

SIGNET JEWELERS LTD
Form 10-Q
June 01, 2010
Table of Contents

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 May 1, 2010 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)

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)

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

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 Shares, as of the latest practicable date.

Common Shares, \$0.18 par value, 85,525,718 shares as of May 1, 2010

Table of Contents

TABLE OF CONTENTS

| | PAGE NUMBER |
|---------|---|
| PART I | FINANCIAL INFORMATION |
| Item 1 | Financial Statements |
| | <u>Unaudited Condensed Consolidated Income Statements</u> 2 |
| | <u>Unaudited Condensed Consolidated Balance Sheets</u> 3 |
| | <u>Unaudited Condensed Consolidated Statements of Cash Flows</u> 4 |
| | <u>Unaudited Condensed Consolidated Statement of Shareholders' Equity</u> 5 |
| | <u>Unaudited Condensed Consolidated Statement of Comprehensive Income</u> 5 |
| | <u>Notes to the Interim Unaudited Condensed Consolidated Financial Statements</u> 7 |
| Item 2 | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 12 |
| Item 3 | <u>Quantitative and Qualitative Disclosures about Market Risk</u> 20 |
| Item 4 | <u>Controls and Procedures</u> 20 |
| PART II | <u>OTHER INFORMATION</u> 20 |
| Item 1 | <u>Legal Proceedings</u> 20 |
| Item 1A | <u>Risk Factors</u> 20 |
| Item 6 | <u>Exhibits</u> 21 |

Table of Contents**PART 1 FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****Unaudited condensed consolidated income statements**

| | 13 weeks ended May 1, 2010 \$million | 13 weeks ended May 2, 2009 \$million | Notes |
|--|---|---|--------------|
| Sales | 810.0 | 762.6 | 2 |
| Cost of sales | (513.7) | (507.1) | |
| Gross margin | 296.3 | 255.5 | |
| Selling, general and administrative expenses | (238.5) | (232.8) | |
| Other operating income, net | 27.7 | 29.7 | |
| Operating income, net | 85.5 | 52.4 | 2 |
| Interest income | 0.1 | 0.6 | |
| Interest expense | (8.8) | (11.6) | |
| Income before income taxes | 76.8 | 41.4 | |
| Income taxes | (24.8) | (15.1) | |
| Net income | 52.0 | 26.3 | |
| Earnings per share basic | \$ 0.61 | \$ 0.31 | 5 |
| diluted | \$ 0.60 | \$ 0.31 | 5 |

All of the above relate to continuing activities attributable to equity shareholders.

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

Table of Contents**Unaudited condensed consolidated balance sheets**

| | May 1, 2010 (Unaudited) \$million | May 2, 2009 (Unaudited) \$million | January 30, 2010 (Audited) \$million | Notes |
|--|--|--|---|----------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | 447.1 | 69.2 | 316.2 | |
| Accounts receivable, net | 801.7 | 770.1 | 858.0 | |
| Other receivables | 25.2 | 65.0 | 27.9 | |
| Other current assets | 51.1 | 58.0 | 58.4 | |
| Deferred tax assets | 0.7 | | 2.2 | |
| Inventories | 1,122.0 | 1,327.1 | 1,173.1 | 6 |
| Total current assets | 2,447.8 | 2,289.4 | 2,435.8 | |
| Non-current assets: | | | | |
| Property, plant and equipment, net of accumulated depreciation of \$577.8 million, \$575.8 million and \$566.0 million, respectively | 375.2 | 437.7 | 396.9 | |
| Other intangible assets, net | 23.6 | 23.4 | 24.2 | |
| Other assets | 12.0 | 9.7 | 12.6 | |
| Deferred tax assets | 52.8 | 59.3 | 54.7 | |
| Total assets | 2,911.4 | 2,819.5 | 2,924.2 | 2 |
| Liabilities and Shareholders' equity | | | | |
| Current liabilities: | | | | |
| Loans and overdrafts | 47.2 | 79.4 | 44.1 | |
| Accounts payable | 104.2 | 108.8 | 66.2 | |
| Accrued expenses and other current liabilities | 233.9 | 256.9 | 272.1 | |
| Deferred revenue | 115.9 | 113.5 | 120.1 | 7 |
| Deferred tax liabilities | 79.6 | 58.1 | 74.7 | |
| Income taxes payable | 32.1 | 55.6 | 44.1 | |
| Total current liabilities | 612.9 | 672.3 | 621.3 | |
| Non-current liabilities: | | | | |
| Long-term debt | 229.1 | 280.0 | 280.0 | |
| Other liabilities | 78.9 | 72.7 | 79.6 | |
| Deferred revenue | 143.1 | 142.4 | 140.9 | 7 |
| Retirement benefit obligation | 1.8 | 12.6 | 4.8 | |
| Total liabilities | 1,065.8 | 1,180.0 | 1,126.6 | |
| Commitments and contingencies (see note 10) | | | | |
| Shareholders' equity: | | | | |
| Common shares of \$0.18 par value: authorized 500 million shares, 85.5 million shares issued and outstanding (May 2, 2009: 85.3 million shares issued and outstanding; January 30, 2010: 85.5 million shares issued and outstanding) | 15.4 | 15.3 | 15.4 | |
| Additional paid-in capital | 172.4 | 165.1 | 169.9 | |
| Other reserves | 235.2 | 235.2 | 235.2 | |
| Treasury shares | | (10.7) | (1.1) | |

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

| | | | |
|--|----------------|---------|---------|
| Retained earnings | 1,607.9 | 1,427.2 | 1,556.4 |
| Accumulated other comprehensive loss | (185.3) | (192.6) | (178.2) |
| Total shareholders' equity | 1,845.6 | 1,639.5 | 1,797.6 |
| Total liabilities and shareholders' equity | 2,911.4 | 2,819.5 | 2,924.2 |

