

SIGNET JEWELERS LTD
Form 10-Q
August 29, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended August 3, 2013 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 1-32349

Signet Jewelers Limited

(Exact name of Registrant as specified in its charter)

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Bermuda
(State or other jurisdiction of
incorporation)

Not Applicable
(I.R.S. Employer
Identification No.)

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

(441) 296 5872

(Address and telephone number of principal executive offices)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Common Stock, \$0.18 par value, 80,529,205 shares as of August 23, 2013

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

<i>(in millions, except per share amounts)</i>	13 weeks ended		26 weeks ended		Notes
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012	
Sales	\$ 880.2	\$ 853.9	\$ 1,873.8	\$ 1,753.9	2
Cost of sales	(570.5)	(542.7)	(1,181.3)	(1,089.0)	
Gross margin	309.7	311.2	692.5	664.9	
Selling, general and administrative expenses	(250.5)	(240.3)	(537.5)	(504.8)	
Other operating income, net	46.3	40.0	93.3	80.2	
Operating income	105.5	110.9	248.3	240.3	2
Interest expense, net	(1.0)	(0.7)	(1.9)	(1.6)	
Income before income taxes	104.5	110.2	246.4	238.7	
Income taxes	(37.1)	(39.5)	(87.2)	(85.5)	4
Net income	\$ 67.4	\$ 70.7	\$ 159.2	\$ 153.2	
Earnings per share: basic	\$ 0.84	\$ 0.86	\$ 1.98	\$ 1.82	5
diluted	\$ 0.84	\$ 0.85	\$ 1.97	\$ 1.81	5
Weighted average common shares outstanding: basic	80.3	82.6	80.6	84.1	5
diluted	80.7	83.0	81.0	84.7	5
Dividends declared per share	\$ 0.15	\$ 0.12	\$ 0.30	\$ 0.24	6

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**SIGNET JEWELERS LIMITED****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

<i>(in millions)</i>	13 weeks ended		26 weeks ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Net income	\$ 67.4	\$ 70.7	\$ 159.2	\$ 153.2
Other comprehensive income (loss):				
Foreign currency translation adjustments	(5.2)	(7.7)	(7.0)	1.9
Derivative instruments qualifying as cash flow hedges:				
Unrealized loss, net of tax of \$(3.2) and \$(9.3), respectively (July 28, 2012: \$(0.6) and \$(5.1), respectively)	(5.4)	(0.6)	(16.8)	(9.0)
Reclassification adjustment for gains to net income, net of tax of \$0.1 and \$(0.3), respectively (July 28, 2012: \$(1.9) and \$(5.0), respectively)	(0.1)	(4.0)	(0.7)	(9.5)
Pension plan:				
Reclassification adjustment to net income for amortization of actuarial loss, net of tax of \$0.1 and \$0.2, respectively (July 28, 2012: \$0.3 and \$0.3, respectively)	0.4	0.8	0.9	1.6
Reclassification adjustment to net income for amortization of net prior service credit, net of tax of \$(0.1) and \$(0.1), respectively (July 28, 2012: \$(0.1) and \$(0.1), respectively)	(0.2)	(0.4)	(0.6)	(0.8)
Total other comprehensive loss	(10.5)	(11.9)	(24.2)	(15.8)
Comprehensive income	\$ 56.9	\$ 58.8	\$ 135.0	\$ 137.4

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SIGNET JEWELERS LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>(in millions)</i>	August 3, 2013	February 2, 2013	July 28, 2012	Notes
Assets				
Current assets:				
Cash and cash equivalents	\$ 212.9	\$ 301.0	\$ 237.5	
Accounts receivable, net	1,152.1	1,205.3	1,032.2	8
Other receivables	43.0	42.1	40.4	
Other current assets	79.5	85.9	71.6	9
Deferred tax assets	2.3	1.6	1.8	
Inventories	1,417.7	1,397.0	1,312.8	
Total current assets	2,907.5	3,032.9	2,696.3	
Non-current assets:				
Property and equipment, net of accumulated depreciation of \$750.1, \$724.1, and \$709.8, respectively	434.9	430.4	392.0	
Other assets	107.4	99.9	72.6	9
Deferred tax assets	127.3	104.1	120.3	
Retirement benefit asset	50.7	48.5	37.8	
Total assets	\$ 3,627.8	\$ 3,715.8	\$ 3,319.0	2
Liabilities and Shareholders' equity				
Current liabilities:				
Loans and overdrafts	\$ 1.7	\$	\$	
Accounts payable	130.3	155.9	136.4	
Accrued expenses and other current liabilities	259.7	326.4	257.5	10
Deferred revenue	154.6	159.7	145.3	9
Deferred tax liabilities	140.8	129.6	124.7	
Income taxes payable	34.4	97.1	57.0	
Total current liabilities	721.5	868.7	720.9	
Non-current liabilities:				
Deferred tax liabilities	0.7			
Other liabilities	114.6	111.3	105.2	10
Deferred revenue	418.4	405.9	381.9	9
Total liabilities	1,255.2	1,385.9	1,208.0	
Commitments and contingencies				13
Shareholders' equity:				
Common shares of \$0.18 par value: authorized 500 shares, 80.5 shares outstanding (February 2, 2013: 81.4 shares outstanding; July 28, 2012: 80.9 shares outstanding)	15.7	15.7	15.7	
Additional paid-in capital	249.3	246.3	231.2	
Other reserves	235.2	235.2	235.2	
Treasury shares at cost: 6.7 shares (February 2, 2013: 5.8 shares; July 28, 2012: 6.3 shares)	(321.8)	(260.0)	(281.1)	

