SIGNET JEWELERS LTD
Form 10-Q
November 29, 2016
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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 October 29, 2016 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 including area code 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 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, 69,580,711 shares as of November 25, 2016

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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 October 29, 2016	13 weeks ended October 31, 2015	39 weeks ended October 29, 2016	39 weeks ended October 31, 2015	Notes
Sales	$1,186.2	$1,216.4	$4,138.5	$4,157.6	3
Cost of sales	(836.2)	(848.7)	(2,723.2)	(2,733.2)	
Gross margin	350.0	367.7	1,415.3	1,424.4	
Selling, general and administrative expenses	(386.5)	(395.0)	(1,264.9)	(1,301.0)	
Other operating income, net	68.6	60.9	213.6	187.2	
Operating income	32.1	33.6	364.0	310.6	3
Interest expense, net	(12.7)	(11.7)	(36.4)	(33.8)	
Income before income taxes	19.4	21.9	327.6	276.8	
Income taxes	(2.4)	(6.9)	(81.9)	(80.8)	8
Net income	$17.0	$15.0	$245.7	$196.0	
Dividends on redeemable convertible preferred shares	(2.2)	—	(2.2)	—	5
Net income attributable to common shareholders	$14.8	$15.0	$243.5	$196.0	
Earnings per common share:					
Basic	$0.20	$0.19	$3.19	$2.46	6
Diluted	$0.20	$0.19	$3.18	$2.45	6
Weighted average common shares outstanding:					
Basic	73.5	79.3	76.4	79.7	6
Diluted	73.6	79.5	76.5	79.9	6
Dividends declared per common share	$0.26	$0.22	$0.78	$0.66	5

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 (LOSS)
(Unaudited)

	13 weeks ended					
	October 29, 2016			October 31, 2015		
(in millions)	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			$ 17.0			$ 15.0
Other comprehensive income (loss):						
Foreign currency translation adjustments	$ (28.9)	$ —	(28.9)	$ (4.2)	$ —	(4.2)
Available-for-sale securities:						
Unrealized gain (loss)	(0.4)	0.2	(0.2)	(0.1)	—	(0.1)
Cash flow hedges:						
Unrealized gain (loss)	1.9	—	1.9	2.2	(1.1)	1.1
Reclassification adjustment for losses to net income	(0.2)	0.1	(0.1)	1.1	(0.2)	0.9
Pension plan:						
Reclassification adjustment to net income for amortization of actuarial losses	0.4	—	0.4	0.9	(0.2)	0.7
Reclassification adjustment to net income for amortization of net prior service credits	(0.5)	0.1	(0.4)	(0.6)	0.1	(0.5)
Total other comprehensive income (loss)	$ (27.7)	$ 0.4	$ (27.3)	$ (0.7)	$ (1.4)	$ (2.1)
Total comprehensive income (loss)			$ (10.3)			$ 12.9

	39 weeks ended					
	October 29, 2016			October 31, 2015		
(in millions)	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			$ 245.7			$ 196.0
Other comprehensive income (loss):						
Foreign currency translation adjustments	$ (38.0)	$ —	(38.0)	$ (1.4)	$ —	(1.4)
Available-for-sale securities:						
Unrealized gain (loss)	0.3	(0.1)	0.2	(0.4)	—	(0.4)
Cash flow hedges:						
Unrealized gain (loss)	11.2	(3.0)	8.2	(15.0)	4.7	(10.3)
Reclassification adjustment for losses to net income	2.4	(0.8)	1.6	2.9	(0.7)	2.2
Pension plan:						
Reclassification adjustment to net income for amortization of actuarial losses	1.2	(0.2)	1.0	2.6	(0.5)	2.1
Reclassification adjustment to net income for amortization of net prior service credits	(1.5)	0.3	(1.2)	(1.7)	0.3	(1.4)
Total other comprehensive income (loss)	$ (24.4)	$ (3.8)	$ (28.2)	$ (13.0)	$ 3.8	$ (9.2)
Total comprehensive income			$ 217.5			$ 186.8

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)	October 29, 2016	January 30, 2016	October 31, 2015	Notes
Assets				
Current assets:				
Cash and cash equivalents	$ 82.7	$ 137.7	$ 77.2	
Accounts receivable, net	1,581.1	1,756.4	1,451.5	9
Other receivables	74.2	84.0	55.4	
Other current assets	146.8	152.6	141.4	
Income taxes	20.8	3.5	24.6	
Inventories	2,649.4	2,453.9	2,727.0	10
Total current assets	4,555.0	4,588.1	4,477.1	
Non-current assets:				
Property, plant and equipment, net of accumulated depreciation of $1,015.4, $949.2 and $939.7, respectively	791.1	727.6	718.0	
Goodwill	517.0	515.5	517.6	11
Intangible assets, net	419.8	427.8	434.3	11
Other assets	157.5	154.6	136.4	12
Deferred tax assets	—	—	1.8	
Retirement benefit asset	47.1	51.3	40.7	16
Total assets	$ 6,487.5	$ 6,464.9	$ 6,325.9	
Liabilities and Shareholders’ equity				
Current liabilities:				
Loans and overdrafts	$ 288.8	$ 57.7	$ 248.0	17
Accounts payable	382.2	269.1	371.4	
Accrued expenses and other current liabilities	402.9	498.3	408.0	
Deferred revenue	256.7	260.3	241.4	18
Income taxes	4.4	65.7	0.7	
Total current liabilities	1,335.0	1,151.1	1,269.5	
Non-current liabilities:				
Long-term debt	1,324.2	1,321.0	1,330.6	17
Other liabilities	219.9	230.5	226.6	
Deferred revenue	632.1	629.1	597.5	18
Deferred tax liabilities	133.4	72.5	56.7	
Total liabilities	3,644.6	3,404.2	3,480.9	
Commitments and contingencies				21
Series A redeemable convertible preferred shares of $.01 par value: 500 shares authorized, 0.625 shares outstanding	611.7	—	—	4
Shareholders’ equity:				
Common shares of $0.18 par value: authorized 500 shares, 69.6 shares outstanding (January 30, 2016: 79.4 outstanding; October 31, 2015: 79.5 outstanding)	15.7	15.7	15.7	
Additional paid-in capital	128.5	279.9	274.7	
Other reserves	0.4	0.4	0.4	
Treasury shares at cost: 17.6 shares (January 30, 2016: 7.8 shares; October 31, 2015: 7.7 shares)	(1,338.9)	(495.8)	(480.3)	5
Retained earnings	3,727.8	3,534.6	3,280.3	

Accumulated other comprehensive loss	(302.3)	(274.1)	(245.8)	7
Total shareholders’ equity	2,231.2	3,060.7	2,845.0	
Total liabilities, redeemable convertible preferred shares and shareholders’ equity	$ 6,487.5	$ 6,464.9	$ 6,325.9	

