
**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 quarterly period ended August 4, 2018

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: 001-38026

J.Jill, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
4 Batterymarch Park,
Quincy, MA 02169
(Address of principal executive offices)

45-1459825
(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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐
Non-accelerated filer ☒

Accelerated filer ☐
Smaller reporting company ☐
Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of September 18, 2018, the registrant had 43,747,757 shares of common stock, \$0.01 par value per share, outstanding.

Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets (Unaudited)	2
Consolidated Statements of Operations and Comprehensive Income (Unaudited)	3
Consolidated Statement of Shareholders' Equity (Unaudited)	4
Consolidated Statements of Cash Flows (Unaudited)	5
Notes to Consolidated Financial Statements (Unaudited)	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
Item 4. Controls and Procedures	20
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	21
Item 1A. Risk Factors	21
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	21
Item 3. Defaults Upon Senior Securities	21
Item 4. Mine Safety Disclosures	21
Item 5. Other Information	21
Item 6. Exhibits	21
Exhibit Index	22
Signatures	23

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

J.Jill, Inc. CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share data)

	August 4, 2018	February 3, 2018
Assets		
Current assets:		
Cash	\$ 62,035	\$ 25,978
Accounts receivable	5,107	4,733
Inventories, net	61,591	80,591
Prepaid expenses and other current assets	22,466	21,166
Total current assets	151,199	132,468
Property and equipment, net	113,063	118,420
Intangible assets, net	142,569	148,961
Goodwill	197,026	197,026
Other assets	558	682
Total assets	\$ 604,415	\$ 597,557
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 43,128	\$ 53,962
Accrued expenses and other current liabilities	45,717	48,759
Current portion of long-term debt	2,799	2,799
Total current liabilities	91,644	105,520
Long-term debt, net of discount and current portion	238,165	238,881
Deferred income taxes	43,107	46,263
Other liabilities	28,885	27,577
Total liabilities	401,801	418,241
Commitments and contingencies (see Note 9)		
Shareholders' Equity		
Common stock, par value \$0.01 per share; 250,000,000 shares authorized; 43,744,033 and 43,752,790 shares issued and outstanding at August 4, 2018 and February 3, 2018, respectively	437	437
Additional paid-in capital	119,236	117,393
Accumulated earnings	82,941	61,486
Total shareholders' equity	202,614	179,316
Total liabilities and shareholders' equity	\$ 604,415	\$ 597,557

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

J.Jill, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (UNAUDITED)

(in thousands, except share and per share data)

	For the Thirteen Weeks Ended		For the Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net sales	\$ 179,713	\$ 181,372	\$ 361,254	\$ 347,498
Costs of goods sold	63,058	58,724	124,258	109,242
Gross profit	116,655	122,648	236,996	238,256
Selling, general and administrative expenses	97,365	97,011	197,659	194,044
Operating income	19,290	25,637	39,337	44,212
Interest expense, net	4,853	5,084	9,670	10,029
Income before provision for income taxes	14,437	20,553	29,667	34,183
Provision for income taxes	3,952	8,557	7,924	14,160
Net income and total comprehensive income	<u>\$ 10,485</u>	<u>\$ 11,996</u>	<u>\$ 21,743</u>	<u>\$ 20,023</u>
Net income per common share attributable to common shareholders:				
Basic	\$ 0.24	\$ 0.29	\$ 0.51	\$ 0.48
Diluted	\$ 0.23	\$ 0.28	\$ 0.49	\$ 0.46
Weighted average number of common shares outstanding:				
Basic	42,855,366	41,549,825	42,535,849	42,033,984
Diluted	44,716,193	43,554,275	44,061,804	43,559,781

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

J.Jill, Inc.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

(in thousands, except common share data)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Shareholders'
			Capital		Equity
Balance, February 3, 2018	43,752,790	\$ 437	\$ 117,393	\$ 61,486	\$ 179,316
Adoption of ASU 2014-09 (1)	—	—	—	(288)	(288)
Vesting of restricted stock units	9,602	1	—	—	1
Forfeiture of restricted stock awards	(18,359)	(1)	—	—	(1)
Equity-based compensation	—	—	1,843	—	1,843
Net income	—	—	—	21,743	21,743
Balance, August 4, 2018	<u>43,744,033</u>	<u>\$ 437</u>	<u>\$ 119,236</u>	<u>\$ 82,941</u>	<u>\$ 202,614</u>

(1) See Note 2 for additional detail regarding the adoption of new accounting standards.

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

J.Jill, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	For the Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017
Net income	\$ 21,743	\$ 20,023
Operating activities:		
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	18,245	17,131
Loss on disposal of fixed assets	28	340
Noncash amortization of deferred financing and debt discount costs	794	1,615
Equity-based compensation	1,843	261
Deferred rent liability	(64)	664
Deferred income taxes	(3,054)	(1,121)
Changes in operating assets and liabilities:		
Accounts receivable	(374)	(1,219)
Inventories	19,000	3,851
Prepaid expenses and other current assets	(2,371)	5,993
Accounts payable	(11,943)	(221)
Accrued expenses	(2,322)	(5,909)
Other noncurrent assets and liabilities	1,590	3,872
Net cash provided by operating activities	43,115	45,280
Investing activities:		
Purchases of property and equipment	(5,659)	(10,915)
Net cash used in investing activities	(5,659)	(10,915)
Financing activities:		
Repayments on long-term debt	(1,399)	(21,399)
Receivable from related party	—	2,227
Net cash used in financing activities	(1,399)	(19,172)
Net change in cash	36,057	15,193
Cash:		
Beginning of Period	25,978	13,468
End of Period	\$ 62,035	\$ 28,661

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

J.Jill, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business

J.Jill, Inc., “J.Jill” or the “Company”, is a premier omnichannel retailer and nationally recognized women’s apparel brand committed to delighting customers with great wear-now product. The brand represents an easy, relaxed, inspired style that reflects the confidence and comfort of a woman with a rich, full life. J.Jill provides guiding service through more than 270 stores nationwide and a robust e-commerce platform. J.Jill is headquartered outside Boston.

2. Summary of Significant Accounting Policies***Basis of Presentation***

Our interim consolidated financial statements are unaudited. All significant intercompany balances and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted, in accordance with the rules of the Securities and Exchange Commission (the “SEC”). In the opinion of management, these interim consolidated financial statements contain all normal and recurring adjustments necessary to state fairly the financial position and results of operations of the Company. The consolidated balance sheet as of February 3, 2018 is derived from the audited consolidated balance sheet as of that date. The unaudited results of operations for the thirteen and twenty-six weeks ended August 4, 2018 are not necessarily indicative of future results or results to be expected for the full year ending February 2, 2019. You should read these statements in conjunction with our audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended February 3, 2018.

