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TIFFANY & CO
Form 10-Q
December 05, 2006

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, 2006.

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
(State of incorporation)

13-3228013
(I.R.S. Employer
Identification No.)

727 Fifth Ave. New York, NY
(Address of principal executive offices)

10022
(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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

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of each of the issuer's classes of common stock as of the latest practicable date: Common Stock, \$.01 par value, 135,347,259 shares outstanding at the close of business on November 30, 2006.

TIFFANY & CO. AND SUBSIDIARIES INDEX TO FORM 10-Q FOR THE QUARTER ENDED OCTOBER 31, 2006

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PART I. Financial Information
 Item 1. Financial Statements

TIFFANY & CO. AND SUBSIDIARIES

 CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except per share amounts)

	October 31, 2006	Janu 2
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 58,185	\$
Accounts receivable, less allowances of \$7,693, \$8,002 and \$6,670	150,067	
Inventories, net	1,309,466	1,
Deferred income taxes	78,727	
Prepaid expenses and other current assets	70,977	
	-----	-----
Total current assets	1,667,422	1,
Property, plant and equipment, net	926,989	
Deferred income taxes	30,770	
Other assets, net	184,838	
	-----	-----
	\$ 2,810,019	\$ 2,
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$ 237,447	\$
Current portion of long-term debt	6,259	
Accounts payable and accrued liabilities	223,377	
Income taxes payable	9,754	
Merchandise and other customer credits	58,722	
	-----	-----
Total current liabilities	535,559	
Long-term debt	416,863	
Postretirement/employment benefit obligations	43,323	
Deferred income taxes	1,072	
Other long-term liabilities	126,532	

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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 135,358, 142,509 and 142,120

1,353

Additional paid-in capital

510,527

Retained earnings

1,159,044

Accumulated other comprehensive gain, net of tax:

Foreign currency translation adjustments

14,948

Deferred hedging gain

646

Unrealized gain on marketable securities

152

Total stockholders' equity

1,686,670

\$ 2,810,019

\$ 2,

See notes to condensed consolidated financial statements.

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TIFFANY & CO. AMD SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in thousands, except per share amounts)

	Three Months Ended October 31,	
	2006	2006
Net sales	\$ 547,786	\$ 500,105
Cost of sales	254,311	229,575
Gross profit	293,475	270,530
Selling, general and administrative expenses	249,419	230,735

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Earnings from operations	44,056	39,795
Other (income) expenses, net	(1,225)	4,289
	-----	-----
Earnings before income taxes	45,281	35,506
Provision for income taxes	16,139	11,717
	-----	-----
Net earnings	\$ 29,142	\$ 23,789
	=====	=====
Net earnings per share:		
Basic	\$ 0.21	\$ 0.17
	-----	-----
Diluted	\$ 0.21	\$ 0.16
	-----	-----
Weighted average number of common shares:		
Basic	136,753	142,280
Diluted	138,872	144,993

See notes to condensed consolidated financial statements.

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TIFFANY & CO. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

AND COMPREHENSIVE EARNINGS

(Unaudited)

(in thousands)

	Total Stockholders' Equity	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)
Balances, January 31, 2006	\$ 1,830,913	\$ 1,331,321	\$ 9,207
Exercise of stock options and vesting of restricted stock units	6,694	-	-
Tax benefit from exercise of stock options and vesting of restricted stock units	3,065	-	-
Share-based compensation expense	24,662	-	-
Issuance of Common Stock			

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under the Employee Profit Sharing and Retirement Savings Plan	4,550	-	-
Purchase and retirement of Common Stock	(264,115)	(246,639)	-
Cash dividends on Common Stock	(39,066)	(39,066)	-
Deferred hedging loss, net of tax	(2,601)	-	(2,601)
Unrealized gain on marketable securities, net of tax	(527)	-	(527)
Foreign currency translation adjustments, net of tax	9,667	-	9,667
Net earnings	113,428	113,428	-
Balances, October 31, 2006	\$ 1,686,670	\$ 1,159,044	\$ 15,746

	Three Months Ended October 31,		Six Months Ended October 31,	
	2006	2005	2006	2005
Net earnings	\$ 29,142	\$ 23,789	\$ 113,428	\$ 113,428
Other comprehensive gain (loss), net of tax:				
Deferred hedging gain (loss)	(9)	1,237	(2,601)	(2,601)
Foreign currency translation adjustments	(1,102)	(4,342)	9,667	(4,342)
Unrealized (loss) gain on marketable securities	(398)	(169)	(527)	(527)
Comprehensive earnings	\$ 27,633	\$ 20,515	\$ 119,967	\$ 119,967

See notes to condensed consolidated financial statements.