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

Table of Contents**Unaudited condensed consolidated statements of cash flows**

| | 13 weeks ended May 1, 2010 \$million | 13 weeks ended May 2, 2009 \$million |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | 52.0 | 26.3 |
| Adjustments to reconcile net income to cash flows provided by operations: | | |
| Depreciation of property, plant and equipment | 22.4 | 24.2 |
| Amortization of other intangible assets | 2.0 | 1.4 |
| Pension expense | (1.9) | |
| Share-based compensation expense | 2.3 | 0.7 |
| Deferred taxation | 6.3 | (2.6) |
| Facility fees included in net income | 2.3 | 3.4 |
| Other non-cash movements | (0.7) | 9.3 |
| Loss on disposal of property, plant and equipment | | 0.4 |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 55.1 | 55.3 |
| Decrease in other receivables | 3.7 | 16.9 |
| Decrease/(increase) in other current assets | 10.0 | (18.4) |
| Decrease in inventories | 38.9 | 43.2 |
| Increase in accounts payable | 38.5 | 65.9 |
| Decrease in accrued expenses and other liabilities | (33.6) | (20.6) |
| Decrease in deferred revenue | (1.8) | (7.0) |
| Decrease in income taxes payable | (11.1) | (0.4) |
| Effect of exchange rate changes on currency swaps | (0.2) | |
| Net cash provided by operating activities | 184.2 | 198.0 |
| Investing activities | | |
| Purchase of property, plant and equipment | (4.7) | (7.3) |
| Purchase of other intangible assets | (1.6) | (1.1) |
| Net cash flows used in investing activities | (6.3) | (8.4) |
| Financing activities | | |
| Proceeds from issue of common shares | 0.8 | |
| Facility fees paid | (1.0) | (8.4) |
| Proceeds from/(repayment of) short-term borrowings | 3.1 | (109.2) |
| Repayment of long-term debt | (50.9) | (100.0) |
| Net cash flows used in financing activities | (48.0) | (217.6) |
| Cash and cash equivalents at beginning of period | 316.2 | 96.8 |
| Increase/(decrease) in cash and cash equivalents | 129.9 | (28.0) |
| Effect of exchange rate changes on cash and cash equivalents | 1.0 | 0.4 |
| Cash and cash equivalents at end of period | 447.1 | 69.2 |

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

Table of Contents**Unaudited condensed consolidated statement of shareholders equity**

| | Common shares at par value \$million | Additional paid-in capital \$million | Other reserves \$million | Treasury shares \$million | Retained earnings \$million | Accumulated other comprehensive loss \$million | Total shareholders equity \$million |
|--|---|---|--------------------------------|---------------------------------|-----------------------------------|--|--|
| Balance at January 30, 2010 | 15.4 | 169.9 | 235.2 | (1.1) | 1,556.4 | (178.2) | 1,797.6 |
| Net income | | | | | 52.0 | | 52.0 |
| Foreign currency translation adjustments | | | | | | (11.2) | (11.2) |
| Changes in fair value of derivative instruments, net | | | | | | 3.5 | 3.5 |
| Actuarial gain on pension plan, net | | | | | | 0.6 | 0.6 |
| Share options exercised | | 0.2 | | 1.1 | (0.5) | | 0.8 |
| Share-based compensation expense | | 2.3 | | | | | 2.3 |
| Balance at May 1, 2010 | 15.4 | 172.4 | 235.2 | | 1,607.9 | (185.3) | 1,845.6 |

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

Unaudited condensed consolidated statements of comprehensive income

| | 13 weeks ended May 1, 2010 \$million | 13 weeks ended May 2, 2009 \$million |
|---|--|--|
| Net income | 52.0 | 26.3 |
| Foreign currency translation | (11.2) | 4.0 |
| Changes in fair value of derivative instruments | 5.2 | (2.3) |
| Actuarial gain | 1.2 | 1.1 |
| Prior service cost | (0.3) | (0.2) |
| Deferred tax on items recognized in equity | (2.0) | 0.3 |
| Comprehensive income | 44.9 | 29.2 |

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

Table of Contents

Notes to the interim unaudited condensed consolidated financial statements

1. Principal accounting policies and basis of preparation

Basis of preparation

Signet Jewelers Limited (the Company) and its subsidiary undertakings (collectively, Signet) is a leading retailer of jewelry, watches and associated services. Signet manages its business as two geographical segments, being the United States of America (the US) and the United Kingdom (the UK). The US segment operates retail stores under brands including Kay Jewelers, Jared the Galleria of Jewelry and various regional brands while the UK segment's retail stores operate under brands including H.Samuel and Ernest Jones.

These interim unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended January 30, 2010, filed with the Securities and Exchange Commission (SEC) on March 30, 2010.

These interim financial statements of the Group are unaudited. They have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information. Accordingly, certain information and footnote disclosures normally included in complete consolidated financial statements prepared in accordance with US GAAP have been condensed or omitted from these interim financial statements. However, these interim financial statements include all adjustments (consisting of normal recurring accruals and adjustments) that are, in the opinion of management, necessary to fairly state the results of the interim periods. Subsequent events have been evaluated up to the date of issue of these interim financial statements.

Use of estimates in interim financial statements

The preparation of interim 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 consolidated interim financial statements and reported amounts of sales 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, the valuation of inventory, depreciation and asset impairment, the valuation of employee benefits, income taxes and contingencies.

Seasonality

Signet's business is highly seasonal with a very significant proportion of its sales and operating profit generated during its fourth quarter, which includes the Christmas season. Management expects such a seasonal fluctuation in sales and profit to continue. Therefore, operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

New accounting pronouncements to be adopted in future periods

Revenue recognition – multi-deliverable arrangements

In October 2009, the FASB issued ASU 2009-13, which amends ASC 605-25 Revenue Recognition – Multi-Deliverable Arrangements. ASU 2009-13 requires arrangement consideration to be allocated to all deliverables at inception using a relative selling price method and establishes a selling price hierarchy for determining the selling price of a deliverable. The update also expands the disclosure requirements to include additional detail regarding the deliverables, method of calculation of selling price and the timing of revenue recognition. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this amendment is not expected to have a material impact on Signet.

2. Segmental information

The consolidated 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 service and have similar marketing and distribution strategies. Both divisions are managed by executive committees, which report through a divisional Chief Executive to Signet's Chief Executive who in turn reports to 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 central costs which is consistent with the treatment in Signet's management accounts.

There are no material transactions between the operating segments.

Table of Contents**Notes to the interim unaudited condensed consolidated financial statements (Continued)**

| | 13 weeks ended May 1, 2010 \$million | 13 weeks ended May 2, 2009 \$million |
|-----------------------------|--|--|
| Sales: | | |
| US | 667.1 | 624.9 |
| UK | 142.9 | 137.7 |
| Total sales | 810.0 | 762.6 |
| Operating income, net: | | |
| US | 91.1 | 56.4 |
| UK | (1.4) | (1.3) |
| Unallocated ⁽¹⁾ | (4.2) | (2.7) |
| Total operating income, net | 85.5 | 52.4 |

| | May 1, 2010 \$million | May 2, 2009 \$million | January 30, 2010 \$million |
|---------------|-----------------------------|-----------------------------|-------------------------------------|
| Total assets: | | | |
| US | 2,220.1 | 2,411.6 | 2,280.7 |
| UK | 342.8 | 377.3 | 383.6 |
| Unallocated | 348.5 | 30.6 | 259.9 |
| Total assets | 2,911.4 | 2,819.5 | 2,924.2 |

(1) Unallocated principally relates to central costs.