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)	39 weeks ended October 29, 2016	October 31, 2015
Cash flows from operating activities		
Net income	$245.7	$ 196.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	138.8	129.5
Amortization of unfavorable leases and contracts	(14.9)	(24.6)
Pension benefit	(1.3)	—
Share-based compensation	14.0	11.8
Deferred taxation	60.9	8.0
Excess tax benefit from exercise of share awards	(1.3)	(5.1)
Amortization of debt discount and issuance costs	2.2	2.6
Other non-cash movements	1.9	2.7
Changes in operating assets and liabilities:		
Decrease in accounts receivable	174.0	116.3
Decrease in other receivables and other assets	9.0	1.6
Increase in other current assets	(15.4)	(12.8)
Increase in inventories	(217.0)	(289.3)
Increase in accounts payable	114.1	93.6
Decrease in accrued expenses and other liabilities	(82.2)	(60.5)
(Decrease) increase in deferred revenue	(2.5)	25.0
Decrease in income taxes payable	(62.6)	(104.1)
Pension plan contributions	(2.5)	(2.0)
Net cash provided by operating activities	360.9	88.7
Investing activities		
Purchase of property, plant and equipment	(195.6)	(170.8)
Purchase of available-for-sale securities	(10.4)	(3.8)
Proceeds from sale of available-for-sale securities	10.0	3.6
Net cash used in investing activities	(196.0)	(171.0)
Financing activities		
Dividends paid on common shares	(57.5)	(49.6)
Proceeds from issuance of common shares	0.4	3.3
Proceeds from issuance of redeemable convertible preferred shares, net of issuance costs	611.6	—
Excess tax benefit from exercise of share awards	1.3	5.1
Repayments of term loan	(12.0)	(17.5)
Proceeds from securitization facility	1,837.1	1,738.9
Repayments of securitization facility	(1,837.1)	(1,738.9)
Proceeds from revolving credit facility	598.0	177.0
Repayments of revolving credit facility	(339.0)	(30.0)
Payment of debt issuance costs	(2.7)	—
Repurchase of common shares	(1,000.0)	(111.9)
Net settlement of equity based awards	(4.8)	(8.3)
Principal payments under capital lease obligations	(0.2)	(0.8)
Repayment of short-term borrowings	(13.3)	(1.5)
Net cash used in financing activities	(218.2)	(34.2)

Cash and cash equivalents at beginning of period	137.7	193.6
Decrease in cash and cash equivalents	(53.3)	(116.5)
Effect of exchange rate changes on cash and cash equivalents	(1.7)	0.1
Cash and cash equivalents at end of period	$82.7	$ 77.2

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

SIGNET JEWELERS LIMITED
CONDENSED CONSOLIDATED STATEMENTS 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 January 30, 2016	$ 15.7	$ 279.9	$ 0.4	$ (495.8)	$ 3,534.6	$ (274.1)	$ 3,060.7
Net income	—	—	—	—	245.7	—	245.7
Other comprehensive loss	—	—	—	—	—	(28.2)	(28.2)
Dividends on common shares	—	—	—	—	(58.2)	—	(58.2)
Dividends on redeemable convertible preferred shares	—	—	—	—	(0.1)	—	(0.1)
Repurchase of common shares	—	(157.5)	—	(842.5)	—	—	(1,000.0)
Net settlement of equity based awards	—	(7.9)	—	(1.0)	5.8	—	(3.1)
Share options exercised	—	—	—	0.4	—	—	0.4
Share-based compensation expense	—	14.0	—	—	—	—	14.0
Balance at October 29, 2016	$ 15.7	$ 128.5	$ 0.4	$ (1,338.9)	$ 3,727.8	$ (302.3)	$ 2,231.2

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

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SIGNET JEWELERS LIMITED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and principal accounting policies

Signet Jewelers Limited (“Signet” or the “Company”), a holding company incorporated in Bermuda, is the world's largest retailer of diamond jewelry. The Company operates through its 100% owned subsidiaries with sales primarily in the US, UK and Canada. Signet manages its business as five reportable segments: the Sterling Jewelers division, the Zale division, which consists of the Zale Jewelry and Piercing Pagoda segments, the UK Jewelry division and Other. The “Other” reportable segment consists of all non-reportable segments, including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones and unallocated corporate administrative functions. See Note 3 for additional discussion of the Company’s segments.

Signet’s sales are seasonal, with the first quarter slightly exceeding 20% of annual sales, the second and third quarters each 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. The “Holiday Season” consists of results for the months of November and December. As a result, approximately 45% to 55% of Signet’s annual operating income normally occurs in the fourth quarter, comprised of nearly all of the UK Jewelry and Zale divisions’ annual operating income and about 40% to 45% of the Sterling Jewelers division’s annual operating income.

Basis of preparation

These condensed consolidated financial statements are 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 fiscal year ended January 30, 2016 filed with the SEC on March 24, 2016.

Preferred shares

On October 5, 2016, the Company issued 625,000 shares of Series A Convertible Preference Shares (“preferred shares”) for an aggregate price of $625.0 million, or $1,000 per share (the “Stated Value”). The preferred shares were issued under an effective registration statement filed with the SEC. The accounting guidance under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 480, "Distinguishing Liabilities from Equity," requires preferred securities that are redeemable for cash or other assets to be classified outside of permanent equity if redeemable at a fixed or determinable price on a fixed or determinable date, at the option of the holder, or upon the occurrence of an event that is not solely within the control of the issuer. The Company's preferred shares were classified as temporary equity and recorded in the condensed consolidated balance sheets at fair value upon issuance.

See Note 4 for additional information regarding the Company's preferred shares.

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 accounts receivables, inventories, deferred revenue, derivatives, employee benefits, income taxes, contingencies, asset impairments, indefinite-lived intangible assets, as well as depreciation and amortization of long-lived assets.

Fiscal year

The Company’s fiscal year ends on the Saturday nearest to January 31st. Fiscal 2017 and Fiscal 2016 refer to the 52 week periods ending January 28, 2017 and January 30, 2016, respectively. Within these condensed consolidated financial statements, the third quarter of the relevant fiscal years 2017 and 2016 refer to the 13 and 39 weeks ended October 29, 2016 and October 31, 2015, respectively.

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Foreign currency translation

The financial position and operating results of certain foreign operations, including the UK Jewelry division and the Canadian operations of the Zale Jewelry segment, are consolidated using the local currency as the functional currency. Assets and liabilities are translated at the rates of exchange on the balance sheet date, and revenues and expenses are translated at the monthly average rates of exchange during the period. Resulting translation gains or losses are included in the accompanying condensed consolidated statements of equity as a component of accumulated other comprehensive income (loss) ("AOCI"). Gains or losses resulting from foreign currency transactions are included within the condensed consolidated income statements, whereas translation adjustments and gains or losses related to intercompany loans of a long-term investment nature are recognized as a component of AOCI.

See Note 7 for additional information regarding the Company's foreign currency translation.

Reclassification

The Company has reclassified the presentation of certain prior year amounts to conform to the current year presentation. During the fourth quarter of Fiscal 2016, the Company adopted FASB Accounting Standards Update ("ASU") No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." As a result, the Company adjusted the presentation of deferred taxes in the condensed consolidated balance sheet as of October 31, 2015 to reflect a reduction in current assets of $3.6 million, a reduction in non-current assets of $130.3 million, a reduction in current liabilities of $170.5 million and an increase in non-current liabilities of $36.6 million. See Note 2 for additional information regarding new accounting guidance adopted in Fiscal 2017.

