

J JILL GROUP INC  
Form 10-Q  
August 13, 2002

[QuickLinks](#) -- Click here to rapidly navigate through this document

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

---

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED JUNE 29, 2002**  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Commission file number 0-22480**

---

**The J. Jill Group, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**04-2973769**

(I.R.S. Employer Identification No.)

**4 Batterymarch Park, Quincy, MA**  
(Address of Principal Executive Offices)

**02169**  
(Zip Code)

Registrant's telephone number, including area code: **(617) 376-4300**

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Shares outstanding of the Registrant's common stock (par value \$0.01) at July 26, 2002: 19,339,299

---

---

---

**THE J. JILL GROUP, INC.**

**INDEX TO QUARTERLY REPORT ON FORM 10-Q**

**FOR THE QUARTER ENDED JUNE 29, 2002**

	<u>Page</u>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Condensed Consolidated Financial Statements	
Consolidated Balance Sheets at June 29, 2002, June 30, 2001 and December 29, 2001	3
Consolidated Statements of Operations for the three months and the six months ended June 29, 2002 and June 30, 2001	4
Consolidated Statements of Cash Flows for the six months ended June 29, 2002 and June 30, 2001	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3. Quantitative and Qualitative Disclosures about Market Risk	20
<b>PART II OTHER INFORMATION</b>	
Item 4. Submission of Matters to a Vote of Security Holders	21
Item 5. Other Information	21
Item 6. Exhibits and Reports on Form 8-K	22
<b>SIGNATURES</b>	<b>23</b>

**THE J. JILL GROUP, INC.**

**CONSOLIDATED BALANCE SHEETS**

(in thousands)

(unaudited)

	<u>June 29, 2002</u>	<u>June 30, 2001</u>	<u>December 29, 2001</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 49,335	\$ 20,001	\$ 30,152
Cash held in escrow	805	762	498
Accounts receivable, net	5,900	1,543	13,615
Inventory	29,775	39,454	31,855
Prepaid catalog expenses	4,879	4,951	4,583
Deferred income taxes	7,202	7,563	7,431
Other current assets	4,747	3,153	3,612
	<u>102,643</u>	<u>77,427</u>	<u>91,746</u>
Property and equipment, net	97,429	72,292	86,554
Deferred income taxes		1,222	237

Edgar Filing: J JILL GROUP INC - Form 10-Q

	June 29, 2002	June 30, 2001	December 29, 2001
Other non-current assets	3,098	1,592	1,440
Total assets	\$ 203,170	\$ 152,533	\$ 179,977
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 14,264	\$ 10,112	\$ 13,348
Accrued expenses	14,726	10,937	15,736
Accrued customer returns	6,422	4,685	6,562
Current portion of long-term debt	1,731	1,896	1,755
Total current liabilities	37,143	27,630	37,401
Long-term debt, less current portion	14,707	16,410	15,590
Deferred credits from landlords	18,690	6,878	14,049
Deferred income taxes	639		
Commitments			
Stockholders' equity:			
Special preferred stock (par value \$0.01) 1,000,000 shares authorized			
Common stock (par value \$0.01) 30,000,000 shares authorized, 19,301,799, 11,916,611 and 12,070,466 shares issued and outstanding as of June 29, 2002, June 30, 2001 and December 29, 2001, respectively	193	119	121
Additional paid-in capital	103,920	92,499	94,049
Retained earnings	27,878	8,997	18,767
Total stockholders' equity	131,991	101,615	112,937
Total liabilities and stockholders' equity	\$ 203,170	\$ 152,533	\$ 179,977

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

3

**THE J. JILL GROUP, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001
Net sales	\$ 86,355	\$ 66,193	\$ 159,712	\$ 129,525
Cost of products and merchandising	50,913	44,735	98,849	89,027

Edgar Filing: J JILL GROUP INC - Form 10-Q

	Three Months Ended		Six Months Ended	
Gross margin	35,442	21,458	60,863	40,498
Selling, general and administrative expenses	24,488	16,835	45,156	34,280
Income before interest and taxes	10,954	4,623	15,707	6,218
Interest, net	173	176	384	399
Income before taxes	10,781	4,447	15,323	5,819
Income tax provision	4,366	1,868	6,212	2,444
Net income	\$ 6,415	\$ 2,579	\$ 9,111	\$ 3,375

**Earnings per share:**

<i>Basic</i>	\$ 0.34	\$ 0.14	\$ 0.49	\$ 0.19
<i>Diluted</i>	\$ 0.32	\$ 0.14	\$ 0.46	\$ 0.18

**Weighted average shares outstanding:**

<i>Basic</i>	19,051	17,832	18,705	17,365
<i>Diluted</i>	20,153	18,849	19,879	18,439

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

4

**THE J. JILL GROUP, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	Six Months Ended	
	June 29, 2002	June 30, 2001
Cash flows provided by operating activities:		
Net income	\$ 9,111	\$ 3,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,791	3,942
Deferred income taxes	1,105	372
Changes in assets and liabilities:		
Decrease in accounts receivable	7,715	6,936
(Increase) decrease in inventory	2,080	(1,580)
Increase in prepaid catalog expenses	(296)	(835)
Increase in other assets	(872)	(1,429)
Increase (decrease) in accounts payable	844	(3,848)
Increase (decrease) in accrued expenses	2,416	(1,997)
Decrease in accrued customer returns	(140)	(2,048)

Edgar Filing: J JILL GROUP INC - Form 10-Q

	Six Months Ended	
	2001	2000
Increase in deferred credits from landlords	4,641	1,918
<b>Net cash provided by operating activities</b>	<b>32,395</b>	<b>4,806</b>
<b>Cash flows used in investing activities:</b>		
Increase in cash held in escrow	(307)	(355)
Investment in trust assets	(1,921)	
Additions to property and equipment	(16,396)	(11,963)
<b>Net cash used in investing activities</b>	<b>(18,624)</b>	<b>(12,318)</b>
<b>Cash flows provided by financing activities:</b>		
Borrowings under debt agreements	6,260	35,295
Payments of debt borrowings	(7,167)	(38,374)
Proceeds from stock transactions	6,319	28,998
<b>Net cash provided by financing activities</b>	<b>5,412</b>	<b>25,919</b>
<b>Net increase in cash and cash equivalents</b>	<b>19,183</b>	<b>18,407</b>
<b>Cash and cash equivalents at:</b>		
Beginning of period	30,152	1,594
<b>End of period</b>	<b>\$ 49,335</b>	<b>\$ 20,001</b>

**Supplemental information:**

**Non-cash investing activities:**

Construction in progress accrued, not paid	\$ 1,890	\$ 812
--	----------	--------

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

**THE J. JILL GROUP, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

The financial statements included herein have been prepared by The J. Jill Group, Inc. (together with its wholly owned consolidated subsidiaries, the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, and in the opinion of management contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. Accordingly, although the Company believes that the disclosures are adequate to make the information presented not misleading, these financial statements should be read in conjunction with the Company's consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2001 ("fiscal 2001"). As a retailer, the Company is subject to seasonal fluctuations in net sales. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

**A. Nature of business:**

## Edgar Filing: J JILL GROUP INC - Form 10-Q

The Company is a specialty retailer of high quality women's apparel, accessories and footwear that markets its products through its catalogs, retail stores and e-commerce website.