3. Exchange rates

The exchange rates used in these interim financial statements for the translation of UK pound sterling transactions and balances into US dollars are as follows:

| | May 1, 2010 | May 2, 2009 | January 30, 2010 |
|---------------------------------|----------------|----------------|---------------------|
| Income statement (average rate) | 1.53 | 1.45 | 1.59 |
| Balance sheet (closing rate) | 1.53 | 1.49 | 1.60 |

4. Taxation

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 after October 29, 2005 and is subject to examination by the UK tax authority for tax years after January 31, 2005.

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

As of January 30, 2010, Signet had approximately \$14.9 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 weeks ended May 1, 2010.

Signet recognizes accrued interest and, where appropriate, penalties related to unrecognized tax benefits within income tax expense. As of January 30, 2010 Signet had accrued interest of \$2.2 million and there has been no material change in the amount of accrued interest as of May 1, 2010.

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 January 30, 2010, due to settlement of the uncertain tax positions with the tax authorities.

Table of Contents**Notes to the interim unaudited condensed consolidated financial statements (Continued)****5. Earnings per share**

| | 13 weeks ended May 1, 2010 | 13 weeks ended May 2, 2009 |
|--|----------------------------------|----------------------------------|
| Net income (\$million) | 52.0 | 26.3 |
| Basic weighted average number of shares in issue (million) | 85.5 | 85.2 |
| Dilutive effect of share options (million) | 0.7 | 0.2 |
| Diluted weighted average number of shares in issue (million) | 86.2 | 85.4 |
| Earnings per share basic | \$ 0.61 | \$ 0.31 |
| Earnings per share diluted | \$ 0.60 | \$ 0.31 |

The basic weighted average number of shares excludes shares held by the Employee Stock Ownership Trust as such shares are not considered outstanding and do not qualify for dividends. The effect of this is to reduce the average number of shares in the 13 week period ended May 1, 2010 by 19,175 shares (13 week period ended May 2, 2009: 81,951 shares). The calculation of fully diluted earnings per share for the 13 week period ended May 1, 2010 excludes options to purchase 985,817 shares (13 week period ended May 2, 2009: 3,162,191 share options) on the basis that their effect on earnings per share was anti-dilutive.

6. Inventories

| | May 1, 2010 \$million | May 2, 2009 \$million | January 30, 2010 \$million |
|-----------------|-----------------------------|-----------------------------|----------------------------------|
| Raw materials | 4.7 | 10.8 | 9.5 |
| Finished goods | 1,117.3 | 1,316.3 | 1,163.6 |
| Total inventory | 1,122.0 | 1,327.1 | 1,173.1 |

7. Deferred revenue

| | May 1, 2010 \$million | May 2, 2009 \$million | January 30, 2010 \$million |
|---------------------------|-----------------------------|-----------------------------|-------------------------------------|
| Warranty deferred revenue | 247.4 | 243.8 | 243.6 |
| Other | 11.6 | 12.1 | 17.4 |
| Total deferred revenue | 259.0 | 255.9 | 261.0 |
| Disclosed as: | | | |
| Current liabilities | 115.9 | 113.5 | 120.1 |
| Non-current liabilities | 143.1 | 142.4 | 140.9 |

| | | | |
|------------------------|--------------|-------|-------|
| Total deferred revenue | 259.0 | 255.9 | 261.0 |
|------------------------|--------------|-------|-------|

Table of Contents**Notes to the interim unaudited condensed consolidated financial statements (Continued)**

| | 13 weeks ended May 1, 2010 \$million | 13 weeks ended May 2, 2009 \$million |
|--|--|--|
| Warranty deferred revenue, beginning of period | 243.6 | 243.1 |
| Warranties sold | 44.8 | 40.2 |
| Revenues recognized | (41.0) | (39.5) |
| Warranty deferred revenue, end of period | 247.4 | 243.8 |

8. Derivative instruments and hedging activities

Signet is exposed to foreign currency exchange risk arising from various currency exposures. Signet enters into forward foreign currency exchange contracts and foreign currency option contracts, principally in US dollars, in order to limit the impact of movements in foreign exchange rates on its forecast foreign currency purchases. The total notional amount of these foreign currency contracts outstanding as at May 1, 2010 was \$31.5 million (May 2, 2009: \$43.6 million; January 30, 2010: \$37.2 million). These contracts have been designated as cash flow hedges and will be settled over the next 14 months (May 2, 2009: 15 months; January 30, 2010: 17 months).

Signet enters into forward purchase contracts, and option purchase contracts for commodities in order to reduce its exposure to significant movements in the price of the underlying precious metal raw material. The total notional amount of commodity contracts outstanding as at May 1, 2010 was \$74.8 million (May 2, 2009: \$88.9 million; January 30, 2010: \$100.0 million). These contracts have been designated as cash flow hedges and will be settled over the next 9 months (May 2, 2009: 9 months; January 30, 2010: 12 months).

For derivatives that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period in which the hedged item affects net income or loss. Gains and losses on derivatives that do not qualify for hedge accounting, together with any hedge ineffectiveness, are recognized immediately in other operating income, net. Signet does not hold derivative contracts for trading purposes.

Foreign currency contracts not designated as cash flow hedges are used to hedge currency flows through Signet's bank accounts to ensure Signet is not exposed to foreign currency exchange risk in its cash and borrowings.

The bank counterparties to the foreign exchange forward contracts expose the Company to credit-related losses in the event of their nonperformance. However, to mitigate that risk, the Company only contracts with counterparties that meet certain minimum requirements under its counterparty risk assessment process. As of May 1, 2010 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:

| | Balance sheet location | Derivative assets | | |
|--|---------------------------|--|--|--|
| | | May 1, 2010 Fair value \$million | May 2, 2009 Fair value \$million | January 30, 2010 Fair value \$million |
| Derivatives designated as hedging instruments: | | | | |
| Foreign currency contracts | Other current assets | 1.6 | 8.0 | 0.6 |
| Commodity contracts | Other current assets | 6.6 | 5.4 | 2.4 |

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

| | | | |
|--|------------|----------------------|-----|
| | 8.2 | 13.4 | 3.0 |
| Derivatives not designated as hedging instruments: | | | |
| Foreign currency contracts | | Other current assets | |
| Total derivative assets | 8.2 | 13.4 | 3.0 |