2. New accounting pronouncements

New accounting pronouncements adopted during the period

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 adopted this guidance during the first quarter of Fiscal 2017. The adoption of this guidance did not have a material impact on the Company's financial position or results of operations.

Debt issuance costs

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The new guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. In August 2015, the FASB issued ASU No. 2015-15, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The new guidance provides clarity that the SEC would not object to the deferral and presentation of debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. ASU Nos. 2015-03 and 2015-15 are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. Signet adopted this guidance during the first quarter of Fiscal 2017. Accordingly, the Company adjusted the condensed consolidated balance sheets as of January 30, 2016 and October 31, 2015 by reducing total assets and debt for amounts classified as deferred debt issuance costs of $9.5 million and $9.9 million, respectively. Signet continues to present debt issuance costs relating to its revolving credit facility and asset-backed securitization facility as assets in the condensed consolidated balance sheets.

See Note 17 for additional discussion of the Company's debt issuance costs.

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New accounting pronouncements to be adopted in future periods

Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The new guidance requires entities to measure and recognize expected credit losses for financial assets measured at amortized cost basis. The estimate of expected credit losses should consider historical information, current information, and reasonable and supportable forecasts of expected losses over the remaining contractual life that affect collectibility. ASU No. 2016-13 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted. Signet is currently assessing the impact the adoption of this guidance will have on the Company's financial position or results of operations.

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. In August 2015, the FASB issued an update (ASU No. 2015-14) that defers the effective date by one year. As a result, ASU No. 2014-09 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted for annual periods beginning after December 15, 2016, including interim periods within that annual period.

There are many aspects of this new accounting guidance that are still being interpreted. The FASB has recently issued updates to certain aspects of the guidance to address implementation issues. In March 2016, the FASB issued additional guidance concerning "Principal versus Agent" considerations (reporting revenue gross versus net); in April 2016, the FASB issued additional guidance on identifying performance obligations and licensing; and in May 2016, the FASB issued additional guidance on collectibility, noncash consideration, presentation of sales tax, and transition. These updates are intended to improve the operability and understandability of the implementation guidance and have the same effective date and transition requirements as ASU No. 2014-09 guidance discussed above.

Signet continues to assess the impact, as well as the available methods of implementation, the adoption of this guidance will have on the Company’s financial position or results of operations.

Inventory

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory.” The new guidance states that inventory will be measured at the lower of cost and net realizable value. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU No. 2015-11 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted and is to be applied prospectively. Signet does not expect the adoption of this guidance to have a material impact on the Company’s financial position or results of operations.

Financial instruments

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” The new guidance primarily impacts accounting for equity investments and financial liabilities under the fair value option, as well as, the presentation and disclosure requirements for financial instruments. Under the new guidance, equity investments will generally be measured at fair value, with subsequent changes in fair value recognized in net income. ASU No. 2016-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Signet does not expect the adoption of this guidance to have a material impact on the Company’s financial position or results of operations.

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Leases

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” The new guidance primarily impacts lessee accounting by requiring the recognition of a right-of-use asset and a corresponding lease liability on the balance sheet for long-term lease agreements. The lease liability will be equal to the present value of all reasonably certain lease payments. The right-of-use asset will be based on the liability, subject to adjustment for initial direct costs. Lease agreements that are 12 months or less are permitted to be excluded from the balance sheet. In general, leases will be amortized on a straight-line basis with the exception of finance lease agreements. ASU No. 2016-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. Signet is currently assessing the impact the adoption of this guidance will have on the Company’s financial position or results of operations.

Liabilities

In March 2016, the FASB issued ASU No. 2016-04, “Liabilities - Extinguishments of Liabilities (Subtopic 405-20).” The new guidance addresses diversity in practice related to the derecognition of a prepaid stored-value product liability. Liabilities related to the sale of prepaid stored-value products within the scope of this update are financial liabilities. ASU No. 2016-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. Signet does not expect the adoption of this guidance to have a material impact on the Company’s financial position or results of operations.

Share-based compensation

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” The new guidance simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU No. 2016-09 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016, with early adoption permitted. Signet is currently assessing the impact the adoption of this guidance will have on the Company’s results of operations.

3. Segment information

Financial information for each of Signet’s reportable segments is presented in the tables below. Signet’s chief operating decision maker utilizes sales and operating income, after the elimination of any inter-segment transactions, to determine resource allocations and performance assessment measures. Signet’s sales are derived from the retailing of jewelry, watches, other products and services as generated through the management of its five reportable segments: the Sterling Jewelers division, the Zale division, which consists of the Zale Jewelry and Piercing Pagoda segments, the UK Jewelry division and Other.

The Sterling Jewelers division operates in all 50 US states. Its stores operate nationally in malls and off-mall locations principally as Kay Jewelers (“Kay”), Kay Jewelers Outlet, Jared The Galleria Of Jewelry (“Jared”) and Jared Vault. The division also operates a variety of mall-based regional brands.

The Zale division operates jewelry stores (Zale Jewelry) and kiosks (Piercing Pagoda), located primarily in shopping malls throughout the US, Canada and Puerto Rico. Zale Jewelry includes the US store brand Zales (Zales Jewelers and Zales Outlet), which operates in all 50 US states, and the Canadian store brand Peoples Jewellers, which operates in nine provinces. The division also operates regional brands Gordon’s Jewelers and Mappins. Piercing Pagoda operates through mall-based kiosks.

The UK Jewelry division operates stores in the UK, Republic of Ireland and Channel Islands. Its stores operate in shopping malls and off-mall locations (i.e. high street) principally as H.Samuel and Ernest Jones.

The Other reportable segment consists of all non-reportable segments, including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones, that are below the quantifiable threshold for separate disclosure as a reportable segment and unallocated corporate administrative functions.

(in millions)	13 weeks ended October 29, 2016	13 weeks ended October 31, 2015	39 weeks ended October 29, 2016	39 weeks ended October 31, 2015
Sales:				
Sterling Jewelers	$712.5	$733.5	$2,532.3	$2,536.2
Zale Jewelry	282.4	281.9	994.8	991.2
Piercing Pagoda	53.4	48.0	179.4	165.1
UK Jewelry	130.3	149.4	419.5	455.0
Other	7.6	3.6	12.5	10.1
Total sales	$1,186.2	$1,216.4	$4,138.5	$4,157.6
Operating income:				
Sterling Jewelers	$78.6	$77.2	$417.8	$413.2
Zale Jewelry[(1)]	(19.3)	(18.3)	(0.5)	(9.9)
Piercing Pagoda[(2)]	(5.4)	(6.0)	2.2	(1.0)
UK Jewelry	—	—	3.0	3.7
Other[(3)]	(21.8)	(19.3)	(58.5)	(95.4)
Total operating income	$32.1	$33.6	$364.0	$310.6

(1) Includes net operating loss of $3.7 million and $13.2 million related to the effects of purchase accounting associated with the acquisition of Zale Corporation for the 13 and 39 weeks ended October 29, 2016 and $3.6 million and $17.1 million for the 13 and 39 weeks ended October 31, 2015, respectively.

(2) Includes net operating loss of $0.1 million and $0.3 million related to the effects of purchase accounting associated with the acquisition of Zale Corporation for the 13 and 39 weeks ended October 29, 2016 and $0.1 million and $3.1 million for the 13 and 39 weeks ended October 31, 2015, respectively.

