

TIFFANY & CO
Form 10-Q
August 27, 2012
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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 July 31, 2012

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)

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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 (Do not check if a smaller reporting company) 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, 126,637,625 shares outstanding at the close of business on July 31, 2012.

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TIFFANY & CO. AND SUBSIDIARIES

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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)*

| | July 31, 2012 | January 31, 2012 | July 31, 2011 |
|---|---------------------|---------------------|---------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 366,080 | \$ 433,954 | \$ 532,981 |
| Short-term investments | 1,357 | 8,236 | 32,210 |
| Accounts receivable, less allowances of \$10,353, \$11,772 and \$12,400 | 171,463 | 184,085 | 182,001 |
| Inventories, net | 2,230,474 | 2,073,212 | 1,836,874 |
| Deferred income taxes | 105,212 | 83,124 | 67,964 |
| Prepaid expenses and other current assets | 130,128 | 107,064 | 115,474 |
| Total current assets | 3,004,714 | 2,889,675 | 2,767,504 |
| Property, plant and equipment, net | 777,387 | 767,174 | 738,172 |
| Deferred income taxes | 276,451 | 271,156 | 185,020 |
| Other assets, net | 266,194 | 230,987 | 240,192 |
| | \$ 4,324,746 | \$ 4,158,992 | \$ 3,930,888 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Short-term borrowings | \$ 155,137 | \$ 112,973 | \$ 97,272 |
| Current portion of long-term debt | | 60,822 | 61,728 |
| Accounts payable and accrued liabilities | 259,608 | 328,962 | 274,301 |
| Income taxes payable | 26,901 | 60,977 | 20,687 |
| Merchandise and other customer credits | 63,112 | 62,943 | 66,764 |
| Total current liabilities | 504,758 | 626,677 | 520,752 |
| Long-term debt | 784,409 | 538,352 | 534,673 |
| Pension/postretirement benefit obligations | 316,319 | 338,564 | 205,298 |
| Deferred gains on sale-leasebacks | 112,285 | 119,692 | 125,173 |
| Other long-term liabilities | 198,176 | 186,802 | 193,256 |
| 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 126,638, 126,676 and 128,164 | 1,266 | 1,267 | 1,281 |
| Additional paid-in capital | 998,720 | 970,215 | 951,552 |
| Retained earnings | 1,509,806 | 1,462,553 | 1,378,054 |

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| | | | |
|---|--------------|--------------|--------------|
| Accumulated other comprehensive gain (loss), net of tax | (113,302) | (85,130) | 20,849 |
| Total Tiffany & Co. stockholders equity | 2,396,490 | 2,348,905 | 2,351,736 |
| Non-controlling interest | 12,309 | | |
| Total stockholders equity | 2,408,799 | 2,348,905 | 2,351,736 |
| | \$ 4,324,746 | \$ 4,158,992 | \$ 3,930,888 |

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 July 31, | | Six Months Ended July 31, | |
|--|-----------------------------|------------|---------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net sales | \$ 886,569 | \$ 872,712 | \$ 1,705,739 | \$ 1,633,730 |
| Cost of sales | 387,407 | 358,015 | 737,559 | 675,340 |
| Gross profit | 499,162 | 514,697 | 968,180 | 958,390 |
| Selling, general and administrative expenses | 344,582 | 374,157 | 678,615 | 681,884 |
| Earnings from operations | 154,580 | 140,540 | 289,565 | 276,506 |
| Interest and other expenses, net | 14,250 | 9,619 | 24,804 | 19,766 |
| Earnings from operations before income taxes | 140,330 | 130,921 | 264,761 | 256,740 |
| Provision for income taxes | 48,529 | 40,878 | 91,426 | 85,634 |
| Net earnings | \$ 91,801 | \$ 90,043 | \$ 173,335 | \$ 171,106 |
| Earnings per share: | | | | |
| Basic | \$ 0.72 | \$ 0.70 | \$ 1.37 | \$ 1.34 |
| Diluted | \$ 0.72 | \$ 0.69 | \$ 1.36 | \$ 1.32 |
| Weighted-average number of common shares: | | | | |
| Basic | 126,631 | 128,030 | 126,677 | 127,816 |
| Diluted | 127,663 | 129,794 | 127,920 | 129,587 |

See notes to condensed consolidated financial statements.

Table of Contents**TIFFANY & CO. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS COMPREHENSIVE EARNINGS****(Unaudited)***(in thousands)*

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--|--------------------------------|-----------|------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net earnings | \$ 91,801 | \$ 90,043 | \$ 173,335 | \$ 171,106 |
| Foreign currency translation adjustments | (20,967) | 4,942 | (21,353) | 35,016 |
| Unrealized gain (loss) on marketable securities | 5 | (971) | 1,102 | 475 |
| Less: reclassification adjustment for loss included in net earnings | | 53 | | 53 |
| Unrealized gain (loss) on marketable securities | 5 | (918) | 1,102 | 528 |
| Unrealized loss on hedging instruments | (27,582) | (9,528) | (30,371) | (8,146) |
| Less: reclassification adjustments for loss included in net earnings | 4,013 | 734 | 7,763 | 970 |
| Unrealized loss on hedging instruments | (23,569) | (8,794) | (22,608) | (7,176) |
| Amortization of net loss | 3,907 | 1,269 | 7,993 | 2,586 |
| Amortization of prior service cost | 89 | 102 | 178 | 203 |
| Net unrealized gain on benefit plans | 3,996 | 1,371 | 8,171 | 2,789 |
| Other comprehensive (loss) earnings, before tax | (40,535) | (3,399) | (34,688) | 31,157 |
| Income tax benefit related to items of other comprehensive (loss) earnings | 6,691 | 4,325 | 6,516 | 2,257 |
| Other comprehensive (loss) earnings, net of tax | (33,844) | 926 | (28,172) | 33,414 |
| Comprehensive earnings | \$ 57,957 | \$ 90,969 | \$ 145,163 | \$ 204,520 |

See notes to condensed consolidated financial statements.

Table of Contents**TIFFANY & CO. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****(Unaudited)***(in thousands)*

| | Total Stockholders Equity | Retained Earnings | Accumulated Other Comprehensive (Loss) Gain | Common Stock | | Additional Paid-In Capital | Non- controlling Interests |
|--|---------------------------------|----------------------|--|--------------|----------|----------------------------------|----------------------------------|
| | | | | Shares | Amount | | |
| Balances, January 31, 2012 | \$ 2,348,905 | \$ 1,462,553 | \$ (85,130) | 126,676 | \$ 1,267 | \$ 970,215 | \$ |
| Exercise of stock options and vesting of restricted stock units (RSUs) | 4,922 | | | 730 | 7 | 4,915 | |
| Tax effect of exercise of stock options and vesting of RSUs | 10,012 | | | | | 10,012 | |
| Share-based compensation expense | 15,752 | | | | | 15,752 | |
| Issuance of Common Stock under the Employee Profit Sharing and Retirement Savings Plan | 3,150 | | | 45 | | 3,150 | |
| Purchase and retirement of Common Stock | (54,107) | (48,775) | | (813) | (8) | (5,324) | |
| Cash dividends on Common Stock | (77,307) | (77,307) | | | | | |
| Other comprehensive loss, net of tax | (28,172) | | (28,172) | | | | |
| Net earnings attributable to Tiffany & Co. | 173,335 | 173,335 | | | | | |
| Non- controlling interests | 12,309 | | | | | | 12,309 |
| Balances, July 31, 2012 | \$ 2,408,799 | \$ 1,509,806 | \$ (113,302) | 126,638 | \$ 1,266 | \$ 998,720 | \$ 12,309 |

See notes to condensed consolidated financial statements.

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

| | Six Months Ended July 31, | |
|---|---------------------------|------------|
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | \$ 173,335 | \$ 171,106 |
| Adjustments to reconcile net earnings to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 79,167 | 71,596 |
| Lease exit charge | | 30,884 |
| Amortization of gain on sale-leasebacks | (5,425) | (5,412) |
| Excess tax benefits from share-based payment arrangements | (10,020) | (15,749) |
| Provision for inventories | 16,405 | 14,870 |
| Deferred income taxes | (22,599) | (2,854) |
| Provision for pension/postretirement benefits | 23,010 | 15,267 |
| Share-based compensation expense | 15,615 | 15,090 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 9,346 | 8,688 |
| Inventories | (185,552) | (195,739) |
| Prepaid expenses and other current assets | (18,660) | (21,536) |
| Accounts payable and accrued liabilities | (72,826) | (21,300) |
| Income taxes payable | (18,247) | (19,391) |
| Merchandise and other customer credits | 290 | 221 |
| Other, net | (41,924) | (1,846) |
| Net cash (used in) provided by operating activities | (58,085) | 43,895 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of marketable securities and short-term investments | (12,903) | (33,771) |
| Proceeds from sale of marketable securities and short-term investments | 19,289 | 66,364 |
| Capital expenditures | (96,952) | (111,016) |
| Notes receivable funded | (1,000) | (56,605) |
| Other | | (1,674) |
| Net cash used in investing activities | (91,566) | (136,702) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from credit facility borrowings, net | 34,929 | 51,174 |
| Proceeds from other credit facility borrowings | 10,481 | |
| Repayment of long-term debt | (60,000) | (58,915) |
| Proceeds from issuance of long-term debt | 250,000 | |
| Repurchase of Common Stock | (54,107) | (52,487) |
| Proceeds from exercise of stock options | 4,922 | 57,016 |
| Excess tax benefits from share-based payment arrangements | 10,020 | 15,749 |
| Cash dividends on Common Stock | (77,307) | (69,088) |
| Payment for settlement of interest rate swaps | (29,335) | |
| Financing fees | (1,085) | |
| Net cash provided by (used in) financing activities | 88,518 | (56,551) |

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| | | |
|--|------------|------------|
| Effect of exchange rate changes on cash and cash equivalents | (6,741) | 748 |
| Net decrease in cash and cash equivalents | (67,874) | (148,610) |
| Cash and cash equivalents at beginning of year | 433,954 | 681,591 |
| Cash and cash equivalents at end of six months | \$ 366,080 | \$ 532,981 |

See notes to condensed consolidated financial statements.