Table of Contents**Notes to the interim unaudited condensed consolidated financial statements (Continued)**

| | Balance sheet location | Derivative assets | | January 30, 2010 Fair value \$million |
|---|---------------------------|--|--|---|
| | | May 1, 2010 Fair value \$million | May 2, 2009 Fair value \$million | |
| Derivatives designated as hedging instruments: | | | | |
| Foreign currency contracts | Other current liabilities | | (0.1) | (0.4) |
| Commodity contracts | Other current liabilities | | (1.5) | (1.6) |
| | | | (1.6) | (2.0) |
| Derivatives not designated as hedging instruments: | | | | |
| Foreign currency contracts | Other current liabilities | | | |
| Total derivative liabilities | | | | |
| | | | (1.6) | (2.0) |

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

| | Amount of gain/(loss) recognized in OCI on derivatives (Effective portion) | | 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 May 1, 2010 | 13 weeks ended May 2, 2009 | | 13 weeks ended May 1, 2010 | 13 weeks ended May 2, 2009 |
| | \$million | \$million | | \$million | \$million |
| Derivatives in cash flow hedging relationships: | | | | | |
| Foreign currency contracts | 1.8 | 0.6 | Cost of sales | 1.4 | 0.1 |
| Commodity contracts | 8.1 | (4.2) | Cost of sales | 3.3 | (1.4) |
| Total | 9.9 | (3.6) | | 4.7 | (1.3) |

The ineffective portion of hedging instruments taken to other operating income, net was \$nil in the current and comparative periods.

There was no gain or loss recognized on derivatives not designated as hedging instruments to be reported within other operating income in the income statement in the current and comparative periods.

The estimated fair value of Signet's financial instruments held or issued to finance Signet's operations is summarized below. Certain estimates and judgments were required to develop the fair value amounts. The fair value amounts shown below are not necessarily indicative of the amounts that Signet would realize upon disposition nor do they indicate Signet's intent or ability to dispose of the financial instrument. Assets and liabilities that are carried at fair value are required to be classified and disclosed in one of the following three categories:

Level 1 - quoted market prices in active markets for identical assets and liabilities

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

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

Level 3 - unobservable inputs that are not corroborated by market data

Table of Contents**Notes to the interim unaudited condensed consolidated financial statements (Continued)**

Signet determines fair value based upon quoted prices when available or through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment. The methods Signet uses to determine fair value on an instrument-specific basis are detailed below:

| | May 1, 2010 \$million | | May 2, 2009 \$million | | January 30, 2010 \$million | |
|--|--------------------------|---|--------------------------|---|-------------------------------|---|
| | Carrying Value | Significant other observable inputs (Level 2) | Carrying Value | Significant other observable inputs (Level 2) | Carrying Value | Significant other observable inputs (Level 2) |
| Assets: | | | | | | |
| Forward foreign currency contracts and swaps | 1.6 | 1.6 | 8.0 | 8.0 | 0.6 | 0.6 |
| Forward commodity contracts | 6.6 | 6.6 | 5.4 | 5.4 | 2.4 | 2.4 |
| Liabilities: | | | | | | |
| Borrowings | (276.3) | (307.6) | (359.4) | (354.1) | (324.1) | (371.3) |
| Forward foreign currency contracts and swaps | | | (0.1) | (0.1) | (0.4) | (0.4) |
| Forward commodity contracts | | | (1.5) | (1.5) | (1.6) | (1.6) |

The fair value of derivative financial instruments has been determined based on market value equivalents at the balance sheet date, taking into account the current interest rate environment, current foreign currency forward rates or current commodity forward rates. These are held as assets and liabilities within other receivables and other payables, and all contracts have a maturity of less than eighteen months. Signet's long-term debt consists of \$229.1 million of fixed rate investor certificate notes (Private Placement Notes) under a Note Purchase Agreement. The fair value of this debt is determined by discounting to present value the known future coupon and final Note redemption amounts at market yields as of the balance sheet date. The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities approximate fair value because of the short term maturity of these amounts.

9. Pensions

Signet operates a defined benefit pension scheme in the UK (the Group Scheme). The components of net periodic pension cost were as follows:

| | 13 weeks ended May 1, 2010 \$million | 13 weeks ended May 2, 2009 \$million | Fiscal 2010 \$million |
|---|--|--|-----------------------------|
| Components of net periodic benefit cost: | | | |
| Service cost | 1.3 | 1.0 | 4.3 |
| Interest cost | 2.5 | 2.4 | 10.7 |
| Expected return on Group Scheme assets | (3.0) | (2.6) | (11.2) |
| Amortization of unrecognized prior service cost | (0.3) | (0.2) | (1.0) |
| Amortization of unrecognized actuarial loss | 1.2 | 1.1 | 4.7 |
| Net periodic benefit cost | 1.7 | 1.7 | 7.5 |

Signet expects to contribute a minimum of \$15.2 million to the Group Scheme in fiscal 2011.

10. Commitments and contingencies

Legal proceedings

In March 2008, private plaintiffs filed a class action lawsuit for an unspecified amount against Sterling Jewelers Inc. (Sterling), a subsidiary of Signet, in the U.S. District Court for the Southern District of New York federal court alleging that US store-level employment practices are discriminatory as to compensation and promotional activities. On September 23, 2008, the US Equal Employment Opportunities Commission (EEOC) filed a lawsuit against Sterling in the U.S. District Court for the Western District of New York. The EEOC s lawsuit alleges that Sterling engaged in a pattern or practice of gender discrimination with respect to pay and promotions of female retail store employees from January 1, 2003 to the present. The EEOC asserts claims for unspecified monetary relief and non-monetary relief against the Company on behalf of a class of female employees subjected to these alleged practices. Sterling denies the allegations from both parties and intends to defend them vigorously.

Table of Contents

Notes to the interim unaudited condensed consolidated financial statements (Continued)

11. Share-based compensation expense

Signet recorded net share-based compensation expense of \$2.3 million and \$0.7 million for the 13 weeks ended May 1, 2010 and May 2, 2009. This is after charging \$0.1 million (13 weeks ended May 2, 2009: \$nil) that relates to the change in fair value during the period of certain awards that have an inflation condition and are accounted for as liability awards.

