

TIFFANY & CO  
Form 10-Q  
August 30, 2007

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

FORM 10-Q

(Mark One)

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

**For the quarterly period ended July 31, 2007.**

**OR**

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

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

Commission file number: 1-9494

**TIFFANY & CO.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State of incorporation)

**13-3228013**

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

**727 Fifth Ave. New York, NY**

(Address of principal executive offices)

**10022**

(Zip Code)

Registrant's telephone number, including area code:

**(212) 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One).

Large Accelerated filer

Accelerated filer

Non-Accelerated filer

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:** Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: Common Stock, \$.01 par value, 136,722,420 shares outstanding at the close of business on July 31, 2007.

---

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

PART I - FINANCIAL INFORMATION	<u>PAGE</u>
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets - July 31, 2007, January 31, 2007 and July 31, 2006 (Unaudited)	3
Condensed Consolidated Statements of Earnings - for the three and six months ended July 31, 2007 and 2006 (Unaudited)	4
Condensed Consolidated Statements of Stockholders Equity - for the six months ended July 31, 2007 and Comprehensive Earnings - for the three and six months ended July 31, 2007 and 2006 (Unaudited)	5
Condensed Consolidated Statements of Cash Flows - for the six months ended July 31, 2007 and 2006 (Unaudited)	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7-12
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13-20
Item 3. Quantitative and Qualitative Disclosures About Market Risk	21
Item 4. Controls and Procedures	22
<b>PART II - OTHER INFORMATION</b>	
Item 1A. Risk Factors	23
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 4. Submission of Matters to a Vote of Security Holders	25

Item 6. Exhibits

26

(a) Exhibits

---

**PART I. Financial Information**  
**Item 1. Financial Statements**

**TIFFANY & CO. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

**(in thousands, except per share amounts)**

	July 31, 2007	January 31, 2007	July 31, 2006
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 129,027	\$ 175,008	\$ 144,868
Short-term investments	-	15,500	-
Accounts receivable, less allowances of \$6,133, \$7,900 and \$7,095	152,353	165,594	141,724
Inventories, net	1,253,657	1,146,674	1,174,319
Deferred income taxes	104,185	72,934	79,882
Prepaid expenses and other current assets	79,816	57,460	60,936
Assets held for sale	48,900	73,474	68,467
Total current assets	1,767,938	1,706,644	1,670,196
Property, plant and equipment, net	945,280	912,143	888,249
Deferred income taxes	51,100	37,368	28,072
Other assets, net	168,180	156,097	164,180
Assets held for sale - noncurrent	-	33,258	36,329
	\$ 2,932,498	\$ 2,845,510	\$ 2,787,026
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Current liabilities:			
Short-term borrowings	\$ 130,995	\$ 106,681	\$ 142,215
Current portion of long-term debt	5,455	5,398	6,272
Accounts payable and accrued liabilities	164,164	198,471	185,312
Income taxes payable	28,147	62,979	31,333
Merchandise and other customer credits	64,600	61,511	57,577
Liabilities held for sale	14,544	17,631	14,123
Total current liabilities	407,905	452,671	436,832
Long-term debt	400,643	406,383	423,819
Pension/postretirement benefit obligations	95,204	84,466	75,825

Edgar Filing: TIFFANY & CO - Form 10-Q

Other long-term liabilities	132,858	92,718	85,812
Liabilities held for sale - noncurrent	-	4,377	4,187
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 136,722, 135,875 and 138,139	1,368	1,358	1,381
Additional paid-in capital	619,456	536,187	504,678
Retained earnings	1,265,992	1,269,940	1,237,237
Accumulated other comprehensive gain (loss), net of tax:			
Foreign currency translation adjustments	24,802	11,846	16,050
Deferred hedging gain	92	2,046	655
Unrealized gain on marketable securities	155	178	550
Net unrealized losses on benefit plans	(15,977)	(16,660)	-
 Total stockholders' equity	 1,895,888	 1,804,895	 1,760,551
	\$ 2,932,498	\$ 2,845,510	\$ 2,787,026

