SIGNET JEWELERS LTD
Form 10-Q
June 03, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended May 3, 2014 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	**Not Applicable**
(State or other jurisdiction of incorporation)	**(I.R.S. Employer Identification No.)**

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

(441) 296 5872

(Address and telephone number of principal executive offices)

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

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

Common Stock, $0.18 par value, 80,203,014 shares as of May 30, 2014

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

(in millions, except per share amounts)	13 weeks ended May 3, 2014	13 weeks ended May 4, 2013	Notes
Sales	**$ 1,056.1**	$ 993.6	2
Cost of sales	**(648.9)**	(610.8)	
Gross margin	**407.2**	382.8	
Selling, general and administrative expenses	**(310.5)**	(287.0)	
Other operating income, net	**54.0**	47.0	
Operating income	**150.7**	142.8	2
Interest expense, net	**(1.8)**	(0.9)	
Income before income taxes	**148.9**	141.9	
Income taxes	**(52.3)**	(50.1)	
Net income	**$ 96.6**	$ 91.8	
Earnings per share: basic	**$ 1.21**	$ 1.14	5
diluted	**$ 1.20**	$ 1.13	5
Weighted average common shares outstanding: basic	**79.9**	80.8	5
diluted	**80.3**	81.3	5
Dividends declared per share	**$ 0.18**	$ 0.15	6

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

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SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in millions)	13 weeks ended May 3, 2014 Pre-tax amount	13 weeks ended May 3, 2014 Tax (expense) benefit	13 weeks ended May 3, 2014 After-tax amount	13 weeks ended May 4, 2013 Pre-tax amount	13 weeks ended May 4, 2013 Tax (expense) benefit	13 weeks ended May 4, 2013 After-tax amount
Net income			**$ 96.6**			$ 91.8
Other comprehensive income (loss):						
Foreign currency translation adjustments	**$ 9.6**	**$**	**9.6**	$ (1.8)	$	(1.8)
Cash flow hedges:						
Unrealized gain (loss)	**0.7**	**(0.4)**	**0.3**	(17.5)	6.1	(11.4)
Reclassification adjustment for losses (gains) to net income	**7.4**	**(2.7)**	**4.7**	(1.0)	0.4	(0.6)
Pension plan:						
Reclassification adjustment to net income for amortization of actuarial loss	**0.5**	**(0.1)**	**0.4**	0.6	(0.1)	0.5
Reclassification adjustment to net income for amortization of prior service credits	**(0.4)**	**0.1**	**(0.3)**	(0.4)		(0.4)
Total other comprehensive income (loss)	**$ 17.8**	**$ (3.1)**	**$ 14.7**	$ (20.1)	$ 6.4	$ (13.7)
Total comprehensive income			**$ 111.3**			$ 78.1

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

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SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except par value per share amount)	May 3, 2014	February 1, 2014	May 4, 2013	Notes
Assets				
Current assets:				
Cash and cash equivalents	**$ 249.1**	$ 247.6	$ 263.7	
Accounts receivable, net	**1,308.2**	1,374.0	1,157.5	8
Other receivables	**47.1**	51.5	40.2	
Other current assets	**91.0**	87.0	81.8	10
Deferred tax assets	**2.7**	3.0	2.3	
Income taxes	**10.7**	6.5	10.1	
Inventories	**1,523.9**	1,488.0	1,426.4	9
Total current assets	**3,232.7**	3,257.6	2,982.0	
Non-current assets:				
Property, plant and equipment, net of accumulated depreciation of $816.3, $788.1 and $737.5, respectively	**494.0**	487.6	429.9	
Other assets	**120.3**	114.0	107.2	10
Deferred tax assets	**114.8**	113.7	124.9	
Retirement benefit asset	**59.8**	56.3	50.3	
Total assets	**$ 4,021.6**	$ 4,029.2	$ 3,694.3	2
Liabilities and Shareholders equity				
Current liabilities:				
Loans and overdrafts	**$ 8.8**	$ 19.3	$ 5.7	17
Accounts payable	**163.1**	162.9	176.8	
Accrued expenses and other current liabilities	**293.8**	328.5	269.4	12
Deferred revenue	**174.4**	173.0	157.6	11
Deferred tax liabilities	**123.9**	113.1	145.6	
Income taxes	**32.2**	103.9	64.5	
Total current liabilities	**796.2**	900.7	819.6	
Non-current liabilities:				
Deferred tax liabilities	**2.7**		1.0	
Other liabilities	**121.6**	121.7	113.3	12
Deferred revenue	**457.3**	443.7	415.9	11
Total liabilities	**1,377.8**	1,466.1	1,349.8	
Commitments and contingencies				15
Shareholders equity:				
Common shares of $0.18 par value: authorized 500 shares, 80.2 shares outstanding (February 1, 2014: 80.2 shares outstanding; May 3, 2014: 80.9 shares outstanding)	**15.7**	15.7	15.7	
Additional paid-in capital	**258.8**	258.8	242.0	
Other reserves	**235.2**	235.2	235.2	

