TIFFANY & CO
Form 10-Q
November 30, 2007

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

FORM 10-Q

(Mark One)

_X_ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended October 31, 2007.
OR

__ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to ________.
Commission file number: 1-9494
TIFFANY & CO.
(Exact name of registrant as specified in its charter)

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 _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 12b-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, 135,641,832 shares outstanding at the close of business on October 31, 2007.

TIFFANY & CO. AND SUBSIDIARIES
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED OCTOBER 31, 2007

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, 2007	January 31, 2007	October 31, 2006
ASSETS			
Current assets:			
Cash and cash equivalents	$ 334,850	$ 175,008	$ 56,933
Short-term investments	56,270	15,500	-
Accounts receivable, less allowances of $7,480, $7,900 and $7,693	168,678	165,594	148,608
Inventories, net	1,345,730	1,146,674	1,247,089
Deferred income taxes	65,377	72,934	78,206
Prepaid expenses and other current assets	91,682	57,460	69,002
Assets held for sale	-	73,474	67,584
Total current assets	2,062,587	1,706,644	1,667,422
Property, plant and equipment, net	757,542	912,143	908,844
Deferred income taxes	115,333	37,368	28,431
Other assets, net	197,636	156,097	167,228
Assets held for sale - noncurrent	-	33,258	38,094
	$ 3,133,098	$ 2,845,510	$ 2,810,019
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Short-term borrowings	$ 59,843	$ 106,681	$ 237,447
Current portion of long-term debt	5,552	5,398	6,259
Accounts payable and accrued liabilities	204,579	198,471	210,218
Income taxes payable	95,816	62,979	9,620
Merchandise and other customer credits	67,092	61,511	58,722
Liabilities held for sale	-	17,631	13,293
Total current liabilities	432,882	452,671	535,559
Long-term debt	397,795	406,383	416,863
Pension/postretirement benefit obligations	100,712	84,466	77,573
Deferred gains on sale-leasebacks	144,973	4,944	5,010

Other long-term liabilities	130,463	87,774	84,117
Liabilities held for sale - non current	-	4,377	4,227
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 135,642, 135,875 and 135,358	1,357	1,358	1,353
Additional paid-in capital	647,405	536,187	510,527
Retained earnings	1,252,525	1,269,940	1,159,044
Accumulated other comprehensive gain (loss), net of tax:			
Foreign currency translation adjustments	40,245	11,846	14,948
Deferred hedging (loss) gain	(580)	2,046	646
Unrealized gain on marketable securities	898	178	152
Net unrealized losses on benefit plans	(15,577)	(16,660)	-
Total stockholders equity	1,926,273	1,804,895	1,686,670
	$ 3,133,098	$ 2,845,510	$ 2,810,019

See notes to condensed consolidated financial statements.

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

	Three Months Ended October 31, 2007	Three Months Ended October 31, 2006	Nine Months Ended October 31, 2007	Nine Months Ended October 31, 2006
Net sales	$ 627,323	$ 531,834	$ 1,885,614	$ 1,601,847
Cost of sales	290,186	244,483	855,036	712,926
Gross profit	337,137	287,351	1,030,578	888,921
Other operating income	105,051	-	105,051	-
Selling, general and administrative expenses	288,403	239,696	793,563	689,455
Earnings from continuing operations	153,785	47,655	342,066	199,466
Other expenses (income), net	2,306	(1,294)	8,139	7,849
Earnings from continuing operations before income taxes	151,479	48,949	333,927	191,617
Provision for income taxes	51,034	16,324	120,858	70,795
Net earnings from continuing operations	100,445	32,625	213,069	120,822
Loss from discontinued operations, net of tax	(1,555)	(3,483)	(27,547)	(7,394)
Net earnings	$ 98,890	$ 29,142	$ 185,522	$ 113,428
Earnings per share:				
Basic				
Net earnings from continuing operations	$ 0.74	$ 0.24	$ 1.56	$ 0.87

Loss from discontinued operations		(0.01)		(0.03)		(0.20)		(0.06)
Net earnings	$	0.73	$	0.21	$	1.36	$	0.81
Diluted								
Net earnings from continuing operations	$	0.72	$	0.23	$	1.52	$	0.85
Loss from discontinued operations		(0.01)		(0.02)		(0.19)		(0.05)
Net earnings	$	0.71	$	0.21	$	1.33	$	0.80
Weighted-average number of common shares:								
Basic		136,124		136,753		136,452		139,288
Diluted		139,487		138,872		139,943		141,647

See notes to condensed consolidated financial statements.

