

**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 3, 2019

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	JILL	New York Stock Exchange

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 ☒
Securities registered pursuant to Section 12(g) of the Act: None

As of September 11, 2019, the registrant had 44,040,717 shares of common stock, \$0.01 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

J.Jill, Inc. **CONSOLIDATED BALANCE SHEETS (UNAUDITED)** (in thousands, except share data)

	August 3, 2019	February 2, 2019
Assets		
Current assets:		
Cash	\$ 29,124	\$ 66,204
Accounts receivable	5,997	4,007
Inventories, net	70,003	77,349
Prepaid expenses and other current assets	26,534	27,734
Total current assets	131,658	175,294
Property and equipment, net	114,814	118,044
Intangible assets, net	123,546	136,177
Goodwill	108,597	197,026
Operating lease assets, net	216,338	—
Other assets	252	447
Total assets	\$ 695,205	\$ 626,988
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 52,955	\$ 55,012
Accrued expenses and other current liabilities	47,204	45,306
Current portion of long-term debt	2,799	2,799
Current portion of operating lease liabilities	32,632	—
Total current liabilities	135,590	103,117
Long-term debt, net of discount and current portion	236,781	237,464
Deferred income taxes	35,216	41,842
Operating lease liabilities, net of current portion	212,959	—
Other liabilities	2,073	30,770
Total liabilities	622,619	413,193
Commitments and contingencies (see Note 9)		
Shareholders' Equity		
Common stock, par value \$0.01 per share; 250,000,000 shares authorized; 44,005,112 and 43,672,418 shares issued and outstanding at August 3, 2019 and February 2, 2019, respectively	440	437
Additional paid-in capital	122,887	121,635
Accumulated (deficit) earnings	(50,741)	91,723
Total shareholders' equity	72,586	213,795
Total liabilities and shareholders' equity	\$ 695,205	\$ 626,988

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

J.Jill, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(in thousands, except share and per share data)

	For the Thirteen Weeks Ended		For the Twenty-Six Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Net sales	\$ 180,744	\$ 179,713	\$ 357,196	\$ 361,254
Costs of goods sold	75,403	63,058	135,599	124,258
Gross profit	105,341	116,655	221,597	236,996
Selling, general and administrative expenses	104,698	97,365	210,143	197,659
Impairment of goodwill	88,428	—	88,428	—
Impairment of indefinite-lived intangible assets	7,000	—	7,000	—
Operating (loss) income	(94,785)	19,290	(83,974)	39,337
Interest expense, net	5,019	4,853	10,026	9,670
(Loss) income before provision for income taxes	(99,804)	14,437	(94,000)	29,667
Income tax (benefit) provision	(3,069)	3,952	(1,631)	7,924
Net (loss) income and total comprehensive (loss) income	<u>\$ (96,735)</u>	<u>\$ 10,485</u>	<u>\$ (92,369)</u>	<u>\$ 21,743</u>
Net (loss) income per common share attributable to common shareholders:				
Basic	\$ (2.21)	\$ 0.24	\$ (2.12)	\$ 0.51
Diluted	\$ (2.21)	\$ 0.23	\$ (2.12)	\$ 0.49
Weighted average number of common shares outstanding:				
Basic	43,793,348	42,855,366	43,560,434	42,535,849
Diluted	43,793,348	44,716,193	43,560,434	44,061,804

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 Paid-in Capital	Accumulated Earnings (Deficit)	Total Shareholders' Equity
	Shares	Amount			
Balance, February 2, 2019	43,672,418	\$ 437	\$ 121,635	\$ 91,723	\$ 213,795
Adoption of ASU 2016-02 ⁽¹⁾	—	—	—	59	59
Special cash dividend (\$1.15 per share)	—	—	—	(50,154)	(50,154)
Vesting of restricted stock units	734,474	7	(7)	—	—
Shares withheld for net-share settlement of equity-based compensation	(239,117)	(2)	(1,266)	—	(1,268)
Forfeiture of restricted stock awards	(69,978)	(1)	1	—	—
Equity-based compensation	—	—	1,202	—	1,202
Net income	—	—	—	4,366	4,366
Balance, May 4, 2019	44,097,797	\$ 441	\$ 121,565	\$ 45,994	\$ 168,000
Vesting of restricted stock units	—	—	—	—	—
Forfeitable dividend	—	—	107	—	107
Forfeiture of restricted stock awards	(92,685)	(1)	1	—	—
Equity-based compensation	—	—	1,214	—	1,214
Net loss	—	—	—	(96,735)	(96,735)
Balance, August 3, 2019	44,005,112	\$ 440	\$ 122,887	\$ (50,741)	\$ 72,586

