SIGNET JEWELERS LTD
Form 10-Q
December 08, 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 November 1, 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 **(State or other jurisdiction of** **incorporation)**	**Not Applicable** **(I.R.S. Employer** **Identification No.)**

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

(441) 296 5872

(Address and telephone number of principal executive offices)

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

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, 80,178,447 shares as of November 28, 2014

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in millions, except per share amounts)	13 weeks ended November 1, 2014	13 weeks ended November 2, 2013	39 weeks ended November 1, 2014	39 weeks ended November 2, 2013	Notes
Sales	**$ 1,177.9**	$ 771.4	**$ 3,459.9**	$ 2,645.2	2
Cost of sales	**(832.0)**	(532.2)	**(2,297.8)**	(1,713.5)	
Gross margin	**345.9**	239.2	**1,162.1**	931.7	
Selling, general and administrative expenses	**(388.7)**	(233.4)	**(1,078.4)**	(770.9)	
Other operating income, net	**53.5**	45.8	**161.2**	139.1	
Operating income	**10.7**	51.6	**244.9**	299.9	2
Interest expense, net	**(12.6)**	(0.9)	**(28.1)**	(2.8)	
(Loss) income before income taxes	**(1.9)**	50.7	**216.8**	297.1	
Income taxes	**0.6**	(17.1)	**(63.5)**	(104.3)	4
Net (loss) income	**$ (1.3)**	$ 33.6	**$ 153.3**	$ 192.8	
(Loss) earnings per share: basic	**$ (0.02)**	$ 0.42	**$ 1.92**	$ 2.40	5
diluted	**$ (0.02)**	$ 0.42	**$ 1.91**	$ 2.39	5
Weighted average common shares outstanding: basic	**79.9**	79.9	**79.9**	80.4	5
diluted	**79.9**	80.3	**80.2**	80.8	5
Dividends declared per share	**$ 0.18**	$ 0.15	**$ 0.54**	$ 0.45	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)

	13 weeks ended					
	November 1, 2014			November 2, 2013		
(in millions)	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net (loss) income			**$ (1.3)**			$ 33.6
Other comprehensive (loss) income:						
Foreign currency translation adjustments	**$ (21.4)**	**$**	**(21.4)**	$ 10.5	$	10.5
Available-for-sale securities:						
Unrealized loss						
Cash flow hedges:						
Unrealized (loss) gain	**(2.7)**	**1.2**	**(1.5)**	(1.8)	0.3	(1.5)
Reclassification adjustment for losses to net (loss) income	**2.7**	**(0.8)**	**1.9**	2.1	(0.8)	1.3
Pension plan:						
Reclassification adjustment to net (loss) income for amortization of actuarial loss	**0.5**	**(0.1)**	**0.4**	0.6	(0.2)	0.4
Reclassification adjustment to net (loss) income for amortization of net prior service credits	**(0.4)**	**0.1**	**(0.3)**	(0.4)	0.2	(0.2)
Total other comprehensive (loss) income	**$ (21.3)**	**$ 0.4**	**$ (20.9)**	$ 11.0	$ (0.5)	$ 10.5
Total comprehensive (loss) income			**$ (22.2)**			$ 44.1

	39 weeks ended					
	November 1, 2014			November 2, 2013		
(in millions)	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			**$ 153.3**			$ 192.8
Other comprehensive (loss) income:						
Foreign currency translation adjustments	**$ (14.1)**	**$**	**(14.1)**	$ 3.5	$	3.5
Available-for-sale securities:						
Unrealized loss	**(0.2)**		**(0.2)**			
Cash flow hedges:						
Unrealized (loss) gain	**(2.2)**	**0.9**	**(1.3)**	(27.9)	9.6	(18.3)
Reclassification adjustment for losses to net income	**15.2**	**(5.2)**	**10.0**	1.1	(0.5)	0.6
Pension plan:						
Reclassification adjustment to net income for amortization of actuarial loss	**1.5**	**(0.3)**	**1.2**	1.7	(0.4)	1.3
Reclassification adjustment to net income for amortization of net prior service credits	**(1.3)**	**0.3**	**(1.0)**	(1.1)	0.3	(0.8)
Total other comprehensive (loss) income	**$ (1.1)**	**$ (4.3)**	**$ (5.4)**	$ (22.7)	$ 9.0	$ (13.7)
Total comprehensive income			**$ 147.9**			$ 179.1