*See notes to condensed consolidated financial statements.*

**TIFFANY & CO. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

**(Unaudited)**

**(in thousands, except per share amounts)**

	Three Months Ended		Six Months Ended	
	July 31,		July 31,	
	2007	2006	2007	2006
Net sales	\$ 662,562	\$ 554,657	\$ 1,258,291	\$ 1,070,013
Cost of sales	296,449	244,214	564,850	468,443
Gross profit	366,113	310,443	693,441	601,570
Selling, general and administrative expenses	259,119	233,565	505,160	449,758
Earnings from continuing operations	106,994	76,878	188,281	151,812
Other expenses, net	2,748	5,214	5,833	9,143
Earnings from continuing operations before income taxes	104,246	71,664	182,448	142,669
Provision for income taxes	41,027	26,950	69,824	54,471
Net earnings from continuing operations	63,219	44,714	112,624	88,198
Loss from discontinued operations, net of tax benefits	(26,246)	(3,570)	(25,992)	(3,912)
Net earnings	\$ 36,973	\$ 41,144	\$ 86,632	\$ 84,286
Earnings per share:				
Basic				
Net earnings from continuing operations	\$ 0.46	\$ 0.32	\$ 0.82	\$ 0.63
Loss from discontinued operations	(0.19)	(0.02)	(0.19)	(0.03)
Net earnings	\$ 0.27	\$ 0.30	\$ 0.63	\$ 0.60

Edgar Filing: TIFFANY & CO - Form 10-Q

Diluted								
Net earnings from continuing operations	\$	0.45	\$	0.32	\$	0.80	\$	0.62
Loss from discontinued operations		(0.19)		(0.03)		(0.18)		(0.03)
Net earnings	\$	0.26	\$	0.29	\$	0.62	\$	0.59

Weighted-average number of common shares:

Basic	136,743	139,170	136,616	140,556
Diluted	140,325	141,177	140,100	142,896

*See notes to condensed consolidated financial statements.*



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

	Total Stockholders Equity	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital
Balances, January 31, 2007	\$ 1,804,895	\$ 1,269,940	\$ (2,590)	135,875	\$ 1,358	\$ 536,187
Implementation effect of FIN No. 48	(4,299)	(4,299)	-	-	-	-
Balances, February 1, 2007	1,800,596	1,265,641	(2,590)	135,875	1,358	536,187
Exercise of stock options and vesting of restricted stock units ( RSUs )	54,032	-	-	1,977	21	54,011
Tax benefit from exercise of stock options and vesting of RSUs	11,033	-	-	-	-	11,033
Share-based compensation expense	18,723	-	-	-	-	18,723
Issuance of Common Stock under Employee Profit Sharing and Retirement Savings Plan	2,450	-	-	52	1	2,449
Purchase and retirement of Common Stock	(59,197)	(56,238)	-	(1,182)	(12)	(2,947)
Cash dividends on Common Stock	(30,043)	(30,043)	-	-	-	-
Deferred hedging loss, net of tax	(1,954)	-	(1,954)	-	-	-
Unrealized loss on marketable securities, net of tax	(23)	-	(23)	-	-	-
Foreign currency translation adjustments, net of tax	12,956	-	12,956	-	-	-
Amortization of net losses on benefit plans, net of tax	683	-	683	-	-	-
Net earnings	86,632	86,632	-	-	-	-

Edgar Filing: TIFFANY & CO - Form 10-Q

Balances, July 31, 2007      \$ 1,895,888      \$ 1,265,992      \$ 9,072      136,722      \$ 1,368      \$ 619,456

	Three Months Ended July 31,		Six Months Ended July 31,	
	2007	2006	2007	2006
Comprehensive earnings are as follows:				
Net earnings	\$ 36,973	\$ 41,144	\$ 86,632	\$ 84,286
Other comprehensive gain (loss), net of tax:				
Deferred hedging (loss) gain	(850)	984	(1,954)	(2,592)
Foreign currency translation adjustments	3,441	1,857	12,956	10,769
Unrealized loss on marketable securities	(283)	(164)	(23)	(129)
Amortization of net losses on benefit plans	335	-	683	-
Comprehensive earnings	\$ 39,616	\$ 43,821	\$ 98,294	\$ 92,334