12. Long-term debt

In accordance with its borrowing agreements, Signet made a prepayment to its private placement note holders on March 9, 2010 of \$50.9 million. Following this prepayment there were \$229.1 million of private placement notes outstanding. A change was agreed with Signet's Revolving Credit Facility banking group that the facility would be reduced to \$300 million from \$370 million on March 19, 2010.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains statements which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, based upon management's beliefs and expectations as well as on assumptions made by and data currently available to management, appear in a number of places throughout this document and include statements regarding, among other things, our results of operation, financial condition, liquidity, prospects, growth, strategies and the industry in which Signet operates. The use of the words expects, intends, anticipates, estimates, predicts, believes, should, potential, may, forecast, objective, plan or expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including but not limited to general economic conditions, the merchandising, pricing and inventory policies followed by Signet, the reputation of Signet and its brands, the level of competition in the jewelry sector, the cost and availability of diamonds, gold and other precious metals, regulations relating to consumer credit, seasonality of Signet's business and financial market risks.

For a discussion of these and other risks and uncertainties which could cause actual results to differ materially, see the Risk Factors section of Signet's fiscal 2010 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on March 30, 2010. Actual results may differ materially from those anticipated in such forward-looking statements. Signet undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by law.

Our business

Signet is the world's largest specialty retail jeweler by sales, with stores in the US, UK, Republic of Ireland and Channel Islands. Signet manages its business as two geographical segments, being the UK and the US.

In the US, Signet operated 1,354 stores in 50 states at May 1, 2010. Its stores trade nationally in malls and off-mall locations as Kay Jewelers (Kay), and regionally under a number of well-established mall-based brands. Destination superstores trade nationwide as Jared The Galleria Of Jewelry (Jared).

In the UK, the stores trade as H.Samuel, Ernest Jones and Leslie Davis, and are situated in prime High Street locations (main shopping thoroughfares with high pedestrian traffic) or major shopping malls. The UK division operated 550 stores at May 1, 2010, including 14 stores in the Republic of Ireland and 3 in the Channel Islands.

Table of Contents

Overview

First quarter fiscal 2011 highlights⁽¹⁾

Same store sales: up 5.8%

Total sales: \$810.0 million, up 6.2% and 5.2% at constant exchange rates⁽²⁾

Income before income taxes: \$76.8 million, up 85.5%

Basic and diluted earnings per share: \$0.61 and \$0.60, up 96.8% and 93.5%

Free cash flow now expected to be towards the top end of the anticipated \$150 million to \$200 million range for fiscal 2011⁽²⁾

(1) Fiscal 2010 is the year ended January 30, 2010 and fiscal 2011 is the year ending January 29, 2011.

(2) Non-GAAP measure, see below.

The following discussion should be read in conjunction with the Financial Statements and the related notes in Part I of this Form 10-Q as well as the financial and other information included in Signet's fiscal 2010 Annual Report on Form 10-K.

Non-GAAP measures

A number of non-GAAP measures are used by management to analyze and manage the performance of the business, and the required disclosures for these non-GAAP measures are given below. Management does not, nor does it suggest investors should consider such non-GAAP measures in isolation from, or in substitute for, information prepared in accordance with GAAP.

Exchange translation impact

In particular, Signet has historically used constant exchange rates to compare period-to-period changes in certain financial data. Management considers this a useful measure for analyzing and explaining changes and trends in Signet's results. The impact of the re-calculation of sales; cost of sales; gross margin; selling, general and administrative expenses; operating income; income before taxes; net income and earnings per share at constant exchange rates, including a reconciliation to Signet's GAAP results, is analyzed below.

| | 13 weeks ended May 1, 2010 \$million | 13 weeks ended May 2, 2009 \$million | Change as reported % | Impact of exchange rate movement \$million | At constant exchange rates (non-GAAP) \$million | Change at constant exchange rates (non-GAAP) % |
|---------------|--|--|-------------------------------|--|---|---|
| US sales | 667.1 | 624.9 | 6.8% | | 624.9 | 6.8% |
| UK sales | 142.9 | 137.7 | 3.8% | 7.6 | 145.3 | (1.7)% |
| Sales | 810.0 | 762.6 | 6.2% | 7.6 | 770.2 | 5.2% |
| Cost of sales | (513.7) | (507.1) | 1.3% | (5.5) | (512.6) | 0.2% |

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

| | | | | | | |
|--|----------------|---------|---------|-------|---------|---------|
| Gross margin | 296.3 | 255.5 | 16.0% | 2.1 | 257.6 | 15.0% |
| Selling, general and administrative expenses | (238.5) | (232.8) | 2.4% | (2.3) | (235.1) | 1.4% |
| Other operating income, net | 27.7 | 29.7 | (6.7)% | | 29.7 | (6.7)% |
| Operating income, net | 85.5 | 52.4 | 63.2% | (0.2) | 52.2 | 63.8% |
| Interest income | 0.1 | 0.6 | (83.3)% | | 0.6 | (83.3)% |
| Interest expense | (8.8) | (11.6) | (24.1)% | | (11.6) | (24.1)% |
| Income before income taxes | 76.8 | 41.4 | 85.5% | (0.2) | 41.2 | 86.4% |
| Income taxes | (24.8) | (15.1) | 64.2% | 0.1 | (15.0) | 65.3% |
| Net income | 52.0 | 26.3 | 97.7% | (0.1) | 26.2 | 98.5% |
| Earnings per share basic | \$ 0.61 | \$ 0.31 | 96.8% | | \$ 0.31 | 96.8% |
| Earnings per share diluted | \$ 0.60 | \$ 0.31 | 93.5% | | \$ 0.31 | 93.5% |

Table of Contents

| | 13 weeks ended May 1, 2010 \$million | 13 weeks ended May 2, 2009 \$million | Change as reported % | Impact of exchange rate movement \$million | At constant exchange rates (non-GAAP) \$million | Change at constant exchange rates (non-GAAP) % |
|-------------------------------------|---|---|-------------------------------|--|---|---|
| Operating income/(loss), net | | | | | | |
| US | 91.1 | 56.4 | 61.5% | | 56.4 | 61.5% |
| UK | (1.4) | (1.3) | 7.7% | (0.1) | (1.4) | |
| Unallocated | (4.2) | (2.7) | 55.6% | (0.1) | (2.8) | 50.0% |
| Operating income, net | 85.5 | 52.4 | 63.2% | (0.2) | 52.2 | 63.8% |

Net income adjusted for non-cash items

Net income adjusted for non-cash items shows the amount of net cash flow generated from Signet's operating activities before changes in operating assets and liabilities. It is a useful measure to summarize the cash generated from activities reported in the income statement.