TIFFANY & CO. AND SUBSIDIARIES

 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

 (Unaudited)

 (in thousands)

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	-----	200

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$	113,
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization		87,
Gain on sale of investments		(6,
Excess tax benefits from share-based payment arrangements		(2,
Provision for inventories		6,
Deferred income taxes		(10,
Loss on disposal of assets		
Provision for postretirement/employment benefits		1,
Share-based compensation expense		24,
Changes in assets and liabilities:		
Accounts receivable		1,
Inventories		(251,
Prepaid expenses and other current assets		(41,
Other assets, net		5,
Accounts payable and accrued liabilities		26,
Income taxes payable		(48,
Merchandise and other customer credits		2,
Other long-term liabilities		7,

Net cash used in operating activities		(83,

CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments		(147,
Proceeds from sale of marketable securities and short-term investments		150,
Capital expenditures		(143,
Proceeds from sale-leaseback of assets		
Notes receivable funded		(9,
Purchases of other investments		(3,
Proceeds from the sale of other investments		4,

Net cash (used in) provided by investing activities		(148,

CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (repayments of) short-term borrowings, net		198,
Fees and expenses related to new short-term borrowings		
Repayment of current portion of long-term debt		(10,
Repurchase of Common Stock		(264,
Proceeds from exercise of stock options		6,
Excess tax benefits from share-based payment arrangements		2,
Cash dividends on Common Stock		(39,

Net cash used in financing activities		(105,

Effect of exchange rate changes on cash and cash equivalents		2,

Net decrease in cash and cash equivalents		(335,
Cash and cash equivalents at beginning of year		393,

Cash and cash equivalents at end of nine months

\$ 58,

See notes to condensed consolidated financial statements.

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

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements include the accounts of Tiffany & Co. 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, 2006 and 2005 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2006 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, 2006 and 2005 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. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans -- an amendment of FASB Statements No. 87, 88, 106, and 132(R)" which requires an employer to fully recognize the over-funded or under-funded status of its pension and other postretirement benefit plans as an asset or liability in its financial statements. In addition, the Company is required to recognize as a component of other comprehensive income (loss) the actuarial gains and losses and the prior service costs and credits that arise during the period but are not immediately recognized as components of net periodic benefit cost. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The Company anticipates a \$30,000,000

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increase in liabilities and a similar after-tax decrease to accumulated other comprehensive income (a component of stockholders' equity) at January 31, 2007. However, the impact at adoption may be different if assumptions at the December 31 measurement date change. In addition, the Company is required to change the measurement date of plan assets and benefit obligations from December 31 to January 31 for the fiscal year ending January 31, 2009.

In September 2006, the FASB issued 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.

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2. NEW ACCOUNTING STANDARDS (continued)

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. Management is currently evaluating the effect that the adoption of FIN No. 48 will have on the Company's financial position and earnings.

In October 2005, the FASB issued Staff Position ("FSP") No. FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period" which requires that rental costs associated with ground or building operating leases incurred during a construction period be recognized as rental expense and included in income from continuing operations. FSP No. FAS 13-1 is effective for reporting periods beginning after December 15, 2005. The adoption of FSP No. FAS 13-1 in the first quarter of 2006 had no effect on the Company's financial position, earnings and cash flows.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). This Statement requires that those items be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this Statement in the first quarter of 2006 had no effect

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on the Company's financial position, earnings and cash flows.

3. INVENTORIES

(in thousands)	October 31, 2006	January 31, 2006	2005
Finished goods	\$ 940,395	\$ 764,041	\$ 764,041
Raw materials	308,794	244,400	244,400
Work-in-process	60,277	51,723	51,723
Inventories, net	\$ 1,309,466	\$ 1,060,164	\$ 1,060,164

LIFO-based inventories at October 31, 2006, January 31, 2006 and October 31, 2005 represented 69%, 69% and 71% of inventories, net, with the current cost exceeding the LIFO inventory value by \$95,535,000, \$75,624,000 and \$72,405,000 at the end of each period.