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 per share data)	**November 1, 2014**	**February 1, 2014**	**November 2, 2013**	**Notes**
Assets				
Current assets:				
Cash and cash equivalents	**$ 87.6**	$ 247.6	$ 87.8	
Accounts receivable, net	**1,292.1**	1,374.0	1,123.5	8
Other receivables	**56.7**	51.5	51.2	
Other current assets	**133.7**	87.0	86.9	11
Deferred tax assets	**1.6**	3.0	2.7	
Income taxes	**21.6**	6.5	16.7	
Inventories	**2,674.6**	1,488.0	1,644.9	9
Total current assets	**4,267.9**	3,257.6	3,013.7	
Non-current assets:				
Property, plant and equipment, net of accumulated depreciation of $839.0, $788.1, and $765.0, respectively	**658.8**	487.6	471.1	
Goodwill	**524.3**	26.8	23.2	10
Intangible assets, net of accumulated amortization of $6.0	**461.3**			10
Other assets	**133.5**	87.2	83.5	11
Deferred tax assets	**72.8**	113.7	119.9	
Retirement benefit asset	**59.9**	56.3	54.0	
Total assets	**$ 6,178.5**	$ 4,029.2	$ 3,765.4	2
Liabilities and Shareholders equity				
Current liabilities:				
Loans and overdrafts	**$ 221.8**	$ 19.3	$ 46.0	19
Accounts payable	**396.2**	162.9	244.9	
Accrued expenses and other current liabilities	**422.7**	328.5	252.5	13
Deferred revenue	**221.6**	173.0	156.3	12
Deferred tax liabilities	**151.2**	113.1	136.2	
Income taxes	**3.6**	103.9	6.8	
Total current liabilities	**1,417.1**	900.7	842.7	
Non-current liabilities:				
Long-term debt	**1,371.3**			19
Other liabilities	**227.2**	121.7	119.3	
Deferred revenue	**518.8**	443.7	416.2	12
Deferred tax liabilities	**1.8**		1.0	
Total liabilities	**3,536.2**	1,466.1	1,379.2	
Commitments and contingencies				17
Shareholders equity:				
Common shares of $0.18 par value: authorized 500 shares, 80.2 shares outstanding (February 1, 2014: 80.2 shares outstanding; November 2, 2013: 80.3 shares	**15.7**	15.7	15.7	

outstanding)				
Additional paid-in capital	**261.2**	258.8	252.3	
Other reserves	**0.4**	0.4	0.4	6
Treasury shares at cost: 7.0 shares (February 1, 2014: 7.0 shares; November 2, 2013: 6.9 shares)	**(373.2)**	(346.2)	(342.6)	6
Retained earnings	**2,922.1**	2,812.9	2,649.8	
Accumulated other comprehensive loss	**(183.9)**	(178.5)	(189.4)	7
Total shareholders equity	**2,642.3**	2,563.1	2,386.2	
Total liabilities and shareholders equity	**$ 6,178.5**	$ 4,029.2	$ 3,765.4	

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)

	13 weeks ended		39 weeks ended	
(in millions)	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Cash flows from operating activities				
Net (loss) income	**$ (1.3)**	$ 33.6	**$ 153.3**	$ 192.8
Adjustments to reconcile net (loss) income to net cash used in operating activities:				
Depreciation and amortization	**40.3**	28.3	**104.8**	79.4
Amortization of unfavorable leases and contracts	**(8.9)**		**(14.8)**	
Pension benefit	**(0.6)**	(0.1)	**(1.8)**	(0.3)
Share-based compensation	**3.5**	3.8	**10.7**	10.3
Deferred taxation	**(28.0)**	2.2	**(32.2)**	(0.3)
Excess tax benefit from exercise of share awards			**(7.7)**	(4.5)
Amortization of debt discount and issuance costs	**1.0**	0.1	**6.5**	0.3
Other	**0.6**	(1.9)	**0.7**	(2.8)
Changes in operating assets and liabilities:				
Decrease in accounts receivable	**23.5**	29.0	**81.8**	81.8
Increase in other receivables and other assets	**(0.9)**	(7.6)	**(4.9)**	(17.5)
Increase other current assets	**(13.8)**	(6.6)	**(36.5)**	(2.6)
Increase in inventories	**(338.2)**	(214.9)	**(321.1)**	(272.3)
Increase in accounts payable	**161.8**	109.5	**132.9**	80.2
Increase (decrease) in accrued expenses and other liabilities	**4.0**	(9.4)	**(15.0)**	(66.5)
Increase (decrease) in deferred revenue	**8.2**	(0.7)	**29.2**	6.9
Decrease in income taxes payable	**(58.2)**	(43.6)	**(106.7)**	(101.8)
Pension plan contributions	**(1.0)**	(1.1)	**(3.2)**	(3.9)
Effect of exchange rate changes on currency swaps	**(0.1)**	(1.0)	**(0.2)**	(1.1)
Net cash used in operating activities	**(208.1)**	(80.4)	**(24.2)**	(21.9)
Investing activities				
Purchase of property, plant and equipment	**(75.1)**	(53.3)	**(165.1)**	(106.9)
Purchase of available-for-sale securities	**(3.0)**		**(4.2)**	
Proceeds from sale of available-for-sale securities	**1.5**		**2.5**	
Acquisition of Ultra Stores, Inc.				1.4
Acquisition of Zale Corporation, net of cash acquired			**(1,429.2)**	
Net cash used in investing activities	**(76.6)**	(53.3)	**(1,596.0)**	(105.5)
Financing activities				
Dividends paid	**(14.4)**	(12.1)	**(40.8)**	(34.0)
Proceeds from issuance of common shares	**2.2**	2.8	**4.2**	8.0
Excess tax benefit from exercise of share awards			**7.7**	4.5
Proceeds from senior notes			**398.4**	
Proceeds from term loan			**400.0**	
Repayments of term loan	**(5.0)**		**(5.0)**	
Proceeds from securitization facility	**493.4**		**1,424.0**	
Repayments of securitization facility	**(493.4)**		**(824.0)**	
Proceeds from revolving credit facility	**145.0**	35.0	**145.0**	35.0
Payment of debt issuance costs	**(2.1)**		**(20.5)**	

