

TIFFANY & CO
Form 10-Q
November 30, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2007.

OR

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

For the transition period from _____ to _____.

Commission file number: 1-9494

TIFFANY & CO.

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

13-3228013

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

727 Fifth Ave. New York, NY

(Address of principal executive offices)

10022

(Zip Code)

Registrant's telephone number, including area code:

(212)55-8000

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One).

Large Accelerated filer

Accelerated filer

Non-Accelerated filer

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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: Common Stock, \$.01 par value, 135,641,832 shares outstanding at the close of business on October 31, 2007.

**TIFFANY & CO. AND SUBSIDIARIES
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED OCTOBER 31, 2007**

| PART I - FINANCIAL INFORMATION | | <u>PAGE</u> |
|--------------------------------|--|-------------|
| Item 1. | Financial Statements | |
| | Condensed Consolidated Balance Sheets - October 31, 2007, January 31, 2007 and October 31, 2006 (Unaudited) | 3 |
| | Condensed Consolidated Statements of Earnings - for the three and nine months ended October 31, 2007 and 2006 (Unaudited) | 4 |
| | Condensed Consolidated Statements of Stockholders' Equity - for the nine months ended October 31, 2007 and Comprehensive Earnings - for the three and nine months ended October 31, 2007 and 2006 (Unaudited) | 5 |
| | Condensed Consolidated Statements of Cash Flows - for the nine months ended October 31, 2007 and 2006 (Unaudited) | 6 |
| | Notes to Condensed Consolidated Financial Statements (Unaudited) | 7-12 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 13-21 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 22 |
| Item 4. | Controls and Procedures | 23 |
| PART II - OTHER INFORMATION | | |
| Item 1A. | Risk Factors | 24 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 25 |
| Item 6. | Exhibits | 26 |
| | (a) Exhibits | |

PART I. Financial Information
Item 1. Financial Statements

TIFFANY & CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except per share amounts)

| | October 31, 2007 | January 31, 2007 | October 31, 2006 |
|---|---------------------|---------------------|---------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 334,850 | \$ 175,008 | \$ 56,933 |
| Short-term investments | 56,270 | 15,500 | - |
| Accounts receivable, less allowances of \$7,480, \$7,900 and \$7,693 | 168,678 | 165,594 | 148,608 |
| Inventories, net | 1,345,730 | 1,146,674 | 1,247,089 |
| Deferred income taxes | 65,377 | 72,934 | 78,206 |
| Prepaid expenses and other current assets | 91,682 | 57,460 | 69,002 |
| Assets held for sale | - | 73,474 | 67,584 |
| | | | |
| Total current assets | 2,062,587 | 1,706,644 | 1,667,422 |
| | | | |
| Property, plant and equipment, net | 757,542 | 912,143 | 908,844 |
| Deferred income taxes | 115,333 | 37,368 | 28,431 |
| Other assets, net | 197,636 | 156,097 | 167,228 |
| Assets held for sale - noncurrent | - | 33,258 | 38,094 |
| | | | |
| | \$ 3,133,098 | \$ 2,845,510 | \$ 2,810,019 |
| | | | |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Short-term borrowings | \$ 59,843 | \$ 106,681 | \$ 237,447 |
| Current portion of long-term debt | 5,552 | 5,398 | 6,259 |
| Accounts payable and accrued liabilities | 204,579 | 198,471 | 210,218 |
| Income taxes payable | 95,816 | 62,979 | 9,620 |
| Merchandise and other customer credits | 67,092 | 61,511 | 58,722 |
| Liabilities held for sale | - | 17,631 | 13,293 |
| | | | |
| Total current liabilities | 432,882 | 452,671 | 535,559 |
| | | | |
| Long-term debt | 397,795 | 406,383 | 416,863 |
| Pension/postretirement benefit obligations | 100,712 | 84,466 | 77,573 |
| Deferred gains on sale-leasebacks | 144,973 | 4,944 | 5,010 |

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| | | | |
|---|---------------|---------------|---------------|
| Other long-term liabilities | 130,463 | 87,774 | 84,117 |
| Liabilities held for sale - non current | - | 4,377 | 4,227 |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Preferred Stock, \$0.01 par value; authorized 2,000 shares, none issued and outstanding | - | - | - |
| Common Stock, \$0.01 par value; authorized 240,000 shares, issued and outstanding 135,642, 135,875 and 135,358 | 1,357 | 1,358 | 1,353 |
| Additional paid-in capital | 647,405 | 536,187 | 510,527 |
| Retained earnings | 1,252,525 | 1,269,940 | 1,159,044 |
| Accumulated other comprehensive gain (loss), net of tax: | | | |
| Foreign currency translation adjustments | 40,245 | 11,846 | 14,948 |
| Deferred hedging (loss) gain | (580) | 2,046 | 646 |
| Unrealized gain on marketable securities | 898 | 178 | 152 |
| Net unrealized losses on benefit plans | (15,577) | (16,660) | - |
| Total stockholders' equity | 1,926,273 | 1,804,895 | 1,686,670 |
| | \$ 3,133,098 | \$ 2,845,510 | \$ 2,810,019 |

See notes to condensed consolidated financial statements.

TIFFANY & CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in thousands, except per share amounts)

| | Three Months Ended October 31, | | Nine Months Ended October 31, | |
|---|-----------------------------------|------------|----------------------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net sales | \$ 627,323 | \$ 531,834 | \$ 1,885,614 | \$ 1,601,847 |
| Cost of sales | 290,186 | 244,483 | 855,036 | 712,926 |
| Gross profit | 337,137 | 287,351 | 1,030,578 | 888,921 |
| Other operating income | 105,051 | - | 105,051 | - |
| Selling, general and administrative expenses | 288,403 | 239,696 | 793,563 | 689,455 |
| Earnings from continuing operations | 153,785 | 47,655 | 342,066 | 199,466 |
| Other expenses (income), net | 2,306 | (1,294) | 8,139 | 7,849 |
| Earnings from continuing operations before income taxes | 151,479 | 48,949 | 333,927 | 191,617 |
| Provision for income taxes | 51,034 | 16,324 | 120,858 | 70,795 |
| Net earnings from continuing operations | 100,445 | 32,625 | 213,069 | 120,822 |
| Loss from discontinued operations, net of tax | (1,555) | (3,483) | (27,547) | (7,394) |
| Net earnings | \$ 98,890 | \$ 29,142 | \$ 185,522 | \$ 113,428 |
| Earnings per share: | | | | |
| Basic | | | | |
| Net earnings from continuing operations | \$ 0.74 | \$ 0.24 | \$ 1.56 | \$ 0.87 |

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| | | | | |
|---|---------|---------|---------|---------|
| Loss from discontinued operations | (0.01) | (0.03) | (0.20) | (0.06) |
| Net earnings | \$ 0.73 | \$ 0.21 | \$ 1.36 | \$ 0.81 |
| Diluted | | | | |
| Net earnings from continuing operations | \$ 0.72 | \$ 0.23 | \$ 1.52 | \$ 0.85 |
| Loss from discontinued operations | (0.01) | (0.02) | (0.19) | (0.05) |
| Net earnings | \$ 0.71 | \$ 0.21 | \$ 1.33 | \$ 0.80 |
| Weighted-average number of common shares: | | | | |
| Basic | 136,124 | 136,753 | 136,452 | 139,288 |
| Diluted | 139,487 | 138,872 | 139,943 | 141,647 |

See notes to condensed consolidated financial statements.

