TIFFANY & CO
Form 10-Q
December 01, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2010

OR

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

For the transition period from __________ to __________

Commission file number: 1-9494

TIFFANY & CO.

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code: **(212) 755-8000**

Former name, former address and former fiscal year, if changed since last report __________

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: Common Stock, $.01 par value, 126,400,403 shares outstanding at the close of business on November 30, 2010.

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

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PART I. Financial Information
Item 1. Financial Statements

TIFFANY & CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(*in thousands, except per share amounts*)

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

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

	Total Stockholders Equity	Retained Earnings	Accumulated Other Comprehensive (Loss) Gain	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital
Balances, January 31, 2010	$ 1,883,239	$ 1,151,109	$ (33,265)	126,326	$ 1,263	$ 764,132
Exercise of stock options and vesting of restricted stock units (RSUs)	38,214			1,404	14	38,200
Tax effect of exercise of stock options and vesting of RSUs	4,791					4,791
Share-based compensation expense	19,312					19,312
Issuance of Common Stock under the Employee Profit Sharing and Retirement Savings Plan	5,000			104	1	4,999
Purchase and retirement of Common Stock	(72,806)	(66,827)		(1,706)	(17)	(5,962)
Cash dividends on Common Stock	(88,715)	(88,715)				
Deferred hedging loss, net of tax	(1,278)		(1,278)			
Unrealized gain on marketable securities, net of tax	1,583		1,583			
Foreign currency translation adjustments, net of tax	20,539		20,539			
Net unrealized gain on benefit plans, net of tax	1,498		1,498			
Net earnings	187,179	187,179				
Balances, October 31, 2010	$ 1,998,556	$ 1,182,746	$ (10,923)	126,128	$ 1,261	$ 825,472

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

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

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

See notes to condensed consolidated financial statements.

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

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

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

See notes to condensed consolidated financial statements.

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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 (VIE s), if the Company has the power to significantly direct the activities of a VIE, as well as the obligation to absorb significant losses of or the right to receive significant benefits from the VIE. Intercompany accounts, transactions and profits have been eliminated in consolidation. The interim statements are unaudited and, in the opinion of management, include all adjustments (which represent normal recurring adjustments) necessary to fairly state the Company s financial position as of October 31, 2010 and 2009 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2010 is derived from the audited financial statements, which are included in the Company s Annual Report on Form 10-K and should be read in connection with these financial statements. As permitted by the rules of the Securities and Exchange Commission, these financial statements do not include all disclosures required by generally accepted accounting principles.

The Company s business is seasonal in nature, with the fourth quarter typically representing at least one-third of annual net sales and approximately one-half of annual net earnings. Therefore, the results of its operations for the three and nine months ended October 31, 2010 and 2009 are not necessarily indicative of the results of the entire fiscal year.

2. DISCONTINUED OPERATIONS

In the fourth quarter of 2008, management concluded that it would no longer invest in its IRIDESSE business due to its ongoing operating losses and insufficient near-term growth prospects, especially in the economic environment at the time the decision was made. All IRIDESSE stores were closed in 2009. These amounts have been reclassified to discontinued operations for all periods presented. Prior to the reclassification, IRIDESSE results had been included within the Other non-reportable segment.

Summarized statement of earnings data for IRIDESSE is as follows:

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

3. INVENTORIES

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

Inventories, net	$	1,654,552	$	1,427,855	$	1,541,888

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4. INCOME TAXES

The effective income tax rate for the three months ended October 31, 2010 was 34.9% versus 22.0% in the prior year which had included a $5,558,000 benefit to the tax provision as a result of favorable reserve adjustments relating to the expiration of statutory periods. The effective income tax rate for the nine months ended October 31, 2010 was 33.2% versus 29.2% in the prior year. The effective income tax rate for the nine months ended October 31, 2010 included the following non-recurring items recorded in the first quarter of 2010: (i) a benefit of $5,006,000 due to a change in tax status of certain subsidiaries associated with the acquisition in 2009 of additional equity interests in diamond sourcing and polishing operations and (ii) a $1,910,000 charge as a result of recent healthcare reform legislation, which eliminated the tax benefit associated with the Medicare Part D subsidy. Additionally, the effective income tax rate for the nine months ended October 31, 2009 included an $11,220,000 benefit to the tax provision associated with the settlement of certain tax audits and the expiration of statutory periods.