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

	Common Stock		Additional Paid-in Capital	Accumulated Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance, February 3, 2018	43,752,790	\$ 437	\$ 117,393	\$ 61,486	\$ 179,316
Adoption of ASU 2014-09	—	—	—	(288)	(288)
Vesting of restricted stock units	6,410	1	—	—	1
Equity-based compensation	—	—	760	—	760
Net income	—	—	—	11,258	11,258
Balance, May 5, 2018	43,759,200	\$ 438	\$ 118,153	\$ 72,456	\$ 191,047
Vesting of restricted stock units	3,192	—	—	—	—
Forfeiture of restricted stock awards	(18,359)	(1)	—	—	(1)
Equity-based compensation	—	—	1,083	—	1,083
Net income	—	—	—	10,485	10,485
Balance, August 4, 2018	43,744,033	\$ 437	\$ 119,236	\$ 82,941	\$ 202,614

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 3, 2019	August 4, 2018
Net (loss) income	\$ (92,369)	\$ 21,743
Operating activities:		
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	18,846	18,245
Impairment of goodwill and indefinite-lived intangible assets	95,428	—
Impairment of long-lived assets	2,064	—
Loss on disposal of fixed assets	14	28
Noncash amortization of deferred financing and debt discount costs	827	794
Equity-based compensation	2,416	1,843
Deferred rent liability	(88)	(64)
Deferred income taxes	(6,627)	(3,054)
Changes in operating assets and liabilities:		
Accounts receivable	(1,990)	(374)
Inventories	7,346	19,000
Prepaid expenses and other current assets	(2,460)	(2,371)
Accounts payable	(1,812)	(11,943)
Accrued expenses	1,733	(2,322)
Operating lease assets and liabilities	283	—
Other noncurrent assets and liabilities	(75)	1,590
Net cash provided by operating activities	23,536	43,115
Investing activities:		
Purchases of property and equipment	(7,904)	(5,659)
Net cash used in investing activities	(7,904)	(5,659)
Financing activities:		
Repayments on long-term debt	(1,399)	(1,399)
Payments of withholding tax on net-share settlement of equity-based compensation plans	(1,266)	—
Special dividend paid to shareholders	(50,154)	—
Forfeitable dividend	107	—
Net cash used in financing activities	(52,712)	(1,399)
Net change in cash	(37,080)	36,057
Cash:		
Beginning of Period	66,204	25,978
End of Period	\$ 29,124	\$ 62,035

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, thoughtful and inspired style that reflects the confidence of remarkable women who live life with joy, passion and purpose. J.Jill offers a guiding customer experience through more than 280 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 2, 2019 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 3, 2019 are not necessarily indicative of future results or results to be expected for the full year ending February 1, 2020 (“Fiscal Year 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 2, 2019.

Significant changes to our accounting policies as a result of adopting Accounting Standards Update (“ASU”) 2016-02 – *Leases (Topic 842)* are discussed below in “Significant Accounting Policies Update” and Note 10.

Recently Adopted Accounting Policies

In February 2016, the FASB issued ASU 2016-02 – *Leases (Topic 842)*, which supersedes FASB Accounting Standards Codification (“ASC”) Topic 840 – *Leases*. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. The standard was adopted using the modified retrospective approach as of February 3, 2019 with an immaterial cumulative adjustment to retained earnings. See “Significant Accounting Policies Update” and Note 13 for a discussion of our updated policies related to leases and disclosures related to the impact of this standard.

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. The standard was adopted as of February 3, 2019, and it had no 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 Company adopted the standard as of February 3, 2019, and it had no impact on our consolidated financial statements and related disclosures.

Recently Issued Accounting Pronouncements

In November 2018, the FASB issued ASU 2018-18 – *Collaborative Arrangements* (Topic 808), which clarifies the interaction between Topic 808 and Topic 606, Revenue from Contracts with Customers. The provisions of ASU 2018-18 are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company will be required to adopt this standard in the first quarter of Fiscal Year 2020. This standard is not expected to have a material impact on our consolidated financial statements and related disclosures.

In September 2018, the FASB issued ASU 2018-15 – *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendment is intended to address aspects of the guidance issued in the amendments in ASU 2015-05 – *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2018-15 intends to improve an entities ability to evaluate the accounting for fees paid by a customer in a cloud computing arrangement that is a service contract. The provisions of ASU 2018-15 are effective for fiscal years beginning after December 15, 2019. The Company plans to adopt these standards using a prospective approach and is evaluating the impact that adopting ASU 2018-15 will have on its consolidated financial statements and related disclosures.

Significant Accounting Policies Update

Adoption of ASC Topic 842: Leases

The Company adopted ASU 2016-02- *Leases* (Topic 842) and related amendments, as of February 3, 2019, using the modified retrospective approach. The modified retrospective approach provides a method for recording existing leases at adoption with a cumulative adjustment to retained earnings. The Company elected the package of practical expedients which permits the Company to not reassess (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) any initial direct costs for any expired or existing leases as of the effective date.

The Company applied a portfolio approach to effectively account for the operating lease liabilities and operating lease assets; the Company did not have financing leases. The Company excludes leases with an initial term of 12 months or less from the application of Topic 842. The Company did not elect the hindsight practical expedient; therefore, upon adoption, the Company used the remaining lease term of the current lease, option or extension.

