TIFFANY & CO
Form 10-Q
December 02, 2011

Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2011

OR

o **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	**13-3228013**
(State of incorporation)	(I.R.S. Employer Identification No.)
727 Fifth Ave. New York, NY	**10022**
(Address of principal executive offices)	(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 þ No o

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 þ No o

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

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

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, 126,957,802 shares outstanding at the close of business on November 30, 2011.

TIFFANY & CO. AND SUBSIDIARIES
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED OCTOBER 31, 2011

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, 2011	January 31, 2011	October 31, 2010
ASSETS			
Current assets:			
Cash and cash equivalents	$ 279,111	$ 681,591	$ 482,242
Short-term investments	18,253	59,280	47,254
Accounts receivable, less allowances of $11,546, $11,783 and $11,208	170,181	185,969	179,428
Inventories, net	2,065,466	1,625,302	1,654,552
Deferred income taxes	93,790	41,826	24,618
Prepaid expenses and other current assets	117,706	90,577	86,937
Total current assets	2,744,507	2,684,545	2,475,031
Property, plant and equipment, net	752,151	665,588	668,179
Deferred income taxes	171,986	202,902	186,426
Other assets, net	229,640	182,634	185,151
	$ 3,898,284	$ 3,735,669	$ 3,514,787
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Short-term borrowings	$ 107,830	$ 38,891	$ 60,286
Current portion of long-term debt	61,247	60,855	101,675
Accounts payable and accrued liabilities	287,012	258,611	216,293
Income taxes payable	1,459	55,691	2,275
Merchandise and other customer credits	64,360	65,865	65,107
Total current liabilities	521,908	479,913	445,636
Long-term debt	539,703	588,494	593,028
Pension/postretirement benefit obligations	212,268	217,435	195,896
Deferred gains on sale-leasebacks	124,047	124,980	128,927
Other long-term liabilities	187,635	147,372	152,744
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 127,027, 126,969 and	1,270	1,269	1,261

126,128						
Additional paid-in capital		957,915		863,967		825,472
Retained earnings		1,352,852		1,324,804		1,182,746
Accumulated other comprehensive gain (loss), net of tax		686		(12,565)		(10,923)
Total stockholders equity		2,312,723		2,177,475		1,998,556
	$	3,898,284	$	3,735,669	$	3,514,787

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 October 31, 2011	Three Months Ended October 31, 2010	Nine Months Ended October 31, 2011	Nine Months Ended October 31, 2010
Net sales	$ 821,767	$ 681,729	$ 2,455,497	$ 1,984,075
Cost of sales	345,918	283,158	1,021,258	832,774
Gross profit	475,849	398,571	1,434,239	1,151,301
Selling, general and administrative expenses	329,672	300,993	1,011,556	834,700
Earnings from operations	146,177	97,578	422,683	316,601
Interest and other expenses, net	10,393	12,997	30,159	36,256
Earnings from operations before income taxes	135,784	84,581	392,524	280,345
Provision for income taxes	46,095	29,502	131,729	93,166
Net earnings	$ 89,689	$ 55,079	$ 260,795	$ 187,179
Earnings per share:				
Basic	$ 0.71	$ 0.44	$ 2.04	$ 1.48
Diluted	$ 0.70	$ 0.43	$ 2.02	$ 1.46
Weighted-average number of common shares:				
Basic	127,210	126,176	127,614	126,591
Diluted	128,812	127,905	129,329	128,277

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, 2011	$ 2,177,475	$ 1,324,804	$ (12,565)	126,969	$ 1,269	$ 863,967
Exercise of stock options and vesting of restricted stock units (RSUs)	62,644			2,098	21	62,623
Tax effect of exercise of stock options and vesting of RSUs	15,820					15,820
Share-based compensation expense	23,117					23,117
Issuance of Common Stock under the Employee Profit Sharing and Retirement Savings Plan	4,500			64	1	4,499
Purchase and retirement of Common Stock	(138,813)	(126,681)		(2,104)	(21)	(12,111)
Cash dividends on Common Stock	(106,066)	(106,066)				
Deferred hedging loss, net of tax	(10,789)		(10,789)			
Unrealized loss on marketable securities, net of tax	(420)		(420)			
Foreign currency translation adjustments, net of tax	21,914		21,914			
Net unrealized gain on benefit plans, net of tax	2,546		2,546			
Net earnings	260,795	260,795				
Balances, October 31, 2011	$ 2,312,723	$ 1,352,852	$ 686	127,027	$ 1,270	$ 957,915