(3) Includes $7.9 million and $18.5 million for the 13 and 39 weeks ended October 29, 2016 of integration costs for consulting services associated with IT implementations and severance related to organizational changes. Includes $9.8 million and $59.8 million for the 13 and 39 weeks ended October 31, 2015 of transaction and integration expenses primarily attributable to the legal settlement over appraisal rights and expenses associated with legal, tax, accounting and consulting services.

(in millions)	October 29, 2016	January 30, 2016	October 31, 2015
Total assets:			
Sterling Jewelers	$ 3,715.6	$ 3,788.0	$ 3,586.7
Zale Jewelry	2,061.7	1,955.1	1,977.6
Piercing Pagoda	136.1	141.8	135.4
UK Jewelry	407.1	427.8	470.5
Other	167.0	152.2	155.7
Total assets	$ 6,487.5	$ 6,464.9	$ 6,325.9

4. Redeemable preferred shares

On October 5, 2016, the Company issued 625,000 preferred shares to Green Equity Investors VI, L.P., Green Equity Investors Side VI, L.P., LGP Associates VI-A LLC and LGP Associates VI-B LLC, all affiliates of Leonard Green & Partners, L.P., (together, the “Investors”) for an aggregate purchase price of $625.0 million, or $1,000 per share pursuant to the investment agreement dated August 24, 2016. In connection with the issuance of the preferred shares, the Company incurred direct and incremental expenses of $13.4 million, including financial advisory fees, closing costs, legal expenses and other offering-related expenses. These direct and incremental expenses originally reduced the preferred shares carrying value, and will be accreted through retained earnings as a deemed dividend from the date of issuance through the first possible known redemption date, November 2024. Accretion relating to these fees of $0.1 million was recorded in the condensed consolidated balance sheets as of October 29, 2016.

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Dividend rights: The preferred shares rank senior to the Company's common shares, with respect to dividend rights and rights on the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company. The liquidation preference for preferred shares is equal to the greater of (a) the Stated Value per share, plus all accrued but unpaid dividends and (b) the consideration holders would have received if preferred shares were converted into common shares immediately prior to the liquidation. As of October 29, 2016, the liquidation preference was $627.2 million. Preferred shareholders are entitled to a cumulative dividend at the rate of 5% per annum, payable quarterly in arrears, commencing on February 15, 2017, either in cash or by increasing the Stated Value at the option of the Company. In addition, preferred shareholders were entitled to receive dividends or distributions declared or paid on common shares on an as-converted basis, other than the Company's regularly declared quarterly cash dividends not in excess of 130% of the arithmetic average of the regular, quarterly cash dividends per common share, if any, declared by the Company during the preceding four calendar quarters.

On November 2, 2016, the Board of Directors approved certain changes to the rights of the preferred shareholders, including the following: (a) elimination of the right of preferred shareholders to receive dividends or other distributions declared on the Company's common shares and inclusion of adjustments to the conversion rate in the event of any dividend, distribution, spin-off or certain other events or transactions in respect of the common shares; and (b) addition of a requirement for approval by the holders of the majority of the issued preferred shares for the declaration or payment by the Company of any dividends or other distributions on the common shares other than (i) regularly declared quarterly cash dividends paid on the issued common shares in any calendar quarter in an amount per share that is not more than 130% of the arithmetic average of the regular, quarterly cash dividends per common share, if any, declared by the Company during the preceding four calendar quarters for such quarter and (ii) any dividends or other distributions which are paid or distributed at the same time on the common shares and the preferred shares, provided that the amount paid or distributed to the preferred shares is based on the number of common shares into which such preferred shares could be converted on the applicable record date for such dividends or other distributions.

Conversion features: Preferred shares are convertible at the option of the holders at any time into common shares at the then applicable conversion rate. The initial conversion rate of 10.6529 common shares per preferred share was established as the Stated Value divided by the defined conversion price of $93.8712. As of October 29, 2016, the maximum number of common shares that could be required to be issued if converted was 6.7 million shares. The conversion rate is subject to certain anti-dilution and other adjustments, including stock split / reverse stock split transactions, regular dividends declared on common shares, share repurchases (excluding amounts through open market transactions or accelerated share repurchases) and issuances of common shares or other securities convertible into common shares. The initial issuance did not include a beneficial conversion feature as the conversion price used to set the conversion ratio at the time of issuance was greater than the Company's common stock price.

At any time on or after October 5, 2018, all or a portion of outstanding preferred shares are convertible at the option of the Company if the closing price of common shares exceeds 175% of the then applicable conversion price for at least 20 consecutive trading days.

Redemption rights: At any time after November 15, 2024, the Company will have the right to redeem any or all, and the holders of the preferred shares will have the right to require the Company to repurchase any or all, of the preferred shares for cash at a price equal to the Stated Value plus all accrued but unpaid dividends. Upon certain change of control or delisting events involving the Company, preferred shareholders can require the Company to repurchase, subject to certain exceptions, all or any portion of its preferred shares at (a) an amount in cash equal to 101% of the Stated Value plus all accrued but unpaid dividends or (b) the consideration the holders would have received if they had converted their preferred shares into common shares immediately prior to the change of control event.

Voting rights: Preferred shareholders are entitled to vote with the holders of common shares on an as-converted basis. Holders of preferred shares are entitled to a separate class vote with respect to certain designee(s) for election to the Company's Board of Directors, amendments to the Company's organizational documents that have an adverse effect on the preferred shareholders and issuances by the Company of securities that are senior to, or equal in priority with, the preferred shares.

Registration rights: Preferred shareholders have certain customary registration rights with respect to the preferred shares and the shares of common shares into which they are converted, pursuant to the terms of a registration rights agreement.

5. Shareholders' equity

Share repurchases

In February 2016, the Board of Directors authorized the repurchase of Signet's common shares up to $750.0 million (the "2016 Program"). In August 2016, the Board of Directors increased its authorized share repurchase program by $625.0 million, bringing the total authorization for the 2016 Program to $1,375.0 million. The 2016 Program may be suspended or discontinued at any time without notice.

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To facilitate the share repurchase program, the Company periodically repurchases shares in the open market. On October 5, 2016, the Company entered into an accelerated share repurchase agreement (“ASR”) with a large financial institution to repurchase $525.0 million of the Company’s common shares. At inception, the Company paid $525.0 million to the financial institution and took delivery of 4.7 million shares with an initial estimated cost of $367.5 million.

The total number of shares to be delivered upon settlement will be calculated using the volume-weighted average price of the Company's common shares traded during the pricing period, less an agreed discount. If the total number of shares to be delivered exceeds the number of shares initially delivered, the Company will receive the remaining balance of shares from the financial institution. Based on the current trading prices of the Company’s common stock, additional shares are expected to be received. If the total number of shares to be delivered is less than the number of shares initially delivered, the Company has the contractual right to deliver either shares of the Company’s common stock or cash equal to the value of those shares to the financial institution. The pricing period is scheduled to end in December 2016, but may conclude sooner at the election of the financial institution.