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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 July 31, 2012 and 2011 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2012 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 six months ended July 31, 2012 and 2011 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 Company adopted the new guidance effective February 1, 2012, and it did 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 Company adopted the new guidance effective February 1, 2012, and it did not have a material impact on the Company's financial position or earnings.

3. ACQUISITION

In July 2012, the Company, through a venture with a former independent distributor Damas Jewellery LLC (Damas), acquired the net assets associated with the five existing TIFFANY & CO. wholesale stores located in the United Arab Emirates (U.A.E.) for total consideration of \$25,000,000, of which \$24,493,000 was allocated to goodwill and the remainder to other tangible assets and liabilities. All of the goodwill associated with the transaction would be deductible for tax purposes; however the Company does not expect to receive a tax benefit as the U.A.E. does not impose a corporate income tax. Factors that contributed to a purchase price resulting in the recognition of goodwill are that the acquisition will (i) enable the Company to immediately integrate five existing TIFFANY & CO. stores into the Company's worldwide store network and (ii) enhance awareness of the Company's brand in the United Arab Emirates.

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In accordance with the agreement, the Company owns 49% of the common shares of the venture with Damas and will be entitled to 75% of the profits or losses of the venture. The Company is responsible for all merchandise assortment and pricing, advertising and promotional activities, staffing, store design and visual display and financial services. The Company has evaluated the variable interest entity consolidation requirements with respect to this transaction and has determined that the Company is the primary beneficiary as it has the power to direct the activities that most significantly impact the venture's economic performance. Therefore, the results of the venture will be consolidated within the financial results. Income or loss attributable to the noncontrolling interests will be presented within interest and other expenses, net on the condensed consolidated statement of earnings as the amount is not material. The results of the venture and the associated goodwill will be included within the Other non-reportable segment.

4. 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 each account 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 July 31, 2012 and 2011, the carrying amount of the Credit Card Receivables (recorded in accounts receivable, net in the Company's condensed consolidated balance sheet) was \$50,831,000 and \$54,351,000, of which 97% was considered current in those same periods. The allowance for doubtful accounts for estimated losses associated with the Credit Card Receivables (approximately \$1,500,000 at July 31, 2012 and \$2,000,000 at July 31, 2011) was determined based on the factors discussed above, and did not change significantly from January 31, 2012. 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 \$58,507,000 and \$57,396,000 as of July 31, 2012 and 2011. The Company has not recorded any material impairment charges on such loans as of July 31, 2012 and 2011.

5. INVENTORIES

| <i>(in thousands)</i> | July 31, 2012 | January 31, 2012 | July 31, 2011 |
|-----------------------|------------------|---------------------|------------------|
| Finished goods | \$ 1,267,705 | \$ 1,145,680 | \$ 1,035,615 |
| Raw materials | 771,834 | 784,040 | 656,772 |
| Work-in-process | 190,935 | 143,492 | 144,487 |
| Inventories, net | \$ 2,230,474 | \$ 2,073,212 | \$ 1,836,874 |

6. INCOME TAXES

The effective income tax rate for the three months ended July 31, 2012 was 34.6% versus 31.2% in the prior year. The effective income tax rate for the six months ended July 31, 2012 was 34.5% versus 33.4% in the prior year. The lower effective income tax rate for the three and six months ended July 31, 2011 is primarily due to the reversal of a valuation allowance against certain deferred tax assets where management had determined it was more likely than not that the deferred tax assets would be realized in the future.

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During the six months ended July 31, 2012, 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 a number of tax authorities in various jurisdictions. Ongoing audits where subsidiaries have a material presence include New York state (tax years 2004-2010), New Jersey (tax years 2006-2009) and 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.

7. 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:

| <i>(in thousands)</i> | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|-----------------------------|-----------|---------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net earnings for basic and diluted EPS | \$ 91,801 | \$ 90,043 | \$ 173,335 | \$ 171,106 |
| Weighted-average shares for basic EPS | 126,631 | 128,030 | 126,677 | 127,816 |
| Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units | 1,032 | 1,764 | 1,243 | 1,771 |
| Weighted-average shares for diluted EPS | 127,663 | 129,794 | 127,920 | 129,587 |

For the three months ended July 31, 2012 and 2011, there were 1,026,000 and 351,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect. For the six months ended July 31, 2012 and 2011, there were 886,000 and 332,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

8. HEDGING INSTRUMENTS**Background Information**

The Company uses derivative financial instruments, including interest rate swaps, 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:

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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 of 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 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 Swaps In 2009, the Company entered into interest rate swaps 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 swaps 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. During 2011, the Company terminated the interest rate swap used to convert the 2008 Series A fixed obligation to a floating rate obligation. The interest rate swap associated with the 2002 Series D debt expired in July 2012.

In the six months ended July 31, 2012, the Company entered into forward-starting interest rate swaps to hedge the impact of interest rate volatility on future interest payments associated with the anticipated incurrence of additional debt which was incurred in July 2012 (refer to Note 10. Debt). The Company accounts for the forward-starting interest rate swaps as cash flow hedges. The Company settled the interest rate swaps in the three months ended July 31, 2012 and paid \$29,335,000.

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 at that time (none of which were outstanding at July 31, 2012) 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.

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As of July 31, 2012, the notional amount of foreign exchange forward and put option contracts accounted for as cash flow hedges was \$139,500,000 and the notional amount of foreign exchange forward contracts accounted for as undesignated hedges was \$67,648,000. The term of all outstanding foreign exchange forward and put option contracts as of July 31, 2012 ranged from less than one month to 13 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 July 31, 2012, there were approximately 14,800 ounces of platinum and 403,000 ounces of silver precious metal derivative instruments outstanding.

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

| | Three Months Ended July 31, | | | |
|---|---|--|---|--|
| | 2012 | 2011 | | 2011 |
| | Pre-Tax Loss Recognized in Earnings on Derivatives | Pre-Tax Gain Recognized in Earnings on Hedged Item | Pre-Tax Gain Recognized in Earnings on Derivatives | Pre-Tax Loss Recognized in Earnings on Hedged Item |
| <i>(in thousands)</i> | | | | |
| Derivatives in Fair Value Hedging Relationships: | | | | |
| Interest rate swap agreements ^a | \$ (194) | \$ 214 | \$ 1,775 | \$ (1,486) |

| | Six Months Ended July 31, | | | |
|---|---|--|---|--|
| | 2012 | 2011 | | 2011 |
| | Pre-Tax Loss Recognized in Earnings on Derivatives | Pre-Tax Gain Recognized in Earnings on Hedged Item | Pre-Tax Gain Recognized in Earnings on Derivatives | Pre-Tax Loss Recognized in Earnings on Hedged Item |
| <i>(in thousands)</i> | | | | |
| Derivatives in Fair Value Hedging Relationships: | | | | |
| Interest rate swap agreements ^a | \$ (406) | \$ 464 | \$ 1,750 | \$ (1,492) |

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| | Three Months Ended July 31, | | | 2011 Amount of (Loss) Gain Reclassified from Accumulated OCI into Earnings (Effective Portion) |
|--|---|--|--|--|
| | 2012 | 2012 | 2012 | |
| | Pre-Tax Loss Recognized in OCI (Effective Portion) | Amount of Loss Reclassified from Accumulated OCI into Earnings (Effective Portion) | Pre-Tax Loss Recognized in OCI (Effective Portion) | |
| <i>(in thousands)</i> | | | | |
| Derivatives in Cash Flow Hedging Relationships: | | | | |
| Foreign exchange forward contracts ^b | \$ (3,824) | \$ (1,732) | \$ (8,959) | \$ (1,156) |
| Put option contracts ^b | (308) | (6) | (51) | (701) |
| Precious metal collars ^b | | | | 213 |
| Precious metal forward contracts ^b | (4,800) | (2,084) | (518) | 910 |
| Forward-starting interest rate swaps ^a | (18,650) | (134) | | |
| | \$ (27,582) | \$ (3,956) | \$ (9,528) | \$ (734) |

| | Six Months Ended July 31, | | | 2011 Amount of (Loss) Gain Reclassified from Accumulated OCI into Earnings (Effective Portion) |
|--|---|--|---|--|
| | 2012 | 2012 | 2012 | |
| | Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion) | Amount of Loss Reclassified from Accumulated OCI into Earnings (Effective Portion) | Pre-Tax (Loss) Gain Recognized in OCI (Effective Portion) | |
| <i>(in thousands)</i> | | | | |
| Derivatives in Cash Flow Hedging Relationships: | | | | |
| Foreign exchange forward contracts ^b | \$ 4,261 | \$ (4,313) | \$ (10,158) | \$ (2,053) |
| Put option contracts ^b | (409) | (129) | (61) | (1,339) |
| Precious metal collars ^b | | | | 607 |
| Precious metal forward contracts ^b | (7,712) | (3,139) | 2,073 | 1,815 |
| Forward-starting interest rate swaps ^a | (26,511) | (134) | | |
| | \$ (30,371) | \$ (7,715) | \$ (8,146) | \$ (970) |

| | Pre-Tax (Loss) Gain Recognized in Earnings on Derivative | |
|---|---|-------------------------------------|
| | Three Months Ended July 31, 2012 | Three Months Ended July 31, 2011 |
| <i>(in thousands)</i> | | |
| Derivatives Not Designated as Hedging Instruments: | | |
| Foreign exchange forward contracts ^a | \$ (277) ^c | \$ 94 ^c |
| Call option contracts ^b | | 25 |
| Put option contracts ^b | | (25) |
| | \$ (277) | \$ 94 |