Repurchase of common shares	**(7.4)**	(25.0)	**(29.8)**	(100.1)
Net settlement of equity based awards	**(3.0)**	(0.1)	**(18.1)**	(9.1)
Principal payments under capital lease obligations	**(0.3)**		**(0.5)**	
Proceeds from short-term borrowings	**43.0**	9.3	**20.8**	11.0
Net cash provided by (used in) financing activities	**158.0**	9.9	**1,461.4**	(84.7)
Cash and cash equivalents at beginning of period	**215.0**	212.9	**247.6**	301.0
Decrease in cash and cash equivalents	**(126.7)**	(123.8)	**(158.8)**	(212.1)
Effect of exchange rate changes on cash and cash equivalents	**(0.7)**	(1.3)	**(1.2)**	(1.1)
Cash and cash equivalents at end of period	**$ 87.6**	$ 87.8	**$ 87.6**	$ 87.8

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	$ 0.4	$ (346.2)	$ 2,812.9	$ (178.5)	$ 2,563.1
Net income					153.3		153.3
Other comprehensive income (loss)						(5.4)	(5.4)
Dividends					(43.2)		(43.2)
Repurchase of common shares				(29.8)			(29.8)
Net settlement of equity based awards		(7.7)		(2.1)	(0.6)		(10.4)
Share options exercised		(0.6)		4.9	(0.3)		4.0
Share-based compensation expense		10.7					10.7
Balance at November 1, 2014	**$ 15.7**	**$ 261.2**	**$ 0.4**	**$ (373.2)**	**$ 2,922.1**	**$ (183.9)**	**$ 2,642.3**

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.

On May 29, 2014, the Company completed the acquisition of Zale Corporation (the Acquisition) (see Note 20 for further information). Prior to the Acquisition, the Company managed its business as two geographical reportable segments, being the United States of America (the US) and the United Kingdom (the UK) divisions. In connection with the Acquisition, the Company will no longer report its segments geographically, but by store brand grouping. The former US division operates retail stores under brands including Kay Jewelers, Jared The Galleria Of Jewelry and various regional brands and will be known as Sterling Jewelers division (Sterling Jewelers). The former UK division s retail stores operate under brands including H.Samuel and Ernest Jones and will be known as UK Jewelry division (UK Jewelry).

In connection with the Acquisition, the Zale division (Zale) was added, consisting of two new reportable segments: Zale Jewelry (Zale Jewelry) and Piercing Pagoda (Piercing Pagoda). Zale Jewelry is comprised of three core national brands, Zales Jewelers, Zales Outlet and Peoples Jewellers and two regional brands, Gordon s Jewelers and Mappins Jewellers. Each brand specializes in fine jewelry and watches, with merchandise and marketing emphasis focused on diamond products. Zales Jewelers is a national brand in the US providing moderately priced jewelry to a broad range of customers. Zales Outlet operates in outlet malls and neighborhood power centers in the US and capitalizes on Zales Jewelers national marketing and brand recognition. Gordon s Jewelers is a value-oriented regional jeweler. Peoples Jewellers is Canada s largest fine jewelry retailer. Mappins Jewellers offers customers classic fine jewelry also in Canada. Piercing Pagoda operates mall-based kiosks focused on the opening price point customer. Piercing Pagoda specializes in gold, silver and non-precious metal products that capitalize on the latest fashion trends.

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 reportable segment (Other), which consists of all non-reportable operating 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, contingencies and accounting for business combinations.

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 was the 52 week year ended February 1, 2014. Within these condensed consolidated financial statements, the third quarter and year to date of the relevant fiscal years 2015 and 2014 refer to the 13 and 39 weeks ended November 1, 2014 and November 2, 2013, respectively.

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Seasonality

Signet s sales are seasonal, with the first quarter slightly exceeding 20% of annual sales, the second and third quarters approximating 20% and the fourth quarter accounting for almost 40% of annual 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 55% of Signet s operating income normally occurs in the fourth quarter, comprised of nearly all of the UK Jewelry and Zale divisions operating income and about 40% to 45% of the Sterling Jewelers division s operating income.

Revenue recognition

Extended service plans and lifetime warranty agreements

Signet recognizes revenue related to lifetime warranty sales in proportion to when the expected costs will be incurred. The deferral period for lifetime warranty sales in each division is determined from patterns of claims costs, including estimates of future claims costs expected to be incurred. Management reviews the trends in claims to assess whether changes are required to the revenue and cost recognition rates utilized. A significant change in estimates related to the time period or pattern in which warranty-related costs are expected to be incurred could materially impact revenues. All direct costs associated with the sale of these plans are deferred and amortized in proportion to the revenue recognized and disclosed as either other current assets or other assets.

