## TIFFANY \& CO

## Form 10-Q

June 03, 2008

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

FORM 10-Q
(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR $15(\mathrm{~d})$ OF THE SECURITIES
---- EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2008.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR $15(\mathrm{~d})$ OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from $\qquad$ to $\qquad$ -.

Commission file number: 1-9494

TIFFANY \& CO.
(Exact name of registrant as specified in its charter)

| Delaware <br> (State of incorporation) | $13-3228013$ <br> (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
$\qquad$ -.

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 X . No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One).

Large Accelerated filer X Accelerated filer__ Non-Accelerated filer__

Indicate by check mark whether the registrant is a shell company (as defined in Rule $12 \mathrm{~b}-2$ of the Act). Yes . No X .

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, $125,973,765$ shares outstanding at the close

# Edgar Filing: TIFFANY \& CO - Form 10-Q 

of business on May 30, 2008.

TIFFANY \& CO. AND SUBSIDIARIES
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FOR THE QUARTER ENDED APRIL 30, 2008

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    PART I. Financial Information
Item 1. Financial Statements

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

| ASSETS |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Current assets: |  |  |  |  |
| Cash and cash equivalents | \$ | 159,625 | \$ | 246,654 |
| Short-term investments |  | - |  | - |
| Accounts receivable, less allowances of $\$ 8,225$, |  |  |  |  |
| Inventories, net |  | 1,466,166 |  | 1,372,397 |
| Deferred income taxes |  | 27,388 |  | 20,218 |
| Prepaid expenses and other current assets |  | 86,784 |  | 89,072 |
| Assets held for sale |  | - |  | - |
| Total current assets |  | 1,933,117 |  | 1,922,315 |
| Property, plant and equipment, net |  | 742,116 |  | 748,210 |
| Deferred income taxes |  | 164,847 |  | 158,579 |
| Other assets, net |  | 169,771 |  | 171,800 |
| Assets held for sale - noncurrent |  | - |  | - |
|  | \$ | 3,009,851 | \$ | 3,000,904 |
| LIABILITIES AND STOCKHOLDERS' EQUITY |  |  |  |  |
| Current liabilities: |  |  |  |  |
| Short-term borrowings | \$ | 199,421 | \$ | 44,032 |
| Current portion of long-term debt |  | 65,728 |  | 65,640 |
| Accounts payable and accrued liabilities |  | 175,777 |  | 203,622 |
| Income taxes payable |  | 49,979 |  | 203,611 |
| Merchandise and other customer credits |  | 68,573 |  | 67,956 |
| Liabilities held for sale |  | - |  | - |
| Total current liabilities |  | 559,478 |  | 584,861 |
| Long-term debt |  | 346,010 |  | 343,465 |
| Pension/postretirement benefit obligations |  | 81,836 |  | 79,254 |
| Deferred gains on sale-leasebacks |  | 144,577 |  | 145,599 |
| Other long-term liabilities |  | 134,422 |  | 131,610 |
| Liabilities held for sale - noncurrent |  | - |  | - |
| 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 126,281, 126,753 and 136,635 |  | 1,263 |  | 1,268 |



```
Earnings per share:
    Basic
    Net earnings from continuing operations
    Net earnings from discontinued operations
        Net earnings
    Diluted
    Net earnings from continuing operations
    Net earnings from discontinued operations
    Net earnings
Weighted-average number of common shares:
    Basic 126,458
    Diluted 128,773
See notes to condensed consolidated financial statements.
4
TIFFANY \& CO. AND SUBSIDIARIES
---------------------------------CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
```


## AND COMPREHENSIVE EARNINGS

```
(Unaudited)
------------
(in thousands)
```

\$ 0.51 \$

```
$ 0.51 $
    -
    -
$ 0.51 $
$ 0.51 $
=====================
=====================
$ 0.50 $
$ 0.50 $
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---------------------------
$ 0.50
$ 0.50
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See notes to condensed consolidated financial statements.
(Unaudited)
(in thousands)

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Accumulated Other
Total
Stockholders'
Equity
```