### B. Stock split:

On June 4, 2002, the Company announced a three-for-two stock split effected in the form of a stock dividend paid on June 28, 2002 to shareholders of record on June 14, 2002. All historical per share amounts and basic and diluted share amounts utilized in the calculations of earnings per share have been restated to reflect the effects of the three-for-two stock split. The outstanding shares and common stock amounts presented on the consolidated balance sheets as of December 29, 2001 and June 30, 2001 have not been restated to include the effects of the stock split. All common stock amounts and activity after the date of the stock split reflect the three-for-two stock split.

### C. Debt:

The Company's credit facilities at June 29, 2002 consisted of (i) a \$50,000,000 revolving credit facility (the "Revolving Credit Facility"); (ii) a \$12,000,000 real estate loan (the "Tilton Facility Loan"); and (iii) a \$9,500,000 equipment loan (the "Equipment Loan").

The Company entered into the Revolving Credit Facility on June 29, 2001 to replace its prior revolving credit facility. On July 25, 2002, the Revolving Credit Facility was amended to extend its term and change certain lending conditions and compliance requirements including, among other things, changing the maximum number of new retail store openings allowed under the agreement to 90 for the two-year period consisting of fiscal 2002 and fiscal 2003, and 50 for each subsequent fiscal year. In addition, the debt service coverage ratio was amended to be less restrictive with respect to capital expenditures to the extent that the Company's cash balances exceed \$28,706,000 at each reportable balance sheet date. The maturity date of the Revolving Credit Facility, as amended, is June 1, 2004. The Revolving Credit Facility is collateralized by substantially all the personal property, both tangible and intangible, of the Company. At June 29, 2002, the Revolving Credit Facility bore interest at 4.75% per annum. The amount available under the Revolving Credit Facility is reduced by outstanding borrowings and outstanding letters of credit. Outstanding borrowings may not exceed \$20,000,000 and bear interest at an annual rate equal to the prime lending rate announced by one of the participating

6

---

banks or the LIBOR lending rate plus 1.75% per annum. There were no outstanding borrowings on the Revolving Credit Facility at June 29, 2002 or June 30, 2001. Outstanding letters of credit totaled \$29,825,000 and \$22,084,000 at June 29, 2002 and June 30, 2001, respectively. Availability under the Revolving Credit Facility at June 29, 2002 and June 30, 2001 was \$20,175,000 and \$27,916,000, respectively. Outstanding letters of credit do not bear interest. The Company is required to pay a commitment fee of  $\frac{1}{4}$  of 1% per annum on the unused portion of the Revolving Credit Facility.

The Tilton Facility Loan is collateralized by a mortgage lien on the Company's operations, fulfillment and distribution center in Tilton, New Hampshire (the "Tilton facility"). The Tilton facility is owned by Birch Pond Realty Corporation, a wholly owned subsidiary of The J. Jill Group, Inc., and leased to The J. Jill Group, Inc. Payments of principal and interest on the Tilton Facility Loan, a 10-year loan, are due monthly, based on a 20-year amortization, with a balloon payment of the remaining balance payable on April 1, 2009. The interest rate on the Tilton Facility Loan is fixed at 7.30% per annum.

The Equipment Loan is collateralized by substantially all of the Company's materials handling equipment. The Equipment Loan requires monthly payments of principal and interest through its maturity on December 1, 2005, and has a weighted average interest rate of 7.62% per annum.

The Company's credit facilities contain various lending conditions and covenants and restrictions on permitted liens. In the case of the Revolving Credit Facility, these conditions and covenants include certain financial coverage calculations and ratios, including (i) indebtedness and outstanding letter of credit balance to tangible net worth; (ii) hard current assets to current liabilities; (iii) debt service coverage; (iv) indebtedness, outstanding letter of credit balance and net present value of operating leases to tangible net worth; (v) minimum tangible net worth; and (vi) minimum net profit. The manner of making these calculations and computing these ratios is defined by the provisions of the Fifth Amended and Restated Loan Agreement, as amended, which is part of the Revolving Credit Facility. The Company was in compliance with the covenants associated with its credit facilities as of and for the quarters ended June 29, 2002 and June 30, 2001.

A summary of the Company's outstanding long-term debt follows (in thousands):

June 29, 2002	June 30, 2001	December 29, 2001
------------------	------------------	----------------------

Edgar Filing: J JILL GROUP INC - Form 10-Q

Real estate loans	\$ 11,099	\$ 11,408	\$ 11,257
Equipment loans	5,270	6,518	5,906
Furniture loans		263	89
Capitalized lease obligations	69	117	93
<b>Total long-term debt</b>	<b>16,438</b>	<b>18,306</b>	<b>17,345</b>
Less current maturities	(1,731)	(1,896)	(1,755)
<b>Long-term debt, less current portion</b>	<b>\$ 14,707</b>	<b>\$ 16,410</b>	<b>\$ 15,590</b>

At June 29, 2002, the Company estimated the fair value of its outstanding borrowings, including current maturities, to be \$18,607,000.

**D. Earnings per share:**

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations follows (in thousands, except per share data). All historical per share amounts and basic

7

and diluted share amounts utilized in the calculations of earnings per share have been restated to reflect the effects of the three-for-two stock split.

	Three Months Ended		Six Months Ended	
	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001
<b>Numerator:</b>				
Net income	\$ 6,415	\$ 2,579	\$ 9,111	\$ 3,375
<b>Denominator (shares):</b>				
Basic weighted average shares outstanding	19,051	17,832	18,705	17,365
Assumed exercise of stock options	1,102	1,017	1,174	1,074
Diluted weighted average shares outstanding	20,153	18,849	19,879	18,439
<b>Earnings per share:</b>				
<i>Basic</i>	\$ 0.34	\$ 0.14	\$ 0.49	\$ 0.19
<i>Diluted</i>	\$ 0.32	\$ 0.14	\$ 0.46	\$ 0.18

During the second quarter of fiscal 2002, options to purchase 669,000 shares of the Company's common stock were granted and options to purchase 704,091 shares of common stock were exercised pursuant to the Company's stock option plans. Also during the second quarter of fiscal 2002, the Company received \$3,491,000 in cash from the exercise of stock options and recorded a related tax benefit of \$2,062,000. During the six months ended June 29, 2002, options to purchase 1,060,500 shares of the Company's common stock were granted and options to purchase 1,158,695 shares of common stock were exercised pursuant to the Company's stock option plans. Also, during the six months ended June 29, 2002, the Company received \$5,979,000 in cash from the exercise of stock options and recorded a related tax benefit of \$3,624,000.

At June 30, 2001, of the options then outstanding, options to purchase 135,000 shares of common stock were excluded from the computation of diluted earnings per share on the basis that such options were antidilutive. At June 29, 2002, there were no options excluded from the computation.

**E. Commitments:**

The Company leases certain of its facilities under non-cancellable operating leases having initial or remaining terms of more than one year. Many of the Company's leases contain scheduled increases in annual rent payments and the majority of the Company's real estate leases also require the Company to pay maintenance, insurance and real estate taxes. Additionally, certain of the Company's leases include provisions for the payment of additional rent based on a percentage of sales over an established minimum.