4. INCOME TAXES

The effective income tax rates for the three and nine months ended October 31, 2006 were 35.6% and 38.0%, versus 33.0% and 31.8% in the three and nine months ended October 31, 2005. The effective tax rates in the three months ended October 31, 2006 and 2005 included favorable reserve adjustments relating to the expiration of certain statutory periods during the quarter. The lower effective tax rate in the nine months ended October 31, 2005 primarily reflected tax benefits of \$8,100,000 associated with the repatriation provisions of the American Jobs Creation Act of 2004.

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5. 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:

(in thousands)	Three Months Ended October 31,		Ni
	2006	2005	2
Net earnings for basic			

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and diluted EPS	\$	29,142	\$	23,789	\$	113,

Weighted average shares for basic EPS		136,753		142,280		139,
Incremental shares based upon the assumed exercise of stock options and restricted stock units		2,119		2,713		2,

Weighted average shares for diluted EPS		138,872		144,993		141,

For the three months ended October 31, 2006 and 2005, there were 6,099,000 and 4,429,000 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, 2006 and 2005, there were 4,706,000 and 6,188,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

6. DEBT

In October 2006, the Company exercised its option to increase its \$300,000,000 multi-bank revolving credit facility by \$150,000,000 to \$450,000,000. The Company has the option to increase such commitments up to \$500,000,000. The Company had \$237,447,000, \$38,818,000 and \$28,223,000 outstanding under the multi-bank revolving credit facility at October 31, 2006, January 31, 2006 and October 31, 2005, respectively.

7. 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 Oct		

	Pension Benefits		

(in thousands)	2006	2005	20

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Service cost	\$	3,923	\$	3,165	\$	1
Interest cost		3,162		3,160		
Expected return on plan assets		(2,886)		(2,501)		
Amortization of prior service cost		175		201		(3
Amortization of net loss		803		971		(
Net expense	\$	5,177	\$	4,996	\$	(2

Nine Months Ended October

(in thousands)	Pension Benefits		Pos			
	2006	2005		20		
Service cost	\$	11,603	\$	9,527	\$	7
Interest cost		10,166		8,968		1,0
Expected return on plan assets		(8,774)		(7,539)		
Amortization of prior service cost		525		603		(9
Amortization of net loss		3,097		2,155		
Net expense	\$	16,617	\$	13,714	\$	9

8. 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 and businesses operated under trademarks and tradenames other than TIFFANY & CO., as well as wholesale sales of diamonds obtained through the Company's diamond sourcing program but 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.

Revisions 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 2006, the Company allocates LIFO charges between

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its reportable segments based only upon sales of U.S. and foreign branches which value their inventories using the LIFO method.

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8. SEGMENT INFORMATION (continued)

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

	Three Months Ended October 31,		Nine Mo Octo
(in thousands)	2006	2005	2006
Net sales:			
U.S. Retail	\$ 270,373	\$ 247,782	\$ 819,509
International			
Retail	221,681	204,287	659,998
Direct Marketing	30,308	27,308	96,007
<hr style="border-top: 1px dashed black;"/>			
Total reportable			
Segments	522,362	479,377	1,575,514
Other	25,424	20,728	86,453
<hr style="border-top: 1px dashed black;"/>			
	\$ 547,786	\$ 500,105	\$ 1,661,967
<hr style="border-top: 1px dashed black;"/>			
Earnings (losses) from operations*:			
U.S. Retail	\$ 29,517	\$ 36,739	\$ 125,094
International			
Retail	51,054	42,339	159,412
Direct Marketing	4,426	4,733	23,768
<hr style="border-top: 1px dashed black;"/>			
Total reportable			
Segments	84,997	83,811	308,274
Other	(7,919)	(10,584)	(18,735)
<hr style="border-top: 1px dashed black;"/>			
	\$ 77,078	\$ 73,227	\$ 289,539
<hr style="border-top: 1px dashed black;"/>			

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

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

	Three Months Ended October 31,		Nine Mon Octob
--	-----------------------------------	--	-------------------

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(in thousands)	2006		2005		2006
Earnings from operations for segments	\$	77,078	\$	73,227	\$ 289,539
Unallocated corporate expenses		(33,022)		(33,432)	(98,600)
Other income (expenses), net		1,225		(4,289)	(8,057)
Earnings before income taxes	\$	45,281	\$	35,506	\$ 182,882

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.

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9. SUBSEQUENT EVENT

On November 16, 2006, the Company's Board of Directors declared a quarterly dividend of \$0.10 per share. This dividend will be paid on January 10, 2007 to stockholders of record on December 20, 2006.

