

SIGNET JEWELERS LTD
Form 8-K
August 26, 2010

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

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):26-08-2010

SIGNET JEWELERS LIMITED
(Exact name of registrant as specified in its charter)

Commission File Number: 1-32349

Bermuda
(State or other jurisdiction of
incorporation)

(IRS Employer
Identification No.)

**Clarendon House
2 Church Street
Hamilton
HM11
Bermuda**
(Address of principal executive offices, including zip code)

441 296 5872
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item No. 2.02 - 2nd Quarter Results
Item 7.01 Regulation FD Disclosure

Item 2.02 2nd Quarter Results

Signet Reports Second Quarter Results

HAMILTON, Bermuda, August 26, 2010 – Signet Jewelers Limited (“Signet”) (NYSE and LSE: SIG), the world’s largest specialty retail jeweler, today announced its results for the 13 weeks (“second quarter”) and 26 weeks (“year to date”) ended July 31, 2010.

Second Quarter Highlights:

- Same store sales: up 4.5%
- Income before income taxes: \$57.3 million, up 48.8%
- Basic and diluted earnings per share: \$0.47, up 46.9%
- Free cash flow¹ target range increased by \$75 million, to between \$225 million and \$275 million for Fiscal 2011²

1 Net cash provided by operating activities less net cash flows used in investing activities.

2 Fiscal 2010 is the 52 weeks ended January 30, 2010 and Fiscal 2011 is the 52 weeks ending January 29, 2011.

Terry Burman, Chief Executive of Signet, commented: “We are pleased with our performance in the second quarter. We have made further progress in achieving our operating and financial goals for Fiscal 2011 and have increased our target range for free cash flow in Fiscal 2011 by \$75 million to between \$225 million and \$275 million.

The outlook for the rest of Fiscal 2011 is uncertain. However, we will continue to invest in the business, increase advertising during the Holiday Season and expand further the availability of differentiated merchandise, in an effort to continue to gain profitable market share.”

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Signet is the world’s largest specialty retail jeweler and operated 1,893 stores at July 31, 2010; these included 1,345 stores in the US, where it trades as “Kay Jewelers,” “Jared The Galleria Of Jewelry” and under a number of regional names. At that date Signet also operated 548 stores in the UK division, where it trades as “H.Samuel,” “Ernest Jones” and “Leslie Davis.” Further information on Signet is available at www.signetjewelers.com. See also www.kay.com, www.jared.com, www.hsamuel.co.uk and www.ernestjones.co.uk.

Conference call

There will be a conference call today at 8.30 a.m. EDT (1.30 p.m. BST and 5.30 a.m. Pacific Time) and a simultaneous audio webcast and slide presentation available at www.signetjewelers.com. The slides are available to be

downloaded from the website ahead of the conference call. To help ensure the conference call begins in a timely manner, all participants should dial in 5 to 10 minutes prior to the scheduled start time. The call details are:

US dial-in: +1 212 444 0895
 European dial-in: +44 (0)20 7138 0844

US replay until August 30: +1 347 366 9565 Access code: 5455355#
 European replay until August 30: +44 (0)20 7111 1244 Access code: 5455355#

RESULTS OF OPERATIONS

Sales and operating income

Same store sales were up 4.5% in the second quarter and for the year to date the increase was 5.2%. Total sales rose by 1.7% to \$722.8 million in the second quarter (13 weeks to August 1, 2009: \$710.8 million), reflecting an underlying increase of 3.6% at constant exchange rates; non-GAAP measure, see Note 13. In the year to date, total sales rose by 4.0% to \$1,532.8 million (26 weeks to August 1, 2009: \$1,473.4 million). The increase at constant exchange rates was 4.4%; non-GAAP measure, see Note 13. The breakdown of the sales performance is set out in Table 1 below.

Table 1	Second Quarter			Year To Date		
	US	UK	Signet	US	UK	Signet
Sales, million	\$580.8	\$142.0	\$722.8	\$1,247.9	\$284.9	\$1,532.8
% of total	80.4%	19.6%	100.0%	81.4%	18.6%	100.0%
Change in sales	US	UK	Signet	US	UK	Signet
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Same store sales	5.9	(0.5)	4.5	6.6	(0.4)	5.2
Change in store space	<u>(0.8)</u>	<u>(1.5)</u>	<u>(0.9)</u>	<u>(0.6)</u>	<u>(1.4)</u>	<u>(0.8)</u>
Total at constant exchange rates	5.1	(2.0)	3.6	6.0	(1.8)	4.4
Exchange translation ¹	=	<u>(8.3)</u>	<u>(1.9)</u>	=	<u>(2.0)</u>	<u>(0.4)</u>
Change in total sales as reported	<u>5.1</u>	<u>(10.3)</u>	<u>1.7</u>	<u>6.0</u>	<u>(3.8)</u>	<u>4.0</u>

1 See Note 13.

The consumer environment in both the US and the UK remained challenging in the year to date, however the business continued to utilize its competitive advantages to improve sales, enhance margins, and strengthen its balance sheet.