During the six months ended June 29, 2002, the Company entered into leases for 18 retail stores, each having terms of approximately 10 years. At June 29, 2002, the future minimum lease payments for

8

operating leases having a remaining term in excess of one year at such date, including the 18 operating leases entered into during the six months, were as follows (in thousands):

For the remainder of fiscal 2002	\$ 7,951
Fiscal 2003	16,745
Fiscal 2004	17,004
Fiscal 2005	17,106
Fiscal 2006	17,177
Thereafter	82,712
	<hr/>
Total	\$ 158,695
	<hr/>

Most of the Company's retail store leases contain provisions that allow for early termination of the lease by either party if certain predetermined annual sales levels are not met. Generally, these provisions only allow the lease to be terminated between the third and fifth year of the lease. Should the lease be terminated under these provisions, the unamortized portion of any landlord allowances related to that property would be payable to the landlord.

**F. Deferred credits from landlords:**

Deferred credits from landlords includes step rent and allowances from landlords related to the Company's retail store leases. The benefit of these deferred credits is recognized over the applicable lease term.

**G. Segment information:**

The Company currently has two reportable business segments, direct and retail. Each segment is separately managed and utilizes distinct distribution, marketing and inventory management strategies. The direct segment markets merchandise through catalogs and an e-commerce website. The retail segment markets merchandise through retail stores. Results from the Company's catalog outlet stores are included in the direct segment. Segment reporting is intended to give financial statement users a view of the Company "through the eyes of management." The Company's internal management reporting is the basis for the information disclosed for its business segments.

The Company evaluates its segment profitability based on the direct contribution of each segment. Direct contribution represents each segment's net sales less direct costs related to the segment's operations. Direct costs for both segments include merchandise acquisition and control costs and provisions for markdowns. Direct costs also include catalog costs, certain order processing costs and e-commerce selling costs for the direct segment and retail store selling, occupancy and administrative costs for the retail segment. Direct contribution less unallocated shared-service costs and general and administrative expenses is equal to income before interest and taxes. Unallocated shared-service costs include distribution and warehousing costs as well as merchandising and product development costs. General and administrative expenses include corporate executive management costs, support service costs (e.g. shared information systems, finance and human resources) and corporate headquarters occupancy costs. Segment assets are those that are directly used in or identified with segment operations, including inventory in stores, fixed assets primarily related to store construction, accounts receivable and other operating assets. Unallocated assets include corporate cash and cash equivalents, the Company's corporate headquarters and distribution facility, corporate information systems, deferred tax amounts, all inventory except inventory in stores and other corporate assets. The accounting policies of the Company's segments are the same as those described in Note B in the Company's Annual Report on Form 10-K for fiscal 2001. In addition, inter-segment balances and transactions have been eliminated.



The following tables provide financial information by segment and a reconciliation of segment direct contribution to income before interest and taxes (in thousands):

	Three Months Ended		Six Months Ended	
	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001
<b>Net sales:</b>				
Direct	\$ 56,010	\$ 50,451	\$ 107,188	\$ 103,433
Retail	30,591	16,063	53,002	26,850
Other (1)	(246)	(321)	(478)	(758)
<b>Total net sales</b>	<b>\$ 86,355</b>	<b>\$ 66,193</b>	<b>\$ 159,712</b>	<b>\$ 129,525</b>
<b>Direct contribution reconciliation:</b>				
Direct	\$ 18,953	\$ 13,762	\$ 35,367	\$ 25,833
Retail	4,462	884	3,607	(379)
<b>Total direct contribution</b>	<b>\$ 23,415</b>	<b>\$ 14,646</b>	<b>\$ 38,974</b>	<b>\$ 25,454</b>
Unallocated shared-service costs	(5,940)	(5,676)	(12,039)	(11,251)
General and administrative expenses	(6,521)	(4,347)	(11,228)	(7,985)
<b>Income before interest and taxes</b>	<b>\$ 10,954</b>	<b>\$ 4,623</b>	<b>\$ 15,707</b>	<b>\$ 6,218</b>

(1) Other represents certain sales allowances not specifically attributable to the direct and retail business segments.

	Direct	Retail	Unallocated Assets	Total
<b>Identifiable assets:</b>				
June 29, 2002	\$ 4,976	\$ 73,127	\$ 125,067	\$ 203,170
June 30, 2001	\$ 4,454	\$ 38,926	\$ 109,153	\$ 152,533

#### H. Deferred compensation:

Effective January 1, 2002, the Company established an unfunded deferred compensation plan (the "Plan") to provide benefits for management and members of the Board of Directors. The Plan provides for (i) elective deferrals of salary, incentive compensation and board member fees on a pre-tax basis within limits specified by the Plan ("compensation deferrals"), (ii) discretionary contributions by the Company ("discretionary contributions"), which may be made subject to vesting requirements, and (iii) certain other contributions by the Company to be made in connection with the Company's annual discretionary match for its 401(k) Plan, if any ("other contributions"). Participants in the Plan are required to designate how they would like their compensation deferrals, discretionary contributions and other contributions to be measured based on the various measurement options provided by the Plan. At June 29, 2002, a deferred compensation liability to participants of \$1,475,000, including vested discretionary Company contributions, was part of accrued expenses in the accompanying consolidated balance sheet. During the second quarter of fiscal 2002, the Company made a fully vested discretionary contribution into the deferred compensation plan for its President and Chief Executive Officer of \$1,000,000.

Separately, the Company, at its discretion, has transferred a total of \$1,921,000 to a trust. The trust assets at June 29, 2002 totaled \$1,861,000, net of investment gains and losses and various fees and expenses. The trust assets are invested in corporate owned life insurance in a manner that is designed to approximate the measurement designations of the Plan participants, for both vested and unvested balances. Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of these investments will occur in the near term and that such changes will also impact participant deferred compensation balances based on the measurement designations made by the participant. Changes in value of the trust assets are intended to mirror changes in value of the participants' deferred compensation accounts. The trust assets are included in other non-current assets on the accompanying consolidated balance sheet at June 29, 2002.

#### **I. Reclassifications:**

Certain amounts in the prior year financial statements and related notes have been reclassified to conform to the current period presentation. In addition to certain reclassifications in the accompanying financial statements, segment information for the three months and six months ended June 30, 2001 has been presented to conform to current period presentation and management's current internal reporting structure.

#### **J. Recent accounting standards:**

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement No. 146 ("SFAS 146"), *"Accounting for Costs Associated with Exit or Disposal Activities."* This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3 ("EITF 94-3"), *"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."* SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. EITF 94-3 allowed for an exit cost liability to be recognized at the date of an entity's commitment to an exit plan. SFAS 146 also requires that liabilities recorded in connection with exit plans be initially measured at fair value. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early adoption encouraged. The Company is evaluating the effect of the adoption of SFAS 146 and does not expect the adoption of SFAS 146 to have a material impact, if any, on the Company's consolidated financial statements.

