

TIFFANY & CO  
Form 10-Q  
September 02, 2010

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

\_\_\_\_\_  
FORM 10-Q  
\_\_\_\_\_

(Mark One)

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

For the quarterly period ended July 31, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-9494

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

Delaware  
(State of incorporation)

13-3228013  
(I.R.S. Employer Identification  
No.)

727 Fifth Ave. New York, NY  
(Address of principal executive offices)

10022  
(Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes  No

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

|                                                                        |                                     |                           |                          |
|------------------------------------------------------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer                                                | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |

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, 126,266,981 shares outstanding at the close of business on August 31, 2010.

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TIFFANY & CO. AND SUBSIDIARIES  
 INDEX TO FORM 10-Q  
 FOR THE QUARTER ENDED JULY 31, 2010

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

|                                                                                                                   | July 31,<br>2010 | January 31,<br>2010 | July 31,<br>2009 |
|-------------------------------------------------------------------------------------------------------------------|------------------|---------------------|------------------|
| <b>ASSETS</b>                                                                                                     |                  |                     |                  |
| Current assets:                                                                                                   |                  |                     |                  |
| Cash and cash equivalents                                                                                         | \$566,725        | \$785,702           | \$333,603        |
| Short-term investments                                                                                            | 47,949           | —                   | —                |
| Accounts receivable, less allowances<br>of \$12,326, \$12,892 and \$10,323                                        | 156,708          | 158,706             | 140,025          |
| Inventories, net                                                                                                  | 1,553,117        | 1,427,855           | 1,538,514        |
| Deferred income taxes                                                                                             | 16,114           | 6,651               | 12,303           |
| Prepaid expenses and other current assets                                                                         | 76,780           | 66,752              | 99,473           |
| Total current assets                                                                                              | 2,417,393        | 2,445,666           | 2,123,918        |
| Property, plant and equipment, net                                                                                | 661,387          | 685,101             | 707,176          |
| Deferred income taxes                                                                                             | 188,014          | 183,825             | 160,492          |
| Other assets, net                                                                                                 | 179,767          | 173,768             | 153,883          |
|                                                                                                                   | \$3,446,561      | \$3,488,360         | \$3,145,469      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                       |                  |                     |                  |
| Current liabilities:                                                                                              |                  |                     |                  |
| Short-term borrowings                                                                                             | \$44,221         | \$27,642            | \$40,754         |
| Current portion of long-term debt                                                                                 | 269,960          | 206,815             | —                |
| Accounts payable and accrued liabilities                                                                          | 165,757          | 231,913             | 155,659          |
| Income taxes payable                                                                                              | 16,198           | 67,513              | 18,245           |
| Merchandise and other customer credits                                                                            | 60,546           | 66,390              | 64,607           |
| Total current liabilities                                                                                         | 556,682          | 600,273             | 279,265          |
| Long-term debt                                                                                                    | 467,855          | 519,592             | 710,994          |
| Pension/postretirement benefit obligations                                                                        | 189,978          | 219,276             | 209,158          |
| Deferred gains on sale-leasebacks                                                                                 | 124,932          | 128,649             | 129,665          |
| Other long-term liabilities                                                                                       | 141,112          | 137,331             | 142,945          |
| Commitments and contingencies                                                                                     |                  |                     |                  |
| Stockholders' equity:                                                                                             |                  |                     |                  |
| Preferred Stock, \$0.01 par value; authorized 2,000 shares, none<br>issued and outstanding                        | —                | —                   | —                |
| Common Stock, \$0.01 par value; authorized 240,000 shares,<br>issued and outstanding 126,488, 126,326 and 124,093 | 1,265            | 1,263               | 1,240            |
| Additional paid-in capital                                                                                        | 813,600          | 764,132             | 698,995          |
| Retained earnings                                                                                                 | 1,182,840        | 1,151,109           | 1,010,180        |
| Accumulated other comprehensive loss, net of tax                                                                  | (31,703 )        | (33,265 )           | (36,973 )        |

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|                            |             |             |             |
|----------------------------|-------------|-------------|-------------|
| Total stockholders' equity | 1,966,002   | 1,883,239   | 1,673,442   |
|                            | \$3,446,561 | \$3,488,360 | \$3,145,469 |

