

TIFFANY & CO  
Form 10-Q  
December 01, 2010

**Table of Contents**

**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, 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 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  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

**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, 126,400,403 shares outstanding at the close of business on November 30, 2010.



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

	PAGE
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Condensed Consolidated Balance Sheets</u> October 31, 2010, January 31, 2010 and October 31, 2009 (Unaudited)	3
<u>Condensed Consolidated Statements of Earnings</u> for the three and nine months ended October 31, 2010 and 2009 (Unaudited)	4
<u>Condensed Consolidated Statements of Stockholders' Equity</u> for the nine months ended October 31, 2010 and <u>Comprehensive Earnings</u> for the three and nine months ended October 31, 2010 and 2009 (Unaudited)	5
<u>Condensed Consolidated Statements of Cash Flows</u> for the nine months ended October 31, 2010 and 2009 (Unaudited)	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7-18
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	19-28
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	29
<b><u>Item 4. Controls and Procedures</u></b>	30
<b><u>PART II OTHER INFORMATION</u></b>	
<b><u>Item 1A. Risk Factors</u></b>	31-33
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	34
<b><u>Item 6. Exhibits</u></b>	35
<b><u>(a) Exhibits</u></b>	
<u>Exhibit 10.153</u>	
<u>Exhibit 10.159a</u>	
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	

EX-101 PRESENTATION LINKBASE DOCUMENT  
EX-101 DEFINITION LINKBASE DOCUMENT

**Table of Contents****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, 2010	January 31, 2010	October 31, 2009
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 482,242	\$ 785,702	\$ 374,871
Short-term investments	47,254		
Accounts receivable, less allowances of \$11,208, \$12,892 and \$10,204	179,428	158,706	150,895
Inventories, net	1,654,552	1,427,855	1,541,888
Deferred income taxes	24,618	6,651	12,521
Prepaid expenses and other current assets	86,937	66,752	126,400
Total current assets	2,475,031	2,445,666	2,206,575
Property, plant and equipment, net	668,179	685,101	694,063
Deferred income taxes	186,426	183,825	157,680
Other assets, net	185,151	173,768	160,911
	\$ 3,514,787	\$ 3,488,360	\$ 3,219,229
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Current liabilities:			
Short-term borrowings	\$ 60,286	\$ 27,642	\$ 30,906
Current portion of long-term debt	101,675	206,815	163,890
Accounts payable and accrued liabilities	216,293	231,913	222,313
Income taxes payable	2,275	67,513	15,412
Merchandise and other customer credits	65,107	66,390	66,287
Total current liabilities	445,636	600,273	498,808
Long-term debt	593,028	519,592	558,207
Pension/postretirement benefit obligations	195,896	219,276	187,872
Deferred gains on sale-leasebacks	128,927	128,649	130,861
Other long-term liabilities	152,744	137,331	132,837
Commitments and contingencies			
Stockholders equity:			
Preferred Stock, \$0.01 par value; authorized 2,000 shares, none issued and outstanding			
Common Stock, \$0.01 par value; authorized 240,000 shares, issued and outstanding 126,128, 126,326 and	1,261	1,263	1,243

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124,304			
Additional paid-in capital	825,472	764,132	690,675
Retained earnings	1,182,746	1,151,109	1,032,371
Accumulated other comprehensive loss, net of tax	(10,923)	(33,265)	(13,645)
Total stockholders' equity	1,998,556	1,883,239	1,710,644
	\$ 3,514,787	\$ 3,488,360	\$ 3,219,229