Adoption of the new standard resulted in the recording of operating lease assets and operating lease liabilities of \$223.3 million and \$250.5 million, respectively, on the Company’s consolidated balance sheet as of February 3, 2019. The difference between the approximate value of the operating lease assets and liabilities is attributable to deferred rent, deferred rent incentives, leasehold interests and prepaid rent. There was no material impact on the Company’s consolidated statement of operations and comprehensive income or consolidated statements cash flows. The Company’s comparative periods continue to be presented and disclosed in accordance with legacy guidance in Topic 840.

Operating Leases

The Company determines if an arrangement is a lease at inception. Lease agreements will typically exist with lease and non-lease components, which are generally accounted for separately.

The Company recognizes operating lease liabilities equal to the present value of the lease payments and operating lease assets representing the right to use the underlying asset for the lease term. The lease expense for lease payments is recognized on a straight-line basis over the lease term.

As the Company’s leases do not provide an implicit rate, the Company will use an incremental borrowing rate based on the information available at lease commencement in determining the present value of lease payments. The operating lease assets include any lease payments made prior to lease commencement and are reduced by any lease incentives.

Under Topic 842, for any new leases entered into, the Company will assess if it is reasonably certain to exercise lease options to extend or terminate the lease for inclusion (or exclusion) in the lease term when the Company measures the lease liability. The depreciable life of any assets and leasehold improvements are limited by the expected lease term.

Certain of the Company’s retail operating leases include variable rental payments based on a percentage of retail sales over contractual levels. Variable rental payments are recognized in the consolidated statement of operations and comprehensive income in the period in which the obligation for those payments are incurred. If such variable operating leases arise that include incentives from landlords in the form of cash, the Company will record the full amount of the incentive when specific performance criteria are met as a deferred liability. The deferred liability is amortized into income as a reduction of rent expense over the term of the applicable lease, including options to extend if they are reasonably certain to be exercised. The Company recognized those liabilities to be amortized within a year as a current liability and those greater than a year as a long-term liability. For purposes of recognizing these incentives and rental expenses on a straight-line basis, the Company uses the date it obtains the legal right to use and control the lease asset to begin amortization, which is generally when the Company takes possession of the asset.

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 disaggregated revenues by source (in thousands):

	For the Thirteen Weeks Ended		For the Twenty-Six Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Retail	\$ 103,666	\$ 106,210	\$ 206,260	\$ 214,241
Direct	77,078	73,503	150,936	147,013
Net revenues	<u>\$ 180,744</u>	<u>\$ 179,713</u>	<u>\$ 357,196</u>	<u>\$ 361,254</u>

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 3, 2019	February 2, 2019
Contract liabilities:		
Signing bonus	\$ 576	\$ 647
Unredeemed gift cards	5,302	7,081
Total contract liabilities ⁽¹⁾	<u>\$ 5,878</u>	<u>\$ 7,728</u>

⁽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 3, 2019, the Company recognized approximately \$3.1 million and \$6.5 million of revenue related to gift card redemptions and breakage, respectively. 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, respectively. 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 \$0.6 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 2019	Fiscal Year 2020	Thereafter
Signing bonus	\$ 71	\$ 141	\$ 365

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.

4. Other Income

The Company filed an insurance claim as a result of a cargo vessel fire on or about January 8, 2019, where contents of two containers carried J.Jill inventory. In July 2019, it was determined that the inventory onboard the cargo vessel was nonsalable and the insurance claim was settled for \$3.3 million. The Company recorded a gain of \$2.4 million on insurance proceeds in selling, general and administrative expenses in the consolidated statement of operations and comprehensive income (loss) for the period ended August 3, 2019.

5. Asset Impairments

Long-lived Asset Impairments

In the second quarter of Fiscal Year 2019, the Company reduced the net carrying value of certain long-lived assets to their estimated fair value, determined using a discounted cash flows method. These impairment charges arose from the Company's decision to vacate and sublease one floor of the corporate headquarters located in Quincy, Massachusetts. The Company incurred impairment charges of \$0.3 million on leasehold improvements and \$1.8 million on the right-of-use asset. The impairment charges were recorded in selling, general and administrative expenses in the consolidated statement of operations and comprehensive income (loss).

Goodwill and Other Indefinite-lived Intangible Asset Impairments

In the second quarter of Fiscal Year 2019, the Company reduced comparable sales outlook for the second quarter that led to a reduced full year forecast of earnings for Fiscal Year 2019. The Company concluded that these factors, as well as the decrease in stock price represented indicators of impairment and required the Company to test goodwill and indefinite-lived intangible assets for impairment during the second quarter of Fiscal Year 2019 (the "Impairment Test").

The Company performed the Impairment Test using a quantitative approach with the assistance of an independent valuation firm. The Impairment Test was performed using the income approach (or discounted cash flows method) for goodwill and the relief-from-royalty method for indefinite-lived intangible assets. The estimated fair values of goodwill and indefinite-lived intangible asset were below carrying values resulting in an \$88.4 million impairment of goodwill and a \$7.0 million impairment of the Company's tradename (indefinite-lived intangible asset).