Treasury shares at cost: 7.0 shares (February 1, 2014: 7.0 shares; May 3, 2014: 6.3 shares)	**(362.3)**	(346.2)	(297.7)	6
Retained earnings	**2,660.2**	2,578.1	2,338.7	
Accumulated other comprehensive loss	**(163.8)**	(178.5)	(189.4)	7
Total shareholders equity	**2,643.8**	2,563.1	2,344.5	
Total liabilities and shareholders equity	**$ 4,021.6**	$ 4,029.2	$ 3,694.3	

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

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SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)	13 weeks ended May 3, 2014	13 weeks ended May 4, 2013
Cash flows from operating activities		
Net income	**$ 96.6**	$ 91.8
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	**28.0**	25.6
Pension benefit	**(0.6)**	(0.1)
Share-based compensation	**3.2**	3.0
Deferred taxation	**9.4**	1.9
Excess tax benefit from exercise of share awards	**(7.7)**	
Facility amendment fee amortization and charges	**1.0**	0.1
Other non-cash movements	**(0.6)**	(0.2)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	**66.2**	47.6
Increase in other receivables and other assets	**(1.7)**	(5.5)
Decrease in other current assets	**0.5**	4.5
Increase in inventories	**(19.9)**	(54.7)
(Decrease) increase in accounts payable	**(4.2)**	18.3
Decrease in accrued expenses and other liabilities	**(42.9)**	(51.3)
Increase in deferred revenue	**14.9**	8.0
Decrease in income taxes payable	**(68.0)**	(42.4)
Pension plan contributions	**(1.1)**	(1.8)
Effect of exchange rate changes on currency swaps	**0.4**	0.3
Net cash provided by operating activities	**73.5**	45.1
Investing activities		
Purchase of property, plant and equipment	**(28.1)**	(23.2)
Net cash used in investing activities	**(28.1)**	(23.2)
Financing activities		
Dividends paid	**(12.0)**	(9.8)
Proceeds from issuance of common shares	**1.0**	5.0
Excess tax benefit from exercise of share awards	**7.7**	
Repurchase of common shares	**(11.4)**	(50.1)
Net settlement of equity based awards	**(15.3)**	(9.1)
Payment of debt issuance costs	**(3.0)**	
(Repayment of) proceeds from short-term borrowings	**(10.5)**	5.7
Net cash used in financing activities	**(43.5)**	(58.3)
Cash and cash equivalents at beginning of period	**247.6**	301.0
Increase (decrease) in cash and cash equivalents	**1.9**	(36.4)
Effect of exchange rate changes on cash and cash equivalents	**(0.4)**	(0.9)
Cash and cash equivalents at end of period	**$ 249.1**	$ 263.7

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

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SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(Unaudited)

(in millions)	Common shares at par value	Additional paid-in capital	Other reserves	Treasury shares	Retained earnings	Accumulated other comprehensive loss	Total shareholders equity
Balance at February 1, 2014	$ 15.7	$ 258.8	$ 235.2	$ (346.2)	$ 2,578.1	$ (178.5)	$ 2,563.1
Net income					96.6		96.6
Other comprehensive income (loss)						14.7	14.7
Dividends					(14.4)		(14.4)
Repurchase of common shares				(12.9)			(12.9)
Net settlement of equity based awards		(3.1)		(4.4)	(0.1)		(7.6)
Share options exercised		(0.1)		1.2			1.1
Share-based compensation expense		3.2					3.2
Balance at May 3, 2014	**$ 15.7**	**$ 258.8**	**$ 235.2**	**$ (362.3)**	**$ 2,660.2**	**$ (163.8)**	**$ 2,643.8**

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

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Principal accounting policies and basis of preparation

Basis of preparation

Signet Jewelers Limited (Signet , or the Company) is a holding company, incorporated in Bermuda, that operates through its subsidiaries. Signet is a leading retailer whose results are principally derived from one business segment the retailing of jewelry, watches and associated services. The Company manages its business as two geographical reportable segments, being the United States of America (the US) and the United Kingdom (the UK). The US division operates retail stores under brands including Kay Jewelers, Jared The Galleria Of Jewelry and various regional brands. The UK division s retail stores operate under brands including H.Samuel and Ernest Jones.