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

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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 category 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:

- o U.S. Retail includes sales in TIFFANY & CO. stores in the U.S. and, to a lesser extent, sales of TIFFANY & CO. products through business-to-business direct selling operations in the U.S.;
- o International Retail includes sales in TIFFANY & CO. stores and department store boutiques outside the U.S. and, to a lesser extent, business-to-business, Internet and wholesale sales of TIFFANY & CO. products outside the U.S.;
- o Direct Marketing includes Internet and catalog sales of TIFFANY & CO. products in the U.S.; and
- o Other includes worldwide sales of businesses operated under trademarks or tradenames other than TIFFANY & CO. ("specialty retail"), as well as wholesale sales of diamonds obtained through the Company's diamond sourcing program but 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

- o Net sales increased 10% in the three months ("third quarter") ended October 31, 2006 and 8% in the nine months ("year-to-date") ended October 31, 2006. On a constant-exchange-rate basis (see Non-GAAP Measures section below), net sales rose 10% in the third quarter and 9% in the year-to-date and worldwide comparable store sales rose 4% and 5% in those periods.
- o U.S. comparable store sales increased 6% in the third quarter and 3% in the year-to-date, and Japan comparable retail sales (on a constant-exchange-rate basis) declined 5% and rose 3% in those periods.
- o Seven retail locations were opened during the third quarter, three in the U.S. and one each in Japan, China, Korea and Austria.
- o The Company repurchased and retired 3.0 million and 7.7 million shares of its Common Stock during the three and nine months ended October 31, 2006.
- o Net earnings in the third quarter rose 23%, which included gains associated with the sale of investments, as well as favorable tax reserve adjustments.
- o Net earnings in the year-to-date declined 1%, however, prior year net earnings included tax benefits associated with the repatriation provisions of the American Jobs Creation Act of 2004.

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NON-GAAP MEASURES

The Company's reported sales reflect either a translation-related benefit from

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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 the sales performance of its international stores and boutiques 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 is a more representative assessment of the sales performance of its international stores and boutiques 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 net sales percentage increases (decreases) from the GAAP to the non-GAAP basis:

	Third Quarter 2006 vs. 2005			Year-to-Date 2006 vs. 2005	
	GAAP Reported	Trans- lation Effect	Constant- Exchange- Rate Basis	GAAP Reported	Trans- lation Effect
Net Sales:					
<hr style="border-top: 1px dashed black;"/>					
Worldwide	10%	-	10%	8%	(1%)
U.S. Retail	9%	-	9%	6%	-
International Retail	9%	-	9%	11%	(3%)
Japan Retail	(8%)	(5%)	(3%)	(1)%	(7%)
Other Asia- Pacific	24%	2%	22%	22%	1%
Europe	32%	7%	25%	23%	-
 Comparable Store Sales:					
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Worldwide	4%	-	4%	4%	(1%)
U.S. Retail	6%	-	6%	3%	-
International Retail	3%	(1%)	4%	6%	(4%)
Japan Retail	(9%)	(4%)	(5%)	(4%)	(7%)
Other Asia-					

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Pacific	19%	2%	17%	22%	1%
Europe	27%	6%	21%	20%	-

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RESULTS OF OPERATIONS

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

	Third Quarter		Year-
	2006	2005	2006
Net sales	100.0%	100.0%	100.0%
Cost of sales	46.4	45.9	45.2
Gross profit	53.6	54.1	54.8
Selling, general and administrative expenses	45.5	46.1	43.4
Earnings from operations	8.1	8.0	11.4
Other (income) expenses, net	(0.2)	0.9	0.4
Earnings before income taxes	8.3	7.1	11.0
Provision for income taxes	3.0	2.3	4.2
Net earnings	5.3%	4.8%	6.8%

Net Sales

Net sales by channel of distribution were as follows:

(in thousands)	Third Quarter	
	2006	2005
U.S. Retail	\$ 270,373	\$ 247,782
International Retail	221,681	204,287
Direct Marketing	30,308	27,308
Other	25,424	20,728
	\$ 547,786	\$ 500,105

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(in thousands)	Year-to-Date	
	2006	2005
U.S. Retail	\$ 819,509	\$ 771,344
International Retail	659,998	596,707
Direct Marketing	96,007	86,598
Other	86,453	82,058
	\$ 1,661,967	\$ 1,536,707

A store's sales are included in "comparable store sales" when the store has been open for more than 12 months. In all markets except Japan, sales for relocated stores are included 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. The results of a store in which the square footage has been expanded or reduced remain in the comparable store base in all markets.