Net cash or net debt

Net cash or net debt is the total of loans and overdrafts, long term debt and cash and cash equivalents, and it is helpful in providing a measure of indebtedness of the business.

| | May 1, 2010 \$million | May 2, 2009 \$million | January 30, 2010 \$million |
|---------------------------|-----------------------------|-----------------------------|----------------------------------|
| Long-term debt | (229.1) | (280.0) | (280.0) |
| Loans and overdrafts | (47.2) | (79.4) | (44.1) |
| | (276.3) | (359.4) | (324.1) |
| Cash and cash equivalents | 447.1 | 69.2 | 316.2 |
| Net cash/(net debt) | 170.8 | (290.2) | (7.9) |

Free cash flow

Free cash flow is a non-GAAP measure defined as the net cash provided by operating activities less net cash flows used in investing activities. Management considers that it is helpful in understanding how the business is generating cash from its operating and investing activities that can be used to meet the financing needs of the business. Free cash flow does not represent the residual cash flow available for discretionary expenditure.

| | 13 weeks ended May 1, 2010 \$million | 13 weeks ended May 2, 2009 \$million |
|---|--|--|
| Net cash provided by operating activities | 184.2 | 198.0 |
| Net cash flows used in investing activities | (6.3) | (8.4) |

Free cash flow

177.9

189.6

RESULTS OF OPERATIONS

Quarterly performance

During the first quarter Signet made good progress towards achieving its financial objectives for fiscal 2011. These are:

\$150 million to \$200 million positive free cash flow;

Capital expenditure of about \$80 million;

Controllable costs⁽¹⁾ to be little changed from fiscal 2010 at constant exchange rates.

Table of Contents

(1) Controllable costs exclude net bad debt charge, expense movements resulting from sales variance to plan, the impact of amendments to the Truth In Lending Act and the US vacation entitlement policy change in fiscal 2010. Certain operating data as a percentage of sales were as follows:

| | First quarter | |
|--|------------------|------------------|
| | Fiscal 2011 % | Fiscal 2010 % |
| Net sales | 100.0 | 100.0 |
| Cost of sales | (63.4) | (66.5) |
| Gross profit | 36.6 | 33.5 |
| Selling, general and administrative expenses | (29.4) | (30.5) |
| Other operating income | 3.4 | 3.9 |
| Operating income, net | 10.6 | 6.9 |
| Net financing costs | (1.1) | (1.5) |
| Income before income taxes | 9.5 | 5.4 |
| Income taxes | (3.1) | (2.0) |
| Net income | 6.4 | 3.4 |

Sales

Same store sales were up 5.8%, an encouraging start to fiscal 2011. Total sales rose by 6.2% to \$810.0 million (13 weeks to May 2, 2009: \$762.6 million), reflecting an underlying increase of 5.2% at constant exchange rates; non-GAAP measure see page 13. The breakdown of the performance was as follows:

| | US | UK | Signet |
|---------------------------------------|------------|------------|------------|
| Sales, million | \$ 667.1 | \$ 142.9 | \$ 810.0 |
| % of total | 82.4% | 17.6% | 100.0% |
| Change in sales | % | % | % |
| Same store sales | 7.2 | (0.2) | 5.8 |
| Change in net store space | (0.4) | (1.5) | (0.6) |
| Change at constant exchange rates | 6.8 | (1.7) | 5.2 |
| Exchange translation ⁽¹⁾ | | 5.5 | 1.0 |
| Total sales growth as reported | 6.8 | 3.8 | 6.2 |

(1) The average pound sterling to US dollar exchange rate was £1/\$1.53 (13 weeks to May 2, 2009: £1/\$1.45).

US sales

The US division's sales were up by 6.8% to \$667.1 million (13 weeks to May 2, 2009: \$624.9 million), see table below for analysis.

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

| First quarter fiscal 2011 | Sales | Average unit selling price | Change from previous year | | Average unit selling price |
|---------------------------|------------------|-----------------------------|---------------------------|------------------|----------------------------|
| | | | Total sales | Same store sales | |
| Kay | \$ 386.8m | \$ 322 | 4.0% | 4.2% | 6.0% |
| Regional brands | \$ 76.9m | \$ 339 | (6.4)% | 2.7% | (1.4)% |
| Jared | \$ 203.4m | \$ 741 ⁽¹⁾ | 19.0% | 15.8% | 2.9% ⁽¹⁾ |
| US | \$ 667.1m | \$ 380⁽¹⁾ | 6.8% | 7.2% | 5.1%⁽¹⁾ |

(1) Excludes the charm bracelet category.

Table of Contents

While the wider economic environment in the US remains challenging, the division continued to benefit from both its sustainable competitive advantages, as many competitors are financially constrained, and the accelerated level of capacity reduction within the sector in recent years. Kay achieved a further increase in same store sales. Jared's sales increase reflected a continued recovery in expenditure among households with above average incomes, and the impact of merchandising initiatives. Set out above is the sales performance by format. In the US division average selling price rose by 5.1%, excluding the charm bracelet category in Jared, as a result of changes in mix and selective price increases.

UK sales

UK division's sales were up by 3.8% to \$142.9 million (13 weeks to May 2, 2009: \$137.7 million). Same store sales were down 0.2%, see table below for analysis.

| First quarter fiscal 2011 | Sales | Average unit selling price ⁽¹⁾ | Change from previous year | | | Average unit selling price |
|---------------------------|------------------|---|---------------------------|---|------------------|----------------------------|
| | | | Total sales | Sales at constant exchange rates ⁽²⁾ | Same store sales | |
| H.Samuel | \$ 74.5m | £ 54 | 2.2% | (3.1)% | (2.1)% | 5.9% |
| Ernest Jones | \$ 68.4m | £ 253 ⁽³⁾ | 7.0% | 1.4% | 1.8% | 11.6% ⁽³⁾ |
| UK | \$ 142.9m | £ 89⁽³⁾ | 3.8% | (1.7)% | (0.2)% | 11.3%⁽³⁾ |

(1) The average unit selling price for H.Samuel was \$82, for Ernest Jones was \$387⁽³⁾ and for the UK division was \$136⁽³⁾.

(2) Non-GAAP measure, see page 13.

(3) Excludes the charm bracelet category.

The general economic environment during the quarter in the UK was more challenging than in the US, with uncertainty related to the general election having a detrimental impact on consumer confidence. H.Samuel's same store sales were lower than the comparable quarter in fiscal 2010, while those of Ernest Jones were better. The charm bracelet category again performed well.

In the first quarter of fiscal 2011, the average unit selling price in the UK division rose by 11.3%, excluding the charm bracelet category in Ernest Jones. This reflected higher prices and merchandise mix changes.