Significant changes to our accounting policies as a result of adopting Accounting Standards Update (“ASU”) 2014-09 – *Revenue from Contracts with Customers (Topic 606)* are discussed below in “Significant Accounting Policies Update” and Note 3.

Recently Adopted Accounting Policies

In May 2014, the FASB issued ASU 2014-09 – *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in FASB ASC Topic 605 – *Revenue Recognition*. The new guidance established principles for reporting revenue and cash flows arising from an entity’s contracts with customers. The Company adopted ASU 2014-09 and related amendments, collectively known as Accounting Standards Codification 606 (“Topic 606”) as of February 4, 2018 on a modified retrospective basis. See “Significant Accounting Policies Update” and Note 3 for a discussion of our updated policies related to revenue recognition and disclosures related to the impact of this standard.

In October 2016 the FASB issued ASU 2016-16 – *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. This update is intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Under the new guidance, an entity would recognize the current and deferred income tax consequences of an intra-entity asset transfer when the transfer occurs. Intra-entity inventory transfers would still be an exception. The provisions of ASU 2016-16 were adopted as of February 4, 2018 under the modified retrospective method with no cumulative-effect adjustment to retained earnings.

In August 2016, the FASB issued ASU 2016-15 – *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard was retrospectively adopted as of February 4, 2018 and did not have an impact on the consolidated statement of cash flows.

Recently Issued Accounting Pronouncements

In July 2018, the FASB issued ASU 2018-09 – *Codification Improvements*, which facilitates amendments to a variety of topics to clarify, correct errors in, or make minor improvements to the accounting standards codification. The effective date of the standard is dependent on the facts and circumstances of each amendment. Some amendments do not require transition guidance and will be effective upon the issuance of this standard. A majority of the amendments in ASU 2018-09 will be effective in annual periods beginning after December 15, 2018. We will be required to adopt this standard in the first quarter of fiscal 2019. This standard is not expected to have a material impact on our consolidated financial statements and related disclosures.

In June 2018, The FASB issued ASU 2018-07 – *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, which expands the scope of Topic 718 to include share-based payment transactions

for acquiring goods and services from nonemployees. The provisions of ASU 2018-07 are effective for fiscal years beginning after December 15, 2018. The Company plans to adopt these standards beginning in the first quarter of fiscal 2019 using a modified retrospective approach. The Company is evaluating the impact that adopting ASU 2018-07 will have on its consolidated financial statements, but does not expect that impact to be material.

In February 2016, the FASB issued ASU 2016-02 – *Leases*. The amendments in this update include a new FASB ASC Topic 842, which supersedes Topic 840. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for all entities as of the beginning of interim or annual reporting periods. In July 2018, the FASB issued ASU 2018-10 – *Codification Improvements to Topic 842, Leases*. The amendments are intended to address narrow aspects of the guidance issued in the amendments in ASU 2016-02. In July 2018, the FASB issued ASU 2018-11 – *Leases (Topic 842): Targeted Improvements*, which provides an additional (and optional) transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. These provisions are effective for reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact that adopting ASU 2016-02 and related amendments will have on its consolidated financial statements and expects to raise significant “Right of Use” assets and significant, offsetting lease liabilities. These amounts have not yet been quantified. The Company plans to adopt these standards beginning in the first quarter of fiscal 2019 using the modified retrospective approach with a cumulative adjustment to retained earnings.

Significant Accounting Policies Update

Adoption of ASC Topic 606: Revenue from Contracts with Customers

On February 4, 2018, the Company adopted Topic 606 using the modified retrospective method applied to contracts which were not completed as of February 4, 2018. As part of the adoption of Topic 606, Topic 340-20 – *Capitalized Advertising Costs* was superseded and therefore, the Company transitioned to ASC 720-35 – *Advertising Costs* for reporting on costs of advertising. Results for reporting periods beginning after February 4, 2018 are presented under Topic 606 and Topic 720, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605 and Topic 340.

The Company recorded a cumulative reduction to opening retained earnings of \$0.3 million. The impact on opening retained earnings was a \$0.8 million decrease from the acceleration of prepaid catalog expenses offset by a \$0.5 million increase from the recognition of direct revenues previously deferred under Topic 605.

Effective February 4, 2018, the Company changed its consolidated balance sheet presentation for expected sales returns and recorded a \$5.0 million return asset and a corresponding increase to the return liability to present our sales reserve gross in accordance with Topic 606. In addition, as of the date of adoption of Topic 606, the Company will present reimbursements of costs of marketing programs related to the private label credit card gross in the consolidated statement of operations with no impact to opening retained earnings.

Revenue Recognition

Revenue is primarily derived from the sale of apparel and accessory merchandise through our retail channel and direct channel, which includes website and catalog phone orders. Revenue also includes shipping and handling fees collected from customers. Topic 606 requires entities to recognize revenue when control of the promised goods or services are transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Revenue from our retail channel is recognized at the time of sale and revenue from our direct channel is recognized upon shipment of merchandise to the customer.

The Company has a return policy where merchandise returns will be accepted within 90 days of the original purchase date. At the time of sale, the Company records an estimated sales reserve for merchandise returns based on historical prior returns experience and expected future returns. The estimated sales reserve is recorded as a return asset (and corresponding adjustment to cost of goods sold) for the cost of inventory and a return liability for the amount to settle the return with a customer (and a corresponding adjustment to revenue). The return asset and return liability are recorded in prepaid expenses and other assets, and accrued expenses and other current liabilities, respectively, in the consolidated balance sheet. The Company collects and remits sales and use taxes in all states in which retail and direct sales occur and taxes are applicable. These taxes are reported on a net basis and are thereby excluded from revenue.

The Company sells gift cards without expiration dates to customers. The Company does not charge administrative fees on unused gift cards. Proceeds from the sale of gift cards are recorded as a contract liability until the customer redeems the gift card or when the likelihood of redemption is remote. Based on historical experience, the Company estimates the value of outstanding gift

cards that will ultimately not be redeemed (“gift card breakage”) and will not be escheated under statutory unclaimed property laws. This gift card breakage is recognized as revenue over the time period established by the Company’s historical gift card redemption pattern.

The Company recognizes revenues from shipments to customers before the shipping and handling activities occur and will accrue those related costs. Shipping and handling costs are recorded in selling, general and administrative expenses. There is no change to the Company’s comparative reporting of shipping and handling costs as a result of adopting of Topic 606.

Credit Card Agreement

The Company has an arrangement with a third party to provide a private label credit card to its customers through August 2023, and will automatically renew thereafter for successive two year terms. The Company does not bear the credit risk associated with the private label credit card at any point prior to the termination of the agreement, at which point the Company is obligated to purchase the receivables. If the arrangement is terminated prior to September 7, 2021 and other criteria are met, the Company is obligated to pay a purchase price premium. The potential impact of the purchase obligation cannot be reasonably estimated, and therefore, has not been recorded.