Balances, January 31, $2008 \quad \$ 1,716,115 \quad \$ 1,037,663 \quad \$ \quad 44,513$ 126,753
Exercise of stock options and vesting of restricted stock units ("RSUs") $7,248 \quad-\quad-\quad 787$
Tax benefit from exercise of stock options and vesting of RSUs 4,041
Share-based compensation expense 11,833
Issuance of Common Stock under
Employee Profit Sharing and Retirement Savings Plan
4,750 - - 124
Purchase and retirement of Common Stock (54,837) (50,993) (1,383)
Cash dividends on Common Stock
$(18,887) \quad(18,887)$

```
Deferred hedging gain, net of tax
Unrealized gain on marketable securities,
net of tax
\begin{tabular}{|c|c|c|c|c|}
\hline \multirow[t]{2}{*}{} & \multicolumn{4}{|c|}{Three Months Ended April 30,} \\
\hline & \multicolumn{2}{|r|}{2008} & \multicolumn{2}{|r|}{2007} \\
\hline Comprehensive earnings are as follows: & & & & \\
\hline Net earnings & \$ & 64,390 & \$ & 54,081 \\
\hline Other comprehensive gain (loss), net of tax: & & & & \\
\hline Deferred hedging gain (loss) & & 2,227 & & \((1,104)\) \\
\hline Foreign currency translation adjustments & & 6,490 & & 9,515 \\
\hline Unrealized gain on marketable securities & & 92 & & 260 \\
\hline Net unrealized gain on benefit plans & & 66 & & 348 \\
\hline Comprehensive earnings & \$ & 73,265 & \$ & 63,100 \\
\hline
\end{tabular}

See notes to condensed consolidated financial statements.


\section*{CASH FLOWS FROM OPERATING ACTIVITIES:}
Net earnings ..... \$
64,390Earnings from discontinued operations, net of tax-
Net earnings from continuing operations64,390
Adjustments to reconcile net earnings from continuing operations to
net cash provided by (used in) operating activities:30,908
Excess tax benefits from share-based payment arrangements ..... \((4,854)\)
Provision for inventories ..... 4,451
Deferred income taxes ..... \((13,516)\)
Provision for pension/postretirement benefits ..... 6,224
Share-based compensation expense ..... 11,661
Changes in assets and liabilities:
Accounts receivable ..... 4,187
Inventories ..... \((86,942)\)
Prepaid expenses and other current assets ..... 6,504
Accounts payable and accrued liabilities ..... \((25,487)\)
Income taxes payable\((152,496)\)
Merchandise and other customer credits ..... 534
Other, net ..... (129)
Net cash used in operating activities\((154,565)\)
CASH FLOWS FROM INVESTING ACTIVITIES:
Purchases of marketable securities and short-term investments
Proceeds from sales of marketable securities and short-terminvestments
Capital expenditures\((26,208)\)
Notes receivable funded838)
Net cash used in investing activities
CASH FLOWS FROM FINANCING ACTIVITIES:
Repayment of long-term debt
Proceeds from short-term borrowings, net
Repurchase of Common Stock
(54,837)Proceeds from exercise of stock optionsExcess tax benefits from share-based payment arrangements
Cash dividends on Common Stock
Net cash provided by (used in) financing activities
Effect of exchange rate changes on cash and cash equivalents ..... 3,117


CASH FLOWS FROM DISCONTINUED OPERATIONS:
Operating activitiesInvesting activities
Net cash used in discontinued operations
Net decrease in cash and cash equivalentsCash and cash equivalents at beginning of year
Decrease in cash and cash equivalents of discontinued operationsCash and cash equivalents at end of three months\((1,433)\)154,7297,248
4, 854\((18,887)\)91,674
\((87,029)\)246,654
\((27,255)\)
\(-------------------\infty)\)
\((1,433)\)
154,729
\((54,837)\)
7,248
4,854
\((18,887)\)

91, 674

 246,654


See notes to condensed consolidated financial statements.

\author{
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. and all majority-owned domestic and foreign subsidiaries (the "Company"). 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 include only normal recurring adjustments) necessary to present fairly the Company's financial position as of April 30, 2008 and 2007 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2008 is derived from the audited financial statements (except as noted in Note 2), which are included in the Company's Report on Form \(10-\mathrm{K}\) and should be read in connection with these financial statements. In accordance with the rules of the Securities and Exchange Commission, these financial statements do not include all disclosures required by generally accepted accounting principles.

The Company's business is seasonal in nature, with the fourth quarter typically representing at least one-third of annual net sales and approximately one-half of annual net earnings. Therefore, the results of its operations for the three months ended April 30, 2008 and 2007 are not necessarily indicative of the results of the entire fiscal year.
2. CHANGE IN ACCOUNTING FOR INVENTORIES

In March 2008, the Company's Board of Directors approved a plan to change the Company's method of accounting for inventories held by its U.S. subsidiaries and foreign branches from the last-in, first-out ("LIFO") method to the average cost method. The Company has traditionally used the average cost method to value inventories held by its Japan subsidiary and its other foreign subsidiaries. The Company believes that the average cost method is preferable on the basis that it conforms to the manner in which the company operationally manages its inventories and evaluates retail pricing and it makes the Company's inventory reporting consistent with many peer retailers. This change is effective in the first fiscal quarter of 2008 and prior periods have been revised. Accounts affected by this change are: cost of sales; provision for income taxes; inventories, net; deferred income taxes; and retained earnings.

Components of the Company's condensed consolidated statements of earnings adjusted for the effect of changing from LIFO to average cost are as follows:
\begin{tabular}{|c|c|c|c|c|}
\hline Cost of sales & \$ & 268,401 & \$ & \((6,630)\) \\
\hline Provision for income taxes & & 28,797 & & 2,208 \\
\hline Net earnings from continuing operations & & 49,405 & & 4,422 \\
\hline Net earnings & & 49,659 & & 4,422 \\
\hline Net earnings from continuing operations Basic & \$ & 0.36 & \$ & 0.03 \\
\hline Diluted & \$ & 0.35 & \$ & 0.03 \\
\hline Net earnings per share: & & & & \\
\hline Basic & \$ & 0.36 & \$ & 0.03 \\
\hline Diluted & \$ & 0.36 & \$ & 0.03 \\
\hline
\end{tabular}

Components of the Company's condensed consolidated balance sheets adjusted for the effect of changing from LIFO to average cost are as follows:
\begin{tabular}{|c|c|c|c|c|}
\hline (in thousands) & \multicolumn{2}{|r|}{As Reported} & \multicolumn{2}{|r|}{Adjustment} \\
\hline \multicolumn{5}{|l|}{Assets:} \\
\hline Inventories, net & \$ & 1,242,465 & \$ & 129,932 \\
\hline Deferred income taxes - current & & 71,402 & & \((51,184)\) \\
\hline Total Assets & & 2,922,156 & & 78,748 \\
\hline \multicolumn{5}{|l|}{Liabilities and Stockholders' Equity} \\
\hline Retained Earnings & & 958,915 & & 78,748 \\
\hline Total Liabilities and Stockholders' Equity & & 2,922,156 & & 78,748 \\
\hline
\end{tabular}
(in thousands)

As Reported
Adjustment
Assets:
\begin{tabular}{lrc} 
Inventories, net & \$ & \(1,226,160\) \\
Deferred income taxes - current & 71,174 & \(\$\) \\
Total Assets & \(2,898,646\) & \((46,104)\) \\
Liabilities and Stockholders' Equity & & 63,465 \\
Retained Earnings & \(1,277,916\) & 63,465 \\
Total Liabilities and Stockholders' Equity & \(2,898,646\) & 63,465
\end{tabular}

Components of the Company's condensed consolidated statement of cash flow adjusted for
changing from LIFO to average cost are as follows:
\begin{tabular}{|c|c|c|c|c|}
\hline \multirow[b]{2}{*}{(in thousands)} & \multicolumn{4}{|r|}{Three Months En} \\
\hline & \multicolumn{2}{|c|}{As Reported} & \multicolumn{2}{|r|}{Adjustment} \\
\hline \multicolumn{5}{|l|}{Cash Flows from Operating Activities:} \\
\hline Net earnings & \$ & 49,659 & \$ & 4,422 \\
\hline Provision for inventories & & 3,061 & & 259 \\
\hline Deferred income taxes & & 377 & & 2,208 \\
\hline Inventories & & \((74,140)\) & & \((6,889)\) \\
\hline Net cash used in operating activities & & \((29,146)\) & & - \\
\hline
\end{tabular}

The cumulative effect on retained earnings at January 31, 2007 is an increase of \$59,042,000.

\section*{3. NEW ACCOUNTING STANDARDS}

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" which establishes a framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements. The changes to current practice resulting from the application of SFAS No. 157 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB deferred the implementation of the provisions of SFAS No. 157 relating to nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The adoption of SFAS No. 157 for financial assets that are recognized at fair value on a recurring basis in the first quarter of 2008 did not have a material impact on the Company's financial position or earnings (see Note 8). Management anticipates adopting the remaining provisions of SFAS No. 157 on February 1, 2009. This adoption will impact the way in which the Company calculates fair value for its annual impairment review of goodwill and when conditions exist that require the Company to calculate the fair value of long-lived assets; however, management expects that this will not have a material effect on the Company's financial position or earnings.

Effective with the first quarter of 2008, the Company changed the measurement date for its U.S. employee
benefit plans from December 31 to January 31 in accordance with the measurement date provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132 (R)." The Company has elected to use a "13-month" approach to proportionally allocate the transition adjustment required under SFAS No. 158. The Company anticipates recording a charge of approximately \(\$ 2,000,000\) to retained earnings in the fourth quarter of fiscal year 2008 .

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements." SFAS No. 160 requires
a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company's equity. It also requires the amount of consolidated net earnings attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of earnings; changes in ownership interest to be accounted for similarly, as equity transactions; and, when a subsidiary is deconsolidated, that any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. SFAS No. 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Management has evaluated the provisions of SFAS No. 160 and determined that its adoption will not have a material effect on the Company's financial position or earnings.

Management concluded that Little Switzerland, Inc.'s ("Little Switzerland") operations did not demonstrate the potential to generate a return on investment consistent with management's objectives and, therefore, during the second quarter of 2007 the Company's Board of Directors authorized the sale of Little Switzerland. On July 31, 2007, the Company entered into an agreement with NXP Corporation ("NXP") by which NXP would purchase \(100 \%\) of the stock of Little Switzerland. The transaction closed on September 18, 2007 for net proceeds of \(\$ 32,870,000\) which excludes payments for existing trade payables owed to the Company by Little Switzerland. The purchase price remains subject to customary post-closing adjustments. The Company has agreed to continue to distribute TIFFANY \& CO. merchandise through TIFFANY \& CO. boutiques maintained in certain LITTLE SWITZERLAND stores post-closing. In addition, the Company has agreed to provide warehousing services to Little Switzerland for a transition period.

The Company determined that the continuing cash flows from Little Switzerland operations were not significant. Therefore, the results of Little Switzerland are presented as a discontinued operation in the condensed consolidated financial statements for all periods presented. Prior to the reclassification, Little Switzerland's results had been included within the non-reportable segment Other.

Summarized statement of earnings data for Little Switzerland is as follows:
(in thousands)

Net revenues

Earnings from operations
Income tax benefit

Earnings from discontinued operations
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(in thousands)

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Assets held for sale
Inventories, net
Other current assets
Property, plant and equipment, net
Other assets
Total assets held for sale
\$
Liabilities held for sale
Current liabilities
Other liabilities
Total liabilities held for sale