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

| | Total Stockholders' Equity | Retained Earnings | Accumulated Other Comprehensive Gain (Loss) | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital |
|--|----------------------------------|----------------------|---|------------------------|------------------------|----------------------------------|
| Balances, January 31, 2007 | \$ 1,804,895 | \$ 1,269,940 | \$ (2,590) | 135,875 | \$ 1,358 | \$ 536,187 |
| Implementation effect of FIN No. 48 | (4,299) | (4,299) | - | - | - | - |
| Balances, February 1, 2007 | 1,800,596 | 1,265,641 | (2,590) | 135,875 | 1,358 | 536,187 |
| Exercise of stock options and vesting of restricted stock units (RSUs) | 68,176 | - | - | 2,790 | 28 | 68,148 |
| Tax benefit from exercise of stock options and vesting of RSUs | 20,213 | - | - | - | - | 20,213 |
| Share-based compensation expense | 28,464 | - | - | - | - | 28,464 |
| Issuance of Common Stock under Employee Profit Sharing and Retirement Savings Plan | 2,450 | - | - | 52 | 1 | 2,449 |
| Purchase and retirement of Common Stock | (156,234) | (148,148) | - | (3,075) | (30) | (8,056) |
| Cash dividends on Common Stock | (50,490) | (50,490) | - | - | - | - |
| Deferred hedging loss, net of tax | (2,626) | - | (2,626) | - | - | - |
| Unrealized gain on marketable securities, net of tax | 720 | - | 720 | - | - | - |
| Foreign currency translation adjustments, net of tax | 28,399 | - | 28,399 | - | - | - |
| Amortization of net losses on benefit plans, net of tax | 1,083 | - | 1,083 | - | - | - |
| Net earnings | 185,522 | 185,522 | - | - | - | - |
| Balances, October 31, 2007 | \$ 1,926,273 | \$ 1,252,525 | \$ 24,986 | 135,642 | \$ 1,357 | \$ 647,405 |

| | Three Months Ended October 31, | | Nine Months Ended October 31, | |
|---|-----------------------------------|-----------|----------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Comprehensive earnings are as follows: | | | | |
| Net earnings | \$ 98,890 | \$ 29,142 | \$ 185,522 | \$ 113,428 |
| Other comprehensive gain (loss), net of tax: | | | | |
| Deferred hedging loss | (672) | (9) | (2,626) | (2,601) |

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| | | | | |
|---|------------|-----------|------------|------------|
| Foreign currency translation adjustments | 15,443 | (1,102) | 28,399 | 9,667 |
| Unrealized gain (loss) on marketable securities | 743 | (398) | 720 | (527) |
| Amortization of net losses on benefit plans | 400 | - | 1,083 | - |
| Comprehensive earnings | \$ 114,804 | \$ 27,633 | \$ 213,098 | \$ 119,967 |

See notes to condensed consolidated financial statements.

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

| | Nine Months Ended October 31, | |
|---|----------------------------------|------------|
| | 2007 | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | \$ 185,522 | \$ 113,428 |
| Loss from discontinued operations, net of tax | (27,547) | (7,394) |
| Net earnings from continuing operations | 213,069 | 120,822 |
| Adjustments to reconcile net earnings from continuing operations to net cash provided by (used in) operating activities: | | |
| Gain on sale-leaseback | (105,051) | - |
| Gain on sale of investments | (1,564) | (6,774) |
| Depreciation and amortization | 92,631 | 85,447 |
| Excess tax benefits from share-based payment arrangements | (17,971) | (2,270) |
| Provision for inventories | 10,639 | 6,690 |
| Deferred income taxes | (62,950) | (10,669) |
| Provision for pension/postretirement benefits | 19,943 | 18,611 |
| Share-based compensation expense | 27,889 | 24,300 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 9,469 | 225 |
| Inventories | (178,579) | (249,269) |
| Prepaid expenses and other current assets | (31,724) | (39,875) |
| Other assets, net | (9,247) | 5,082 |
| Accounts payable and accrued liabilities | 12,790 | 30,369 |
| Income taxes payable | 52,198 | (48,023) |
| Merchandise and other customer credits | 5,057 | 2,120 |
| Other long-term liabilities | 250 | (9,227) |
| Net cash provided by (used in) operating activities | 36,849 | (72,441) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of marketable securities and short-term investments | (564,899) | (147,268) |
| Proceeds from sales of marketable securities and short-term investments | 522,376 | 150,278 |
| Proceeds from sale of assets, net | 509,035 | - |
| Capital expenditures | (149,325) | (138,021) |
| Notes receivable funded | (7,172) | (9,728) |
| Acquisitions, net of cash acquired | (400) | - |
| Other | 6,133 | 1,328 |
| Net cash provided by (used in) investing activities | 315,748 | (143,411) |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|--|-----------|-----------|
| (Repayments of) proceeds from short-term borrowings, net | (60,507) | 198,896 |
| Fees and expenses related to new short-term borrowings | - | (87) |
| Repayment of long-term debt | (21,455) | (10,057) |
| Repurchase of Common Stock | (156,234) | (264,115) |
| Proceeds from exercise of stock options | 68,176 | 6,694 |
| Excess tax benefits from share-based payment arrangements | 17,971 | 2,270 |
| Cash dividends on Common Stock | (50,490) | (39,066) |
| Net cash used in financing activities | (202,539) | (105,465) |
| Effect of exchange rate changes on cash and cash equivalents | 15,905 | 2,276 |

CASH FLOWS FROM DISCONTINUED OPERATIONS:

| | | |
|--|------------|-----------|
| Operating activities | (6,596) | (11,301) |
| Investing activities | (1,020) | (5,084) |
| Net cash used in discontinued operations | (7,616) | (16,385) |
| Net increase (decrease) in cash and cash equivalents | 158,347 | (335,426) |
| Cash and cash equivalents at beginning of year | 175,008 | 391,594 |
| Decrease in cash and cash equivalents of discontinued operations | 1,495 | 765 |
| Cash and cash equivalents at end of nine months | \$ 334,850 | \$ 56,933 |

See notes to condensed consolidated financial statements.

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

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements include the accounts of Tiffany & Co. and all majority-owned domestic and foreign subsidiaries (the Company). 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 include only normal recurring adjustments) necessary to present fairly the Company's financial position as of October 31, 2007 and 2006 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2007 is derived from the audited financial statements, which are included in the Company's Report on Form 10-K and should be read in connection with these financial statements. In accordance with 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, with a higher proportion of sales and earnings generated in the fourth quarter of the fiscal year and, therefore, the results of its operations for the three and nine months ended October 31, 2007 and 2006 are not necessarily indicative of the results of the entire fiscal year.

2. NEW ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements which establishes a framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements. The changes to current practice resulting from the application of SFAS No. 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the effect that the adoption of this Statement will have on the Company's financial position and earnings.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 which clarifies the accounting for uncertainty in income tax positions by prescribing a more-likely-than-not recognition threshold for income tax positions taken or expected to be taken in a tax return. FIN No. 48 is effective for fiscal years beginning after December 15, 2006 with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings at the beginning of the year. The Company has adopted FIN No. 48 as of February 1, 2007 which resulted in a charge of \$4,299,000 to retained earnings as a cumulative effect of an accounting change (see Note 5).

3. DISCONTINUED OPERATIONS

Management concluded that Little Switzerland, Inc.'s (Little Switzerland) operations did not demonstrate the potential to generate a return on investment consistent with management's objectives and therefore, during the second quarter of 2007 the Company's Board of Directors authorized the sale of Little Switzerland. On July 31, 2007, the Company entered into an agreement with NXP Corporation (NXP) by which NXP would purchase 100% of the stock of Little Switzerland. The transaction closed on September 18, 2007 for net proceeds of \$32,870,000 which excludes payments for existing trade payables owed to the Company by Little Switzerland. The purchase price is subject to customary post-closing adjustments. The Company has agreed to continue to distribute TIFFANY & CO. merchandise through TIFFANY & CO. boutiques maintained in certain LITTLE SWITZERLAND stores post-closing. In addition, the Company has agreed to provide warehousing services to

Little Switzerland for a transition period.