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| <i>(in thousands)</i> | Pre-Tax (Loss) Gain Recognized in Earnings on Derivative | |
|---|---|--------------------------------------|
| | Six Months Ended July 31, 2012 | Six Months Ended July 31, 2011 |
| | Derivatives Not Designated as Hedging Instruments: | |
| Foreign exchange forward contracts ^a | \$ (380) ^c | \$ 541 ^c |
| Call option contracts ^b | | 92 |
| Put option contracts ^b | | (92) |
| | \$ (380) | \$ 541 |

^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 July 31, 2012 and 2011. The Company expects approximately \$9,270,000 of net pre-tax derivative losses included in accumulated other comprehensive income at July 31, 2012 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 9. 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.

9. 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 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:

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

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derivative instruments. The Company's interest rate swaps are 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 8. Hedging Instruments.

Financial assets and liabilities carried at fair value at July 31, 2012 are classified in the table below in one of the three categories described above:

| <i>(in thousands)</i> | Carrying Value | Estimated Fair Value | | | Total Fair Value |
|---|------------------|----------------------|-----------------|-----------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Mutual funds ^a | \$ 41,155 | \$ 41,155 | \$ | \$ | \$ 41,155 |
| Time deposits ^b | 1,357 | 1,357 | | | 1,357 |
| Derivatives designated as hedging instruments: | | | | | |
| Precious metal forward contracts ^c | 23 | | 23 | | 23 |
| Put option contracts ^c | 152 | | 152 | | 152 |
| Foreign exchange forward contracts ^c | 1,414 | | 1,414 | | 1,414 |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange forward contracts ^c | 423 | | 423 | | 423 |
| Total financial assets | \$ 44,524 | \$ 42,512 | \$ 2,012 | \$ | \$ 44,524 |

| <i>(in thousands)</i> | Carrying Value | Estimated Fair Value | | | Total Fair Value |
|---|-----------------|----------------------|-----------------|-----------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Derivatives designated as hedging instruments: | | | | | |
| Precious metal forward contracts ^d | \$ 3,946 | \$ | \$ 3,946 | \$ | \$ 3,946 |
| Foreign exchange forward contracts ^d | 382 | | 382 | | 382 |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange forward contracts ^d | 77 | | 77 | | 77 |
| Total financial liabilities | \$ 4,405 | \$ | \$ 4,405 | \$ | \$ 4,405 |

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Financial assets and liabilities carried at fair value at July 31, 2011 are classified in the table below in one of the three categories described above:

| <i>(in thousands)</i> | Carrying Value | Estimated Fair Value | | | Total Fair Value |
|---|------------------|----------------------|------------------|-----------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Mutual funds ^a | \$ 39,564 | \$ 39,564 | \$ | \$ | \$ 39,564 |
| Time deposits ^b | 32,210 | 32,210 | | | 32,210 |
| Derivatives designated as hedging instruments: | | | | | |
| Interest rate swaps ^a | 7,905 | | 7,905 | | 7,905 |
| Precious metal forward contracts ^c | 2,322 | | 2,322 | | 2,322 |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange forward contracts ^c | 75 | | 75 | | 75 |
| Total financial assets | \$ 82,076 | \$ 71,774 | \$ 10,302 | \$ | \$ 82,076 |

| <i>(in thousands)</i> | Carrying Value | Estimated Fair Value | | | Total Fair Value |
|---|-----------------|----------------------|-----------------|-----------|------------------|
| | | Level 1 | Level 2 | Level 3 | |
| Derivatives designated as hedging instruments: | | | | | |
| Foreign exchange forward contracts ^d | \$ 8,258 | \$ | \$ 8,258 | \$ | \$ 8,258 |
| Precious metal forward contracts ^d | 146 | | 146 | | 146 |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange forward contracts ^d | 34 | | 34 | | 34 |
| Total financial liabilities | \$ 8,438 | \$ | \$ 8,438 | \$ | \$ 8,438 |

^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 and would be measured using Level 1 inputs. The fair value of debt with variable interest rates approximates carrying value and is measured using Level 2 inputs. The fair value of debt with fixed interest rates was determined using the quoted market prices of debt instruments with similar terms and maturities, which are considered Level 2 inputs. The total carrying value of short-term borrowings and long-term debt was \$939,546,000 and \$693,673,000 and the corresponding fair value was approximately \$1,100,000,000 and \$850,000,000 at July 31, 2012 and 2011.

10. DEBT

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In July 2012, the Company, in two private transactions with various institutional note purchasers, issued, at par, \$250,000,000 in the aggregate of its 4.40% Senior Notes due July 2042. A portion of the proceeds was used to repay \$60,000,000 of long-term 6.56% debt that came due in July 2012 and the remainder will be

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used for general corporate purposes including initially reducing short-term indebtedness under the revolving credit facilities. The note purchase agreements require repayments of \$50,000,000 every five years beginning in the tenth year. The note purchase agreements include certain financial and negative covenants that limit, among other items, the incurrence of indebtedness and liens and the occurrence of asset sales and consolidations and mergers, and contain certain other provisions customary for such issuances.

In July 2012, the commitments under each of the Company's three-year and five-year credit facilities were increased from \$200,000,000 to \$275,000,000 resulting in a total borrowing capacity of \$550,000,000 under the Company's two principal credit facilities.

11. COMMITMENTS AND CONTINGENCIES

Leases. In April 2010, Tiffany and Company (Tiffany), the Company's principal operating subsidiary, committed to a plan to 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 (much of which has occurred) 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.

The Company recorded accrued exit charges of \$30,884,000 during the second quarter of 2011 within other long-term liabilities on the condensed consolidated balance sheet associated with the relocation. The following is a reconciliation of the accrued exit charges:

| | |
|---|-----------|
| <i>(in thousands)</i> | |
| Balance at February 1, 2012 | \$ 23,980 |
| Cash payments, net of estimated sublease income | (2,049) |
| Interest accretion | 156 |
| Balance at April 30, 2012 | 22,087 |
| Cash payments, net of estimated sublease income | (2,101) |
| Interest accretion | 145 |
| Balance at July 31, 2012 | \$ 20,131 |

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 against the Registrant and its wholly-owned subsidiaries Tiffany and Company and Tiffany (NJ) Inc. (the Registrant 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 that came into effect in December 2007 (the License and Distribution Agreements). The License and Distribution Agreements pertain to the development and commercialization of a watch business and, among other things, contained various licensing and governance provisions and approval requirements relating to business, marketing and branding plans and provisions allocating profits relating to sales of the watch business between the Swatch Parties and the Tiffany Parties.

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 a confidential arbitration (the Arbitration). The Arbitration is pending before a three-member arbitral panel convened pursuant to the Arbitration Rules of the Netherlands Arbitration Institute in the Netherlands.

On September 12, 2011, the Swatch Parties publicly issued a Notice of Termination purporting to terminate the License and Distribution Agreements due to alleged material breach by the Tiffany Parties.

On December 23, 2011, the Swatch Parties filed a Statement of Claim in the Arbitration providing additional detail with regard to the allegations by the Swatch Parties and setting forth their damage claims. In general terms, the Swatch Parties allege that the Tiffany Parties have breached the License and Development Agreements by obstructing and delaying development of Watch Company's business. The Swatch Parties seek damages based on alternate theories ranging from CHF 73,000,000 (or approximately \$75,000,000) at

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July 31, 2012) (based on its alleged wasted investment) to CHF 3,800,000,000 (or approximately \$3,900,000,000 at July 31, 2012) (calculated based on alleged future lost profits of the Swatch Parties and their affiliates).

The Registrant believes the claim is without merit and intends to defend vigorously the Arbitration and (together with the remaining Tiffany Parties) filed a Statement of Defense and Counterclaim on March 9, 2012. As detailed in the filing, the Tiffany Parties dispute both the merits of the Swatch Parties' claims and the calculation of the alleged damages. The Tiffany Parties have also asserted counterclaims for damages attributable to breach by the Swatch Parties and for termination due to such breach. In general terms, the Tiffany Parties allege that the Swatch Parties have failed to provide appropriate management, distribution, marketing and other resources for TIFFANY & CO. brand watches and to honor their contractual obligations to the Tiffany Parties regarding brand management. The Tiffany Parties' counterclaims seek damages based on alternate theories ranging from CHF 120,000,000 (or approximately \$122,000,000 at July 31, 2012) (based on its wasted investment) to approximately CHF 540,000,000 (or approximately \$551,000,000 at July 31, 2012) (calculated based on future lost profits of the Tiffany Parties).

The arbitration hearing is currently expected in October 2012.

