TIFFANY & CO
Form 10-Q
November 29, 2012
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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 October 31, 2012

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	**(I.R.S. Employer**
incorporation)	**Identification No.)**
727 Fifth Ave. 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, 126,774,061 shares outstanding at the close of business on October 31, 2012.

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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, 2012	January 31, 2012	October 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	$ 344,512	$ 433,954	$ 279,111
Short-term investments	1,362	8,236	18,253
Accounts receivable, less allowances of $8,796, $11,772 and $11,546	160,604	184,085	170,181
Inventories, net	2,289,571	2,073,212	2,065,466
Deferred income taxes	106,744	83,124	93,790
Prepaid expenses and other current assets	180,013	107,064	117,706
Total current assets	3,082,806	2,889,675	2,744,507
Property, plant and equipment, net	800,225	767,174	752,151
Deferred income taxes	269,546	271,156	171,986
Other assets, net	297,418	230,987	229,640
	$ 4,449,995	$ 4,158,992	$ 3,898,284
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Short-term borrowings	$ 196,279	$ 112,973	$ 107,830
Current portion of long-term debt		60,822	61,247
Accounts payable and accrued liabilities	284,189	328,962	287,012
Income taxes payable	17,958	60,977	1,459
Merchandise and other customer credits	65,996	62,943	64,360
Total current liabilities	564,422	626,677	521,908
Long-term debt	781,637	538,352	539,703
Pension/postretirement benefit obligations	322,033	338,564	212,268
Deferred gains on sale-leasebacks	108,962	119,692	124,047
Other long-term liabilities	205,720	186,802	187,635
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 126,774, 126,676 and 127,027	1,267	1,267	1,270
Additional paid-in capital	1,010,418	970,215	957,915
Retained earnings	1,532,358	1,462,553	1,352,852
Accumulated other comprehensive (loss) gain, net of tax	(89,320)	(85,130)	686

Total Tiffany & Co. stockholders equity	2,454,723	2,348,905	2,312,723
Non-controlling interest	12,498		
Total stockholders equity	2,467,221	2,348,905	2,312,723
	$ 4,449,995	$ 4,158,992	$ 3,898,284

See notes to condensed consolidated financial statements.

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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,	
	2012	2011	2012	2011
Net sales	$ 852,741	$ 821,767	$ 2,558,480	$ 2,455,497
Cost of sales	388,452	345,918	1,126,011	1,021,258
Gross profit	464,289	475,849	1,432,469	1,434,239
Selling, general and administrative expenses	346,994	329,672	1,025,609	1,011,556
Earnings from operations	117,295	146,177	406,860	422,683
Interest and other expenses, net	14,783	10,393	39,587	30,159
Earnings from operations before income taxes	102,512	135,784	367,273	392,524
Provision for income taxes	39,333	46,095	130,759	131,729
Net earnings	$ 63,179	$ 89,689	$ 236,514	$ 260,795
Earnings per share:				
Basic	$ 0.50	$ 0.71	$ 1.87	$ 2.04
Diluted	$ 0.49	$ 0.70	$ 1.85	$ 2.02
Weighted-average number of common shares:				
Basic	126,737	127,210	126,697	127,614
Diluted	127,902	128,812	127,914	129,329

See notes to condensed consolidated financial statements.

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TIFFANY & CO. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(Unaudited)

(*in thousands*)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2012	2011	2012	2011
Net earnings	$ 63,179	$ 89,689	$ 236,514	$ 260,795
Foreign currency translation adjustments	15,029	(13,413)	(6,324)	21,603
Unrealized gain (loss) on marketable securities	989	(1,177)	2,091	(702)
Less: reclassification adjustment for loss included in net earnings	6	2	6	55
Unrealized gain (loss) on marketable securities	995	(1,175)	2,097	(647)
Unrealized gain (loss) on hedging instruments	5,658	(11,716)	(24,713)	(19,862)
Less: reclassification adjustments for loss included in net earnings	3,141	1,696	10,904	2,666
Unrealized gain (loss) on hedging instruments	8,799	(10,020)	(13,809)	(17,196)
Amortization of net loss	3,956	2,497	11,949	5,083
Amortization of prior service cost	89	101	267	304
Net unrealized gain on benefit plans	4,045	2,598	12,216	5,387
Other comprehensive earnings (loss), before tax	28,868	(22,010)	(5,820)	9,147
Income tax (expense) benefit related to items of other comprehensive earnings (loss)	(4,886)	1,847	1,630	4,104
Other comprehensive earnings (loss), net of tax	23,982	(20,163)	(4,190)	13,251
Comprehensive earnings	$ 87,161	$ 69,526	$ 232,324	$ 274,046

See notes to condensed consolidated financial statements.