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

	Total Stockholders' Equity	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital
Balances, January 31, 2007	$ 1,804,895	$ 1,269,940	$ (2,590)	135,875	$ 1,358	$ 536,187
Implementation effect of FIN No. 48	(4,299)	(4,299)	-	-	-	-
Balances, February 1, 2007	1,800,596	1,265,641	(2,590)	135,875	1,358	536,187
Exercise of stock options and vesting of restricted stock units (RSUs)	68,176	-	-	2,790	28	68,148
Tax benefit from exercise of stock options and vesting of RSUs	20,213	-	-	-	-	20,213
Share-based compensation expense	28,464	-	-	-	-	28,464
Issuance of Common Stock under Employee Profit Sharing and Retirement Savings Plan	2,450	-	-	52	1	2,449
Purchase and retirement of Common Stock	(156,234)	(148,148)	-	(3,075)	(30)	(8,056)
Cash dividends on Common Stock	(50,490)	(50,490)	-	-	-	-
Deferred hedging loss, net of tax	(2,626)	-	(2,626)	-	-	-
Unrealized gain on marketable securities, net of tax	720	-	720	-	-	-
Foreign currency translation adjustments, net of tax	28,399	-	28,399	-	-	-
Amortization of net losses on benefit plans, net of tax	1,083	-	1,083	-	-	-
Net earnings	185,522	185,522	-	-	-	-
Balances, October 31, 2007	$ 1,926,273	$ 1,252,525	$ 24,986	135,642	$ 1,357	$ 647,405

	Three Months Ended October 31, 2007	Three Months Ended October 31, 2006	Nine Months Ended October 31, 2007	Nine Months Ended October 31, 2006
Comprehensive earnings are as follows:				
Net earnings	$ 98,890	$ 29,142	$ 185,522	$ 113,428
Other comprehensive gain (loss), net of tax:				
Deferred hedging loss	(672)	(9)	(2,626)	(2,601)

Foreign currency translation adjustments	15,443	(1,102)	28,399	9,667
Unrealized gain (loss) on marketable securities	743	(398)	720	(527)
Amortization of net losses on benefit plans	400	-	1,083	-
Comprehensive earnings	$ 114,804	$ 27,633	$ 213,098	$ 119,967

See notes to condensed consolidated financial statements.

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

	Nine Months Ended October 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 185,522	$ 113,428
Loss from discontinued operations, net of tax	(27,547)	(7,394)
Net earnings from continuing operations	213,069	120,822
Adjustments to reconcile net earnings from continuing operations to net cash provided by (used in) operating activities:		
Gain on sale-leaseback	(105,051)	-
Gain on sale of investments	(1,564)	(6,774)
Depreciation and amortization	92,631	85,447
Excess tax benefits from share-based payment arrangements	(17,971)	(2,270)
Provision for inventories	10,639	6,690
Deferred income taxes	(62,950)	(10,669)
Provision for pension/postretirement benefits	19,943	18,611
Share-based compensation expense	27,889	24,300
Changes in assets and liabilities:		
Accounts receivable	9,469	225
Inventories	(178,579)	(249,269)
Prepaid expenses and other current assets	(31,724)	(39,875)
Other assets, net	(9,247)	5,082
Accounts payable and accrued liabilities	12,790	30,369
Income taxes payable	52,198	(48,023)
Merchandise and other customer credits	5,057	2,120
Other long-term liabilities	250	(9,227)
Net cash provided by (used in) operating activities	36,849	(72,441)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments	(564,899)	(147,268)
Proceeds from sales of marketable securities and short-term investments	522,376	150,278
Proceeds from sale of assets, net	509,035	-
Capital expenditures	(149,325)	(138,021)
Notes receivable funded	(7,172)	(9,728)
Acquisitions, net of cash acquired	(400)	-
Other	6,133	1,328
Net cash provided by (used in) investing activities	315,748	(143,411)

CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repayments of) proceeds from short-term borrowings, net	(60,507)	198,896
Fees and expenses related to new short-term borrowings	-	(87)
Repayment of long-term debt	(21,455)	(10,057)
Repurchase of Common Stock	(156,234)	(264,115)
Proceeds from exercise of stock options	68,176	6,694
Excess tax benefits from share-based payment arrangements	17,971	2,270
Cash dividends on Common Stock	(50,490)	(39,066)
Net cash used in financing activities	(202,539)	(105,465)
Effect of exchange rate changes on cash and cash equivalents	15,905	2,276
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Operating activities	(6,596)	(11,301)
Investing activities	(1,020)	(5,084)
Net cash used in discontinued operations	(7,616)	(16,385)
Net increase (decrease) in cash and cash equivalents	158,347	(335,426)
Cash and cash equivalents at beginning of year	175,008	391,594
Decrease in cash and cash equivalents of discontinued operations	1,495	765
Cash and cash equivalents at end of nine months	$ 334,850	$ 56,933

See notes to condensed consolidated financial statements.

