

TIFFANY & CO  
Form 10-Q  
August 30, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended 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 X. 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 X

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 X.

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

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

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(a) Exhibits

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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)**

|   | July 31,<br>2007 | January 31,<br>2007 | July 31,<br>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<br>\$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           |
| <br>Total current assets  | <br>1,767,938    | <br>1,706,644       | <br>1,670,196    |
| <br>Property, plant and equipment, net                                  | <br>945,280      | <br>912,143         | <br>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     |
| <br><b>LIABILITIES AND STOCKHOLDERS<br/>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           |
| <br>Total current liabilities   | <br>407,905      | <br>452,671         | <br>436,832      |
| <br>Long-term debt  | <br>400,643      | <br>406,383         | <br>423,819      |
| Pension/postretirement benefit obligations                              | 95,204           | 84,466              | 75,825           |

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|   |              |              |              |
|---|--------------|--------------|--------------|
| 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<br>July 31, |            | Six Months Ended<br>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      |

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

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

|  | Three Months Ended<br>July 31, |           | Six Months Ended<br>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<br>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<br>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)   |

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|   |            |            |
|---|------------|------------|
| 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:

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