TIFFANY & CO
Form 10-Q
May 26, 2011

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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 April 30, 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, 127,713,112 shares outstanding at the close of business on April 29, 2011.

TIFFANY & CO. AND SUBSIDIARIES
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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*)

	April 30, 2011	January 31, 2011	April 30, 2010
ASSETS			
Current assets:			
Cash and cash equivalents	$ 604,419	$ 681,591	$ 673,750
Short-term investments	17,901	59,280	
Accounts receivable, less allowances of $12,450, $11,783 and $11,482	175,926	185,969	139,879
Inventories, net	1,720,895	1,625,302	1,473,730
Deferred income taxes	49,118	41,826	6,514
Prepaid expenses and other current assets	122,694	90,577	87,586
Total current assets	2,690,953	2,684,545	2,381,459
Property, plant and equipment, net	685,457	665,588	673,786
Deferred income taxes	187,518	202,902	185,952
Other assets, net	194,204	182,634	177,510
	$ 3,758,132	$ 3,735,669	$ 3,418,707
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Short-term borrowings	$ 97,632	$ 38,891	$ 42,865
Current portion of long-term debt		60,855	252,720
Accounts payable and accrued liabilities	216,788	258,611	164,665
Income taxes payable	14,600	55,691	29,256
Merchandise and other customer credits	67,259	65,865	64,486
Total current liabilities	396,279	479,913	553,992
Long-term debt	589,255	588,494	464,170
Pension/postretirement benefit obligations	198,315	217,435	184,427
Deferred gains on sale-leasebacks	124,809	124,980	120,554
Other long-term liabilities	171,226	147,372	139,162
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 127,713, 126,969 and	1,277	1,269	1,272

127,208			
Additional paid-in capital	909,357	863,967	808,189
Retained earnings	1,347,691	1,324,804	1,177,027
Accumulated other comprehensive gain (loss), net of tax	19,923	(12,565)	(30,086)
Total stockholders equity	2,278,248	2,177,475	1,956,402
	$ 3,758,132	$ 3,735,669	$ 3,418,707

See notes to condensed consolidated financial statements.

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TIFFANY & CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(in thousands, except per share amounts)

	Three Months Ended April 30, 2011	Three Months Ended April 30, 2010
Net sales	$ 761,018	$ 633,586
Cost of sales	317,325	267,608
Gross profit	443,693	365,978
Selling, general and administrative expenses	307,727	260,561
Earnings from operations	135,966	105,417
Interest and other expenses, net	10,147	12,138
Earnings from operations before income taxes	125,819	93,279
Provision for income taxes	44,756	28,854
Net earnings	$ 81,063	$ 64,425
Net earnings per share:		
Basic	$ 0.64	$ 0.51
Diluted	$ 0.63	$ 0.50
Weighted-average number of common shares:		
Basic	127,601	126,699
Diluted	129,381	128,543

See notes to condensed consolidated financial statements.

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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)	32,106			1,197	12	32,094
Tax effect of exercise of stock options and vesting of RSUs	8,224					8,224
Share-based compensation expense	6,758					6,758
Purchase and retirement of Common Stock	(27,939)	(26,249)		(453)	(4)	(1,686)
Cash dividends on Common Stock	(31,927)	(31,927)				
Deferred hedging gain, net of tax	990		990			
Unrealized gain on marketable securities, net of tax	939		939			
Foreign currency translation adjustments, net of tax	29,696		29,696			
Net unrealized gain on benefit plans, net of tax	863		863			
Net earnings	81,063	81,063				
Balances, April 30, 2011	$ 2,278,248	$ 1,347,691	$ 19,923	127,713	$ 1,277	$ 909,357

	Three Months Ended April 30, 2011	Three Months Ended April 30, 2010
Comprehensive earnings are as follows:		
Net earnings	$ 81,063	$ 64,425
Other comprehensive gain (loss), net of tax:		
Deferred hedging gain	990	4,808
Foreign currency translation adjustments	29,696	(3,260)
Unrealized gain on marketable securities	939	1,083

Net unrealized gain on benefit plans	863	548
Comprehensive earnings	$ 113,551	$ 67,604

See notes to condensed consolidated financial statements.