TIFFANY & CO. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements include the accounts of Tiffany & Co. 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 October 31, 2007 and 2006 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2007 is derived from the audited financial statements, which are included in the Company s Report on Form 10-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, with a higher proportion of sales and earnings generated in the fourth quarter of the fiscal year and, therefore, the results of its operations for the three and nine months ended October 31, 2007 and 2006 are not necessarily indicative of the results of the entire fiscal year.

2. 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. Management is currently evaluating the effect that the adoption of this Statement will have on the Company s financial position and earnings.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 which clarifies the accounting for uncertainty in income tax positions by prescribing a more-likely-than-not recognition threshold for income tax positions taken or expected to be taken in a tax return. FIN No. 48 is effective for fiscal years beginning after December 15, 2006 with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings at the beginning of the year. The Company has adopted FIN No. 48 as of February 1, 2007 which resulted in a charge of $4,299,000 to retained earnings as a cumulative effect of an accounting change (see Note 5).

3. DISCONTINUED OPERATIONS

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 is 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 consolidated financial statements for all periods presented. Prior to the reclassification, Little Switzerland s results had been included within the non-reportable segment Other.

3. DISCONTINUED OPERATIONS (continued)

Little Switzerland s loss before income taxes in the nine months ended October 31, 2007 includes a $54,260,000 pre-tax charge ($22,602,000 after-tax) due to the sale of Little Switzerland. The tax benefit recorded in connection with the charge included the effect of basis differences in the investment in Little Switzerland.

Summarized statement of earnings data for Little Switzerland is as follows:

(in thousands)	Three Months Ended October 31, 2007	Three Months Ended October 31, 2006	Nine Months Ended October 31, 2007	Nine Months Ended October 31, 2006
Net revenues	$ 9,378	$ 15,952	$ 52,817	$ 60,120
Gain (loss) on disposal	$ 601	$ -	$ (54,260)	$ -
Loss from operations	(1,893)	(3,668)	(5,401)	(8,735)
Income tax expense (benefit)	263	(185)	(32,114)	(1,341)
Loss from discontinued operations, net of tax	$ (1,555)	$ (3,483)	$ (27,547)	$ (7,394)

Summarized balance sheet data for Little Switzerland is as follows:

(in thousands)	January 31, 2007	October 31, 2006
Assets held for sale		
Inventories, net	$ 67,948	$ 62,378
Other current assets	5,526	5,206
Property, plant and equipment, net	20,246	18,145
Other assets	13,012	19,949
Total assets held for sale	$ 106,732	$ 105,678
Liabilities held for sale		
Current liabilities	$ 17,631	$ 13,293
Other liabilities	4,377	4,227
Total liabilities held for sale	$ 22,008	$ 17,520

4. INVENTORIES

(in thousands)	October 31, 2007	January 31, 2007	October 31, 2006
Finished goods	$ 928,280	$ 772,102	$ 878,018
Raw materials	336,182	316,206	308,794

Work-in-process	81,268	58,366	60,277
Inventories, net	$ 1,345,730	$ 1,146,674	$ 1,247,089

LIFO-based inventories at October 31, 2007, January 31, 2007 and October 31, 2006 represented 69%**,** 72% and 73% of inventories, net, with the current cost exceeding the LIFO inventory value by $127,203,000, $108,501,000 and $95,535,000 at the end of each period.

5. INCOME TAXES

The Company adopted FIN No. 48 on February 1, 2007. As a result, the Company recorded a non-cash cumulative transition charge of $4,299,000 as a reduction to the opening retained earnings balance. As of February 1, 2007, the gross amount of unrecognized tax benefits was approximately $40,000,000, including interest and penalties of approximately $8,000,000. As of that date, the total amount of unrecognized tax benefits that, if recognized, would have affected the effective tax rate was approximately $22,500,000. The Company recognizes interest expense and penalties related to unrecognized tax benefits within income tax expense.