	Three Months Ended October 31, 2011	Three Months Ended October 31, 2010	Nine Months Ended October 31, 2011	Nine Months Ended October 31, 2010
Comprehensive earnings are as follows:				
Net earnings	$ 89,689	$ 55,079	$ 260,795	$ 187,179
Other comprehensive gain (loss), net of tax:				
Deferred hedging loss	(6,141)	(3,353)	(10,789)	(1,278)

Foreign currency translation adjustments	(14,107)	22,710	21,914	20,539
Unrealized (loss) gain on marketable securities	(763)	947	(420)	1,583
Net unrealized gain on benefit plans	848	476	2,546	1,498
Comprehensive earnings	$ 69,526	$ 75,859	$ 274,046	$ 209,521

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, 2011	Nine Months Ended October 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 260,795	$ 187,179
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	103,439	109,165
Lease exit charge	30,884	
Amortization of gain on sale-leasebacks	(8,210)	(7,552)
Excess tax benefits from share-based payment arrangements	(17,621)	(4,310)
Provision for inventories	24,589	20,063
Deferred income taxes	(18,765)	(31,783)
Provision for pension/postretirement benefits	25,165	20,303
Share-based compensation expense	22,888	19,027
Changes in assets and liabilities:		
Accounts receivable	20,288	(7,179)
Inventories	(433,750)	(208,381)
Prepaid expenses and other current assets	(17,264)	(15,381)
Accounts payable and accrued liabilities	(5,459)	(10,722)
Income taxes payable	(29,009)	(52,038)
Merchandise and other customer credits	(1,895)	(1,733)
Other, net	(13,229)	(32,447)
Net cash used in operating activities	(57,154)	(15,789)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments	(34,034)	(48,692)
Proceeds from sale of marketable securities and short-term investments	79,399	913
Capital expenditures	(182,044)	(88,694)
Notes receivable funded	(56,605)	
Other	(1,674)	
Net cash used in investing activities	(194,958)	(136,473)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit facility borrowings, net	61,916	31,787
Repayment of long-term debt	(58,915)	(178,845)
Proceeds from issuance of long-term debt		118,430
Net proceeds received from termination of interest rate swap agreement	9,527	
Repurchase of Common Stock	(138,813)	(72,806)
Proceeds from exercise of stock options	62,644	38,214
Excess tax benefits from share-based payment arrangements	17,621	4,310
Cash dividends on Common Stock	(106,066)	(88,715)

Financing fees		(174)
Purchase of non-controlling interests		(7,000)
Net cash used in financing activities	(152,086)	(154,799)
Effect of exchange rate changes on cash and cash equivalents	1,718	3,601
Net decrease in cash and cash equivalents	(402,480)	(303,460)
Cash and cash equivalents at beginning of year	681,591	785,702
Cash and cash equivalents at end of nine months	$ 279,111	$ 482,242

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 (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 October 31, 2011 and 2010 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2011 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, 2011 and 2010 are not necessarily indicative of the results of the entire fiscal year.

2. NEW ACCOUNTING STANDARDS

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income , which allows an entity the option to present components of net income and other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The new guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The new guidance is effective for fiscal years and interim periods beginning after December 15, 2011 and will not have an impact on the Company s financial position or earnings.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Testing Goodwill for Impairment , which allows an entity to use a qualitative approach to test goodwill for impairment. The new guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The new guidance is effective for fiscal years beginning after December 15, 2011 and earlier adoption is permitted. The Company is currently evaluating the impact of the new guidance; however management does not believe it will have a material impact on the Company s financial position or earnings.

3. RECEIVABLES AND FINANCE CHARGES

The Company maintains an allowance for doubtful accounts for estimated losses associated with the accounts receivable recorded on the balance sheet. The allowance is determined based on a combination of factors including, but not limited to, the length of time that the receivables are past due, the Company s knowledge of the customer, economic and market conditions and historical write-off experiences.