TIFFANY & CO. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Unaudited)

(*in thousands*)

	Total Stockholders Equity	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock		Additional Paid-In Capital	Non-controlling Interests
				Shares	Amount		
Balances, January 31, 2012	$ 2,348,905	$ 1,462,553	$ (85,130)	126,676	$ 1,267	$ 970,215	$
Exercise of stock options and vesting of restricted stock units (RSUs)	8,751			866	8	8,743	
Tax effect of exercise of stock options and vesting of RSUs	10,805					10,805	
Share-based compensation expense	22,829					22,829	
Issuance of Common Stock under the Employee Profit Sharing and Retirement Savings Plan	3,150			45		3,150	
Purchase and retirement of Common Stock	(54,107)	(48,775)		(813)	(8)	(5,324)	
Cash dividends on Common Stock	(117,934)	(117,934)					
Other comprehensive loss, net of tax	(4,190)		(4,190)				
Net earnings attributable to Tiffany & Co.	236,514	236,514					
Non-controlling interests	12,498						12,498
Balances, October 31, 2012	$ 2,467,221	$ 1,532,358	$ (89,320)	126,774	$ 1,267	$ 1,010,418	$ 12,498

See notes to condensed consolidated financial statements.

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TIFFANY & CO. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Nine Months Ended October 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 236,514	$ 260,795
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	120,158	103,439
Lease exit charge		30,884
Amortization of gain on sale-leasebacks	(8,181)	(8,210)
Excess tax benefits from share-based payment arrangements	(10,847)	(17,621)
Provision for inventories	28,346	24,589
Deferred income taxes	(24,389)	(18,765)
Provision for pension/postretirement benefits	34,486	24,883
Share-based compensation expense	22,618	22,888
Changes in assets and liabilities:		
Accounts receivable	20,351	20,288
Inventories	(250,222)	(433,750)
Prepaid expenses and other current assets	(16,319)	(17,264)
Accounts payable and accrued liabilities	(31,009)	(5,459)
Income taxes payable	(61,936)	(29,009)
Merchandise and other customer credits	(406)	(1,895)
Other, net	(38,029)	(12,947)
Net cash provided by (used in) operating activities	21,135	(57,154)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments	(13,164)	(34,034)
Proceeds from sale of marketable securities and short-term investments	19,289	79,399
Capital expenditures	(157,264)	(182,044)
Notes receivable funded	(1,000)	(56,605)
Investment in leasehold rights	(35,605)	
Payment for acquisition	(25,000)	
Other		(1,674)
Net cash used in investing activities	(212,744)	(194,958)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit facility borrowings, net	57,340	61,916
Proceeds from other credit facility borrowings	26,972	
Repayment of long-term debt	(60,000)	(58,915)
Proceeds from issuance of long-term debt	250,000	
Payment for settlements of interest rate swap agreements	(29,335)	
Net proceeds received from termination of interest rate swap		9,527
Repurchase of Common Stock	(54,107)	(138,813)
Proceeds from exercise of stock options	8,751	62,644
Excess tax benefits from share-based payment arrangements	10,847	17,621
Cash dividends on Common Stock	(117,934)	(106,066)

Financing fees	(1,199)	
Proceeds from non-controlling interest	12,750	
Net cash provided by (used in) financing activities	104,085	(152,086)
Effect of exchange rate changes on cash and cash equivalents	(1,918)	1,718
Net decrease in cash and cash equivalents	(89,442)	(402,480)
Cash and cash equivalents at beginning of year	433,954	681,591
Cash and cash equivalents at end of nine months	$ 344,512	$ 279,111

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. (the Company) and its subsidiaries 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 October 31, 2012 and 2011 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2012 is derived from the audited financial statements, which are included in the Company s Annual Report on Form 10-K and should be read in connection with these financial statements. As permitted by the rules of the Securities and Exchange Commission, these financial statements do not include all disclosures required by generally accepted accounting principles.

The Company s business is seasonal in nature, with the fourth quarter typically representing at least one-third of annual net sales and approximately one-half of annual net earnings. Therefore, the results of its operations for the three and nine months ended October 31, 2012 and 2011 are not necessarily indicative of the results of the entire fiscal year.