The Company determined that the continuing cash flows from Little Switzerland operations were not significant. Therefore, the results of Little Switzerland are presented as a discontinued operation in the consolidated financial statements for all periods presented. Prior to the reclassification, Little Switzerland's results had been included within the non-reportable segment Other.

3. DISCONTINUED OPERATIONS (continued)

Little Switzerland's loss before income taxes in the nine months ended October 31, 2007 includes a \$54,260,000 pre-tax charge (\$22,602,000 after-tax) due to the sale of Little Switzerland. The tax benefit recorded in connection with the charge included the effect of basis differences in the investment in Little Switzerland.

Summarized statement of earnings data for Little Switzerland is as follows:

| (in thousands) | Three Months Ended October 31, | | Nine Months Ended October 31, | |
|---|-----------------------------------|------------|----------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net revenues | \$ 9,378 | \$ 15,952 | \$ 52,817 | \$ 60,120 |
| Gain (loss) on disposal | \$ 601 | \$ - | \$ (54,260) | \$ - |
| Loss from operations | (1,893) | (3,668) | (5,401) | (8,735) |
| Income tax expense (benefit) | 263 | (185) | (32,114) | (1,341) |
| Loss from discontinued operations, net of tax | \$ (1,555) | \$ (3,483) | \$ (27,547) | \$ (7,394) |

Summarized balance sheet data for Little Switzerland is as follows:

| (in thousands) | January 31, 2007 | October 31, 2006 |
|------------------------------------|---------------------|---------------------|
| <i>Assets held for sale</i> | | |
| Inventories, net | \$ 67,948 | \$ 62,378 |
| Other current assets | 5,526 | 5,206 |
| Property, plant and equipment, net | 20,246 | 18,145 |
| Other assets | 13,012 | 19,949 |
| Total assets held for sale | \$ 106,732 | \$ 105,678 |
| <i>Liabilities held for sale</i> | | |
| Current liabilities | \$ 17,631 | \$ 13,293 |
| Other liabilities | 4,377 | 4,227 |
| Total liabilities held for sale | \$ 22,008 | \$ 17,520 |

4. INVENTORIES

| (in thousands) | October 31, 2007 | January 31, 2007 | October 31, 2006 |
|----------------|---------------------|---------------------|---------------------|
| Finished goods | \$ 928,280 | \$ 772,102 | \$ 878,018 |
| Raw materials | 336,182 | 316,206 | 308,794 |

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| | | | |
|------------------|--------------|--------------|--------------|
| Work-in-process | 81,268 | 58,366 | 60,277 |
| Inventories, net | \$ 1,345,730 | \$ 1,146,674 | \$ 1,247,089 |

LIFO-based inventories at October 31, 2007, January 31, 2007 and October 31, 2006 represented 69%, 72% and 73% of inventories, net, with the current cost exceeding the LIFO inventory value by \$127,203,000, \$108,501,000 and \$95,535,000 at the end of each period.

5. INCOME TAXES

The Company adopted FIN No. 48 on February 1, 2007. As a result, the Company recorded a non-cash cumulative transition charge of \$4,299,000 as a reduction to the opening retained earnings balance. As of February 1, 2007, the gross amount of unrecognized tax benefits was approximately \$40,000,000, including interest and penalties of approximately \$8,000,000. As of that date, the total amount of unrecognized tax benefits that, if recognized, would have affected the effective tax rate was approximately \$22,500,000. The Company recognizes interest expense and penalties related to unrecognized tax benefits within income tax expense.

During the nine months ended October 31, 2007, the unrecognized tax benefits were reduced by approximately \$5,000,000 to approximately \$35,000,000. Accrued interest and penalties during the nine months ended October 31, 2007 was reduced by approximately \$5,500,000 to approximately \$2,500,000. As of that date, the total amount of unrecognized tax benefits that, if recognized, would have affected the effective tax rate was approximately \$12,600,000.

The Company files income tax returns in the U.S. federal jurisdiction as well as various state and foreign locations. As a matter of course, various taxing authorities regularly audit the Company. The Company's tax filings are currently being examined by tax authorities in jurisdictions where its subsidiaries have a material presence, including Japan (tax years 2003-2005) and New York City (tax years 2002-2004). Tax years from 2005-present are open to examination in the U.S. and tax years 2003-present are open to examination in various other state and foreign taxing jurisdictions. The Company believes that its tax positions comply with applicable tax law and that it has adequately provided for these matters. However, the audits may result in proposed assessments where the ultimate resolution may result in the Company owing additional taxes. Ongoing audits are in various stages of completion and while the Company does not anticipate any material changes in unrecognized income tax benefits over the next 12 months, future developments in the audit process may result in a change in this assessment.

6. EARNINGS PER SHARE

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

The following table summarizes the reconciliation of the numerators and denominators for the basic and diluted earnings per share (EPS) computations:

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|--|---------------------|-----------|---------------------|------------|
| | October 31, 2007 | 2006 | October 31, 2007 | 2006 |
| Net earnings for basic and diluted EPS | \$ 98,890 | \$ 29,142 | \$ 185,522 | \$ 113,428 |
| Weighted average shares for basic EPS | 136,124 | 136,753 | 136,452 | 139,288 |
| Incremental shares based upon the assumed exercise | 3,363 | 2,119 | 3,491 | 2,359 |

of stock options and
restricted stock units

Weighted average shares for
diluted EPS

139,487

138,872

139,943

141,647

9

6. EARNINGS PER SHARE (continued)

For the three months ended October 31, 2007 and 2006, there were 342,000 and 6,099,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect. For the nine months ended October 31, 2007 and 2006, there were 392,000 and 4,706,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

7. COMMITMENTS AND CONTINGENCIES

In August 2007, the Company entered into a sale-leaseback arrangement for the land and building housing the TIFFANY & CO. Flagship store in Tokyo's Ginza shopping district. The Company is leasing back only that portion of the property that it occupied immediately prior to the transaction. In the third quarter of 2007, the Company received proceeds of \$327,537,000 (¥38,050,000,000) and the transaction resulted in a pre-tax gain of \$105,051,000 and a deferred gain of \$75,244,000, which will be amortized in selling, general and administrative (SG&A) expenses over a 15-year period. The pre-tax gain represents the profit on the sale of the property in excess of the present value of the minimum lease payments. The lease will be accounted for as an operating lease. The lease expires in 2032; however, the Company has options to terminate the lease in 2022 and 2027 without penalty.

In October 2007, the Company entered into a sale-leaseback arrangement for the building housing the TIFFANY & CO. Flagship store in London. The Company sold the building for proceeds of \$148,628,000 (£73,000,000) and simultaneously entered into a 15-year lease with two 10-year renewal options. The transaction resulted in a deferred gain of \$63,961,000, which will be amortized in SG&A expenses over a 15-year period. The lease will be accounted for as an operating lease.

The Company is party to a credit facility and working capital loan commitment (the Commitment) to Tahera Diamond Corporation (Tahera), a Canadian diamond mining and exploration company. In consideration of the Commitment, the Company was granted the right to purchase or market all diamonds mined at the Jericho mine. This mine has been developed and constructed by Tahera in Nunavut, Canada (the Project). Indebtedness under the Commitment is secured by certain assets of the Project. In September 2007, the Company amended the Commitment to defer the start of principal and interest payments until December 2007. As a result, the Company ceased recording interest income on the Commitment as of the third quarter 2007, since there is uncertainty as to the timing of collection. In September 2007, Tahera recorded an asset impairment charge against the assets of the Project. The estimated fair market value of the Project's assets (based on discounted cash flows) is greater than the amount outstanding under the Commitment and therefore, management believes that the CDN\$48,489,000 (U.S. \$50,859,000) receivable from Tahera is not impaired. However, future developments at the Project, including changes in the cost of supplies or in the realizable price of diamonds, may affect the fair value of the Project's assets and the collectibility of funds borrowed under the Commitment.