The Company receives royalty payments through its private label credit card agreement. The royalty payments are recognized as revenue when they are received. Royalty payments recognized in the thirteen and twenty-six weeks ended August 4, 2018 were \$1.4 million and \$2.8 million, respectively, and in the thirteen and twenty-six weeks ended July 29, 2017 were \$1.1 million and \$2.3 million, respectively.

The Company also receives reimbursements for costs of marketing programs related to the private label credit card, which are recorded as revenue as earned and the costs incurred are recorded as operating expenses in selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income (loss). Reimbursements for costs of marketing programs of \$0.4 million and \$1.5 million were recognized in the thirteen and twenty-six weeks ended August 4, 2018, respectively.

The credit card agreement provides a signing bonus to the Company, which is recognized into revenue over the life of the agreement.

Advertising Costs

The Company incurs costs to produce, print, and distribute its catalogs. Catalog costs are considered direct response advertising, which are capitalized as incurred, and expensed when the catalog is mailed to the customer (the first time the advertising occurs). Advertising expenses were \$8.6 million and \$18.7 million in the thirteen and twenty-six weeks ended August 4, 2018, respectively, and \$8.8 million and \$18.0 million in the thirteen and twenty-six weeks ended July 29, 2017, respectively. The costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income (loss).

Other advertising costs are recorded as incurred. Other advertising costs recorded were \$5.4 million and \$11.2 million in the thirteen and twenty-six weeks ended August 4, 2018, respectively, and \$5.6 million and \$10.5 million in the thirteen and twenty-six weeks ended July 29, 2017, respectively. The costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income (loss).

3. Revenues

Disaggregation of Revenue

The Company sells its products directly to consumers and the Company earns royalties under its credit card agreement. The following table presents revenues disaggregated by revenue source (in thousands):

	For the Thirteen Weeks Ended		For the Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017 ⁽¹⁾	August 4, 2018	July 29, 2017 ⁽¹⁾
Retail	\$ 106,210	\$ 103,189	\$ 214,241	\$ 198,536
Direct	\$ 73,503	\$ 78,183	147,013	148,962
Net revenues	<u>\$ 179,713</u>	<u>\$ 181,372</u>	<u>\$ 361,254</u>	<u>\$ 347,498</u>

(1) As previously noted, prior period amounts have not been adjusted under the modified retrospective method.

Contract Liabilities

The Company recognizes a contract liability when it has received consideration from the customer and has a future obligation to the customer. Total contract liabilities consisted of the following (in thousands):

	August 4, 2018	February 3, 2018
Contract liabilities:		
Signing bonus	\$ 718	\$ 788
Unredeemed gift cards	4,917	6,466
Total contract liabilities (1)	\$ 5,635	\$ 7,254

(1) Included in accrued expenses and other current liabilities on the Company's consolidated balance sheet. The short term portion of the signing bonus is included in accrued expenses on the Company's consolidated balance sheet.

For the thirteen and twenty-six weeks ended August 4, 2018, the Company recognized approximately \$2.8 million and \$6.1 million of revenue related to gift card redemptions and breakage. For the thirteen and twenty-six weeks ended July 29, 2017, the Company recognized approximately \$2.8 million and \$6.0 million of revenue related to gift card redemptions and breakage. Revenue recognized consists of gift cards that were part of the unredeemed gift card balance at the beginning of the period as well as gift cards that were issued during the period.

Performance Obligations

The Company has a remaining performance obligation of \$0.7 million for a signing bonus related to the private label credit card agreement. The Company will recognize revenue over the remaining life of the contract as follows (in thousands):

	Fiscal Year 2018	Fiscal Year 2019	Thereafter
Signing bonus	\$ 71	\$ 141	\$ 506

This disclosure does not include revenue related to performance obligations from unredeemed gift cards, as substantially all gift cards are redeemed in the first year of issuance.

Practical Expedients and Policy Elections

The Company excludes from its transaction price all amounts collected from customers for sales taxes that are remitted to taxing authorities.

Shipping and handling activities that occur after control of related goods transfers to the customer are accounted for as fulfillment activities rather than assessing these activities as performance obligations.

The Company does not disclose remaining performance obligations that have an expected duration of one year or less.

4. Debt

The components of the Company's outstanding Term Loan were as follows (in thousands):

	August 4, 2018	February 3, 2018
Term Loan	\$ 246,777	\$ 248,176
Discount on debt and debt issuance costs	(5,813)	(6,496)
Less: Current portion	(2,799)	(2,799)
Net long-term debt	\$ 238,165	\$ 238,881

The Company was in compliance with all financial covenants as of August 4, 2018.

5. Income Taxes

The Company recorded income tax expense of \$4.0 million and \$7.9 million during the thirteen and twenty-six weeks ended August 4, 2018, respectively, and \$8.6 million and \$14.2 million during the thirteen and twenty-six weeks ended July 29, 2017, respectively. The effective tax rates were 27.4% and 26.7% in the thirteen and twenty-six weeks ended August 4, 2018, respectively, and 41.6% and 41.4% in the thirteen and twenty-six weeks ended July 29, 2017, respectively.

The effective tax rate for the thirteen and twenty-six weeks ended August 4, 2018 exceeds the federal statutory rate of 21.0% primarily due to stock compensation, state income taxes and §162(m) officer compensation limitation. The effective tax rate for the thirteen and twenty-six weeks ended July 29, 2017 exceeds the federal statutory rate of 35.0% primarily due to state income taxes and non-deductible IPO related expenses.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (TCJA) legislation was signed. The new U.S. tax legislation is subject to a number of provisions, including a reduction of the U.S. federal corporate income tax rate from 35.0% to 21.0% (effective January 1, 2018) and a change in certain business deductions, including allowing for immediate expensing of certain qualified capital expenditures.

Staff Accounting Bulletin No. 118 (“SAB 118”), issued by the Securities and Exchange Commission in December 2017, provides the Company with up to one year to finalize accounting for the impacts of TCJA. When the initial accounting for TCJA impacts is incomplete, the Company may include provisional amounts when reasonable estimates may be determined. As of February 3, 2018, the Company made a reasonable estimate of its deferred income tax benefit related to the corporate rate change of \$24.0 million and estimates to expense qualifying capital expenditures.

In the thirteen and twenty-six weeks ended August 4, 2018, the Company has not recognized any measurement period adjustments. The Company has not completed its process to determine the final impact of TCJA. The final impact may differ from this estimate, possibly materially, due to, among other things, changes in interpretations and assumptions that the Company has made and the issuance of additional regulatory and other guidance. Further, any required adjustment would be reflected as a discrete expense or benefit in the quarter that it is identified, as allowed by SAB 118. Although no material changes are anticipated, the Company expects to complete the analysis within the measurement period in accordance with SAB 118.