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 July<br>31, |           | Six Months Ended July<br>31, |             |
|---------------------------------------------------------|--------------------------------|-----------|------------------------------|-------------|
|                                                         | 2010                           | 2009      | 2010                         | 2009        |
| Net sales                                               | \$668,760                      | \$612,493 | \$1,302,346                  | \$1,130,108 |
| Cost of sales                                           | 282,008                        | 275,041   | 549,616                      | 503,437     |
| Gross profit                                            | 386,752                        | 337,452   | 752,730                      | 626,671     |
| Selling, general and administrative expenses            | 273,146                        | 247,898   | 533,707                      | 477,603     |
| Earnings from continuing operations                     | 113,606                        | 89,554    | 219,023                      | 149,068     |
| Interest and other expenses, net                        | 11,121                         | 12,132    | 23,259                       | 24,572      |
| Earnings from continuing operations before income taxes | 102,485                        | 77,422    | 195,764                      | 124,496     |
| Provision for income taxes                              | 34,810                         | 20,705    | 63,664                       | 40,336      |
| Net earnings from continuing operations                 | 67,675                         | 56,717    | 132,100                      | 84,160      |
| Net earnings (loss) from discontinued operations        | —                              | 59        | —                            | (3,043 )    |
| Net earnings                                            | \$67,675                       | \$56,776  | \$132,100                    | \$81,117    |
| Earnings per share:                                     |                                |           |                              |             |
| Basic                                                   |                                |           |                              |             |
| Net earnings from continuing operations                 | \$0.53                         | \$0.46    | \$1.04                       | \$0.68      |
| Net loss from discontinued operations                   | —                              | —         | —                            | (0.03 )     |
| Net earnings                                            | \$0.53                         | \$0.46    | \$1.04                       | \$0.65      |
| Diluted                                                 |                                |           |                              |             |
| Net earnings from continuing operations                 | \$0.53                         | \$0.46    | \$1.03                       | \$0.68      |
| Net loss from discontinued operations                   | —                              | —         | —                            | (0.03 )     |
| Net earnings                                            | \$0.53                         | \$0.46    | \$1.03                       | \$0.65      |
| Weighted-average number of common shares:               |                                |           |                              |             |
| Basic                                                   | 126,897                        | 124,081   | 126,798                      | 124,041     |
| Diluted                                                 | 128,385                        | 124,523   | 128,464                      | 124,343     |

See notes to condensed consolidated financial statements.

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

|                                                                                        | Total<br>Stockholders'<br>Equity | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Gain (Loss) | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital |
|----------------------------------------------------------------------------------------|----------------------------------|----------------------|------------------------------------------------------|------------------------|------------------------|----------------------------------|
| Balances, January 31, 2010                                                             | \$ 1,883,239                     | \$ 1,151,109         | \$ (33,265 )                                         | 126,326                | \$ 1,263               | \$ 764,132                       |
| Exercise of stock options and vesting of restricted stock units ("RSUs")               | 31,192                           | —                    | —                                                    | 1,176                  | 12                     | 31,180                           |
| Tax effect of exercise of stock options and vesting of RSUs                            | 4,195                            | —                    | —                                                    | —                      | —                      | 4,195                            |
| Share-based compensation expense                                                       | 12,982                           | —                    | —                                                    | —                      | —                      | 12,982                           |
| Issuance of Common Stock under the Employee Profit Sharing and Retirement Savings Plan | 5,000                            | —                    | —                                                    | 104                    | 1                      | 4,999                            |
| Purchase and retirement of Common Stock                                                | (47,138 )                        | (43,239 )            | —                                                    | (1,118 )               | (11 )                  | (3,888 )                         |
| Cash dividends on Common Stock                                                         | (57,130 )                        | (57,130 )            | —                                                    | —                      | —                      | —                                |
| Deferred hedging gain, net of tax                                                      | 2,075                            | —                    | 2,075                                                | —                      | —                      | —                                |
| Unrealized gain on marketable securities, net of tax                                   | 636                              | —                    | 636                                                  | —                      | —                      | —                                |
| Foreign currency translation adjustments, net of tax                                   | (2,171 )                         | —                    | (2,171 )                                             | —                      | —                      | —                                |
| Net unrealized gain on benefit plans, net of tax                                       | 1,022                            | —                    | 1,022                                                | —                      | —                      | —                                |
| Net earnings                                                                           | 132,100                          | 132,100              | —                                                    | —                      | —                      | —                                |
| Balances, July 31, 2010                                                                | \$ 1,966,002                     | \$ 1,182,840         | \$ (31,703 )                                         | 126,488                | \$ 1,265               | \$ 813,600                       |

|                                              | Three Months Ended July<br>31, |          | Six Months Ended July<br>31, |          |
|----------------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                              | 2010                           | 2009     | 2010                         | 2009     |
| Comprehensive earnings are as follows:       |                                |          |                              |          |
| Net earnings                                 | \$67,675                       | \$56,776 | \$132,100                    | \$81,117 |
| Other comprehensive gain (loss), net of tax: |                                |          |                              |          |
| Deferred hedging (loss) gain                 | (2,733 )                       | 1,442    | 2,075                        | 3,824    |