In April 2002, the FASB issued Statement No. 145 ("SFAS 145"), *"Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections,"* which supersedes FASB issued Statement No. 4, *"Reporting Gains and Losses from Extinguishment of Debt,"* FASB issued Statement No. 44, *"Accounting for Intangible Assets of Motor Carriers,"* and FASB issued Statement No. 64, *"Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements."* This statement also amends FASB issued Statement No. 13, *"Accounting for Leases,"* to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing pronouncements to make various technical corrections, clarify meanings or describe the applicability under changed conditions. SFAS 145 requires gains and losses from the extinguishment of debt to be classified as extraordinary items only if they meet the criteria in Accounting Principal Board Opinion No. 30, *"Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions."* This statement also requires lease modifications that have economic effects similar to sale-leaseback transactions to be accounted for in the same manner as sale-leaseback transactions. The provisions in SFAS 145 relating to sale-leaseback transactions are effective as of May 15, 2002. The remaining provisions in SFAS 145 will be effective for the Company beginning in fiscal 2003. The Company does not expect the provisions of SFAS 145 to have a material impact, if any, on the Company's consolidated financial statements.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This Form 10-Q, including the following discussion, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve substantial risks and uncertainties. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, the words "projected," "anticipated," "planned," "expected" and similar expressions are intended to identify forward-looking statements. In particular, statements regarding future financial targets or trends are forward-looking statements. Forward-looking statements are not guarantees of the Company's future financial performance, and undue reliance should not be placed on them. The Company's actual results, performance or achievements may differ significantly from the results discussed in or implied by the forward-looking statements. Factors that might cause such a difference include, but are not limited to, the following: the continued success or possible future failure of the retail store initiative; the ability of the Company to effectively manage its operations and growth in a multiple distribution channel environment; significant changes in customer acceptance of the Company's product offerings; changes in competition in the apparel industry; changes in consumer spending, fashion trends*

## Edgar Filing: J JILL GROUP INC - Form 10-Q

and consumer preferences; changes in, or the failure to comply with, federal and state tax and other government regulations; the customary risks of purchasing merchandise abroad, including longer lead times, higher initial purchase commitments and foreign currency fluctuations; possible future increases in expenses and labor and employee benefit costs; the ability of the Company to attract and retain qualified personnel; business abilities and judgment of management; the existence or absence of brand awareness; the existence or absence of publicity, advertising and promotional efforts; the success or failure of operating initiatives; the mix of the Company's sales between full price and liquidation merchandise; general economic and business conditions and other factors. See also Item 1A, "Risk Factors," included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2001 ("fiscal 2001"). The Company disclaims any intent or obligation to update any forward-looking statements.

### Overview

The J. Jill Group, Inc. (together with its wholly owned consolidated subsidiaries, the "Company"), is a specialty retailer of high quality women's apparel, accessories and footwear that markets its products through its catalogs, retail stores and e-commerce website. The Company currently has two reportable business segments, direct and retail. Each segment is separately managed and utilizes distinct distribution, marketing and inventory management strategies. The direct segment markets merchandise through catalogs and an e-commerce website. The retail segment markets merchandise through retail stores.

On June 4, 2002, the Company announced a three-for-two stock split effected in the form of a stock dividend paid on June 28, 2002 to shareholders of record on June 14, 2002. All historical per share amounts and basic and diluted share amounts utilized in the calculations of earnings per share have been restated to reflect the effects of the three-for-two stock split. The outstanding shares and common stock amounts presented on the consolidated balance sheets as of December 29, 2001 and June 30, 2001 have not been restated to include the effects of the stock split. All common stock amounts and activity after the date of the stock split reflect the three-for-two stock split.

Net sales for the three months ended June 29, 2002 ("second quarter fiscal 2002") increased by 30.5% to \$86.4 million from \$66.2 million for the three months ended June 30, 2001 ("second quarter fiscal 2001"). Income before interest and taxes ("operating income") for second quarter fiscal 2002 was \$11.0 million, or 12.7% of net sales, compared to \$4.6 million, or 7.0% of net sales, for second quarter fiscal 2001. Net income was \$6.4 million, or \$0.32 per diluted share, for second quarter fiscal 2002 compared to \$2.6 million, or \$0.14 per diluted share, for second quarter fiscal 2001. For the six months ended June 29, 2002, net sales increased by 23.3% to \$159.7 million from \$129.5 million during the six months ended June 30, 2001. Operating income for the six months ended June 29, 2002 was

12

\$15.7 million, or 9.8% of net sales, compared to \$6.2 million, or 4.8% of net sales, for the six months ended June 30, 2001. Net income was \$9.1 million, or \$0.46 per diluted share, for the six months ended June 29, 2002 compared to \$3.4 million, or \$0.18 per diluted share, for the six months ended June 30, 2001.

### Results of Operations

The following table presents the Company's consolidated statements of operations expressed as a percentage of net sales:

	Three Months Ended		Six Months Ended	
	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of products and merchandising	59.0	67.6	61.9	68.7
<b>Gross margin</b>	<b>41.0</b>	<b>32.4</b>	<b>38.1</b>	<b>31.3</b>
Selling, general and administrative expenses	28.3	25.4	28.3	26.5
<b>Income before interest and taxes</b>	<b>12.7</b>	<b>7.0</b>	<b>9.8</b>	<b>4.8</b>
Interest, net	0.2	0.3	0.2	0.3
<b>Income before taxes</b>	<b>12.5</b>	<b>6.7</b>	<b>9.6</b>	<b>4.5</b>

Edgar Filing: J JILL GROUP INC - Form 10-Q

	Three Months Ended		Six Months Ended	
Income tax provision	5.1	2.8	3.9	1.9
Net income	7.4%	3.9%	5.7%	2.6%

The following table presents certain selected operating data:

	Three Months Ended		Six Months Ended	
	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001
<b>Direct</b>				
Circulation (1):				
Catalogs (in thousands)	20,100	15,600	36,100	30,900
Square inches (in millions)	119,600	96,400	228,400	205,700
Twelve-month buyers (2)	1,036,000	1,015,000	1,036,000	1,015,000
Customer e-mail addresses	695,000	583,000	695,000	583,000
<b>Retail (3)</b>				
Stores open				
Beginning of period	55	24	51	22
End of period	67	30	67	30
Store weeks in operation (4)	790	364	1,460	658
<b>Total Company</b>				
J. Jill private label credit card holders	376,000	235,000	376,000	235,000

(1) In order to more closely match net sales to circulation, the Company calculates circulation on a percentage of completion basis. Catalog circulation takes into account the total number of catalogs mailed during all periods and the Company's estimate of the expected sales life of each catalog edition. Square inches circulated also takes into account the page count and page size of the catalogs circulated during the period.

(2) As used throughout this Form 10-Q, the term "twelve-month buyers" means customers who have placed a catalog or e-commerce order with the Company within the previous twelve months.

13

(3) Retail information relates to the Company's retail stores only and does not include data for the Company's catalog outlet stores.

(4) The number of store weeks in operation refers to the sum of the number of weeks that each retail store was in operation during the period.

The following table summarizes net sales by segment (in thousands):

	Three Months Ended		Six Months Ended	
	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001

Edgar Filing: J JILL GROUP INC - Form 10-Q

	Three Months Ended		Six Months Ended	
<b>Direct</b>	\$ 56,010	\$ 50,451	\$ 107,188	\$ 103,433
<b>Retail</b>	30,591	16,063	53,002	26,850
<b>Other (1)</b>	(246)	(321)	(478)	(758)
Total net sales	\$ 86,355	\$ 66,193	\$ 159,712	\$ 129,525

(1) Other represents certain sales allowances not specifically attributable to the direct or retail business segments.