U.S. Retail sales increased 9% in the third quarter and 6% in the year-to-date. Comparable store sales increased 6% in the third quarter (consisting of increases of 13% in the New York flagship store and 4% in branch stores) and 3% in the year-to-date (consisting of a 4% increase in the New York flagship store and a 3% increase in branch stores). In each period the increase was due to an increase in the average transaction size. Management continues to

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expect a mid-single-digit percentage increase in full year 2006 U.S. comparable store sales.

International Retail sales, on a constant-exchange-rate basis, increased 9% in the third quarter and 14% in the year-to-date. Comparable store sales increased 4% and 10% for those periods.

In Japan (which represents approximately one-half of International Retail sales), on a constant-exchange-rate basis, total retail sales declined 3% in the third quarter due to a decrease in unit volume partly offset by an increase in the average transaction size, and increased 6% in the year-to-date due to an increase in the average transaction size. Comparable store sales on a constant-exchange-rate basis declined 5% in the third quarter and increased 3% in the year-to-date. Local management continues to focus on selling technique and location upgrades through renovation, expansion and/or relocation.

In the Asia-Pacific region outside Japan, comparable store sales on a constant-exchange-rate basis increased 17% in the third quarter and 21% in the year-to-date due to growth in most markets.

In Europe, comparable store sales on a constant-exchange-rate basis increased 21% in the third quarter and 20% in the year-to-date due to growth in London and most Continental European markets.

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Management currently expects a high-single-digit percentage increase in full year 2006 International Retail comparable store sales.

Direct Marketing sales rose 11% in both the third quarter and the year-to-date due to growth both in the number of orders shipped and in the average order size.

Other sales increased 23% in the third quarter and 5% in the year-to-date. Approximately half of the increase in both the third quarter and the year-to-date resulted from wholesale sales of diamonds. In the specialty retail businesses, sales in LITTLE SWITZERLAND stores increased 9% in the third quarter and 4% in the year-to-date; however, the results were below management's expectations. IRIDESSE increased its store base from six stores in 2005 to 13 by the end of 2006.

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The Company expects to increase gross square footage of TIFFANY & CO. stores by 7% (net) in 2006. Management's plan for openings and closings of TIFFANY & CO. stores are shown below:

Location -----	Actual Openings (Closings) 2006 -----	Expected Openings 2006 -----
Mito, Japan	First Quarter	
Yonago, Japan	First Quarter	
Busan, Korea	(First Quarter)	
Monterrey, Mexico	First Quarter	
Indianapolis, Indiana	Second Quarter	
Tottori, Japan	(Second Quarter)	
Beijing, China	Second Quarter	
Atlantic City, New Jersey	Third Quarter	
Tucson, Arizona	Third Quarter	
Nashville, Tennessee	Third Quarter	
Omiya, Japan	Third Quarter	
Macau, China	Third Quarter	
Busan, Korea	Third Quarter	
Vienna, Austria	Third Quarter	
Waikoloa, Hawaii		Fourth Quarter
Tokyo-Roppongi Hills, Japan		Fourth Quarter
Shanghai, China		Fourth Quarter
Vancouver, Canada		Fourth Quarter

Gross Margin -----

Gross margin declined in the third quarter by 0.5 percentage point. The primary components of this net decline were (i) a 0.6 percentage point decline due to increased low margin wholesale sales of diamonds; (ii) a 0.6 percentage point decline due to changes in product sales mix and increased product costs; and (iii) a 0.7 percentage point improvement due to the leverage effect of fixed product-related costs, which includes costs associated with merchandising and

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distribution. Gross margin improved in the year-to-date by 0.3 percentage point mostly due to the leverage effect described above. The Company is addressing, and as necessary will continue to address, the effect of higher product-related costs by adjusting retail prices in various product categories.

Management's long-term strategy and objectives include achieving product manufacturing/sourcing efficiencies (including increased direct rough-diamond sourcing and internal manufacturing) and implementing selective price adjustments in order to maintain the Company's gross margin at, or above, prior year levels. Management currently expects gross margin in the full year 2006 to be slightly lower than the prior year.

