

J JILL GROUP INC
Form 10-Q
August 04, 2005

**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 25, 2005

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

04-2973769
(I.R.S. Employer
Identification No.)
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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Shares outstanding of the registrant's common stock (par value \$0.01) at July 28, 2005: 20,311,839

**THE J. JILL GROUP, INC.
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FOR THE QUARTER ENDED JUNE 25, 2005**

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PART I FINANCIAL INFORMATION**Item 1. Condensed Consolidated Financial Statements****THE J. JILL GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

(unaudited)

	June 25, 2005	June 26, 2004 (Restated)	December 25, 2004
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 24,891	\$ 81,986	\$ 31,966
Cash held in escrow	1,207	1,173	872
Marketable securities	44,668		34,062
Accounts receivable, net	6,699	16,359	18,579
Inventory	39,202	27,034	36,212
Prepaid catalog expenses	5,139	4,049	3,894
Deferred income taxes	10,594	6,878	9,761
Other current assets	8,281	6,608	8,237
Total current assets	140,681	144,087	143,583
Property and equipment, net	136,477	126,145	133,972
Other non-current assets	6,324	4,665	5,141
Total assets	\$ 283,482	\$ 274,897	\$ 282,696
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 17,796	\$ 17,962	\$ 17,523
Accrued expenses	26,160	26,026	27,158
Accrued customer returns	6,538	7,530	7,494
Current portion of long-term debt	1,732	1,755	1,805
Total current liabilities	52,226	53,273	53,980
Long-term debt, less current portion	9,613	11,345	10,431
Deferred credits from landlords and other	48,474	42,595	47,387
Deferred income taxes	5,969	3,600	6,841
Commitments and contingencies			
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, 20,311,839, 20,103,123 and 20,109,789 shares issued and outstanding as of June 25, 2005, June 26, 2004 and December 25, 2004, respectively	203	201	201
Additional paid-in capital	114,522	112,386	112,508
Accumulated other comprehensive loss	(124)		(89)
Retained earnings	52,599	51,497	51,437
Total stockholders' equity	167,200	164,084	164,057
Total liabilities and stockholders' equity	\$ 283,482	\$ 274,897	\$ 282,696

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

THE J. JILL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 25, 2005	June 26, 2004 (Restated)	June 25, 2005	June 26, 2004 (Restated)
Net sales	\$ 117,417	\$ 120,561	\$ 215,786	\$ 220,490
Cost of products and merchandising	75,587	73,413	145,229	138,260
Gross margin	41,830	47,148	70,557	82,230
Selling, general and administrative expenses	34,880	35,799	68,398	66,947
Operating income	6,950	11,349	2,159	15,283
Interest income	272	171	473	309
Interest expense	231	267	482	547
Interest (income) expense, net	(41)	96	9	238
Income before taxes	6,991	11,253	2,150	15,045
Income tax provision	3,121	4,724	988	6,279
Net income	\$ 3,870	\$ 6,529	\$ 1,162	\$ 8,766
Earnings per share:				
<i>Basic</i>	\$ 0.19	\$ 0.33	\$ 0.06	\$ 0.44
<i>Diluted</i>	\$ 0.19	\$ 0.32	\$ 0.06	\$ 0.43
Weighted average shares outstanding:				
<i>Basic</i>	20,170	20,044	20,157	19,933
<i>Diluted</i>	20,416	20,705	20,419	20,509