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Retained earnings	2,394.1	2,268.4	2,085.0
Accumulated other comprehensive loss	(199.9)	(175.7)	(175.0)
Total shareholders' equity	2,372.6	2,329.9	2,111.0
Total liabilities and shareholders' equity	\$ 3,627.8	\$ 3,715.8	\$ 3,319.0

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**SIGNET JEWELERS LIMITED****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

<i>(in millions)</i>	13 weeks ended		26 weeks ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Cash flows from operating activities				
Net income	\$ 67.4	\$ 70.7	\$ 159.2	\$ 153.2
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization of property and equipment	25.5	23.6	51.1	46.7
Pension expense	(0.1)	0.8	(0.2)	1.6
Share-based compensation	3.5	3.0	6.5	7.1
Deferred taxation	(4.4)	(9.3)	(2.5)	(12.8)
Excess tax benefit from exercise of share options	(4.5)		(4.5)	
Facility amendment fees amortization and charges	0.1	0.1	0.2	0.2
Other non-cash movements	(0.7)	(1.4)	(0.9)	(1.4)
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable	5.2	(7.4)	52.8	56.1
(Increase) decrease in other receivables and other assets	(4.4)	3.2	(9.9)	3.1
(Increase) decrease in other current assets	(0.5)	2.9	4.0	7.2
(Increase) decrease in inventories	(2.7)	8.4	(57.4)	(17.2)
Decrease in accounts payable	(47.6)	(18.8)	(29.3)	(46.5)
(Decrease) increase in accrued expenses and other liabilities	(5.8)	9.0	(57.1)	(53.0)
(Decrease) increase in deferred revenue	(0.4)	(3.6)	7.6	(0.9)
(Decrease) increase in income taxes payable	(15.8)	4.7	(58.2)	(20.9)
Pension plan contributions	(1.0)	(3.6)	(2.8)	(7.0)
Effect of exchange rate changes on currency swaps	(0.4)	0.5	(0.1)	1.3
Net cash provided by operating activities	13.4	82.8	58.5	116.8
Investing activities				
Purchase of property and equipment	(30.4)	(36.2)	(53.6)	(54.8)
Acquisition of Ultra Stores, Inc.	1.4		1.4	
Net cash used in investing activities	(29.0)	(36.2)	(52.2)	(54.8)
Financing activities				
Dividends paid	(12.1)	(10.3)	(21.9)	(19.0)
Proceeds from issuance of common shares	0.2	0.3	5.2	5.4
Excess tax benefit from exercise of share options	4.5		4.5	
Repurchase of common shares	(25.0)	(196.5)	(75.1)	(287.2)
Net settlement of equity based awards	0.1	(2.5)	(9.0)	(10.8)
(Repayment of) proceeds from short-term borrowings	(4.0)		1.7	
Net cash used in financing activities	(36.3)	(209.0)	(94.6)	(311.6)
Effect of exchange rate changes on cash and cash equivalents	1.1	0.9	0.2	0.3
Cash and cash equivalents at beginning of period	263.7	399.0	301.0	486.8
Decrease in cash and cash equivalents	(51.9)	(162.4)	(88.3)	(249.6)
Cash and cash equivalents at end of period	\$ 212.9	\$ 237.5	\$ 212.9	\$ 237.5

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The accompanying notes are an integral part of these condensed consolidated financial statements.