```
5. INVENTORIES
\begin{tabular}{|c|c|c|c|c|}
\hline \multirow[b]{2}{*}{(in thousands)} & \multicolumn{2}{|r|}{April 30,} & \multicolumn{2}{|r|}{January 31,} \\
\hline & & 2008 & & 2008 \\
\hline Finished goods & \$ & 987,383 & \$ & 942,860 \\
\hline Raw materials & & 374,721 & & 352,211 \\
\hline Work-in-process & & 104,062 & & 77,326 \\
\hline Inventories, net & \$ & 1,466,166 & \$ & 1,372,397 \\
\hline
\end{tabular}
6. INCOME TAXES

The Company files income tax returns in the U.S. federal jurisdiction as well as various state and foreign locations. 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 Japan (tax years 2003-2005) and New York City (tax year 2002). Tax years from 2005 -present are open to examination in the U.S. and tax years 2003-present are open to examination in various other state and foreign taxing 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. Ongoing audits are in various stages of completion and while the company does not anticipate any material changes in unrecognized income tax benefits over the next 12 months, future developments in the audit process may result in a change in management's assessment.
7. EARNINGS PER SHARE

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

The following table summarizes the reconciliation of the numerators and denominators for the basic and diluted earnings per share ("EPS") computations:
\begin{tabular}{|c|c|c|}
\hline & \multicolumn{2}{|r|}{Three Months En} \\
\hline (in thousands) & & 2008 \\
\hline Net earnings for basic and diluted EPS & \$ & 64,390 \\
\hline Weighted average shares for basic EPS & & 126,458 \\
\hline Incremental shares based upon the assumed exercise of stock options and restricted stock units & & 2,315 \\
\hline Weighted average shares for diluted EPS & & 128,773 \\
\hline
\end{tabular}

For the three months ended April 30, 2008 and 2007, there were \(1,805,000\) and 704,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

FAIR VALUE MEASUREMENTS

The Company adopted SFAS No. 157, "Fair Value Measurements," effective February 1, 2008, with respect to fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the Company's financial statements on a recurring basis (at least annually).

SFAS No. 157 defines fair value 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. SFAS No. 157 also 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. The standard describes 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 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.