*See notes to condensed consolidated financial statements.*

**Table of Contents**

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

**(Unaudited)**

*(in thousands except per share amounts)*

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2010	2009	2010	2009
Net sales	\$ 681,729	\$ 598,212	\$ 1,984,075	\$ 1,728,320
Cost of sales	283,158	270,409	832,774	773,846
Gross profit	398,571	327,803	1,151,301	954,474
Selling, general and administrative expenses	300,993	260,986	834,700	738,589
Earnings from continuing operations	97,578	66,817	316,601	215,885
Interest and other expenses, net	12,997	11,326	36,256	35,898
Earnings from continuing operations before income taxes	84,581	55,491	280,345	179,987
Provision for income taxes	29,502	12,182	93,166	52,518
Net earnings from continuing operations	55,079	43,309	187,179	127,469
Net earnings (loss) from discontinued operations		30		(3,013)
Net earnings	\$ 55,079	\$ 43,339	\$ 187,179	\$ 124,456
Earnings per share:				
Basic				
Net earnings from continuing operations	\$ 0.44	\$ 0.35	\$ 1.48	\$ 1.03
Net loss from discontinued operations				(0.03)
Net earnings	\$ 0.44	\$ 0.35	\$ 1.48	\$ 1.00
Diluted				
Net earnings from continuing operations	\$ 0.43	\$ 0.34	\$ 1.46	\$ 1.02
Net loss from discontinued operations				(0.02)
Net earnings	\$ 0.43	\$ 0.35	\$ 1.46	\$ 1.00
Weighted-average number of common shares:				
Basic	126,176	124,202	126,591	124,095
Diluted	127,905	125,582	128,277	124,756

*See notes to condensed consolidated financial statements.*



**Table of Contents**

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

	Total Stockholders Equity	Retained Earnings	Accumulated Other Comprehensive (Loss) Gain	Common Stock Shares	Common Stock Amount	Additional Paid-In 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 )	38,214			1,404	14	38,200
Tax effect of exercise of stock options and vesting of RSUs	4,791					4,791
Share-based compensation expense	19,312					19,312
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	(72,806)	(66,827)		(1,706)	(17)	(5,962)
Cash dividends on Common Stock	(88,715)	(88,715)				
Deferred hedging loss, net of tax	(1,278)		(1,278)			
Unrealized gain on marketable securities, net of tax	1,583		1,583			
Foreign currency translation adjustments, net of tax	20,539		20,539			
Net unrealized gain on benefit plans, net of tax	1,498		1,498			
Net earnings	187,179	187,179				
Balances, October 31, 2010	\$ 1,998,556	\$ 1,182,746	\$ (10,923)	126,128	\$ 1,261	\$ 825,472

**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Three Months Ended October 31, 2010	2009	Nine Months Ended October 31, 2010	2009
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Comprehensive earnings are as follows:

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Net earnings	\$ 55,079	\$ 43,339	\$ 187,179	\$ 124,456
Other comprehensive (loss) gain, net of tax:				
Deferred hedging (loss) gain	(3,353)	1,808	(1,278)	5,632
Foreign currency translation adjustments	22,710	20,645	20,539	48,363
Unrealized gain on marketable securities	947	915	1,583	3,815
Net unrealized gain (loss) on benefit plans	476	(40)	1,498	(22)
Comprehensive earnings	\$ 75,859	\$ 66,667	\$ 209,521	\$ 182,244

*See notes to condensed consolidated financial statements.*

**Table of Contents**

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

	Nine Months Ended October 31,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 187,179	\$ 124,456
Loss from discontinued operations, net of tax		3,013
Net earnings from continuing operations	187,179	127,469
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	109,165	103,239
Amortization of gain on sale-leaseback	(7,552)	(7,264)
Excess tax benefits from share-based payment arrangements	(4,310)	(141)
Provision for inventories	20,063	23,796
Deferred income taxes	(31,783)	11,097
Provision for pension/postretirement benefits	20,303	18,010
Share-based compensation expense	19,027	18,069
Changes in assets and liabilities:		
Accounts receivable	(7,179)	21,622
Inventories	(208,381)	58,943
Prepaid expenses and other current assets	(15,381)	11,914
Accounts payable and accrued liabilities	(10,722)	(8,489)
Income taxes payable	(52,038)	(52,799)
Merchandise and other customer credits	(1,733)	(1,922)
Other, net	(32,447)	(44,776)
Net cash (used in) provided by operating activities	(15,789)	278,768
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(88,694)	(46,888)
Purchases of marketable securities and short-term investments	(48,692)	(3,296)
Proceeds from sales of marketable securities and short-term investments	913	782
Other		3,485
Net cash used in investing activities	(136,473)	(45,917)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from (repayment of) credit facility borrowings, net	31,787	(124,992)
Repayment of short-term borrowings		(93,000)
Repayment of long-term debt	(178,845)	(40,000)
Proceeds from issuance of long-term debt	118,430	300,000
Repurchase of Common Stock	(72,806)	
Proceeds from exercise of stock options	38,214	6,347
Excess tax benefits from share-based payment arrangements	4,310	141
Cash dividends on Common Stock	(88,715)	(63,384)