In the fourth quarter of Fiscal 2014, subsequent to the November 4, 2013 acquisition of a diamond polishing factory in Gaborone, Botswana, management established a separate operating segment (Other), which consists of all non-reportable segments including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones.

These condensed consolidated financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) have been condensed or omitted from this report, as is permitted by such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in Signet s Annual Report on Form 10-K for the year ended February 1, 2014.

Use of estimates

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

Fiscal year

The Company s fiscal year ends on the Saturday nearest to January 31st. Fiscal 2015 is the 52 week year ending January 31, 2015 and Fiscal 2014 is the 52 week year ending February 1, 2014. Within these condensed consolidated financial statements, the first quarter of the fiscal years 2015 and 2014 refers to the 13 weeks ended May 3, 2014 and May 4, 2013, respectively.

Seasonality

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

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

New accounting pronouncements adopted during the period

Presentation of Unrecognized Tax Benefit

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance requires, unless certain conditions exist, an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. Signet adopted this guidance effective for the first quarter ended May 3, 2014 and the implementation of this accounting pronouncement did not have an impact on Signet s condensed consolidated financial statements.

Reclassification

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

2. Segment information

Effective with the fourth quarter of Fiscal 2014, management changed the Company s segment reporting in order to align with a change in its organizational and management reporting structure. Signet s sales are derived from the retailing of jewelry, watches, other products and services. Signet has identified two geographical reportable segments, being the US and UK divisions. These segments represent channels of distribution that offer similar merchandise and services and have similar marketing and distribution strategies. Both divisions are managed by executive committees, which report to Signet s Chief Executive Officer, who 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.

In the fourth quarter of Fiscal 2014, subsequent to the November 4, 2013 acquisition of a diamond polishing factory in Gaborone, Botswana, management established the Other operating segment which consists of all non-reportable segments including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones. This segment was determined to be non-reportable and will be aggregated with corporate administrative functions for segment reporting. Prior year results have been revised to reflect this change. All inter-segment sales and transfers are eliminated.

	13 weeks ended	
(in millions)	**May 3, 2014**	**May 4, 2013**
Sales:		
US	**$ 903.5**	$ 857.2
UK	**151.7**	135.0
Other	**0.9**	1.4
Total sales	**$ 1,056.1**	$ 993.6
Operating income (loss):		
US	**$ 166.3**	$ 152.8
UK		(4.1)
Other	**(15.6)**(1)	(5.9)

Total operating income	**$ 150.7**	$ 142.8

(1) Fiscal 2015 balance includes $8.4 million of acquisition related costs, see Note 19 for additional information.

(in millions)	**May 3, 2014**	**February 1, 2014**	**May 4, 2013**
Total assets:			
US	**$ 3,263.8**	$3,311.0	$ 3,017.0
UK	**493.2**	484.6	441.7
Other	**264.6**	233.6	235.6
Total assets	**$ 4,021.6**	$4,029.2	$ 3,694.3

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Foreign currency translation

Assets and liabilities denominated in the UK pound sterling are translated into the US dollar at the exchange rate prevailing at the balance sheet date. Equity accounts denominated in the UK pound sterling are translated into US dollars at historical exchange rates. Revenues and expenses denominated in the UK pound sterling are translated into the US dollar at the monthly average exchange rate for the period. Gains and losses resulting from foreign currency transactions are included within the consolidated income statement, whereas translation adjustments and gains and losses related to intercompany loans of a long-term investment nature are reported as an element of other comprehensive income (loss) (OCI). In addition, as the majority of the sales and expenses related to the factory in Gaborone, Botswana are transacted in US dollars, there is no related foreign currency translation as the US dollar is the functional currency.

4. Income taxes

Signet has business activity in all states within the US and files income tax returns for the US federal jurisdiction and all applicable states. Signet also files income tax returns in the UK and certain other foreign jurisdictions. Signet is subject to US federal and state examinations by tax authorities for tax years ending after November 1, 2008 and is subject to examination by the UK tax authority for tax years ending after January 31, 2012.

As of February 1, 2014, Signet had approximately $4.6 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 3, 2014.

Signet recognizes accrued interest and, where appropriate, penalties related to unrecognized tax benefits within income tax expense. As of February 1, 2014, Signet had accrued interest of $0.3 million and there has been no material change in the amount of accrued interest as of May 3, 2014.

Over the next twelve months, management believes that it is reasonably possible that there could be a reduction of substantially all of the unrecognized tax benefits as of February 1, 2014, due to settlement of the uncertain tax positions with the tax authorities.