Gross margin was \$239.8 million for the second quarter (13 weeks to August 1, 2009: \$221.5 million) and \$536.1 million for the year to date (26 weeks to August 1, 2009: \$477.0 million), up by 8.3% and by 12.4% respectively. Gross margin rate increased by 200 basis points in the second quarter and by 260 basis points in the year to date, see Table 2 below.

Table 2

	Second Quarter		Year To Date	
	Fiscal 2011	Fiscal 2010	Fiscal 2011	Fiscal 2010

	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Sales	100.0	100.0	100.0	100.0
Cost of sales	<u>(66.8)</u>	<u>(68.8)</u>	<u>(65.0)</u>	<u>(67.6)</u>
Gross margin	33.2	31.2	35.0	32.4
Selling, general and administrative expenses	<u>(28.2)</u>	<u>(28.7)</u>	<u>(28.8)</u>	<u>(29.7)</u>
Other operating income	<u>3.8</u>	<u>4.1</u>	<u>3.5</u>	<u>4.0</u>
Operating income, net	8.8	6.6	9.7	6.7
Net financing costs	<u>(0.9)</u>	<u>(1.2)</u>	<u>(1.0)</u>	<u>(1.3)</u>
Income before income taxes	7.9	5.4	8.7	5.4
Income taxes	<u>(2.3)</u>	<u>(1.5)</u>	<u>(2.7)</u>	<u>(1.7)</u>
Net income	<u>5.6</u>	<u>3.9</u>	<u>6.0</u>	<u>3.7</u>

The gross merchandise margin improved by 70 basis points in the second quarter and by 60 basis points in the year to date, driven by price increases and lower diamond costs, which more than offset the impact of higher gold costs and the weakness of pound sterling against the US dollar. The net bad debt to sales ratio continued the improvement begun in the fourth quarter of Fiscal 2010 in the year to date period, however the opportunity to improve further the ratio in the second half of Fiscal 2011 is more limited.

Selling, general and administrative expenses were \$203.7 million for the second quarter (13 weeks to August 1, 2009: \$203.8 million) and \$442.2 million for the year to date (26 weeks to August 1, 2009: \$436.6 million), unchanged and up by 1.3% respectively. Selling, general and administrative expenses as a percentage of sales decreased by 50 basis points in the second quarter compared to the second quarter of Fiscal 2010 and by 90 basis points in the year to date compared to the comparable period in Fiscal 2010. Tight expense control combined with leverage of selling expenses more than made up for a non-recurring \$6.0 million benefit to expenses in the second quarter of Fiscal 2010 and \$10 million in the 26 weeks to August 1, 2010, due to the change in vacation entitlement policy. An increase in marketing expenditure over the prior year is planned for the fourth quarter of Fiscal 2011.

Other operating income was \$27.2 million in the second quarter (13 weeks to August 1, 2009: \$28.9 million). For the year to date, other operating income was \$54.9 million (26 weeks to August 1, 2009: \$58.6 million). The reduction in both the second quarter and the year to date primarily reflected the adverse impact from the amendments to the Truth in Lending Act.

With all amendments to the Truth in Lending Act having been implemented, a net direct adverse impact on operating income of \$15 million to \$17 million is expected in Fiscal 2011, at the lower end of the previously indicated range.

Operating income increased by 35.8% to \$63.3 million in the second quarter (13 weeks to August 1, 2009: \$46.6 million), up 34.7% at constant exchange rates; non-GAAP measure, see Note 13. In the second quarter, operating margin was 8.8% (13 weeks to August 1, 2009: 6.6%). For the year to date, operating income increased by 50.3% to \$148.8 million (26 weeks to August 1, 2009: \$99.0 million), up 50.0% at constant exchange rates; non-GAAP measure, see Note 13. Operating margin was 9.7% for the year to date (26 weeks to August 1, 2009: 6.7%).

Interest income and expense

Interest income was \$0.2 million for the second quarter (13 weeks to August 1, 2009: \$0.1 million) and \$0.3 million for the year to date (26 weeks to August 1, 2009: \$0.7 million). Very low interest rates meant that the increase in cash

had little impact on interest income. Interest expense declined by \$2.0 million to \$6.2 million for the second quarter (13 weeks to August 1, 2009: \$8.2 million). Interest expense for the year to date was \$15.0 million (26 weeks to August 1, 2009: \$19.8 million). Interest expense largely related to private placement loan notes incurring a blended fixed rate of interest of 8%. Both the second quarter and the year to date benefitted from the repayment of \$50.9 million of loan notes on March 9, 2010, and lower fees.