During the nine months ended October 31, 2010, the change in the gross amount of unrecognized tax benefits and accrued interest and penalties was not significant.

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. As a matter of course, various taxing authorities regularly audit the Company. The Company s tax filings are currently being examined by tax authorities in jurisdictions where its subsidiaries have a material presence, including New York state (tax years 2004-2008), New York City (tax years 2006-2008), Japan (tax years 2003-2008) and by the Internal Revenue Service (tax years 2007-2008). Tax years from 2003-present are open to examination in U.S. Federal and various state, local and foreign jurisdictions. The Company believes that its tax positions comply with applicable tax laws and that it has adequately provided for these matters. However, the audits may result in proposed assessments where the ultimate resolution may result in the Company owing additional taxes. The Company does not anticipate any material changes to the total gross amount of unrecognized tax benefits over the next 12 months. Future developments may result in a change in this assessment.

5. EARNINGS PER SHARE

Basic earnings per share (EPS) is computed as net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the dilutive effect of the assumed exercise of stock options and unvested restricted stock units.

The following table summarizes the reconciliation of the numerators and denominators for the basic and diluted EPS computations:

	Three Months Ended October 31,		Nine Months Ended October 31,	
(*in thousands*)	2010	2009	2010	2009
Net earnings for basic and diluted EPS	$ 55,079	$ 43,339	$ 187,179	$ 124,456
Weighted-average shares for basic EPS	126,176	124,202	126,591	124,095
Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units	1,729	1,380	1,686	661
Weighted-average shares for diluted EPS	127,905	125,582	128,277	124,756

For the three months ended October 31, 2010 and 2009, there were 431,000 and 3,528,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect. For the nine months ended October 31, 2010 and 2009, there were 450,000 and 6,380,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

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6. DEBT

On September 1, 2010, the Company, in a private transaction, issued, at par, ¥10,000,000,000 ($118,430,000 at issuance) of 1.72% Senior Notes due September 2016. The proceeds were used to repay a portion of debt that came due in September 2010. The agreement requires lump sum repayments upon maturity and includes specific financial covenants and ratios and limits certain payments, investments and indebtedness, in addition to other requirements customary to such borrowings.

7. HEDGING INSTRUMENTS

Background Information

The Company currently uses derivative financial instruments, including interest rate swap agreements, forward contracts and net-zero-cost collar arrangements (combination of call and put option contracts) to mitigate its exposures to changes in interest rates, foreign currency and precious metal prices. Derivative instruments are recorded on the consolidated balance sheet at their fair values, as either assets or liabilities, with an offset to current or comprehensive earnings, depending on whether the derivative is designated as part of an effective hedge transaction and, if it is, the type of hedge transaction. If a derivative instrument meets certain hedge accounting criteria, the derivative instrument is designated as one of the following on the date the derivative is entered into:

Fair Value Hedge A hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment. For fair value hedge transactions, both the effective and ineffective portions of the changes in the fair value of the derivative and changes in the fair value of the item being hedged are recorded in current earnings.

Cash Flow Hedge A hedge of the exposure to variability in the cash flows of a recognized asset, liability or a forecasted transaction. For cash flow hedge transactions, the effective portion of the changes in fair value of derivatives are reported as other comprehensive income (OCI) and are recognized in current earnings in the period or periods during which the hedged transaction affects current earnings. Amounts excluded from the effectiveness calculation and any ineffective portions of the change in fair value of the derivative are recognized in current earnings.