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SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Earnings per share

	13 weeks ended	
(in millions, except per share amounts)	**May 3, 2014**	**May 4, 2013**
Net income	**$ 96.6**	$ 91.8
Basic weighted average number of shares outstanding	**79.9**	80.8
Dilutive effect of share awards	**0.4**	0.5
Diluted weighted average number of shares outstanding	**80.3**	81.3
Earnings per share basic	**$ 1.21**	$ 1.14
Earnings per share diluted	**$ 1.20**	$ 1.13

The basic weighted average number of shares excludes non-vested time-based restricted shares, shares held by the Employee Stock Ownership Trust and treasury shares. Such shares are not considered outstanding and do not qualify for dividends, except for time-based restricted shares for which dividends are earned and payable by the Company subject to full vesting. The effect of excluding these shares is to reduce the average number of shares in the 13 week period ended May 3, 2014 by 7,272,616 shares (13 week period ended May 4, 2013: 6,365,336 shares). The calculation of fully diluted earnings per share for the 13 week period ended May 3, 2014 does not exclude any non-vested time-based restricted shares (13 week period ended May 4, 2013: 105,771 shares excluded) on the basis that their effect on earnings per share was anti-dilutive.

6. Shareholders equity

Share repurchase

	Amount authorized	13 weeks ended May 3, 2014			13 weeks ended May 4, 2013		
		Shares repurchased	Amount repurchased	Average repurchase price per share	Shares repurchased	Amount repurchased	Average repurchase price per share
	(in millions)		*(in millions)*			*(in millions)*	
2013 Program[(1)]	$ 350.0	**126,468**	**$ 12.9[(3)]**	**$ 102.10**	na	na	na
2011 Program[(2)]	350.0	**na**	**na**	**na**	749,245	$ 50.1	$ 66.92
Total		**126,468**	**$ 12.9**	**$ 102.10**	749,245	$ 50.1	$ 66.92

(1) In June 2013, the Board authorized the repurchase of up to $350 million of Signet s common shares (the 2013 Program). The 2013 Program may be suspended or discontinued at any time without notice. The 2013 Program had $282.5 million remaining as of May 3, 2014.

(2) In October 2011, the Board authorized the repurchase of up to $300 million of Signet s common shares (the 2011 Program), which authorization was subsequently increased to $350 million. The 2011 Program was completed as of May 4, 2013.

(3) As of May 3, 2014, $11.4 million has been paid to repurchase common shares and $1.5 million has been recorded in accrued expenses and other current liabilities in the consolidated balance sheets reflecting shares repurchased but not yet settled and paid for by the end of the first quarter.

na Not applicable.

Dividend

	Fiscal 2015		Fiscal 2014	
	Cash dividend per share	**Total dividends** *(in millions)*	**Cash dividend per share**	**Total dividends** *(in millions)*
First quarter[(1)]	$ 0.18	$ 14.4[(2)]	$ 0.15	$ 12.1

(1) Signet s dividend policy results in the dividend payment date being a quarter in arrears from the declaration date. As a result, the fourth quarter Fiscal 2014 $0.15 per share cash dividend was paid on February 27, 2014 in the aggregate amount of $12.0 million.

(2) As of May 3, 2014, $14.4 million has been recorded in accrued expenses and other current liabilities in the consolidated balance sheets reflecting the cash dividend declared for the first quarter of Fiscal 2015, which has a record date of May 2, 2014 and a payment date of May 28, 2014.

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SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Accumulated other comprehensive (loss) income

(in millions)	Foreign currency translation	Gains (losses) on cash flow hedges	Pension plan: Actuarial (losses) gains	Pension plan: Prior service credit (cost)	Accumulated other comprehensive (loss) income
Balance at February 1, 2014	$ (137.0)	$ (14.3)	$ (42.5)	$ 15.3	$ (178.5)
OCI before reclassifications	9.6	0.3			9.9
Amounts reclassified from accumulated OCI		4.7	0.4	(0.3)	4.8
Net current-period OCI	9.6	5.0	0.4	(0.3)	14.7
Balance at May 3, 2014	**$ (127.4)**	**$ (9.3)**	**$ (42.1)**	**$ 15.0**	**$ (163.8)**

Reclassification activity by individual accumulated OCI component: *(in millions)*	Amounts reclassified from accumulated OCI 13 weeks ended May 3, 2014	Amounts reclassified from accumulated OCI 13 weeks ended May 4, 2013	Income statement caption
(Gains) losses on cash flow hedges:			
Foreign currency contracts	**$**	$ (0.2)	Cost of sales (see Note 13)
Commodity contracts	**7.4**	(0.8)	Cost of sales (see Note 13)
Total before income tax	**7.4**	(1.0)	
	(2.7)	0.4	Income taxes
Net of tax	**4.7**	(0.6)	
Defined benefit pension plan items:			
Amortization of unrecognized net prior service credit	**(0.4)**	(0.4)	Selling, general and administrative expenses (1)
Amortization of unrecognized actuarial loss	**0.5**	0.6	Selling, general and administrative expenses (1)
Total before income tax	**0.1**	0.2	
		(0.1)	Income taxes
Net of tax	**0.1**	0.1	

Total reclassifications	**$ 4.8**	$ (0.5)

(1) These items are included in the computation of net periodic pension benefit (cost). See Note 14 for additional information.