Income before income taxes

Income before income taxes was \$57.3 million for the second quarter (13 weeks to August 1, 2009: \$38.5 million), an increase of 48.8%. Income before income taxes was \$134.1 million for the year to date (26 weeks to August 1, 2009: \$79.9 million), an increase of 67.8%.

Provision for income taxes

The charge to income taxes in the second quarter was \$16.6 million (13 weeks to August 1, 2009: \$10.9 million), being an effective tax rate of 29.0%, which reflects the recognition of \$4.5 million previously unrecognized tax benefits in the second quarter of Fiscal 2011. The charge to income taxes for the year to date was \$41.4 million (26 weeks to August 1, 2009: \$26.0 million), being an effective tax rate of 30.9%. The anticipated effective tax rate for Fiscal 2011 is 32.5% (Fiscal 2010: 32.1%), which reflects the recognition of the above \$4.5 million unrecognized tax benefits.

Net income

Net income was \$40.7 million for the second quarter (13 weeks to August 1, 2009: \$27.6 million), an increase of 47.5%. Income before income taxes was \$92.7 million for the year to date (26 weeks to August 1, 2009: \$53.9 million), an increase of 72.0%.

Earnings per share

Basic and diluted earnings per share were both \$0.47 for the second quarter (13 weeks to August 1, 2009: both \$0.32), an increase of 46.9%. Basic and diluted earnings per share were \$1.08 and \$1.07 for the year to date (26 weeks to August 1, 2009: both \$0.63), an increase of 71.4% and 69.8% from the comparable prior year period.

LIQUIDITY AND CAPITAL RESOURCES

Table 3

	26 weeks to	
	July 31,	August 1,
	2010	2009
	\$million	\$million
Net income	92.7	53.9
Adjustments to reconcile net income to net cash provided by operations	<u>50.7</u>	<u>68.4</u>
Net income adjusted for non-cash items ¹	143.4	122.3
Changes in operating assets and liabilities	<u>111.2</u>	<u>172.7</u>
Net cash provided by operating activities	254.6	295.0
Net cash flows used in investing activities	<u>(14.4)</u>	<u>(17.5)</u>
Free cash flow ²	240.2	277.5
Facility fees paid	(1.0)	(9.3)
Net change in Common Shares ³	<u>1.0</u>	=
	240.2	268.2

(Net debt) ⁴ at start of period	(7.9)	(470.7)
Effect of exchange rate changes on cash & cash equivalents	(0.8)	2.6
Effect of exchange rate changes on debt	<u>(0.1)</u>	<u>(0.6)</u>
Net cash/(net debt)⁴	<u>231.4</u>	<u>(200.5)</u>

1 Net income adjusted to reconcile net income to cash provided by operations, non-GAAP measure, see Note 13.

2 Net cash provided by operating activities less net cash flows used in investing activities, non-GAAP measure, see Note 13.

3 Proceeds from issuance of Common Shares less purchase of treasury shares.

4 Net total of cash and cash equivalents, loans and overdrafts, and long-term debt, non-GAAP measure, see Note 13.

See Table 3 above for a summary of Signet's cash flow for the 26 weeks to July 31, 2010 and August 1, 2009. During the 26 weeks to July 31, 2010, net income and net income adjusted for non-cash items was \$92.7 million and \$143.4 million (26 weeks to August 1, 2009: \$53.9 million and \$122.3 million); non-GAAP measure, see Note 13. The \$38.8 million increase in net income reflected the improved operating performance of the business. Changes in operating assets and liabilities generated positive cash flows of \$111.2 million (26 weeks to August 1, 2009: \$172.7 million). Inventories decreased by \$40.3 million (26 weeks to August 1, 2009: \$116.6 million decrease) as a result of seasonality, a better than expected sales performance, store closures and timing differences that are expected to reverse in subsequent quarters. Accounts receivable decreased by \$59.7 million (26 weeks to August 1, 2009: \$59.6 million decline), primarily reflecting the seasonality of sales.

Year to date net cash flow used in investing activities was \$14.4 million (26 weeks to August 1, 2009: \$17.5 million), the US division used \$13.3 million (26 weeks to August 1, 2009: \$13.8 million) and the UK division used \$1.1 million (26 weeks to August 1, 2009: \$3.7 million). Changes in operating assets and liabilities, and investing activities, due to new US space were \$4.3 million and \$0.1 million respectively during the 26 weeks to July 31, 2010 (26 weeks to August 1, 2009: \$11.7 million and \$1.1 million respectively). Cash flow used in investing activities during Fiscal 2011 continues to be planned to be about \$80 million, an increase of about \$35 million above the level in Fiscal 2010.

Year to date positive free cash flow was \$240.2 million (26 weeks to August 1, 2009: \$277.5 million); non-GAAP measure, see Note 13. In the second half of Fiscal 2011, inventory and accounts receivable are expected to increase due to the seasonal nature of sales, with inventory at January 29, 2011 planned to be little changed from the prior year-end. Reflecting better than planned net income in the year to date and an expectation that in the balance of the year working capital will continue to be tightly managed, positive free cash flow for Fiscal 2011 is now anticipated to be between \$225 million and \$275 million, compared to the original estimate of \$150 million to \$200 million.