2. NEW ACCOUNTING STANDARDS

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income , which allows an entity the option to present components of net income and other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The new guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company adopted the new guidance effective February 1, 2012, and it did not have an impact on the Company s financial position or earnings.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Testing Goodwill for Impairment , which allows an entity to use a qualitative approach to test goodwill for impairment. The new guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The Company adopted the new guidance effective February 1, 2012, and it did not have a material impact on the Company s financial position or earnings.

3. ACQUISITION

In July 2012, the Company, through a venture with a former independent distributor Damas Jewellery LLC (Damas), acquired the net assets associated with the five existing TIFFANY & CO. wholesale stores located in the United Arab Emirates (U.A.E.) for total consideration of $25,000,000, of which $24,493,000 was allocated to goodwill and the remainder to other tangible assets and liabilities. All of the goodwill associated with the transaction would be deductible for tax purposes; however the Company does not expect to receive a tax benefit as the U.A.E. does not impose a corporate income tax. Factors that contributed to a purchase price resulting in the recognition of goodwill are that the acquisition will (i) enable the Company to immediately integrate five existing TIFFANY & CO. stores into the Company s worldwide store network and (ii) enhance awareness of the Company s brand in the U.A.E.

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In accordance with the agreement, the Company owns 49% of the common shares of the venture with Damas and will be entitled to 75% of the profits or losses of the venture. The Company is responsible for all merchandise assortment and pricing, advertising and promotional activities, staffing, store design and visual display and financial services. The Company has evaluated the variable interest entity consolidation requirements with respect to this transaction and has determined that the Company is the primary beneficiary as it has the power to direct the activities that most significantly impact the venture s economic performance. Therefore, the results of the venture will be consolidated within the financial results. Income or loss attributable to the non-controlling interests will be presented within interest and other expenses, net on the condensed consolidated statement of earnings as the amount is not material. The results of the venture and the associated goodwill will be included within the Other non-reportable segment.

4. RECEIVABLES AND FINANCE CHARGES

The Company maintains an allowance for doubtful accounts for estimated losses associated with the accounts receivable recorded on the balance sheet. The allowance is determined based on a combination of factors including, but not limited to, the length of time that the receivables are past due, the Company s knowledge of the customer, economic and market conditions and historical write-off experiences.

For the receivables associated with Tiffany & Co. credit cards (Credit Card Receivables), the Company uses various indicators to determine whether to extend credit to customers and the amount of credit. Such indicators include reviewing prior experience with the customer, including sales and collection history, and using applicants credit reports and scores provided by credit rating agencies. Credit Card Receivables require minimum balance payments. The Company classifies a Credit Card account as overdue if a minimum balance payment has not been received within the allotted timeframe (generally 30 days), after which internal collection efforts commence. For each account receivable recorded on the balance sheet, once all internal collection efforts have been exhausted and management has reviewed the account, the account balance is written off and may be sent for external collection or legal action. At October 31, 2012 and 2011, the carrying amount of the Credit Card Receivables (recorded in accounts receivable, net in the Company s condensed consolidated balance sheet) was $52,717,000 and $53,985,000 of which 97% was considered current in those same periods. The allowance for doubtful accounts for estimated losses associated with the Credit Card Receivables (approximately $1,500,000 at October 31, 2012 and $2,000,000 at October 31, 2011) was determined based on the factors discussed above, and did not change significantly from January 31, 2012. Finance charges on Credit Card accounts are not significant.

The Company may, from time to time, extend loans to diamond mining and exploration companies in order to obtain rights to purchase the mine s output. Management evaluates these and any other loans that may arise for potential impairment by reviewing the parties financial statements and projections and other economic factors on a periodic basis. As of October 31, 2012, the current portion of the carrying amount of loans receivable including accrued interest was $12,426,000 and was recorded in prepaid expenses and other current assets on the Company s condensed consolidated balance sheet. As of October 31, 2012 and 2011, the non-current portion of the carrying amount of loans receivable including accrued interest was $46,808,000 and $57,785,000 and was included in other assets, net on the Company s condensed consolidated balance sheet. The Company has not recorded any material impairment charges on such loans as of October 31, 2012 and 2011.