The Sterling Jewelers division sells extended service plans where it is obliged, subject to certain conditions, to perform repair work over the lifetime of the product. Revenue from the sale of extended service plans is deferred and recognized over 14 years, with approximately 45% of revenue recognized within the first two years.

The Zale division also sells extended service plans. Zale Jewelry customers are offered lifetime warranties on certain products that cover sizing and breakage with an option to purchase theft protection for a two-year period. Revenue from the sale of lifetime extended service plans is deferred and recognized over 10 years, with approximately 69% of revenue recognized within the first two years. Revenues related to the optional theft protection are deferred and recognized over the two-year contract period on a straight-line basis. Zale Jewelry customers are also offered a two-year watch warranty and a one-year warranty that covers breakage. Piercing Pagoda customers are also offered a one-year warranty that covers breakage. Revenue from the two-year watch warranty and one-year breakage warranty is recognized on a straight-line basis over the respective contract terms.

Goodwill

Goodwill represents the excess of the purchase price of acquisitions over the Company s interest in the fair value of the identifiable assets and liabilities acquired. Goodwill is recorded by the Company s reporting units based on the acquisitions made by each. Goodwill is not amortized, but is reviewed for impairment and is required to be tested at least annually or whenever events or circumstances indicate it is more likely than not that a reporting unit s fair value is less than its carrying value. The annual testing date for goodwill allocated to the Sterling Jewelers reporting unit is the last day of the fourth quarter. The annual testing date for goodwill allocated to the reporting units associated with the Zale division and the Other reporting unit is May 31.

The Company may elect to perform a qualitative assessment for each reporting unit to determine whether it is more likely than not that the fair value of the reporting unit is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, then the reporting unit s fair value is compared to its carrying value. Fair value is determined through the income approach using discounted cash flow models or market-based methodologies. Significant estimates used in these discounted cash flow models include: the weighted average cost of capital; long-term growth rates; expected changes to selling prices, direct costs and profitability of the business; and working capital requirements. Management estimates discount rates using post-tax rates that reflect assessments of the time value of money and Company-specific risks. If the carrying value exceeds the estimated fair value, the Company determines the fair value of all assets and liabilities of the reporting unit, including the implied fair value of goodwill. If the carrying value of goodwill exceeds the implied fair value, the Company recognizes an impairment charge equal to the difference.

See Note 20 for additional discussion of the goodwill recorded by the Company during the second quarter of Fiscal 2015. There have been no goodwill impairment losses recorded during the fiscal periods presented in these condensed consolidated financial statements. If future economic conditions and performance results are different than those projected by management, future impairment charges may be required. See Note 10 for additional information related to goodwill.

Intangible assets

Intangible assets with definite lives are amortized and reviewed for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. If the estimated undiscounted future cash flows related to the asset are less than the carrying amount, the Company recognizes an impairment loss equal to the difference between the carrying value and the estimated fair value, usually determined by the estimated discounted future cash flows of the asset.

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Intangible assets with indefinite lives are reviewed for impairment each year in the fourth quarter and may be reviewed more frequently if certain events occur or circumstances change. First, the Company performs a qualitative assessment to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired. If the Company determines that it is more likely than not that the fair value of the asset is less than its carrying amount, the Company estimates the fair value, usually determined by the estimated discounted future cash flows of the asset, compares that value with its carrying amount and records an impairment charge, if any.

If future economic conditions are different than those projected by management, future impairment charges may be required. See Note 10 for additional information on intangible assets.

Capital leases

The Zale division has capital leases related to vehicles used by field management. The vehicles are included in property, plant and equipment in the accompanying condensed consolidated balance sheets and are depreciated over a four-year lease term. See Note 19 for additional information.

New accounting pronouncements adopted during the period

Presentation of unrecognized tax benefit

In July 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 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.

New accounting pronouncements to be adopted in future periods

Revenue recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 provides alternative methods of retrospective adoption and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. Signet is currently assessing the impact, if any, as well as the available methods of implementation, that the adoption of this accounting pronouncement will have on its consolidated financial statements.

Share-based compensation

In June 2014, the FASB issued ASU No. 2014-12, Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASU No. 2014-12 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. Signet is currently assessing the impact, if any, that the adoption of this accounting pronouncement will have on its consolidated financial statements.

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SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Reclassification

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

2. Segment information

On May 29, 2014, the Company completed the Acquisition (see Note 20 for further information). Prior to the Acquisition, the Company managed its business as two geographical reportable segments, being the US and UK divisions. In connection with the Acquisition, the Company will no longer report its segments geographically, but by store brand grouping. The former US division operates retail stores under brands including Kay Jewelers, Jared The Galleria Of Jewelry and various regional brands and will be known as Sterling Jewelers division. The former UK division s retail stores operate under brands including H.Samuel and Ernest Jones and will be known as UK Jewelry division.