During the 26 weeks to July 31, 2010, \$1.0 million (26 weeks to August 1, 2009: \$nil) was received for the issuance of Common Shares pursuant to Signet's equity compensation programs.

Debt at July 31, 2010 was \$254.0 million (August 1, 2009: \$293.3 million), with cash and cash equivalents of \$485.4 million (August 1, 2009: \$92.8 million). Net cash at July 31, 2010 was \$231.4 million (August 1, 2009: net debt \$200.5 million); non-GAAP measure, see Note 13. On March 9, 2010, Signet made 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 July 31, 2010 and at August 1, 2009. At July 31, 2010, Signet was in compliance with all debt covenants.

OPERATING REVIEW

US division (~80% of annual sales)

In the second quarter, the US division's sales were up by 5.1% to \$580.8 million (13 weeks to August 1, 2009: \$552.5 million) and same store sales rose by 5.9%, as compared to a decline of 5.5% in the second quarter last year. In the year to date, the US division's sales were up by 6.0% to \$1,247.9 million (26 weeks to August 1, 2009: \$1,177.4 million) and same store sales rose by 6.6%, as compared to a decline of 4.0% in the prior year period. See Table 4 below for analysis.

Table 4
Second quarter Fiscal 2011

	<u>Sales</u>	<u>Average unit selling price¹</u>	<u>Change from previous year</u>		
			<u>Total sales</u>	<u>Average Same store sales</u>	<u>unit selling price¹</u>
Kay	\$325.4m	\$349	1.8%	2.6%	5.0%
Regional brands	\$64.7m	\$354	(7.7)%	1.1%	0.8%
Jared	<u>\$190.7m</u>	\$768	17.1%	14.0%	6.9%
US division	<u>\$580.8m</u>	\$407	5.1%	5.9%	4.7%
<u>Year to date Fiscal 2011</u>					
Kay	\$712.2m	\$335	3.0%	3.5%	6.1%
Regional brands	\$141.6m	\$345	(7.0)%	2.0%	(0.4)%
Jared	<u>\$394.1m</u>	\$755	18.2%	14.9%	4.9%
US division	<u>\$1,247.9m</u>	\$393	6.0%	6.6%	5.3%

¹ Excludes the charm bracelet category, a recent product introduction with an average unit selling price considerably lower, and a multiple purchase and frequency of purchase much greater, than products historically sold by the division.

While the US economy continued to grow in the second quarter, the rate was more moderate than in the first quarter of Fiscal 2011. In the second quarter and the year to date, the US division benefitted from its sustainable competitive advantages, with many of its middle market competitors being operationally or financially constrained. Jared's sales increase reflected a recovery in spending among US households with above average incomes and a positive response to merchandising initiatives. Average unit selling price, excluding the charm bracelet category, increased by 4.7% in the second quarter and by 5.3% in the year to date.

In the second quarter, the US division's operating income increased by 25.6% to \$63.3 million (13 weeks to August 1, 2009: \$50.4 million, which included a \$6.0 million non-recurring, favorable impact from a change in vacation entitlement policy). In the year to date, US operating income increased by 44.6% to \$154.4 million (26 weeks to August 1, 2009: \$106.8 million, which included a \$10.0 million non-recurring, favorable impact from a change in vacation entitlement policy). The net direct adverse impact from the amendments to the Truth in Lending Act was \$3.5 million in the second quarter and \$6.8 million in the year to date. The operating margin was 10.9% (13 weeks to August 1, 2009: 9.1%) and 12.4% in the year to date (26 weeks to August 1, 2009: 9.1%).

In the second quarter and in the year to date, the US division's gross merchandise margin rate was up by 100 basis points. The gross merchandise margin rate benefitted from price increases implemented in the first quarter of Fiscal 2010, lower average diamond inventory costs and favorable changes in sales mix, offsetting a higher cost of gold.

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Further selective price increases have been implemented in August 2010 due to higher commodity costs that are expected to have an adverse impact on gross merchandise margin in the second half of Fiscal 2011. Price promotion activity in the balance of the year is anticipated to be similar to that of the comparable period in Fiscal 2010. It is expected that the US division's gross merchandise margin in Fiscal 2011 will be broadly similar to the level of Fiscal 2010.