**Comparison of the Three and Six Months Ended June 29, 2002 with the Three and Six Months Ended June 30, 2001**

Net sales increased by \$20.2 million, or 30.5%, to \$86.4 million during second quarter fiscal 2002 from \$66.2 million during second quarter fiscal 2001. During the six months ended June 29, 2002, net sales increased by \$30.2 million, or 23.3%, to \$159.7 million from \$129.5 million during the six months ended June 30, 2001. For the three-month and six-month periods ended June 29, 2002, retail segment net sales increased by 90.4% and 97.4%, respectively, as compared to the three-month and six-month periods ended June 30, 2001, primarily as a result of increased store count. During the six months ended June 29, 2002, the Company opened 16 retail stores, of which 12 were opened during second quarter fiscal 2002. At June 29, 2002, the Company had 67 retail stores open compared to 30 at June 30, 2001. The Company expects to have a total of 87 retail stores open by the end of fiscal 2002. Direct segment net sales increased by 11.0% and square inches circulated increased by 24.1% during second quarter fiscal 2002 compared to second quarter fiscal 2001. During the six months ended June 29, 2002, direct segment net sales increased by 3.6% and square inches circulated increased by 11.0% compared to the six months ended June 30, 2001. These increases in net sales were primarily a result of the solid response to the Company's full price merchandise offerings and higher circulation levels compared to the prior year periods. E-commerce net sales represented 30.4% of total direct segment net sales during second quarter fiscal 2002 compared to 25.9% during second quarter fiscal 2001. E-commerce net sales represented 29.3% of total direct segment net sales during the six months ended June 29, 2002 compared to 24.6% during the six months ended June 30, 2001.

Gross margin represents net sales less cost of products and merchandising. Cost of products and merchandising consists primarily of merchandise development, control and acquisition costs, provisions for markdowns, order processing and customer service costs, distribution facility costs and occupancy costs for the Company's stores. During second quarter fiscal 2002, gross margin increased by \$14.0 million, or 65.2%, to \$35.4 million from \$21.5 million during second quarter fiscal 2001. As a percentage of net sales, gross margin increased to 41.0% during second quarter fiscal 2002 from 32.4% during second quarter fiscal 2001. During the six months ended June 29, 2002, gross margin increased by \$20.4 million, or 50.3%, to \$60.9 million from \$40.5 million during the six months ended June 30, 2001. As a percentage of net sales, gross margin increased to 38.1% during the six months ended June 29, 2002 from 31.3% during the six months ended June 30, 2001. These increases in gross margin as a percentage of net sales were primarily attributable to increased full price sales volumes, better inventory management and higher initial markups.

Selling, general and administrative expenses consist of costs to produce, print and distribute catalogs, as well as e-commerce website, retail store selling and corporate administrative costs. During second quarter fiscal 2002, selling, general and administrative expenses increased by \$7.7 million, or 45.5%, to \$24.5 million from \$16.8 million during second quarter fiscal 2001. As a percentage of net sales, selling, general and administrative expenses increased to 28.3% during second quarter fiscal 2002 from 25.4% during second quarter fiscal 2001. During the six months ended June 29, 2002, selling, general and administrative expenses increased by \$10.9 million, or 31.7%, to \$45.2 million from \$34.3 million during the six months ended June 30, 2001. As a percentage of net sales, selling, general and administrative expenses increased to 28.3% during the six months ended June 29, 2002 from 26.5% during the six months ended June 30, 2001. These increases in selling, general and administrative expenses as a percentage of net sales were primarily attributable to the growing impact of the retail segment on the Company's overall results and the current tendency for retail selling costs to be higher as a percentage of net sales than direct selling costs. In addition, catalog productivity was lower for the three-month and six-month periods ended June 29, 2002 as compared to the corresponding periods in the prior year, primarily as a result of increased prospecting, deeper circulation to the Company's own customer list and lower off price sales as a percentage of total net sales. Finally, higher employee benefit and compensation expenses, primarily related to a \$1.0 million fully vested discretionary Company contribution into the deferred compensation plan for the Company's President and Chief Executive Officer during second quarter fiscal 2002, also contributed to the increased selling, general and administrative expenses as percentage of net sales.

## Edgar Filing: J JILL GROUP INC - Form 10-Q

Second quarter fiscal 2002 interest income was unchanged from second quarter fiscal 2001 levels of \$0.2 million. Interest expense for second quarter fiscal 2002 was unchanged from second quarter fiscal 2001 levels of \$0.4 million. During the six months ended June 29, 2002, interest income decreased to \$0.3 million from \$0.4 million for the six months ended June 30, 2001. Interest expense during the six months ended June 29, 2002 decreased to \$0.7 million from \$0.8 million for the six months ended June 30, 2001.

The Company provides for income taxes at an effective tax rate that includes the full federal and state statutory tax rates. The Company's effective tax rate for both the three-month and six-month periods ended June 29, 2002 was 40.5% compared to 42.0% for both the three-month and six-month periods ended June 30, 2001. The decline in the effective tax rate for the fiscal 2002 periods reflects a decrease in the projected amount of non-deductible expenses for fiscal 2002 as compared to fiscal 2001.

### *Segment Direct Contribution*

The Company currently has two reportable business segments, direct and retail. Segment reporting is intended to give financial statement users a view of the Company "through the eyes of management." The Company's internal management reporting is the basis for the information disclosed for its business segments. The Company evaluates its segment profitability based on the direct contribution of each segment. Direct contribution represents each segment's net sales less direct costs related to the segment's operations. Direct costs for both segments include merchandise acquisition and control costs and provisions for markdowns. Direct costs also include catalog costs, certain order processing costs and e-commerce selling costs for the direct segment and retail store selling, occupancy and administrative costs for the retail segment. The accounting policies of the Company's segments are the same as those described in Note B in the Company's Annual Report on Form 10-K for fiscal 2001. In addition, inter-segment balances and transactions have been eliminated.

15

The following table summarizes direct contribution by segment (in thousands):

	Three Months Ended		Six Months Ended	
	June 29, 2002	June 30, 2001	June 29, 2002	June 30, 2001
<i>Direct</i>	\$ 18,953	\$ 13,762	\$ 35,367	\$ 25,833
<i>Retail</i>	4,462	884	3,607	(379)
<b>Total direct contribution</b>	<b>\$ 23,415</b>	<b>\$ 14,646</b>	<b>\$ 38,974</b>	<b>\$ 25,454</b>

The direct segment's second quarter fiscal 2002 direct contribution increased by \$5.2 million, or 37.7%, compared to second quarter fiscal 2001. As a percentage of direct segment net sales, the direct segment's direct contribution increased to 33.8% during second quarter fiscal 2002 from 27.3% during second quarter fiscal 2001. For the six months ended June 29, 2002, the direct segment's direct contribution increased by \$9.5 million, or 36.9%, compared to the six months ended June 30, 2001. As a percentage of direct segment net sales, the direct segment's direct contribution increased to 33.0% during the six months ended June 29, 2002 from 25.0% for the six months ended June 30, 2001. These increases in direct contribution as a percentage of direct segment net sales were primarily attributable to higher gross margins associated with increased full price sales volumes, better inventory management and higher initial markups. This gross margin improvement was partially offset by higher direct selling expenses as a percentage of direct segment net sales as a result of lower catalog productivity.