Management has not included any accrual in the condensed consolidated financial statements related to the Arbitration as a result of its assessment that an award of damages to the Swatch Parties in the Arbitration is not probable. If the Swatch Parties' claims were accepted on their merits, the damages award cannot be reasonably estimated at this time but could have a material adverse effect on the Registrant's consolidated financial statements or liquidity.

If, as requested by both parties, the Arbitration tribunal determines that the License and Distribution Agreements were properly terminated by one or other party, 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 2011, 2010 and 2009.

12. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive (Loss) Gain

| <i>(in thousands)</i> | July 31, 2012 | January 31, 2012 | July 31, 2011 |
|--|------------------|---------------------|------------------|
| Accumulated other comprehensive (loss) gain, net of tax: | | | |
| Foreign currency translation adjustments | \$ 28,929 | \$ 49,209 | \$ 77,436 |
| Deferred hedging loss | (22,342) | (8,729) | (5,840) |
| Unrealized gain on marketable securities | 846 | 130 | 485 |
| Net unrealized loss on benefit plans | (120,735) | (125,740) | (51,232) |
| | \$ (113,302) | \$ (85,130) | \$ 20,849 |

Table of Contents**13. 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:

| <i>(in thousands)</i> | Three Months Ended July 31, | | | |
|------------------------------------|-----------------------------|-----------------|-------------------------------|-----------------|
| | Pension Benefits | | Other Postretirement Benefits | |
| | 2012 | 2011 | 2012 | 2011 |
| Net Periodic Benefit Cost: | | | | |
| Service cost | \$ 4,622 | \$ 3,592 | \$ 489 | \$ 504 |
| Interest cost | 6,811 | 6,274 | 624 | 753 |
| Expected return on plan assets | (5,322) | (4,849) | | |
| Amortization of prior service cost | 254 | 267 | (165) | (165) |
| Amortization of net loss | 3,988 | 1,266 | (81) | 3 |
| Net expense | \$ 10,353 | \$ 6,550 | \$ 867 | \$ 1,095 |

| <i>(in thousands)</i> | Six Months Ended July 31, | | | |
|------------------------------------|---------------------------|------------------|-------------------------------|-----------------|
| | Pension Benefits | | Other Postretirement Benefits | |
| | 2012 | 2011 | 2012 | 2011 |
| Net Periodic Benefit Cost: | | | | |
| Service cost | \$ 9,038 | \$ 7,182 | \$ 1,191 | \$ 1,007 |
| Interest cost | 13,398 | 12,481 | 1,420 | 1,505 |
| Expected return on plan assets | (10,208) | (9,697) | | |
| Amortization of prior service cost | 508 | 533 | (330) | (330) |
| Amortization of net loss | 7,978 | 2,580 | 15 | 6 |
| Net expense | \$ 20,714 | \$ 13,079 | \$ 2,296 | \$ 2,188 |

14. SEGMENT INFORMATION

The Company's reportable segments are as follows:

Americas includes sales in TIFFANY & CO. stores in the United States, Canada and Latin America, as well as sales of TIFFANY & CO. products in certain markets through business-to-business, Internet, catalog and wholesale operations;

Asia-Pacific includes sales in TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products in certain markets through Internet and wholesale operations;

Japan includes sales in TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products through business-to-business, Internet and wholesale operations;

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Europe includes sales in TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products in certain markets through Internet and wholesale operations; and

Other consists of all non-reportable segments. Other consists of wholesale sales of TIFFANY & CO. merchandise to independent distributors for resale in certain emerging markets (primarily in the Middle East and Russia) and beginning in the three months ended July 31, 2012 sales in TIFFANY & CO. stores. In addition, Other includes wholesale sales of diamonds obtained through bulk

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purchases that were subsequently deemed not suitable for the Company's needs and earnings received from third-party licensing agreements.

Certain information relating to the Company's segments is set forth below:

| <i>(in thousands)</i> | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--|-----------------------------|-------------------|---------------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net sales: | | | | |
| Americas | \$ 433,989 | \$ 438,223 | \$ 819,663 | \$ 812,875 |
| Asia-Pacific | 174,138 | 173,241 | 369,208 | 340,488 |
| Japan | 158,663 | 142,502 | 300,452 | 265,860 |
| Europe | 100,214 | 101,349 | 188,121 | 186,975 |
| Total reportable segments | 867,004 | 855,315 | 1,677,444 | 1,606,198 |
| Other | 19,565 | 17,397 | 28,295 | 27,532 |
| | \$ 886,569 | \$ 872,712 | \$ 1,705,739 | \$ 1,633,730 |
| Earnings (losses) from operations*: | | | | |
| Americas | \$ 83,866 | \$ 94,683 | \$ 139,807 | \$ 169,096 |
| Asia-Pacific | 35,026 | 46,706 | 86,086 | 95,340 |
| Japan | 50,266 | 41,116 | 92,826 | 72,807 |
| Europe | 20,597 | 24,182 | 37,252 | 43,950 |
| Total reportable segments | 189,755 | 206,687 | 355,971 | 381,193 |
| Other | (2,158) | 1,434 | (3,939) | 1,612 |
| | \$ 187,597 | \$ 208,121 | \$ 352,032 | \$ 382,805 |

* Represents earnings from operations before unallocated corporate expenses, interest and other expenses, net and other expense. The following table sets forth a reconciliation of the segments' earnings from operations to the Company's consolidated earnings from operations before income taxes:

| <i>(in thousands)</i> | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|-----------------------------|-------------------|---------------------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Earnings from operations for segments | \$ 187,597 | \$ 208,121 | \$ 352,032 | \$ 382,805 |
| Unallocated corporate expenses | (33,017) | (33,084) | (62,467) | (63,580) |
| Interest and other expenses, net | (14,250) | (9,619) | (24,804) | (19,766) |
| Other expense | | (34,497) | | (42,719) |
| Earnings from operations before income taxes | \$ 140,330 | \$ 130,921 | \$ 264,761 | \$ 256,740 |

Unallocated corporate expenses includes certain costs related to administrative support functions which the Company does not allocate to its segments. Such unallocated costs include those for centralized information technology, finance, legal and human resources departments.

Other expense in the three and six months ended July 31, 2011 represents charges associated with Tiffany's consolidation and relocation of its New York headquarters staff. See Note 11. Commitments and Contingencies.

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15. SUBSEQUENT EVENT

On August 16, 2012, the Company's Board of Directors approved a quarterly dividend of \$0.32 per share of Common Stock. This dividend will be paid on October 10, 2012 to stockholders of record on September 20, 2012.

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PART I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
OVERVIEW

Tiffany & Co. (the Company) is a holding company that operates through its subsidiary companies. The Company's principal subsidiary, Tiffany and Company (Tiffany), is a jeweler and specialty retailer whose principal merchandise offering is jewelry. The Company also sells timepieces, sterling silverware, china, crystal, stationery, fragrances and accessories. Through Tiffany and other subsidiaries, the Company is engaged in product design, manufacturing and retailing activities.

The Company's reportable segments are as follows:

Americas includes sales in TIFFANY & CO. stores in the United States, Canada and Latin America, as well as sales of TIFFANY & CO. products in certain markets through business-to-business, Internet, catalog and wholesale operations;

Asia-Pacific includes sales in TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products in certain markets through Internet and wholesale operations;

Japan includes sales in TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products through business-to-business, Internet and wholesale operations;

Europe includes sales in TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products in certain markets through Internet and wholesale operations; and

Other consists of all non-reportable segments. Other consists of wholesale sales of TIFFANY & CO. merchandise to independent distributors for resale in certain emerging markets (primarily in the Middle East and Russia) and beginning in the three months ended July 31, 2012 sales in TIFFANY & CO. stores. In addition, Other includes wholesale sales of diamonds obtained through bulk purchases that were subsequently deemed not suitable for the Company's needs and earnings received from third-party licensing agreements.

All references to years relate to fiscal years ended or ending on January 31 of the following calendar year.

HIGHLIGHTS

Worldwide net sales increased 2% in the three months (second quarter) ended July 31, 2012 to \$886,569,000 led by strong sales growth in Japan while sales in the Americas, Asia-Pacific and Europe were approximately equal to the prior year. Worldwide net sales increased 4% in the six months (first half) ended July 31, 2012 to \$1,705,739,000 due to sales growth in all regions.

On a constant-exchange-rate basis (see Non-GAAP Measures below), worldwide net sales increased 3% in the second quarter and 5% in the first half and comparable store sales decreased 1% in the second quarter and increased 1% in the first half.

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The Company opened 13 stores in the first half (of a planned 28 stores for the full year): four stores in the Americas, three stores in Asia Pacific, one store in Europe and five stores in Emerging Markets.

Operating margin increased 1.3 percentage points in the second quarter and 0.1 percentage point in the first half. In the second quarter and first half of 2011, the Company recorded nonrecurring charges (primarily within selling, general and administrative expenses) of \$34,497,000 and \$42,719,000 associated with Tiffany's relocation of its New York headquarters staff. Excluding those charges, operating margin decreased 2.7 percentage points in the second quarter and 2.5 percentage points in the first half primarily due to declines in gross margin.

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Net earnings increased 2% to \$91,801,000 or \$0.72 per diluted share, in the second quarter and increased 1% to \$173,335,000 or \$1.36 per diluted share, in the first half. Excluding the nonrecurring charges noted above, net earnings declined 17% in the second quarter and declined 12% in the first half.