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SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

<i>(in millions)</i>	Common shares at par value	Additional paid-in capital	Other reserves	Treasury shares	Retained earnings	Accumulated other comprehensive loss	Total shareholders equity
Balance at February 2, 2013	\$ 15.7	\$ 246.3	\$ 235.2	\$ (260.0)	\$ 2,268.4	\$ (175.7)	\$ 2,329.9
Net income					159.2		159.2
Other comprehensive (loss) income						(24.2)	(24.2)
Dividends					(24.2)		(24.2)
Repurchase of common shares				(75.1)			(75.1)
Net settlement of equity based awards		(3.5)		7.0	(8.0)		(4.5)
Share options exercised				6.3	(1.3)		5.0
Share-based compensation expense		6.5					6.5
Balance at August 3, 2013	\$ 15.7	\$ 249.3	\$ 235.2	\$ (321.8)	\$ 2,394.1	\$ (199.9)	\$ 2,372.6

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Principal accounting policies and basis of preparation

Basis of preparation

Signet Jewelers Limited (Signet or the Company), including its subsidiaries, is a leading retailer of jewelry, watches and associated services. Signet manages its business as two geographical segments, the United States of America (the US) and the United Kingdom (the UK). The US division operates retail stores under brands including Kay Jewelers, Jared The Galleria Of Jewelry, Ultra and various regional brands. Ultra was acquired by Signet in October 2012. The UK division s retail stores operate under brands including H. Samuel and Ernest Jones.

These condensed consolidated financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) have been condensed or omitted from this report, as is permitted by such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in Signet s Annual Report on Form 10-K for the year ended February 2, 2013.

Use of estimates

The preparation of these condensed consolidated financial statements, in conformity with US GAAP and SEC regulations for interim reporting, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are primarily made in relation to the valuation of receivables, inventory and deferred revenue, fair value of derivatives, depreciation and asset impairment, the valuation of employee benefits, income taxes and contingencies.

Fiscal year

The Company s fiscal year ends on the Saturday nearest to January 31. Fiscal 2014 is the 52 week year ending February 1, 2014 and Fiscal 2013 is the 53 week year ended February 2, 2013. Within these financial statements, the second quarter and year to date of the relevant fiscal years 2014 and 2013 refer to the 13 and 26 weeks ended August 3, 2013 and July 28, 2012, respectively.

Seasonality

Signet s sales are seasonal, with the first and second quarters each normally accounting for slightly more than 20% of annual sales, the third quarter a little under 20% and the fourth quarter for about 40% of sales, with December being by far the most important month of the year. Sales made in November and December are known as the Holiday Season. Due to sales leverage, Signet s operating income is even more seasonal; about 45% to 50% of Signet s operating income normally occurs in the fourth quarter, comprised of nearly all of the UK division s operating income and about 40% to 50% of the US division s operating income.

Revenue recognition

Extended service plans and lifetime warranty agreements

The US division sells extended service plans where it is obliged, subject to certain conditions, to perform repair work over the lifetime of the product. Revenue from the sale of extended service plans is deferred over 14 years. Revenue is recognized in relation to the costs expected to be incurred in performing these services, with approximately 45% of revenue recognized within the first two years (February 2, 2013 and July 28, 2012: 46% and 46%, respectively). The deferral period is determined from patterns of claims costs, including estimates of future claims costs expected to be incurred. Management reviews the trends in claims to assess whether changes are required to the revenue and cost recognition

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rates used. All direct costs associated with the sale of these plans are deferred and amortized in proportion to the revenue recognized and disclosed as either other current assets or other assets.

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In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The new guidance does not change the current requirements for reporting net income or other comprehensive income, but it does require disclosure of amounts reclassified out of accumulated other comprehensive income by component, as well as require the presentation of these amounts on the face of the statements of comprehensive income or in the notes to the consolidated financial statements. ASU 2013-02 is effective for the reporting periods beginning after December 15, 2012. Signet adopted this guidance effective for the first quarter ended May 4, 2013 and the implementation of this accounting pronouncement did not have a material impact on Signet's consolidated financial statements.

New accounting pronouncements to be adopted in subsequent periods***Presentation of Unrecognized Tax Benefit***

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance requires, unless certain conditions exist, an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The guidance in ASU 2013-11 will become effective for the Company prospectively for fiscal years beginning after December 15, 2013, and interim periods within those years, with early adoption permitted. Retrospective application is also permitted. Signet is currently assessing the impact, if any, that the adoption of this accounting pronouncement will have on its consolidated financial statements.

Reclassification

Signet has reclassified the presentation of certain prior year information to conform to the current year presentation.

