

TIFFANY & CO
Form 10-Q
November 30, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2007.

OR

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

For the transition period from _____ to _____.

Commission file number: 1-9494

TIFFANY & CO.

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

13-3228013

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

727 Fifth Ave. New York, NY

(Address of principal executive offices)

10022

(Zip Code)

Registrant's telephone number, including area code:

(212)55-8000

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

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

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

Large Accelerated filer

Accelerated filer

Non-Accelerated filer

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

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

**TIFFANY & CO. AND SUBSIDIARIES
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FOR THE QUARTER ENDED OCTOBER 31, 2007**

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

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

See notes to condensed consolidated financial statements.

TIFFANY & CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in thousands, except per share amounts)

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

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

See notes to condensed consolidated financial statements.

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

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

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

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

See notes to condensed consolidated financial statements.

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

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

CASH FLOWS FROM FINANCING ACTIVITIES:

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

CASH FLOWS FROM DISCONTINUED OPERATIONS:

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

See notes to condensed consolidated financial statements.

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

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

2. NEW ACCOUNTING STANDARDS

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

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