The Company uses the market approach to measure fair value for its

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mutual funds, yen put options and collars and the income approach to value its interest-rate swap agreements. The following table provides information by level for assets that are measured at fair value on a recurring basis:


In Japan, the Company uses yen put options to minimize the potential effect of a weakening yen on U.S. dollar-denominated transactions over a maximum term of 12 months. The Company uses interest-rate swap contracts related to certain debt arrangements to manage its net exposure to interest rate changes. The interest-rate swap contracts effectively convert fixed-rate obligations to floating-rate instruments. The Company uses a combination of call and put option contracts in a net-zero cost collar arrangement ("collars") as hedges of a portion of forecasted purchases of platinum and silver for internal manufacturing.

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

Net periodic pension and other postretirement benefit expense included
the following components:
\begin{tabular}{|c|c|c|c|c|c|c|}
\hline & & & & Months & & 30 , \\
\hline \multirow[b]{2}{*}{(in thousands)} & \multicolumn{4}{|c|}{Pension Benefits} & \multicolumn{2}{|r|}{Postretir} \\
\hline & \multicolumn{2}{|r|}{2008} & \multicolumn{2}{|r|}{2007} & \multicolumn{2}{|r|}{200} \\
\hline Service cost & \$ & 4,570 & \$ & 4,547 & \$ & 41 \\
\hline Interest cost & & 4,397 & & 3,928 & & 4 \\
\hline Expected return on plan assets & & \((3,914)\) & & \((3,429)\) & & \\
\hline Amortization of prior service cost & & 321 & & 321 & & (19 \\
\hline Amortization of net loss & & 153 & & 640 & & \\
\hline Net expense & \$ & 5,527 & \$ & 6,007 & \$ & 69 \\
\hline
\end{tabular}

Effective with this first quarter, management has changed segment reporting to reflect operating results for the following regions: the Americas, Asia-Pacific and Europe. Prior year results have been revised to reflect this change. The Company has expanded its global reach and management has determined to assess performance on a region-by-region basis, rather than on a channel of distribution basis.

The Company's reportable segments are as follows:
o "Americas" includes sales in TIFFANY \& CO. stores in the U.S., Canada and Latin/South America, as well as sales in those markets of TIFFANY \& CO. products through business-to-business, Internet, catalog and wholesale operations.
o "Asia-Pacific" includes sales in TIFFANY \& CO. stores in the Asia-Pacific region (which includes sales in Japan, in Asia-Pacific countries outside Japan, and in the Middle East), as well as sales in those markets of TIFFANY \& CO. products through business-to-business, Internet and wholesale operations.
o "Europe" includes sales in TIFFANY \& CO. stores in Europe, as well as sales in those markets of TIFFANY \& CO. products through business-to-business, Internet and wholesale operations.

The "Other" channel of distribution includes all non-reportable segments. Sales in the Other channel of distribution primarily consist of wholesale sales of diamonds obtained through bulk purchases that were subsequently deemed not suitable for the Company's needs. In addition, Other includes worldwide sales made by businesses operated under trademarks or tradenames other than TIFFANY \& CO. and earnings received from third party licensing agreements.

Certain information relating to the Company's segments is set forth below:
\begin{tabular}{|c|c|c|c|}
\hline \multirow[b]{2}{*}{(in thousands)} & \multicolumn{3}{|r|}{Three Months Ended Apri} \\
\hline & \multicolumn{3}{|c|}{2008} \\
\hline \multicolumn{4}{|l|}{Net sales:} \\
\hline Americas & \$ & 373,565 & \$ \\
\hline Asia-Pacific & & 222,037 & \\
\hline Europe & & 60,125 & \\
\hline Total reportable segments & & 655,727 & \\
\hline Other & & 12,422 & \\
\hline & \$ & 668,149 & \$ \\
\hline
\end{tabular}
Earnings (losses) from continuing operations*:
Americas
Asia-Pacific
Europe
Total reportable segments
Other
(in thousands) 2008

Earnings from continuing operations for segments \(\quad \$ \quad 132,2051\)
Unallocated corporate expenses (28,896)
Other expenses, net
Earnings from continuing operations before income taxes

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 information technology, finance, legal and human resources.
11.

SUBSEQUENT EVENT

On May 15, 2008, the Company's Board of Directors declared a \(13 \%\) increase in the quarterly dividend rate on its Common Stock, increasing it from \(\$ 0.15\) per share to \(\$ 0.17\) per share. This dividend will be paid on July 10, 2008 to stockholders of record on June 20, 2008.

PART I. Financial Information

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

\section*{OVERVIEW}

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

Effective with this first quarter, management has changed segment reporting to reflect operating results for the following regions: the Americas, Asia-Pacific and Europe. Prior year results have been revised to reflect this change. The Company has expanded its global reach and management has determined to assess performance on a region-by-region basis, rather than on a channel of distribution basis. The Company's reportable segments are as follows:
- "Americas" includes sales in TIFFANY \& CO. stores in the U.S., Canada and Latin/South America, as well as sales in those markets of TIFFANY \& CO. products through business-to-business, Internet, catalog and wholesale operations.
- "Asia-Pacific" includes sales in TIFFANY \& CO. stores in the Asia-Pacific region (which includes sales in Japan, in Asia-Pacific countries outside Japan, and in the Middle East), as well as sales in those markets of TIFFANY \& CO. products through business-to-business, Internet and wholesale operations.
- "Europe" includes sales in TIFFANY \& CO. stores in Europe, as well as sales in those markets of TIFFANY \& CO. products through business-to-business, Internet and wholesale operations.
- The "Other" channel of distribution includes all non-reportable segments. Sales in the Other channel of distribution primarily consist of wholesale sales of diamonds obtained through bulk purchases that were subsequently deemed not suitable for the Company's needs. In addition, Other includes worldwide sales made by businesses operated under trademarks or tradenames other than TIFFANY \& CO. 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 \(12 \%\) in the three months ("first quarter") ended April 30, 2008. Sales were strong in the Asia-Pacific and Europe segments.
- Worldwide comparable store sales increased 3\% in the first quarter on a constant-exchange-rate basis (see Non-GAAP Measures).
- Net earnings rose \(19 \%\) to \(\$ 64,390,000\) in the first quarter. Net earnings per diluted share rose \(28 \%\).
- The Company repurchased and retired 1.4 million shares of its Common Stock during the first quarter.
- In May 2008, the Board of Directors increased the annual divided rate by \(13 \%\).