6. Restructuring Costs

In July 2019, the Company implemented a restructuring plan (the "2019 Restructuring Plan") focused on cost reduction initiatives designed to execute against long-term strategies. The 2019 Restructuring Plan included headcount reductions primarily at the Company's corporate headquarters in Quincy, Massachusetts and at the facility in Tilton, New Hampshire.

As a result of the 2019 Restructuring Plan, the Company recorded \$1.6 million of restructuring costs in selling, general and administrative expenses in the consolidated statements of operations and comprehensive income. All restructuring costs have been incurred in the second quarter of Fiscal Year 2019 and payments are anticipated to be complete in the third quarter of Fiscal Year 2020, ending on January 30, 2021.

The following table summarizes the activity of the restructuring costs discussed above and related accruals recorded in accrued other and other current liabilities on the consolidated balance sheet (in thousands):

	February 3, 2019	Charges Incurred	Cash Payments	Adjustments	August 3, 2019
Employee separation costs	\$ —	\$ 1,402	\$ —	\$ —	\$ 1,402
Other	—	195	—	—	195
Total restructuring costs	<u>\$ —</u>	<u>\$ 1,597</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,597</u>

7. Debt

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

	August 3, 2019	February 2, 2019
Term Loan	\$ 243,978	\$ 245,378
Discount on debt and debt issuance costs	(4,398)	(5,115)
Less: Current portion	(2,799)	(2,799)
Net long-term debt	<u>\$ 236,781</u>	<u>\$ 237,464</u>

The Company was in compliance with all financial covenants as of August 3, 2019.

8. Income Taxes

The Company recorded an income tax benefit of \$3.1 million and \$1.6 million for the thirteen and twenty-six weeks ended August 3, 2019, respectively, and income tax expense of \$4.0 million and \$7.9 million during the thirteen and twenty-six weeks ended August 4, 2018, respectively. The effective tax rates were 3.1% and 1.7% in the thirteen and twenty-six weeks ended August 3, 2019, respectively, and 27.4% and 26.7% in the thirteen and twenty-six weeks ended August 4, 2018, respectively.

The effective tax rate for the thirteen and twenty-six weeks ended August 3, 2019 is lower than the federal statutory rate of 21% primarily due to goodwill impairment of \$88.4 million net of recurring items including \$162(m) officer compensation limitation, stock compensation and state income taxes. 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 \$162(m) officer compensation limitation, stock compensation and state income taxes.

9. 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 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
<i>Numerator</i>				
Net (loss) income attributable to common shareholders:	\$ (96,735)	\$ 10,485	\$ (92,369)	\$ 21,743
<i>Denominator</i>				
Weighted average number of common shares outstanding, basic:	43,793,348	42,855,366	43,560,434	42,535,849
Dilutive effect of stock options and restricted shares:	—	1,860,827	—	1,525,955
Weighted average number of common shares outstanding, diluted:	43,793,348	44,716,193	43,560,434	44,061,804
Net (loss) income per common share attributable to common shareholders, basic:	\$ (2.21)	\$ 0.24	\$ (2.12)	\$ 0.51
Net (loss) income per common share attributable to common shareholders, diluted:	\$ (2.21)	\$ 0.23	\$ (2.12)	\$ 0.49

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 4,224,437 and 2,775,635 for the thirteen and twenty-six weeks ended August 3, 2019, and 336,105 and 729,463 for the thirteen and twenty-six weeks ended August 4, 2018, such awards excluded.

10. Equity-Based Compensation

Equity-based compensation expense was \$1.2 million and \$2.4 million for the thirteen and twenty-six weeks ended August 3, 2019, and \$1.0 million and \$1.8 million for the thirteen and twenty-six weeks ended August 4, 2018.

Special Dividend

On March 6, 2019, the Company's Board of Directors declared a special cash dividend (the "Special Dividend") of \$1.15 per share payable to shareholders of record as of March 19, 2019, of which \$50.2 million was paid on April 1, 2019 to shareholders.

In connection with the Special Dividend, pursuant to anti-dilution provisions in the 2017 Omnibus Equity Incentive Plan (the "2017 Plan"), the Company adjusted outstanding equity awards in order to prevent dilution of such awards. Accordingly, the Company adjusted the number of outstanding unvested restricted stock units ("RSUs") as of the payment date of the dividend with an additional number of RSUs ("Dividend Equivalent Units" or "DEUs") equal to the quotient obtained by dividing (x) the product of the number of unvested RSUs as of the record date by the amount of the dividend per share, by (y) the fair market value of share on the payment date of the Special Dividend. The DEUs will follow the same vesting pattern as the RSUs. For holders of outstanding options as of March 19, 2019, the option strike price on such options was reduced by the per share amount of the Special Dividend. Holders of unvested Restricted Stock Awards ("RSAs") received a forfeitable \$1.15 per share dividend on unvested RSAs as of March 19, 2019.