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|                                                 |          |          |           |           |
|-------------------------------------------------|----------|----------|-----------|-----------|
| Foreign currency translation adjustments        | 1,089    | 20,469   | (2,171 )  | 27,718    |
| Unrealized (loss) gain on marketable securities | (447 )   | 2,238    | 636       | 2,900     |
| Net unrealized gain (loss) on benefit plans     | 474      | (29 )    | 1,022     | 18        |
| Comprehensive earnings                          | \$66,058 | \$80,896 | \$133,662 | \$115,577 |

See notes to condensed consolidated financial statements.

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

|                                                                                               | Six Months Ended July<br>31, |            |
|-----------------------------------------------------------------------------------------------|------------------------------|------------|
|                                                                                               | 2010                         | 2009       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                  |                              |            |
| Net earnings                                                                                  | \$132,100                    | \$81,117   |
| Loss from discontinued operations, net of tax                                                 | —                            | 3,043      |
| Net earnings from continuing operations                                                       | 132,100                      | 84,160     |
| Adjustments to reconcile net earnings to net cash (used in) provided by operating activities: |                              |            |
| Depreciation and amortization                                                                 | 72,292                       | 69,182     |
| Amortization of gain on sale-leaseback                                                        | (4,927 )                     | (4,762 )   |
| Excess tax benefits from share-based payment arrangements                                     | (3,936 )                     | (4 )       |
| Provision for inventories                                                                     | 14,184                       | 16,637     |
| Deferred income taxes                                                                         | (19,069 )                    | 2,134      |
| Provision for pension/postretirement benefits                                                 | 13,442                       | 11,691     |
| Share-based compensation expense                                                              | 12,795                       | 12,010     |
| Changes in assets and liabilities:                                                            |                              |            |
| Accounts receivable                                                                           | 5,235                        | 26,711     |
| Inventories                                                                                   | (133,495 )                   | 50,058     |
| Prepaid expenses and other current assets                                                     | (7,596 )                     | 13,644     |
| Accounts payable and accrued liabilities                                                      | (53,546 )                    | (71,155 )  |
| Income taxes payable                                                                          | (45,058 )                    | (16,004 )  |
| Merchandise and other customer credits                                                        | (5,821 )                     | (3,404 )   |
| Other, net                                                                                    | (36,711 )                    | (11,498 )  |
| Net cash (used in) provided by operating activities                                           | (60,111 )                    | 179,400    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                  |                              |            |
| Capital expenditures                                                                          | (50,760 )                    | (30,425 )  |
| Purchases of marketable securities and short-term investments                                 | (48,461 )                    | (547 )     |
| Other                                                                                         | —                            | 3,485      |
| Net cash used in investing activities                                                         | (99,221 )                    | (27,487 )  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                  |                              |            |
| Proceeds from (repayment of) credit facility borrowings, net                                  | 17,775                       | (113,291 ) |
| Repayment of short-term borrowings                                                            | —                            | (93,000 )  |
| Repayment of long-term debt                                                                   | —                            | (40,000 )  |
| Proceeds from issuance of long-term debt                                                      | —                            | 300,000    |
| Repurchase of Common Stock                                                                    | (47,138 )                    | —          |
| Proceeds from exercise of stock options                                                       | 31,192                       | 738        |
| Excess tax benefits from share-based payment arrangements                                     | 3,936                        | 4          |
| Cash dividends on Common Stock                                                                | (57,130 )                    | (42,236 )  |
| Financing fees                                                                                | —                            | (5,721 )   |
| Purchase of non-controlling interests                                                         | (7,000 )                     | —          |
| Net cash (used in) provided by financing activities                                           | (58,365 )                    | 6,494      |
| Effect of exchange rate changes on cash and cash equivalents                                  | (1,280 )                     | 18,287     |
| <b>CASH FLOWS FROM DISCONTINUED OPERATIONS:</b>                                               |                              |            |