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 international sales performance on a non-GAAP basis that eliminates the positive or negative effects that result from translating international sales into U.S. dollars ("constant-exchange-rate basis"). Management believes this constant-exchange-rate measure provides a more representative assessment of the 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 following table reconciles sales percentage increases (decreases) from the GAAP to the non-GAAP basis versus the previous year:

First Quarter 2008 vs. 2007
GAAP Reported Translation Effect Cons

Net Sales:
----------
\begin{tabular}{lrr} 
Worldwide & \(12 \%\) & \(4 \%\) \\
Americas & \(6 \%\) & \(1 \%\) \\
U.S. & \(5 \%\) & - \\
Asia-Pacific & \(21 \%\) & \(11 \%\) \\
Japan & \(13 \%\) & \(15 \%\) \\
Other Asia-Pacific & \(39 \%\) & \(7 \%\) \\
Europe & \(38 \%\) & \(8 \%\) \\
Comparable Store Sales: & & \(4 \%\) \\
--------------------- & \(7 \%\) & - \\
Worldwide & \(1 \%\) & - \\
Americas & - & \(15 \%\) \\
U.S. & \(7 \%\) & \(14 \%\) \\
Asia-Pacific & \(28 \%\) & \(6 \%\) \\
Japan & \(21 \%\) & \(9 \%\)
\end{tabular}

Certain operating data as a percentage of net sales were as follows:
lirst Quar
Net sales
Cost of sales
```

Net Sales
---------
Net sales were as follows:

```

\section*{First Quarter}
\begin{tabular}{|c|c|c|c|c|c|}
\hline (in thousands) & & 2008 & & 2007 & \[
\begin{aligned}
& \text { Incre } \\
& \text { (Decrea }
\end{aligned}
\] \\
\hline Americas & \$ & 373,565 & \$ & 353,349 & \\
\hline Asia-Pacific & & 222,037 & & 183,094 & \\
\hline Europe & & 60,125 & & 43,544 & \\
\hline Other & & 12,422 & & 15,742 & \\
\hline & \$ & 668,149 & \$ & 595,729 & \\
\hline
\end{tabular}

Comparable Store Sales. Reference will be made to "comparable store sales" below. 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 (included in the Asia-Pacific segment), sales for a new store or boutique are not included if the boutique 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.
Americas. Total sales in the Americas region increased \(6 \%\) or \(\$ 20,216,000\), in the first quarter primarily due to non-comparable U.S. retail store sales growth of \(\$ 15,515,000\). U.S. retail comparable store sales were equal to the prior year, resulting from a \(16 \%\) increase in the New York Flagship store offset by a \(4 \%\) decline in comparable branch stores. U.S. retail stores benefited from higher levels of sales to foreign visitors, especially in the New York Flagship store.

Asia-Pacific. Total sales in the Asia-Pacific region increased 21\%, or \(\$ 38,943,000\), in the first quarter primarily due to comparable store sales growth of \(15 \%\) (or \(\$ 24,732,000\) ) and non-comparable store sales growth of \(\$ 11,071,000\). On a constant-exchange-rate basis, Asia-Pacific region sales increased \(10 \%\) and comparable store sales rose \(4 \%\) (consisting of a \(22 \%\) increase in comparable store sales in Asia-Pacific regions outside of Japan offset by a \(7 \%\) decline in Japan comparable store sales). Management does not expect a significant improvement in comparable store sales in Japan in the short term. Management will continue its efforts to improve sales in that market by improving the locations of its boutiques and stores and by cultivating important customer relationships. The sales increase in the Asia-Pacific region on a constant-exchange-rate basis primarily resulted from an increase in the number of units sold.

Europe. Total sales in the Europe region increased \(38 \%\) or \(\$ 16,581,000\), in the first quarter due primarily to comparable store sales growth of \(21 \%\) (or \(\$ 7,465,000\) ) and non-comparable store sales growth of \(\$ 5,640,000\). On a constant-exchange-rate basis, Europe region sales increased \(30 \%\) and comparable store sales rose \(12 \%\) reflecting strong growth in the United Kingdom and most Continental European markets. The total increase in Europe region sales on a constant-exchange-rate basis resulted from an increase in the number of units sold.

Other. Other sales decreased \(21 \%\) (or \(\$ 3,320,000\) ) in the first quarter primarily due to decreased wholesale sales of diamonds that were deemed not suitable for the Company's needs, which decreased to \(\$ 9,570,000\) from \(\$ 13,638,000\) in the prior year first quarter.

Store Data. Management expects to open approximately 24 Company-operated TIFFANY \& CO. stores and boutiques in 2008, increasing the store-base by approximately 13\%. Management's announced openings and closings of TIFFANY \& CO. stores are:

\begin{tabular}{ll} 
Osaka, Japan & First Quarter \\
Shizuoka, Japan & First Quarter \\
Tokyo, Japan & First Quarter \\
Chengdu, China & First Quarter \\
Shenyang, China & First Quarter \\
Perth, Australia & \\
Europe: & \\
London - Heathrow Airport, United Kingdom & First Quarter \\
Brussels, Belgium \\
London - Westfield, United Kingdom & \\
Madrid, Spain & \\
Dusseldorf, Germany \\
Dublin, Ireland
\end{tabular}

\section*{Gross Margin}

Gross margin (gross profit as a percentage of net sales) increased in the first quarter by 1.0 percentage point. The primary components of the net increase were (i) a 0.6 percentage point increase due to the leverage effect of increased sales applied against fixed product-related costs, which includes costs associated with merchandising and distribution, and (ii) a 0.4 percentage point increase due to a decrease in low-margin wholesale sales of diamonds.