In connection with the Acquisition, the Zale division was added, consisting of two new reportable segments: Zale Jewelry and Piercing Pagoda. Zale Jewelry is comprised of three core national brands, Zales Jewelers, Zales Outlet and Peoples Jewellers and two regional brands, Gordon s Jewelers and Mappins Jewellers. Each brand specializes in fine jewelry and watches, with merchandise and marketing emphasis focused on diamond products. Zales Jewelers is a national brand in the US providing moderately priced jewelry to a broad range of customers. Zales Outlet operates in outlet malls and neighborhood power centers in the US and capitalizes on Zales Jewelers national marketing and brand recognition. Gordon s Jewelers is a value-oriented regional jeweler. Peoples Jewellers is Canada s largest fine jewelry retailer. Mappins Jewellers offers customers classic fine jewelry also in Canada. Piercing Pagoda operates mall-based kiosks focused on the opening price point customer. Piercing Pagoda specializes in gold, silver and non-precious metal products that capitalize on the latest fashion trends.

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 reportable segment, Other, which consists of all non-reportable segments including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones. This segment 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		39 weeks ended	
(in millions)	**November 1, 2014**	**November 2, 2013**	**November 1, 2014**	**November 2, 2013**
Sales:				
Sterling Jewelers	**$ 692.8**	$ 631.3	**$ 2,406.7**	$ 2,229.6
UK Jewelry	**151.0**	139.3	**465.6**	413.4
Zale Jewelry	**289.1**		**504.1**	
Piercing Pagoda	**42.3**		**74.8**	
Other	**2.7**	0.8	**8.7**	2.2
Total sales	**$ 1,177.9**	$ 771.4	**$ 3,459.9**	$ 2,645.2
Operating income (loss):				
Sterling Jewelers	**$ 68.1**	$ 60.6	**$ 364.3**	$ 325.3
UK Jewelry	**(2.7)**	(4.4)	**(1.6)**	(9.3)
Zale Jewelry	**(26.7)**[(1)]		**(34.7)**[(1)]	
Piercing Pagoda	**(7.8)**[(2)]		**(9.6)**[(2)]	
Other	**(20.2)**[(3)]	(4.6)	**(73.5)**[(3)]	(16.1)

Total operating income	**$ 10.7**	$ 51.6	**$ 244.9**	$ 299.9

(1) Includes net operating loss of $11.0 million and $20.4 million related to purchase accounting adjustments associated with the acquisition of Zale Corporation for the 13 and 39 weeks ended November 1, 2014, respectively. See Note 20 for additional information.

(2) Includes net operating loss of $2.6 million and $4.7 million related to purchase accounting adjustments associated with the acquisition of Zale Corporation for the 13 and 39 weeks ended November 1, 2014, respectively. See Note 20 for additional information.

(3) Includes $11.4 million and $50.6 million of transaction-related and integration expense as well as severance-related costs for the 13 and 39 weeks ended November 1, 2014, respectively.

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(Unaudited)

(in millions)	**November 1, 2014**	February 1, 2014	November 2, 2013
Total assets:			
Sterling Jewelers	**$ 3,477.2**	$ 3,311.0	$ 3,174.3
UK Jewelry	**484.5**	484.6	495.3
Zale Jewelry	**1,942.6**		
Piercing Pagoda	**158.8**		
Other	**115.4**	233.6	95.8
Total assets	**$ 6,178.5**	$4,029.2	$ 3,765.4

3. Foreign currency translation

Assets and liabilities denominated in the British pound and the Canadian dollar are translated into the US dollar at the exchange rate prevailing at the balance sheet date. Equity accounts denominated in the British pound and Canadian dollar are translated into US dollars at historical exchange rates. Revenues and expenses denominated in the British pound and Canadian dollar 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 condensed consolidated statements of operations, whereas translation adjustments and gains and losses related to intercompany loans of a long-term investment nature are recognized as a component of accumulated 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, Canada and certain other foreign jurisdictions. Signet is subject to examination by the US federal and state and Canadian 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 November 1, 2014, Signet had $6.3 million of unrecognized tax benefits related to uncertain tax positions, all of which would favorably affect the effective income tax rate if resolved in Signet s favor. The unrecognized tax benefits increased by $1.7 million during the 39 week period ended November 1, 2014 related to positions taken by Zale Corporation prior to the Acquisition. The unrecognized tax benefits relate primarily to financing arrangements and intra-group charges which are subject to different and changing interpretations of tax law.

Signet recognizes accrued interest and, where appropriate, penalties related to unrecognized tax benefits within income tax expense. As of November 1, 2014, Signet had accrued interest of $1.1 million. The accrued interest increased by $0.8 million during the 39 week period ended November 1, 2014 related to tax positions taken by Zale Corporation prior to the Acquisition. Signet had $0.6 million of accrued penalties as of November 1, 2014, all of which related to tax positions taken by Zale Corporation prior to the Acquisition.

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 November 1, 2014, due to settlement of the uncertain tax positions with the tax authorities.