2. Segment information

Signet's sales are derived from the retailing of jewelry, watches, other products and services. Signet is managed as two geographical operating segments, being the US and UK divisions. These segments represent channels of distribution that offer similar merchandise and services and have similar marketing and distribution strategies. Both divisions are managed by executive committees, which report to Signet's Chief Executive Officer, who in turn reports to the Board of Directors (the Board). Each divisional executive committee is responsible for operating decisions within parameters set by the Board. The performance of each segment is regularly evaluated based on sales and operating income. The operating segments do not include certain corporate administrative costs. There are no material transactions between the operating segments.

<i>(in millions)</i>	13 weeks ended		26 weeks ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Sales:				
US	\$ 741.1	\$ 701.9	\$ 1,599.7	\$ 1,453.4
UK	139.1	152.0	274.1	300.5
Total sales	\$ 880.2	\$ 853.9	\$ 1,873.8	\$ 1,753.9

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Operating income (loss):				
US	\$ 111.5	\$ 117.3	\$ 264.3	\$ 255.0
UK	(0.8)	(0.3)	(4.9)	(3.3)
Unallocated ⁽¹⁾	(5.2)	(6.1)	(11.1)	(11.4)
Total operating income	\$ 105.5	\$ 110.9	\$ 248.3	\$ 240.3

<i>(in millions)</i>	August 3, 2013	February 2, 2013	July 28, 2012
Total assets:			
US	\$ 3,055.8	\$ 3,018.8	\$ 2,683.8
UK	421.5	446.7	437.3
Unallocated ⁽¹⁾	150.5	250.3	197.9
Total assets	\$ 3,627.8	\$ 3,715.8	\$ 3,319.0

(1) Unallocated principally relates to corporate administrative costs, assets and liabilities.

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Assets and liabilities denominated in the UK pound sterling are translated into the US dollar at the exchange rate prevailing at the balance sheet date. Equity accounts denominated in the UK pound sterling are translated into US dollars at historical exchange rates. Revenues and expenses denominated in the UK pound sterling are translated into the US dollar at the monthly average exchange rate for the period and calculated each month from the weekly exchange rates weighted by sales of the UK division. Gains and losses resulting from foreign currency transactions are included within the consolidated income statement, whereas translation adjustments and gains and losses related to intercompany loans of a long-term investment nature are reported as an element of other comprehensive income (loss).

4. Income taxes

Signet has business activity in all states within the US and files income tax returns for the US federal jurisdiction and all applicable states. Signet also files income tax returns in the UK and certain other foreign jurisdictions. Signet is subject to US federal and state examinations by tax authorities for tax years ending after November 1, 2008 and is subject to examination by the UK tax authority for tax years ending after January 31, 2010.

As of February 2, 2013, Signet had approximately \$4.5 million of unrecognized tax benefits in respect of uncertain tax positions, all of which would favorably affect the effective income tax rate if resolved in Signet's favor. These unrecognized tax benefits relate to financing arrangements and intra-group charges which are subject to different and changing interpretations of tax law. There has been no material change in the amount of unrecognized tax benefits in respect of uncertain tax positions during the 13 and 26 weeks ended August 3, 2013.

Signet recognizes accrued interest and, where appropriate, penalties related to unrecognized tax benefits within income tax expense. As of February 2, 2013, Signet had accrued interest of \$0.2 million and there has been no material change in the amount of accrued interest as of August 3, 2013.

Over the next twelve months management believes that it is reasonably possible that there could be a reduction of substantially all of the unrecognized tax benefits as of February 2, 2013, due to settlement of the uncertain tax positions with the tax authorities.

5. Earnings per share*Earnings per share*

	13 weeks ended		26 weeks ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
<i>(in millions, except per share amounts)</i>				
Net income	\$ 67.4	\$ 70.7	\$ 159.2	\$ 153.2
Basic weighted average number of shares outstanding	80.3	82.6	80.6	84.1
Dilutive effect of share options	0.4	0.4	0.4	0.6
Diluted weighted average number of shares outstanding	80.7	83.0	81.0	84.7
Earnings per share basic	\$ 0.84	\$ 0.86	\$ 1.98	\$ 1.82
Earnings per share diluted	\$ 0.84	\$ 0.85	\$ 1.97	\$ 1.81

Table of Contents**SIGNET JEWELERS LIMITED****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The basic weighted average number of shares excludes non-vested time-based restricted shares, shares held by the Employee Stock Ownership Trust and treasury shares. Such shares are not considered outstanding and do not qualify for dividends, except for time-based restricted shares for which dividends are earned and payable by the Company subject to full vesting. The effect of excluding these shares is to reduce the average number of shares in the 13 and 26 week periods ended August 3, 2013 by 6,848,428 and 6,606,882 shares, respectively (13 and 26 week periods ended July 28, 2012: 4,579,232 and 3,108,956 shares, respectively). The calculation of fully diluted earnings per share for the 13 and 26 week periods ended August 3, 2013 excludes 1,071 and 53,421 non-vested time-based restricted shares (13 and 26 week periods ended July 28, 2012: 287,487 and 223,811 shares and share options, respectively) on the basis that their effect on earnings per share was anti-dilutive.