Selling, General and Administrative ("SG\&A") Expenses
------------------------------------------------------------
SG\&A expenses increased \(\$ 31,904,000\), or \(13 \%\), in the first quarter primarily due to increased labor and benefit costs of \(\$ 10,415,000\) and increased depreciation and store occupancy expenses of \(\$ 8,693,000\), (both of which are largely due to new and existing stores), as well as an increase of \(\$ 5,332,000\) in marketing expenses. Changes in foreign currency exchange rates increased \(S G \& A\) expenses by approximately \(\$ 9,000,000\) compared to April 30, 2007. SG\&A expenses as a percentage of net sales increased by 0.3 percentage point to \(41.6 \%\) in the first quarter.
\begin{tabular}{|c|c|c|c|c|c|}
\hline (in thousands) & & \[
\begin{aligned}
& \text { st Quarter } \\
& 2008
\end{aligned}
\] & \% of Net Sales* & & First Quarter
\[
2007
\] \\
\hline \multicolumn{6}{|l|}{Earnings (losses) from continuing operations:} \\
\hline Americas & \$ & 68,291 & 18.3\% & \$ & 62,102 \\
\hline Asia-Pacific & & 56,365 & 25.4\% & & 49,299 \\
\hline Europe & & 11,574 & 19.2\% & & 7,620 \\
\hline Other & & \((4,025)\) & (32.4\%) & & \((4,496)\) \\
\hline & & 132,205 & & & 114,525 \\
\hline Unallocated corporate expenses & & \((28,896)\) & 4.3\% & & \((26,608)\) \\
\hline
\end{tabular}

Earnings from continuing
\begin{tabular}{lllll} 
operations & \(\$ 103,309\) & \(15.5 \%\) & \(\$ 7,917\)
\end{tabular}
* Percentages represent earnings (losses) from continuing operations as a percentage of each segment's net sales.

Earnings from continuing operations increased 18\% in the first quarter. On a segment basis, the ratio of earnings (losses) from continuing operations (before the effect of unallocated corporate expenses, other operating income and other expenses, net) to each segment's net sales in the first quarter of 2008 and 2007 was as follows:
- Americas - the ratio increased 0.7 percentage point due to an increase in gross margin (due to changes in sales mix and the leverage effect of increased sales applied against fixed product-related costs);
- Asia-Pacific - the ratio decreased 1.5 percentage points partly due to a decline in gross margin (due to changes in sales mix) as well as increased operating expenses in Japan (marketing and new store related), partly offset by increased profitability in most markets other than Japan;
- Europe - the ratio increased 1.7 percentage points partly due to an increase in gross margin (due to changes in sales mix) and the leveraging of operating expenses; and
- Other - The operating loss in each year primarily reflects the operating performance of the Company's Iridesse subsidiary. The loss ratio increased 3.8 percentage points primarily due to a decline in wholesale diamond sales.

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 information technology, finance, legal and human resources.

Other Expenses, net
Other expenses, net decreased \(\$ 1,577,000\) in the first quarter primarily due to a decrease in interest expense as a result of favorable variable interest rates.

Provision for Income Taxes
The effective income tax rate for the first quarter was \(36.7 \%\) versus \(36.5 \%\) in the prior year.

2008 Outlook
------------
Management's full-year 2008 expectations are currently as follows:
- Net sales growth of \(10 \%\) in 2008. The net sales objective is composed of (i) an increase in the number of company-operated TIFFANY \& CO. locations by approximately 13\%; (ii) a high-single-digit percentage increase in total sales in the Americas region, which includes a low-single-digit percentage increase in U.S. comparable store sales for the year and a mid-single-digit percentage increase in Internet/catalog sales; (iii) a low-teens percentage increase in annual sales growth in dollars in the total Asia-Pacific region and more than 20\% growth in dollars in Europe, including local-currency

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comparable store sales increasing by a mid-single-digit percentage in Asia-Pacific and by a low-double-digit percentage in Europe; and (iv) a modest decline in the Other channel.
```

        O Management's outlook for U.S. sales includes improvement later in
        the year based on easier year-over-year comparisons as well as
        the assumption of a gradually improving economic scenario.
    o Operating margin to be approximately equal to the prior year, when
        adjusted for the various one-time items recorded in 2007 and the
        change in the inventory accounting method. The operating margin
        objective includes (i) an increase in gross margin and (ii) a modest
        increase in the SG&A expense ratio.
    O Other expenses, net of approximately $15 - $17 million.
    O An effective tax rate of approximately 36% - 37%.
    O Net earnings per diluted share of $2.80 - $2.90.
    New Accounting Standards
See note 3 to condensed consolidated financial statements.

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LIQUIDITY AND CAPITAL RESOURCES

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LIQUIDITY AND CAPITAL RESOURCES
The Company's liquidity needs have been, and are expected to remain, primarily a function of its seasonal and expansion-related working capital requirements and capital expenditures needs. The ratio of total debt (short-term borrowings, current portion of long-term debt and long-term debt) to stockholders' equity was 35\% at April 30, 2008, 26\% at January 31, 2008, and 27\% at April 30, 2007.
The following table summarizes cash flows from operating, investing and financing activities:
```

Net cash provided by (used in):
Operating activities
\$
$(154,565)$

Investing activities
$(27,255)$

Financing activities 91,674
Effect of exchange rates on cash and cash equivalents 3,117
Net cash used in discontinued operations

Net decrease in cash and cash equivalents

## Operating Activities

The Company's net cash outflow from operating activities of $\$ 154,565,000$ in the first quarter of 2008 compared with an outflow of $\$ 29,146,000$. The cash outflow in the first quarter of 2008 resulted primarily from increased income taxes payable largely associated with the sale-leasebacks of the TIFFANY \& CO. Flagship stores in Tokyo and London.

Working Capital. Working capital (current assets less current liabilities) and the corresponding current ratio (current assets divided by current liabilities) were $\$ 1,373,639,000$ and 3.5 at April 30,2008 , compared with $\$ 1,337,454,000$ and 3.3 at January 31, 2008 and $\$ 1,395,714,000$ and 4.5 at April 30, 2007.

Accounts receivable, less allowances at April 30, 2008 were approximately equal to January 31, 2008 and were 21\% higher than at April 30, 2007. The year-over-year change is primarily due to a foreign tax receivable (that is expected to be collected later this year) and an increase in sales. Changes in foreign currency exchange rates had an insignificant effect on the change in account receivable balances at April 30, 2008 versus January 31, 2008 and increased account receivable balances by 6\% compared to April 30, 2007.