During the nine months ended October 31, 2007, the unrecognized tax benefits were reduced by approximately $5,000,000 to approximately $35,000,000. Accrued interest and penalties during the nine months ended October 31, 2007 was reduced by approximately $5,500,000 to approximately $2,500,000. As of that date, the total amount of unrecognized tax benefits that, if recognized, would have affected the effective tax rate was approximately $12,600,000.

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 years 2002-2004). 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 law 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 this assessment.

6. 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:

	Three Months Ended October 31,		Nine Months Ended October 31,	
(in thousands)	2007	2006	2007	2006
Net earnings for basic and diluted EPS	$ 98,890	$ 29,142	$ 185,522	$ 113,428
Weighted average shares for basic EPS	136,124	136,753	136,452	139,288
Incremental shares based upon the assumed exercise	3,363	2,119	3,491	2,359

of stock options and restricted stock units				
Weighted average shares for diluted EPS	139,487	138,872	139,943	141,647

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6. EARNINGS PER SHARE (continued)

For the three months ended October 31, 2007 and 2006, there were 342,000 and 6,099,000 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, 2007 and 2006, there were 392,000 and 4,706,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

7. COMMITMENTS AND CONTINGENCIES

In August 2007, the Company entered into a sale-leaseback arrangement for the land and building housing the TIFFANY & CO. Flagship store in Tokyo s Ginza shopping district. The Company is leasing back only that portion of the property that it occupied immediately prior to the transaction. In the third quarter of 2007, the Company received proceeds of $327,537,000 (¥38,050,000,000) and the transaction resulted in a pre-tax gain of $105,051,000 and a deferred gain of $75,244,000, which will be amortized in selling, general and administrative (SG&A) expenses over a 15-year period. The pre-tax gain represents the profit on the sale of the property in excess of the present value of the minimum lease payments. The lease will be accounted for as an operating lease. The lease expires in 2032; however, the Company has options to terminate the lease in 2022 and 2027 without penalty.

In October 2007, the Company entered into a sale-leaseback arrangement for the building housing the TIFFANY & CO. Flagship store in London. The Company sold the building for proceeds of $148,628,000 (£73,000,000) and simultaneously entered into a 15-year lease with two 10-year renewal options. The transaction resulted in a deferred gain of $63,961,000, which will be amortized in SG&A expenses over a 15-year period. The lease will be accounted for as an operating lease.

The Company is party to a credit facility and working capital loan commitment (the Commitment) to Tahera Diamond Corporation (Tahera), a Canadian diamond mining and exploration company. In consideration of the Commitment, the Company was granted the right to purchase or market all diamonds mined at the Jericho mine. This mine has been developed and constructed by Tahera in Nunavut, Canada (the Project). Indebtedness under the Commitment is secured by certain assets of the Project. In September 2007, the Company amended the Commitment to defer the start of principal and interest payments until December 2007. As a result, the Company ceased recording interest income on the Commitment as of the third quarter 2007, since there is uncertainty as to the timing of collection. In September 2007, Tahera recorded an asset impairment charge against the assets of the Project. The estimated fair market value of the Project s assets (based on discounted cash flows) is greater than the amount outstanding under the Commitment and therefore, management believes that the CDN$48,489,000 (U.S. $50,859,000) receivable from Tahera is not impaired. However, future developments at the Project, including changes in the cost of supplies or in the realizable price of diamonds, may affect the fair value of the Project s assets and the collectibility of funds borrowed under the Commitment.

8. EMPLOYEE BENEFIT PLANS

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:

	Three Months Ended October 31,	
		Other
	Pension Benefits	Postretirement Benefits

(in thousands)	2007	2006	2007	2006
Service cost	$ 4,213	$ 4,211	$ 318	$ (4)
Interest cost	4,003	3,208	470	191
Expected return on plan assets	(3,418)	(2,886)	-	-
Amortization of prior service cost	321	178	(223)	(382)
Amortization of net loss	848	817	9	(75)
Net expense	$ 5,967	$ 5,528	$ 574	$ (270)

8. EMPLOYEE BENEFIT PLANS (continued)

	Nine Months Ended October 31,			
	Pension Benefits		Other Postretirement Benefits	
(in thousands)	2007	2006	2007	2006
Service cost	$ 13,373	$ 12,482	$ 953	$ 748
Interest cost	11,945	10,306	1,410	1,049
Expected return on plan assets	(10,276)	(8,774)	-	-
Amortization of prior service cost	962	534	(670)	(968)
Amortization of net loss	2,217	3,139	29	95
Net expense	$ 18,221	$ 17,687	$ 1,722	$ 924