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|                                                      |            |           |
|------------------------------------------------------|------------|-----------|
| Operating activities                                 | —          | (3,536 )  |
| Net cash used in discontinued operations             | —          | (3,536 )  |
| Net (decrease) increase in cash and cash equivalents | (218,977 ) | 173,158   |
| Cash and cash equivalents at beginning of year       | 785,702    | 160,445   |
| Cash and cash equivalents at end of six months       | \$566,725  | \$333,603 |

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. (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 (“VIE”s), if the Company has the power to significantly direct the activities of a VIE, as well as the obligation to absorb significant losses of or the right to receive significant benefits from the VIE. Intercompany accounts, transactions and profits have been eliminated in consolidation. The interim statements are unaudited and, in the opinion of management, include all adjustments (which represent normal recurring adjustments) necessary to fairly state the Company’s financial position as of July 31, 2010 and 2009 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2010 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 six months ended July 31, 2010 and 2009 are not necessarily indicative of the results of the entire fiscal year.

2. DISCONTINUED OPERATIONS

In the fourth quarter of 2008, management concluded that it would no longer invest in its IRIDESSE business due to its ongoing operating losses and insufficient near-term growth prospects, especially in the economic environment at the time the decision was made. All IRIDESSE stores were closed in 2009. These amounts have been reclassified to discontinued operations for all periods presented. Prior to the reclassification, IRIDESSE results had been included within the Other non-reportable segment.

Summarized statement of earnings data for IRIDESSE is as follows:

| (in thousands)                                   | Three Months Ended<br>July 31, 2009 | Six Months Ended<br>July 31, 2009 |
|--------------------------------------------------|-------------------------------------|-----------------------------------|
| Net sales                                        | \$ 6,743                            | \$ 12,187                         |
| Loss before income taxes                         | (830 )                              | (5,907 )                          |
| Benefit from income taxes                        | 889                                 | 2,864                             |
| Net earnings (loss) from discontinued operations | \$ 59                               | \$ (3,043 )                       |

3. INVENTORIES

| (in thousands)   | July 31,<br>2010 | January 31,<br>2010 | July 31,<br>2009 |
|------------------|------------------|---------------------|------------------|
| Finished goods   | \$978,021        | \$904,523           | \$1,068,149      |
| Raw materials    | 469,804          | 450,966             | 412,720          |
| Work-in-process  | 105,292          | 72,366              | 57,645           |
| Inventories, net | \$1,553,117      | \$1,427,855         | \$1,538,514      |



4.

## INCOME TAXES

The effective income tax rate for the second quarter of 2010 was 34.0% versus 26.7% in the prior year which had included a \$5,700,000 benefit to the tax provision as a result of favorable reserve adjustments relating to the settlement of certain tax audits. The effective income tax rate for the six months ended July 31, 2010 was 32.5% versus 32.4% in the prior year. The effective income tax rate for the six months ended July 31, 2010 included the following non-recurring items recorded in the first quarter of 2010: (i) a benefit of \$5,006,000 due to a change in tax status of certain subsidiaries associated with the acquisition in 2009 of additional equity interests in diamond sourcing and polishing operations and (ii) a \$1,910,000 charge as a result of recent healthcare reform legislation, which eliminated the tax benefit associated with the Medicare Part D subsidy.

During the six months ended July 31, 2010, 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 states 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 tax authorities in jurisdictions where its subsidiaries have a material presence, including New York state (tax years 2004-2007), Japan (tax years 2003-2008) and by the Internal Revenue Service (tax years 2007-2008). Tax years from 2002-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. The Company does not anticipate any material changes to the total gross amount of unrecognized tax benefits over the next 12 months. Future developments may result in a change in this assessment.

5.

## EARNINGS PER SHARE

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

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

| (in thousands)                                                                                          | Three Months Ended July |          | Six Months Ended July |          |
|---------------------------------------------------------------------------------------------------------|-------------------------|----------|-----------------------|----------|
|                                                                                                         | 2010                    | 2009     | 2010                  | 2009     |
| Net earnings for basic and diluted EPS                                                                  | \$67,675                | \$56,776 | \$132,100             | \$81,117 |
| Weighted-average shares for basic EPS                                                                   | 126,897                 | 124,081  | 126,798               | 124,041  |
| Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units | 1,488                   | 442      | 1,666                 | 302      |
| Weighted-average shares for diluted EPS                                                                 | 128,385                 | 124,523  | 128,464               | 124,343  |

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For the three months ended July 31, 2010 and 2009, there were 487,000 and 7,126,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect. For the six months ended July 31, 2010 and 2009, there were 459,000 and 7,806,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

6.