The retail segment's second quarter fiscal 2002 direct contribution increased by \$3.6 million to \$4.5 million from \$0.9 million during second quarter fiscal 2001. As a percentage of retail segment net sales, the retail segment's direct contribution increased to 14.6% during second quarter fiscal 2002 from 5.5% during second quarter fiscal 2001. For the six months ended June 29, 2002, the retail segment's direct contribution increased by \$4.0 million to \$3.6 million from a direct deficit of \$0.4 million for the six months ended June 30, 2001. As a percentage of retail segment net sales, the retail segment's direct contribution increased to 6.8% during the six months ended June 29, 2002 from a direct deficit of 1.4% for the six months ended June 30, 2001. These increases in direct contribution as a percentage of retail segment net sales were primarily attributable to higher gross margins associated with increased full price sales volumes, better inventory management and higher initial markups. In addition, retail selling expenses increased at a slower rate than retail segment net sales.

### *Seasonality and Quarterly Fluctuations*

As the Company's retail business becomes a greater portion of the overall business, the Company expects that its business will become more seasonal. The Company's retail store rollout plan is expected to materially impact year-over-year comparisons of the Company's net sales and net income. Also, January is included in the first fiscal quarter for the Company but is included in the fourth fiscal quarter for many other retailers. Because January is a month that traditionally involves significant promotional pricing, this difference needs to be taken into account when making comparisons of the Company's financial performance for interim periods with those of other retailers.

---

*Liquidity and Capital Resources*

The Company's principal working capital needs arise from the need to support costs incurred in advance of revenue generation, primarily inventory acquisition and catalog development, production and mailing costs incurred prior to the beginning of each selling season. The Company has two selling seasons that correspond to the fashion seasons. The spring season begins in January and ends in July. The fall season begins in July and ends in January. The Company's capital investment needs arise from initiatives intended to support the growth of the Company, including the retail store rollout and improvements to the Company's physical and operating infrastructure. During the six months ended June 29, 2002, the Company funded its working capital and capital investment needs with cash generated from operations and its existing credit facilities.

Cash and cash equivalents ("cash") increased by \$19.2 million during the six months ended June 29, 2002. Approximately \$32.4 million in cash was generated from operations and \$6.3 million in cash was received from stock transactions, primarily from the exercise of stock options during the period. Approximately \$16.4 million was invested in property and equipment, primarily related to the Company's retail store rollout and \$1.9 million was invested in trust assets associated with the Company's deferred compensation plan. During the six months ended June 29, 2002, net income before depreciation and amortization, collections on accounts receivable and additional deferred credits from landlords were the primary sources of cash from operations. The primary use of cash from operations was related to increased other assets, including increased prepaid rent and prepaid insurance expenses.

Cash increased by \$18.4 million during the six months ended June 30, 2001 largely as a result of proceeds received from the Company's private placement of common stock in February 2001. In addition, \$4.8 million in cash was generated from operating activities during the period. Approximately \$3.1 million in cash was used to pay down debt and \$12.0 million was invested in property and equipment, primarily related to the Company's retail store rollout. During the six months ended June 30, 2001, net income before depreciation and amortization and collections on accounts receivable were the primary sources of cash from operations. The primary use of cash from operations was decreases in accounts payable.

Inventory levels at June 29, 2002 were 6.5% and 24.5% lower than at December 29, 2001 and June 30, 2001, respectively. The decrease in inventory levels at June 29, 2002 compared to June 30, 2001 is primarily attributable to lower levels of prior season merchandise combined with ordering inventory more conservatively and timing receipts closer to need. This tighter inventory management has resulted in lower overstocks and lower overall inventory levels.

Accounts receivable balances at June 29, 2002 were 56.7% lower than at December 29, 2001 primarily as a result of collections associated with the Company's Holiday deferred billing program and landlord allowance receivables. Accounts receivable balances at June 29, 2002 were 282.4% higher than at June 30, 2001 primarily as a result of increased landlord allowance receivables associated with new retail stores.

Accounts payable balances at June 29, 2002 were 41.1% higher than at June 30, 2001 primarily as a result of increased amounts payable for inventory and catalog costs at June 29, 2002. Accrued expense balances at June 29, 2002 were 34.6% higher than at June 30, 2001 primarily due to increased accrued amounts associated with the Company's deferred compensation plan. Accounts payable and accrued expense balances at June 29, 2002 and December 29, 2001 were at similar levels.

Deferred credits from landlords relate to the Company's retail stores leases. The increase in deferred credits from landlords since June 30, 2001 is related to retail stores opened since that date.

The Company's credit facilities at June 29, 2002 consisted of (i) a \$50.0 million revolving credit facility (the "Revolving Credit Facility"); (ii) a \$12.0 million real estate loan (the "Tilton Facility Loan"); and (iii) a \$9.5 million equipment loan (the "Equipment Loan").

## Edgar Filing: J JILL GROUP INC - Form 10-Q

The Company entered into the Revolving Credit Facility on June 29, 2001 to replace its prior revolving credit facility. On July 25, 2002, the Revolving Credit Facility was amended to extend its term and change certain lending conditions and compliance requirements including, among other things, changing the maximum number of new retail store openings allowed under the agreement to 90 for the two-year period consisting of fiscal 2002 and fiscal 2003, and 50 for each subsequent fiscal year. In addition, the debt service coverage ratio was amended to be less restrictive with respect to capital expenditures to the extent that the Company's cash balances exceed \$28.7 million at each reportable balance sheet date. The maturity date of the Revolving Credit Facility, as amended, is June 1, 2004. The Revolving Credit Facility is collateralized by substantially all the personal property, both tangible and intangible, of the Company. At June 29, 2002, the Revolving Credit Facility bore interest at 4.75% per annum. The amount available under the Revolving Credit Facility is reduced by outstanding borrowings and outstanding letters of credit. Outstanding borrowings may not exceed \$20.0 million and bear interest at an annual rate equal to the prime lending rate announced by one of the participating banks or the LIBOR lending rate plus 1.75% per annum. There were no outstanding borrowings on the Revolving Credit Facility at June 29, 2002 or June 30, 2001. Outstanding letters of credit totaled \$29.8 million and \$22.1 million at June 29, 2002 and June 30, 2001, respectively. Availability under the Revolving Credit Facility at June 29, 2002 and June 30, 2001 was \$20.2 million and \$27.9 million, respectively. Outstanding letters of credit do not bear interest. The Company is required to pay a commitment fee of  $\frac{1}{4}$  of 1% per annum on the unused portion of the Revolving Credit Facility.

The Tilton Facility Loan is collateralized by a mortgage lien on the Company's operations, fulfillment and distribution center in Tilton, New Hampshire (the "Tilton facility"). The Tilton facility is owned by Birch Pond Realty Corporation, a wholly owned subsidiary of The J. Jill Group, Inc., and leased to The J. Jill Group, Inc. Payments of principal and interest on the Tilton Facility Loan, a 10-year loan, are due monthly, based on a 20-year amortization, with a balloon payment of the remaining balance payable on April 1, 2009. The interest rate on the Tilton Facility Loan is fixed at 7.30% per annum.