The Company formally documents the nature and relationships between the hedging instruments and hedged items for a derivative to qualify as a hedge at inception and throughout the hedged period. The Company also documents its risk management objectives, strategies for undertaking the various hedge transactions and method of assessing hedge effectiveness. Additionally, for hedges of forecasted transactions, the significant characteristics and expected terms of a forecasted transaction must be specifically identified, and it must be probable that each forecasted transaction will occur. If it were deemed probable that the forecasted transaction would not occur, the gain or loss on the derivative financial instrument would be recognized in current earnings. Derivative financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period.

The Company does not use derivative financial instruments for trading or speculative purposes.

Types of Derivative Instruments

Interest Rate Swap Agreements In the second quarter of 2009, the Company entered into interest rate swap agreements to effectively convert its fixed rate 2002 Series D and 2008 Series A obligations to floating rate obligations. Since the fair value of the Company s fixed rate long-term debt is sensitive to interest rate changes, the interest rate swap agreements serve as a hedge to changes in the fair value of these debt instruments. The Company is hedging its exposure to changes in interest rates over the remaining maturities of the debt agreements being hedged. The Company accounts for the interest rate swaps as fair value hedges. As of October 31, 2010, the notional amount of interest rate swap agreements outstanding was $160,000,000.

Foreign Exchange Forward and Put Option Contracts The Company uses foreign exchange forward contracts or put option contracts to offset the foreign currency exchange risks associated with foreign

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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.

As of October 31, 2010, the notional amount of foreign exchange forward contracts accounted for as cash flow hedges was $223,600,000 and the notional amount of foreign exchange forward contracts accounted for as undesignated hedges was $24,084,000. The term of all outstanding foreign exchange forward contracts as of October 31, 2010 ranged from less than one month to 16 months.

As of October 31, 2010, the Company de-designated all of its outstanding put option contracts (notional amount of $94,100,000 outstanding at October 31, 2010) and entered into offsetting call option contracts. These put and call option contracts are accounted for as undesignated hedges. Any gains or losses on these de-designated put option contracts are substantially offset by losses or gains on the call option contracts.

<u>Precious Metal Collars & Forward Contracts</u> 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 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 would expire 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 13 months. As of October 31, 2010, there were approximately 8,000 ounces of platinum and 37,500 ounces of silver precious metal derivative instruments outstanding.

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

	Three Months Ended October 31,			
	2010		2009	
(in thousands)	Pre-Tax Gain Recognized in Earnings on Derivatives	Pre-Tax Loss Recognized in Earnings on Hedged Item	Pre-Tax Gain Recognized in Earnings on Derivatives	Pre-Tax Loss Recognized in Earnings on Hedged Item
Derivatives in Fair Value Hedging Relationships:				
Interest rate swap agreements [a]	$ 2,351	$ (2,037)	$ 1,953	$ (1,967)

	Nine Months Ended October 31,			
	2010		2009	
	Pre-Tax Gain Recognized in	Pre-Tax Loss Recognized in	Pre-Tax Gain Recognized in	Pre-Tax Loss Recognized in

(in thousands)	Earnings on Derivatives	Earnings on Hedged Item	Earnings on Derivatives	Earnings on Hedged Item
Derivatives in Fair Value Hedging Relationships:				
Interest rate swap agreements [a]	$ 7,257	$ (6,334)	$ 1,330	$ (1,288)

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	Three Months Ended October 31, 2010		Three Months Ended October 31, 2009	
(in thousands)	Pre-Tax (Loss) Gain Recognized in OCI (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated OCI into Earnings (Effective Portion)	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI Into Earnings (Effective Portion)
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange forward contracts [a, b]	$ (6,812)	$ (311)	$ 1,078	$
Put option contracts [b]	(847)	(577)	(1,420)	(959)
Precious metal collars [b]	385	(117)	550	(1,259)
Precious metal forward contracts [b]	1,744	504	527	
	$ (5,530)	$ (501)	$ 735	$ (2,218)