The Company issued \$250,000,000 of 4.40% Senior Notes due July 2042. Additionally, the Company increased the commitments under each of the Company's three-year and five-year credit facilities from \$200,000,000 to \$275,000,000 resulting in a total borrowing capacity of \$550,000,000 under the Company's two principal credit facilities.

RESULTS OF OPERATIONS

Non-GAAP Measures

The Company's reported sales reflect either a translation-related benefit from strengthening foreign currencies or a detriment from a strengthening U.S. dollar.

The Company reports information in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Internally, management monitors its sales performance on a non-GAAP basis that eliminates the positive or negative effects that result from translating sales made outside the U.S. into U.S. dollars (constant-exchange-rate basis). Management believes this constant-exchange-rate basis provides a more representative assessment of sales performance and provides better comparability between reporting periods.

The Company's management does not, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. The Company presents such non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate the Company's operating results. The table below reconciles sales percentage increases (decreases) from the GAAP to the non-GAAP basis versus the previous year.

| | Second Quarter 2012 vs. 2011 | | | First Half 2012 vs. 2011 | | |
|--------------------------------|------------------------------|--------------------|------------------------------|--------------------------|--------------------|------------------------------|
| | GAAP Reported | Translation Effect | Constant-Exchange-Rate Basis | GAAP Reported | Translation Effect | Constant-Exchange-Rate Basis |
| Net Sales: | | | | | | |
| Worldwide | 2% | (1)% | 3% | 4% | (1)% | 5% |
| Americas | (1)% | (1)% | | 1% | (1)% | 2% |
| Asia-Pacific | 1% | (2)% | 3% | 8% | (1)% | 9% |
| Japan | 11% | 1% | 10% | 13% | 2% | 11% |
| Europe | (1)% | (9)% | 8% | 1% | (7)% | 8% |
| Comparable Store Sales: | | | | | | |
| Worldwide | (3)% | (2)% | (1)% | | (1)% | 1% |
| Americas | (5)% | | (5)% | (3)% | | (3)% |
| Asia-Pacific | (7)% | (2)% | (5)% | 2% | | 2% |
| Japan | 12% | 2% | 10% | 13% | 2% | 11% |
| Europe | (7)% | (9)% | 2% | (6)% | (7)% | 1% |

Reference will be made to comparable store sales below. Comparable store sales include only sales transacted in Company-operated stores. A store's sales are included in comparable store sales when the store has been open for more than 12 months. In markets other than Japan, sales for relocated stores are included in comparable store sales if the relocation occurs within the same geographical market. In Japan, sales for a new store are not included if the store was relocated from one department store to another or from a department store to a free-standing location. In all markets, the results of a store in which the square footage has been expanded or reduced remain in the comparable store base.

Table of Contents**Net Sales**

Net sales by segment were as follows:

| (in thousands) | Second Quarter | | Increase (Decrease) |
|----------------|----------------|------------|------------------------|
| | 2012 | 2011 | |
| Americas | \$ 433,989 | \$ 438,223 | (1)% |
| Asia-Pacific | 174,138 | 173,241 | 1% |
| Japan | 158,663 | 142,502 | 11% |
| Europe | 100,214 | 101,349 | (1)% |
| Other | 19,565 | 17,397 | 12% |
| | \$ 886,569 | \$ 872,712 | 2% |

| (in thousands) | First Half | | Increase |
|----------------|--------------|--------------|----------|
| | 2012 | 2011 | |
| Americas | \$ 819,663 | \$ 812,875 | 1% |
| Asia-Pacific | 369,208 | 340,488 | 8% |
| Japan | 300,452 | 265,860 | 13% |
| Europe | 188,121 | 186,975 | 1% |
| Other | 28,295 | 27,532 | 3% |
| | \$ 1,705,739 | \$ 1,633,730 | 4% |

Americas. Total sales in the Americas decreased \$4,234,000, or 1%, in the second quarter due to a decrease in the number of units sold mostly offset by an increase in the average price per unit sold. Comparable store sales decreased \$21,039,000, or 5%, consisting of a decrease in New York Flagship store sales of 9% and comparable branch store sales of 5%. Non-comparable stores grew \$10,217,000. On a constant-exchange-rate basis, sales in the Americas were equal to the prior year and comparable store sales declined 5%. Combined Internet and catalog sales in the Americas increased \$1,381,000, or 3%, due to an increase in the average price per order.

Total sales in the Americas increased \$6,788,000, or 1%, in the first half due to an increase in the average price per unit sold mostly offset by a decrease in the number of units sold. Comparable store sales decreased \$22,925,000, or 3%, consisting of a decrease in New York Flagship store sales of 7% and comparable branch store sales of 2%. Non-comparable stores grew \$22,166,000. On a constant-exchange-rate basis, sales in the Americas increased 2% and comparable store sales declined 3%. Combined Internet and catalog sales in the Americas increased \$1,790,000, or 2%, due to an increase in the average price per order.

Asia-Pacific. Total sales in Asia-Pacific increased \$897,000, or 1%, in the second quarter primarily due to an increase in the number of units sold mostly offset by a decrease in the average price per unit sold. Comparable store sales decreased \$10,994,000, or 7%, non-comparable store sales grew \$6,242,000 and sales of TIFFANY & CO. merchandise to independent distributors increased \$5,410,000. On a constant-exchange-rate basis, Asia-Pacific sales increased 3% and comparable store sales decreased 5% primarily due to sales declines in Hong Kong and Korea partly offset by growth in Australia.

Total sales in Asia-Pacific increased \$28,720,000, or 8%, in the first half primarily due to an increase in the number of units sold. Comparable store sales increased \$6,493,000, or 2%, non-comparable store sales grew \$12,436,000 and sales of TIFFANY & CO. merchandise to independent distributors increased \$9,084,000. On a constant-exchange-rate basis, Asia-Pacific sales increased 9% and comparable store sales increased 2% due to sales growth in most countries.

Japan. Total sales in Japan increased \$16,161,000, or 11%, in the second quarter due to an increase in the average price per unit sold and unit volume in all jewelry product categories. Comparable store sales increased \$15,236,000, or 12%. On a constant-exchange-rate basis, total sales and comparable store sales both increased 10%.

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Total sales in Japan increased \$34,592,000, or 13%, in the first half primarily due to an increase in the average price per unit sold. Comparable store sales increased \$31,703,000, or 13%. On a constant-exchange-rate basis, total sales

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increased and comparable store sales both increased 11%. Sales growth in Japan had been negatively affected by earthquake-related events in the first quarter of 2011.

Europe. Total sales in Europe decreased \$1,135,000, or 1%, in the second quarter due to a decrease in the number of units sold mostly offset by an increase in the average price per unit sold. Comparable store sales decreased \$6,683,000, or 7%, and non-comparable store sales grew \$5,621,000. On a constant-exchange-rate basis, sales increased 8% and comparable store sales increased 2% reflecting sales growth in continental Europe and a sales decline in the United Kingdom.

Total sales in Europe increased \$1,146,000, or 1%, in the first half due to an increase in the average price per unit sold mostly offset by a decrease in the number of units sold. Comparable store sales decreased \$9,783,000, or 6%, and non-comparable store sales grew \$10,170,000. On a constant-exchange-rate basis, sales increased 8% and comparable store sales increased 1% reflecting sales growth in continental Europe and a sales decline in the United Kingdom.

Store Data. Management currently expects to add 28 Company-operated TIFFANY & CO. stores in 2012, increasing the store base by 11%, including 13 stores in the Americas, eight stores in Asia-Pacific, two stores in Europe and five stores in emerging markets which is included as part of the Other reporting segment. The following table shows locations which have already been opened or closed, or where plans have been finalized:

| Location | Openings (Closings) as of July 31, 2012 | Remaining Openings 2012 |
|--|---|----------------------------|
| Americas: | | |
| Montreal, Canada | First Quarter | |
| Salt Lake City, Utah | First Quarter | |
| Mexico City Interlomas, Mexico | First Quarter | |
| Mexico City Altavista, Mexico | Second Quarter | |
| New York Soho, New York | | Third Quarter |
| San Francisco San Francisco Center, California | | Third Quarter |
| Toronto Sherway Gardens, Canada | | Third Quarter |
| Ottawa Holt Renfrew, Canada * | | Third Quarter |
| Montreal Holt Renfrew, Canada * | | Third Quarter |
| Calgary Holt Renfrew, Canada * | | Third Quarter |
| San Diego Westfield UTC Mall, California | | Fourth Quarter |
| Vancouver Holt Renfrew, Canada * | | Fourth Quarter |
| Rio de Janeiro, Brazil | | Fourth Quarter |
| Asia-Pacific: | | |
| Wuhan International Plaza Mall, China | First Quarter | |
| Nanjing Deji Plaza Mall, China | Second Quarter | |
| Shanghai Grand Gateway, China | Second Quarter | |
| Harbin Mykal Place, China | | Third Quarter |
| Shenyang Forum 66, China | | Third Quarter |
| Singapore Changi Airport, Singapore | | Third Quarter |
| Sydney Bondi Junction, Australia | | Fourth Quarter |
| Tianjin Galaxy Mall, China | | Fourth Quarter |
| Japan: | | |
| Shinjuku, Mitsukoshi | (First Quarter) | |
| Shinjuku, Odakyu | First Quarter | |
| Europe: | | |
| Nice, France | Second Quarter | |
| Prague, Czech Republic | | Third Quarter |
| Emerging Markets: | | |
| Dubai Dubai Mall, United Arab Emirates * | Second Quarter | |
| Dubai Mall of Emirates, United Arab Emirates * | Second Quarter | |
| Dubai Atlantis, United Arab Emirates * | Second Quarter | |
| Abu Dhabi Marina Mall, United Arab Emirates * | Second Quarter | |

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Abu Dhabi Abu Dhabi Mall, United Arab Emirates *

Second Quarter

* Represents conversion from wholesale operations to Company-operated retail stores.