8. EMPLOYEE BENEFIT PLANS

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

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

| | Three Months Ended October 31, |
|------------------|--------------------------------|
| | Other |
| Pension Benefits | Postretirement Benefits |

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| (in thousands) | 2007 | 2006 | 2007 | 2006 |
|------------------------------------|----------|----------|--------|----------|
| Service cost | \$ 4,213 | \$ 4,211 | \$ 318 | \$ (4) |
| Interest cost | 4,003 | 3,208 | 470 | 191 |
| Expected return on plan assets | (3,418) | (2,886) | - | - |
| Amortization of prior service cost | 321 | 178 | (223) | (382) |
| Amortization of net loss | 848 | 817 | 9 | (75) |
| Net expense | \$ 5,967 | \$ 5,528 | \$ 574 | \$ (270) |

8. EMPLOYEE BENEFIT PLANS (continued)

| (in thousands) | Nine Months Ended October 31, | | | |
|------------------------------------|-------------------------------|-----------|-------------------------------|--------|
| | Pension Benefits | | Other Postretirement Benefits | |
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 13,373 | \$ 12,482 | \$ 953 | \$ 748 |
| Interest cost | 11,945 | 10,306 | 1,410 | 1,049 |
| Expected return on plan assets | (10,276) | (8,774) | - | - |
| Amortization of prior service cost | 962 | 534 | (670) | (968) |
| Amortization of net loss | 2,217 | 3,139 | 29 | 95 |
| Net expense | \$ 18,221 | \$ 17,687 | \$ 1,722 | \$ 924 |

9. SEGMENT INFORMATION

The Company's reportable segments are: U.S. Retail, International Retail and Direct Marketing. These reportable segments represent channels of distribution that offer similar merchandise and service and have similar marketing and distribution strategies. The Other channel of distribution includes all non-reportable segments which consist of worldwide sales of businesses operated under trademarks or tradenames other than TIFFANY & CO. Sales in the Other channel primarily represents wholesale sales of diamonds obtained through bulk purchases that are subsequently deemed not suitable for the Company's needs. In deciding how to allocate resources and assess performance, the Company's Executive Officers regularly evaluate the performance of its reportable segments on the basis of net sales and earnings from operations, after the elimination of inter-segment sales and transfers.

Reclassifications were made to the prior year's segment amounts to conform to the current year presentation and to reflect the revised manner in which management evaluates the performance of segments. Effective with the first quarter of 2007, the Company revised certain allocations of operating expenses between unallocated corporate expenses and earnings (losses) from continuing operations for segments.

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

| (in thousands) | Three Months Ended | | Nine Months Ended | |
|---------------------------|--------------------|------------|-------------------|--------------|
| | October 31, | | October 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Net sales: | | | | |
| U.S. Retail | \$ 302,673 | \$ 270,373 | \$ 946,692 | \$ 819,509 |
| International Retail | 270,845 | 221,681 | 777,875 | 659,998 |
| Direct Marketing | 31,373 | 30,308 | 104,772 | 96,007 |
| Total reportable segments | 604,891 | 522,362 | 1,829,339 | 1,575,514 |
| Other | 22,432 | 9,472 | 56,275 | 26,333 |
| | \$ 627,323 | \$ 531,834 | \$ 1,885,614 | \$ 1,601,847 |

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| | | | | |
|--|-----------|-----------|------------|------------|
| Earnings (losses) from continuing operations*: | | | | |
| U.S. Retail | \$ 35,974 | \$ 25,107 | \$ 144,189 | \$ 111,222 |
| International Retail | 54,909 | 49,654 | 177,092 | 154,874 |
| Direct Marketing | 4,616 | 3,439 | 26,251 | 20,705 |
| Total reportable segments | 95,499 | 78,200 | 347,532 | 286,801 |
| Other | (6,964) | (4,477) | (16,256) | (10,695) |
| | \$ 88,535 | \$ 73,723 | \$ 331,276 | \$ 276,106 |

*Represents earnings (losses) from continuing operations before unallocated corporate expenses, other operating income and other expenses, net.

9. SEGMENT INFORMATION (continued)

The following table sets forth a reconciliation of the segments' earnings from continuing operations to the Company's consolidated earnings from continuing operations before income taxes:

| (in thousands) | Three Months Ended October 31, | | Nine Months Ended October 31, | |
|---|-----------------------------------|-----------|----------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Earnings from continuing operations for segments | \$ 88,535 | \$ 73,723 | \$ 331,276 | \$ 276,106 |
| Unallocated corporate expenses | (39,801) | (26,068) | (94,261) | (76,640) |
| Other operating income | 105,051 | - | 105,051 | - |
| Other (expenses) income, net | (2,306) | 1,294 | (8,139) | (7,849) |
| Earnings from continuing operations before income taxes | \$ 151,479 | \$ 48,949 | \$ 333,927 | \$ 191,617 |

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 information technology, finance, legal and human resources. Unallocated corporate expenses in the third quarter and year-to-date 2007 include the \$10,000,000 contribution to The Tiffany & Co. Foundation, a private charitable foundation established by the Company. Other operating income includes the \$105,051,000 gain from the sale-leaseback of the land and building housing the TIFFANY & CO. Flagship store in Tokyo's Ginza shopping district.

10. SUBSEQUENT EVENT

On November 15, 2007, the Company's Board of Directors declared a quarterly dividend of \$0.15 per share on its Common Stock. This dividend will be paid on January 10, 2008 to stockholders of record on December 20, 2007.

PART I. Financial Information

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

OVERVIEW

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

The Company's channels of distribution are as follows:

U.S. Retail includes sales in TIFFANY & CO. stores in the U.S., as well as sales of TIFFANY & CO. products through business-to-business direct selling operations in the U.S.;

International Retail includes sales in TIFFANY & CO. stores and department store boutiques outside the U.S., as well as business-to-business, Internet and wholesale sales of TIFFANY & CO. products outside the U.S.;

Direct Marketing includes Internet and catalog sales of TIFFANY & CO. products in the U.S.; and

Other includes worldwide sales of businesses operated under trademarks or tradenames other than TIFFANY & CO. (specialty retail). Sales in the Other channel primarily represents wholesale sales of diamonds obtained through bulk purchases that are subsequently deemed not suitable for the Company's needs.

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

Highlights

Net sales increased 18% in both the three months (third quarter) and the nine months (year-to-date) ended October 31, 2007 due to growth in all channels of distribution.

Worldwide comparable store sales increased 9% in the third quarter and 10% in the year-to-date on a constant-exchange-rate basis (see Non-GAAP Measures). Comparable TIFFANY & CO. store sales in the U.S. increased 8% in the third quarter and 13% in the year-to-date. Comparable international store sales increased 10% in the third quarter and 7% in the year-to-date on a constant-exchange-rate basis.

Earnings from continuing operations rose to \$153,785,000 in the third quarter compared to \$47,655,000 in the prior year and to \$342,066,000 in the year-to-date compared to \$199,466,000 in the prior year. Current year earnings from continuing operations included a pre-tax gain of \$105,051,000 from the sale-leaseback of the land and building housing the TIFFANY & CO. Flagship store in Tokyo's Ginza shopping district. The Company received proceeds of \$327,537,000.

The Company sold the building housing its flagship store in London for proceeds of \$148,628,000 and simultaneously entered into a 15-year lease for the premises.

The Company completed the sale of Little Switzerland, Inc. (Little Switzerland) for net proceeds of \$32,870,000.

The Company repurchased and retired 1.9 million and 3.1 million shares of its Common Stock during the third quarter and year-to-date of 2007.

In August 2007, the Board of Directors increased the annual dividend rate by 25%, representing the second increase of the year.