For the receivables associated with Tiffany & Co. credit cards (Credit Card Receivables), the Company uses various indicators to determine whether to extend credit to customers and the amount of credit. Such indicators include reviewing prior experience with the customer, including sales and collection history, and

7

using applicants credit reports and scores provided by credit rating agencies. Credit Card Receivables require minimum balance payments. The Company classifies a Credit Card account as overdue if a minimum balance payment has not been received within the allotted timeframe (generally 30 days), after which internal collection efforts commence. For all accounts receivable recorded on the balance sheet, once all internal collection efforts have been exhausted and management has reviewed the account, the account balance is written off and may be sent for external collection or legal action. At October 31, 2011, the carrying amount of the Credit Card Receivables (recorded in accounts receivable, net in the Company s condensed consolidated balance sheet) was $53,985,000, of which 97% was considered current. The allowance for doubtful accounts for estimated losses associated with the Credit Card Receivables (approximately $2,000,000 at October 31, 2011) was determined based on the factors discussed above, and did not change significantly from January 31, 2011. Finance charges on Credit Card accounts are not significant.

The Company may, from time to time, extend loans to diamond mining and exploration companies in order to obtain rights to purchase the mine s output. Management evaluates these and any other loans that may arise for potential impairment by reviewing the parties financial statements and projections and other economic factors on a periodic basis. The carrying amount of loans receivable outstanding including accrued interest (primarily included within other assets, net on the Company s condensed consolidated balance sheet) was $57,785,000 as of October 31, 2011. The Company has not recorded any impairment charges on such loans as of October 31, 2011.

4. INVENTORIES

(*in thousands*)	October 31, 2011	January 31, 2011	October 31, 2010
Finished goods	$ 1,173,673	$ 988,085	$ 1,090,853
Raw materials	737,686	534,879	464,701
Work-in-process	154,107	102,338	98,998
Inventories, net	$ 2,065,466	$ 1,625,302	$ 1,654,552

5. INCOME TAXES

The effective income tax rate for the three months ended October 31, 2011 was 33.9% versus 34.9% in the prior year. The effective income tax rate for the nine months ended October 31, 2011 was 33.6% versus 33.2% in the prior year. In the nine months ended October 31, 2011, the Company reversed a valuation allowance in the second quarter against certain deferred tax assets where management has determined it is more likely than not that the deferred tax assets will be realized in the future. In the nine months ended October 31, 2010, the Company recorded a net income tax benefit of $3,096,000 primarily due to a change in the tax status of certain subsidiaries associated with the acquisition in 2009 of additional equity interests in diamond sourcing and polishing operations.

During the nine months ended October 31, 2011, 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 2004-2007, New York City tax years 2006-2008, New Jersey tax years 2006-2009 and by the Internal Revenue Service tax years 2006-2009. Tax years from 2004-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. Management anticipates that it is reasonably possible that the total gross amount of unrecognized tax benefits will decrease by approximately $20,000,000 in the next 12 months, a portion of which may affect the effective tax rate; however, management does not currently anticipate a significant effect on net earnings. Future developments may result in a change in this assessment.

Table of Contents

6. 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 31,		Nine Months Ended October 31,	
(*in thousands*)	2011	2010	2011	2010
Net earnings for basic and diluted EPS	$ 89,689	$ 55,079	$ 260,795	$ 187,179
Weighted-average shares for basic EPS	127,210	126,176	127,614	126,591
Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units	1,602	1,729	1,715	1,686
Weighted-average shares for diluted EPS	128,812	127,905	129,329	128,277

For the three months ended October 31, 2011 and 2010, there were 410,000 and 431,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect. For the nine months ended October 31, 2011 and 2010, there were 358,000 and 450,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

7. 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

9

Table of Contents

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 hedge 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   The Company entered into interest rate swap agreements to 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 hedges 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. In the three months ended October 31, 2011, the Company terminated the interest rate swap used to convert the 2008 Series A obligation to a floating obligation for net proceeds of $9,527,000. The difference between the fair value and the cost basis of the debt at the time of the termination will be recognized within interest and other expenses, net on the condensed consolidated statement of earnings through December 2015, the maturity date of the debt agreement. As of October 31, 2011, the notional amount of the interest rate swap agreement outstanding was $60,000,000.

Foreign Exchange Forward and Put Option Contracts   The Company uses foreign exchange forward contracts or put option contracts to offset the foreign currency exchange risks associated with foreign currency-denominated liabilities, intercompany transactions and forecasted purchases of merchandise between entities with differing functional currencies. For put option contracts, if the market 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 assesses hedge effectiveness based on the total changes in the put option contracts cash flows. These foreign exchange forward contracts and put option contracts are designated and accounted for as either cash flow hedges or economic hedges that are not designated as hedging instruments.

In 2010, the Company de-designated all of its outstanding put option contracts (notional amount of $0 outstanding at October 31, 2011) and entered into offsetting call option contracts. These put and call option contracts were accounted for as undesignated hedges. Any gains or losses on these de-designated put option contracts were substantially offset by losses or gains on the call option contracts.