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Other. Other sales increased \$2,168,000, or 12%, in the second quarter and increased \$763,000, or 3%, in the first half.

Gross Margin

| | Second Quarter | | First Half | |
|---|----------------|-------|------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Gross profit as a percentage of net sales | 56.3% | 59.0% | 56.8% | 58.7% |

Gross margin (gross profit as a percentage of net sales) decreased by 2.7 percentage points in the second quarter and by 1.9 percentage points in the first half primarily due to higher product acquisition costs as well as reduced sales leverage on fixed costs.

Management periodically reviews and adjusts its retail prices when appropriate to address product cost increases, specific market conditions and longer-term changes in foreign currencies/U.S. dollar relationships. Among the market conditions that the Company addresses are consumer demand for the product category involved, which may be influenced by consumer confidence, and competitive pricing conditions. The Company uses derivative instruments to mitigate foreign exchange and precious metal price exposures (see Item 1. Notes to Condensed Consolidated Financial Statements Note 8. Hedging Instruments). In recent years the Company has increased retail prices to address higher product costs and its strategy is to continue that approach, when appropriate, in the future.

Selling, General and Administrative (SG&A) Expenses

| | Second Quarter | | First Half | |
|--|----------------|-------|------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| SG&A expenses as a percentage of net sales | 38.9% | 42.9% | 39.8% | 41.7% |

SG&A expenses decreased \$29,575,000, or 8%, in the second quarter. The Company had recorded nonrecurring charges of \$34,497,000 in the second quarter of 2011 associated with Tiffany's relocation of its New York headquarters staff. Excluding these charges, SG&A expenses increased \$4,922,000, or 1%, primarily due to increased depreciation and store occupancy expenses of \$8,481,000 related to new and existing stores, offset by a decrease in marketing expenses of \$9,148,000 due to timing. Labor and benefit costs were approximately equal to the prior year due to reduced variable and performance-related labor expenses. SG&A expenses as a percentage of net sales decreased 4.0 percentage points in the second quarter. Excluding the nonrecurring charges noted above, SG&A expenses as a percentage of net sales was equal to the prior year.

SG&A expenses decreased \$3,269,000, or less than 1%, in the first half. The Company had recorded nonrecurring charges of \$42,506,000 in the first half of 2011 associated with Tiffany's relocation of its New York headquarters staff. Excluding these charges, SG&A expenses increased \$39,237,000, or 6%, primarily due to increased depreciation and store occupancy expenses of \$19,136,000 related to new and existing stores and increased labor and benefit costs of \$14,824,000. SG&A expenses as a percentage of net sales decreased 1.9 percentage points in the first half. Excluding the nonrecurring charges noted above, SG&A expenses as a percentage of net sales increased 0.7 percentage point as sales growth was insufficient to offset increased costs.

Table of Contents**Earnings from Operations**

| <i>(in thousands)</i> | Second Quarter 2012 | % of Net Sales* | Second Quarter 2011 | % of Net Sales* |
|----------------------------------|---------------------------|--------------------|---------------------------|--------------------|
| Earnings from operations: | | | | |
| Americas | \$ 83,866 | 19.3% | \$ 94,683 | 21.6% |
| Asia-Pacific | 35,026 | 20.1% | 46,706 | 27.0% |
| Japan | 50,266 | 31.7% | 41,116 | 28.9% |
| Europe | 20,597 | 20.6% | 24,182 | 23.9% |
| Other | (2,158) | (11.0)% | 1,434 | 8.2% |
| | 187,597 | | 208,121 | |
| Unallocated corporate expenses | (33,017) | (3.7)% | (33,084) | (3.8)% |
| Other expense | | | (34,497) | |
| Earnings from operations | \$ 154,580 | 17.4% | \$ 140,540 | 16.1% |

* Percentages represent earnings from operations as a percentage of each segment's net sales.

Earnings from operations increased 10% in the second quarter. On a segment basis, the ratio of earnings from operations (before the effect of unallocated corporate expenses and other expense) to each segment's net sales in the second quarter of 2012 and 2011 was as follows:

Americas the ratio decreased 2.3 percentage points primarily resulting from a decline in gross margin partly offset by a decline in operating expenses due to the timing of marketing expenses;

Asia-Pacific the ratio decreased 6.9 percentage points primarily due to increased operating expenses due to the opening of new stores and increased marketing as well as a decline in gross margin;

Japan the ratio increased 2.8 percentage points primarily due to the leveraging of operating expenses;

Europe the ratio decreased 3.3 percentage points primarily due to a decline in gross margin; and

Other the operating loss is primarily attributable to increased spending for the development of the emerging markets region.

| <i>(in thousands)</i> | First Half 2012 | % of Net Sales* | First Half 2011 | % of Net Sales* |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
| Earnings from operations: | | | | |
| Americas | \$ 139,807 | 17.1% | \$ 169,096 | 20.8% |
| Asia-Pacific | 86,086 | 23.3% | 95,340 | 28.0% |
| Japan | 92,826 | 30.9% | 72,807 | 27.4% |
| Europe | 37,252 | 19.8% | 43,950 | 23.5% |
| Other | (3,939) | (13.9)% | 1,612 | 5.9% |

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| | | | | |
|--------------------------------|------------|--------|------------|--------|
| | 352,032 | | 382,805 | |
| Unallocated corporate expenses | (62,467) | (3.7)% | (63,580) | (3.9)% |
| Other expense | | | (42,719) | |
| Earnings from operations | \$ 289,565 | 17.0% | \$ 276,506 | 16.9% |

* Percentages represent earnings from operations as a percentage of each segment's net sales.

Earnings from operations increased 5% in the first half. On a segment basis, the ratio of earnings from operations (before the effect of unallocated corporate expenses and other expense) to each segment's net sales in the first half of 2012 and 2011 was as follows:

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Americas the ratio decreased 3.7 percentage points primarily resulting from a decline in gross margin as well as increased operating expenses due to the opening of new stores;

Asia-Pacific the ratio decreased 4.7 percentage points primarily due to a decline in gross margin as well as increased operating expenses due to the opening of new stores and increased marketing;

Japan the ratio increased 3.5 percentage point primarily due to the leveraging of operating expenses;

Europe the ratio decreased 3.7 percentage points primarily due a decline in gross margin as well as increased operating expenses; and

Other the operating loss is primarily attributable to increased spending for the development of the emerging markets region. Unallocated corporate expenses include certain costs related to administrative support functions which the Company does not allocate to its segments. Such unallocated costs include those for centralized information technology, finance, legal and human resources departments.

Other expense in the second quarter and first half of 2011 represents charges associated with Tiffany's consolidation and relocation of its New York headquarters staff. See Item 1. Notes to Condensed Consolidated Financial Statements Note 11. Commitments and Contingencies.

Interest and Other Expenses, net

Interest and other expenses, net increased \$4,631,000, or 48%, in the second quarter of 2012 and \$5,038,000, or 25%, in the first half of 2012 primarily due to increased interest expense.

Provision for Income Taxes

The effective income tax rate for the second quarter of 2012 was 34.6% versus 31.2% in the prior year. The effective income tax rate for the first half of 2012 was 34.5% versus 33.4% in the prior year. The lower effective income tax rates for both the second quarter and first half of 2011 were primarily due to the reversal of a valuation allowance against certain deferred tax assets where management had determined it was more likely than not that the deferred tax assets would be realized in the future.

2012 Outlook

Management's current outlook is based on assumptions, which may or may not prove valid, and should be read in conjunction with risk factors disclosed in Part I, Item 1A in the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2012 as well as in Part II, Item 1A. Risk Factors on page 35.

For the full year ending January 31, 2013, management expects net earnings in a range of \$454,000,000 - \$473,000,000, or \$3.55 - \$3.70 per diluted share (compared with the previous first quarter forecast of \$3.70 - \$3.80 per diluted share). Management continues to expect an earnings decline in the third quarter followed by a resumption of growth in the fourth quarter. This expectation is based on the following assumptions:

Worldwide net sales (in U.S. dollars) increasing 6% - 7% versus the previous first quarter expectation of 7% - 8% growth, due to a moderation in assumed fourth quarter sales growth.

The opening of 28 Company-operated stores (13 in the Americas, eight in Asia-Pacific, two in Europe and commencing operation of five stores in emerging markets). 13 stores were opened in the first half of the year.

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The operating margin below the 20.6% achieved in the prior year (when excluding nonrecurring items recorded in 2011) due to a decline in gross margin.

Interest and other expenses, net of approximately \$52,000,000 \$54,000,000.

An effective income tax rate of 34% 35%.

An increase in net inventories of approximately 10% and capital expenditures of approximately \$230,000,000 verses a previous forecast of \$240,000,000.