6. Earnings Per Share

The following table summarizes the computation of basic and diluted net income per share attributable to common shareholders (in thousands, except share and per share data):

	For the Thirteen Weeks Ended		For the Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
<i>Numerator</i>				
Net income attributable to common shareholders:	\$ 10,485	\$ 11,996	\$ 21,743	\$ 20,023
<i>Denominator</i>				
Weighted average number of common shares outstanding, basic:	42,855,366	41,549,825	42,535,849	42,033,984
Dilutive effect of restricted shares:	1,860,827	2,004,450	1,525,955	1,525,797
Weighted average number of common shares outstanding, diluted:	44,716,193	43,554,275	44,061,804	43,559,781
Net income per common share attributable to common shareholders, basic:	\$ 0.24	\$ 0.29	\$ 0.51	\$ 0.48
Net income per common share attributable to common shareholders, diluted:	\$ 0.23	\$ 0.28	\$ 0.49	\$ 0.46

The weighted average common shares for the diluted earnings per share calculation exclude the impact of outstanding equity awards if the assumed proceeds per share of the award is in excess of the related fiscal period’s average price of the Company’s common stock. Such awards are excluded because they would have an antidilutive effect. There were 336,105 and 729,463 for the thirteen and twenty-six weeks ended August 4, 2018, respectively, and 283,230 and 280,038 for the thirteen and twenty-six weeks ended July 29, 2017, respectively, such awards excluded.

7. Equity-Based Compensation

Compensation expense was \$1.0 million and \$1.8 million for the thirteen and twenty-six weeks ended August 4, 2018, respectively, and \$0.2 million and \$0.3 million for the thirteen and twenty-six weeks ended July 29, 2017, respectively.

8 . Related Party Transactions

For the thirteen and twenty-six weeks ended August 4, 2018, the Company incurred an immaterial amount of related party transactions. For the thirteen and twenty-six weeks ended July 29, 2017 the Company incurred an immaterial amount of out-of-pocket expenses in relation to the advisory services agreement with a related party. These expenses are included in operating expenses in the accompanying consolidated statements of operations and comprehensive income.

9. Commitments and Contingencies

Operating Lease Agreements

The Company recorded a deferred lease liability of \$10.6 million and \$9.5 million as of August 4, 2018 and February 3, 2018, respectively. In certain instances, the Company also receives tenant improvement incentives for its store leases, which it accrues and amortizes ratably over the life of the lease. The Company maintained a tenant improvement incentive liability of \$18.0 million and \$17.3 million as of August 4, 2018 and February 3, 2018, respectively.

Total rental and common area maintenance expense was \$15.1 million and \$30.6 million for the thirteen and twenty-six weeks ended August 4, 2018, respectively, exclusive of contingent rental expense recorded of \$0.4 million and \$0.6 million for the same respective periods. Total rental and common area maintenance expense was \$14.9 million and \$29.3 million for the thirteen and twenty-six weeks ended July 29, 2017, respectively, exclusive of contingent rental expense recorded of \$0.4 million and \$0.8 million for the same respective periods.

Legal Proceedings

Shareholder Class Action Lawsuits

On October 13, 2017, a securities lawsuit was filed in the United States District Court for the District of Massachusetts against the Company, several members of our Board of Directors and our Chief Financial Officer, among others. The complaint was brought under the Securities Act of 1933 and sought certification of a class of plaintiffs comprised of all shareholders that acquired stock issued by the Company in its initial public offering in March 2017. The plaintiffs sought compensation for losses they incurred since purchasing the stock. Following the filing of this lawsuit, two additional, similar actions were brought in the same court. The three matters were eventually consolidated, and a lead plaintiff was appointed by the court. On March 9, 2018, an amended complaint captioned *The Pension Trust v. J.Jill, Inc., et al.* was filed. The Company filed a motion to dismiss on May 14, 2018, which was opposed by the plaintiffs on July 17, 2018. The Company believes the claims in the case are without merit and intends to defend the matter vigorously. No material amount has been accrued.

We are not presently party to any other legal proceedings the resolution of which we believe would have a material adverse effect on our business, financial condition, operating results or cash flows. We establish reserves for specific legal matters when we determine that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. The following discussion contains forward-looking statements that reflect our plans, estimates and assumptions. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause such differences are discussed in the sections of this Quarterly Report on Form 10-Q titled "Risk Factors" and "Special Note Regarding Forward-Looking Statements".

We operate on a 52- or 53-week fiscal year that ends on the Saturday that is closest to January 31. Each fiscal year generally is comprised of four 13-week fiscal quarters, although in the years with 53 weeks, the fourth quarter represents a 14-week period. The fiscal year ending February 2, 2019 ("Fiscal Year 2018") and fiscal year ended February 3, 2018 ("Fiscal Year 2017") are comprised of 52 weeks and 53 weeks, respectively.

Overview

J.Jill is a premier omnichannel retailer and nationally recognized women's apparel brand committed to delighting customers with great wear-now product. The brand represents an easy, relaxed, inspired style that reflects the confidence and comfort of a woman with a rich, full life. J.Jill provides guiding service through more than 270 stores nationwide and a robust e-commerce platform. J.Jill is headquartered outside Boston.

Factors Affecting Our Operating Results

Various factors are expected to continue to affect our results of operations going forward, including the following:

Overall Economic Trends. Consumer purchases of clothing and other merchandise generally decline during recessionary periods and other periods when disposable income is adversely affected, and consequently our results of operations may be affected by general economic conditions. For example, reduced consumer confidence and lower availability and higher cost of consumer credit may reduce demand for our merchandise and may limit our ability to increase or sustain prices. The growth rate of the market could be affected by macroeconomic conditions in the United States.

Consumer Preferences and Fashion Trends. Our ability to maintain our appeal to existing customers and attract new customers depends on our ability to anticipate fashion trends. During periods in which we have successfully anticipated fashion trends, we have generally had more favorable results.

Competition. The retail industry is highly competitive and retailers compete based on a variety of factors, including design, quality, price and customer service. Levels of competition and the ability of our competitors to more accurately predict fashion trends and otherwise attract customers through competitive pricing or other factors may impact our results of operations.

Our Strategic Initiatives. Our business will continue to have an impact on our results of operations, including our newly re-platformed e-commerce site. Although initiatives of this nature are designed to create growth in our business and continuing improvement in our operating results, the timing of expenditures related to these initiatives, as well as the achievement of returns on our investments, may affect our results of operation in future periods.

Pricing and Changes in Our Merchandise Mix. Our product offering changes from period to period, as do the prices at which goods are sold and the margins we are able to earn from the sales of those goods. The levels at which we are able to price our merchandise are influenced by a variety of factors, including the quality of our products, cost of production, prices at which our competitors are selling similar products and the willingness of our customers to pay for products.