Change in gross and operating margin

| | US % | UK % | Signet % |
|--|-------------|--------------|---------------------------|
| Q1 fiscal 2010 operating margin | 9.0 | (0.9) | 6.9⁽¹⁾ |
| Gross merchandise margin movement | 0.9 | (1.0) | 0.5 |
| Net bad debt movement | 1.2 | | 1.0 |
| Leverage, primarily of store occupancy costs | 1.7 | 0.5 | 1.6 |
| Gross margin | 3.8 | (0.5) | 3.1 |
| Selling, general & administrative expenses | 1.4 | 0.2 | 1.0 |
| Other operating income | (0.5) | 0.2 | (0.4) |
| Q1 fiscal 2011 operating margin | 13.7 | (1.0) | 10.6⁽¹⁾ |

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

(1) Includes unallocated costs, principally central costs.

Gross margin

Gross margin was \$296.3 million (13 weeks to May 2, 2009: \$255.5 million), up by 16.0% and by 15.0% at constant exchange rates; non-GAAP measure, see page 13. Gross margin rate increased by 310 basis points, the factors influencing the change are set out in the table above.

US gross merchandise margin was up 90 basis points, benefitting from price increases implemented during the quarter, lower average diamond inventory costs and favorable changes in the sales mix, offsetting a higher cost of gold. As a result of higher than anticipated diamond and gold costs, it is now expected that the US division's gross merchandise margin for fiscal 2011 will be broadly similar to the level of fiscal 2010, however this remains subject to future movements in commodity costs.

Credit participation was little changed at 51.6% (13 weeks to May 2, 2009: 51.2%). The net bad debt to total sales ratio was down by 120 basis points over the comparable period in fiscal 2010, with an underlying improvement in performance being evident.

In the UK division, gross merchandise margin declined by 100 basis points, with an increase in the cost of gold, a higher value added tax rate and the impact of the weak pound sterling to US dollar exchange rate being partly offset by price changes. It

Table of Contents

continues to be anticipated that the UK division's gross merchandise margin for fiscal 2011 will be somewhat lower than that of fiscal 2010, subject to future movements in commodity costs, exchange rates, and the value added tax rate, all potentially mitigated by possible price increases.

Selling, general and administrative expenses

Selling, general and administrative expenses benefited from a further small decrease in controllable costs. US costs continued to be tightly managed and controllable expenses were slightly below last year, with a small benefit from the fiscal 2010 cost saving program continuing into the first quarter of fiscal 2011. The additional impact of the cost saving program in the balance of fiscal 2011 is expected to be minimal. In sterling terms, UK controllable costs were slightly lower.

Other operating income

Other operating income decreased by 6.7% to \$27.7 million (13 weeks to May 2, 2009: \$29.7 million) as a result of the comparable prior year figure including a gain on foreign exchange of \$0.9 million and some of the unfavorable impact of the amendments to the Truth In Lending Act.

Operating income

Operating income increased by 63.2% to \$85.5 million (13 weeks to May 2, 2009: \$52.4 million which included a \$4.0 million non-recurring, favorable impact from a change in US vacation entitlement policy), up 63.8% at constant exchange rates; non-GAAP measure, see page 13. Operating margin was 10.6% (13 weeks to May 2, 2009: 6.9%), the factors influencing the change in operating margin are set out in the table on page 16.

US operating income increased by 61.5% to \$91.1 million (13 weeks to May 2, 2009: \$56.4 million, which included a \$4.0 million non-recurring, favorable impact from the change in vacation entitlement policy). The operating margin was 13.7% (13 weeks to May 2, 2009: 9.0%), see table on page 16 for an analysis of the movement in operating margin.

In the UK division there was an operating loss of \$1.4 million (13 weeks to May 2, 2009: \$1.3 million loss), see table on page 16 for an analysis of the movement in operating margin.

Unallocated costs, principally central costs, were \$4.2 million (13 weeks to May 2, 2009: \$2.7 million), reflecting the impact of the change in the average exchange translation rate and a gain on foreign exchange in the comparable prior year period.

Interest income and expense

Interest income was \$0.1 million (13 weeks to May 2, 2009: \$0.6 million). Interest expense of \$8.8 million (13 weeks to May 2, 2009: \$11.6 million) benefitted from the repayment of debt and lower fees.

Income before income taxes

Income before income tax rose by 85.5% to \$76.8 million (13 weeks to May 2, 2009: \$41.4 million).

Provision for income taxes

The charge to income taxes in the first quarter was \$24.8 million (13 weeks to May 2, 2009: \$15.1 million), an effective tax rate of 32.3% (13 weeks to May 2, 2009: 36.5%), which is the anticipated rate for fiscal 2011 and similar to the annual rate for fiscal 2010.

Earnings per share

Basic and diluted earnings per share increased by 96.8% and 93.5% to \$0.61 and \$0.60 respectively (13 weeks to May 2, 2009: basic and diluted \$0.31).

Table of Contents**LIQUITY AND CAPITAL RESOURCES**

Set out below is a summary of Signet's cash flows for the first quarters of fiscal 2011 and fiscal 2010:

| | First quarter | |
|--|-----------------------------|-----------------------------|
| | Fiscal 2011 \$million | Fiscal 2010 \$million |
| Net income | 52.0 | 26.3 |
| Adjustments to reconcile net income to net cash provided by operations | 32.7 | 36.8 |
| Net income adjusted for non-cash items ⁽¹⁾ | 84.7 | 63.1 |
| Changes in operating assets and liabilities | 99.5 | 134.9 |
| Net cash provided by operating activities | 184.2 | 198.0 |
| Net cash flows used in investing activities | (6.3) | (8.4) |
| Free cash flow ⁽¹⁾ | 177.9 | 189.6 |
| Facility fees | (1.0) | (8.4) |
| Net change in Common Shares ⁽²⁾ | 0.8 | |
| | 177.7 | 181.2 |
| (Repayment)/proceeds of debt during period ⁽³⁾ | (47.8) | (209.2) |
| Increase/(decrease) in cash and cash equivalents | 129.9 | (28.0) |

(1) Non-GAAP measure; see page 14.

(2) Proceeds from issuance of Common Shares less purchase of treasury shares.

(3) Proceeds from short term borrowings less repayments of long term debt.

| | First quarter | |
|---|-----------------------------|-----------------------------|
| | Fiscal 2011 \$million | Fiscal 2010 \$million |
| Reconciliation of changes in net debt⁽¹⁾ | | |
| Repayment/(proceeds) of debt during period ⁽²⁾ | 47.8 | 209.2 |
| Increase/(decrease) in cash and cash equivalents | 129.9 | (28.0) |
| Change in net debt during the period | 177.7 | 181.2 |
| Net debt at start of period | (7.9) | (470.7) |
| Net cash/(net debt) at end of period before effect of exchange rate changes | 169.8 | (289.5) |
| Effect of exchange rate changes on cash & cash equivalents | 1.0 | 0.4 |
| Effect of exchange rate changes on debt | | (1.1) |
| Net cash/(net debt) ⁽¹⁾ | 170.8 | (290.2) |

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

- (1) Non-GAAP measure; see page 14.
- (2) Proceeds from short term borrowings less repayments of long term debt.