	Nine Months Ended October 31, 2010		Nine Months Ended October 31, 2009	
(in thousands)	Pre-Tax (Loss) Gain Recognized in OCI (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated OCI into Earnings (Effective Portion)	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI Into Earnings (Effective Portion)
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange forward contracts [a, b]	$ (6,169)	$ (577)	$ 561	$ (1,485)
Put option contracts [b]	(2,263)	(2,084)	(1,525)	(2,905)
Precious metal collars [b]	661	(1,295)	2,909	(2,155)
Precious metal forward contracts [b]	3,114	964	527	
	$ (4,657)	$ (2,992)	$ 2,472	$ (6,545)

Pre-Tax (Loss) Gain Recognized in Earnings on Derivative

(in thousands)	Three Months Ended October 31, 2010		Three Months Ended October 31, 2009	
Derivatives Not Designated as Hedging Instruments:				
Foreign exchange forward contracts [a]		(161) [c]	$	(225)[c]
Call option contracts [b]		155		(121)
Put option contracts [b]		(195)		121
	$	(201)	$	(225)

(in thousands)	Pre-Tax (Loss) Gain Recognized in Earnings on Derivative Nine Months Ended October 31, 2010	Nine Months Ended October 31, 2009
Derivatives Not Designated as Hedging Instruments:		
Foreign exchange forward contracts [a]	$ (775) [c]	$ (799) [c]
Call option contracts [b]	303	(118)
Put option contracts [b]	(343)	118
	$ (815)	$ (799)

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

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

[c] Gains or losses on the undesignated foreign exchange forward contracts substantially offset foreign

exchange losses or gains on the liabilities and transactions being hedged.

There was no material ineffectiveness related to the Company s hedging instruments for the periods ended October 31, 2010 and 2009. The Company expects approximately $3,310,000 of net pre-tax derivative losses included in accumulated other comprehensive income at October 31, 2010 will be reclassified into earnings within the next 12 months. This amount will vary due to fluctuations in foreign currency exchange rates and precious metal prices.

For information regarding the location and amount of the derivative instruments in the Condensed Consolidated Balance Sheet, refer to Note 8. Fair Value of Financial Instruments.

Concentration of Credit Risk

A number of major international financial institutions are counterparties to the Company s derivative financial instruments. The Company enters into derivative financial instrument agreements only with counterparties meeting certain credit standards (a credit rating of A/A2 or better at the time of the agreement), limiting the amount of agreements or contracts it enters into with any one party. The Company may be exposed to credit losses in the event of non-performance by individual counterparties or the entire group of counterparties.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. U.S. GAAP prescribes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 inputs are considered to carry the most weight within the fair value hierarchy due to the low levels of judgment required in determining fair values.

Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs reflecting the reporting entity s own assumptions. Level 3 inputs are considered to carry the least weight within the fair value hierarchy due to substantial levels of judgment required in determining fair values.

The Company uses the market approach to measure fair value for its mutual funds, time deposits and derivative instruments. The Company s interest rate swap agreements are primarily valued using the 3-month

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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 precious metal forward contracts are primarily valued using the relevant precious metal spot rate. For further information on the Company s hedging instruments and program, see Note 7. Hedging Instruments.

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

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

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

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Financial assets and liabilities carried at fair value at October 31, 2009 are classified in the tables below in one of the three categories described above:

(in thousands)	Carrying Value	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Financial Assets					
Mutual funds [a]	$ 28,515	$ 28,515	$	$	$ 28,515
Derivatives designated as hedging instruments:					
Interest rate swap agreements [a]	1,330		1,330		1,330
Put option contracts [c]	270		270		270
Precious metal collars [c]	299		299		299
Precious metal forward contracts [c]	531		531		531
Foreign exchange forward contracts [c]	1,078		1,078		1,078
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts [c]	61		61		61
Put option contracts [c]	717		717		717
Total assets	$ 32,801	$ 28,515	$ 4,286	$	$ 32,801