The Company re-launched its website with enhanced graphics and functionality.

NON-GAAP MEASURES

The Company's reported sales reflect either a translation-related benefit from strengthening foreign currencies or a detriment from a strengthening U.S. dollar.

The Company reports information in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Internally, management monitors its international sales performance on a non-GAAP basis that eliminates the

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positive or negative effects that result from translating international sales into U.S. dollars (constant-exchange-rate basis). Management believes this constant-exchange-rate measure provides a more representative assessment of the sales performance and provides better comparability between reporting periods.

The Company s management does not, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. The Company presents such non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate the Company s operating results. The following table reconciles sales percentage increases (decreases) from the GAAP to the non-GAAP basis:

| | Third Quarter 2007 vs. 2006 | | | Year-to-Date 2007 vs. 2006 | | |
|---------------------------------------|-----------------------------|---------------------|------------------------------|----------------------------|---------------------|------------------------------|
| | GAAP Reported | Trans-lation Effect | Constant-Exchange-Rate Basis | GAAP Reported | Trans-lation Effect | Constant-Exchange-Rate Basis |
| <u>Net Sales:</u> | | | | | | |
| Worldwide | 18% | 2% | 16% | 18% | 1% | 17% |
| U.S. Retail | 12% | - | 12% | 16% | - | 16% |
| International Retail | 22% | 4% | 18% | 18% | 2% | 16% |
| Japan Retail | 7% | 1% | 6% | (1)% | (2)% | 1% |
| Other Asia-Pacific | 38% | 5% | 33% | 38% | 4% | 34% |
| Europe | 29% | 9% | 20% | 33% | 10% | 23% |
| <u>Comparable Store Sales:</u> | | | | | | |
| Worldwide | 11% | 2% | 9% | 11% | 1% | 10% |
| U.S. Retail | 8% | - | 8% | 13% | - | 13% |
| International Retail | 14% | 4% | 10% | 9% | 2% | 7% |
| Japan Retail | 1% | 2% | (1)% | (7)% | (3)% | (4)% |
| Other Asia-Pacific | 34% | 5% | 29% | 29% | 3% | 26% |
| Europe | 23% | 9% | 14% | 26% | 10% | 16% |

RESULTS OF OPERATIONS

Certain operating data as a percentage of net sales were as follows:

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| | Third Quarter | | Year-to-Date | |
|---|---------------|--------|--------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 46.3 | 46.0 | 45.3 | 44.5 |
| Gross profit | 53.7 | 54.0 | 54.7 | 55.5 |
| Other operating income | 16.8 | - | 5.6 | - |
| Selling, general and administrative expenses | 46.0 | 45.1 | 42.1 | 43.0 |
| Earnings from continuing operations | 24.5 | 8.9 | 18.2 | 12.5 |
| Other expenses (income), net | 0.4 | (0.3) | 0.5 | 0.5 |
| Earnings from continuing operations before income taxes | 24.1 | 9.2 | 17.7 | 12.0 |
| Provision for income taxes | 8.1 | 3.1 | 6.4 | 4.5 |
| Net earnings from continuing operations | 16.0 | 6.1 | 11.3 | 7.5 |
| Loss from discontinued operations, net of tax | (0.2) | (0.6) | (1.5) | (0.4) |
| Net earnings | 15.8% | 5.5% | 9.8% | 7.1% |

Net Sales

Net sales by channel of distribution were as follows:

| (in thousands) | | 2007 | Third Quarter | 2006 | Increase |
|----------------------|----|-----------|---------------|-----------|----------|
| U.S. Retail | \$ | 302,673 | \$ | 270,373 | 12% |
| International Retail | | 270,845 | | 221,681 | 22% |
| Direct Marketing | | 31,373 | | 30,308 | 4% |
| Other | | 22,432 | | 9,472 | 137% |
| | \$ | 627,323 | \$ | 531,834 | 18% |
| (in thousands) | | 2007 | Year-to-Date | 2006 | Increase |
| U.S. Retail | \$ | 946,692 | \$ | 819,509 | 16% |
| International Retail | | 777,875 | | 659,998 | 18% |
| Direct Marketing | | 104,772 | | 96,007 | 9% |
| Other | | 56,275 | | 26,333 | 114% |
| | \$ | 1,885,614 | \$ | 1,601,847 | 18% |

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

U.S. Retail sales increased 12% in the third quarter and 16% in the year-to-date as a result of comparable store sales growth of 8% and 13% in those periods and the opening of new stores. Overall sales growth resulted from increases in transactions and in spending per transaction. In the third quarter and year-to-date, the New York Flagship store's sales increased 25% and 28%, and comparable branch store sales increased 4% and 9%. The New York Flagship store benefited from higher levels of sales to local customers and foreign visitors. Management currently expects a 9% to 10% increase in full year 2007 U.S. comparable store sales.

International Retail sales, on a constant-exchange-rate basis, increased 18% in the third quarter and 16% in the year-to-date. Comparable store sales rose 10% and 7% for those periods.

In Japan (which represents slightly less than half of International Retail sales), on a constant-exchange-rate basis, total retail sales increased 6% in the third quarter and 1% in the year-to-date due to an increase in the average transaction size partly offset by a decrease in unit volume. Comparable store sales on a constant-exchange-rate basis declined 1%

in the third quarter and 4% in the year-to-date. The Company will continue to expand and further develop relationships with key customers, introduce new products to the market (particularly silver jewelry) and enhance retail locations through renovation, expansion and relocation.

In the Asia-Pacific region outside Japan, comparable store sales on a constant-exchange-rate basis increased 29% in the third quarter and 26% in the year-to-date due to growth in all markets.

In Europe, comparable store sales on a constant-exchange-rate basis increased 14% in the third quarter and 16% in the year-to-date due to growth in London (which represents more than half of Europe's sales) and most Continental European markets.

Management continues to expect a high single-digit percentage increase on a constant-exchange-rate basis in full year 2007 International Retail comparable store sales.

Direct Marketing sales rose 4% in the third quarter due to growth in the average order size and 9% in the year-to-date due to growth both in the number of orders shipped and in the average order size. Management currently expects a 10% increase in full year 2007 sales.

Other sales increased in the third quarter and in the year-to-date primarily due to increased wholesale sales of diamonds, which increased from \$7,555,000 in the prior year third quarter to \$20,022,000 in the third quarter of 2007 and increased from \$21,482,000 in prior year-to-date to \$49,296,000 in the year-to-date of 2007. Management currently expects an approximately 50% increase in full year 2007 sales.

Management expects to increase the number of Company-operated TIFFANY & CO. stores and boutiques by 11% (net) in 2007. Management's announced openings and closings of TIFFANY & CO. stores are shown below:

| <u>Location</u> | <u>Actual Openings (Closings) 2007</u> | <u>Expected Openings (Closings) 2007</u> |
|--------------------------------|--|--|
| <u>Americas:</u> | | |
| Austin, Texas | First Quarter | |
| Natick, Massachusetts | Third Quarter | |
| Las Vegas-Forum Shops, Nevada | Third Quarter | |
| New York-Wall Street, New York | Third Quarter | |
| Santa Barbara, California | | Fourth Quarter |
| Red Bank, New Jersey | | Fourth Quarter |
| Providence, Rhode Island | | Fourth Quarter |
| Maui-Whaler's Village, Hawaii | | (Fourth Quarter) |
| Mexico City, Mexico | Third Quarter | |
| <u>Japan:</u> | | |
| Tokyo-Shibuya, Japan | First Quarter | |
| Tokyo-Shinjuku, Japan | First Quarter | |
| Hiroshima, Japan | First Quarter | |
| Hoshigaoka, Japan | (First Quarter) | |
| Okinawa, Japan | (First Quarter) | |
| Nagoya, Japan | Third Quarter | |
| <u>Other Asia-Pacific:</u> | | |
| Changi Airport, Singapore | First Quarter | |
| Seoul, Korea | First Quarter | |
| Kuala Lumpur, Malaysia | Third Quarter | |
| Kowloon Station, Hong Kong | Third Quarter | |
| Macau, China | Third Quarter | |
| Tianjin, China | | Fourth Quarter |
| <u>Europe:</u> | | |
| Hamburg, Germany | Second Quarter | |
| London-Selfridges, England | Third Quarter | |
| Bologna, Italy | | Fourth Quarter |
| <u>Gross Margin</u> | | |

Gross margin (gross profit as a percentage of net sales) declined in the third quarter by 0.3 percentage point. The primary component of the net decline was a 1.2 percentage points decline due to increased low-margin wholesale sales of diamonds partly offset by (i) a 0.5 percentage point increase due to selective price increases and changes in sales mix and (ii) a 0.4 percentage point increase due to the leverage effect of fixed product-related costs. Product-related costs include merchandising and distribution costs. Gross margin declined in the year-to-date by 0.8 percentage point primarily due to increased low-margin wholesale sales of diamonds.