11. Related Party Transactions

For both the thirteen and twenty-six weeks ended August 3, 2019 and August 4, 2018, the Company incurred an immaterial amount of related party transactions.

12. Commitments and Contingencies

Legal Proceedings

The Company is subject to various legal proceedings that arise in the ordinary course of business. Although the outcome of such proceedings cannot be predicted with certainty, management does not believe that the Company is presently party to any legal proceedings the resolution of which management believes would have a material adverse effect on the Company's business, financial condition, operating results or cash flows. The Company establishes reserves for specific legal matters when the Company determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable.

13. Operating Leases

As of August 3, 2019, the Company leased certain retail stores, a distribution center, and office space. As of that same date, the Company did not have any financing leases and no operating leases contained any material residual value guarantees or material restrictive covenants. Certain of the Company's retail operating leases include variable rental payments based on a percentage of retail sales over contractual levels.

Some retail leases include one or more options to renew, with renewal terms that can extend the lease term from one to fifteen years. The Company's distribution center has renewal terms that can extend the lease term up to twenty years. The exercise of lease renewal options is at the Company's sole discretion. As of August 3, 2019, the Company included options to renew that are reasonably certain to be exercised in the operating lease assets and liabilities.

As described in Note 2, the Company adopted Topic 842 as of February 3, 2019. Under this guidance the Company did not record any deferred lease liabilities as of August 3, 2019. The Company maintained a tenant incentive liability of \$1.3 million as of August 3, 2019, related to certain variable retail leases. Under legacy guidance, Topic 840, the Company recorded a deferred lease liability of \$11.9 million and maintained a tenant improvement incentive liability of \$19.1 million as of February 2, 2019.

The components of lease expense were as follows (in thousands):

Lease Cost	Classification	For the Thirteen Weeks Ended August 3, 2019	For the Twenty-Six Weeks Ended August 3, 2019
Operating lease cost	SG&A Expenses	\$ 11,820	\$ 23,372
Variable lease cost	SG&A Expenses	774	1,540
Total lease cost		\$ 12,594	\$ 24,912

For the thirteen and twenty-six weeks ended August 3, 2019, total common area maintenance expense was \$3.6 million and \$7.1 million, respectively. For the thirteen and twenty-six weeks ended August 4, 2018, total rental expense was \$11.7 million and \$23.6 million, respectively, and common area maintenance expense was \$3.4 million and \$7.0 million, respectively, exclusive of contingent rental expense recorded of \$0.6 million and \$1.1 million, respectively.

The Company used an incremental borrowing rate on February 3, 2019, for operating leases that commenced prior to that date. The incremental borrowing rate is estimated based upon (1) the financial condition and credit rating of the Company and its peers, (2) the term of the lease, (3) the nature of the underlying asset, and (4) the relative economic environment.

For the thirteen and twenty-six weeks ended August 3, 2019, operating lease liabilities arising from obtaining operating lease assets was \$4.1 million and \$9.6 million, respectively.

For the thirteen and twenty-six weeks ended August 3, 2019, the total cash paid for amounts included in the measurement of operating lease liabilities was \$11.9 million and \$23.7 million, respectively.

Lease Term and Discount Rate	August 3, 2019
Weighted-average remaining lease term (in years)	
Operating leases	7.3
Weighted-average discount rate	
Operating leases	6.6%

Maturities of lease liabilities as of August 3, 2019 were as follows (in thousands):

Fiscal Year	Operating Leases ⁽¹⁾
2019	\$ 19,938
2020	47,900
2021	45,444
2022	40,966
2023	37,733
Thereafter	121,445
Less: Imputed interest	67,835
Present value of lease liabilities	<u>\$ 245,591</u>

(1) Operating lease payments exclude \$5.3 million of legally binding minimum lease payments for leases signed but for which the Company has not taken possession.

Under Topic 840, future minimum rental payments required under all non-cancellable operating lease obligations as of February 2, 2019 were as follows (in thousands):

Fiscal Year	
2019	\$ 49,399
2020	46,512
2021	43,872
2022	39,369
2023	36,459
Thereafter	110,376
Total	<u>\$ 325,987</u>

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 years ending February 1, 2020 ("Fiscal Year 2019") and fiscal year ended February 2, 2019 ("Fiscal Year 2018") are both comprised of 52 weeks.

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, thoughtful and inspired style that reflects the confidence of remarkable women who live life with joy, passion and purpose. J.Jill offers a guiding customer experience through more than 280 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. The ongoing implementation of strategic initiatives will continue to have an impact on our results of operations. These initiatives include our E-commerce site, which was re-platformed in Fiscal Year 2017, and our initiative to upgrade and enhance our information systems. 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 liquidate 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, information systems 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.

Adjusted EBITDA and Adjusted EBITDA Margin. Adjusted EBITDA represents net income 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, primarily consisting of outside legal and professional fees associated with certain non-recurring transactions and events. 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. Adjusted EBITDA margin represents, for any period, Adjusted EBITDA as a percentage of net sales.