As of October 31, 2011, the notional amount of foreign exchange forward contracts accounted for as cash flow hedges was $144,600,000 and the notional amount of foreign exchange forward contracts accounted for as undesignated hedges was $27,178,000. The term of all outstanding foreign exchange forward contracts as of October 31, 2011 ranged from less than one month to 15 months.

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 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 expires 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 12 months. As of October 31, 2011, there were approximately 34,900 ounces of platinum and 806,600 ounces of silver precious metal derivative instruments outstanding.

10

Table of Contents

Information on the location and amounts of derivative gains and losses in the condensed consolidated financial statements is as follows:

	Three Months Ended October 31,			
	2011		2010	
(in thousands)	Pre-Tax Gain Recognized in Earnings on Derivatives	Pre-Tax Loss Recognized in Earnings on Hedged Item	Pre-Tax Gain Recognized in Earnings on Derivatives	Pre-Tax Loss Recognized in Earnings on Hedged Item
Derivatives in Fair Value Hedging Relationships:				
Interest rate swap agreements [a]	$ 1,845	$ (1,551)	$ 2,351	$ (2,037)

	Nine Months Ended October 31,			
	2011		2010	
(in thousands)	Pre-Tax Gain Recognized in Earnings on Derivatives	Pre-Tax Loss Recognized in Earnings on Hedged Item	Pre-Tax Gain Recognized in Earnings on Derivatives	Pre-Tax Loss Recognized in Earnings on Hedged Item
Derivatives in Fair Value Hedging Relationships:				
Interest rate swap agreements [a]	$ 3,595	$ (3,043)	$ 7,257	$ (6,334)

	Three Months Ended October 31,			
	2011		2010	
(in thousands)	Pre-Tax Loss Recognized in OCI (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated OCI into Earnings (Effective Portion)	Pre-Tax (Loss) Gain Recognized in OCI (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated OCI into Earnings (Effective Portion)
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange forward contracts [b]	$ (4,784)	$ (2,173)	$ (6,812)	$ (311)
Put option contracts [b]	(17)	(426)	(847)	(577)
Precious metal collars [b]			385	(117)
Precious metal forward contracts [b]	(6,915)	903	1,744	504

	$	(11,716)	$	(1,696)	$	(5,530)	$	(501)

	Nine Months Ended October 31,							
	2011				2010			
(in thousands)	Pre-Tax Loss Recognized in OCI (Effective Portion)		Amount of (Loss) Gain Reclassified from Accumulated OCI into Earnings (Effective Portion)		Pre-Tax (Loss) Gain Recognized in OCI (Effective Portion)		Amount of (Loss) Gain Reclassified from Accumulated OCI into Earnings (Effective Portion)	
Derivatives in Cash Flow Hedging Relationships:								
Foreign exchange forward contracts [b]	$	(14,942)	$	(4,226)	$	(6,169)	$	(577)
Put option contracts [b]		(78)		(1,765)		(2,263)		(2,084)
Precious metal collars [b]				607		661		(1,295)
Precious metal forward contracts [b]		(4,842)		2,718		3,114		964
	$	(19,862)	$	(2,666)	$	(4,657)	$	(2,992)

(in thousands)	Pre-Tax (Loss) Gain Recognized in Earnings on Derivative Three Months Ended October 31, 2011		Three Months Ended October 31, 2010	
Derivatives Not Designated as Hedging Instruments:				
Foreign exchange forward contracts [a]	$	(124) [c]	$	(161)[c]
Call option contracts [b]				155
Put option contracts [b]				(195)
	$	(124)	$	(201)

(in thousands)	Pre-Tax Gain (Loss) Recognized in Earnings on Derivative Nine Months Ended October 31, 2011		Nine Months Ended October 31, 2010	
Derivatives Not Designated as Hedging Instruments:				
Foreign exchange forward contracts [a]	$	417[c]	$	(775)[c]
Call option contracts [b]		92		303
Put option contracts [b]		(92)		(343)
	$	417	$	(815)

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

[b] The gain or loss recognized in earnings is included within Cost of sales on the Company s Condensed Consolidated Statement of Earnings.

[c] Gains 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 October 31, 2011 and 2010. The Company expects approximately $15,033,000 of net pre-tax derivative losses included in accumulated other comprehensive income at October 31, 2011 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 8. 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) and limits 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 non-performance by individual counterparties or the entire group of counterparties.