## HEDGING INSTRUMENTS

### Background Information

The Company uses derivative financial instruments, including interest rate swap agreements, forward contracts, put option contracts and net-zero-cost collar arrangements (combination of call and put option contracts) to mitigate its exposures to changes in interest rates, foreign currency and precious metal prices. Derivative instruments are recorded on the consolidated balance sheet at their fair values, as either assets or liabilities, with an offset to current or comprehensive earnings, depending on whether the derivative is designated as part of an effective hedge transaction and, if it is, the type of hedge transaction. If a derivative instrument meets certain hedge accounting criteria, 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 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 specifically 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 hedging 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 Swap Agreements** – In the second quarter of 2009, the Company entered into interest rate swap agreements to effectively 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 swap agreements serve as a hedge to changes in the fair value of these debt instruments. The Company is hedging its exposure to changes in interest rates over the remaining maturities of the debt agreements being hedged. The Company accounts for the interest rate swaps as fair value hedges. As of July 31, 2010, the notional amount of interest rate swap agreements outstanding was \$160,000,000.

**Foreign Exchange Forward Contracts** – The Company uses foreign exchange forward contracts to offset the foreign currency exchange risks associated with foreign currency-denominated liabilities and intercompany transactions between entities with differing functional currencies. These foreign exchange forward contracts are designated and

accounted for as either cash flow hedges or economic hedges that are not designated as hedging instruments. As of July 31, 2010, the notional amount of foreign exchange forward contracts accounted for as cash flow hedges was \$14,492,000 and the notional amount of foreign exchange forward contracts accounted for as undesignated hedges was \$10,917,000. The term of all outstanding foreign exchange forward contracts as of July 31, 2010 ranged from one to 10 months.

Put Option Contracts – The Company’s wholly-owned subsidiary in Japan satisfies nearly all of its inventory

requirements by purchasing merchandise, payable in U.S. dollars, from the Company's principal subsidiary. To minimize the potentially negative effect of a significant strengthening of the U.S. dollar against the Japanese yen, the Company purchases put option contracts as hedges of forecasted purchases of merchandise over a maximum term of 13 months. If the market yen 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 accounts for its put option contracts as cash flow hedges. The Company assesses hedge effectiveness based on the total changes in the put option contracts' cash flows. As of July 31, 2010, the notional amount of put option contracts accounted for as cash flow hedges was \$103,100,000. During October 2009, the Company de-designated several of its outstanding put option contracts (notional amount of \$13,000,000 outstanding at July 31, 2010) and entered into offsetting call option contracts. These put and call option contracts are accounted for as undesignated hedges. Any gains or losses on these de-designated put option contracts are substantially offset by losses or gains on the call option contracts.

**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 would expire 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 13 months. As of July 31, 2010, there were approximately 20,000 ounces of platinum and 140,600 ounces of silver precious metal derivative instruments outstanding.

Information on the location and amounts of derivative gains and losses in the Condensed Consolidated Statements of Earnings is as follows:

|                                          | Three Months Ended July 31,                                       |                                                                      |                                                                   |                                                                      |
|------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------|
|                                          | 2010                                                              |                                                                      | 2009                                                              |                                                                      |
|                                          | Pre-Tax<br>Gain<br>Recognized<br>in<br>Earnings on<br>Derivatives | Pre-Tax<br>Loss<br>Recognized<br>in<br>Earnings on<br>Hedged<br>Item | Pre-Tax<br>Loss<br>Recognized<br>in<br>Earnings on<br>Derivatives | Pre-Tax<br>Gain<br>Recognized<br>in<br>Earnings on<br>Hedged<br>Item |
| (in thousands)                           |                                                                   |                                                                      |                                                                   |                                                                      |
| Derivatives in Fair Value Relationships: |                                                                   |                                                                      |                                                                   |                                                                      |
| Interest rate swap agreements a          | \$4,441                                                           | \$(3,899)                                                            | \$(623)                                                           | \$669                                                                |

|                | Six Months Ended July 31,                          |                                                    |                                                    |                                                    |
|----------------|----------------------------------------------------|----------------------------------------------------|----------------------------------------------------|----------------------------------------------------|
|                | 2010                                               |                                                    | 2009                                               |                                                    |
|                | Pre-Tax<br>Gain<br>Recognized<br>in<br>Earnings on | Pre-Tax<br>Loss<br>Recognized<br>in<br>Earnings on | Pre-Tax<br>Loss<br>Recognized<br>in<br>Earnings on | Pre-Tax<br>Gain<br>Recognized<br>in<br>Earnings on |
| (in thousands) |                                                    |                                                    |                                                    |                                                    |