The Equipment Loan is collateralized by substantially all of the Company's materials handling equipment. The Equipment Loan requires monthly payments of principal and interest through its maturity on December 1, 2005, and has a weighted average interest rate of 7.62% per annum.

The weighted average interest rate for amounts outstanding under the Company's credit facilities during the six months ended June 29, 2002 was 7.40% per annum.

The Company's credit facilities contain various lending conditions and covenants and restrictions on permitted liens. In the case of the Revolving Credit Facility, these conditions and covenants include certain financial coverage calculations and ratios, including (i) indebtedness and outstanding letter of credit balance to tangible net worth; (ii) hard current assets to current liabilities; (iii) debt service coverage; (iv) indebtedness, outstanding letter of credit balance and net present value of operating leases to tangible net worth; (v) minimum tangible net worth; and (vi) minimum net profit. The manner of making these calculations and computing these ratios is defined by the provisions of the Fifth Amended and Restated Loan Agreement, as amended, which is part of the Revolving Credit Facility. The Company was in compliance with the covenants associated with its credit facilities as of and for the quarters ended June 29, 2002 and June 30, 2001.

At June 29, 2002, the Company had 67 retail stores open. The Company plans to open an additional 20 retail stores during the remainder of fiscal 2002. The cash requirements related to the Company's retail store initiative are significant and are primarily comprised of leasehold improvements, net of landlord allowances, and initial inventory acquisition costs. The initial cash requirements for opening a new retail store are currently estimated at an average of approximately \$0.7 million per store. In addition, at June 29, 2002, the combined future minimum lease payments due under the

18

Company's retail store leases were approximately \$143.8 million in aggregate and ranged up to \$16.0 million per year.

A summary of the Company's cash requirements related to its outstanding long-term debt and its future minimum lease payments at June 29, 2002 are as follows (in thousands):

	Long-Term Debt	Lease Commitments	Total Debt and Lease Payments
For the remainder of fiscal 2002	\$ 848	\$ 7,951	\$ 8,799
Fiscal 2003	1,788	16,745	18,533
Fiscal 2004	1,878	17,004	18,882
Fiscal 2005	2,028	17,106	19,134
Fiscal 2006	501	17,177	17,678



## Edgar Filing: J JILL GROUP INC - Form 10-Q

	<b>Long-Term Debt</b>	<b>Lease Commitments</b>	<b>Total Debt and Lease Payments</b>
Thereafter	9,395	82,712	92,107
<b>Total</b>	<b>\$ 16,438</b>	<b>\$ 158,695</b>	<b>\$ 175,133</b>

Most of the Company's retail store leases contain provisions that allow for early termination of the lease by either party if certain predetermined annual sales levels are not met. Generally, these provisions only allow the lease to be terminated between the third and fifth year of the lease. Should the lease be terminated under these provisions, the unamortized portion of any landlord allowances related to that property would be payable to the landlord.

The Company's sources of cash include cash on hand of \$49.3 million, available borrowing capacity under its Revolving Credit Facility of \$20.0 million and anticipated cash flow from operations. If the current trend of business continues, the Company expects to fund its entire retail store rollout in fiscal 2002 with cash generated from operations in fiscal 2002. The Company estimates that approximately \$16.0 million in cash, before landlord allowances, will be invested in property and equipment during the remaining six months of fiscal 2002, primarily for retail store construction. Based on current operating conditions, the Company believes it has sufficient sources of cash to execute its operating plans. Should current operating conditions deteriorate, the Company may generate less cash flow from operating activities than expected and be required to use more of its cash on hand than planned. In addition, the Company may need to borrow on its Revolving Credit Facility. The Company believes that it has some flexibility to adjust its mid-to-long-term operating plans to respond to a significant decrease in its cash resources. For example, the Company could adjust the timing and extent of its retail store rollout for fiscal 2003 and beyond or change its catalog circulation strategy.

### ***Future Financial Targets***

With respect to fiscal 2002, and assuming the current economic environment does not deteriorate further, the Company is targeting net sales for the year to range between \$342.0 and \$349.0 million and diluted earnings per share to range between \$1.04 and \$1.07, compared to \$0.70 for fiscal 2001. The Company is targeting net sales to range between \$76.0 and \$79.0 for the third quarter of fiscal 2002 and between \$106.0 and \$110.0 million for the fourth quarter of fiscal 2002, respectively. Diluted earnings per share are targeted to range between \$0.17 and \$0.18 for the third quarter of fiscal 2002 and \$0.41 and \$0.43 for the fourth quarter of fiscal 2002, respectively.

For the third and fourth quarters of fiscal 2002, gross margin as a percentage of net sales is targeted to be 37.9% and 40.8%, respectively, compared to 32.8% and 39.2% for the third and fourth quarters of fiscal 2001, respectively. Selling, general and administrative expenses as a percentage of net sales for the third and fourth quarters of fiscal 2002 are targeted to be 30.3% and 27.4%, respectively, compared to 25.3% and 25.7% for the third and fourth quarters of fiscal 2001, respectively. These are the Company's targets, not predictions of actual performance. Historically, the Company's performance has deviated, often materially, from its targets. See the first paragraph of this Item 2 for factors that might cause such deviations.

### ***Recent Accounting Standards***

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3 ("EITF 94-3"), "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. EITF 94-3 allowed for an exit cost liability to be recognized at the date of an entity's commitment to an exit plan. SFAS 146 also requires that liabilities recorded in connection with exit plans be initially measured at fair value. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early adoption encouraged. The Company is evaluating the effect of the adoption of SFAS 146 and does not expect the adoption of SFAS 146 to have a material impact, if any, on the Company's consolidated financial statements.

In April 2002, the FASB issued Statement No. 145 ("SFAS 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," which supersedes FASB issued Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," FASB issued Statement No. 44, "Accounting for Intangible Assets of Motor Carriers," and FASB issued Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This statement also amends FASB issued Statement No. 13,

"Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing pronouncements to make various technical corrections, clarify meanings or describe the applicability under changed conditions. SFAS 145 requires gains and losses from the extinguishment of debt to be classified as extraordinary items only if they meet the criteria in Accounting Principal Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This statement also requires lease modifications that have economic effects similar to sale-leaseback transactions to be accounted for in the same manner as sale-leaseback transactions. The provisions in SFAS 145 relating to sale-leaseback transactions are effective as of May 15, 2002. The remaining provisions in SFAS 145 will be effective for the Company beginning in fiscal 2003. The Company does not expect the provisions of SFAS 145 to have a material impact, if any, on the Company's consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company's objective in managing its long-term exposure to interest rate changes and foreign currency rate changes is to limit the material impact of the changes on cash flows and earnings and to lower its overall borrowing costs. To achieve its objectives, the Company periodically identifies these risks and manages them through its regular operating and financing activities, including periodic refinancing of debt obligations to increase availability while minimizing financing costs and considering fixed and variable rate debt positions. The Company does not currently use derivative financial instruments or enter into foreign currency denominated contracts. Management has calculated the effect of a 10% change in interest rates over a month and determined the effect to be immaterial. Management does not foresee or expect any significant changes in the management of foreign currency or interest rate exposures or in the strategies it employs to manage such exposures in the near future.