9. SEGMENT INFORMATION

The Company s reportable segments are: U.S. Retail, International Retail and Direct Marketing. These reportable segments represent channels of distribution that offer similar merchandise and service and have similar marketing and distribution strategies. The Other channel of distribution includes all non-reportable segments which consist of worldwide sales of businesses operated under trademarks or tradenames other than TIFFANY & CO. Sales in the Other channel primarily represents wholesale sales of diamonds obtained through bulk purchases that are subsequently deemed not suitable for the Company s needs. In deciding how to allocate resources and assess performance, the Company s Executive Officers regularly evaluate the performance of its reportable segments on the basis of net sales and earnings from operations, after the elimination of inter-segment sales and transfers.

Reclassifications were made to the prior year s segment amounts to conform to the current year presentation and to reflect the revised manner in which management evaluates the performance of segments. Effective with the first quarter of 2007, the Company revised certain allocations of operating expenses between unallocated corporate expenses and earnings (losses) from continuing operations for segments.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
(in thousands)	2007	2006	2007	2006
Net sales:				
U.S. Retail	$ 302,673	$ 270,373	$ 946,692	$ 819,509
International Retail	270,845	221,681	777,875	659,998
Direct Marketing	31,373	30,308	104,772	96,007
Total reportable segments	604,891	522,362	1,829,339	1,575,514
Other	22,432	9,472	56,275	26,333
	$ 627,323	$ 531,834	$ 1,885,614	$ 1,601,847

Earnings (losses) from continuing operations*:				
U.S. Retail	$ 35,974	$ 25,107	$ 144,189	$ 111,222
International Retail	54,909	49,654	177,092	154,874
Direct Marketing	4,616	3,439	26,251	20,705
Total reportable segments	95,499	78,200	347,532	286,801
Other	(6,964)	(4,477)	(16,256)	(10,695)
	$ 88,535	$ 73,723	$ 331,276	$ 276,106

*Represents earnings (losses) from continuing operations before unallocated corporate expenses, other operating income and other expenses, net.

9. SEGMENT INFORMATION (continued)

The following table sets forth a reconciliation of the segments earnings from continuing operations to the Company s consolidated earnings from continuing operations before income taxes:

(in thousands)	Three Months Ended October 31, 2007	2006	Nine Months Ended October 31, 2007	2006
Earnings from continuing operations for segments	$ 88,535	$ 73,723	$ 331,276	$ 276,106
Unallocated corporate expenses	(39,801)	(26,068)	(94,261)	(76,640)
Other operating income	105,051	-	105,051	-
Other (expenses) income, net	(2,306)	1,294	(8,139)	(7,849)
Earnings from continuing operations before income taxes	$ 151,479	$ 48,949	$ 333,927	$ 191,617

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. Unallocated corporate expenses in the third quarter and year-to-date 2007 include the $10,000,000 contribution to The Tiffany & Co. Foundation, a private charitable foundation established by the Company. Other operating income includes the $105,051,000 gain from the sale-leaseback of the land and building housing the TIFFANY & CO. Flagship store in Tokyo s Ginza shopping district.

10. SUBSEQUENT EVENT

On November 15, 2007, the Company s Board of Directors declared a quarterly dividend of $0.15 per share on its Common Stock. This dividend will be paid on January 10, 2008 to stockholders of record on December 20, 2007.

PART I. Financial Information

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

OVERVIEW

Tiffany & Co. is a holding company that operates through its subsidiary companies (the Company). 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.

The Company s channels of distribution are as follows:

U.S. Retail includes sales in TIFFANY & CO. stores in the U.S., as well as sales of TIFFANY & CO. products through business-to-business direct selling operations in the U.S.;

International Retail includes sales in TIFFANY & CO. stores and department store boutiques outside the U.S., as well as business-to-business, Internet and wholesale sales of TIFFANY & CO. products outside the U.S.;

Direct Marketing includes Internet and catalog sales of TIFFANY & CO. products in the U.S.; and

Other includes worldwide sales of businesses operated under trademarks or tradenames other than TIFFANY & CO. (specialty retail). Sales in the Other channel primarily represents wholesale sales of diamonds obtained through bulk purchases that are subsequently deemed not suitable for the Company s needs.