Selling, General and Administrative ("SG&A") Expenses

SG&A expenses increased approximately \$19 million, or 8%, in the third quarter and \$63 million, or 10%, in the year-to-date largely due to increased labor of approximately \$8 million and \$25 million, respectively, and increased depreciation and occupancy expenses of approximately \$7 million and \$20 million, respectively, which is due to new and existing stores. In addition, marketing expense increased approximately \$8 million in the third quarter and \$15 million in the year-to-date. The prior year third quarter and year-to-date included \$4,316,000 of losses associated with business dispositions. As a percentage of net sales, SG&A expenses were lower than in the prior year by 0.6 percentage point in the third quarter. SG&A expenses as

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a percentage of net sales increased 0.6 percentage point in the year-to-date because sales growth was insufficient to offset increased marketing expenses and fixed costs. Management's objective is to improve the ratio of SG&A expenses to net sales by controlling expenses so that sales growth can result in higher earnings growth. Management continues to expect a high-single-digit percentage increase in SG&A expenses in full year 2006 and, if sales expectations are achieved, an improvement in the expense ratio.

Earnings from Operations

Revisions were made to prior year's earnings (losses) from operations by segment to conform to the current year presentation and to reflect the manner in which management now evaluates the performance of segments. (See Note 8 to the Condensed Consolidated Financial Statements).

(in thousands)	Third Quarter 2006	% of Net sales*	Thi Quar 20
Earnings (losses) from operations:			
U.S. Retail	\$ 29,517	11%	\$ 3
International Retail	51,054	23%	4
Direct Marketing	4,426	15%	
Other	(7,919)	(31%)	(1

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Unallocated corporate expenses	77,078 (33,022)	7 (3)
Earnings from operations	\$ 44,056	\$ 3

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

Earnings from operations increased 11% in the third quarter. On a segment basis, the ratio of earnings (losses) from operations (before the effect of unallocated corporate expenses and other expenses, net) to each segment's net sales in the third quarter of 2006 and 2005 was as follows:

- o U.S. Retail declined 4 percentage points primarily due to a decline in gross margin (due to higher product costs and product mix) and increased SG&A expenses (due to new and existing stores as well as increased marketing expenses);
- o International Retail increased 2 percentage points primarily due to sales growth and an improved gross margin (due to a change in product mix) and the leveraging of operating expenses;
- o Direct Marketing declined 2 percentage points primarily due to a decrease in gross margin (due to higher product costs) and increased SG&A expenses (particularly marketing expenses); and
- o Other improved by 20 percentage points due to the losses recorded in the prior year associated with business dispositions. In the current year, the operating losses are primarily due to continued investments in the development of the specialty retail businesses and greater than expected losses from the Little Switzerland business. In connection with the Company's annual impairment review, management will analyze the approximately \$7,000,000 of goodwill associated with Little Switzerland during the fourth quarter. The analysis will include the fourth quarter results, which has a higher proportion of sales and earnings due to the seasonality of the business, as well as future projections, taking into consideration Little Switzerland's performance to date and management's strategic initiatives.

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(in thousands)	Year-to-Date 2006	% of Net sales*	Year-t 20
Earnings (losses) from operations:			
U.S. Retail	\$ 125,094	15%	\$ 13
International Retail	159,412	24%	13
Direct Marketing	23,768	25%	2
Other	(18,735)	(22%)	(1

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	289,539	27
Unallocated corporate expenses	(98,600)	(9)
Earnings from operations	\$ 190,939	\$ 18

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

Earnings from operations rose 6% in the year-to-date. On a segment basis, the ratio of earnings (losses) from operations (before the effect of unallocated corporate expenses and other expenses, net) to each segment's net sales in the year-to-date of 2006 and 2005 was as follows:

- o U.S. Retail decreased 3 percentage points primarily due to increased SG&A expenses (due to new and existing stores as well as increased marketing expenses);
- o International Retail increased 2 percentage points primarily due to sales growth and an improved gross margin (due to a change in product mix) and the leveraging of operating expenses;
- o Direct Marketing decreased 1 percentage point primarily due to a decline in gross margin (due to higher product costs) and increased marketing expenses; and
- o Other decreased by 3 percentage points primarily due to continued investments in the development of the specialty retail businesses and greater than expected losses from the Little Switzerland business. In addition, the prior year included losses associated with business dispositions.

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 declined 1% in the third quarter and rose 4% in the year-to-date.

Other (Income) Expenses, net

Other (income) expenses, net decreased in the third quarter and year-to-date as a result of \$5,185,000 of gains associated with the sale of equity investments in an on-line retailer and a manufacturer that were written-off in previous years and \$1,589,000 of realized gains associated with the sale of marketable securities, partially offset by increased interest expense due to higher average borrowings.