6. Shareholders' equity*Share repurchase*

Signet may from time to time repurchase common shares under various share repurchase programs authorized by Signet's Board. Repurchases may be made in the open market, through block trades or otherwise. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion, and will be subject to economic and market conditions, stock prices, applicable legal requirements and other factors. The repurchase programs are funded through Signet's existing cash reserves and liquidity sources. Repurchased shares are being held as treasury shares and may be used by Signet for general corporate purposes. Share repurchase activity is as follows:

	Amount Authorized (in millions)	Shares repurchased 26 weeks ended		Amount repurchased 26 weeks ended		Average repurchase price 26 weeks ended	
		August 3, 2013	July 28, 2012	August 3, 2013 (in millions)	July 28, 2012 (in millions)	August 3, 2013	July 28, 2012
2013 Program ⁽¹⁾	\$ 350.0	374,613	n/a	\$ 25.0	\$ n/a	\$ 66.74	\$ n/a
2011 Program ⁽²⁾	350.0	749,245	6,425,296	50.1	287.2	66.92	44.70
Total		1,123,858	6,425,296	\$ 75.1	\$ 287.2		

- (1) On June 14, 2013, the Board authorized a new program to repurchase up to \$350 million of Signet's common shares (the 2013 Program). The 2013 Program may be suspended or discontinued at any time without notice. The 2013 Program had \$325.0 million remaining as of August 3, 2013.
- (2) In October 2011, the Board authorized a program to repurchase up to \$300 million of Signet's common shares (the 2011 Program), which authorization was subsequently increased to \$350 million. The 2011 Program was completed as of May 4, 2013.

*Dividends***Fiscal 2014:**

	Cash dividend per share	Date Declared	Record Date	Payment Date ⁽¹⁾	Total Dividends (in millions)
First quarter	\$ 0.15	March 27, 2013	May 3, 2013	May 29, 2013	\$ 12.1
Second quarter	\$ 0.15	June 14, 2013	August 2, 2013	August 28, 2013	\$ 12.1 ⁽²⁾

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- (1) Signet's dividend policy results in the dividend payment date being a quarter in arrears from the declaration date. As such, the fourth quarter Fiscal 2013 \$0.12 per share cash dividend was paid out on February 27, 2013 in the aggregate amount of \$9.8 million.
- (2) As of August 3, 2013, \$12.1 million has been recorded in accrued expenses and other current liabilities reflecting the cash dividend declared for the second quarter of Fiscal 2014, which is not presented in the condensed consolidated statement of cash flows as it is a non-cash transaction.

Table of Contents**SIGNET JEWELERS LIMITED****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****7. Reclassification out of accumulated OCI**

<u>Reclassification activity by individual accumulated OCI component:</u>	Amounts reclassified from accumulated OCI 13 weeks ended August 3, 2013	Amounts reclassified from accumulated OCI 26 weeks ended August 3, 2013	Income statement caption
<i>(in millions)</i>			
(Gains) losses on cash flow hedges:			
Foreign currency contracts	\$ (0.2)	\$ (0.4)	Cost of sales (see Note 11)
Commodity contracts	0.2	(0.6)	Cost of sales (see Note 11)
Total before income tax		(1.0)	
	(0.1)	0.3	Income taxes
Net of tax	(0.1)	(0.7)	
Defined benefit pension plan items:			
Amortization of unrecognized net prior service credit	(0.3)	(0.7)	Selling, general and administrative expenses ⁽¹⁾
Amortization of unrecognized actuarial loss	0.5	1.1	Selling, general and administrative expenses ⁽¹⁾
Total before income tax	0.2	0.4	
		(0.1)	Income taxes
Net of tax	0.2	0.3	
Total reclassifications	\$ 0.1	\$ (0.4)	

(1) These items are included in the computation of net periodic pension benefit (cost). See Note 12 for additional information.