The Company reflected shares delivered as treasury shares as of the date the shares were physically delivered in computing the weighted average common shares outstanding for both basic and diluted earnings per share. The ASR agreement was accounted for as a treasury stock transaction and a forward stock purchase contract. The forward stock purchase contract was determined to be indexed to the Company’s own stock and met all of the applicable criteria for equity classification. As of October 29, 2016, the Company recorded the $525.0 million payment to JPMorgan Chase Bank as a decrease to equity in the condensed consolidated balance sheets, consisting of decreases in treasury shares and additional paid-in capital.

During the 39 weeks ended October 29, 2016, the Company also repurchased 5.2 million common shares through open market transactions for a total cost of $475.0 million.

Common shares repurchased during the 39 weeks ended October 29, 2016 and October 31, 2015 were as follows:

(in millions, except per share amounts)	Amount authorized	39 weeks ended October 29, 2016 Shares repurchased	Amount repurchased	Average repurchase price per share	39 weeks ended October 31, 2015 Shares repurchased	Amount repurchased	Average repurchase price per share
2016 Program[1]	$ 1,375.0	8.7	$ 706.9	$ 81.32	n/a	n/a	n/a
2013 Program[2]	$ 350.0	1.2	135.6	$ 111.26	0.9	$ 111.9	$ 128.91
Total		9.9	$ 842.5	$ 85.00	0.9	$ 111.9	$ 128.91

(1) The 2016 Program had $510.6 million remaining as of October 29, 2016.

(2) The 2013 Program was completed in May 2016.

n/a Not applicable.

Dividends on common shares

(in millions, except per share amounts)	Fiscal 2017 Cash dividend per share	Total dividends	Fiscal 2016 Cash dividend per share	Total dividends
First quarter	$ 0.26	$ 20.4	$ 0.22	$ 17.6
Second quarter	0.26	19.7	0.22	17.6
Third quarter[1]	0.26	18.1	0.22	17.5
Total	$ 0.78	$ 58.2	$ 0.66	$ 52.7

(1) Signet’s dividend policy for common shares results in the dividend payment date being a quarter in arrears from the declaration date. As a result, as of October 29, 2016 and October 31, 2015, $18.1 million and $17.5 million, respectively, has been recorded in accrued expenses and other current liabilities in the condensed consolidated balance sheets reflecting the cash dividends on common shares declared for the third quarter of Fiscal 2017 and Fiscal 2016, respectively.

Dividends on preferred shares

As of October 29, 2016, no dividends were declared by the Company on preferred shares. As disclosed in the condensed consolidated income statement, cumulative undeclared dividends on the preferred shares since the date of issuance totaled $2.2 million and reduced net income attributable to common shareholders.

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6. Earnings per share

In calculating basic earnings per share ("EPS"), the Company follows the two-class method, which distinguishes between classes of securities based on the proportionate participation rights of each security type in the Company's undistributed income. The preferred shares issued on October 5, 2016 are considered participating securities as of October 29, 2016. Under the two-class method, income available to common shareholders is reduced by (a) the cumulative dividend on the Company's preferred shares whether or not declared or paid during the period, (b) accretion relating to issuance costs of preferred shares and (c) the hypothetical distribution of undistributed earnings to preferred shareholders in accordance with contractual rights. For the 13 and 39 weeks ended October 29, 2016, the two-class method did not impact EPS as no hypothetical distribution of undistributed earnings were allocable to preferred shareholders. See Note 4 for additional discussion of the Company's preferred shares, including changes to the rights of preferred shareholders as of November 2, 2016 which will result in the preferred shares no longer being considered participating securities, and consequently, the two-class method will no longer apply.

The dilutive effect of share awards represents the potential impact of outstanding awards issued under the Company's share-based compensation plans, including restricted shares and restricted stock units issued under the Omnibus Plan and stock options issued under the Share Saving Plans and the Executive Plans. The dilutive effect of preferred shares represents the potential impact for common shares that would be issued upon conversion. In computing diluted EPS, the Company also adjusts the numerator used in the basic EPS computation, subject to anti-dilution requirements, to add back the dividends (declared or cumulative undeclared) applicable to the preferred shares. Potential common share dilution related to share awards and preferred shares is determined using the treasury stock and if-converted methods, respectively.

The following table sets forth the computation of EPS for the 13 and 39 weeks ended October 29, 2016 and October 31, 2015:

(in millions, except per share amounts)	13 weeks ended October 29, 2016	13 weeks ended October 31, 2015	39 weeks ended October 29, 2016	39 weeks ended October 31, 2015
Net income	$17.0	$ 15.0	$245.7	$ 196.0
Less: Dividends on preferred shares	(2.2)	—	(2.2)	—
Net income attributable to common shareholders	$14.8	$ 15.0	$243.5	$ 196.0
Basic weighted average number of shares outstanding	73.5	79.3	76.4	79.7
Plus: Dilutive effect of share awards	0.1	0.2	0.1	0.2
Plus: Dilutive effect of preferred shares	—	n/a	—	n/a
Diluted weighted average number of shares outstanding	73.6	79.5	76.5	79.9
Earnings per share – basic	$0.20	$ 0.19	$3.19	$ 2.46
Earnings per share – diluted	$0.20	$ 0.19	$3.18	$ 2.45

The calculation of diluted EPS for the 13 and 39 weeks ended October 29, 2016 and October 31, 2015 excludes the following share awards and potential impact of preferred shares on the basis that their effect would be anti-dilutive.

(in millions)	October 29, 2016	October 31, 2015
Share awards	0.3	0.1
Preferred shares	6.7	—
Total anti-dilutive shares	7.0	0.1

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7. Accumulated other comprehensive income (loss)

The following tables present the changes in AOCI by component and the reclassifications out of AOCI, net of tax:

(in millions)	Foreign currency translation	Losses on available-for-sale securities, net	Gains (losses) on cash flow hedges	Pension plan: Actuarial losses	Pension plan: Prior service credits	Accumulated other comprehensive loss
Balance at January 30, 2016	$ (237.8)	$ (0.4)	$ (3.9)	$ (43.1)	$ 11.1	$ (274.1)
Other comprehensive income (loss) ("OCI") before reclassifications	(38.0)	0.2	8.2	—	—	(29.6)
Amounts reclassified from AOCI to net income	—	—	1.6	1.0	(1.2)	1.4
Net current period OCI	(38.0)	0.2	9.8	1.0	(1.2)	(28.2)
Balance at October 29, 2016	$ (275.8)	$ (0.2)	$ 5.9	$ (42.1)	$ 9.9	$ (302.3)

The amounts reclassified from AOCI were as follows:

(in millions)	Amounts reclassified from AOCI: 13 weeks ended October 29, 2016	13 weeks ended October 31, 2015	39 weeks ended October 29, 2016	39 weeks ended October 31, 2015	Income statement caption
(Gains) losses on cash flow hedges:					
Foreign currency contracts	$ (0.4)	$ (0.1)	$ (1.0)	$ —	Cost of sales (see Note 14)
Interest rate swaps	0.5	0.8	1.7	1.9	Interest expense, net (see Note 14)
Commodity contracts	(0.3)	0.4	1.7	1.0	Cost of sales (see Note 14)
Total before income tax	(0.2)	1.1	2.4	2.9	
Income taxes	0.1	(0.2)	(0.8)	(0.7)	
Net of tax	(0.1)	0.9	1.6	2.2	
Defined benefit pension plan items:					
Amortization of unrecognized actuarial losses	0.4	0.9	1.2	2.6	Selling, general and administrative expenses(1)
Amortization of unrecognized net prior service credits	(0.5)	(0.6)	(1.5)	(1.7)	Selling, general and administrative expenses(1)
Total before income tax	(0.1)	0.3	(0.3)	0.9	
Income taxes	0.1	(0.1)	0.1	(0.2)	
Net of tax	—	0.2	(0.2)	0.7	
Total reclassifications, net of tax	$ (0.1)	$ 1.1	$ 1.4	$ 2.9	

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

8. 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. The provision for income taxes is based on the current estimate of the consolidated annual effective tax rate. As of October 29, 2016, the effective tax rate for the Company was 25.0% compared to 28.9% in Fiscal 2016. The effective tax rate as of October 29, 2016 excludes the effects of any discrete items that may be recognized in future periods. During the third quarter of Fiscal 2017, there has been no material change in the amounts of unrecognized tax benefits, or the related accrued interest and penalties (where appropriate), in respect of uncertain tax positions identified as of January 30, 2016.

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9. 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.

(in millions)	October 29, 2016	January 30, 2016	October 31, 2015
Accounts receivable by portfolio segment, net:			
Sterling Jewelers customer in-house finance receivables	$ 1,546.3	$ 1,725.9	$ 1,437.2
Zale customer in-house finance receivables	26.4	13.6	—
Other accounts receivable	8.4	16.9	14.3
Total accounts receivable, net	$ 1,581.1	$ 1,756.4	$ 1,451.5

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.

During the third quarter of Fiscal 2016, Signet implemented a program to provide in-house credit to customers in the Zale division's US locations ("second look"). The allowance for credit losses associated with Zale customer in-house finance receivables was immaterial as of October 29, 2016, January 30, 2016 and October 31, 2015.

Other accounts receivable is comprised primarily of accounts receivable relating to the insurance loss replacement business in the UK Jewelry division of $7.7 million (January 30, 2016 and October 31, 2015: $13.6 million and $9.3 million, respectively).

The allowance for credit losses on Sterling Jewelers customer in-house finance receivables is shown below:

(in millions)	39 weeks ended October 29, 2016	39 weeks ended October 31, 2015
Beginning balance:	$ (130.0)	$ (113.1)
Charge-offs, net	143.1	121.5
Recoveries	26.8	27.0
Provision	(172.9)	(157.6)
Ending balance	$ (133.0)	$ (122.2)
Ending receivable balance evaluated for impairment	1,679.3	1,559.4
Sterling Jewelers customer in-house finance receivables, net	$ 1,546.3	$ 1,437.2

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

The credit quality indicator and age analysis of Sterling Jewelers customer in-house finance receivables are shown below:

(in millions)	October 29, 2016 Gross	October 29, 2016 Valuation allowance	January 30, 2016 Gross	January 30, 2016 Valuation allowance	October 31, 2015 Gross	October 31, 2015 Valuation allowance
Performing:						
Current, aged 0 – 30 days	$ 1,294.9	$ (39.3)	$ 1,473.0	$ (45.4)	$ 1,212.2	$ (36.8)
Past due, aged 31 – 60 days	250.6	(8.1)	259.6	(8.3)	226.0	(7.3)
Past due, aged 61 – 90 days	50.7	(2.5)	49.2	(2.2)	45.2	(2.1)
Non Performing:						
Past due, aged more than 90 days	83.1	(83.1)	74.1	(74.1)	76.0	(76.0)
	$ 1,679.3	$ (133.0)	$ 1,855.9	$ (130.0)	$ 1,559.4	$ (122.2)

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	October 29, 2016		January 30, 2016		October 31, 2015	
(as a % of the ending receivable balance)	Gross	Valuation allowance	Gross	Valuation allowance	Gross	Valuation allowance
Performing						
Current, aged 0 – 30 days	77.2 %	3.0 %	79.4 %	3.1 %	77.7 %	3.0 %
Past due, aged 31 – 60 days	14.9 %	3.2 %	14.0 %	3.2 %	14.5 %	3.2 %
Past due, aged 61 – 90 days	3.0 %	4.9 %	2.6 %	4.5 %	2.9 %	4.6 %
Non Performing						
Past due, aged more than 90 days	4.9 %	100.0 %	4.0 %	100.0 %	4.9 %	100.0 %
	100.0 %	7.9 %	100.0 %	7.0 %	100.0 %	7.8 %

Securitized credit card receivables

The Sterling Jewelers division securitizes its credit card receivables through its Sterling Jewelers Receivables Master Note Trust. See Note 17 for additional information regarding this asset-backed securitization facility.

10. Inventories

The following table summarizes the Company's inventory by classification:

(in millions)	October 29, 2016	January 30, 2016	October 31, 2015
Raw materials	$ 71.2	$ 81.8	$ 101.6
Finished goods	2,578.2	2,372.1	2,625.4
Total inventories	$ 2,649.4	$ 2,453.9	$ 2,727.0

11. Goodwill and intangibles

Goodwill

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

(in millions)	Sterling Jewelers	Zale Jewelry	Piercing Pagoda	UK Jewelry	Other	Total
Balance at January 31, 2015	$ 23.2	$ 492.4	$ —	$ —	$ 3.6	$ 519.2
Impact of foreign exchange	—	(3.7)	—	—	—	(3.7)
Balance at January 30, 2016	23.2	488.7	—	—	3.6	515.5
Impact of foreign exchange	—	1.5	—	—	—	1.5
Balance at October 29, 2016	$ 23.2	$ 490.2	$ —	$ —	$ 3.6	$ 517.0

There have been no goodwill impairment losses recognized during the fiscal periods presented in the condensed consolidated income statements. If future economic conditions are different than those projected by management, future impairment charges may occur.

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Intangibles

The following table provides detail regarding the composition of intangible assets and liabilities:

(in millions)	Balance sheet location	October 29, 2016 Gross carrying amount	Accumulated amortization	Net carrying amount	January 30, 2016 Gross carrying amount	Accumulated amortization	Net carrying amount	October 31, 2015 Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangible assets:										
Trade names	Intangible assets, net	$1.4	$(0.7)	$0.7	$1.4	$(0.5)	$0.9	$1.5	$(0.4)	$1.1
Favorable leases	Intangible assets, net	47.5	(32.6)	14.9	47.0	(22.3)	24.7	47.6	(19.2)	28.4
Total definite-lived intangible assets		48.9	(33.3)	15.6	48.4	(22.8)	25.6	49.1	(19.6)	29.5
Indefinite-lived trade names	Intangible assets, net	404.2	—	404.2	402.2	—	402.2	404.8	—	404.8
Total intangible assets, net		$453.1	$(33.3)	$419.8	$450.6	$(22.8)	$427.8	$453.9	$(19.6)	$434.3
Definite-lived intangible liabilities:										
Unfavorable leases	Other liabilities	$(48.1)	$34.7	$(13.4)	$(47.7)	$23.7	$(24.0)	$(48.3)	$20.4	$(27.9)
Unfavorable contracts	Other liabilities	(65.6)	32.1	(33.5)	(65.6)	28.1	(37.5)	(65.6)	27.6	(38.0)
Total intangible liabilities, net		$(113.7)	$66.8	$(46.9)	$(113.3)	$51.8	$(61.5)	$(113.9)	$48.0	$(65.9)

12. Other assets

(in millions)	October 29, 2016	January 30, 2016	October 31, 2015
Deferred ESP selling costs	$ 81.8	$ 79.4	$ 74.6
Investments[(1)]	27.5	26.8	25.0
Other assets[(2)]	48.2	48.4	36.8
Total other assets	$ 157.5	$ 154.6	$ 136.4

(1) See Note 13 for additional information.