Operating activities

Net income adjusted for non-cash items increased by \$21.6 million to \$84.7 million (13 weeks to May 2, 2009: \$63.1 million); non-GAAP measure; see page 14. Changes in operating assets and liabilities generated cash flows of \$99.5 million (13 weeks to May 2, 2009: \$134.9 million). Inventories decreased by \$38.9 million (13 weeks to May 2, 2009: \$43.2 million decrease) as a result of a better than expected sales performance, store closures and timing differences that are expected to reverse in subsequent quarters. Accounts receivable decreased by \$55.1 million (13 weeks to May 2, 2009: \$55.3 million decline), reflecting a higher opening level of receivables and an improvement in collection rate offset by higher sales in the first quarter of fiscal 2011.

Investing activities

Net cash flow used in investing activities was \$6.3 million (13 weeks to May 2, 2009: \$8.4 million), the US division was \$5.3 million (13 weeks to May 2, 2009: \$7.0 million and the UK division was \$1.0 million (13 weeks to May 2, 2009: \$1.4 million). Capital expenditure for fiscal 2011 continues to be planned to be about \$80 million, a level broadly consistent with maintenance capital expenditure. Changes in operating assets and liabilities, and investing activities, due to new US space were \$2.2 million and \$1.1 million respectively.

Table of Contents*Free cash flow*

Positive free cash flow was \$177.9 million in the 13 weeks to May 1, 2010 (13 weeks to May 2, 2009: \$189.6 million); non-GAAP measure, see page 14. At May 1, 2010, Signet was in compliance with all debt covenants.

For fiscal 2011, positive free cash flow is now expected to be towards the top end of the anticipated \$150 million to \$200 million range, subject to general economic conditions.

Financing activities

In the 13 weeks to May 1, 2010, a sum of \$0.8 million (13 weeks to May 2, 2009: nil) was received for the issuance of Common Shares pursuant to Signet's equity compensation programs.

Movement in cash and indebtedness

Debt at May 1, 2010 was \$276.3 million (May 2, 2009: \$359.4 million), with cash and cash equivalents of \$447.1 million (May 2, 2009: \$69.2 million). Net cash at May 1, 2010 was \$170.8 million (May 2, 2009: \$290.2 million net debt); non-GAAP measure, see page 14. During the first quarter of fiscal 2011, there was a prepayment at par of \$50.9 million of the private placement notes. In addition, a change was agreed with Signet's revolving credit facility banking group that the facility be reduced to \$300 million from \$370 million. The facility was undrawn at May 1, 2010 (May 2, 2009: \$40.0 million).

Fiscal 2011 Outlook

While some of the amendments to the Truth In Lending Act were implemented on February 22, 2010, their full impact on fiscal 2011 remains uncertain and continues to have an expected net direct adverse impact on operating income in the \$15 million to \$20 million range for the year.

Stores opened and closed in the quarter, together with planned changes for the balance of fiscal 2011 are set out below.

| | Kay mall | Kay Off-mall | Regionals | Jared ⁽¹⁾ | Total | Annual net space change |
|-------------------------|-------------|-----------------|------------|----------------------|--------------|----------------------------|
| January 30, 2010 | 794 | 129 | 260 | 178 | 1,361 | (1)% |
| Opened | | | | 1 | 1 | |
| Closed | (4) | (2) | (2) | | (8) | |
| May 1, 2010 | 790 | 127 | 258 | 179 | 1,354 | |
| Openings, planned | 5 | 2 | | 1 | 8 | |
| Closures, forecast | (7) | (2) | (34) | | (43) | |
| January 29, 2011 | 788 | 127 | 224 | 180 | 1,319 | (2)% |

(1) A Jared store is equivalent in size to just over four mall stores.

| | H.Samuel | Ernest Jones ⁽¹⁾ | Total |
|-------------------------|------------|-----------------------------|------------|
| January 30, 2010 | 347 | 205 | 552 |
| Opened | | | |
| Closed | (1) | (1) | (2) |
| May 1, 2010 | 346 | 204 | 550 |
| Openings, planned | | | |

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

| | | | |
|-------------------------|------------|------------|------------|
| Closures, forecast | (8) | (5) | (13) |
| January 29, 2011 | 338 | 199 | 537 |

(1) Includes stores trading as Leslie Davis.

OBLIGATIONS AND COMMITMENTS

The Company's contractual cash obligations and commercial commitments at May 1, 2010 and the effects such obligations and commitments are expected to have on the Company's liquidity and cash flows in future periods have not changed materially since January 30, 2010.

Table of Contents

SEASONALITY

Signet's business is highly seasonal with a very significant proportion of its sales and operating profit generated during its fourth quarter, which includes the Christmas season. Management expects such a seasonal fluctuation in sales and profit to continue. Therefore, operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements of a multinational organization. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information. There have been no material changes to the policies and estimates as discussed in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

As certain of the UK division's purchases are denominated in US dollars and its net cash flows are in sterling, the Company's policy is to enter into foreign currency forward exchange contracts and foreign currency swaps to manage the exposure to the US dollar. The Company also hedges a significant portion of forecasted merchandise purchases using commodity forward contracts. These contracts are entered into with large, reputable financial institutions, thereby minimizing the credit exposure from our counter-parties.

The interest rates earned on cash and cash equivalents will fluctuate in line with short-term interest rates.

The Company's market risk profile as of May 1, 2010 has not materially changed since January 30, 2010. The market risk profile as of January 30, 2010 is disclosed in Signet's fiscal 2010 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended. Based on this review, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of May 1, 2010.

Changes in Internal Control Over Financial Reporting

During the first quarter of fiscal 2011, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

Information regarding legal proceedings is incorporated by reference from Note 10 of the Financial Statements set forth in Part I of this Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of Signet's fiscal 2010 Annual Report on Form 10-K.

Table of Contents

ITEM 6. EXHIBITS

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

| Number | Description of Exhibits |
|---------------|---|
| 10.1 | Employment Agreement, dated April 12, 2010, between Sterling Jewelers, Inc. and Ronald W. Ristau (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed April 15, 2010). |
| 31.1* | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. |

* Filed herewith

SIGNATURE

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

SIGNET JEWELERS LIMITED
(Registrant)

By: /s/ Walker Boyd

Walker Boyd

Group Finance Director

(Principal Financial Officer)

June 1, 2010