Credit participation was 56.0% in the second quarter (13 weeks to August 1, 2009: 56.2%) and 53.6% year to date (26 weeks to August 1, 2009: 53.6%). The net bad debt to total sales ratio was 5.2% in the second quarter (13 weeks to August 1, 2009: 6.5%). In the year to date the ratio was 3.8% (26 weeks to August 1, 2009: 5.0%). The reduction reflected a more stable rate of employment and a continuation of the improved receivables performance that began in the fourth quarter of Fiscal 2010. The opportunity to lower the net bad debt to sales ratio in the fourth quarter of Fiscal 2011 is more limited than in the first three quarters of Fiscal 2011 as the improvement in trend started in the comparable period. The average monthly collection rate was 12.3% in the second quarter and 13.1% in the year to date (13 weeks to August 1, 2009: 12.3% and 26 weeks to August 1, 2009: 13.0%). US net accounts receivable at July 31, 2010 was \$791.4 million (August 1, 2009: \$759.2 million), reflecting higher sales in the US division.

Selling, general and administrative expenses were tightly controlled in both the quarter and the year to date.

Stores opened and closed in the 26 weeks to July 31, 2010, together with planned changes for the balance of Fiscal 2011 are set out in Table 5 below.

Table 5	Kay mall	Kay Off-mall	Regionals	Jared¹	Total	Annual net space change
January 30, 2010	794	129	260	178	1,361	(1)%
Opened	-	-	-	2	2	
Closed	(8)	(3)	(7)	=	(18)	
July 31, 2010	786	126	253	180	1,345	
Openings, planned	3	2	-	-	5	
Closures, forecast	(5)	=	(28)	=	(33)	
January 29, 2011	<u>784</u>	<u>128</u>	<u>225</u>	<u>180</u>	<u>1,317</u>	(2)%

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

UK Division (~20% of annual sales)

In the second quarter, the UK division's sales were down by 10.3% to \$142.0 million (13 weeks to August 1, 2009: \$158.3 million), reflecting an underlying decrease of 2.0% at constant exchange rates; non-GAAP measure, see Note 13. Same store sales were down 0.5%, compared to a decline of 4.3% in the prior year period. In the year to date, sales were down by 3.8% to \$284.9 million (26 weeks to August 1, 2009: \$296.0 million). At constant exchange rates there was a decrease of 1.8%; non-GAAP measure, see Note 13. Same store sales were down 0.4%, compared to a decline of 4.2% in the prior year period. See Table 6 below for analysis. Operating income was \$4.7 million in the second quarter (13 weeks to August 1, 2009: \$1.0 million) and \$3.3 million in the year to date (26 weeks to August 1, 2009: \$0.3 million loss).

The UK environment remained challenging. H.Samuel same store sales were marginally better in the second quarter of Fiscal 2011 than in the first quarter, while those of Ernest Jones were marginally weaker. Overall, the same store sales performance in the second quarter was very similar to that in the first quarter. The charm bracelet category continued to perform well. In the second quarter, average unit selling price, excluding the charm bracelet category,

increased by 12.0%, and by 11.7% in the year to date, primarily reflecting the impact of price increases implemented to partly counter pressure on gross merchandise margin.

Table 6 Second quarter Fiscal 2011	Sales	Change from previous year				Average unit selling price ²
		Average unit selling price ^{1,2}	Total sales	Sales at constant exchange rates ^{3,4}	Same store sales	
H.Samuel	\$73.5m	£58	(10.7)%	(2.4)%	(1.2)%	11.3%
Ernest Jones	<u>\$68.5m</u>	£261	(8.2)%	0.2%	0.2%	9.3%
UK division	<u>\$142.0m</u>	£94	(10.3)%	(2.0)%	(0.5)%	12.0%
Year to date						
Fiscal 2011						
H.Samuel	\$148.0m	£57	(4.7)%	(2.8)%	(1.6)%	10.8%
Ernest Jones	<u>\$136.9m</u>	£257	(1.2)%	0.8%	1.0%	10.4%
UK division	<u>\$284.9m</u>	£92	(3.8)%	(1.8)%	(0.4)%	11.7%

1 The average unit selling price² in the second quarter for H.Samuel was \$88, for Ernest Jones was \$394 and for the UK division was \$142. The average unit selling price² in the year to date for H.Samuel was \$86, for Ernest Jones was \$388 and for the UK division was \$139.

2 Excludes the charm bracelet category, a recent product introduction with an average unit selling price considerably lower, and a multiple purchase and frequency of purchase much greater, than product historically sold by the division.

3 Non-GAAP measure, see Note 13.

4 In the second quarter, the exchange translation impact on the total sales of H.Samuel was (8.3)% and for Ernest Jones was (8.4)%, and for the year to date was (1.9)% for H.Samuel and (2.0)% for Ernest Jones.

In the second quarter and in the year to date, the UK division's gross merchandise margin was down by 30 basis points and 70 basis points respectively. The impact of a weak pound sterling to US dollar exchange rate, an increase in the cost of gold and a higher value added tax rate were partly offset by a number of price increases in the past year. Continuing pressure on gross merchandise margin is expected in the second half and, for Fiscal 2011, the gross merchandise margin expectation for the UK division remains somewhat below the prior year's level. Selling, general and administrative expenses were tightly controlled in both the quarter and the year to date.