Management's objective is to improve gross margin through greater product manufacturing/sourcing efficiencies (including increased direct rough-diamond sourcing and internal manufacturing), increased use of distribution center capacity, and selective price adjustments to address higher product costs. Management currently expects gross margin to decline a few tenths of a point in full year 2007.

Other Operating Income

In August 2007, the Company entered into a sale-leaseback arrangement for the land and building housing the TIFFANY & CO. Flagship store in Tokyo's Ginza shopping district. The Company is leasing back only that portion of the property that it occupied immediately prior to the transaction. The transaction resulted in a pre-tax gain of \$105,051,000 and a deferred gain of \$75,244,000, which will be amortized in selling, general and administrative expenses over a 15-year period.

The pre-tax gain represents the profit on the sale of the property in excess of the present value of the minimum lease payments. The lease will be accounted for as an operating lease.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased \$48,707,000, or 20%, in the third quarter. The Company used proceeds from the sale-leaseback of the land and building housing the TIFFANY & CO. Flagship store in Tokyo's Ginza shopping district to contribute \$10,000,000 to The Tiffany & Co. Foundation, a private charitable foundation established by the Company. Excluding the contribution, SG&A expenses increased \$38,707,000, or 16%, primarily due to increased labor and benefit costs of \$10,410,000 and increased depreciation and store occupancy expenses of \$11,760,000, (both of which are largely due to new and existing stores), as well as an increase of \$6,544,000 in marketing expenses. SG&A expenses in the year-to-date increased \$104,108,000, or 15%. Excluding the previously mentioned contribution, SG&A expenses in the year-to-date increased \$94,108,000, or 14%, largely due to increased labor and benefit costs of \$32,168,000 and increased depreciation and store occupancy expenses of \$27,044,000, (both of which are largely due to new and existing stores), as well as an increase of \$14,382,000 in marketing expenses. SG&A expenses as a percentage of net sales increased by 0.9 percentage point to 46.0% in the third quarter and improved by 0.9 percentage point to 42.1% in the year-to-date of 2007. Excluding the previously mentioned contribution, SG&A expenses as a percentage of net sales improved 0.7 percentage point to 44.4% in the third quarter and by 1.4 percentage points to 41.6% in the year-to-date. Strong sales growth in the third quarter and year-to-date provided for significant leveraging of fixed costs.

Management's objective is to improve the ratio of SG&A expenses to net sales by controlling expenses so that sales growth can result in a higher rate of earnings growth (leveraging of operating expenses). Management continues to expect an improvement in the expense ratio for the full year 2007.

Earnings from Continuing Operations

Reclassifications were made to prior year's earnings (losses) from continuing operations by segment to conform to the current year presentation and to reflect the revised manner in which management now evaluates the performance of the segments. Effective with the first quarter of 2007, the Company revised certain allocations of operating expenses between unallocated corporate expenses and earnings (losses) from continuing operations for segments.

| (in thousands) | Third Quarter 2007 | % of Net Sales* | Third Quarter 2006 | % of Net Sales* |
|---|-----------------------|--------------------|-----------------------|--------------------|
| Earnings (losses) from continuing operations: | | | | |
| U.S. Retail | \$ 35,974 | 12% | \$ 25,107 | 9% |
| International Retail | 54,909 | 20% | 49,654 | 22% |
| Direct Marketing | 4,616 | 15% | 3,439 | 11% |
| Other | (6,964) | (31%) | (4,477) | (47%) |
| | 88,535 | | 73,723 | |
| Unallocated corporate expenses | (39,801) | | (26,068) | |
| Other operating income | 105,051 | | - | |
| Earnings from continuing operations | \$ 153,785 | | \$ 47,655 | |

* Percentages represent earnings (losses) from continuing operations as a percentage of each segment's net sales. Earnings from continuing operations rose to \$153,785,000 in the third quarter. On a segment basis, the ratio of earnings (losses) from continuing operations (before the effect of unallocated corporate expenses, other operating income and other expenses, net) to each segment's net sales in the third quarter of 2007 and 2006 was as follows:

U.S. Retail increased 3 percentage points primarily due to an increase in gross margin (due to selective price increases and changes in sales mix) and the leveraging of operating expenses;

International Retail decreased 2 percentage points primarily due to increased operating expenses in Japan (due to increased marketing activity and new stores) which was partly offset by strong sales growth and profitability in most other markets ;

Direct Marketing increased 4 percentage points primarily due to the leveraging of operating expenses; and

Other improved 16 percentage points primarily due to sales leverage on fixed costs.

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| (in thousands) | Year-to-Date 2007 | % of Sales* | Year-to-Date 2006 | % of Sales* |
|---|----------------------|----------------|----------------------|----------------|
| Earnings (losses) from continuing operations: | | | | |
| U.S. Retail | \$ 144,189 | 15% | \$ 111,222 | 14% |
| International Retail | 177,092 | 23% | 154,874 | 23% |
| Direct Marketing | 26,251 | 25% | 20,705 | 22% |
| Other | (16,256) | (29%) | (10,695) | (41%) |
| | 331,276 | | 276,106 | |
| Unallocated corporate expenses | (94,261) | | (76,640) | |
| Other operating income | 105,051 | | - | |
| Earnings from continuing operations | \$ 342,066 | | \$ 199,466 | |

* Percentages represent earnings (losses) from continuing operations as a percentage of each segment's net sales. Earnings from continuing operations rose to \$342,066,000 in the year-to-date. On a segment basis, the ratio of earnings (losses) from continuing operations (before the effect of unallocated corporate expenses, other operating income and other expenses, net) to each segment's net sales in the year-to-date of 2007 and 2006 was as follows:

U.S. Retail increased 1 percentage point primarily due to the leveraging of operating expenses;

International Retail was consistent with prior year primarily due to increased operating expenses in Japan (due to increased marketing activity and new stores) which was offset by strong sales growth and profitability in most other markets;

Direct Marketing increased 3 percentage points primarily due to the leveraging of operating expenses and an increase in gross margin (due to the leverage effect of fixed product-related costs); and

Other improved 12 percentage points primarily due to sales leverage on fixed costs.

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 information technology, finance, legal and human resources. Unallocated corporate expenses in the third quarter and year-to-date 2007 include the \$10,000,000 contribution to The Tiffany & Co. Foundation. Excluding the contribution, unallocated corporate expenses as a percentage of net sales was consistent with the third quarter and year-to-date 2006. Other operating income includes the \$105,051,000 gain from the sale-leaseback of the land and building housing the TIFFANY & CO. Flagship store in Tokyo's Ginza shopping district.