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|                                                  | Derivatives | Hedged<br>Item | Derivatives | Hedged<br>Item |
|--------------------------------------------------|-------------|----------------|-------------|----------------|
| Derivatives in Fair Value Hedging Relationships: |             |                |             |                |
| Interest rate swap agreements a                  | \$4,906     | \$(4,297 )     | \$(623 )    | \$669          |

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|                | Three Months Ended July 31,                                          |                                                                                                                   |                                                                             |                                                                                                            |
|----------------|----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
|                | 2010                                                                 |                                                                                                                   | 2009                                                                        |                                                                                                            |
|                | Pre-Tax<br>Loss<br>Recognized<br>in<br>OCI<br>(Effective<br>Portion) | Amount of<br>(Loss) Gain<br>Reclassified<br>from<br>Accumulated<br>OCI into<br>Earnings<br>(Effective<br>Portion) | Pre-Tax<br>(Loss) Gain<br>Recognized<br>in<br>OCI<br>(Effective<br>Portion) | Amount of<br>Loss<br>Reclassified<br>from<br>Accumulated<br>OCI Into<br>Earnings<br>(Effective<br>Portion) |
| (in thousands) |                                                                      |                                                                                                                   |                                                                             |                                                                                                            |

Derivatives in Cash Flow Hedging Relationships:

|                                      |             |           |           |             |
|--------------------------------------|-------------|-----------|-----------|-------------|
| Foreign exchange forward contracts a | \$ (1,968 ) | \$ (37 )  | \$ (454 ) | \$ (950 )   |
| Put option contracts b               | (1,769 )    | (692 )    | (755 )    | (950 )      |
| Precious metal collars b             | (1 )        | (466 )    | 587       | (998 )      |
| Precious metal forward contracts b   | (1,435 )    | 322       | —         | —           |
|                                      | \$ (5,173 ) | \$ (873 ) | \$ (622 ) | \$ (2,898 ) |

|                | Six Months Ended July 31,                                                   |                                                                                                                   |                                                                             |                                                                                                            |
|----------------|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
|                | 2010                                                                        |                                                                                                                   | 2009                                                                        |                                                                                                            |
|                | Pre-Tax<br>Gain (Loss)<br>Recognized<br>in<br>OCI<br>(Effective<br>Portion) | Amount of<br>(Loss) Gain<br>Reclassified<br>from<br>Accumulated<br>OCI into<br>Earnings<br>(Effective<br>Portion) | Pre-Tax<br>(Loss) Gain<br>Recognized<br>in<br>OCI<br>(Effective<br>Portion) | Amount of<br>Loss<br>Reclassified<br>from<br>Accumulated<br>OCI Into<br>Earnings<br>(Effective<br>Portion) |
| (in thousands) |                                                                             |                                                                                                                   |                                                                             |                                                                                                            |

Derivatives in Cash Flow Hedging Relationships:

|                                      |          |             |           |             |
|--------------------------------------|----------|-------------|-----------|-------------|
| Foreign exchange forward contracts a | \$643    | \$ (266 )   | \$ (523 ) | \$ (1,485 ) |
| Put option contracts b               | (1,416 ) | (1,507 )    | (104 )    | (1,944 )    |
| Precious metal collars b             | 276      | (1,178 )    | 2,359     | (896 )      |
| Precious metal forward contracts b   | 1,370    | 460         | —         | —           |
|                                      | \$873    | \$ (2,491 ) | \$ 1,732  | \$ (4,325 ) |

| (in thousands) | Pre-Tax (Loss) Gain<br>Recognized in Earnings<br>on Derivative |                          |
|----------------|----------------------------------------------------------------|--------------------------|
|                | Three<br>Months<br>Ended                                       | Three<br>Months<br>Ended |
|                |                                                                |                          |