Inventories, net at April 30, 2008 were $7 \%$ above January 31,2008 and $10 \%$ above April 30, 2007. Combined raw material and work-in-process inventories increased $11 \%$ over January 31, 2008 and 19\% over April 30, 2007 due to increased precious metal costs and diamond quantities needed to support internal jewelry manufacturing. Finished
goods inventories increased 5\% over January 31, 2008, reflecting new store openings, increased product costs as well as broadened product assortments. Finished goods inventories increased 6\% over April 30, 2007 primarily due to changes in foreign currency exchange rates.

Management continues to expect a high-single-digit percentage increase in inventories, net in 2008.

## Investing Activities

The Company's net cash outflow from investing activities of $\$ 27,255,000$ in the first quarter of 2008 compared with an outflow of $\$ 26,942,000$ in the first quarter of 2007.

Capital Expenditures. Capital expenditures were $\$ 26,208,000$ in the first quarter of 2008 compared with $\$ 31,548,000$ in the first quarter of 2007 . Management estimates that capital expenditures will be approximately $\$ 200,000,000$ in 2008 (compared with approximately $\$ 186,000,000$ in the prior year) due to costs related to the opening and renovation of stores and to ongoing investments in new systems.

Marketable Securities. The Company invests excess cash in short-term investments and marketable securities. The Company had (net purchases of) or net proceeds from investments in marketable securities and short-term investments of $(\$ 209,000)$ and $\$ 5,238,000$ in the first quarter of 2008 and 2007 .

Financing Activities

The Company's net cash inflow from financing activities of $\$ 91,674,000$ in the first quarter of 2008 compared with an outflow of $\$ 2,888,000$ in the first quarter of 2007. The cash inflow was due to higher proceeds from short-term borrowings, partly offset by increased share repurchases and reduced proceeds from the exercise of employees' stock options.

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

First Quarter

| (in thousands, except per share amounts) | 2008 |  |  |
| :---: | :---: | :---: | :---: |
| Cost of repurchases | \$ | 54,837 | \$ |
| Shares repurchased and retired |  | 1,383 |  |
| Average cost per share | \$ | 39.66 | \$ |

At April 30, 2008, there remained $\$ 565,969,000$ of authorization for future repurchases. The Company's stock repurchase program expires in January 2011 . The timing of repurchases and the actual number of shares to be repurchased depend on a variety of discretionary factors such as price and other market conditions.

Borrowings. The Company's current sources of working capital are internally-generated cash flows and borrowings available under a revolving credit facility.

At April 30, 2008, the Company was in compliance with all loan covenants.

Contractual Obligations
---------------------------
The Company's contractual cash obligations and commercial commitments at April 30, 2008 and the effects such obligations and commitments are expected to have on the Company's liquidity and cash flows in future periods have not significantly changed since January 31, 2008.

Based on the Company's financial position at April 30, 2008, management anticipates that cash on hand, internally-generated cash flows and the funds available under its revolving credit facility will be sufficient to support the Company's planned worldwide business expansion, share repurchases, debt service and seasonal working capital increases for the foreseeable future.

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 document contains certain "forward-looking statements" concerning the Company's objectives and expectations with respect to store openings, sales, retail prices, gross margin, expenses, earnings per share, inventory performance, capital expenditures and cash flow. In addition, management makes other forward-looking statements from time to time concerning objectives and expectations. Statements beginning with such words as "believes", "intends", "plans", and "expects" include forward-looking statements that are based on management's expectations given facts as currently known by management on the date this quarterly report was filed with the Securities and Exchange Commission. All forward-looking statements involve risks, uncertainties and assumptions that, if they never materialize or prove incorrect, could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

The statements in this quarterly report are made as of the date this report was filed with the Securities and Exchange Commission and 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.

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, interest rates and precious metal prices, 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.

In Japan, the Company uses yen put options to minimize the potential effect of a weakening yen on U.S. dollar-denominated transactions over a maximum term of 12 months. The Company also uses foreign-exchange forward contracts to protect against changes in local currencies. Gains or losses on these instruments substantially offset losses or gains on the assets, liabilities and transactions being hedged.

The Company uses interest-rate swap contracts related to certain debt arrangements to manage its net exposure to interest rate changes. The interest-rate swap contracts effectively convert fixed-rate obligations to floating-rate instruments. Additionally, since the fair value of the Company's fixed-rate long-term debt is sensitive to interest rate changes, the interest-rate swap contracts serve as a hedge to changes in the fair value of these debt instruments.

The Company uses a combination of call and put option contracts in a net-zero cost collar arrangement ("collars"), as hedges of a portion of forecasted purchases of platinum and silver for internal manufacturing. If the price of the precious metal at the time of the expiration of the collar is within the call and put price, the collar would expire 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.
Management neither foresees nor expects significant changes in the Company's exposure to fluctuations in foreign currencies, interest rates or precious metal prices, nor in its risk-management practices.

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), Registrant's chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, Registrant's disclosure controls and procedures are effective to ensure that information required to be disclosed by 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, 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 Registrant maintains an effective internal control environment. Changes may include such activities as implementing new, more efficient systems and automating manual processes.

Registrant's chief executive officer and chief financial officer have determined that there have been no changes in 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, Registrant's internal control over financial reporting.

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 Registrant's disclosure controls and procedures are (i) designed to provide such reasonable assurance and (ii) are effective at that reasonable assurance level.

As is the case for any retailer, Registrant's success in achieving its objectives and expectations is dependent upon general economic conditions, competitive conditions and consumer attitudes. However, certain factors are specific to the Registrant and/or the markets in which it operates.

The following "risk factors" are specific to Registrant; these risk factors affect the likelihood that Registrant will achieve the financial objectives and expectations communicated by management:
(i) Risk: that a decline in consumer confidence will adversely affect Registrant's sales.