8. 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:

Table of Contents

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 agreement is 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 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 7. Hedging Instruments.
Financial assets and liabilities carried at fair value at October 31, 2011 are classified in the tables below in one of the three categories described above:

	Carrying	Estimated Fair Value			Total Fair
(in thousands)	Value	Level 1	Level 2	Level 3	Value
Mutual funds [a]	$ 38,561	$ 38,561	$	$	$ 38,561
Time deposits [b]	18,253	18,253			18,253
Derivatives designated as hedging instruments:					
Interest rate swap agreements [a]	660		660		660
Precious metal forward contracts [c]	2,110		2,110		2,110
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts [c]	355		355		355
Total financial assets	$ 59,939	$ 56,814	$ 3,125	$	$ 59,939

	Carrying	Estimated Fair Value			Total Fair
(in thousands)	Value	Level 1	Level 2	Level 3	Value
Derivatives designated as hedging instruments:					
Foreign exchange forward contracts [d]	$ 8,691	$	$ 8,691	$	$ 8,691
Precious metal forward contracts [d]	5,580		5,580		5,580
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts [d]	63		63		63

Total financial liabilities	$	14,334	$		$	14,334	$		$	14,334

Table of Contents

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

	Carrying	Estimated Fair Value			Total Fair
(in thousands)	Value	Level 1	Level 2	Level 3	Value
Mutual funds [a]	$ 42,939	$ 42,939	$	$	$ 42,939
Time deposits [b]	47,254	47,254			47,254
Derivatives designated as hedging instruments:					
Interest rate swap agreements [a]	9,253		9,253		9,253
Precious metal forward contracts [c]	1,371		1,371		1,371
Precious metal collars [c]	242		242		242
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts [c]	107		107		107
Put option contracts [c]	208		208		208
Total financial assets	$ 101,374	$ 90,193	$ 11,181	$	$ 101,374

	Carrying	Estimated Fair Value			Total Fair
(in thousands)	Value	Level 1	Level 2	Level 3	Value
Derivatives designated as hedging instruments:					
Foreign exchange forward contracts [d]	$ 5,825	$	$ 5,825	$	$ 5,825
Derivatives not designated as hedging instruments:					
Call option contracts [d]	208		208		208
Foreign exchange forward contracts [d]	128		128		128
Total financial liabilities	$ 6,161	$	$ 6,161	$	$ 6,161

a Included within Other assets, net on the Company s Condensed Consolidated Balance Sheet.

b Included within Short-term investments on the Company s Condensed Consolidated Balance Sheet.

c Included within Prepaid expenses and other current assets on the Company s Condensed Consolidated Balance Sheet.

[d] Included within Accounts payable and accrued 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 $708,780,000 and $754,989,000 and the corresponding fair value was approximately $850,000,000 at both October 31, 2011 and 2010.

9. DEBT

In May 2011, the Company entered into a ¥4,000,000,000 ($49,240,000 at issuance) one-year uncommitted credit facility. Borrowings may be made on one-, three- or 12-month terms bearing interest at the LIBOR rate plus 0.25%, subject to bank approval. As of October 31, 2011, the Company had borrowed the full amount under the facility.

Table of Contents

10. COMMITMENTS AND CONTINGENCIES

Diamond Sourcing Activities. In March 2011, Laurelton Diamonds, Inc., a direct, wholly-owned subsidiary of the Company (Laurelton), as lender, entered into a $50,000,000 amortizing term loan facility agreement (the Loan) with Koidu Holdings S.A. (Koidu), as borrower, and BSG Resources Limited, as a limited guarantor. Koidu operates a kimberlite diamond mine in Sierra Leone (the Mine) from which Laurelton now acquires diamonds. Koidu is required under the terms of the Loan to apply the proceeds of the Loan to capital expenditures necessary to expand the Mine, among other purposes. The Loan is required to be repaid in full by March 2017 through semi-annual payments scheduled to begin in March 2013. Interest accrues at a rate per annum that is the greater of (i) LIBOR plus 3.5% or (ii) 4%. In consideration of the Loan, Laurelton was granted the right to purchase at fair market value diamonds recovered from the Mine that meet Laurelton s quality standards. In the second quarter of 2011 the Loan was fully funded. The assets of Koidu, including all equipment and rights in respect of the Mine, are subject to the security interest of a lender that is not affiliated with the Company. The Loan will be partially secured by diamonds that have been extracted from the Mine and that have not been sold to third parties. The Company has evaluated the variable interest entity consolidation requirements with respect to this transaction and has determined that it is not the primary beneficiary, as it does not have the power to direct any of the activities that most significantly impact Koidu s economic performance.