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|                                                    | July 31,<br>2010 | July 31,<br>2009 |
|----------------------------------------------------|------------------|------------------|
| Derivatives Not Designated as Hedging Instruments: |                  |                  |
| Foreign exchange forward contracts a               | \$(99 )c         | \$(589 )c        |
| Call option contracts b                            | 82               | —                |
| Put option contracts b                             | (82 )            | —                |
|                                                    | \$(99 )          | \$(589 )         |

| (in thousands)                       | Pre-Tax (Loss) Gain<br>Recognized in Earnings<br>on Derivative |                                         |
|--------------------------------------|----------------------------------------------------------------|-----------------------------------------|
|                                      | Six Months<br>Ended<br>July 31,<br>2010                        | Six Months<br>Ended<br>July 31,<br>2009 |
|                                      | Derivatives Not Designated as Hedging Instruments:             |                                         |
| Foreign exchange forward contracts a | \$(614 ) <sup>c</sup>                                          | \$(606 ) <sup>c</sup>                   |
| Call option contracts b              | 148                                                            | —                                       |
| Put option contracts b               | (148 )                                                         | —                                       |
|                                      | \$(614 )                                                       | \$(606 )                                |

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

bThe gain or loss recognized in earnings is included within Cost of Sales on the Company's Condensed Consolidated Statement of Earnings.

cGains 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 July 31, 2010 and 2009. The Company expects approximately \$1,889,000 of net pre-tax derivative gains included in accumulated other comprehensive income at July 31, 2010 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 7. Fair Value of Financial Instruments."

#### Concentration of Credit Risk

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

#### 7. 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 or most advantageous 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 swap agreements 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 precious metal forward contracts are primarily valued using the relevant precious metal spot rate. For further information on the Company's hedging instruments and program, see "Note 6. Hedging Instruments."

Financial assets and liabilities carried at fair value at July 31, 2010 are classified in the table below in one of the three categories described above:

| (in thousands)                                            | Estimated Fair Value |                  |                 |            | Total Fair Value |
|-----------------------------------------------------------|----------------------|------------------|-----------------|------------|------------------|
|                                                           | Carrying Value       | Level 1          | Level 2         | Level 3    |                  |
| <b>Financial Assets</b>                                   |                      |                  |                 |            |                  |
| Mutual funds a                                            | \$ 41,318            | \$ 41,318        | \$ —            | \$—        | \$ 41,318        |
| Time deposits b                                           | 47,949               | 47,949           | —               | —          | 47,949           |
| <b>Derivatives designated as hedging instruments:</b>     |                      |                  |                 |            |                  |
| <b>Interest rate swap agreements a</b>                    |                      |                  |                 |            |                  |
|                                                           | 6,901                | —                | 6,901           | —          | 6,901            |
| Put option contracts c                                    | 856                  | —                | 856             | —          | 856              |
| <b>Precious metal forward contracts c</b>                 |                      |                  |                 |            |                  |
|                                                           | 1,220                | —                | 1,220           | —          | 1,220            |
| Precious metal collars c                                  | 151                  | —                | 151             | —          | 151              |
| <b>Derivatives not designated as hedging instruments:</b> |                      |                  |                 |            |                  |
| <b>Foreign exchange forward contracts c</b>               |                      |                  |                 |            |                  |
|                                                           | 184                  | —                | 184             | —          | 184              |
| <b>Total assets</b>                                       | <b>\$ 98,579</b>     | <b>\$ 89,267</b> | <b>\$ 9,312</b> | <b>\$—</b> | <b>\$ 98,579</b> |

| (in thousands)                                        | Estimated Fair Value |            |              |            | Total Fair Value |
|-------------------------------------------------------|----------------------|------------|--------------|------------|------------------|
|                                                       | Carrying Value       | Level 1    | Level 2      | Level 3    |                  |
| <b>Financial Liabilities</b>                          |                      |            |              |            |                  |
| <b>Derivatives designated as hedging instruments:</b> |                      |            |              |            |                  |
| <b>Foreign exchange forward contracts d</b>           |                      |            |              |            |                  |
|                                                       | \$452                | \$—        | \$452        | \$—        | \$452            |
| <b>Total liabilities</b>                              | <b>\$452</b>         | <b>\$—</b> | <b>\$452</b> | <b>\$—</b> | <b>\$452</b>     |