Stores closed in the 26 weeks to July 31, 2010, together with planned changes for the balance of Fiscal 2011 are set out in Table 7 below.

Table 7	H.Samuel	Ernest Jones ¹	Total	Annual net space change
January 30, 2010	347	205	552	(1)%
Opened	-	-	-	
Closed	(2)	(2)	(4)	
July 31, 2010	345	203	548	
Openings, planned	-	-	-	
Closures, forecast	(6)	(4)	(10)	
January 29, 2011	<u>339</u>	<u>199</u>	<u>538</u>	(2)%

1 Includes stores trading as Leslie Davis.

Unallocated costs

In the second quarter, unallocated costs, principally central costs not allocated to the US or UK division in Signet's management accounts, were \$4.7 million (13 weeks to August 1, 2009: \$4.8 million) and were \$8.9 million in the year to date (26 weeks to August 1, 2009: \$7.5 million). In the first quarter of Fiscal 2010, there was a gain on foreign exchange that has not been repeated in Fiscal 2011.

Management Succession

On June 25, 2010, Ron Ristau became Chief Financial Officer, succeeding Walker Boyd who retired on that date. The formal search for a Chief Executive Officer began in late February 2010 and is progressing.

IR Program details

William Blair Conference, New York on Tuesday, October 5, 2010

Signet will be taking part in the William Blair Conference on Tuesday, October 5, 2010 in New York. In attendance will be Ron Ristau, CFO and Tim Jackson, Investor Relations Director. The presentation, which is scheduled for 8.00 a.m. EDT (1.00 p.m. BST), will be webcast on www.signetjewelers.com.

Deutsche Bank Conference, London, on Thursday, October 21, 2010

Signet will be taking part in the Deutsche Bank Conference on Thursday October 21, 2010 in London. Present will be Ron Ristau, CFO, and Tim Jackson, Investor Relations Director.

Third Quarter Results

The third quarter results for 13 weeks to October 30, 2010, are expected to be announced at 7.30 a.m. (EST) and 12.30 p.m. (GMT) on Tuesday, November 23, 2010.

This release 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 release 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 "target," and other similar 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,

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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.

Unaudited condensed consolidated income statements

	13 weeks ended		26 weeks ended		
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009	Notes
	\$million	\$million	\$million	\$million	
Sales	722.8	710.8	1,532.8	1,473.4	2
Cost of sales	(483.0)	(489.3)	(996.7)	(996.4)	
Gross margin	239.8	221.5	536.1	477.0	
Selling, general and administrative expenses	(203.7)	(203.8)	(442.2)	(436.6)	
Other operating income, net	27.2	28.9	54.9	58.6	
Operating income, net	63.3	46.6	148.8	99.0	2
Interest income	0.2	0.1	0.3	0.7	
Interest expense	(6.2)	(8.2)	(15.0)	(19.8)	
Income before income taxes	57.3	38.5	134.1	79.9	
Income taxes	(16.6)	(10.9)	(41.4)	(26.0)	
Net income	40.7	27.6	92.7	53.9	
Earnings per share – basic	\$0.47	\$0.32	\$1.08	\$0.63	5
– diluted	\$0.47	\$0.32	\$1.07	\$0.63	5

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

Unaudited condensed consolidated balance sheets

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	July 31,	January 30,	August 1,	
	2010	2010	2009	
	(Unaudited)	(Audited)	(Unaudited)	
	\$million	\$million	\$million	Notes

Assets

Current assets:

Cash and cash equivalents	485.4	316.2	92.8	
Accounts receivable, net	797.2	858.0	766.2	
Other receivables	25.3	27.9	24.4	
Other current assets	49.4	58.4	51.8	
Deferred tax assets	1.8	2.2	-	
Inventories	1,126.2	1,173.1	1,279.2	6
Total current assets	2,485.3	2,435.8	2,214.4	

Non-current assets:

Property, plant and equipment, net of accumulated depreciation of \$595.7 million, \$566.0 million and \$594.2 million, respectively	362.1	396.9	431.2	
Other intangible assets, net	24.6	24.2	23.6	
Other assets	9.8	12.6	11.6	
Retirement benefit asset	1.1	-	-	
Deferred tax assets	55.7	54.7	54.1	
Total assets	2,938.6	2,924.2	2,734.9	2

Liabilities and Shareholders' equity

Current liabilities:

Loans and overdrafts	24.9	44.1	13.3	
Accounts payable	114.7	66.2	93.9	
Accrued expenses and other current liabilities	241.9	272.1	220.9	
Deferred revenue	108.8	120.1	103.4	7
Deferred tax liabilities	78.5	74.7	55.8	
Income taxes payable	34.2	44.1	43.6	
Total current liabilities	603.0	621.3	530.9	