Leases. In April 2010, Tiffany and Company, the Company s principal operating subsidiary (Tiffany) committed to a plan to consolidate and relocate its New York headquarters staff to a single location in New York City from three separate locations leased in midtown Manhattan. The move occurred in June 2011. 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 recorded expenses of $0 and $42,719,000 during the three months and nine months ended October 31, 2011 primarily within selling, general and administrative (SG&A) expenses in the condensed consolidated statement of earnings, of which $30,884,000 was related to the fair value of the remaining non-cancelable lease obligations reduced by the estimated sublease rental income. The remaining expense is due to the acceleration of the useful lives of certain property and equipment, incremental rent expense during the transition period and lease termination payments. The expenses recorded during the three and nine months ended October 31, 2010 were $6,421,000 and $11,226,000 and were primarily included within SG&A expenses.

The following is a reconciliation of the accrued exit charges, recorded within other long-term liabilities on the condensed consolidated balance sheet, associated with the relocation:

(in thousands)	
Balance at July 31, 2011	$ 29,908
Cash payments, net of estimated sublease income	(3,142)
Interest accretion	199
Balance at October 31, 2011	$ 26,965

Litigation. On June 24, 2011 The Swatch Group Ltd. (Swatch) and its wholly-owned subsidiary Tiffany Watch Co. (Watch Company ; Swatch and Watch Company, together the Swatch Parties), initiated an arbitration proceeding (the Arbitration) against the Company and its wholly-owned subsidiaries Tiffany and Tiffany (NJ) Inc. (the Company and such subsidiaries together, the Tiffany Parties) seeking damages for alleged contractual breach of agreements entered into by and among the Swatch Parties and the Tiffany Parties in December of 2007 (the License and Distribution Agreements). On September 12, 2011, the Swatch Parties publicly issued a Notice of Termination which purports to terminate the License and Distribution Agreements due to claimed material breach by the Tiffany Parties. The Tiffany Parties have asserted counterclaims for damages attributable to breach by the Swatch Parties and for termination due to such breach. The Arbitration is pending before a three-member arbitral panel convened pursuant to the Arbitration Rules of the Netherlands Arbitration Institute in the Netherlands. The Swatch Parties and the Tiffany Parties have agreed that all claims and counterclaims between and among them under the License and Distribution Agreements will be determined through the Arbitration.

Table of Contents

Neither the claims of the Swatch Parties, nor those of the Tiffany Parties, have been set forth completely or in final form. However, in general terms, the Swatch Parties have claimed that the Tiffany Parties have tried to block and delay development of Watch Company s business, while the Tiffany Parties have claimed that the Swatch Parties have failed to provide appropriate distribution and other resources for TIFFANY & CO. brand watches and to honor their contractual obligations to follow the Tiffany Parties direction regarding brand-management.

Management believes that it is not probable that the Arbitration will result in a material impact to the condensed consolidated financial statements. Management has not provided any amount in the condensed consolidated financial statements related to an award of damages in the Arbitration. If the License and Distribution Agreements are terminated, the Tiffany Parties will need to find a new manufacturer for TIFFANY & CO. brand watches and the Swatch Parties will no longer be responsible for distributing such watches to third-party distributors. Royalties payable to the Tiffany Parties by Watch Company under the License and Distribution Agreements have not been significant in any year. Watches manufactured by Watch Company and sold in TIFFANY & CO. stores constituted 1% of net sales in 2010, 2009 and 2008.

11. STOCKHOLDERS EQUITY

Accumulated Other Comprehensive Gain (Loss)

(in thousands)	October 31, 2011	January 31, 2011	October 31, 2010
Accumulated other comprehensive gain (loss), net of tax:			
Foreign currency translation adjustments	$ 63,329	$ 41,415	$ 37,051
Deferred hedging loss	(11,981)	(1,192)	(3,885)
Unrealized (loss) gain on marketable securities	(278)	142	(316)
Net unrealized loss on benefit plans	(50,384)	(52,930)	(43,773)
	$ 686	$ (12,565)	$ (10,923)

12. EMPLOYEE BENEFIT PLANS

The Company maintains several pension and retirement plans, and also provides certain health-care and life insurance benefits.

Net periodic pension and other postretirement benefit expense included the following components:

	Three Months Ended October 31,	
	Pension Benefits	Other Postretirement Benefits
(*in thousands*)		