(in thousands)	Carrying Value	Estimated Fair Value Level 1	Level 2	Level 3	Total Fair Value
Financial Liabilities					
Derivatives designated as hedging instruments:					
Precious metal forward contracts [d]	$ 3	$	$ 3	$	$ 3
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts [d]	1,445		1,445		1,445
Call option contracts [d]	639		639		639
Total liabilities	$ 2,087	$	$ 2,087	$	$ 2,087

a This amount is included within

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

b This amount is included within Short-term investments on the Company s Condensed Consolidated Balance Sheet.

c This amount is included within Prepaid expenses and other current assets on the Company s Condensed Consolidated Balance Sheet.

d This amount is included within Accounts payable and accrued liabilities on the Company s Condensed Consolidated Balance Sheet.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates carrying value due to the short-term maturities of these assets and liabilities. The fair value of debt with variable interest rates approximates carrying value. The fair value of debt with fixed interest rates was determined using the quoted market prices of debt instruments with similar terms and maturities. The total carrying value of short-term borrowings and long-term debt was $754,989,000 and $753,003,000 and the corresponding fair value was approximately $850,000,000 and $800,000,000 at October 31, 2010 and 2009.

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9. COMMITMENTS AND CONTINGENCIES

In April 2010, Tiffany and Company, the Company s principal operating subsidiary (Tiffany) committed to a plan to consolidate and relocate its New York headquarters staff to a single location in New York City from three separate locations currently leased in midtown Manhattan. The move is expected to occur in spring 2011 and will generate occupancy savings over the term of the 15-year lease. Tiffany intends to sublease its existing properties through the end of their lease terms which run through 2015, but expects to recover only a portion of its rent obligations due to current market conditions. Accordingly, Tiffany anticipates recording expenses of approximately $30,000,000 primarily within selling, general and administrative expenses in the consolidated statement of earnings in the fiscal year ending January 31, 2012; this expense is related to the fair value of the remaining non-cancelable lease obligations reduced by the estimated sublease rental income. Additionally, Tiffany will incur expenses of approximately $18,000,000 in the fiscal year ending January 31, 2011 and $5,000,000 in the fiscal year ending January 31, 2012 primarily related to the acceleration of the useful lives of certain property and equipment and incremental rents during the transition period. Changes in market conditions may affect the total expenses ultimately recorded. The expenses recorded during the three and nine months ended October 31, 2010 were $6,421,000 and $11,226,000, respectively, and are primarily included in selling, general and administrative expenses (SG&A). This new lease, which expires in 2026, will increase total minimum annual rental payments as disclosed in the January 31, 2010 Annual Report on Form 10-K by the following amounts:

(in thousands)	Total	2010	2011-2012	2013-2014	Thereafter
Unrecorded contractual obligations:					
Operating leases	$ 224,525	$	$ 25,067	$ 27,346	$ 172,112

10. STOCKHOLDERS EQUITY

Accumulated Other Comprehensive (Loss) Gain

(in thousands)	October 31, 2010	January 31, 2010	October 31, 2009
Accumulated other comprehensive (loss) gain, net of tax:			
Foreign currency translation adjustments	$ 37,051	$ 16,512	$ 22,125
Deferred hedging loss	(3,885)	(2,607)	(3,352)
Unrealized loss on marketable securities	(316)	(1,899)	(2,325)
Net unrealized loss on benefit plans	(43,773)	(45,271)	(30,093)
	$ (10,923)	$ (33,265)	$ (13,645)

11. EMPLOYEE BENEFIT PLANS

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

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

	Three Months Ended October 31,			
	Pension Benefits		Other Postretirement Benefits	
(*in thousands*)	2010	2009	2010	2009
Net Periodic Benefit Cost:				
Service cost	$ 3,061	$ 2,774	$ 590	$ 409
Interest cost	5,909	5,748	816	689
Expected return on plan assets	(4,266)	(3,491)		

Amortization of prior service cost		270		267		(164)		(164)
Amortization of net loss		644		85		1		2
Net expense	$	5,618	$	5,383	$	1,243	$	936

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	Nine Months Ended October 31,	
		Other
	Pension Benefits	Postretirement Benefits
(*in thousands*)	2010	