5. INVENTORIES

(in thousands)	October 31, 2012	January 31, 2012	October 31, 2011
Finished goods	$ 1,377,518	$ 1,145,680	$ 1,173,673
Raw materials	745,334	784,040	737,686
Work-in-process	166,719	143,492	154,107
Inventories, net	$ 2,289,571	$ 2,073,212	$ 2,065,466

6. INCOME TAXES

The effective income tax rate for the three months ended October 31, 2012 was 38.4% versus 33.9% in the prior year. The higher effective income tax rate for the three months ended October 31, 2012 is primarily due

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to the true-up of the prior year s tax provision upon filing the tax returns as well as differences in the geographical mix of earnings. The effective income tax rate for the nine months ended October 31, 2012 was 35.6% versus 33.6% in the prior year. In the nine months ended October 31, 2011, the Company reversed a valuation allowance against certain deferred tax assets where management had determined it was more likely than not that the deferred tax assets would be realized in the future.

During the nine months ended October 31, 2012, the change in the gross amount of unrecognized tax benefits and accrued interest and penalties was not significant.

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. As a matter of course, various taxing authorities regularly audit the Company. The Company s tax filings are currently being examined by a number of tax authorities in various jurisdictions. Ongoing audits where subsidiaries have a material presence include New York state (tax years 2004-2010), New York City (tax years 2009-2010), New Jersey (tax years 2006-2009) and the Internal Revenue Service (tax years 2006-2009). Tax years from 2004-present are open to examination in U.S. Federal and various state, local and foreign jurisdictions. The Company believes that its tax positions comply with applicable tax laws and that it has adequately provided for these matters. However, the audits may result in proposed assessments where the ultimate resolution may result in the Company owing additional taxes. Management anticipates that it is reasonably possible that the total gross amount of unrecognized tax benefits will decrease by approximately $20,000,000 in the next 12 months, a portion of which may affect the effective tax rate; however, management does not currently anticipate a significant effect on net earnings. Future developments may result in a change in this assessment.

7. 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 October 31,		Nine Months Ended October 31,	
(*in thousands*)	2012	2011	2012	2011
Net earnings for basic and diluted EPS	$ 63,179	$ 89,689	$ 236,514	$ 260,795
Weighted-average shares for basic EPS	126,737	127,210	126,697	127,614
Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units	1,165	1,602	1,217	1,715
Weighted-average shares for diluted EPS	127,902	128,812	127,914	129,329

For the three months ended October 31, 2012 and 2011, there were 758,000 and 410,000 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, 2012 and 2011, there were 843,000 and 358,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

8. HEDGING INSTRUMENTS

Background Information

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

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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, the derivative instrument is designated as one of the following on the date the derivative 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 2009, the Company entered into interest rate swaps to convert its fixed rate 2002 Series D and 2008 Series A obligations to floating rate obligations. Since the fair value of the Company s fixed rate long-term debt is sensitive to interest rate changes, the interest rate swaps serve as a hedge to changes in the fair value of these debt instruments. The Company hedges its exposure to changes in interest rates over the remaining maturities of the debt agreements being hedged. The Company accounted for the interest rate swaps as fair value hedges. During 2011, the Company terminated the interest rate swap used to convert the 2008 Series A fixed obligation to a floating rate obligation. The interest rate swap associated with the 2002 Series D debt expired in July 2012.

In the six months ended July 31, 2012, the Company entered into forward-starting interest rate swaps to hedge the impact of interest rate volatility on future interest payments associated with the anticipated incurrence of additional debt which was incurred in July 2012 (refer to Note 10. Debt). The Company accounted for the forward-starting interest rate swaps as cash flow hedges. The Company settled the interest rate swaps in the three months ended July 31, 2012 and paid $29,335,000.

Foreign Exchange Forward and Put Option Contracts The Company uses foreign exchange forward contracts or put option contracts to offset the foreign currency exchange risks associated with foreign currency-denominated liabilities, intercompany transactions and forecasted purchases of merchandise between entities with differing functional currencies. For put option contracts, if the market exchange rate at the time of the put option contract s expiration is stronger than the contracted exchange rate, the Company allows the put option contract to expire, limiting its loss to the cost of the put option contract. The Company assesses hedge effectiveness based on the total changes in the put option contracts cash flows. These foreign exchange forward contracts and put option contracts are designated and accounted for as either cash flow hedges or economic hedges that are not designated as hedging instruments.

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In 2010, the Company de-designated all of its outstanding put option contracts at that time (none of which were outstanding at October 31, 2012) and entered into offsetting call option contracts. These put and call option contracts were accounted for as undesignated hedges. Any gains or losses on these de-designated put option contracts were substantially offset by losses or gains on the call option contracts.