Potential Changes in Tax Laws and/or Regulations. Changes in tax laws in any of the multiple jurisdictions in which we operate, or adverse outcomes from tax audits that we may be subject to in any of the jurisdictions in which we operate, could adversely affect our business, financial condition and operating results. Additionally, any potential changes with respect to tax and trade policies, tariffs and government regulations affecting trade between the U.S. and other countries could adversely affect our business, as we source the majority of our merchandise from manufacturers located outside of the U.S.

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of financial and operating metrics, including GAAP and non-GAAP measures, including the following:

Net sales consists primarily of revenues, net of merchandise returns and discounts, generated from the sale of apparel and accessory merchandise through our retail channel and direct channel. Net sales also include shipping and handling fees collected from

customers and royalty revenues and marketing reimbursements related to our private label credit card agreement. Revenue from our retail channel is recognized at the time of sale and revenue from our direct channel is recognized upon shipment of merchandise to the customer.

Net sales are impacted by the size of our active customer base, product assortment and availability, marketing and promotional activities and the spending habits of our customers. Net sales are also impacted by the migration of single-channel customers to omnichannel customers who, on average, spend nearly three times more than single-channel customers.

Total company comparable sales includes net sales from our full-price stores that have been open for more than 52 weeks and from our direct channel. This measure highlights the performance of existing stores open during the period, while excluding the impact of new store openings and closures. When a store in the total company comparable store base is temporarily closed for remodeling or other reasons, it is included in total company comparable sales only using the full weeks it was open. Certain of our competitors and other retailers may calculate total company comparable sales differently than we do. As a result, the reporting of our total company comparable sales may not be comparable to sales data made available by other companies.

Number of stores reflects all stores open at the end of a reporting period. In connection with opening new stores, we incur pre-opening costs. Pre-opening costs include expenses incurred prior to opening a new store and primarily consist of payroll, travel, training, marketing, initial opening supplies and costs of transporting initial inventory and fixtures to store locations, as well as occupancy costs incurred from the time of possession of a store site to the opening of that store. These pre-opening costs are included in selling, general and administrative expenses and are generally incurred and expensed within 30 days of opening a new store.

Gross profit is equal to our net sales less costs of goods sold. Gross profit as a percentage of our net sales is referred to as gross margin. **Costs of goods sold** includes the direct costs of sold merchandise, inventory shrinkage, and adjustments and reserves for excess, aged and obsolete inventory. We review our inventory levels on an ongoing basis to identify slow-moving merchandise and use product markdowns to efficiently sell these products. Changes in the assortment of our products may also impact our gross profit. The timing and level of markdowns are driven by customer acceptance of our merchandise. Certain of our competitors and other retailers may report costs of goods sold differently than we do. As a result, the reporting of our gross profit and gross margin may not be comparable to other companies.

The primary drivers of the costs of goods sold are raw materials, which fluctuate based on certain factors beyond our control, including labor conditions, transportation or freight costs, energy prices, currency fluctuations and commodity prices. We place orders with merchandise suppliers in United States dollars and, as a result, are not exposed to significant foreign currency exchange risk.

Selling, general and administrative expenses include all operating costs not included in costs of goods sold. These expenses include all payroll and related expenses, occupancy costs and other operating expenses related to our stores and to our operations at our headquarters, including utilities, depreciation and amortization. These expenses also include marketing expense, including catalog production and mailing costs, warehousing, distribution and shipping costs, customer service operations, consulting and software services, professional services and other administrative costs.

Our historical revenue growth has been accompanied by increased selling, general and administrative expenses. The most significant increases were in occupancy costs associated with retail store expansion, and in marketing and payroll investments. While we expect these expenses to increase as we continue to open new stores, increase brand awareness and grow our business, we believe these expenses will decrease as a percentage of net sales over time.

Adjusted EBITDA and Adjusted EBITDA Margin. Adjusted EBITDA, which represents net income (loss) plus net interest expense, provision (benefit) for income taxes, depreciation and amortization, equity-based compensation expense, write-off of property and equipment, and other non-recurring expenses and one-time items. We present Adjusted EBITDA on a consolidated basis because management uses it as a supplemental measure in assessing our operating performance, and we believe that it is helpful to investors, securities analysts and other interested parties as a measure of our comparative operating performance from period to period. We also use Adjusted EBITDA as one of the primary methods for planning and forecasting overall expected performance of our business and for evaluating on a quarterly and annual basis actual results against such expectations. Further, we recognize Adjusted EBITDA as a commonly used measure in determining business value and as such, use it internally to report results.

While we believe that Adjusted EBITDA is useful in evaluating our business, Adjusted EBITDA is a non-GAAP financial measure that has limitations as an analytical tool. Adjusted EBITDA should not be considered an alternative to, or substitute for, net income (loss), which is calculated in accordance with GAAP. In addition, other companies, including companies in our industry, may calculate Adjusted EBITDA differently or not at all, which reduces the usefulness of Adjusted EBITDA as a tool for comparison. We recommend that you review the reconciliation and calculation of Adjusted EBITDA and Adjusted EBITDA margin to net income (loss), the most directly comparable GAAP financial measure, below and not rely solely on Adjusted EBITDA or any single financial measure to evaluate our business.

Reconciliation of Net Income to Adjusted EBITDA and Calculation of Adjusted EBITDA Margin

The following table provides a reconciliation of net income to Adjusted EBITDA and the calculation of Adjusted EBITDA margin for the periods presented.

(in thousands)	For the Thirteen Weeks Ended		For the Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Statements of Operations Data:				
Net income	\$ 10,485	\$ 11,996	\$ 21,743	\$ 20,023
Interest expense, net	4,853	5,084	9,670	10,029
Provision for income taxes	3,952	8,557	7,924	14,160
Depreciation and amortization	8,892	8,341	18,249	17,140
Equity-based compensation expense (a)	1,083	237	1,843	261
Write-off of property and equipment (b)	16	338	28	340
Other non-recurring expenses (c)	—	721	1,346	4,306
Adjusted EBITDA	<u>\$ 29,281</u>	<u>\$ 35,274</u>	<u>\$ 60,803</u>	<u>\$ 66,259</u>
Net sales	\$ 179,713	\$ 181,372	\$ 361,254	\$ 347,498
Adjusted EBITDA margin	16.3%	19.4%	16.8%	19.1%

- (a) Represents expenses associated with equity incentive instruments granted to our management and board of directors. Incentive instruments are accounted for as equity-classified awards with the related compensation expense recognized based on fair value at the date of the grants.
- (b) Represents net gain or loss on the disposal of fixed assets.
- (c) Represents items management believes are not indicative of ongoing operating performance. For the period ended July 29, 2017, these expenses are primarily composed of legal and professional fees associated with the initial public offering completed March 14, 2017 and subsequent transition to a public company. For the twenty-six weeks ended August 4, 2018, these expenses include costs related to a CEO transition.