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

Highlights

Net sales increased 18% in both the three months (third quarter) and the nine months (year-to-date) ended October 31, 2007 due to growth in all channels of distribution.

Worldwide comparable store sales increased 9% in the third quarter and 10% in the year-to-date on a constant-exchange-rate basis (see Non-GAAP Measures). Comparable TIFFANY & CO. store sales in the U.S. increased 8% in the third quarter and 13% in the year-to-date. Comparable international store sales increased 10% in the third quarter and 7% in the year-to-date on a constant-exchange-rate basis.

Earnings from continuing operations rose to $153,785,000 in the third quarter compared to $47,655,000 in the prior year and to $342,066,000 in the year-to-date compared to $199,466,000 in the prior year. Current year earnings from continuing operations included a pre-tax gain of $105,051,000 from the sale-leaseback of the land and building housing the TIFFANY & CO. Flagship store in Tokyo s Ginza shopping district. The Company received proceeds of $327,537,000.

The Company sold the building housing its flagship store in London for proceeds of $148,628,000 and simultaneously entered into a 15-year lease for the premises.

The Company completed the sale of Little Switzerland, Inc. (Little Switzerland) for net proceeds of $32,870,000.

The Company repurchased and retired 1.9 million and 3.1 million shares of its Common Stock during the third quarter and year-to-date of 2007.

In August 2007, the Board of Directors increased the annual divided rate by 25%, representing the second increase of the year.

The Company re-launched its website with enhanced graphics and functionality.

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:

	Third Quarter 2007 vs. 2006			Year-to-Date 2007 vs. 2006		
	GAAP Reported	Trans-lation Effect	Constant-Exchange-Rate Basis	GAAP Reported	Trans-lation Effect	Constant-Exchange-Rate Basis
<u>Net Sales:</u>						
Worldwide	18%	2%	16%	18%	1%	17%
U.S. Retail	12%	-	12%	16%	-	16%
International Retail	22%	4%	18%	18%	2%	16%
Japan Retail	7%	1%	6%	(1)%	(2)%	1%
Other Asia-Pacific	38%	5%	33%	38%	4%	34%
Europe	29%	9%	20%	33%	10%	23%
<u>Comparable Store Sales:</u>						
Worldwide	11%	2%	9%	11%	1%	10%
U.S. Retail	8%	-	8%	13%	-	13%
International Retail	14%	4%	10%	9%	2%	7%
Japan Retail	1%	2%	(1)%	(7)%	(3)%	(4)%
Other Asia-Pacific	34%	5%	29%	29%	3%	26%
Europe	23%	9%	14%	26%	10%	16%

<u>RESULTS OF OPERATIONS</u>

Certain operating data as a percentage of net sales were as follows:

	Third Quarter		Year-to-Date	
	2007	2006	2007	2006
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	46.3	46.0	45.3	44.5
Gross profit	53.7	54.0	54.7	55.5
Other operating income	16.8	-	5.6	-
Selling, general and administrative expenses	46.0	45.1	42.1	43.0
Earnings from continuing operations	24.5	8.9	18.2	12.5
Other expenses (income), net	0.4	(0.3)	0.5	0.5
Earnings from continuing operations before income taxes	24.1	9.2	17.7	12.0
Provision for income taxes	8.1	3.1	6.4	4.5
Net earnings from continuing operations	16.0	6.1	11.3	7.5
Loss from discontinued operations, net of tax	(0.2)	(0.6)	(1.5)	(0.4)
Net earnings	15.8%	5.5%	9.8%	7.1%

Net Sales

Net sales by channel of distribution were as follows:

	Third Quarter		
(in thousands)	2007	2006	Increase
U.S. Retail	$ 302,673	$ 270,373	12%
International Retail	270,845	221,681	22%
Direct Marketing	31,373	30,308	4%
Other	22,432	9,472	137%
	$ 627,323	$ 531,834	18%

	Year-to-Date		
(in thousands)	2007	2006	Increase
U.S. Retail	$ 946,692	$ 819,509	16%
International Retail	777,875	659,998	18%
Direct Marketing	104,772	96,007	9%
Other	56,275	26,333	114%
	$ 1,885,614	$ 1,601,847	18%

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

U.S. Retail sales increased 12% in the third quarter and 16% in the year-to-date as a result of comparable store sales growth of 8% and 13% in those periods and the opening of new stores. Overall sales growth resulted from increases in