(2) Amounts adjusted to reflect the reclassification of capitalized debt issuance costs in accordance with Signet's adoption of FASB ASU 2015-03 during the first quarter of Fiscal 2017. See Note 2 for additional information.

In addition, other current assets include deferred direct selling costs in relation to the sale of ESP of $27.6 million as of October 29, 2016 (January 30, 2016 and October 31, 2015: $26.4 million and $24.0 million, respectively).

13. Investments

Investments in debt and equity securities are held by certain insurance subsidiaries and are reported at fair value as other assets in the accompanying condensed consolidated balance sheets. All investments are classified as available-for-sale and include the following:

(in millions)	October 29, 2016 Cost	Unrealized gain (loss)	Fair Value	January 30, 2016 Cost	Unrealized gain (loss)	Fair Value	October 31, 2015 Cost	Unrealized gain (loss)	Fair Value
US Treasury securities	$8.8	$ (0.5)	$8.3	$9.2	$ (0.4)	$8.8	$9.2	$ (0.4)	$8.8
US government agency securities	4.6	(0.1)	4.5	4.0	—	4.0	2.3	—	2.3
Corporate bonds and notes	11.0	0.1	11.1	10.8	—	10.8	10.5	—	10.5

Corporate equity securities	3.5	0.1		3.6	3.5	(0.3	)	3.2	3.4	—		3.4
Total investments	$27.9	$ (0.4	)	$27.5	$27.5	$ (0.7	)	$26.8	$25.4	$ (0.4	)	$25.0

Realized gains and losses on investments are determined on the specific identification basis. There were no material net realized gains or losses during the 13 and 39 weeks ended October 29, 2016 and October 31, 2015. Investments with a carrying value of $6.6 million were on deposit with various state insurance departments at October 29, 2016 (January 30, 2016 and October 31, 2015: $7.1 million and $7.2 million, respectively), as required by law.

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Investments in debt securities outstanding as of October 29, 2016 mature as follows:

(in millions)	Cost	Fair Value
Less than one year	$1.3	$ 0.8
Year two through year five	12.6	12.6
Year six through year ten	10.5	10.5
After ten years	—	—
Total investment in debt securities	$24.4	$ 23.9

14. Derivatives

Derivative transactions are used by Signet for risk management purposes to address risks inherent in Signet’s business operations and sources of financing. The main risks arising from Signet’s operations are market risk including foreign currency risk, commodity risk, liquidity risk and interest rate risk. Signet uses derivative financial instruments to manage and mitigate certain of these risks under policies reviewed and approved by the Board of Directors. Signet does not enter into derivative transactions for speculative purposes.

Market risk

Signet generates revenues and incurs expenses in US dollars, Canadian dollars and British pounds. As a portion of UK Jewelry purchases and purchases made by the Canadian operations of the Zale division are denominated in US dollars, Signet enters into forward foreign currency exchange contracts and foreign currency swaps to manage this exposure to the US dollar.

Signet holds a fluctuating amount of British pounds and Canadian dollars reflecting the cash generative characteristics of operations. Signet’s objective is to minimize net foreign exchange exposure to the income statement on non-US dollar denominated items through managing cash levels, non-US dollar denominated intra-entity balances and foreign currency swaps. In order to manage the foreign exchange exposure and minimize the level of funds denominated in British pounds and Canadian dollars, dividends are paid regularly by subsidiaries to their immediate holding companies and excess British pounds and Canadian dollars are sold in exchange for US dollars.

Signet’s policy is to minimize the impact of precious metal commodity price volatility on operating results through the use of outright forward purchases of, or by entering into options to purchase, precious metals within treasury guidelines approved by the Board of Directors. In particular, Signet undertakes some hedging of its requirements for gold through the use of options, net zero-cost collar arrangements (a combination of call and put option contracts), forward contracts and commodity purchasing, while fluctuations in the cost of diamonds are not hedged.

Liquidity risk

Signet’s objective is to ensure that it has access to, or the ability to generate, sufficient cash from either internal or external sources in a timely and cost-effective manner to meet its commitments as they become due and payable. Signet manages liquidity risks as part of its overall risk management policy. Management produces forecasting and budgeting information that is reviewed and monitored by the Board of Directors. Cash generated from operations and external financing are the main sources of funding, which supplement Signet’s resources in meeting liquidity requirements.

The main external sources of funding are a senior unsecured credit facility, senior unsecured notes and securitized credit card receivables, as described in Note 17.

Interest rate risk

Signet has exposure to movements in interest rates associated with cash and borrowings. Signet may enter into various interest rate protection agreements in order to limit the impact of movements in interest rates.

Interest rate swap (designated) — The Company entered into an interest rate swap in March 2015 with an aggregate notional amount of $300.0 million that is scheduled to mature through April 2019. Under this contract, the Company agrees to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional amounts. This contract was entered into to reduce the consolidated interest rate risk associated with variable rate, long-term debt. The Company designated this derivative as a cash flow hedge of the variability in expected cash outflows for interest payments. The Company has effectively converted a portion of its variable-rate senior unsecured term loan into fixed-rate debt.

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The fair value of the swap is presented within the condensed consolidated balance sheets, and the Company recognizes any changes in the fair value as an adjustment of AOCI within equity to the extent the swap is effective. The ineffective portion, if any, is recognized in current period earnings. As interest expense is accrued on the debt obligation, amounts in AOCI related to the interest rate swap are reclassified into income resulting in a net interest expense on the hedged amount of the underlying debt obligation equal to the effective yield of the fixed rate of the swap. In the event that the interest rate swap is dedesignated prior to maturity, gains or losses in AOCI remain deferred and are reclassified into earnings in the periods in which the hedged forecasted transaction affects earnings.

Credit risk and concentrations of credit risk

Credit risk represents the loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Signet does not anticipate non-performance by counterparties of its financial instruments, except for customer in-house financing receivables as disclosed in Note 9 of which no single customer represents a significant portion of the Company’s receivable balance. Signet does not require collateral or other security to support cash investments or financial instruments with credit risk; however, it is Signet’s policy to only hold cash and cash equivalent investments and to transact financial instruments with financial institutions with a certain minimum credit rating. Management does not believe Signet is exposed to any significant concentrations of credit risk that arise from cash and cash equivalent investments, derivatives or accounts receivable.