As a retailer of goods which are discretionary purchases, Registrant's sales results are particularly sensitive to changes in consumer confidence. Consumer confidence is affected by general business conditions; changes in the market value of securities and real estate; inflation; interest rates and the availability of consumer credit; tax rates; and expectations of future economic conditions and employment prospects.

Consumer spending for discretionary goods generally declines during times of falling consumer confidence, which will negatively affect Registrant's earnings because of its cost base and inventory investment.
(ii) Risk: that sales will decline or remain flat in Registrant's fourth fiscal quarter, which includes the holiday selling season.

Registrant'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. Poor sales results during Registrant's fourth quarter will have a material adverse effect on Registrant's sales and profits.
(iii) Risk: that regional instability and conflict will disrupt tourist travel.

Unsettled regional and global conflicts or crises which result in military, terrorist or other conditions creating disruptions or disincentives to, or changes in the pattern, practice or frequency of tourist travel to the various regions where the Registrant operates retail stores could adversely affect the Registrant's sales and profits.
(iv) Risk: that the Japanese yen will weaken against the U.S. dollar and require Registrant to raise prices or shrink profit margins in Japan.

Registrant's sales in Japan represented approximately 17\% of Registrant's net sales in Fiscal 2007. A substantial weakening of the Japanese yen against the U.S. dollar would require Registrant to raise its retail prices in Japan or reduce its profit margins. Japanese consumers may not accept significant price increases on Registrant's goods; thus there is a risk that a substantial weakening of the yen will result in reduced sales or profit margins.
(v) Risk: that Registrant will be unable to continue to offer merchandise designed by Elsa Peretti or Paloma Picasso.

Registrant's long-standing right to sell the jewelry designs of Elsa Peretti and Paloma Picasso and use their trademarks is responsible for a substantial portion of Registrant's revenues. Merchandise designed by Elsa Peretti and by Paloma Picasso accounted for $11 \%$ and $3 \%$ of Fiscal 2007 net sales, respectively. Tiffany has exclusive license arrangements with Elsa Peretti and Paloma Picasso; these arrangements are subject to royalty payments as well as other requirements. Each license may be terminated by Tiffany or the designer on six-months notice, even in the case where no default has occurred. Also, no agreements have been made for the continued sale of the designs or use of the
trademarks ELSA PERETTI or PALOMA PICASSO following the death of either designer. Loss of either license would materially adversely affect Registrant's business through lost sales and profits.
(vi) Risk: that increased commodity prices or reduced supply availability will adversely affect Registrant's ability to produce and sell products at historic profit margins.

Most of Registrant's jewelry and non-jewelry offerings are made with diamonds, gemstones and/or precious metals. A significant change in the prices of these commodities could adversely affect Registrant's business, which is vulnerable to the risks inherent in the trade for such commodities. A substantial decrease in the supply or an increase in the price of raw materials and/or high-quality rough and polished diamonds within the quality grades, colors and sizes that customers demand could lead to decreased customer demand and lost sales and/or reduced gross profit margins.
(vii) Risk: that the value of the TIFFANY \& CO. trademark will decline due to the sale by infringers of counterfeit merchandise.

The TIFFANY \& CO. trademark is an asset which is essential to the competitiveness and success of Registrant's business and Registrant takes appropriate action to protect it. However, Registrant's enforcement actions have not stopped the imitation and counterfeit of Registrant's merchandise or the infringement of the trademark. The continued sale of counterfeit merchandise could have an adverse effect on the TIFFANY \& CO. brand by undermining Tiffany's reputation for quality goods and making such goods appear less desirable to consumers of luxury goods. Damage to the brand would result in lost sales and profits.
(viii) Risk: that Registrant will be unable to lease sufficient space for its retail stores in prime locations.


#### Abstract

Registrant, positioned as a luxury goods retailer, has established its retail presence in choice store locations. If Registrant cannot secure and retain locations on suitable terms in prime and desired luxury shopping locations, its expansion plans, sales and profits will be jeopardized. (ix) Risk: that Registrant's business is dependent upon the distinctive appeal of the TIFFANY \& CO. brand.

The TIFFANY \& CO. brand's association with quality, luxury and exclusivity is integral to the success of Registrant's business. Registrant's expansion plans for retail and direct selling operations and merchandise development, production and management support the brand's appeal. Consequently, poor maintenance, promotion and positioning of the TIFFANY \& CO. brand through market over-saturation may adversely affect the business by diminishing the distinctive appeal of the TIFFANY \& CO. brand and tarnishing its image. This will result in lower sales and profits.


PART II. Other Information
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

This table provides information with respect to the Company's purchases of shares of its Common Stock during the first fiscal quarter of 2008:

| Period | (a) Total <br> Number of <br> Shares <br> Purchased | (b) Average <br> Price Paid Per Share | (c) Total Number of Shares Purchased Under all Publicly Announced Programs* | (d) Approx <br> Dollar Va <br> Shares th be Purcha the Progr |
| :---: | :---: | :---: | :---: | :---: |
| February 1, 2008 through February 29, 2008 | 423,600 | \$38.43 | 423,600 | \$60 |
| March 1, 2008 through March 31, 2008 | 443,000 | \$37.83 | 443,000 | \$58 |
| April 1, 2008 through April 30, 2008 | 516,000 | \$42.25 | 516,000 | \$56 |
| Total | 1,382,600 | \$39.66 | 1,382,600 | \$56 |

* In January 2008, the Company's Board of Directors extended the expiration date of the program to January 2011 and increased by $\$ 500,000,000$ the amount authorized for repurchase of its Common Stock.
10.154 Preferability Letter from Independent Registered Public Accounting Firm.
31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Oxley Act of 2002 .
31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Oxley Act of 2002 .
32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Secti 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. Sectio adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 .

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.

TIFFANY \& CO.
(Registrant)

Date: June 3, 2008
By: /s/ James N. Fernandez
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James N. Fernandez
Executive Vice President and Chief Financial Officer (principal financial officer)

Exhibit Index
10.154 Preferability Letter from Independent Registered Public Accounting Firm.
31.1 Certification of Chief Executive Officer pursuant to Section 302 of the SarbanesOxley 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 <br> 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, | adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