Results of Operations

Thirteen weeks ended August 4, 2018 Compared to Thirteen weeks ended July 29, 2017

The following table summarizes our consolidated results of operations for the periods indicated:

(in thousands)	For the Thirteen Weeks Ended				Change from the Thirteen Weeks Ended July 29, 2017 to the Thirteen Weeks Ended August 4, 2018	
	August 4, 2018		July 29, 2017		\$ Change	% Change
	Dollars	% of Net Sales	Dollars	% of Net Sales		
Net sales	\$ 179,713	100.0%	\$ 181,372	100.0%	\$ (1,659)	(0.9)%
Costs of goods sold	63,058	35.1%	58,724	32.4%	4,334	7.4%
Gross profit	116,655	64.9%	122,648	67.6%	(5,993)	(4.9)%
Selling, general and administrative expenses	97,365	54.2%	97,011	53.5%	354	0.4%
Operating income	19,290	10.7%	25,637	14.1%	(6,347)	(24.8)%
Interest expense, net	4,853	2.7%	5,084	2.8%	(231)	(4.5)%
Income before provision for income taxes	14,437	8.0%	20,553	11.3%	(6,116)	(29.8)%
Provision for income taxes	3,952	2.2%	8,557	4.7%	(4,605)	(53.8)%
Net income	<u>\$ 10,485</u>	<u>5.8%</u>	<u>\$ 11,996</u>	<u>6.6%</u>	<u>\$ (1,511)</u>	<u>(12.6)%</u>

Net Sales

Net sales for the thirteen weeks ended August 4, 2018 decreased \$1.7 million, or 0.9%, to \$179.7 from \$181.4 million for the thirteen weeks ended July 29, 2017. At the end of those same periods, we operated 273 and 274 retail stores, respectively. The decrease in total net sales versus the prior year was driven by replacing a high volume week in May with a lower volume week in August due to a calendar shift created by the fifty-third week in Fiscal Year 2017, partially offset by a 2.2% increase in total company comparable sales.

Our retail channel contributed 59.1% of our net sales in the thirteen weeks ended August 4, 2018 and 56.9% in the thirteen weeks ended July 29, 2017. Our direct channel contributed 40.9% of our net sales in the thirteen weeks ended August 4, 2018 and 43.1% in the thirteen weeks ended July 29, 2017.

Gross Profit and Costs of Goods Sold

Gross profit for the thirteen weeks ended August 4, 2018 decreased \$6.0 million, or 4.9%, to \$116.7 from \$122.6 million for the thirteen weeks ended July 29, 2017. The gross margin for the thirteen weeks ended August 4, 2018 was 64.9% compared to 67.6% for the thirteen weeks ended July 29, 2017, largely driven by added promotions, markdowns, and liquidation actions to clear certain goods.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the thirteen weeks ended August 4, 2018 increased \$0.4 million, or 0.4%, to \$97.4 from \$97.0 million for the thirteen weeks ended July 29, 2017. The increase was due to additional expenses of \$0.8 million related to depreciation and amortization and costs associated with investments in technology. These increases were partially offset by lower sales related expenses, including retail payroll, occupancy and direct fulfillment, as well as a decrease in net employee compensation, which was primarily driven by incentive expense.

As a percentage of net sales, selling, general and administrative expenses were 54.2% for the thirteen weeks ended August 4, 2018 compared to 53.5% for the thirteen weeks ended July 29, 2017.

Interest Expense, Net

Interest expense, net, consists of interest expense on the Term Loan and is partially offset by interest earned on cash. Interest expense for the thirteen weeks ended August 4, 2018 decreased \$0.2 million, or 4.5%, to \$4.9 from \$5.1 million for the thirteen weeks ended July 29, 2017. The decrease was driven by the lower balance of the Term Loan and the acceleration of \$0.6 million of deferred financing costs in the second quarter of 2017 due to a voluntary principal prepayment on the Term Loan of \$20.0 million made in June 2017, partially offset by the impact of higher interest rates.

Provision for Income Taxes

The provision for income taxes was \$4.0 million for the thirteen weeks ended August 4, 2018 compared to \$8.6 million for the thirteen weeks ended July 29, 2017. Our effective tax rates for the same periods were 27.4% and 41.6%, respectively. The decrease in the effective tax rate was primarily due to new U.S. tax legislation. The U.S. Tax Cuts and Jobs Act (the "TCJA"), enacted in December 2017, is subject to a number of provisions, including a reduction of the U.S. federal corporate income tax rate from 35.0% to 21.0% (effective January 1, 2018) and a change in certain business deductions, including allowing for immediate expensing of certain qualified capital expenditures.

Twenty-six weeks ended August 4, 2018 Compared to Twenty-six weeks ended July 29, 2017

The following table summarizes our consolidated results of operations for the periods indicated:

(in thousands)	For the Twenty-Six Weeks Ended				Change from the Twenty-Six Weeks Ended July 29, 2017 to the Twenty-Six Weeks Ended August 4, 2018	
	August 4, 2018		July 29, 2017		\$ Change	% Change
	Dollars	% of Net Sales	Dollars	% of Net Sales		
Net sales	\$ 361,254	100.0%	\$ 347,498	100.0%	\$ 13,756	4.0%
Costs of goods sold	124,258	34.4%	109,242	31.4%	15,016	13.7%
Gross profit	236,996	65.6%	238,256	68.6%	(1,260)	(0.5)%
Selling, general and administrative expenses	197,659	54.7%	194,044	55.8%	3,615	1.9%
Operating income	39,337	10.9%	44,212	12.7%	(4,875)	(11.0)%
Interest expense, net	9,670	2.7%	10,029	2.9%	(359)	(3.6)%
Income before provision for income taxes	29,667	8.2%	34,183	9.8%	(4,516)	(13.2)%
Provision for income taxes	7,924	2.2%	14,160	4.1%	(6,236)	(44.0)%
Net income	\$ 21,743	6.0%	\$ 20,023	5.8%	\$ 1,720	8.6%

Net Sales

Net sales for the twenty-six weeks ended August 4, 2018 increased \$13.8 million, or 4.0%, to \$361.3 from \$347.5 million for the twenty-six weeks ended July 29, 2017. At the end of those same periods, we operated 273 and 274 retail stores, respectively. The increase in net sales was due to a 2.2% increase in total company comparable sales, driven by an increase in our active customer base.

Our retail channel contributed 59.3% of our net sales in the twenty-six weeks ended August 4, 2018 and 57.1% in the twenty-six weeks ended July 29, 2017. Our direct channel contributed 40.7% of our net sales in the twenty-six weeks ended August 4, 2018 and 42.9% in the twenty-six weeks ended July 29, 2017.