As of October 31, 2012, the notional amount of foreign exchange forward and put option contracts accounted for as cash flow hedges was $157,288,000 and the notional amount of foreign exchange forward contracts accounted for as undesignated hedges was $61,276,000. The term of all outstanding foreign exchange forward and put option contracts as of October 31, 2012 ranged from less than one month to 13 months.

Precious Metal Collars & Forward Contracts The Company periodically hedges a portion of its forecasted purchases of precious metals for use in its internal manufacturing operations in order to minimize the effect of volatility in precious metal prices. The Company may use either a combination of call and put option contracts in net-zero-cost collar arrangements (precious metal collars) or forward contracts. For precious metal collars, if the price of the precious metal at the time of the expiration of the precious metal collar is within the call and put price, the precious metal collar expires at no cost to the Company. The Company accounts for its precious metal collars and forward contracts as cash flow hedges. The Company assesses hedge effectiveness based on the total changes in the precious metal collars and forward contracts cash flows. The maximum term over which the Company is hedging its exposure to the variability of future cash flows for all forecasted transactions is 12 months. As of October 31, 2012, there were approximately 10,400 ounces of platinum and 273,000 ounces of silver precious metal derivative instruments outstanding.

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

(in thousands)	Three Months Ended October 31, 2012	Three Months Ended October 31, 2011	Nine Months Ended October 31, 2012	Nine Months Ended October 31, 2011
Interest Rate Swap Agreements in Fair Value Hedging Relationships:				
Pre-tax gain (loss) recognized in earnings on derivatives [a]	$	$ 1,845	$ (406)	$ 3,595
Pre-tax (loss) gain recognized in earnings on hedged item [a]	$	$ (1,551)	$ 464	$ (3,043)

	Three Months Ended October 31,			
	2012		2011	
(in thousands)	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Earnings (Effective Portion)	Pre-Tax Loss Recognized in OCI (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated OCI into Earnings (Effective Portion)
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange forward contracts [b]	$ 2,513	$ (589)	$ (4,784)	$ (2,173)
Put option contracts [b]	(47)		(17)	(426)
Precious metal forward contracts [b]	3,192	(2,153)	(6,915)	903
Forward-starting interest rate swaps [a]		(399)		
	$ 5,658	$ (3,141)	$ (11,716)	$ (1,696)

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	Nine Months Ended October 31,			
	2012		2011	
(in thousands)	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Earnings (Effective Portion)	Pre-Tax Loss Recognized in OCI (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated OCI into Earnings (Effective Portion)
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange forward contracts [b]	$ 6,774	$ (4,902)	$ (14,942)	$ (4,226)
Put option contracts [b]	(456)	(129)	(78)	(1,765)
Precious metal collars [b]				607
Precious metal forward contracts [b]	(4,520)	(5,292)	(4,842)	2,718
Forward-starting interest rate swaps [a]	(26,511)	(533)		
	$ (24,713)	$ (10,856)	$ (19,862)	$ (2,666)

Information on the total pre-tax (loss) gain recognized in earnings on derivatives not designated as hedging instruments is as follows:

	Pre-Tax (Loss) Gain Recognized in Earnings on Derivatives			
(in thousands)	Three Months Ended October 31, 2012	Three Months Ended October 31, 2011	Nine Months Ended October 31, 2012	Nine Months Ended October 31, 2011
Derivatives Not Designated as Hedging Instruments:				
Foreign exchange forward contracts [a]	$ (813) [c]	$ (124) [c]	$ (1,193) [c]	$ 417 [c]
Call option contracts [b]				92
Put option contracts [b]				(92)
	$ (813)	$ (124)	$ (1,193)	$ 417

[a] The gain or loss recognized in earnings is included within Interest and other expenses, net on the Company s Condensed Consolidated Statement of Earnings.

[b] The gain or loss recognized in earnings is included within Cost of sales on the Company s Condensed Consolidated Statement of Earnings.

[c] Gains or losses on the undesignated foreign exchange forward contracts substantially offset foreign exchange losses or gains on the liabilities and transactions being hedged.

There was no material ineffectiveness related to the Company s hedging instruments for the periods ended October 31, 2012 and 2011. The Company expects approximately $2,492,000 of net pre-tax derivative losses included in accumulated other comprehensive income at October 31, 2012 will be reclassified into earnings within the next 12 months. This amount will vary due to fluctuations in foreign currency exchange rates and precious metal prices.