The Company has established a trust in connection with its deferred compensation plan. The trust assets are invested in corporate owned life insurance in a manner that is designed to approximate the measurement designations of the Plan participants, for both vested and unvested balances. Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of these investments will occur in the near term and that such changes will also impact participant deferred compensation balances based on the measurement designations made by the participant. Changes in value of the trust assets are intended to mirror changes in value of the participants' deferred compensation accounts.

**PART II OTHER INFORMATION**

**Item 4. Submission of Matters to a Vote of Security Holders**

The Company held an Annual Meeting of Stockholders on May 31, 2002. At the Annual Meeting, the stockholders of the Company voted to approve the following actions by the following votes:

1. To elect the following nominees as Class C Directors of the Company:

	<b>For</b>	<b>Withholding Authority</b>
Gordon R. Cooke	9,135,739	2,346,066
Thomas J. Little	10,751,325	730,480

2. To amend the 2001 Incentive and Non-Statutory Stock Option Plan of The J. Jill Group, Inc. to increase the number of shares of the Company's Common Stock available for issuance upon exercise of options granted under the 2001 Plan from 1,000,000 shares to 1,500,000 shares.

## Edgar Filing: J JILL GROUP INC - Form 10-Q

	<b>Number of Shares</b>
For	9,111,421
Against	1,768,891
Abstain	601,493

The preceding vote totals have not been adjusted to reflect the three-for-two stock split effected in the form of a stock dividend paid on June 28, 2002. The number of shares available for issuance under the 2001 Incentive and Non-Statutory Stock Option Plan increased to 2,250,000 shares automatically as a result of the three-for-two stock split.

### Item 5. Other Information

#### Certification Under Sarbanes-Oxley Act

The Company's Chief Executive Officer and Chief Financial Officer have furnished to the Securities and Exchange Commission the certification with respect to this Quarterly Report on Form 10-Q that is required by Section 906 of the Sarbanes-Oxley Act of 2002.

21

---

### Item 6. Exhibits and Reports on Form 8-K

#### (1) Exhibits

##### Certificate of Incorporation and By-Laws

- 3.1 Restated Certificate of Incorporation of the Company (included as Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 25, 1993, File No. 0-22480, and incorporated herein by reference)
- 3.2 Certificate of Amendment of Restated Certificate of Incorporation of the Company, dated June 1, 1999 (included as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 26, 1999, File No. 0-22480, and incorporated herein by reference)
- 3.3 Certificate of Amendment of Restated Certificate of Incorporation of the Company, dated June 5, 2001 (included as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, File No. 0-22480, and incorporated herein by reference)
- 3.4 By-Laws of the Company, as amended (included as Exhibit 99.1 to the Company's Current Report on Form 8-K filed November 24, 1999, File No. 0-22480, and incorporated herein by reference)

##### Material Contracts

- 10.1 Second Amendment to Fifth Amended and Restated Loan Agreement, dated July 25, 2002, by and among the Company and Citizens Bank of Massachusetts, HSBC Bank USA and Banknorth, N.A. f/k/a Peoples Heritage Bank, N.A., successor by merger to Bank of New Hampshire, N.A. and Citizens Bank of Massachusetts as agent for the Lenders
- 10.2 First Amendment to Revolving Note, dated July 25, 2002, between the Company and Citizens Bank of Massachusetts
- 10.3 First Amendment to Revolving Note, dated July 25, 2002, between the Company and HSBC Bank USA
- 10.4 First Amendment to Revolving Note, dated July 25, 2002, between the Company and Banknorth, N.A. f/k/a Peoples Heritage Bank, N.A., successor by merger to Bank of New Hampshire, N.A.
- 10.5 Letter of Confirmation of Guarantee and Agreement, dated July 25, 2002, by The Birch Pond Group, Inc. to Citizens Bank of Massachusetts, individually and as agent for the benefit of, and on behalf of, all lenders

Edgar Filing: J JILL GROUP INC - Form 10-Q

- 10.6 Letter of Confirmation of Guarantee and Agreement, dated July 25, 2002, by QT Services Group, Inc. to Citizens Bank of Massachusetts, individually and as agent for the benefit of, and on behalf of, all lenders
- 10.7 Letter of Confirmation of Guarantee and Agreement, dated July 25, 2002, by J. Jill Direct, Inc. to Citizens Bank of Massachusetts, individually and as agent for the benefit of, and on behalf of, all lenders
- 10.8 Amended and Restated 2001 Incentive and Non-Statutory Stock Option Plan (included as Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed July 25, 2002, File No. 333-97105, and incorporated herein by reference)

**(2) Reports on Form 8-K**

The Company did not file any reports on Form 8-K during the quarter ended June 29, 2002.

**SIGNATURES**

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

THE J. JILL GROUP, INC.

Dated: August 13, 2002

By: /s/ OLGA L. CONLEY

---

Olga L. Conley  
Authorized Officer  
President Corporate Services,  
Chief Financial Officer and Treasurer  
*(Principal Financial Officer)*

Dated: August 13, 2002

By: /s/ LINDA L. TRUDEL

---

Linda L. Trudel  
Authorized Officer  
Vice President / Corporate Controller  
*(Principal Accounting Officer)*

THE J. JILL GROUP, INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 29, 2002

**EXHIBIT INDEX**

**Material Contracts**

- 10.1 Second Amendment to Fifth Amended and Restated Loan Agreement, dated July 25, 2002, by and among the Company and Citizens Bank of Massachusetts, HSBC Bank USA and Banknorth, N.A. f/k/a Peoples Heritage Bank, N.A., successor by merger to Bank of New Hampshire, N.A. and

## Edgar Filing: J JILL GROUP INC - Form 10-Q

Citizens Bank of Massachusetts as agent for the Lenders

- 10.2 First Amendment to Revolving Note, dated July 25, 2002, between the Company and Citizens Bank of Massachusetts
- 10.3 First Amendment to Revolving Note, dated July 25, 2002, between the Company and HSBC Bank USA
- 10.4 First Amendment to Revolving Note, dated July 25, 2002, between the Company and Banknorth, N.A. f/k/a Peoples Heritage Bank, N.A., successor by merger to Bank of New Hampshire, N.A.
- 10.5 Letter of Confirmation of Guarantee and Agreement, dated July 25, 2002, by The Birch Pond Group, Inc. to Citizens Bank of Massachusetts, individually and as agent for the benefit of, and on behalf of, all lenders
- 10.6 Letter of Confirmation of Guarantee and Agreement, dated July 25, 2002, by QT Services Group, Inc. to Citizens Bank of Massachusetts, individually and as agent for the benefit of, and on behalf of, all lenders
- 10.7 Letter of Confirmation of Guarantee and Agreement, dated July 25, 2002, by J. Jill Direct, Inc. to Citizens Bank of Massachusetts, individually and as agent for the benefit of, and on behalf of, all lenders

24

---

### QuickLinks

[INDEX TO QUARTERLY REPORT ON FORM 10-Q](#)  
[CONSOLIDATED BALANCE SHEETS](#)  
[CONSOLIDATED STATEMENTS OF OPERATIONS](#)  
[CONSOLIDATED STATEMENTS OF CASH FLOWS](#)  
[NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS](#)  
[PART II OTHER INFORMATION](#)  
[SIGNATURES](#)  
[EXHIBIT INDEX](#)