5. Earnings per share

	13 weeks ended	**39 weeks ended**

(in millions, except per share amounts)	**November 1, 2014**	**November 2, 2013**	**November 1, 2014**	**November 2, 2013**
Net (loss) income	**$ (1.3)**	$ 33.6	**$ 153.3**	$ 192.8
Basic weighted average number of shares outstanding	**79.9**	79.9	**79.9**	80.4
Dilutive effect of share awards		0.4	**0.3**	0.4
Diluted weighted average number of shares outstanding	**79.9**	80.3	**80.2**	80.8
(Loss) earnings per share basic	**$ (0.02)**	$ 0.42	**$ 1.92**	$ 2.40
(Loss) earnings per share diluted	**$ (0.02)**	$ 0.42	**$ 1.91**	$ 2.39

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(Unaudited)

The basic weighted average number of shares excludes non-vested time-based restricted shares, shares held by the Employee Stock Ownership Trust and treasury shares. Such shares are not considered outstanding and do not qualify for dividends, except for time-based restricted shares for which dividends are earned and payable by the Company subject to full vesting. The effect of excluding these shares is to reduce the average number of shares in the 13 and 39 week periods ended November 1, 2014 by 7,293,902 and 7,288,741 shares, respectively (13 and 39 week periods ended November 2, 2013: 7,287,686 and 6,833,816 shares, respectively). The calculation of fully diluted earnings per share for the 13 and 39 week periods ended November 1, 2014 excludes 525,561 and 32,504 non-vested time-based restricted shares (13 and 39 week periods ended November 2, 2013: 87,809 and 64,884 shares, respectively) on the basis that their effect on earnings per share would be anti-dilutive.

6. Shareholders equity

Share repurchase

		39 weeks ended November 1, 2014			39 weeks ended November 2, 2013		
	Amount authorized *(in millions)*	**Shares repurchased**	**Amount repurchased** *(in millions)*	**Average repurchase price per share**	**Shares repurchased**	**Amount repurchased** *(in millions)*	**Average repurchase price per share**
2013 Program[1]	$ 350	**288,393**	**$ 29.8**	**$ 103.37**	746,326	$ 50.0	$ 66.99
2011 Program[2]	$ 350	**n/a**	**n/a**	**n/a**	749,245	50.1	66.92
Total		**288,393**	**$ 29.8**		1,495,571	$ 100.1	

(1) In June 2013, the Board of Directors 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 $265.6 million remaining as of November 1, 2014.

(2) In October 2011, the Board of Directors 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.

n/a Not applicable.

Signet repurchased 68,261 shares in the third quarter of Fiscal 2015 at an average of $109.18 per share. In the third quarter of Fiscal 2014, Signet repurchased 371,713 shares at an average cost of $67.26 per share.

Dividends

	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
Second quarter	$ 0.18	$ 14.4[3]	$ 0.15	$ 12.1
Third quarter	$ 0.18	$ 14.4[4]	$ 0.15	$ 12.0

(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) The first quarter Fiscal 2015 $0.18 per share cash dividend was paid on May 28, 2014 in the aggregate amount of $14.4 million.
(3) The second quarter Fiscal 2015 $0.18 per share cash dividend was paid on August 27, 2014 in the aggregate amount of $14.4 million.
(4) As of November 1, 2014, $14.4 million has been recorded in accrued expenses and other current liabilities in the condensed consolidated balance sheets reflecting the cash dividend declared on August 26, 2014, which has a record date of October 31, 2014 and a payment date of November 25, 2014.

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Reclassification

During the second quarter of Fiscal 2015, $234.8 million was reclassified from other reserves within shareholders equity to retained earnings as the restrictions related to this amount were released. The presentation in previous periods has been adjusted to conform to the current period presentation.

7. Accumulated other comprehensive (loss) income

(in millions)	Foreign currency translation	Losses on available-for-sale securities, net	(Losses) gains 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	(14.1)	(0.2)	(1.3)			(15.6)
Amounts reclassified from accumulated OCI			10.0	1.2	(1.0)	10.2
Net current-period OCI	(14.1)	(0.2)	8.7	1.2	(1.0)	(5.4)
Balance at November 1, 2014	**$ (151.1)**	**$ (0.2)**	**$ (5.6)**	**$ (41.3)**	**$ 14.3**	**$ (183.9)**

(in millions)	Amounts reclassified from accumulated OCI 13 weeks ended November 1, 2014	13 weeks ended November 2, 2013	39 weeks ended November 1, 2014	39 weeks ended November 2, 2013	Statement of operations caption
Losses (Gains) on cash flow hedges:					
Foreign currency contracts	**$ 0.3**	$ (0.2)	**$ 0.6**	$ (0.6)	Cost of sales (see Note 15)
Commodity contracts	**2.4**	2.3	**14.6**	1.7	Cost of sales (see Note 15)
Total before income tax	**2.7**	2.1	**15.2**	1.1	
	(0.8)	(0.8)	**(5.2)**	(0.5)	Income taxes
Net of tax	**1.9**	1.3	**10.0**	0.6	
Defined benefit pension plan items:					
Amortization of unrecognized net prior service credits	**(0.4)**	(0.4)	**(1.3)**	(1.1)	Selling, general and administrative expenses(1)
Amortization of unrecognized actuarial loss	**0.5**	0.6	**1.5**	1.7	Selling, general and administrative expenses(1)
Total before income tax	**0.1**	0.2	**0.2**	0.6	
				(0.1)	Income taxes

Net of tax	**0.1**	0.2	**0.2**	0.5
Total reclassifications	**$ 2.0**	$ 1.5	**$ 10.2**	$ 1.1

(1) These items are included in the computation of net periodic pension benefit (cost). See Note 16 for additional information.