Provision for Income Taxes

The effective income tax rates for the third quarter and year-to-date of 2006 were 35.6% and 38.0%, versus 33.0% and 31.8% in the prior year. The effective tax rates in third quarter of 2006 and 2005 included favorable reserve adjustments relating to the expiration of certain statutory periods during the quarter. The lower effective tax rate in the year-to-date of 2005 primarily reflected tax benefits of \$8,100,000 associated with the repatriation provisions of the American Jobs Creation Act of 2004.

Management currently expects the effective tax rate to be approximately 37% for

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full year 2006.

New Accounting Standards

See Note 2 to Condensed Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity needs are primarily a function of its requirements for seasonal and expansion-related working capital and capital expenditures. The Company had a net cash outflow from operating activities of \$83,740,000 in the year-to-date of 2006, compared with an outflow of \$12,307,000 in the year-to-date of 2005. Inventory purchases were higher than in the prior year, as discussed in the Working Capital section below. In addition, tax payments in 2006 were lower than 2005 when taxes on the gain from the sale of the Company's equity investment in Aber Diamond Corporation were paid.

Working Capital

Working capital (current assets less current liabilities) and the corresponding current ratio (current assets divided by current liabilities) were \$1,131,863,000 and 3.1 at October 31, 2006, compared with \$1,334,233,000 and 4.7 at January 31, 2006 and \$1,210,817,000 and 5.3 at October 31, 2005.

Accounts receivable, less allowances at October 31, 2006 were 5% higher than at January 31, 2006 and were 16% higher than at October 31, 2005. The increases were due to sales growth, a shift in credit card usage toward the Company's in-house card and an increase in expected reimbursements from landlords related to new store build-outs.

Inventories, net at October 31, 2006 were 24% above January 31, 2006 and 19% above October 31, 2005. Combined raw material and work-in-process inventories increased 25% versus January 31, 2006 and 26% versus October 31, 2005 due to increased precious metal costs and diamond quantities needed to support internal jewelry manufacturing. Finished goods inventories increased 23% versus January 31, 2006, and 16% versus October 31, 2005, reflecting anticipated comparable store sales growth and store openings as well as broadened product assortments. Changes in foreign currency exchange rates increased inventories, net by 1% compared to January 31, 2006 and had an insignificant effect on the change in inventory balances from October 31, 2005.

The Company continually strives to improve its inventory management by developing more effective systems and processes for product development, assortment planning, sales forecasting, supply-chain logistics and store replenishment. Management currently expects a low-double-digit percentage increase in the overall year-over-year inventory growth rate in 2006.

Capital Expenditures

Capital expenditures were \$143,105,000 in the year-to-date of 2006 compared with \$121,516,000 in the year-to-date of 2005. Management estimates that capital expenditures will be approximately \$170,000,000 in 2006 (compared with approximately \$157,000,000 in the prior year) due to costs related to the opening and renovation of stores and to ongoing investments in new systems.

In 2000, the Company began a multi-year project to renovate and reconfigure its New York flagship store in order to increase the total sales area by approximately 25% and to provide additional space for customer service, customer hospitality and special exhibitions. The Company completed the renovation during the third quarter of 2006, spending approximately \$110,000,000 for the entire

project.

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Share Repurchases

In March 2005, the Company's Board of Directors approved a stock repurchase program ("2005 Program") that authorized the repurchase of up to \$400,000,000 of the Company's Common Stock through March 2007 by means of open market or private transactions. The 2005 Program replaced and terminated an earlier program. In August 2006, the Company's Board of Directors extended the expiration date of the Company's 2005 Program to December 2009, and authorized the repurchase up to an additional \$700,000,000 of the Company's common stock through open market or private transactions. 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. In the third quarter, the Company repurchased and retired 3,008,200 shares of Common Stock at a total cost of \$100,525,000, or an average cost of \$33.42 per share. In the year-to-date of 2006, the Company repurchased and retired 7,712,607 shares of Common Stock at a total cost of \$264,115,000, or an average cost of \$34.24 per share. There remains \$712,475,000 available for future repurchases.

Borrowings

In October 2006, the Company exercised its option to increase its \$300,000,000 multi-bank revolving credit facility by \$150,000,000 to \$450,000,000. The Company has the option to increase such commitments up to \$500,000,000. The Company had \$237,447,000, \$38,818,000 and \$28,223,000 outstanding under the multi-bank revolving credit facility at October 31, 2006, January 31, 2006 and October 31, 2005, respectively.