Non-current liabilities:

Long-term debt	229.1	280.0	280.0	
Other liabilities	76.9	79.6	76.9	
Deferred revenue	140.5	140.9	143.0	7

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Retirement benefit obligation	-	4.8	11.4
Total liabilities	1,049.5	1,126.6	1,042.2
Commitments and contingencies (see note 10)			
Shareholders' equity:			
Common shares of \$0.18 par value: authorized 500 million shares, 85.7 million shares issued and outstanding (January 30, 2010: 85.5 million shares issued and outstanding; August 1, 2009: 85.5 million shares issued and outstanding)	15.4	15.4	15.4
Additional paid-in capital	174.8	169.9	167.6
Other reserves	235.2	235.2	235.2
Treasury shares	-	(1.1)	(3.0)
Retained earnings	1,648.6	1,556.4	1,447.1
Accumulated other comprehensive loss	(184.9)	(178.2)	(169.6)
Total shareholders' equity	1,889.1	1,797.6	1,692.7
Total liabilities and shareholders' equity	2,938.6	2,924.2	2,734.9

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

Unaudited condensed consolidated statements of cash flows

	13 weeks ended		26 weeks ended	
	July 31,	August 1,	July 31,	August 1,
	2010	2009	2010	2009
	\$million	\$million	\$million	\$million
Cash flows from operating activities				
Net income	40.7	27.6	92.7	53.9
Adjustments to reconcile net income to cash flows provided by operations:				
Depreciation of property, plant and equipment	21.1	25.2	43.5	49.4
Amortization of other intangible assets	2.0	2.1	4.0	3.5
Pension	(1.9)	(1.4)	(3.8)	(1.4)
Share-based compensation	2.2	2.4	4.5	3.1
Deferred taxation	(3.8)	4.7	2.5	2.1

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Facility amendment fees included in net income	0.3	-	2.6	3.4
Other non-cash movements	(1.0)	(1.4)	(1.7)	7.9
(Gain)/loss on disposal of property, plant and equipment	(0.9)	-	(0.9)	0.4
Changes in operating assets and liabilities:				
Decrease in accounts receivable	4.6	4.3	59.7	59.6
Decrease in other receivables	0.5	38.9	4.2	55.8
(Increase)/decrease in other current assets	(1.2)	4.5	8.8	(13.9)
Decrease in inventories	1.4	73.4	40.3	116.6
Increase/(decrease) in accounts payable	9.6	(18.9)	48.1	47.0
Increase/(decrease) in accrued expenses and other liabilities	1.9	(42.4)	(31.7)	(63.0)
Decrease in deferred revenue	(9.8)	(10.3)	(11.6)	(17.3)
Increase/(decrease) in income taxes payable	3.4	(10.3)	(7.7)	(10.7)
Effect of exchange rate changes on currency swaps	1.3	(1.4)	1.1	(1.4)
Net cash provided by operating activities	70.4	97.0	254.6	295.0
Investing activities				
Purchase of property, plant and equipment	(6.9)	(7.5)	(11.6)	(14.8)
Purchase of other intangible assets	(2.9)	(1.6)	(4.5)	(2.7)
Proceeds from sale of property, plant and equipment	1.7	-	1.7	-
Net cash flows used in investing activities	(8.1)	(9.1)	(14.4)	(17.5)
Financing activities				
Proceeds from issue of common shares	0.2	-	1.0	-
Facility fees paid	-	(0.9)	(1.0)	(9.3)
Repayment of short-term borrowings	(22.4)	(65.6)	(19.3)	(174.8)
Repayment of long-term debt	-	-	(50.9)	(100.0)
Net cash flows used in financing activities	(22.2)	(66.5)	(70.2)	(284.1)
Cash and cash equivalents at beginning of period	447.1	69.2	316.2	96.8
Increase/(decrease) in cash and cash equivalents	40.1	21.4	170.0	(6.6)
Effect of exchange rate changes on cash and cash equivalents	(1.8)	2.2	(0.8)	2.6
Cash and cash equivalents at end of period	485.4	92.8	485.4	92.8

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

Unaudited condensed consolidated statement of shareholders' equity

	Common shares at par value	Additional paid-in capital	Other reserves	Treasury shares	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Balance at January 30, 2010	15.4	169.9	235.2	(1.1)	1,556.4	(178.2)	1,797.6
Net income	-	-	-	-	92.7	-	92.7
Foreign currency translation	-	-	-	-	-	(5.9)	(5.9)
Changes in fair value of derivative instruments, net	-	-	-	-	-	(2.1)	(2.1)
Actuarial gain on pension plan, net	-	-	-	-	-	1.3	1.3
Share options exercised	-	0.4	-	1.1	(0.5)	-	1.0
Share-based compensation expense	-	4.5	-	-	-	-	4.5
Balance at July 31, 2010	15.4	174.8	235.2	-	1,648.6	(184.9)	1,889.1

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		26 weeks ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
	\$million	\$million	\$million	\$million
Net income	40.7	27.6	92.7	53.9
Foreign currency translation	5.3	28.2	(5.9)	32.2
Changes in fair value of derivative instruments	(8.3)	(8.2)	(3.1)	(10.5)
Pension plan	0.9	0.9	1.8	1.8
Deferred tax on items recognized in equity	2.5	2.1	0.5	2.4

Comprehensive income	41.1	50.6	86.0	79.8
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The accompanying notes are an integral part of these interim unaudited condensed consolidated financial statements.