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

THE J. JILL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended	
	June 25, 2005	June 26, 2004 (Restated)
Cash flows provided by operating activities:		
Net income	\$ 1,162	\$ 8,766
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,648	8,915
Loss (gain) on trust assets	14	(53)
Loss on disposal of property and equipment	542	
Deferred income taxes	(1,639)	1,038
Changes in assets and liabilities:		
Decrease in accounts receivable, net	11,880	2,275
(Increase) decrease in inventory	(2,990)	1,097
(Increase) decrease in prepaid catalog expenses	(1,245)	57
(Increase) decrease in other assets	(149)	268
Increase in accounts payable	526	3,013
(Decrease) increase in accrued expenses	(1,089)	4,322
(Decrease) increase in accrued customer returns	(956)	241
Increase in deferred credits from landlords and other	1,087	1,473
Net cash provided by operating activities	17,791	31,412
Cash flows used in investing activities:		
Additions to property and equipment	(13,268)	(9,745)
Maturities of marketable securities	6,105	
Sales of marketable securities	2,000	
Purchases of marketable securities	(19,000)	
Investment in trust assets	(1,108)	(816)
Increase in cash held in escrow	(335)	(390)
Net cash used in investing activities	(25,606)	(10,951)
Cash flows provided by financing activities:		
Payments of debt borrowings	(891)	(842)
Proceeds from stock transactions	1,631	3,080
Net cash provided by financing activities	740	2,238
Net (decrease) increase in cash and cash equivalents	(7,075)	22,699
Cash and cash equivalents at:		
Beginning of period	31,966	59,287
End of period	\$ 24,891	\$ 81,986
Supplemental information:		
Non-cash investing activities:		
Construction costs accrued, not paid	\$ 1,140	\$ 1,032

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

THE J. JILL GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The condensed consolidated 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 (the SEC), 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 (GAAP) 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 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2004 (fiscal 2004). 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:

The Company is a multi-channel specialty retailer of women's apparel, including accessories and footwear, that markets its products through its retail stores, catalogs and website *jjill.com*.

B. Restatement of prior financial information:

The Company restated its condensed consolidated balance sheet at June 26, 2004, its condensed consolidated statements of operations for the three and six months ended June 26, 2004 and its condensed consolidated statement of cash flows for the six months ended June 26, 2004. The restatement also affects periods prior to fiscal 2004. The restatement corrects the Company's historical accounting for operating leases. For information with respect to the restatement, see Note B to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for fiscal 2004. The Company did not amend its Quarterly Reports on Form 10-Q for the periods before the end of fiscal 2004 to reflect the restatement, therefore the financial statements and related financial information contained in such reports should no longer be relied upon. Throughout this Form 10-Q, all referenced amounts for affected prior periods and prior period comparisons reflect the balances and amounts on a restated basis.

As a result of this restatement, the Company's financial results have been adjusted as follows (in thousands, except per share data):

	As Previously Reported June 26, 2004	Adjustments	As Restated June 26, 2004
Deferred credits from landlords and other	\$ 39,040	\$ 3,555	\$ 42,595
Deferred income taxes	5,032	(1,432)	3,600
Retained earnings	53,620	(2,123)	51,497
Total stockholders' equity	\$ 166,207	\$ (2,123)	\$ 164,084

THE J. JILL GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

	Three Months Ended As Previously Reported June 26, 2004	Adjustments	As Restated June 26, 2004
Net sales	\$ 120,561	\$	\$ 120,561
Cost of products and merchandising	73,396	17	73,413
Gross margin	47,165	(17)	47,148
Selling, general and administrative expenses	35,822	(23)	35,799
Operating income	11,343	6	11,349
Interest income	171		171
Interest expense	267		267
Interest expense, net	96		96
Income before taxes	11,247	6	11,253
Income tax provision	4,722	2	4,724
Net income	\$ 6,525	\$ 4	\$ 6,529
Earnings per share			
<i>Basic</i>	\$ 0.33	\$ 0.00	\$ 0.33
<i>Diluted</i>	\$ 0.32	\$ 0.00	\$ 0.32

	Six Months Ended As Previously Reported June 26, 2004	Adjustments	As Restated June 26, 2004
Net sales	\$ 220,490	\$	\$ 220,490
Cost of products and merchandising	138,241	19	138,260
Gross margin	82,249	(19)	82,230
Selling, general and administrative expenses	66,993	(46)	66,947
Operating income	15,256	27	15,283
Interest income	309		309
Interest expense	547		547
Interest expense, net	238		238
Income before taxes	15,018	27	15,045
Income tax provision	6,268	11	6,279
Net income	\$ 8,750	\$ 16	\$ 8,766
Earnings per share			
<i>Basic</i>	\$ 0.44		