Other Expenses, net

Other expenses, net of \$2,306,000 in the third quarter 2007 compared to income of \$1,294,000 in the prior year. The prior year included gains of \$5,185,000 associated with the sale of equity investments in an on-line retailer and a manufacturer that were written-off in previous years and \$1,589,000 of realized gains associated with the sale of

marketable securities.

Provision for Income Taxes

The effective income tax rates for the third quarter and year-to-date of 2007 were 33.7% and 36.2%, versus 33.3% and 36.9% in the prior year. Management continues to expect the effective tax rate to be approximately 37% for full year 2007.

Loss from discontinued operations, net of tax

The loss from discontinued operations, net of tax included an after-tax impairment charge of \$22,602,000 due to the sale of Little Switzerland, Inc. See note 3 to condensed consolidated financial statements for additional information.

New Accounting Standards

See note 2 to condensed consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity needs have been, and are expected to remain, primarily a function of its seasonal and expansion-related working capital and capital expenditures needs. The ratio of total debt (short-term borrowings, current portion of long-term debt and long-term debt) to stockholders' equity was 24% at October 31, 2007, 29% at January 31, 2007, and 39% at October 31, 2006.

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

| (in thousands) | Year-to-Date | |
|---|--------------|--------------|
| | 2007 | 2006 |
| Net cash provided by (used in): | | |
| Operating activities | \$ 36,849 | \$ (72,441) |
| Investing activities | 315,748 | (143,411) |
| Financing activities | (202,539) | (105,465) |
| Effect of exchange rates on cash and cash equivalents | 15,905 | 2,276 |
| Net cash used in discontinued operations | (7,616) | (16,385) |
| Net increase (decrease) in cash and cash equivalents | \$ 158,347 | \$ (335,426) |

Operating Activities

The Company's net cash inflow from operating activities of \$36,849,000 in the year-to-date of 2007 compared with an outflow of \$72,441,000 in the year-to-date of 2006. The cash inflow in the year-to-date of 2007 resulted primarily from increased income taxes payable largely associated with the gain on the sale-leaseback for the land and building housing the TIFFANY & CO. Flagship store in Tokyo's Ginza shopping district and smaller growth in inventories.

Working Capital. Working capital (current assets less current liabilities) and the corresponding current ratio (current assets divided by current liabilities) were \$1,629,705,000 and 4.8 at October 31, 2007, compared with \$1,253,973,000 and 3.8 at January 31, 2007 and \$1,131,863,000 and 3.1 at October 31, 2006.

Accounts receivable, less allowances at October 31, 2007 were 2% higher than at January 31, 2007 and were 14% higher than at October 31, 2006. The year-over-year change is primarily due to sales growth and a shift in usage towards the company's in house credit card.

Inventories, net at October 31, 2007 were 17% above January 31, 2007 and 8% above October 31, 2006. Combined raw material and work-in-process inventories increased 11% over January 31, 2007 and 13% over October 31, 2006 due to increased precious metal costs and diamond quantities needed to support internal jewelry manufacturing. Finished goods inventories increased 20% over January 31, 2007, and 6% over October 31, 2006, reflecting new store openings, increased product costs as well as broadened product assortments. Changes in foreign currency exchange rates increased inventories, net by 3% compared to January 31, 2007 and by 2% compared to October 31, 2006.

Management continues to expect a high-single-digit percentage increase in inventories, net in 2007.

Investing Activities

The Company's net cash inflow from investing activities of \$315,748,000 in the year-to-date of 2007 compared with an outflow of \$143,411,000 in the year-to-date of 2006. The inflow was primarily due to proceeds from the sale of assets in 2007.

Proceeds from Sale of Assets. In August 2007, the Company entered into a sale-leaseback arrangement for the land and building housing the TIFFANY & CO. Flagship store in Tokyo's Ginza shopping district. In the third quarter of 2007, the Company received proceeds of \$327,537,000 (¥38,050,000,000).

In September 2007, the Company completed the sale of Little Switzerland for net proceeds of \$32,870,000.

In October 2007, the Company entered into a sale-leaseback arrangement for the building housing the TIFFANY & CO. Flagship store in London. The Company sold the building for proceeds of \$148,628,000 (£73,000,000) and simultaneously entered into a 15-year lease with two 10-year renewal options. The transaction resulted in a deferred gain of \$63,961,000, which will be amortized in SG&A expenses over a 15-year period. The lease will be accounted

for as an operating lease.

Capital Expenditures. Capital expenditures were \$149,325,000 in the year-to-date of 2007 compared with \$138,021,000 in the year-to-date of 2006. Management estimates that capital expenditures will be approximately \$180,000,000 in 2007 (compared with approximately \$175,000,000 in the prior year) due to costs related to the opening and renovation of stores and to ongoing investments in new systems.

Marketable Securities. The Company invests excess cash in short-term investments and marketable securities. The Company had (net purchases of) or net proceeds from investments in marketable securities and short-term investments of (\$42,523,000) and \$3,010,000 in the year-to-date of 2007 and 2006.

Financing Activities

The Company's net cash outflow from financing activities of \$202,539,000 in the year-to-date of 2007 compared with an outflow of \$105,465,000 in the year-to-date of 2006. The increased cash outflow was primarily due to a reduction in short-term borrowings in 2007, partly offset by reduced share repurchases as well as greater proceeds from the exercise of employees' stock options.

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

| (in thousands, except per share amounts) | Third Quarter | |
|--|---------------|------------|
| | 2007 | 2006 |
| Cost of repurchases | \$ 97,037 | \$ 100,525 |
| Shares repurchased and retired | 1,892 | 3,008 |
| Average cost per share | \$ 51.28 | \$ 33.42 |

| (in thousands, except per share amounts) | Year-to-Date | |
|--|--------------|------------|
| | 2007 | 2006 |
| Cost of repurchases | \$ 156,234 | \$ 264,115 |
| Shares repurchased and retired | 3,075 | 7,713 |
| Average cost per share | \$ 50.82 | \$ 34.24 |

At October 31, 2007, there remained \$539,180,000 of authorization for future repurchases. The Company's stock repurchase program expires in December 2009. The timing of repurchases and the actual number of shares to be repurchased depend on a variety of discretionary factors such as price and other market conditions.

Borrowings. The Company's current sources of working capital are internally-generated cash flows and borrowings available under a revolving credit facility.

At October 31, 2007, the Company was in compliance with all loan covenants.

Contractual Obligations

The Company's contractual cash obligations and commercial commitments at October 31, 2007 and the effects such obligations and commitments are expected to have on the Company's liquidity and cash flows in future periods have not significantly changed since January 31, 2007, except for operating lease payments. As a result of the sale-leaseback of the TIFFANY & CO. Flagship store in Tokyo's Ginza shopping district and the building housing the TIFFANY & CO. Flagship store in London, the Company's total minimum annual rental payments will increase approximately \$11,000,000 per year for the next 15 years. Rental expense will be offset by the amortization of the deferred gains from the sale-leasebacks.

The Company is party to a credit facility and working capital loan commitment (the Commitment) to Tahera Diamond Corporation (Tahera), a Canadian diamond mining and exploration company. In consideration of the Commitment, the Company was granted the right to purchase or market all diamonds mined at the Jericho mine. This mine has been developed and constructed by Tahera in Nunavut, Canada (the Project). Indebtedness under the Commitment is secured by certain assets of the Project. In September 2007, the Company amended the Commitment to defer the start of principal and interest payments until December 2007. As a result, the Company ceased recording interest income on the Commitment as of the third quarter 2007, since there is uncertainty as to the timing of collection. In September 2007, Tahera recorded an asset impairment charge against the assets of the Project. The estimated fair

market value of the Project's assets (based on discounted cash flows) is greater than the amount outstanding under the Commitment and therefore, management believes that the CDN\$48,489,000 (U.S. \$50,859,000) receivable from Tahera is not impaired. However, future developments at the Project, including

changes in the cost of supplies or in the realizable price of diamonds, may affect the fair value of the Project's assets and the collectibility of funds borrowed under the Commitment.