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 subsidiaries (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 operates retail stores 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 Signet’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 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 audited consolidated financial statements 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.

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, inventory and deferred revenue, 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. Segment 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.

	13 weeks ended		26 weeks ended	
	July 31,	August 1,	July 31,	August 1,
	2010	2009	2010	2009
	\$million	\$million	\$million	\$million
Sales:				
US	580.8	552.5	1,247.9	1,177.4
UK	142.0	158.3	284.9	296.0
Total sales	722.8	710.8	1,532.8	1,473.4
Operating income, net:				
US	63.3	50.4	154.4	106.8
UK	4.7	1.0	3.3	(0.3)
Unallocated ⁽¹⁾	(4.7)	(4.8)	(8.9)	(7.5)
Total operating income, net	63.3	46.6	148.8	99.0

July 31, January 30, August 1,
2010 2009

	\$million	2010 \$million	\$million
Total assets:			
US	2,214.1	2,280.7	2,272.0
UK	354.0	383.6	405.1
Unallocated	370.5	259.9	57.8
Total assets	2,938.6	2,924.2	2,734.9

- (1) Unallocated principally relates to central costs that are not allocated to the US and UK divisions in Signet's management accounts.

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:

	26 weeks ended July 31, 2010	52 weeks ended January 30, 2010	26 weeks ended August 1, 2009
Income statement (average rate)	1.51	1.59	1.54
Balance sheet (closing rate)	1.57	1.60	1.67

The year-to-date average exchange rate is used to prepare the income statement for the 26 weeks ended July 31, 2010 and is calculated from the weekly average exchange rates weighted by sales of the UK division. The income statement for the 13 weeks ended July 31, 2010 is calculated as the difference between the income statement for the 26 weeks ended July 31, 2010 and the previously reported income statement for the 13 weeks ended May 1, 2010. Therefore, the second quarter's income statement includes the impact of the change in the year-to-date exchange rates between these quarter ends.

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 28, 2006 and is subject to examination by the UK tax authority for tax years after January 31, 2007.

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.

During the 26 weeks ended July 31, 2010, agreement was reached in respect of the treatment of certain financing arrangements in the UK and a cash settlement was paid of approximately \$1.7 million, excluding interest thereon. A benefit of approximately \$2.7 million has been recognized in income tax expense for the 26 weeks ended July 31, 2010.

During the 26 weeks ended July 31, 2010, the statute of limitations expired in the US in respect of the tax year ended October 28, 2006 with no adjustment to taxable income. A benefit of approximately \$1.8 million has been recognized in income tax expense for the 26 weeks ended July 31, 2010.

Apart from the above, there has been no material change in the amount of unrecognized tax benefits in respect of uncertain tax positions during the 26 weeks ended July 31, 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 July 31, 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.

5. Earnings per share

	13 weeks ended		26 weeks ended	
	July 31,	August 1,	July 31,	August 1,
	2010	2009	2010	2009
Net income (\$million)	40.7	27.6	92.7	53.9
Basic weighted average number of shares in issue (million)	85.6	85.2	85.6	85.2
Dilutive effect of share options (million)	0.6	0.3	0.6	0.3
Diluted weighted average number of shares in issue (million)	86.2	85.5	86.2	85.5
Earnings per share – basic	\$0.47	\$0.32	\$1.08	\$0.63
Earnings per share – diluted	\$0.47	\$0.32	\$1.07	\$0.63

The basic weighted average number of shares excludes shares held by the Employee Stock Ownership Trust or as Treasury Shares 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 and 26 week periods ended July 31, 2010 by 4,373 and 11,861 shares respectively (13 and 26 week periods ended August 1, 2009: 81,893 and 81,922 shares respectively). The calculation of fully diluted earnings per share for the 13 and 26 week periods ended July 31, 2010 excludes options to purchase 909,717 and 947,767 shares respectively (13 and 26 week periods ended August 1, 2009: 2,798,075 shares) on the basis that their effect on earnings per share was anti-dilutive.

6. Inventories

	July 31, 2010	January 30, 2010	August 1, 2009
	\$million	\$million	\$million
Raw materials	8.8	9.5	7.0
Finished goods	1,117.4	1,163.6	1,272.2
Total inventory	1,126.2	1,173.1	1,279.2