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Financial assets and liabilities carried at fair value at July 31, 2009 are classified in the table below in one of the three categories described above:

| (in thousands)                                            | Carrying Value   | Estimated Fair Value |                 |             | Total Fair Value |
|-----------------------------------------------------------|------------------|----------------------|-----------------|-------------|------------------|
|                                                           |                  | Level 1              | Level 2         | Level 3     |                  |
| <b>Financial Assets</b>                                   |                  |                      |                 |             |                  |
| Mutual funds a                                            | \$ 25,191        | \$ 25,191            | \$ —            | \$ —        | \$ 25,191        |
| <b>Derivatives designated as hedging instruments:</b>     |                  |                      |                 |             |                  |
| <b>Interest rate swap</b>                                 |                  |                      |                 |             |                  |
| agreements a                                              | 4                | —                    | 4               | —           | 4                |
| Put option contracts c                                    | 1,710            | —                    | 1,710           | —           | 1,710            |
| Precious metal collars c                                  | 524              | —                    | 524             | —           | 524              |
| <b>Derivatives not designated as hedging instruments:</b> |                  |                      |                 |             |                  |
| <b>Foreign exchange</b>                                   |                  |                      |                 |             |                  |
| forward contracts c                                       | 270              | —                    | 270             | —           | 270              |
| <b>Total assets</b>                                       | <b>\$ 27,699</b> | <b>\$ 25,191</b>     | <b>\$ 2,508</b> | <b>\$ —</b> | <b>\$ 27,699</b> |
| <b>Financial Liabilities</b>                              |                  |                      |                 |             |                  |
| <b>Derivatives designated as hedging instruments:</b>     |                  |                      |                 |             |                  |
| <b>Interest rate swap</b>                                 |                  |                      |                 |             |                  |
| agreements e                                              | \$627            | \$—                  | \$627           | \$—         | \$627            |
| Precious metal collars d                                  | 146              | —                    | 146             | —           | 146              |
| <b>Derivatives not designated as hedging instruments:</b> |                  |                      |                 |             |                  |
| <b>Foreign exchange forward</b>                           |                  |                      |                 |             |                  |
| contracts d                                               | 852              | —                    | 852             | —           | 852              |
| <b>Total liabilities</b>                                  | <b>\$1,625</b>   | <b>\$—</b>           | <b>\$1,625</b>  | <b>\$—</b>  | <b>\$1,625</b>   |

a This amount is included within Other assets, net on the Company's Condensed Consolidated Balance Sheet.

b This amount is included within Short-term investments on the Company's Condensed Consolidated Balance Sheet.

c This amount is included within Prepaid expenses and other current assets on the Company's Condensed Consolidated Balance Sheet.

d This amount is included within Accounts payable and accrued liabilities on the Company's Condensed Consolidated Balance Sheet.

e. This amount is included within Other long-term 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. The fair value of debt with variable interest rates approximates carrying value. The fair value of debt with fixed interest rates was determined using the quoted market prices of debt instruments with similar terms and maturities. The total carrying value of short-term borrowings and long-term debt was \$782,036,000 and \$751,748,000 and the corresponding fair value was

approximately \$850,000,000 and \$770,000,000 at both July 31, 2010 and 2009.

8.

COMMITMENTS AND CONTINGENCIES

In April 2010, Tiffany and Company, the Company's principal operating subsidiary ("Tiffany") committed to a plan to consolidate its New York headquarters staff within one location in New York City from three

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separate locations currently leased in midtown Manhattan. The move is expected to occur in spring 2011 and will generate occupancy savings. Tiffany intends to sublease its existing properties 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. Accordingly, Tiffany anticipates recording expenses of approximately \$30,000,000 primarily within selling, general and administrative expenses in the consolidated statement of earnings in the fiscal year ending January 31, 2012; this expense is related to the fair value of the remaining non-cancelable lease obligations reduced by the estimated sublease rental income. Additionally, Tiffany will incur expenses of approximately \$18,000,000 in the fiscal year ending January 31, 2011 and \$5,000,000 in the fiscal year ending January 31, 2012 primarily related to the acceleration of the useful lives of certain property and equipment and incremental rents during the transition period. Changes in market conditions may affect the total expenses ultimately recorded. The expenses recorded during the three and six months ended July 31, 2010 were \$3,945,000 and \$4,805,000, respectively, and are primarily included in selling, general and administrative expenses (“SG&A”). This new lease, which expires in 2026, will increase total minimum annual rental payments as disclosed in the January 31, 2010 Annual Report on Form 10-K by the following amounts:

| (in thousands)                      | Total     | 2010 | 2011-2012 | 2013-2014 | Thereafter |
|-------------------------------------|-----------|------|-----------|-----------|------------|
| Unrecorded contractual obligations: |           |      |           |           |            |
| Operating leases                    | \$224,525 | \$—  | \$25,067  |           |            |