The Company adopted the provisions of Financial Accounting Standards Board Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 on February 1, 2007.

During the nine months ended October 31, 2007, the unrecognized tax benefits were reduced by approximately \$5,000,000 to approximately \$35,000,000. Accrued interest and penalties during the nine months ended October 31, 2007 was reduced by approximately \$5,500,000 to approximately \$2,500,000. The final outcome of tax uncertainties is dependent upon various matters including tax examinations, interpretation of the applicable tax law or expiration of statutes of limitations. The Company believes that its tax positions comply with applicable tax law and that it has adequately provided for these matters. However, the audits may result in proposed assessments where the ultimate resolution may result in the Company owing additional taxes. Ongoing audits are in various stages of completion and while the Company does not anticipate any material changes in unrecognized income tax benefits over the next 12 months, future developments in the audit process may result in a change in this assessment.

Based on the Company's financial position at October 31, 2007, management anticipates that cash on hand, internally-generated cash flows and the funds available under its revolving credit facility will be sufficient to support the Company's planned worldwide business expansion, share repurchases, debt service and seasonal working capital increases for the foreseeable future.

Seasonality

As a jeweler and specialty retailer, the Company's business is seasonal in nature, with the fourth quarter typically representing a proportionally greater percentage of annual sales, earnings from operations and cash flow. Management expects such seasonality to continue.

Forward-Looking Statements

This document contains certain forward-looking statements concerning the Company's objectives and expectations with respect to store openings, sales, retail prices, gross margin, expenses, inventory performance, capital expenditures and cash flow. In addition, management makes other forward-looking statements from time to time concerning objectives and expectations. Statements beginning with such words as "believes", "intends", "plans", and "expects" include forward-looking statements that are based on management's expectations given facts as currently known by management on the date this quarterly report was filed with the Securities and Exchange Commission. All forward-looking statements involve risks, uncertainties and assumptions that, if they never materialize or prove incorrect, could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

The statements in this quarterly report are made as of the date this report was filed with the Securities and Exchange Commission and the Company undertakes no obligation to update any of the forward-looking information included in this document, whether as a result of new information, future events, changes in expectations or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

PART Financial Information

I.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

In Japan, the Company uses yen put options to minimize the effect of a weakening yen on U.S. dollar-denominated transactions. To a lesser extent, the Company uses foreign-exchange forward contracts to protect against changes in local currencies. Gains or losses on these instruments substantially offset losses or gains on the assets, liabilities and transactions being hedged. Management neither foresees nor expects significant changes in foreign currency exposure in the near future.

The Company uses interest-rate swap contracts related to certain debt arrangements to manage its net exposure to interest rate changes. The interest-rate swap contracts effectively convert fixed-rate obligations to floating-rate instruments. Additionally, since the fair value of the Company's fixed-rate long-term debt is sensitive to interest rate changes, the interest-rate swap contracts serve as a hedge to changes in the fair value of these debt instruments. Management does not expect significant changes in exposure to interest rate fluctuations, nor in market risk-management practices.

Beginning in the first quarter of 2007, the Company began using a combination of call and put option contracts in a net-zero cost collar arrangement (collars), as hedges of forecasted purchases of precious metals. The Company accounts for its collars as cash-flow hedges. The Company assesses hedge effectiveness based on the total changes in the collars' cash flows. The effective portion of unrealized gains and losses associated with the value of the collars is deferred as a component of other comprehensive gain (loss) and is recognized as a component of cost of sales on the Company's condensed consolidated statement of earnings when the inventory is sold. The fair value of the outstanding collars at October 31, 2007 was not significant. The fair value was determined using quoted market prices for these instruments. Management neither foresees nor expects significant changes in exposure to fluctuations in precious metal prices.

Item 4. Controls and Procedures

PART Financial Information

I.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

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

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

PART II. Other Information

Item 1A. Risk Factors

PART II. Other Information

II.

Item 1A. Risk Factors

As a jeweler and specialty retailer, the Company's success in achieving its objectives and expectations is partially dependent upon economic conditions, competitive developments and consumer attitudes, including changes in consumer preferences for certain jewelry styles and materials. However, certain assumptions are specific to the Company and/or the markets in which it operates.

The following assumptions, among others, are risk factors which could affect the likelihood that the Company will achieve the objectives and expectations communicated by management:

- (i) that low or negative growth in the economy or in the financial markets, particularly in the U.S. and Japan, will not occur and reduce discretionary spending on goods that are, or are perceived to be, luxuries;
- (ii) that consumer spending does not decline substantially during the fourth quarter of any year;
- (iii) that unsettled regional and/or global conflicts or crises do not result in military, terrorist or other conditions creating disruptions or disincentives to, or changes in the pattern, practice or frequency of, tourist travel to the various regions where the Company operates retail stores nor to the Company's continuing ability to operate in those regions;
- (iv) that sales in Japan will not decline substantially;
- (v) that there will not be a substantial adverse change in the exchange relationship between the Japanese yen and the U.S. dollar;
- (vi) that Mitsukoshi and other department store operators in Japan, in the face of declining or stagnant department store sales, will not close or consolidate stores which have TIFFANY & CO. retail locations;
- (vii) that Mitsukoshi will continue as a leading department store operator in Japan;
- (viii) that existing product supply arrangements, including license arrangements with third-party designers Elsa Peretti and Paloma Picasso, will continue;
- (ix) that the wholesale and retail market for high-quality rough and cut diamonds will provide continuity of supply and pricing within the quality grades, colors and sizes that customers demand;
- (x) that the Company's diamond supply initiatives achieve their financial and strategic objectives;
- (xi) that the Company's gross margins in Japan and for diamond products can be maintained in the face of increased competition from traditional and e-commerce retailers;
- (xii) that the Company is able to pass on higher costs of raw materials to consumers through price increases;
- (xiii) that the sale of counterfeit products does not significantly undermine the value of the Company's trademarks and demand for the Company's products;
- (xiv) that new and existing stores and other sales locations can be leased, re-leased or otherwise obtained on suitable terms in desired markets and that construction can be completed on a timely basis;
- (xv) that the Company can achieve satisfactory results from any current and future businesses into which it enters that are operated under trademarks or tradenames other than TIFFANY & CO.; and
- (xvi) that the Company's expansion plans for retail and direct selling operations and merchandise development, production and management can continue to be executed without meaningfully diminishing the distinctive appeal of the TIFFANY & CO. brand.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**PART Other Information****II.****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

This table provides information with respect to the Company's purchases of shares of its Common Stock during the third fiscal quarter of 2007:

| Period | (a)Total Number of Shares Purchased | (b)Average Price Paid Per Share | (c)Total Number of Shares Purchased Under all Publicly Announced Programs* | (d)Approximate Dollar Value of Shares that May Yet be Purchased Under the Programs* |
|---|--|--|---|---|
| August 1, 2007 through August 31, 2007 | 395,100 | \$45.45 | 395,100 | \$618,260,000 |
| September 1, 2007 through September 30, 2007 | 585,800 | \$50.33 | 585,800 | \$588,776,000 |
| October 1, 2007 through October 31, 2007 | 911,390 | \$54.42 | 911,390 | \$539,180,000 |
| Total | 1,892,290 | \$51.28 | 1,892,290 | \$539,180,000 |

* In August 2006, the Company's Board of Directors extended the expiration date of the program to December 2009 and increased the authorization to \$813,000,000.

ITEM 6 Exhibits

ITEM Exhibits
6

(a) Exhibits:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

TIFFANY & CO.
(Registrant)

Date: November 30, 2007

By: /s/ James N. Fernandez

James N. Fernandez
Executive Vice President
and
Chief Financial Officer
(principal financial officer)

Exhibit Index

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