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Financing fees	(174)	(6,255)
Purchase of non-controlling interests	(7,000)	(11,000)
Net cash used in financing activities	(154,799)	(32,143)
Effect of exchange rate changes on cash and cash equivalents	3,601	17,481
<b>CASH FLOWS FROM DISCONTINUED OPERATIONS:</b>		
Operating activities		(3,763)
Net cash used in discontinued operations		(3,763)
Net (decrease) increase in cash and cash equivalents	(303,460)	214,426
Cash and cash equivalents at beginning of year	785,702	160,445
Cash and cash equivalents at end of nine months	\$ 482,242	\$ 374,871

*See notes to condensed consolidated financial statements.*

**Table of Contents**

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

**1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying condensed consolidated financial statements include the accounts of Tiffany & Co. (the Company) and its subsidiaries in which a controlling interest is maintained. Controlling interest is determined by majority ownership interest and the absence of substantive third-party participating rights or, in the case of variable interest entities (VIEs), if the Company has the power to significantly direct the activities of a VIE, as well as the obligation to absorb significant losses of or the right to receive significant benefits from the VIE. Intercompany accounts, transactions and profits have been eliminated in consolidation. The interim statements are unaudited and, in the opinion of management, include all adjustments (which represent normal recurring adjustments) necessary to fairly state the Company's financial position as of October 31, 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 nine months ended October 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:

<i>(in thousands)</i>	Three Months Ended October 31, 2009	Nine Months Ended October 31, 2009
Net sales	\$ 1,044	\$ 13,231
Earnings (loss) before income taxes	13	(5,894)
Benefit from income taxes	17	2,881
Net earnings (loss) from discontinued operations	\$ 30	\$ (3,013)

**3. INVENTORIES**

<i>(in thousands)</i>	October 31, 2010	January 31, 2010	October 31, 2009
Finished goods	\$ 1,090,853	\$ 904,523	\$ 1,046,648
Raw materials	464,701	450,966	438,360
Work-in-process	98,998	72,366	56,880

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Inventories, net	\$	1,654,552	\$	1,427,855	\$	1,541,888
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**Table of Contents****4. INCOME TAXES**

The effective income tax rate for the three months ended October 31, 2010 was 34.9% versus 22.0% in the prior year which had included a \$5,558,000 benefit to the tax provision as a result of favorable reserve adjustments relating to the expiration of statutory periods. The effective income tax rate for the nine months ended October 31, 2010 was 33.2% versus 29.2% in the prior year. The effective income tax rate for the nine months ended October 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. Additionally, the effective income tax rate for the nine months ended October 31, 2009 included an \$11,220,000 benefit to the tax provision associated with the settlement of certain tax audits and the expiration of statutory periods.

During the nine months ended October 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 state and foreign jurisdictions. As a matter of course, various taxing authorities regularly audit the Company. The Company's tax filings are currently being examined by tax authorities in jurisdictions where its subsidiaries have a material presence, including New York state (tax years 2004-2008), New York City (tax years 2006-2008), Japan (tax years 2003-2008) and by the Internal Revenue Service (tax years 2007-2008). Tax years from 2003-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:

	Three Months Ended October		Nine Months Ended October	
	31,		31,	
<i>(in thousands)</i>	2010	2009	2010	2009
Net earnings for basic and diluted EPS	\$ 55,079			