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

The ratio of total debt (short-term borrowings, current portion of long-term debt and long-term debt) to stockholders' equity was 39% at October 31, 2006, 26% at January 31, 2006 and 24% at October 31, 2005. The increase in the ratio is due primarily to increased revolving credit facility borrowings as a result of share repurchases and higher inventory levels.

At October 31, 2006, the Company was in compliance with all loan covenants.

Based on the Company's financial position at October 31, 2006, 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.

Contractual Obligations

The Company's contractual cash obligations and commercial commitments at October 31, 2006 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, 2006.

Seasonality

As a jeweler and specialty retailer, the Company's business is seasonal in

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nature, with the fourth quarter typically representing a proportionally greater percentage of annual sales, earnings from operations and cash flow. 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, 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

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"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.

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PART I. Financial Information

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

In Japan, the Company uses yen put options to minimize the effect of a weakening yen on U.S. dollar-denominated transactions. To a lesser extent, the Company uses foreign-exchange forward contracts to protect against weakening local currencies. Gains or losses on these instruments substantially offset losses or gains on the assets, liabilities and transactions being hedged. Management

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neither foresees nor expects significant changes in foreign currency exposure in the near future.

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.

Management does not expect significant changes in exposure to interest rate fluctuations, nor in market risk-management practices.

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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 addition, 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 in the above paragraph 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.

PART II. Other Information
Item 1A. Risk Factors

As a jeweler and specialty retailer, the Company's success in achieving its objectives and expectations is partially dependent upon economic conditions, competitive developments and consumer attitudes, including changes in consumer preferences for certain jewelry styles and materials. However, certain assumptions are specific to the Company and/or the markets in which it operates. The following assumptions, among others, are "risk factors" which could affect the likelihood that the Company will achieve the objectives and expectations communicated by management:

(i) that low or negative growth in the economy or in the financial markets, particularly in the U.S. and Japan, will not occur and reduce discretionary spending on goods that are, or are perceived to be, "luxuries";

(ii) that consumer spending does not decline substantially during the fourth quarter of any year;

(iii) that unsettled regional and/or global conflicts or crises do not 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 Company operates retail stores nor to the Company's continuing ability to operate in those regions;

(iv) that sales in Japan will not decline substantially;

(v) that there will not be a substantial adverse change in the exchange relationship between the Japanese yen and the U.S. dollar;

(vi) that Mitsukoshi and other department store operators in Japan, in the face of declining or stagnant department store sales, will not close or consolidate stores which have TIFFANY & CO. retail locations;

(vii) that Mitsukoshi will continue as a leading department store operator in Japan;

(viii) that existing product supply arrangements, including license arrangements with third-party designers, will continue;

(ix) that the wholesale and retail market for high-quality rough and cut diamonds will provide continuity of supply and pricing within the quality grades, colors and sizes that customers demand;

(x) that the Company's diamond supply initiatives achieve their financial and strategic objectives;

(xi) that the Company's gross margins in Japan and for diamond products can be maintained in the face of increased competition from traditional and e-commerce retailers;

(xii) that the Company is able to pass on higher costs of raw materials to consumers through price increases;

(xiii) that the sale of counterfeit products does not significantly undermine the value of the Company's trademarks and demand for the Company's products;

(xiv) that new and existing stores and other sales locations can be leased, re-leased or otherwise obtained on suitable terms in desired markets and that construction can be completed on a timely basis;

(xv) that the Company can achieve satisfactory results from any current and future businesses into which it enters that are operated under trademarks or tradenames other than TIFFANY & CO.; and

(xvi) that the Company's expansion plans for retail and direct selling operations and merchandise development, production and management can continue to be executed without meaningfully diminishing the distinctive appeal of the TIFFANY & CO. brand.

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 third fiscal quarter of 2006:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased Under all Publicly Announced Programs*
August 1, 2006 through August 31, 2006	-	-	-
September 1, 2006 through September 30, 2006	2,127,400	\$33.01	2,127,400
October 1, 2006 through October 31, 2006	880,800	\$34.40	880,800
Total	3,008,200	\$33.42	3,008,200

* In August 2006, the Company's Board of Directors extended the expiration date of the program to December 2009 and increased the authorization to \$813,000,000.

ITEM 6 Exhibits

(a) Exhibits:

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

TIFFANY & CO.
(Registrant)

Date: December 4, 2006

By: /s/ James N. Fernandez

James N. Fernandez
Executive Vice President and
Chief Financial
(principal financial officer)

EXHIBIT INDEX

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EXHIBIT NUMBER	DESCRIPTION
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31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.