Table of Contents**New Accounting Standards**

See Item 1. Notes to Condensed Consolidated Financial Statements Note 2. New Accounting Standards.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity needs have been, and are expected to remain, primarily a function of its ongoing, seasonal and expansion-related working capital requirements and capital expenditures needs. Over the long term, the Company manages its cash and capital structure to maintain a strong financial position that provides flexibility to pursue strategic initiatives. Management regularly assesses its working capital needs, capital expenditure requirements, debt service, dividend payouts, share repurchases and future investments. Management believes that cash on hand, internally-generated cash flows, the funds available under its revolving credit facilities and the ability to access the debt and capital markets are sufficient to support the Company's liquidity and capital requirements for the foreseeable future.

The following table summarizes cash flows from operating, investing and financing activities:

| <i>(in thousands)</i> | First Half | |
|---|-------------|--------------|
| | 2012 | 2011 |
| Net cash (used in) provided by: | | |
| Operating activities | \$ (58,085) | \$ 43,895 |
| Investing activities | (91,566) | (136,702) |
| Financing activities | 88,518 | (56,551) |
| Effect of exchange rates on cash and cash equivalents | (6,741) | 748 |
| Net decrease in cash and cash equivalents | \$ (67,874) | \$ (148,610) |

Operating Activities

The Company had a net cash outflow from operating activities of \$58,085,000 in the second quarter of 2012 compared with an inflow of \$43,895,000 in the same period in 2011. The variance between 2012 and 2011 is primarily due to increased payments associated with accounts payable and accrued liabilities and higher cash receipts in the prior year associated with landlord refunds primarily related to the relocation of Tiffany's New York headquarters staff. Additionally, the first half of 2012 includes the Company's contribution of \$35,000,000 to its pension plan versus a contribution of \$25,000,000 in the comparable period in 2011, both of which are reflected in Other, net on the Condensed Consolidated Statements of Cash Flows.

Working Capital. Working capital (current assets less current liabilities) and the corresponding current ratio (current assets divided by current liabilities) were \$2,499,956,000 and 6.0 at July 31, 2012, compared with \$2,262,998,000 and 4.6 at January 31, 2012 and \$2,246,752,000 and 5.3 at July 31, 2011.

Accounts receivable, less allowances at July 31, 2012 were 7% lower than January 31, 2012 due to the seasonality of the Company's business. Accounts receivable, less allowances at July 31, 2012 were 6% lower than July 31, 2011, due to the timing of accounts receivable collections.

Inventories, net at July 31, 2012 were 8% higher than January 31, 2012 and were 21% higher than July 31, 2011. Finished goods inventories rose 11% and 22% from January 31, 2012 and July 31, 2011 and combined raw material and work-in-process inventories rose 4% and 20% in those same periods. The overall increase resulted from store openings, expanded product assortments, and higher product and raw material acquisition costs. In addition, the increase in raw material and work-in-process inventories reflected the further vertical integration of the Company's diamond supply chain and internal manufacturing.

Investing Activities

The Company had a net cash outflow from investing activities of \$91,566,000 in the first half of 2012 compared with an outflow of \$136,702,000 in the first half of 2011. The decreased outflow in the current year is primarily due to a decrease in notes receivable funded.

Table of Contents**Financing Activities**

The Company had a net cash inflow from financing activities of \$88,518,000 in the first half of 2012 compared with an outflow of \$56,551,000 in the first half of 2011. Year-over-year changes in cash flows from financing activities are largely driven by borrowings and lower proceeds from exercise of stock options.

Recent Borrowings. The Company had net repayments of or net proceeds from short-term and long-term borrowings as follows:

| <i>(in thousands)</i> | First Half | |
|---|-------------------|-------------------|
| | 2012 | 2011 |
| Short-term borrowings: | | |
| Proceeds from credit facility borrowings, net | \$ 34,929 | \$ 51,174 |
| Proceeds from other credit facility borrowings | 10,481 | |
| Net proceeds from short-term borrowings | 45,410 | 51,174 |
| Long-term borrowings: | | |
| Repayments | (60,000) | (58,915) |
| Proceeds | 250,000 | |
| Net proceeds from (repayments of) long-term borrowings | 190,000 | (58,915) |
| Net proceeds from (repayments of) total borrowings | \$ 235,410 | \$ (7,741) |

In July 2012, the commitments under each of the Company's three-year and five-year credit facilities were increased from \$200,000,000 to \$275,000,000 resulting in a total borrowing capacity of \$550,000,000 under the Company's two principal credit facilities. There was \$155,137,000 outstanding and \$509,267,000 available under all revolving credit facilities at July 31, 2012. The weighted average interest rate for the outstanding amount at July 31, 2012 was 1.75%.

In July 2012, the Company, in two private transactions with various institutional note purchasers, issued, at par, \$250,000,000 in the aggregate of its 4.40% Senior Notes due July 2042. A portion of the proceeds was used to repay \$60,000,000 of long-term 6.56% debt that came due in July 2012 and the remainder will be used for general corporate purposes including initially reducing short-term indebtedness under the revolving credit facilities. The note purchase agreements require repayments of \$50,000,000 every five years beginning in the tenth year. The note purchase agreements include certain financial and negative covenants that limit, among other items, the incurrence of indebtedness and liens and the occurrence of asset sales and consolidations and mergers, and contain certain other provisions customary for such issuances.

The ratio of total debt (short-term borrowings, current portion of long-term debt and long-term debt) to stockholders' equity was 39% at July 31, 2012, 30% at January 31, 2011 and 29% at July 31, 2011.

At July 31, 2012, the Company was in compliance with all debt covenants.

Share Repurchases. The Company's share repurchase activity was as follows:

| <i>(in thousands, except per share amounts)</i> | Second Quarter | | First Half | |
|---|----------------|-----------|------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Cost of repurchases | \$ 7,622 | \$ 24,548 | \$ 54,107 | \$ 52,487 |
| Shares repurchased and retired | 113 | 330 | 813 | 783 |
| Average cost per share | \$ 67.23 | \$ 74.29 | \$ 66.54 | \$ 67.00 |

In January 2011, the Company's Board of Directors approved a new stock repurchase program (2011 Program) and terminated the previously existing program. The 2011 Program authorizes the Company to repurchase up to \$400,000,000 of its Common Stock through open market or

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private transactions. The 2011 Program expires on January 31, 2013. The timing of repurchases and the actual number of shares to be repurchased depend on a variety of discretionary factors such as stock price, cash-flow forecasts and other market conditions. At least annually, the Company's Board of Directors reviews its policies with respect to dividends and share repurchases with a view to actual and projected earnings, cash flows and capital requirements. At July 31, 2012, approximately \$163,794,000 of authorization for future purchases remained under the stock repurchase program. The Company is not currently purchasing shares of its common stock under the stock repurchase program in order to allow for a more effective allocation of resources consistent with the Company's growth strategies. The Company may resume repurchases under the stock repurchase program at any time in its discretion.

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Contractual Obligations

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.

The Company's contractual cash obligations and commercial commitments at July 31, 2012 and the effects such obligations and commitments are expected to have on the Company's liquidity and cash flows in future periods have not changed significantly since January 31, 2012.

Seasonality

As a jeweler and specialty retailer, 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. Management expects such seasonality to continue.

Forward-Looking Statements

This quarterly report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 concerning the Company's goals, plans and projections with respect to store openings, sales, retail prices, gross margin, products, growth opportunities, expenses, effective tax rate, net earnings and net earnings per share, inventories, capital expenditures, cash flow and liquidity. In addition, management makes other forward-looking statements from time to time concerning objectives and expectations. One can identify these forward-looking statements by the fact that they use words such as believes, intends, plans, and expects and other words and terms of similar meaning and expression in connection with any discussion of future operating or financial performance. One can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Such forward-looking statements are based on management's current plan and involve inherent risks, uncertainties and assumptions that could cause actual outcomes to differ materially from the current plan. The Company has included important factors in the cautionary statements included in its 2011 Annual Report on Form 10-K and in this quarterly report, particularly under Item 1A. Risk Factors, that the Company believes could cause actual results to differ materially from any forward-looking statement.

Although the Company believes it has been prudent in its plans and assumptions, no assurance can be given that any goal or plan set forth in forward-looking statements can or will be achieved, and readers are cautioned not to place undue reliance on such statements which speak only as of the date this quarterly report was first filed with the Securities and Exchange Commission. The Company undertakes no obligation to update any of the forward-looking information included in this document, whether as a result of new information, future events, changes in expectations or otherwise.

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PART I. Financial Information

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from fluctuations in foreign currency exchange rates, precious metal prices and interest rates, which could affect its consolidated financial position, earnings and cash flows. The Company manages its exposure to market risk through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company uses derivative financial instruments as risk management tools and not for trading or speculative purposes, and does not maintain such instruments that may expose the Company to significant market risk.

Foreign Currency Risk

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. The fair value of foreign exchange forward contracts and put option contracts is sensitive to changes in foreign exchange rates. Gains or losses on foreign exchange forward contracts substantially offset losses or gains on the liabilities and transactions being hedged. 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 term of all outstanding foreign exchange forward contracts and put option contracts as of July 31, 2012 ranged from less than one month to 13 months.

Precious Metal Price Risk

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 metals prices. The Company may use either 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 maximum term over which the Company is hedging its exposure to the variability of future cash flows for all forecasted transactions is 12 months.

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PART I. Financial Information

Item 4. Controls and Procedures
Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), the Registrant's chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, the Registrant's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Registrant in the reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

In the ordinary course of business, the Registrant reviews its system of internal control over financial reporting and makes changes to its systems and processes to improve controls and increase efficiency, while ensuring that the Registrant maintains an effective internal control environment. Changes may include such activities as implementing new, more efficient systems and automating manual processes.