8. Accounts receivable, net

Signet's accounts receivable primarily consist of US customer in-house financing receivables. The accounts receivable portfolio consists of a population that is of similar characteristics and is evaluated collectively for impairment. The allowance is an estimate of the losses as of the balance sheet date, and is calculated using a proprietary model that analyzes factors such as delinquency rates and recovery rates. A 100% allowance is made for any amount that is more than 90 days aged on a recency basis and any amount associated with an account the owner of which has filed for bankruptcy, as well as an allowance for those amounts 90 days aged and under based on historical loss information and payment performance. The calculation is reviewed by management to assess whether, based on economic events, additional analyses are required to appropriately estimate losses inherent in the portfolio.

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<i>(in millions)</i>	August 3, 2013	February 2, 2013	July 28, 2012
Accounts receivable by portfolio segment, net:			
US customer in-house finance receivables	\$ 1,142.0	\$ 1,192.9	\$ 1,024.2
Other accounts receivable	10.1	12.4	8.0
Total accounts receivable, net	\$ 1,152.1	\$ 1,205.3	\$ 1,032.2

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SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Signet grants credit to customers based on a variety of credit quality indicators, including consumer financial information and prior payment experience. On an ongoing basis, management monitors the credit exposure based on past due status and collection experience, as it has found a meaningful correlation between the past due status of customers and the risk of loss.

Other accounts receivable is comprised primarily of gross accounts receivable relating to the insurance loss replacement business in the UK division of \$9.1 million (February 2, 2013 and July 28, 2012: \$13.0 million and \$8.7 million, respectively) with a corresponding valuation allowance of \$0.4 million (February 2, 2013 and July 28, 2012: \$0.6 million and \$0.7 million, respectively).

Allowance for Credit Losses on US Customer In-House Finance Receivables:

<i>(in millions)</i>	26 weeks ended August 3, 2013	53 weeks ended February 2, 2013	26 weeks ended July 28, 2012
Allowance on US portfolio, beginning of period	\$ (87.7)	\$ (78.1)	\$ (78.1)
Charge-offs	56.4	112.8	49.5
Recoveries	13.6	21.8	11.1
Provision	(71.4)	(144.2)	(61.1)
Allowance on US portfolio, end of period	\$ (89.1)	\$ (87.7)	\$ (78.6)
Ending receivable balance evaluated for impairment	1,231.1	1,280.6	1,102.8
Percentage of allowance on US portfolio, end of period	7.2%	6.8%	7.1%
US customer in-house finance receivables, net	\$ 1,142.0	\$ 1,192.9	\$ 1,024.2

Net bad debt expense is calculated as provision expense less recoveries.

Credit Quality Indicator and Age Analysis of Past Due US Customer In-House Finance Receivables:

<i>(in millions)</i>	August 3, 2013		February 2, 2013		July 28, 2012	
	Gross	Valuation allowance	Gross	Valuation allowance	Gross	Valuation allowance
Performing:						
Current, aged 0-30 days	\$ 973.2	\$ (29.9)	\$ 1,030.3	\$ (33.8)	\$ 874.8	\$ (27.0)
Past due, aged 31-90 days	206.1	(7.4)	203.9	(7.5)	183.1	(6.7)
Non Performing:						
Past due, aged more than 90 days	51.8	(51.8)	46.4	(46.4)	44.9	(44.9)
	\$ 1,231.1	\$ (89.1)	\$ 1,280.6	\$ (87.7)	\$ 1,102.8	\$ (78.6)

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	August 3, 2013		February 2, 2013		July 28, 2012	
	Gross	Valuation allowance	Gross	Valuation allowance	Gross	Valuation allowance
<i>(as a percentage of the ending receivable balance)</i>						
Performing	95.8%	3.0%	96.4%	3.2%	95.9%	3.1%
Non Performing	4.2%	100.0%	3.6%	100.0%	4.1%	100.0%
	100.0%	7.2%	100.0%	6.8%	100.0%	7.1%

Table of Contents**SIGNET JEWELERS LIMITED****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****9. Deferred revenue**

Deferred revenue is comprised primarily of extended service plans (ESP) and voucher promotions and other as follows:

<i>(in millions)</i>	August 3, 2013	February 2, 2013	July 28, 2012
ESP deferred revenue	\$ 567.0	\$ 549.7	\$ 523.7
Voucher promotions and other	6.0	15.9	3.5
Total deferred revenue	\$ 573.0	\$ 565.6	\$ 527.2
Disclosed as:			
Current liabilities	\$ 154.6	\$ 159.7	\$ 145.3
Non-current liabilities	418.4	405.9	381.9
Total deferred revenue	\$ 573.0	\$ 565.6	\$ 527.2

In addition, other current assets include deferred direct costs related to the sale of ESP of \$20.8 million as of August 3, 2013 (February 2, 2013 and July 28, 2012: \$20.9 million and \$21.2 million, respectively). Other assets include the long-term portion of these deferred direct costs of \$58.8 million as of August 3, 2013 (February 2, 2013 and July 28, 2012: \$56.9 million and \$53.7 million, respectively).