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

	Three Months Ended April 30, 2011	Three Months Ended April 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 81,063	$ 64,425
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	36,631	34,091
Amortization of gain on sale-leasebacks	(2,682)	(2,464)
Excess tax benefits from share-based payment arrangements	(8,862)	(3,452)
Provision for inventories	8,181	6,454
Deferred income taxes	7,205	(7,720)
Provision for pension/postretirement benefits	7,631	6,718
Share-based compensation expense	6,690	6,002
Changes in assets and liabilities:		
Accounts receivable	12,276	19,213
Inventories	(83,119)	(61,698)
Prepaid expenses and other current assets	(6,702)	(14,660)
Accounts payable and accrued liabilities	(45,668)	(61,561)
Income taxes payable	(32,148)	(35,055)
Merchandise and other customer credits	574	(1,960)
Other, net	(25,315)	(40,349)
Net cash used in operating activities	(44,245)	(92,016)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments	(3,297)	(248)
Proceeds from sale of marketable securities and short-term investments	45,124	
Capital expenditures	(51,628)	(25,513)
Notes receivable funded	(6,609)	
Net cash used in investing activities	(16,410)	(25,761)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit facility borrowings, net	55,097	15,291
Repayment of long-term debt	(58,915)	
Repurchase of Common Stock	(27,939)	(14,257)
Proceeds from exercise of stock options	32,106	30,196
Excess tax benefits from share-based payment arrangements	8,862	3,452
Cash dividends on Common Stock	(31,927)	(25,320)
Net cash (used in) provided by financing activities	(22,716)	9,362
Effect of exchange rate changes on cash and cash equivalents	6,199	(3,537)

Net decrease in cash and cash equivalents	(77,172)	(111,952)
Cash and cash equivalents at beginning of year	681,591	785,702
Cash and cash equivalents at end of three months	$ 604,419	$ 673,750

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. (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 April 30, 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 months ended April 30, 2011 and 2010 are not necessarily indicative of the results of the entire fiscal year.

2. 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 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 April 30, 2011, the carrying amount of the Credit Card Receivables (recorded in accounts receivable, net in the Company s condensed consolidated balance sheet) was $52,446,000, 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 April 30, 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 $6,843,000 as of April 30, 2011. The Company has not recorded any impairment charges on such loans as of April 30, 2011.

3. INVENTORIES

(in thousands)	April 30, 2011	January 31, 2011	April 30, 2010
Finished goods	$ 1,035,988	$ 988,085	$ 943,527
Raw materials	565,724	534,879	435,456
Work-in-process	119,183	102,338	94,747
Inventories, net	$ 1,720,895	$ 1,625,302	$ 1,473,730

4. INCOME TAXES

The effective income tax rate for the three months ended April 30, 2011 was 35.6% versus 30.9% in the prior year. In the three months ended April 30, 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 three months ended April 30, 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) and by the Internal Revenue Service (tax years 2007-2009). 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. 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 April 30,	
(in thousands)	2011	2010
Net earnings for basic and diluted EPS	$ 81,063	$ 64,425
Weighted-average shares for basic EPS	127,601	126,699
Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units	1,780	1,844
Weighted-average shares for diluted EPS	129,381	128,543

For the three months ended April 30, 2011 and 2010, there were 313,000 and 431,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

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6. 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 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. As of April 30, 2011, the notional amount of interest rate swap agreements outstanding was $160,000,000.

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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 $37,000,000 outstanding at April 30, 2011) and entered into offsetting call option contracts. These put and call option contracts are accounted for as undesignated hedges. Any gains or losses on these de-designated put option contracts are substantially offset by losses or gains on the call option contracts.

As of April 30, 2011, the notional amount of foreign exchange forward contracts accounted for as cash flow hedges was $170,200,000 and the notional amount of foreign exchange forward contracts accounted for as undesignated hedges was $22,806,000. The term of all outstanding foreign exchange forward contracts as of April 30, 2011 ranged from less than one month to 16 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 April 30, 2011, there were approximately 10,300 ounces of platinum and 318,000 ounces of silver precious metal derivative instruments outstanding.

Information on the location and amounts of derivative gains and losses in the Condensed Consolidated Statements of Earnings is as follows:

	Three Months Ended April 30,			
	2011		2010	
(in thousands)	Pre-Tax Loss 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]	$ (25)	$ (6)	$ 465	$ (398)

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	Three Months Ended April 30, 2011		2010	
	Pre-Tax (Loss) Gain	(Loss) Gain Reclassified from Accumulated OCI	Pre-Tax Gain Recognized in	(Loss) Gain Reclassified from Accumulated OCI