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, 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 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Statements of Operations Data:				
Net (loss) income	\$ (96,735)	\$ 10,485	\$ (92,369)	\$ 21,743
Interest expense, net	5,019	4,853	10,026	9,670
Income tax (benefit) provision	(3,069)	3,952	(1,631)	7,924
Depreciation and amortization	9,396	8,892	18,848	18,249
Equity-based compensation expense ^(a)	1,214	1,083	2,416	1,843
Write-off of property and equipment ^(b)	8	16	14	28
Impairment of goodwill and indefinite-lived intangible assets	95,428	—	95,428	—
Impairment of long-lived assets ^(c)	2,064	—	2,064	—
Other non-recurring expenses ^(d)	(740)	—	(740)	1,346
Adjusted EBITDA	\$ 12,585	\$ 29,281	\$ 34,056	\$ 60,803
Net sales	\$ 180,744	\$ 179,713	\$ 357,196	\$ 361,254
Adjusted EBITDA margin	7.0%	16.3%	9.5%	16.8%

- (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 impairment of long lived assets related to the change in use of a right-of-use asset.
- (d) Represents items management believes are not indicative of ongoing operating performance. For the thirteen and twenty-six weeks ended August 3, 2019, these expenses are primarily composed of a gain from insurance proceeds and restructuring costs. For the twenty-six weeks ended August 4, 2018, these expenses include costs related to a CEO transition.

Items Affecting Comparability of Financial Results

Impairment losses. Our Fiscal Year 2019 second quarter results reflect goodwill and intangible asset impairment losses of \$95.4 million. We had no impairment losses in the second quarter of Fiscal Year 2018. See Note 5, *Asset Impairments*, in Item I, *Financial Statements*, for additional information on these impairment losses.

Results of Operations

Thirteen weeks ended August 3, 2019 Compared to Thirteen weeks ended August 4, 2018

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 August 4, 2018 to the Thirteen Weeks Ended August 3, 2019	
	August 3, 2019		August 4, 2018		\$ Change	% Change
	Dollars	% of Net Sales	Dollars	% of Net Sales		
Net sales	\$ 180,744	100.0%	\$ 179,713	100.0%	\$ 1,031	0.6%
Costs of goods sold	75,403	41.7%	63,058	35.1%	12,345	19.6%
Gross profit	105,341	58.3%	116,655	64.9%	(11,314)	(9.7)%
Selling, general and administrative expenses	104,698	57.9%	97,365	54.2%	7,333	7.5%
Impairment of goodwill	88,428	48.9%	—	0.00%	88,428	100.0%
Impairment of indefinite-lived intangible assets	7,000	3.9%	—	0.00%	7,000	100.0%
Operating (loss) income	(94,785)	(52.4)%	19,290	10.7%	(114,075)	(591.4)%
Interest expense, net	5,019	2.8%	4,853	2.7%	166	3.4%
(Loss) income before provision for income taxes	(99,804)	(55.2)%	14,437	8.0%	(114,241)	(791.3)%
Income tax (benefit) provision	(3,069)	(1.7)%	3,952	2.2%	(7,021)	(177.7)%
Net (loss) income	\$ (96,735)	(53.5)%	\$ 10,485	5.8%	\$ (107,220)	(1022.6)%

Net Sales

Net sales for the thirteen weeks ended August 3, 2019 increased \$1.0 million, or 0.6%, to \$180.7 from \$179.7 million for the thirteen weeks ended August 4, 2018. At the end of those same periods, we operated 286 and 273 retail stores, respectively. The increase in total net sales versus the prior year was driven by an increase in our active customer base.

Our retail channel contributed 57.4% of our net sales in the thirteen weeks ended August 3, 2019 and 59.1% in the thirteen weeks ended August 4, 2018. Our direct channel contributed 42.6% of our net sales in the thirteen weeks ended August 3, 2019 and 40.9% in the thirteen weeks ended August 4, 2018.

Gross Profit and Costs of Goods Sold

Gross profit for the thirteen weeks ended August 3, 2019 decreased \$11.3 million, or 9.7%, to \$105.3 from \$116.7 million for the thirteen weeks ended August 4, 2018. The gross margin for the thirteen weeks ended August 3, 2019 was 58.3% compared to 64.9% for the thirteen weeks ended August 4, 2018, driven by added promotions, markdowns, and liquidation actions to clear certain goods in the thirteen weeks ended August 3, 2019.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the thirteen weeks ended August 3, 2019 increased \$7.3 million, or 7.5%, to \$104.7 from \$97.4 million for the thirteen weeks ended August 4, 2018. The increase was driven by \$3.2 million for sales related expenses, mainly shipping and handling and store expenses, \$2.1 million for the impairment of long-lived assets related to the shutdown of one floor of office space in our corporate office, \$1.7 million related to technology initiatives, \$1.7 million of non-recurring expenses driven primarily by severance, \$0.9 million increase in marketing spend and \$0.5 million in depreciation and amortization. This was offset by the \$2.4 million gain from insurance proceeds related to a cargo ship fire and \$0.4 million decrease in incentive compensation.