<i>(in millions)</i>	13 weeks ended		26 weeks ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
ESP deferred revenue, beginning of period	\$ 563.4	\$ 520.7	\$ 549.7	\$ 511.7
Plans sold	46.1	44.4	101.4	94.2
Revenues recognized	(42.5)	(41.4)	(84.1)	(82.2)
ESP deferred revenue, end of period	\$ 567.0	\$ 523.7	\$ 567.0	\$ 523.7

10. Warranty reserve

Warranty reserve for diamond and gemstone guarantee, included in accrued expenses and other current liabilities, and other non-current liabilities, is as follows:

<i>(in millions)</i>	13 weeks ended		26 weeks ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Warranty reserve, beginning of period	\$ 18.6	\$ 15.1	\$ 18.5	\$ 15.1
Warranty expense	1.9	4.6	3.5	6.1
Utilized	(1.9)	(2.1)	(3.4)	(3.6)

Warranty reserve, end of period	\$ 18.6	\$ 17.6	\$ 18.6	\$ 17.6
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<i>(in millions)</i>	August 3, 2013	February 2, 2013	July 28, 2012
Disclosed as:			
Current liabilities	\$ 6.6	\$ 6.9	\$ 6.7
Non-current liabilities	12.0	11.6	10.9
Total warranty reserve	\$ 18.6	\$ 18.5	\$ 17.6

11. Financial instruments and fair value

Signet's principal financial instruments are comprised of cash, cash deposits/investments and overdrafts, accounts receivable and payable, derivatives and a revolving credit facility. Signet does not enter into derivative transactions for trading purposes. Derivative transactions are used by Signet for risk management purposes to address risks inherent in Signet's business operations and sources of finance. The main risks arising from Signet's operations are market risk including foreign currency risk and commodity risk, liquidity risk and interest rate risk. Signet uses these financial instruments to manage and mitigate these risks under policies reviewed and approved by the Board.

Table of Contents**SIGNET JEWELERS LIMITED****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Derivatives**

Signet enters into various types of derivative instruments to mitigate certain risk exposures related to changes in commodity costs and foreign exchange rates. Derivative instruments are recorded in the consolidated balance sheets at their fair values, as either assets or liabilities, with an offset to current or comprehensive income, depending on whether the derivative qualifies as an effective hedge.

If a derivative instrument meets certain hedge accounting criteria, it may be designated as a cash flow hedge on the date it is entered into. A cash flow hedge is a hedge of the exposure to variability in the cash flows of a recognized asset, liability or a forecasted transaction. For cash flow hedge transactions, the effective portion of the changes in fair value of derivatives is reported as other comprehensive income (OCI) and is recognized in the consolidated income statements in the same period(s) and on the same financial statement line in which the hedged transaction affects net income. Amounts excluded from the effectiveness calculation and any ineffective portions of the change in fair value of the derivative are recognized immediately in other operating income, net in the consolidated income statements. In addition, gains and losses on derivatives that do not qualify for hedge accounting are recognized immediately in other operating income net.

The following types of derivative instruments are utilized by Signet:

Forward foreign currency exchange contracts (designated) These contracts, which are principally in US dollars, are entered into in order to limit the impact of movements in foreign exchange rates on forecasted foreign currency purchases. The total notional amount of these foreign currency contracts outstanding as of August 3, 2013 was \$50.3 million (February 2, 2013 and July 28, 2012: \$50.8 million and \$52.3 million, respectively). These contracts have been designated as cash flow hedges and will be settled over the next 18 months (February 2, 2013 and July 28, 2012: 12 months and 17 months, respectively).

Forward foreign currency exchange contracts (undesignated) Foreign currency contracts not designated as cash flow hedges are used to hedge currency flows through Signet's bank accounts to mitigate Signet's exposure to foreign currency exchange risk in its cash and borrowings.