8. Accounts receivable, net

Signet s accounts receivable primarily consist of Sterling Jewelers customer in-house financing receivables. The accounts receivable portfolio consists of a population that has similar characteristics and is evaluated collectively for impairment. The allowance is an estimate of the expected 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)	**November 1, 2014**	**February 1, 2014**	**November 2, 2013**
Accounts receivable by portfolio segment, net:			
Sterling Jewelers customer in-house finance receivables	**$ 1,280.3**	$ 1,356.0	$ 1,111.8
Other accounts receivable	**11.8**	18.0	11.7
Total accounts receivable, net	**$ 1,292.1**	$ 1,374.0	$ 1,123.5

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Sterling Jewelers grants credit to customers based on a variety of credit quality indicators, including customer 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 Jewelry division of $9.5 million (February 1, 2014 and November 2, 2013: $12.8 million and $9.9 million, respectively) with a corresponding valuation allowance of $0.3 million (February 1, 2014 and November 2, 2013: $0.3 million and $0.5 million, respectively). The credit function for the Zale division is outsourced and, as such, no material accounts receivable exist as of November 1, 2014.

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

(in millions)	**39 weeks ended November 1, 2014**	**52 weeks ended February 1, 2014**	**39 weeks ended November 2, 2013**
Beginning balance	**$ (97.8)**	$ (87.7)	$ (87.7)
Charge-offs	**101.0**	128.2	91.0
Recoveries	**22.1**	26.0	19.9
Provision expense	**(127.9)**	(164.3)	(112.8)
Ending balance	**$ (102.6)**	$ (97.8)	$ (89.6)
Ending receivable balance evaluated for impairment	**1,382.9**	1,453.8	1,201.4
Sterling Jewelers customer in-house finance receivables, net	**$ 1,280.3**	$ 1,356.0	$ 1,111.8

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

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

	November 1, 2014		**February 1, 2014**		**November 2, 2013**	
(in millions)	**Gross**	**Valuation allowance**	**Gross**	**Valuation allowance**	**Gross**	**Valuation allowance**
Performing:						
Current, aged 0-30 days	**$ 1,087.9**	**$ (33.2)**	$ 1,170.4	$ (36.3)	$ 946.9	$ (29.0)
Past due, aged 31-90 days	**233.8**	**(8.2)**	229.9	(8.0)	201.1	(7.2)
Non Performing:						
Past due, aged more than 90 days	**61.2**	**(61.2)**	53.5	(53.5)	53.4	(53.4)
	$ 1,382.9	**$ (102.6)**	$ 1,453.8	$ (97.8)	$ 1,201.4	$ (89.6)

(as a percentage of the ending receivable balance)	November 1, 2014		February 1, 2014		November 2, 2013	
	Gross	**Valuation allowance**	**Gross**	**Valuation allowance**	**Gross**	**Valuation allowance**
Performing	**95.6%**	**3.1%**	96.3%	3.2%	95.6%	3.2%
Non Performing	**4.4%**	**100.0%**	3.7%	100.0%	4.4%	100.0%
	100.0%	**7.4%**	100.0%	6.7%	100.0%	7.5%

Securitized credit card receivables

The Sterling Jewelers division securitizes a portion of its credit card receivables through its Sterling Jewelers Receivables Master Note Trust established on May 15, 2014. See Note 19 for additional information on this asset-backed securitization facility.

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9. Inventories

The following table summarizes the details of the Company s inventory:

(in millions)	**November 1, 2014**	**February 1, 2014**	**November 2, 2013**
Raw materials	**$ 69.9**	$ 41.8	$ 48.9
Finished goods	**2,604.7**	1,446.2	1,596.0
Total inventories	**$ 2,674.6**	$ 1,488.0	$ 1,644.9

10. Goodwill and intangibles

The following table summarizes the Company s goodwill by reportable segment:

(in millions)	**Sterling Jewelers**	**UK Jewelry**	**Zale Jewelry**	**Piercing Pagoda**	**Other**	**Total**
Balance at February 2, 2013	$ 24.6	$	$	$	$	$ 24.6
Acquisitions[1]	(1.4)				3.6	2.2
Balance at February 1, 2014	23.2				3.6	26.8
Acquisitions[1]			497.5			497.5
Balance at November 1, 2014	**$ 23.2**	**$**	**$ 497.5**	**$**	**$ 3.6**	**$ 524.3**

(1) See Note 20 for additional discussion of the goodwill recorded by the Company during Fiscal 2014 and Fiscal 2015.