For information regarding the location and amount of the derivative instruments in the Condensed Consolidated Balance Sheet, refer to Note 9. 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 non-performance by individual counterparties or the entire group of counterparties.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The Company uses the market approach to measure fair value for its mutual funds, time deposits and derivative instruments. The Company s interest rate swaps are primarily valued using the 3-month LIBOR rate. The Company s put and call option contracts, as well as its foreign exchange forward contracts, are primarily valued using the appropriate foreign exchange spot rates. The Company s precious metal collars and 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 8. Hedging Instruments.

Financial assets and liabilities carried at fair value at October 31, 2012 are classified in the table below in one of the three categories described above:

(in thousands)	Carrying Value	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Mutual funds [a]	$ 42,399	$ 42,399	$	$	$ 42,399
Time deposits [b]	1,362	1,362			1,362
Derivatives designated as hedging instruments:					
Precious metal forward contracts [c]	783		783		783
Put option contracts [c]	95		95		95
Foreign exchange forward contracts [c]	2,762		2,762		2,762
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts [c]	55		55		55
Total financial assets	$ 47,456	$ 43,761	$ 3,695	$	$ 47,456

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(in thousands)	Carrying Value	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Derivatives designated as hedging instruments:					
Precious metal forward contracts [d]	$ 1,144	$	$ 1,144	$	$ 1,144
Foreign exchange forward contracts [d]	12		12		12
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts [d]	824		824		824
Total financial liabilities	$ 1,980	$	$ 1,980	$	$ 1,980

Financial assets and liabilities carried at fair value at October 31, 2011 are classified in the table below in one of the three categories described above:

(in thousands)	Carrying Value	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Mutual funds [a]	$ 38,561	$ 38,561	$	$	$ 38,561
Time deposits [b]	18,253	18,253			18,253
Derivatives designated as hedging instruments:					
Interest rate swaps [a]	660		660		660
Precious metal forward contracts [c]	2,110		2,110		2,110
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts [c]	355		355		355
Total financial assets	$ 59,939	$ 56,814	$ 3,125	$	$ 59,939

(in thousands)	Carrying Value	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Derivatives designated as hedging instruments:					
Foreign exchange forward contracts [d]	$ 8,691	$	$ 8,691	$	$ 8,691
Precious metal forward contracts [d]	5,580		5,580		5,580
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts [d]	63		63		63
Total financial liabilities	$ 14,334	$	$ 14,334	$	$ 14,334

[a] Included within Other assets, net on the Company s Condensed Consolidated Balance Sheet.
[b] Included within Short-term investments on the Company s Condensed Consolidated Balance Sheet.
[c] Included within Prepaid expenses and other current assets on the Company s Condensed Consolidated Balance Sheet.
[d] Included within Accounts payable and accrued liabilities on the Company s Condensed Consolidated Balance Sheet.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates carrying value due to the short-term maturities of these assets and liabilities and would be measured using Level 1 inputs. The fair value of debt with variable interest rates approximates carrying value and is measured using Level 2 inputs. The fair value of debt with fixed interest rates was determined using the quoted market prices of debt instruments with similar terms and maturities, which are considered Level 2 inputs. The total carrying value of short-term borrowings and long-term debt was $977,916,000 and $708,780,000 and the corresponding fair value was approximately $1,100,000,000 and $850,000,000 at October 31, 2012 and 2011.

10. DEBT

In July 2012, the Company, in two private transactions with various institutional note purchasers, issued, at par, $250,000,000 in the aggregate of its 4.40% Senior Notes due July 2042. A portion of the proceeds was used to repay $60,000,000 of long-term 6.56% debt that came due in July 2012 and the remainder will be used for general corporate purposes. The note purchase agreements require repayments of $50,000,000 every five years beginning in the tenth year. The note purchase agreements include certain financial and negative covenants that limit, among other items, the incurrence of indebtedness and liens and the occurrence of asset sales and consolidations and mergers, and contain certain other provisions customary for such issuances.

In July 2012, the commitments under each of the Company s three-year and five-year credit facilities were increased from $200,000,000 to $275,000,000 resulting in a total borrowing capacity of $550,000,000 under the Company s two principal credit facilities.