The Registrant's chief executive officer and chief financial officer have determined that there have been no changes in the Registrant's internal control over financial reporting during the period covered by this report identified in connection with the evaluation described above that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

The Registrant's management, including its chief executive officer and chief financial officer, necessarily applied their judgment in assessing the costs and benefits of such controls and procedures. By their nature, such controls and procedures cannot provide absolute certainty, but can provide reasonable assurance regarding management's control objectives. Our chief executive officer and our chief financial officer have concluded that the Registrant's disclosure controls and procedures are (i) designed to provide such reasonable assurance and (ii) are effective at that reasonable assurance level.

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PART II. Other Information

Item 1. Legal Proceedings

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 against the Registrant and its wholly-owned subsidiaries Tiffany and Company and Tiffany (NJ) Inc. (the Registrant 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 that came into effect in December 2007 (the License and Distribution Agreements). The License and Distribution Agreements pertain to the development and commercialization of a watch business and, among other things, contained various licensing and governance provisions and approval requirements relating to business, marketing and branding plans and provisions allocating profits relating to sales of the watch business between the Swatch Parties and the Tiffany Parties.

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 a confidential arbitration (the Arbitration). The Arbitration is pending before a three-member arbitral panel convened pursuant to the Arbitration Rules of the Netherlands Arbitration Institute in the Netherlands.

On September 12, 2011, the Swatch Parties publicly issued a Notice of Termination purporting to terminate the License and Distribution Agreements due to alleged material breach by the Tiffany Parties.

On December 23, 2011, the Swatch Parties filed a Statement of Claim in the Arbitration providing additional detail with regard to the allegations by the Swatch Parties and setting forth their damage claims. In general terms, the Swatch Parties allege that the Tiffany Parties have breached the License and Development Agreements by obstructing and delaying development of Watch Company s business. The Swatch Parties seek damages based on alternate theories ranging from CHF 73,000,000 (or approximately \$75,000,000 at July 31, 2012) (based on its alleged wasted investment) to CHF 3,800,000,000 (or approximately \$3,900,000,000 at July 31, 2012) (calculated based on alleged future lost profits of the Swatch Parties and their affiliates).

The Registrant believes the claim is without merit and intends to defend vigorously the Arbitration and (together with the remaining Tiffany Parties) filed a Statement of Defense and Counterclaim on March 9, 2012. As detailed in the filing, the Tiffany Parties dispute both the merits of the Swatch Parties claims and the calculation of the alleged damages. The Tiffany Parties have also asserted counterclaims for damages attributable to breach by the Swatch Parties and for termination due to such breach. In general terms, the Tiffany Parties allege that the Swatch Parties have failed to provide appropriate management, distribution, marketing and other resources for TIFFANY & CO. brand watches and to honor their contractual obligations to the Tiffany Parties regarding brand management. The Tiffany Parties counterclaims seek damages based on alternate theories ranging from CHF 120,000,000 (or approximately \$122,000,000 at July 31, 2012) (based on its wasted investment) to approximately CHF 540,000,000 (or approximately \$551,000,000 at July 31, 2012) (calculated based on future lost profits of the Tiffany Parties).

The arbitration hearing is currently expected in October 2012.

Management has not included any accrual in the condensed consolidated financial statements related to the Arbitration as a result of its assessment that an award of damages to the Swatch Parties in the Arbitration is not probable. If the Swatch Parties claims were accepted on their merits, the damages award cannot be reasonably estimated at this time but could have a material adverse effect on the Registrant s consolidated financial statements or liquidity.

If, as requested by both parties, the Arbitration tribunal determines that the License and Distribution Agreements were properly terminated by one or other party, 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 2011, 2010 and 2009.

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Item 1A. Risk Factors

Except as presented below, there have been no material changes to the risk factors disclosed in Part I, Item 1A in the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2012.

(i) Risk: that the Registrant will be unable to continue to offer merchandise designed by Elsa Peretti.

Elsa Peretti, age 72, licenses Tiffany and Company (Tiffany) to make, have made and sell jewelry and other products made in conformance to her designs and bearing her trademarks. Since 1974, Tiffany has been the sole licensee for the intellectual property rights necessary to make and sell Peretti-designed products under Ms. Peretti's trademarks (the Peretti Intellectual Property). Under the written license agreement (the License Agreement) between Ms. Peretti and Tiffany, Ms. Peretti retains ownership of the Peretti Intellectual Property and exercises approval rights with respect to important aspects of the promotion, display, manufacture and merchandising of Peretti-designed products. In addition, Tiffany is contractually required to devote a portion of its advertising budget to the promotion of the Peretti-designed products. In 2009, 2010 and 2011, the designs of Ms. Peretti accounted for 10% of the Registrant's net sales. Ms. Peretti receives a royalty for Tiffany's use of the Peretti Intellectual Property.

As disclosed in the Form 8-K filed by the Registrant on May 23, 2012 and the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2012, Ms. Peretti has expressed interest in retiring from her relationship with Tiffany and has authorized her advisors to discuss the possible purchase by Tiffany of the Peretti Intellectual Property. In response, Tiffany made an offer to Ms. Peretti in an amount based upon the value of the Peretti Intellectual Property to Tiffany. A purchase of the Peretti Intellectual Property at the offered price would represent a significant investment for the Registrant and would likely improve cash flows and operating results in subsequent years. No agreement for such a purchase has yet been reached or foreclosed. Recently, Tiffany and Ms. Peretti's advisors have begun discussing alternatives to such a purchase, including a phased wind-down of sales under the License Agreement. Tiffany's management believes that a phased wind-down agreement would minimize any impact on the Registrant's sales and profits that might result from termination of the License Agreement and would enable Tiffany to better plan and implement strategies for mitigating such impact.

Ms. Peretti's advisors have informed Tiffany that, if an agreement in respect of the Peretti Intellectual Property is not reached, Ms. Peretti may consider exercising her right to terminate the License Agreement. The License Agreement may be terminated by either party by written notice. If the License Agreement is terminated by either party, Tiffany would, for six months following the date of notice of termination, retain all rights under the License Agreement, including the right to make and have made Peretti-designed products. Following such six-month period, Tiffany would have an additional year to sell any Peretti-designed products on hand or on order. Thereafter, Tiffany would be permitted to sell any Peretti-designed products on hand, subject to Ms. Peretti's right to purchase these remaining products.

The Registrant can provide no assurance that arrangements for the purchase of the Peretti Intellectual Property will be agreed upon, that a wind-down arrangement will be successfully negotiated and agreed or that the License Agreement will otherwise remain in effect. Further, no agreement has been made for the continued sale of the designs or use of the Peretti Intellectual Property following the death or disability of Ms. Peretti. If Tiffany ceases to have an exclusive license to use the Peretti Intellectual Property, the Registrant's operating results may be adversely affected.

(ii) Risk: that the Registrant will be unable to mitigate any adverse effects on its operating results that may result from its inability to continue to offer Peretti-designed merchandise.

Tiffany regularly reviews its product offerings and its strategies for the promotion and merchandising of products. Tiffany's management believes that there are opportunities for the development, design and manufacturing of new products. Further, Tiffany is committed to evaluating changes in the promotion and merchandising of existing products to enhance net sales. Should Tiffany cease to have the right to offer Peretti-designed products, Tiffany's management will evaluate and pursue changes to its product offerings and to its merchandising and promotional strategies in an effort to mitigate any adverse effects on its operating results. Such efforts could include redeployment of advertising and display resources now devoted to Peretti-designed products. However, there can be no assurance that the Registrant will be successful in implementing such efforts or that such efforts will have the anticipated effect on the Registrant's operating results.

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The following table contains the Company's stock repurchases of equity securities in the second quarter of 2012:

Issuer Purchases of Equity Securities

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares, (or Units) that May Yet Be Purchased Under the Plans or Programs |
|-----------------|---|--|---|--|
| May 1, 2012 to | | | | |
| May 31, 2012 | 113,377 | \$ 67.23 | 113,377 | \$ 163,794,000 |
| June 1, 2012 to | | | | |
| June 30, 2012 | | | | \$ 163,794,000 |
| July 1, 2012 to | | | | |
| July 31, 2012 | | | | \$ 163,794,000 |
| TOTAL | 113,377 | \$ 67.23 | 113,377 | \$ 163,794,000 |

In January 2011, the Company's Board of Directors approved a new stock repurchase program (2011 Program) and terminated the previously existing program. The 2011 Program authorizes the Company to repurchase up to \$400,000,000 of its Common Stock through open market or private transactions. The 2011 Program expires on January 31, 2013. The Registrant is not currently purchasing shares of its common stock under the stock repurchase program in order to allow for a more effective allocation of resources consistent with the Registrant's growth strategies. The Registrant may resume repurchases under the stock repurchase program at any time in its discretion.

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ITEM 6 Exhibits

(a) Exhibits:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following financial information from Tiffany & Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2012, filed with the SEC, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Earnings; (iii) the Condensed Consolidated Statements of Comprehensive Earnings; (iv) the Condensed Consolidated Statement of Stockholders' Equity; (v) the Condensed Consolidated Statements of Cash Flows; and (vi) the Notes to the Condensed Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 27, 2012

TIFFANY & CO.
(Registrant)

By: /s/ Patrick F. McGuiness
Patrick F. McGuiness
Senior Vice President and
Chief Financial Officer
(principal financial officer)