There have been no goodwill impairment losses recorded during the fiscal periods presented in these condensed consolidated financial statements. If future economic conditions are different than those projected by management, future impairment charges may be required.

Intangible Assets

Intangible assets with indefinite and definite lives represent the Zale trade names and favorable leases, which are included in intangible assets, net on the condensed consolidated balance sheets. The following table provides additional detail regarding the composition of intangible assets as of November 1, 2014, February 1, 2014 and November 2, 2013.

	November 1, 2014			**February 1, 2014**			**November 2, 2013**		
	Gross carrying	**Accumulated amortization**	**Net carrying**	**Gross carrying**	**Accumulated amortization**	**Net carrying**	**Gross carrying**	**Accumulated amortization**	**Net carrying**

(in millions)	amount		amount	amount		amount	amount		amount
Definite-lived intangible assets									
Trade names	**$ 1.6**	**$ (0.1)**	**$ 1.5**	$	$	$	$	$	$
Favorable leases	**49.7**	**(5.9)**	**43.8**						
Total definite-lived intangible assets	**51.3**	**(6.0)**	**45.3**						
Indefinite-lived trade names	**416.0**		**416.0**						
Total intangible assets, net	**$ 467.3**	**$ (6.0)**	**$ 461.3**	$	$	$	$	$	$

11. Other assets

The following table summarizes the Company s non-current other assets:

(in millions)	**November 1, 2014**	**February 1, 2014**	**November 2, 2013**
Deferred extended service plan costs	**$ 64.8**	$ 61.9	$ 58.4
Investments[(1)]	**23.5**		
Other assets	**45.2**	25.3	25.1
Total other assets	**$ 133.5**	$ 87.2	$ 83.5

(1) See Note 14 for additional discussion of the investment balances.

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In addition, other current assets include deferred direct costs in relation to the sale of extended service plans (ESP) of $23.1 million as of November 1, 2014 (February 1, 2014 and November 2, 2013: $21.9 million and $20.7 million, respectively).

12. Deferred revenue

Deferred revenue is comprised primarily of ESP and voucher promotions as follows:

(in millions)	**November 1, 2014**	**February 1, 2014**	**November 2, 2013**
Sterling Jewelers ESP deferred revenue	**$ 626.3**	$ 601.2	$ 564.4
Zale ESP deferred revenue	**104.7**		
Voucher promotions and other	**9.4**	15.5	8.1
Total deferred revenue	**$ 740.4**	$ 616.7	$ 572.5
Presented as:			
Current liabilities	**$ 221.6**	$ 173.0	$ 156.3
Non-current liabilities	**518.8**	443.7	416.2
Total deferred revenue	**$ 740.4**	$ 616.7	$ 572.5

	13 weeks ended		**39 weeks ended**	
(in millions)	**November 1, 2014**	**November 2, 2013**	**November 1, 2014**	**November 2, 2013**
Sterling Jewelers ESP deferred revenue, beginning of period	**$ 626.6**	$ 567.0	**$ 601.2**	$ 549.7
Plans sold	**47.4**	40.6	**165.5**	142.0
Revenues recognized	**(47.7)**	(43.2)	**(140.4)**	(127.3)
Sterling Jewelers ESP deferred revenue, end of period	**$ 626.3**	$ 564.4	**$ 626.3**	$ 564.4

	13 weeks ended		**39 weeks ended**	
(in millions)	**November 1, 2014**	**November 2, 2013**	**November 1, 2014**	**November 2, 2013**
Zale ESP deferred revenue, beginning of period	**$ 99.4**	n/a	**$**	n/a
Plans acquired		n/a	**93.3**	n/a
Plans sold	**25.4**	n/a	**44.7**	n/a
Revenues recognized	**(20.1)**	n/a	**(33.3)**	n/a
Zale ESP deferred revenue, end of period	**$ 104.7**	n/a	**$ 104.7**	n/a

n/a Not applicable as the Acquisition occurred during Fiscal 2015.

13. Warranty reserve

Sterling Jewelers and Zale provide a product lifetime diamond guarantee as long as six-month inspections are performed and certified by an authorized store representative. Provided the customer has complied with the six-month inspection policy, the Company will replace, at no cost to the customer, any stone that chips, breaks or is lost from its original setting during normal wear. Management estimates the warranty accrual based on the lag of actual claims experience and the costs of such claims, inclusive of labor and material. Sterling Jewelers also provides a similar product lifetime guarantee on color gemstones. The warranty reserve for diamond and gemstone guarantee, included in accrued expenses and other current liabilities, and other non-current liabilities, is as follows:

	13 weeks ended		**39 weeks ended**	
(in millions)	**November 1, 2014**	**November 2, 2013**	**November 1, 2014**	**November 2, 2013**
Warranty reserve, beginning of period	**$ 48.1**	$ 18.6	**$ 19.1**	$ 18.5
Warranty obligations acquired			**28.8**	
Warranty expense	**1.2**	1.8	**5.2**	5.3