11. COMMITMENTS AND CONTINGENCIES

Leases. In April 2010, Tiffany and Company (Tiffany), the Company s principal operating subsidiary, committed to a plan to relocate its New York headquarters staff to a single location in New York City from three separate locations leased in midtown Manhattan. The move occurred in June 2011. Tiffany intends to sublease its existing properties (much of which has occurred) through the end of their lease terms which run through 2015, but expects to recover only a portion of its rent obligations due to current market conditions.

The Company recorded accrued exit charges of $30,884,000 during the second quarter of 2011 within other long-term liabilities on the condensed consolidated balance sheet associated with the relocation. The following is a reconciliation of the accrued exit charges:

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(in thousands)	
Balance at February 1, 2012	$ 23,980
Cash payments, net of estimated sublease income	(2,049)
Interest accretion	156
Balance at April 30, 2012	22,087
Cash payments, net of estimated sublease income	(2,101)
Interest accretion	145
Balance at July 31, 2012	20,131
Cash payments, net of estimated sublease income	(2,171)
Interest accretion	133
Balance at October 31, 2012	$ 18,093

Litigation. On June 24, 2011, The Swatch Group Ltd. (Swatch) and its wholly-owned subsidiary Tiffany Watch Co. (Watch Company ; Swatch and Watch Company, together, the Swatch Parties), initiated an arbitration proceeding against the Registrant and its wholly-owned subsidiaries Tiffany and Company and Tiffany (NJ) Inc. (the Registrant and such subsidiaries, together, the Tiffany Parties) seeking damages for alleged breach of agreements entered into by and among the Swatch Parties and the Tiffany Parties that came into effect in December 2007 (the License and Distribution Agreements). The License and Distribution Agreements pertain to the development and commercialization of a watch business and, among other things, contained various licensing and governance provisions and approval requirements relating to business, marketing and branding plans and provisions allocating profits relating to sales of the watch business between the Swatch Parties and the Tiffany Parties.

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

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

On December 23, 2011, the Swatch Parties filed a Statement of Claim in the Arbitration providing additional detail with regard to the allegations by the Swatch Parties and setting forth their damage claims. In general terms, the Swatch Parties allege that the Tiffany Parties have breached the License and Development Agreements by obstructing and delaying development of Watch Company s business and otherwise failing to proceed in good faith. The Swatch Parties seek damages based on alternate theories ranging from CHF 73,000,000 (or approximately $78,000,000 at October 31, 2012) (based on its alleged wasted investment) to CHF 3,800,000,000 (or approximately $4,100,000,000 at October 31, 2012) (calculated based on alleged future lost profits of the Swatch Parties and their affiliates).

The Registrant believes the claim is without merit and intends to defend vigorously the Arbitration and (together with the remaining Tiffany Parties) filed a Statement of Defense and Counterclaim on March 9, 2012. As detailed in the filing, the Tiffany Parties dispute both the merits of the Swatch Parties claims and the calculation of the alleged damages. The Tiffany Parties have also asserted counterclaims for damages attributable to breach by the Swatch Parties and for termination due to such breach. In general terms, the Tiffany Parties allege that the Swatch Parties did not have grounds for termination and have failed to provide appropriate management, distribution, marketing and other resources for TIFFANY & CO. brand watches and to honor their contractual obligations to the Tiffany Parties regarding brand management. The Tiffany Parties counterclaims seek damages based on alternate theories ranging from CHF 120,000,000 (or approximately $129,000,000 at October 31, 2012) (based on its wasted investment) to approximately CHF 540,000,000 (or approximately $579,000,000 at October 31, 2012) (calculated based on future lost profits of the Tiffany Parties).

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The arbitration hearing was held in October 2012. At the hearing, witnesses were examined and the Panel ordered additional briefs and submissions to complete the record. The record is expected to be complete in mid-February, 2013 with the Panel issuing its decision at an undetermined subsequent date.

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

If, as requested by both parties, the Arbitration tribunal determines that the License and Distribution Agreements were properly terminated, the Tiffany Parties will need to find a new manufacturer for TIFFANY & CO. brand watches and the Swatch Parties will no longer be responsible for distributing such watches to third-party distributors. Royalties payable to the Tiffany Parties by Watch Company under the License and Distribution Agreements have not been significant in any year. Watches manufactured by Watch Company and sold in TIFFANY & CO. stores constituted 1% of net sales in 2011, 2010 and 2009.