As a percentage of net sales, selling, general and administrative expenses were 57.9% for the thirteen weeks ended August 3, 2019 compared to 54.2% for the thirteen weeks ended August 4, 2018.

Interest Expense, Net

Interest expense, net, consists of interest expense on the Term Loan, partially offset by interest earned on cash. Interest expense for the thirteen weeks ended August 3, 2019 increased \$0.1 million, or 3.4%, to \$5.0 million from \$4.9 million for the thirteen weeks ended August 4, 2018.

Provision for Income Taxes

The provision for income taxes was a benefit of \$3.1 million for the thirteen weeks ended August 3, 2019 compared to a provision of \$4.0 million for the thirteen weeks ended August 4, 2018. Our effective tax rates for the same periods were 3.1% and 27.4%, respectively. The tax benefit in the thirteen weeks ended August 3, 2019 was driven by the treatment of the impairment of goodwill and indefinite-lived intangible assets.

Twenty-six weeks ended August 3, 2019 Compared to Twenty-six weeks ended August 4, 2018

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 August 4, 2018 to the Twenty-Six Weeks Ended August 3, 2019	
	August 3, 2019		August 4, 2018		\$ Change	% Change
	Dollars	% of Net Sales	Dollars	% of Net Sales		
Net sales	\$ 357,196	100.0%	\$ 361,254	100.0%	\$ (4,058)	(1.1)%
Costs of goods sold	135,599	38.0%	124,258	34.4%	11,341	9.1%
Gross profit	221,597	62.0%	236,996	65.6%	(15,399)	(6.5)%
Selling, general and administrative expenses	210,143	58.8%	197,659	54.7%	12,484	6.3%
Impairment of goodwill	88,428	24.8%	—	—	88,428	100.0%
Impairment of indefinite-lived intangible assets	7,000	2.0%	—	—	7,000	100.0%
Operating (loss) income	(83,974)	(23.6)%	39,337	10.9%	(123,311)	(313.5)%
Interest expense, net	10,026	2.8%	9,670	2.7%	356	3.7%
(Loss) income before provision for income taxes	(94,000)	(26.4)%	29,667	8.2%	(123,667)	(416.9)%
Income tax (benefit) provision	(1,631)	(0.5)%	7,924	2.2%	(9,555)	(120.6)%
Net (loss) income	<u>\$ (92,369)</u>	<u>(25.9)%</u>	<u>\$ 21,743</u>	<u>6.0%</u>	<u>\$ (114,112)</u>	<u>(524.8)%</u>

Net Sales

Net sales for the twenty-six weeks ended August 3, 2019 decreased \$4.1 million, or 1.1%, to \$357.2 from \$361.3 million for the twenty-six weeks ended August 4, 2018. At the end of both of those same periods, we operated 286 and 273 retail stores, respectively. The decrease in net sales was due to total company comparable sales of -2.2%.

Our retail channel contributed 57.7% of our net sales in the twenty-six weeks ended August 3, 2019 and 59.3% in the twenty-six weeks ended August 4, 2018. Our direct channel contributed 42.3% of our net sales in the twenty-six weeks ended August 3, 2019 and 40.7% in the twenty-six weeks ended August 4, 2018.

Gross Profit and Costs of Goods Sold

Gross profit for the twenty-six weeks ended August 3, 2019 decreased \$15.4 million, or 6.5%, to \$221.6 from \$237.0 million for the twenty-six weeks ended August 4, 2018. The gross margin for the twenty-six weeks ended August 3, 2019 was 62.0% compared to 65.6% for the twenty-six weeks ended August 4, 2018, 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 3, 2019 increased \$12.5 million, or 6.3%, to \$210.1 from \$197.7 million for the twenty-six weeks ended August 4, 2018. The increase is driven by a \$4.8 million increase in sales related expenses, mainly shipping and handling and store expenses, \$4.8 million related to technology initiatives, \$2.1 million for the impairment of long-lived assets related to the shutdown of one floor of office space in our corporate office, \$1.9 million increase in marketing, \$0.6 million increase in depreciation and amortization, \$0.4 million increase in non-recurring costs driven primarily by severance, and a \$0.3 million increase in recruiting and compensation expense. The increases were offset by the \$2.4 million gain from insurance proceeds related to a cargo ship fire.

As a percentage of net sales, selling, general and administrative expenses were 58.8% for the twenty-six weeks ended August 3, 2019 compared to 54.7% for the twenty-six weeks ended August 4, 2018.

Interest Expense, Net

Interest expense, net, consists of interest expense on the Term Loan, partially offset by interest earned on cash. Interest expense for the twenty-six weeks ended August 3, 2019 increased \$0.3 million, or 3.7%, to \$10.0 from \$9.7 million for the twenty-six weeks ended August 4, 2018. The increase was driven by higher interest rates and a reduction of interest earned on cash following the special dividend on April 1, 2019.