Gross Profit and Costs of Goods Sold

Gross profit for the twenty-six weeks ended August 4, 2018 decreased \$1.3 million, or 0.5%, to \$237.0 from \$238.3 million for the twenty-six weeks ended July 29, 2017. The gross margin for the twenty-six weeks ended August 4, 2018 was 65.6% compared to 68.6% for the twenty-six weeks ended July 29, 2017, largely driven by added promotions, markdowns, and liquidation actions to clear certain goods.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the twenty-six weeks ended August 4, 2018 increased \$3.6 million, or 1.9%, to \$197.7 from \$194.0 million for the twenty-six weeks ended July 29, 2017. The increase is related to higher sales related expenses of \$1.6 million, including retail payroll, occupancy and direct fulfillment, as well as increased marketing costs of \$2.8 million. In addition, there was a \$1.5 million increase related to depreciation and amortization and costs associated with investments in technology. These increases were partially offset by a decrease in net employee compensation which is primarily driven by incentive expense.

As a percentage of net sales, selling, general and administrative expenses were 54.7% for the twenty-six weeks ended August 4, 2018 compared to 55.8% for the twenty-six weeks ended July 29, 2017.

Interest Expense, Net

Interest expense, net, consists of interest expense on the Term Loan and is partially offset by interest earned on cash. Interest expense for the twenty-six weeks ended August 4, 2018 decreased \$0.4 million, or 3.6%, to \$9.7 from \$10.0 million for the twenty-six weeks ended July 29, 2017. The decrease was driven by the lower balance of the Term Loan and the acceleration of \$0.6 million of deferred financing costs in the second quarter of 2017 due to a voluntary principal prepayment on the Term Loan of \$20.0 million made in June 2017, partially offset by the impact of higher interest rates.

Provision for Income Taxes

The provision for income taxes was \$7.9 million for the twenty-six weeks ended August 4, 2018 compared to \$14.2 million for the twenty-six weeks ended July 29, 2017. Our effective tax rates for the same periods were 26.7% and 41.4%, respectively. The decrease in the effective tax rate was primarily due to new U.S. tax legislation under the TCJA.

Liquidity and Capital Resources

General

Our primary sources of liquidity and capital resources are cash generated from operating activities and availability under our ABL credit agreement, dated as of May 8, 2015, by and among Jill Holdings LLC, Jill Acquisition LLC, certain subsidiaries from time to time party thereto, the lenders party thereto and CIT Finance LLC as the administrative agent and collateral agent, as amended on May 27, 2016 by Amendment No. 1 thereto (the “ABL Facility”). Our primary requirements for liquidity and capital are working capital and general corporate needs, including merchandise inventories, marketing, including catalog production and distribution, payroll, store occupancy costs and capital expenditures associated with opening new stores, remodeling existing stores and upgrading information systems and the costs of operating as a public company. We believe that our current sources of liquidity and capital will be sufficient to finance our continued operations for at least the next 12 months. There can be no assurance, however, that our business will generate sufficient cash flows from operations or that future borrowings will be available under our ABL Facility or otherwise to enable us to service our indebtedness, or to make capital expenditures in the future. Our future operating performance and our ability to service or extend our indebtedness will be subject to future economic conditions and to financial, business, and other factors, many of which are beyond our control.

Capital expenditures were \$5.7 million for the twenty-six weeks ended August 4, 2018 compared to \$ 10.9 million for the twenty-six weeks ended July 29, 2017 . The decrease in capital expenditures in Fiscal Year 2018 was due primarily to a decrease in spending on technology projects and stores investments .

Cash Flow Analysis

The following table shows our cash flows information for the periods presented:

(in thousands)	For the Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017
Net cash provided by operating activities	\$ 43,115	\$ 45,280
Net cash used in investing activities	(5,659)	(10,915)
Net cash used in financing activities	(1,399)	(19,172)

Net Cash provided by Operating Activities

Net cash provided by operating activities during the twenty-six weeks ended August 4, 2018 was \$43.1 million. Key elements of cash provided by operating activities were (i) net income of \$21.7 million, (ii) adjustments to reconcile net income to net cash provided by operating activities of \$17.8 million, primarily driven by depreciation and amortization, deferred income taxes and equity based compensation, and (iii) a decrease in net operating assets and liabilities of \$3.6 million, primarily driven by lower inventory levels, offset by cash uses in accounts payable, prepaid expenses and accrued expenses.

Net cash provided by operating activities during the twenty-six weeks ended July 29, 2017 was \$45.3 million. Key elements of cash provided by operating activities were (i) net income of \$20.0 million, and (ii) adjustments to reconcile net income to net cash provided by operating activities of \$18.9 million, primarily driven by depreciation and amortization and non-cash amortization of deferred financing and debt discount costs, and (iii) a decrease in net operating assets and liabilities of \$6.4 million, primarily driven by cash provided by prepaid expenses and other current assets, inventories and other noncurrent assets and liabilities, offset with cash uses in accounts receivable and accrued expenses.

Net Cash used in Investing Activities

Net cash used in investing activities during the twenty-six weeks ended August 4, 2018 was \$5.7 million, representing purchases of property and equipment related investments in stores and information systems.

Net cash used in investing activities during the twenty-six weeks ended July 29, 2017 was \$10.9 million, representing purchases of property and equipment related investments in stores and information systems.

Net Cash used in Financing Activities

Net cash used in financing activities during the twenty-six weeks ended August 4, 2018 was \$1.4 million, which was the scheduled repayment of our Term Loan.

Net cash used in financing activities during the twenty-six weeks ended July 29, 2017 was \$19.2 million, which was primarily due to a voluntary principal prepayment on the Term Loan of \$20.0 million made in June 2017.

Dividends

Since our initial public offering, we have not declared or paid any cash dividends. The payment of cash dividends in the future, if any, will be at the discretion of our board of directors and will depend upon such factors as earnings levels, capital requirements, restrictions imposed by applicable law, our overall financial condition, restrictions in our debt agreements, including our Term Loan and ABL Facility, and any other factors deemed relevant by our board of directors. As a holding company, our ability to pay dividends depends on our receipt of cash dividends from our operating subsidiaries, which may further restrict our ability to pay dividends as a result of restrictions on their ability to pay dividends to us under our Term Loan, our ABL Facility and under future indebtedness that we or they may incur.

Credit Facilities

At August 4, 2018 and February 3, 2018 there were no loan amounts outstanding under the ABL Facility. At those same dates, we had outstanding letters of credit in the amounts of \$1.6 million and our maximum additional borrowing capacity was \$38.4 million.

Contractual Obligations

The Company's contractual obligations consist primarily of long-term debt obligations, interest payments, operating leases and purchase orders for merchandise inventory. These contractual obligations impact the Company's short-term and long-term liquidity and capital resource needs. During the twenty-six weeks ended August 4, 2018, there were no material changes in the contractual obligations as of February 3, 2018.