12. STOCKHOLDERS EQUITY

Accumulated Other Comprehensive (Loss) Gain

(in thousands)	October 31, 2012	January 31, 2012	October 31, 2011
Accumulated other comprehensive (loss) gain, net of tax:			
Foreign currency translation adjustments	$ 44,267	$ 49,209	$ 63,329
Deferred hedging loss	(16,824)	(8,729)	(11,981)
Unrealized gain (loss) on marketable securities	1,493	130	(278)
Net unrealized loss on benefit plans	(118,256)	(125,740)	(50,384)
	$ (89,320)	$ (85,130)	$ 686

13. EMPLOYEE BENEFIT PLANS

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

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

	Three Months Ended October 31,			
	Pension Benefits		Other Postretirement Benefits	
(in thousands)	2012	2011	2012	2011
Net Periodic Benefit Cost:				
Service cost	$ 4,528	$ 3,386	$ 596	$ 642
Interest cost	6,701	6,508	710	821
Expected return on plan assets	(5,104)	(4,339)		
Amortization of prior service cost	254	265	(165)	(164)
Amortization of net loss	3,949	2,491	7	6
Net expense	$ 10,328	$ 8,311	$ 1,148	$ 1,305

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(in thousands)	Nine Months Ended October 31, Pension Benefits 2012	2011	Other Postretirement Benefits 2012	2011
Net Periodic Benefit Cost:				
Service cost	$ 13,566	$ 10,568	$ 1,787	$ 1,649
Interest cost	20,099	18,989	2,130	2,326
Expected return on plan assets	(15,312)	(14,036)		
Amortization of prior service cost	762	798	(495)	(494)
Amortization of net loss	11,927	5,071	22	12
Net expense	$ 31,042	$ 21,390	$ 3,444	$ 3,493

14. SEGMENT INFORMATION

The Company s reportable segments are as follows:

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

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

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

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

Other consists of all non-reportable segments. Other consists of wholesale sales of TIFFANY & CO. merchandise to independent distributors for resale in certain emerging markets (primarily in the Middle East and Russia) and beginning in the three months ended July 31, 2012 retail sales in five TIFFANY & CO. stores in the U.A.E. In addition, Other includes wholesale sales of diamonds obtained through bulk purchases that were subsequently deemed not suitable for the Company s needs and earnings received from third-party licensing agreements.

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

(in thousands)	Three Months Ended October 31, 2012	2011	Nine Months Ended October 31, 2012	2011
Net sales:				
Americas	$ 400,113	$ 387,713	$ 1,219,776	$ 1,200,588
Asia-Pacific	187,685	183,220	556,893	523,708
Japan	146,723	146,437	447,175	412,297
Europe	97,644	92,528	285,765	279,503
Total reportable segments	832,165	809,898	2,509,609	2,416,096
Other	20,576	11,869	48,871	39,401
	$ 852,741	$ 821,767	$ 2,558,480	$ 2,455,497
Earnings (losses) from operations*:				
Americas	$ 51,890	$ 64,716	$ 191,697	$ 233,812
Asia-Pacific	36,589	50,469	122,675	145,809
Japan	42,732	43,137	135,558	115,944
Europe	16,119	19,285	53,371	63,235
Total reportable segments	147,330	177,607	503,301	558,800
Other	586	(1,986)	(3,353)	(374)
	$ 147,916	$ 175,621	$ 499,948	$ 558,426

* Represents earnings from operations before unallocated corporate expenses, interest and other expenses, net and other expense.

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

(in thousands)	Three Months Ended October 31, 2012	2011	Nine Months Ended October 31, 2012	2011
Earnings from operations for segments	$ 147,916	$ 175,621	$ 499,948	$ 558,426
Unallocated corporate expenses	(30,621)	(29,444)	(93,088)	(93,024)
Interest and other expenses, net	(14,783)	(10,393)	(39,587)	(30,159)
Other expense				(42,719)
Earnings from operations before income taxes	$ 102,512	$ 135,784	$ 367,273	$ 392,524

Unallocated corporate expenses include certain costs related to administrative support functions which the Company does not allocate to its segments. Such unallocated costs include those for centralized information technology, finance, legal and human resources departments.

Other expense in the nine months ended October 31, 2011 represents charges associated with Tiffany s consolidation and relocation of its New York headquarters staff. See Note 11. Commitments and Contingencies.

15. SUBSEQUENT EVENT

On November 15, 2012, the Company s Board of Directors approved a quarterly dividend of $0.32 per share of Common Stock. This dividend will be paid on January 10, 2013 to stockholders of record on December 20, 2012.

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PART I. Financial Information

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

OVERVIEW