Provision for Income Taxes

The provision for income taxes was a benefit of \$1.6 million for the twenty-six weeks ended August 3, 2019 compared to a provision of \$7.9 million for the twenty-six weeks ended August 4, 2018. Our effective tax rates for the same periods were 1.7% and 26.7%, respectively. The tax benefit in the twenty-six weeks ended August 3, 2019 was driven by the treatment of the impairment of goodwill and indefinite-lived intangible assets.

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”) and subsequently amended by Amendment No. 3 on June 12, 2019 to extend the maturity of the agreement. 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 \$7.9 million for the twenty-six weeks ended August 3, 2019 compared to \$5.7 million for the twenty-six weeks ended August 4, 2018. The increase in capital expenditures in Fiscal Year 2019 was due primarily to an increase in spending on store investments and technology projects.

Cash Flow Analysis

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

(in thousands)	For the Twenty-Six Weeks Ended	
	August 3, 2019	August 4, 2018
Net cash provided by operating activities	\$ 23,536	\$ 43,115
Net cash used in investing activities	(7,904)	(5,659)
Net cash used in financing activities	(52,712)	(1,399)

Net Cash provided by Operating Activities

Net cash provided by operating activities during the twenty-six weeks ended August 3, 2019 was \$23.5 million. Key elements of cash provided by operating activities were (i) net loss of \$92.4 million, (ii) adjustments to reconcile net income to net cash provided by operating activities of \$112.9 million, primarily driven by impairment of goodwill and indefinite lived intangible assets, depreciation and amortization, partially offset by deferred income taxes, and (iii) a decrease in net operating assets and liabilities of \$3.0 million, primarily driven by cash provided by lower inventory levels and accrued expenses partially offset by cash uses in prepaid expenses and other current assets, accounts receivable and accounts payable.

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, and (ii) adjustments to reconcile net income to net cash provided by operating activities of \$17.8 million, primarily driven by depreciation and amortization and equity based compensation, partially offset by deferred income taxes, and (iii) an increase in net operating assets and liabilities of \$3.6 million, primarily driven by cash uses in accounts payable, accounts receivable and prepaid expenses and other current assets, offset by cash provided by accrued expenses and lower inventories.

Net Cash used in Investing Activities

Net cash used in investing activities during the twenty-six weeks ended August 3, 2019 was \$7.9 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 August 4, 2018 was \$5.7 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 3, 2019 was \$52.7 million, which was driven primarily by the special dividend paid to shareholders.

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.

Dividends

On April 1, 2019 the Company paid a special cash dividend of \$50.2 million to the shareholders of J.Jill, Inc.

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 3, 2019 and February 2, 2019 there were no loan amounts outstanding under the ABL Facility. At both August 3, 2019 and February 2, 2019 the Company had outstanding letters of credit in the amounts of \$1.8 million and had a maximum additional borrowing capacity of \$38.2 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 3, 2019, there were no material changes in the contractual obligations as of February 2, 2019.

Contingencies

We are subject to various legal proceedings that arise in the ordinary course of business. Although the outcome of such proceedings cannot be predicted with certainty, management does not believe that we are presently party to any legal proceedings the resolution of which management believes 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.

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 2, 2019. 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 Topic 842 – *Leases*. 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 2, 2019 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 3, 2019, there was no outstanding balance under the ABL Facility, and \$1.8 million letters of credit outstanding. The undrawn borrowing availability under the ABL Facility was \$38.2 million and the amount outstanding under the Term Loan had decreased to \$244.0 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 3, 2019, 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 2019.

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 3, 2019.

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

We are subject to various legal proceedings that arise in the ordinary course of business. Although the outcome of such proceedings cannot be predicted with certainty, management does not believe that we are presently party to any legal proceedings the resolution of which management believes 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 2, 2019. 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
3.1	<u>Certificate of Incorporation of J.Jill, Inc. (incorporated by reference from Exhibit 3.1 to the Company's Form 10-K, filed on April 28, 2017 (File No. 0001-38026))</u>
3.2	<u>Bylaws of J.Jill, Inc. (incorporated by reference from Exhibit 3.2 to the Company's 10-K, filed on April 28, 2017 (File No.001-38026))</u>
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.

SIGNATURES

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

J.Jill, Inc.

Date: September 11, 2019

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

Date: September 11, 2019

By: /s/ Mark Webb
Mark Webb
Executive Vice President and Chief Financial 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 3, 2019;
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 11, 2019

By: /s/ Linda Heasley
Linda Heasley
President, 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, Mark Webb, certify that:

1. I have reviewed this Quarterly Report of J.Jill, Inc. (the "Company") on Form 10-Q for the period ended August 3, 2019;
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 11, 2019

By: /s/ Mark Webb
Mark Webb
 Executive Vice President and Chief Financial Officer

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

By: /s/ Mark Webb
Mark Webb
Executive Vice President and Chief Financial Officer