*See notes to condensed consolidated financial statements.*

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

	Six Months Ended July 31,	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 86,632	\$ 84,286
Loss from discontinued operations, net of tax	(25,992)	(3,912)
Net earnings from continuing operations	112,624	88,198
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	61,730	56,754
Excess tax benefits from share-based payment arrangements	(9,897)	(721)
Provision for inventories	7,195	4,937
Deferred income taxes	(706)	(13,067)
Provision for pension/postretirement benefits	13,402	13,353
Share-based compensation expense	18,481	16,423
Changes in assets and liabilities:		
Accounts receivable	18,456	2,450
Inventories	(100,911)	(170,681)
Prepaid expenses and other current assets	(18,014)	(31,511)
Other assets, net	(9,270)	(638)
Accounts payable and accrued liabilities	(23,858)	3,361
Income taxes payable	(24,342)	(28,309)
Merchandise and other customer credits	2,845	1,008
Other long-term liabilities	3,024	(6,234)
Net cash provided by (used in) operating activities	50,759	(64,677)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of marketable securities and short-term investments	(217,861)	(122,529)
Proceeds from sales of marketable securities and short-term investments	231,919	122,215
Capital expenditures	(87,779)	(85,978)
Notes receivable funded	(2,172)	-
Acquisitions, net of cash acquired	(400)	-
Other	1,799	(286)
Net cash used in investing activities	(74,494)	(86,578)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from short-term borrowings, net	17,330	102,933
Repayment of long-term debt	(10,082)	(5,807)

Edgar Filing: TIFFANY & CO - Form 10-Q

Repurchase of Common Stock	(59,197)	(163,589)
Proceeds from exercise of stock options	54,032	3,978
Excess tax benefits from share-based payment arrangements	9,897	721
Cash dividends on Common Stock	(30,043)	(25,398)
Net cash used in financing activities	(18,063)	(87,162)
Effect of exchange rate changes on cash and cash equivalents	3,817	2,159
<b>CASH FLOWS FROM DISCONTINUED OPERATIONS:</b>		
Operating activities	(7,168)	(8,048)
Investing activities	(858)	(2,361)
Net cash used in discontinued operations	(8,026)	(10,409)
Net decrease in cash and cash equivalents	(46,007)	(246,667)
Cash and cash equivalents at beginning of year	175,008	391,594
Decrease (increase) in cash and cash equivalents of discontinued operations	26	(59)
Cash and cash equivalents at end of six months	\$ 129,027	\$ 144,868

*See notes to condensed consolidated financial statements.*

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

**1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying condensed consolidated financial statements include the accounts of Tiffany & Co. and all majority-owned domestic and foreign subsidiaries (the Company). Intercompany accounts, transactions and profits have been eliminated in consolidation. The interim statements are unaudited and, in the opinion of management, include all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company's financial position as of July 31, 2007 and 2006 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2007 is derived from the audited financial statements, which are included in the Company's Report on Form 10-K and should be read in connection with these financial statements. In accordance with the rules of the Securities and Exchange Commission, these financial statements do not include all disclosures required by generally accepted accounting principles.

The Company's business is seasonal, with a higher proportion of sales and earnings generated in the fourth quarter of the fiscal year and, therefore, the results of its operations for the three and six months ended July 31, 2007 and 2006 are not necessarily indicative of the results of the entire fiscal year.

**2. NEW ACCOUNTING STANDARDS**

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

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

**3. DISCONTINUED OPERATIONS**

Management has concluded that Little Switzerland Inc.'s (Little Switzerland) operations do not demonstrate the potential to generate a return on investment consistent with management's objectives and therefore, during the second quarter of 2007 the Company's Board of Directors authorized the sale of Little Switzerland. On July 31, 2007, the Company entered into an agreement with NXP Corporation (NXP) by which NXP would purchase 100% of the stock of Little Switzerland, Inc. The transaction is expected to close in third quarter of 2007 for proceeds of approximately \$35,000,000 which excludes payments for existing trade payables owed to the Company by Little Switzerland. The purchase price is subject to customary post-closing adjustments. The Company has agreed to continue to distribute TIFFANY & CO merchandise through TIFFANY & CO. boutiques maintained in certain LITTLE SWITZERLAND stores post-closing. In addition, the Company has agreed to

provide warehousing services to Little Switzerland for a transition period.

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

**3. DISCONTINUED OPERATIONS (continued)**

The loss before income taxes of Little Switzerland includes a \$54,861,000 pre-tax impairment charge (\$23,583,000 after-tax) reflecting the difference between Little Switzerland's carrying value and its estimated fair value, less costs to dispose. The tax benefit recorded in connection with the impairment charge included the effect of basis differences in the investment in Little Switzerland.

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

(in thousands)	Three Months Ended July 31, 2007	2006	Six Months Ended July 31,
----------------	--	------	------------------------------