8. Accounts receivable, net

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

(in millions)	**May 3, 2014**	**February 1, 2014**	**May 4, 2013**
Accounts receivable by portfolio segment, net:			
US customer in-house finance receivables	**$ 1,294.8**	$ 1,356.0	$ 1,145.9
Other accounts receivable	**13.4**	18.0	11.6
Total accounts receivable, net	**$ 1,308.2**	$ 1,374.0	$ 1,157.5

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SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

Other accounts receivable is comprised primarily of gross accounts receivable relating to the insurance loss replacement business in the UK division of $12.2 million (February 1, 2014 and May 4, 2013: $12.8 million and $10.6 million, respectively) with a corresponding valuation allowance of $0.3 million (February 1, 2014 and May 4, 2013: $0.3 million and $0.4 million, respectively).

Allowance for credit losses on US customer in-house finance receivables:

(in millions)	**13 weeks ended May 3, 2014**	**52 weeks ended February 1, 2014**	**13 weeks ended May 4, 2013**
Beginning balance	**$ (97.8)**	$ (87.7)	$ (87.7)
Charge-offs	**32.3**	128.2	29.4
Recoveries	**8.5**	26.0	7.4
Provision	**(30.8)**	(164.3)	(28.7)
Ending balance	**$ (87.8)**	$ (97.8)	$ (79.6)
Ending receivable balance evaluated for impairment	**1,382.6**	1,453.8	1,225.5
US customer in-house finance receivables, net	**$ 1,294.8**	$ 1,356.0	$ 1,145.9

Net bad debt expense is defined as the provision expense less recoveries.

Credit quality indicator and age analysis of past due US customer in-house finance receivables:

	May 3, 2014		**February 1, 2014**		**May 4, 2013**	
(in millions)	**Gross**	**Valuation allowance**	**Gross**	**Valuation allowance**	**Gross**	**Valuation allowance**
Performing:						
Current, aged 0-30 days	**$ 1,130.8**	**$ (34.4)**	$ 1,170.4	$ (36.3)	$ 999.1	$ (30.5)
Past due, aged 31-90 days	**205.6**	**(7.2)**	229.9	(8.0)	183.9	(6.6)
Non Performing:						
Past due, aged more than 90 days	**46.2**	**(46.2)**	53.5	(53.5)	42.5	(42.5)
	$ 1,382.6	**$ (87.8)**	$ 1,453.8	$ (97.8)	$ 1,225.5	$ (79.6)

(as a percentage of the ending receivable balance)	**May 3, 2014** Gross	Valuation allowance	**February 1, 2014** Gross	Valuation allowance	**May 4, 2013** Gross	Valuation allowance
Performing	**96.7%**	**3.1%**	96.3%	3.2%	96.5%	3.2%
Non Performing	**3.3%**	**100.0%**	3.7%	100.0%	3.5%	100.0%
	100.0%	**6.4%**	100.0%	6.7%	100.0%	6.5%

9. Inventories

Inventories

(in millions)	**May 3, 2014**	**February 1, 2014**	**May 4, 2013**
Raw materials	**$ 38.0**	$ 41.8	$ 36.4
Finished goods	**1,485.9**	1,446.2	1,390.0
Total inventories	**$ 1,523.9**	$ 1,488.0	$ 1,426.4

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SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

10. Other assets

(in millions)	**May 3, 2014**	**February 1, 2014**	**May 4, 2013**
Deferred extended service plan costs	**$ 63.6**	$ 61.9	$ 58.6
Goodwill	**26.8**	26.8	24.6
Other assets	**29.9**	25.3	24.0
Total other assets	**$ 120.3**	$ 114.0	$ 107.2

In addition, other current assets include deferred direct costs in relation to the sale of extended service plans (ESP) of $22.5 million as of May 3, 2014 (February 1, 2014 and May 4, 2013: $21.9 million and $20.8 million, respectively).

Goodwill

The following table summarizes the Company s goodwill by reporting unit:

(in millions)	**US**	**UK**