Commodity forward purchase contracts and net zero-cost collar arrangements These contracts are entered into in order to reduce Signet's exposure to significant movements in the price of the underlying precious metal raw material. As of August 3, 2013, no commodity derivative contracts were outstanding. As of February 2, 2013 and July 28, 2012, the total notional amount of commodity contracts outstanding was \$187.6 million and \$197.5 million, respectively. The contracts outstanding as of February 2, 2013 and July 28, 2012 were designated as cash flow hedges and will be settled over 11 months and 16 months, respectively.

The bank counterparties to the derivative instruments expose Signet to credit-related losses in the event of their non-performance. However, to mitigate that risk, Signet only contracts with counterparties that meet certain minimum requirements under its counterparty risk assessment process. As of August 3, 2013, Signet believes that this credit risk did not materially change the fair value of the foreign currency or commodity contracts.

The following table summarizes the fair value and presentation of derivative instruments in the condensed consolidated balance sheets:

<i>(in millions)</i>	Balance sheet location	Derivative assets		
		August 3, 2013	February 2, 2013	July 28, 2012
Derivatives designated as hedging instruments:				
Foreign currency contracts	Other current assets	\$ 1.5	\$ 1.0	\$ 1.0
Foreign currency contracts	Other assets	0.1		0.2

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Commodity contracts	Other current assets	2.8	3.1
Commodity contracts	Other assets		0.1
		\$ 1.6	\$ 3.8
			\$ 4.4
Derivatives not designated as hedging instruments:			
Foreign currency contracts	Other current assets	0.1	
		\$ 0.1	\$
			\$
Total derivative assets		\$ 1.7	\$ 3.8
			\$ 4.4

Table of Contents**SIGNET JEWELERS LIMITED****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

<i>(in millions)</i>	Balance sheet location	Derivative liabilities		
		August 3, 2013	Fair value February 2, 2013	July 28, 2012
Derivatives designated as hedging instruments:				
Foreign currency contracts	Other current liabilities	\$	\$	\$ (0.2)
Commodity contracts	Other current liabilities		(4.6)	(6.3)
		\$	\$ (4.6)	\$ (6.5)
Derivatives not designated as hedging instruments:				
Foreign currency contracts	Other current liabilities			(1.3)
		\$	\$	\$ (1.3)
Total derivative liabilities		\$	\$ (4.6)	\$ (7.8)

The following tables summarize the effect of derivative instruments on the condensed consolidated income statements:

<i>(in millions)</i>	Amount of gain (loss) recognized in OCI on derivatives (Effective portion) 13 weeks ended		Location of gain (loss) reclassified from accumulated OCI into income (Effective portion)	Amount of gain (loss) reclassified from accumulated OCI into income (Effective portion) 13 weeks ended	
	August 3, 2013	July 28, 2012		August 3, 2013	July 28, 2012
Derivatives in cash flow hedging relationships:					
Foreign currency contracts	\$ 0.9	\$ 0.9	Cost of sales	\$ 0.2	\$ 0.1
Commodity contracts	(9.5) ⁽¹⁾	(2.1)	Cost of sales	(0.2)	5.8
Total	\$ (8.6)	\$ (1.2)		\$	\$ 5.9

<i>(in millions)</i>	Amount of gain (loss) recognized in OCI on derivatives (Effective portion) 26 weeks ended		Location of gain (loss) reclassified from accumulated OCI into income (Effective portion)	Amount of gain (loss) reclassified from accumulated OCI into income (Effective portion) 26 weeks ended	
	August 3, 2013	July 28, 2012		August 3, 2013	July 28, 2012
Derivatives in cash flow hedging relationships:					
Foreign currency contracts	\$ 0.9	\$ 0.9	Cost of sales	\$ 0.2	\$ 0.1
Commodity contracts	(9.5) ⁽¹⁾	(2.1)	Cost of sales	(0.2)	5.8
Total	\$ (8.6)	\$ (1.2)		\$	\$ 5.9

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	August 3, 2013	July 28, 2012		August 3, 2013	July 28, 2012
Derivatives in cash flow hedging relationships:					
Foreign currency contracts	\$ 1.4	\$ 0.1	Cost of sales	\$ 0.4	\$ 0.2
Commodity contracts	(27.5) ⁽¹⁾	(14.2)	Cost of sales	0.6	14.3
Total	\$ (26.1)	\$ (14.1)		\$ 1.0	\$ 14.5

- (1) During the 13 and 26 weeks ended August 3, 2013, losses recognized in OCI on commodity derivative contracts designated in cash flow hedging relationships included \$6.2 million and \$25.8 million of losses related to the change in fair value of commodity derivative contracts the Company terminated prior to contract maturity in the respective periods.

