate volatility on future interest payments associated with the anticipated incurrence of $250.0 million of additional debt which was incurred in July 2012. The Company accounted for the forward-starting interest rate swaps as cash flow hedges.

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, and recorded an unrealized loss within accumulated other comprehensive loss, which is being amortized over the terms of the notes to which the interest rate swaps related.

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.

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As of April 30, 2015, the notional amount of foreign exchange forward contracts accounted for as cash flow hedges was $156.5 million and the notional amount of foreign exchange forward contracts accounted for as undesignated hedges was $84.7 million. The maximum term of the Company's outstanding foreign exchange forward contracts as of April 30, 2015 is 12 months.

Precious Metal Forward Contracts – The Company periodically hedges a portion of its forecasted purchases of precious metals for use in its internal manufacturing operations through the use of forward contracts in order to manage the effect of volatility in precious metal prices. The Company accounts for its precious metal forward contracts as cash flow hedges. The Company assesses hedge effectiveness based on the total changes in the precious metal forward contracts' cash flows. As of April 30, 2015, the maximum term over which the Company is hedging its exposure to the variability of future cash flows for all forecasted transactions is 12 months. As of April 30, 2015, there were precious metal derivative instruments outstanding for approximately 29,100 ounces of platinum, 498,200 ounces of silver and 40,100 ounces of gold.

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

	Three Months Ended April 30,			
	2015		2014	
(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]	$1.0	$4.2	$(0.1)	$7.4
Precious metal forward contracts [a]	(5.1)	(1.0)	0.4	(1.5)
Forward-starting interest rate swaps [b]	—	(0.4)	—	(0.4)
	$(4.1)	$2.8	$0.3	$5.5

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

The pre-tax losses recognized in earnings on derivatives not designated as hedging instruments related to foreign exchange forward contracts were $4.8 million in the period ended April 30, 2015 and are included in interest and other expenses, net. Gains or losses on the undesignated foreign exchange forward contracts substantially offset foreign exchange losses or gains on the liabilities and transactions being hedged. Such amounts were not material in the period ended April 30, 2014. There was no material ineffectiveness related to the Company's hedging instruments for the periods ended April 30, 2015 and 2014. The Company expects approximately $9.9 million of net pre-tax derivative gains included in accumulated other comprehensive income at April 30, 2015 will be reclassified into earnings within the next 12 months. This amount will vary due to fluctuations in foreign currency exchange rates and precious metal prices.

For information regarding the location and amount of the derivative instruments in the Condensed Consolidated Balance Sheet, see "Note 8. Fair Value of Financial Instruments."

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Concentration of Credit Risk

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

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The Company uses the market approach to measure fair value for its marketable securities, time deposits and derivative instruments. The Company's interest rate swaps were primarily valued using the 3-month LIBOR rate. The Company's foreign exchange forward contracts are primarily valued using the appropriate foreign exchange spot rates. The Company's precious metal forward contracts are primarily valued using the relevant precious metal spot rate. For further information on the Company's hedging instruments and program, see "Note 7. Hedging Instruments."

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Financial assets and liabilities carried at fair value at April 30, 2015 are classified in the table below in one of the three categories described above:

(in millions)	Carrying Value	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Marketable securities [a]	$55.5	$55.5	$—	$—	$55.5
Time deposits [b]	39.6	39.6	—	—	39.6
Derivatives designated as hedging instruments:					
Precious metal forward contracts [c]	0.3	—	0.3	—	