Contingencies

Shareholder Class Action Lawsuits

On October 13, 2017, a securities lawsuit was filed in the United States District Court for the District of Massachusetts against the Company, several members of our Board of Directors and our Chief Financial Officer, among others. The complaint was brought under the Securities Act of 1933 and sought certification of a class of plaintiffs comprised of all shareholders that acquired stock issued by the Company in its initial public offering in March 2017. The plaintiffs sought compensation for losses they incurred since purchasing the stock. Following the filing of this lawsuit, two additional, similar actions were brought in the same court. The three matters were eventually consolidated, and a lead plaintiff was appointed by the court. On March 9, 2018, an amended complaint captioned *The Pension Trust v. J.Jill, Inc., et al.* was filed. The Company filed a motion to dismiss on May 14, 2018, which was opposed by the plaintiffs on July 17, 2018. The Company believes the claims in the case are without merit and intends to defend the matter vigorously. No material amount has been accrued.

Off - Balance Sheet Arrangements

We are not a party to any off - balance sheet arrangements.

Critical Accounting Policies and Significant Estimates

The most significant accounting estimates involve a high degree of judgment or complexity. Management believes the estimates and judgments most critical to the preparation of our consolidated financial statements and to the understanding of our reported financial results include those made in connection with revenue recognition, including accounting for gift card breakage and estimated merchandise returns; estimating the value of inventory; impairment assessments for goodwill and other indefinite-lived intangible assets, and long-lived assets; and estimating equity-based compensation expense. Management evaluates its policies and assumptions on an ongoing basis.

Our significant accounting policies related to these accounts in the preparation of our consolidated financial statements are described under the heading "Management Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Significant Estimates" in our Annual Report on Form 10-K for the fiscal year ended February 3, 2018. As of the date of this filing, there were no significant changes to any of the critical accounting policies and estimates previously described in our Annual Report on Form 10-K, except for the effects of the adoption of ASC 606 – *Revenue from Contracts with Customers*. Refer to Note 2 to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q, under header, "Significant Accounting Policies Update" for the effects and disclosures of adoption.

Recent Accounting Pronouncements

Refer to Note 2 to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q, for recently adopted accounting standards, including the dates of adoption and estimated effects on our results of operations, financial position or cash flows.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are generally identified by the use of forward-looking terminology,

including the terms “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will,” “would” and, in each case, their negative or other various or comparable terminology. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, objectives of management and expected market growth are forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. All written and oral forward-looking statements made in connection with this Quarterly Report on Form 10-Q that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Risk Factors set forth in our Annual Report on Form 10-K for the year ended February 3, 2018 and other cautionary statements included therein and herein.

These forward-looking statements reflect our views with respect to future events as of the date of this Quarterly Report on Form 10-Q and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report on Form 10-Q and, except as required by law, we undertake no obligation to update or review publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Quarterly Report on Form 10-Q. We anticipate that subsequent events and developments will cause our views to change. We qualify all of our forward-looking statements by these cautionary statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are subject to interest rate risk in connection with borrowings under the Term Loan and ABL Facility, which bear interest at variable rates equal to LIBOR plus a margin as defined in the respective agreements described above. As of August 4, 2018, there was no outstanding balance under the ABL Facility, and \$1.6 million letters of credit outstanding. The undrawn borrowing availability under the ABL Facility was \$38.4 million and the amount outstanding under the Term Loan had decreased to \$246.8 million as a result of the scheduled repayments. We currently do not engage in any interest rate hedging activity. Based on the interest rate on the ABL Facility at August 4, 2018, and the schedule of outstanding borrowings under our Term Loan, a 10% change in our current interest rate would affect net income by \$1.3 million during Fiscal Year 2018.

Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial. We cannot assure you our business will not be affected in the future by inflation.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form-10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this Quarterly Report on Form-10-Q, our disclosure controls and procedures were effective to provide such reasonable assurance.

Changes to Internal Control over Financial Reporting

There were no significant changes in our internal control over financial reporting, (as defined in Rules 13a-15(e) and 15d-15(e) under the Act) during the fiscal quarter ended August 4, 2018 identified in connection with the evaluation by our management, including our Chief Executive Officer and Chief Financial Officer, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and our management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Shareholder Class Action Lawsuits

On October 13, 2017, a securities lawsuit was filed in the United States District Court for the District of Massachusetts against the Company, several members of our Board of Directors and our Chief Financial Officer, among others. The complaint was brought under the Securities Act of 1933 and sought certification of a class of plaintiffs comprised of all shareholders that acquired stock issued by the Company in its initial public offering in March 2017. The plaintiffs sought compensation for losses they incurred since purchasing the stock. Following the filing of this lawsuit, two additional, similar actions were brought in the same court. The three matters were eventually consolidated, and a lead plaintiff was appointed by the court. On March 9, 2018, an amended complaint captioned *The Pension Trust v. J.Jill, Inc., et al.* was filed. The Company filed a motion to dismiss on May 14, 2018, which was opposed by the plaintiffs on July 17, 2018. The Company believes the claims in the case are without merit and intends to defend the matter vigorously. No material amount has been accrued.

We are not presently party to any other legal proceedings the resolution of which we believe would have a material adverse effect on our business, financial condition, operating results or cash flows. We establish reserves for specific legal matters when we determine that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable.

Item 1A. Risk Factors

Factors that could cause our actual results to differ materially from those in this report are described under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended February 3, 2018. Any of these factors could result in a significant or material adverse effect on our results of operations or financial condition. As of the date of this Quarterly Report on Form 10-Q, there have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K. However, additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations and we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed on the Exhibit Index are filed or furnished as part of this Quarterly Report on Form 10-Q.

Exhibit Index

Exhibit Number	Description
31.1	<u>Certification of Principal Executive Officer required by Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Financial Officer required by Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2*	<u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Furnished herewith.

SIGNAT URES

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.

J.Jill, Inc.

Date: September 18, 2018

By: /s/ Linda Heasley
Linda Heasley
Chief Executive Officer and Director

Date: September 18, 2018

By: /s/ David Biese
David Biese
Executive Vice President, Chief Financial and Operating Officer

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Linda Heasley, certify that:

1. I have reviewed this Quarterly Report of J.Jill, Inc. (the "Company") on Form 10-Q for the period ended August 4, 2018;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Securities Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 18, 2018

By: /s/ Linda Heasley
Linda Heasley
Chief Executive Officer and Director

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Biese, certify that:

1. I have reviewed this Quarterly Report of J.Jill, Inc. (the "Company") on Form 10-Q for the period ended August 4, 2018;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Securities Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 18, 2018

By: /s/ David Biese
David Biese
Executive Vice President, Chief Financial and
Operating Officer

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Linda Heasley
Linda Heasley
Chief Executive Officer and Director

By: /s/ David Biese
David Biese
Executive Vice President, Chief Financial and
Operating Officer