Commodity and foreign currency risks

The following types of derivative financial instruments are utilized by Signet to mitigate certain risk exposures related to changes in commodity prices and foreign exchange rates:

Forward foreign currency exchange contracts (designated) — These contracts, which are principally in US dollars, are entered into to limit the impact of movements in foreign exchange rates on forecasted foreign currency purchases. The total notional amount of these foreign currency contracts outstanding as of October 29, 2016 was $27.8 million (January 30, 2016 and October 31, 2015: $10.7 million and $20.9 million, respectively). These contracts have been designated as cash flow hedges and will be settled over the next 15 months (January 30, 2016 and October 31, 2015: 6 months and 9 months, respectively).

Forward foreign currency exchange contracts (undesignated) — Foreign currency contracts not designated as cash flow hedges are used to limit the impact of movements in foreign exchange rates on recognized foreign currency payables and to hedge currency flows through Signet’s bank accounts to mitigate Signet’s exposure to foreign currency exchange risk in its cash and borrowings. The total notional amount of these foreign currency contracts outstanding as of October 29, 2016 was $53.2 million (January 30, 2016 and October 31, 2015: $32.0 million and $35.5 million, respectively).

Commodity forward purchase contracts and net zero-cost collar arrangements (designated) — These contracts are entered into to reduce Signet’s exposure to significant movements in the price of the underlying precious metal raw material. The total notional amount of these commodity derivative contracts outstanding as of October 29, 2016 was 57,000 ounces of gold (January 30, 2016 and October 31, 2015: 76,000 ounces and 73,000 ounces, respectively). These contracts have been designated as cash flow hedges and will be settled over the next 15 months (January 30, 2016 and October 31, 2015: 12 months and 14 months, respectively).

The bank counterparties to the derivative instruments expose Signet to credit-related losses in the event of their non-performance. However, to mitigate that risk, Signet only contracts with counterparties that meet certain minimum requirements under its counterparty risk assessment process. As of October 29, 2016, Signet believes that this credit risk did not materially change the fair value of the foreign currency or commodity contracts.

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

(in millions)	Fair value of derivative assets Balance sheet location	October 29, 2016	January 30, 2016	October 31, 2015
Derivatives designated as hedging instruments:				
Foreign currency contracts	Other current assets	$ 3.5	$ 0.8	$ 0.1
Commodity contracts	Other current assets	0.6	0.6	0.3
Commodity contracts	Other assets	—	—	0.1
Total derivative assets		$ 4.1	$ 1.4	$ 0.5

(in millions)	Fair value of derivative liabilities Balance sheet location	October 29, 2016	January 30, 2016	October 31, 2015
Derivatives designated as hedging instruments:				
Foreign currency contracts	Other current liabilities	$ —	$ —	$ (0.1)
Commodity contracts	Other current liabilities	(0.7)	(0.8)	(1.1)
Interest rate swaps	Other liabilities	(2.3)	(3.4)	(2.1)
		(3.0)	(4.2)	(3.3)
Derivatives not designated as hedging instruments:				
Foreign currency contracts	Other current liabilities	(0.1)	(0.2)	—
Total derivative liabilities		$ (3.1)	$ (4.4)	$ (3.3)

Derivatives designated as cash flow hedges

The following table summarizes the pre-tax gains (losses) recorded in AOCI for derivatives designated in cash flow hedging relationships:

(in millions)	October 29, 2016	January 30, 2016	October 31, 2015
Foreign currency contracts	$ 6.4	$ 1.4	$ 0.5
Commodity contracts	3.8	(3.7)	(3.9)
Interest rate swaps	(2.3)	(3.4)	(2.1)
Gains (losses) recorded in AOCI	$ 7.9	$ (5.7)	$ (5.5)

The following tables summarize the effect of derivative instruments designated as cash flow hedges in OCI and the condensed consolidated income statements:

Foreign currency contracts

(in millions)	Income statement caption	13 weeks ended October 29, 2016	13 weeks ended October 31, 2015	39 weeks ended October 29, 2016	39 weeks ended October 31, 2015
Gains recorded in AOCI, beginning of period		$3.8	$ 0.4	$1.4	$ 0.9
Current period gains (losses) recognized in OCI		3.0	0.2	6.0	(0.4)
(Gains) losses reclassified from AOCI to net income	Cost of sales	(0.4)	(0.1)	(1.0)	—
Gains recorded in AOCI, end of period		$6.4	$ 0.5	$6.4	$ 0.5

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Commodity contracts

(in millions)	Income statement caption	13 weeks ended October 29, 2016	13 weeks ended October 31, 2015	39 weeks ended October 29, 2016	39 weeks ended October 31, 2015
Gains (losses) recorded in AOCI, beginning of period		$6.2	$ (8.3)	$(3.7)	$ 5.7
Current period gains (losses) recognized in OCI		(2.1)	4.0	5.8	(10.6)
(Gains) losses reclassified from AOCI to net income	Cost of sales	(0.3)	0.4	1.7	1.0
Gains (losses) recorded in AOCI, end of period		$3.8	$ (3.9)	$3.8	$ (3.9)

Interest rate swaps

(in millions)	Income statement caption	13 weeks ended October 29, 2016	13 weeks ended October 31, 2015	39 weeks ended October 29, 2016	39 weeks ended October 31, 2015
Losses recorded in AOCI, beginning of period		$(3.8)	$ (0.9)	$(3.4)	$ —
Current period gains (losses) recognized in OCI		1.0	(2.0)	(0.6)	(4.0)
Losses reclassified from AOCI to net income	Interest expense, net	0.5	0.8	1.7	1.9
Losses recorded in AOCI, end of period		$(2.3)	$ (2.1)	$(2.3)	$ (2.1)

There was no material ineffectiveness related to the Company's derivative instruments designated in cash flow hedging relationships for the 13 and 39 weeks ended October 29, 2016 and October 31, 2015. Based on current valuations, the Company expects approximately $7.6 million of net pre-tax derivative gains to be reclassified out of AOCI into earnings within the next 12 months.

Derivatives not designated as hedging instruments

The following table presents the effects of the Company's derivatives instruments not designated as cash flow hedges in the condensed consolidated income statements:

(in millions)	Income statement caption	13 weeks ended October 29, 2016	13 weeks ended October 31, 2015	39 weeks ended October 29, 2016	39 weeks ended October 31, 2015
Derivatives not designated as hedging instruments:					
Foreign currency contracts	Other operating income, net	$1.6	$ (1.4)	$3.2	$ (1.0)

15. Fair value measurement

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

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

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

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

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

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	October 29, 2016			January 30, 2016			October 31, 2015		
(in millions)	Carrying Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Carrying Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Carrying Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Assets:									
US Treasury securities	$8.3	$ 8.3	$ —	$8.8	$ 8.8	$ —	$8.8	$ 8.8	$ —
Corporate equity securities	3.6	3.6	—	3.2	3.2	—	3.4	3.4	—
Foreign currency contracts	3.5	—	3.5	0.8	—	0.8	0.1	—	0.1
Commodity contracts	0.6	—	0.6	0.6	—	0.6	0.4	—	0.4
US government agency securities	4.5	—	4.5	4.0	—	4.0	2.3	—	2.3
Corporate bonds and notes	11.1	—	11.1	10.8	—	10.8	10.5	—	10.5
Total assets	$31.6	$ 11.9	$ 19.7	$28.2	$ 12.0	$ 16.2	$25.5		