

J JILL GROUP INC
Form 10-K
March 10, 2004

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 27, 2003**

OR

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

Commission file number 0-22480

The J. Jill Group, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

04-2973769

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

4 Batterymarch Park, Quincy, MA

(Address of Principal Executive Offices)

02169

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: **None**

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

Title of Each Class

Common Stock, \$0.01 par value

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this

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Form 10-K or any amendment to this Form 10-K. ý

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

At June 28, 2003, the aggregate market value of common stock held by non-affiliates of the Registrant was \$313,257,551 based on the closing price (\$16.64 per share) for the common stock as reported on The NASDAQ Stock Market on June 28, 2003.

Shares outstanding of the Registrant's common stock at February 27, 2004: 19,907,816

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Proxy Statement for the Annual Meeting of Stockholders of The J. Jill Group, Inc. to be held on June 4, 2004, which will be filed with the Securities and Exchange Commission within 120 days after December 27, 2003, are incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

THE J. JILL GROUP, INC. INDEX TO ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 27, 2003

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PART I

Item 1. Business

This Annual Report on Form 10-K, including the following discussion, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve substantial risks and uncertainties. See also Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." We disclaim any intent or obligation to update any forward-looking statements.

The Company

We are a multi-channel specialty retailer of women's apparel, accessories and footwear. We market our products through retail stores, catalogs and our website *jjill.com*. In our early years, we were a multi-brand single channel market sourced retailer. We subsequently changed our strategic direction to focus our efforts on becoming a single brand multi-channel private label retailer. In September 1999, we launched *jjill.com* and in November 1999, we opened our first retail store. We currently have two reportable business segments, direct and retail. Each segment is separately managed and utilizes distinct distribution, marketing and inventory management strategies. The direct segment markets merchandise through catalogs and our website. The retail segment markets merchandise through retail stores. During the year ended December 27, 2003 ("fiscal 2003"), our retail business generated \$177.5 million in net sales, or 47% of our total net sales, and our direct business generated \$200.2 million in net sales, or 53% of our total net sales.

Our Business Strategy

Our strategic mission is to build J. Jill into a premier national brand. Currently, our retail and direct businesses are roughly comparable in size. We expect our future growth to come from our retail channel. At December 27, 2003, we had 122 retail stores open in 32 states, and we expect to open 20 additional retail stores in 2004. We believe there is a total market potential for 300 to 500 of our retail stores throughout the United States. Our direct business consists of an established and profitable core catalog business and a growing internet operation. Our direct segment has generated strong cash flow and has been the primary source of funding for our retail store rollout. Our plan is to maintain the total direct business at roughly \$200 million in annual net sales with internet sales coming to represent an increasing portion of the total direct business over time. In addition, our objective is to maintain a strong cash position while we fortify our operational and systems infrastructure where necessary without burdening the organization with additional debt.

In fiscal 2003, we determined that our business had reached a level of growth and complexity that could no longer be adequately supported by the front-end product development and merchandising infrastructure that had historically worked well in our catalog business. We felt we needed an infrastructure that could support a more complex multi-channel business. Consequently, we committed to make significant investments in both personnel and systems to re-engineer and upgrade our operating infrastructure and processes in the areas of design, product management, sourcing, product integrity, technical design and merchandising. We believe that these investments will allow us to fundamentally change the way we source and develop product, how we flow product, how we present product and the product itself. In 2004, we are planning to spend approximately \$6.0 million to \$7.0 million on our front-end product development and merchandising infrastructure. This estimate is for 2004 only and does not include any future investments to be made beyond 2004. Additionally, as we execute this strategy this estimate may change.

The J. Jill Brand

Our target customers are active, affluent women age 35 to 55. We offer our customers a broad range of apparel in a wide range of sizes. Our apparel is versatile and can be worn during the workweek, on weekends and for casual evenings out. Our brand is about combining comfort and style with natural beauty and individuality, infused with a sense of community, friendship and family.

Our creative approach aims to capture and communicate a consistent, comprehensive, cohesive vision of the J. Jill brand and to carry this vision across all three distribution channels. In our catalogs and on our website, we use photography and text intended to forge an emotional bond with our customers. This lifestyle photography generally depicts settings familiar to our customers idealized in such a way as to convey the key elements of the J. Jill brand.

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Our retail stores are designed to create a warm, inviting atmosphere. We accomplish this by combining our lifestyle photography with natural materials, such as stone and bamboo, natural colors and textures, french doors, a soothing water fountain and relaxing music. Together these elements create a comfortable, home-like environment. We believe this unique store environment provides an appropriate showcase for our merchandise assortment and promotes the J. Jill brand aesthetic.

Distribution Channels

Retail

In fiscal 2003 we opened 34 new retail stores, bringing our total to 122 at year end. We plan to continue to rollout new retail stores in premium locations throughout the United States. In order to mitigate our liquidity risk in 2004 while we make the aforementioned investments in our product development and merchandising infrastructure, we have decided to limit our 2004 store openings to 20. Our real estate strategy is to target locations approximately 3,800 to 4,200 square feet in size, primarily in malls or lifestyle centers. Additionally, we are testing a smaller 2,700 square foot store scheduled to open in mid-2004. Other site selection criteria include whether the other tenants in the location are likely to attract our target customers, the proposed location of our store in the mall and the concentration of our catalog/internet customers in the surrounding trade area. We use a real estate consulting firm to identify potential locations for our stores and to assist in the negotiation of our retail store leases. It generally takes seven to nine weeks to construct one of our retail stores. Our current per store prototype provides for a total gross store build out cost of \$800,000 less \$400,000 in expected landlord allowances. We look for locations where the economics can deliver an 18 month payback and a 70% return on net investment.

During fiscal 2003, we updated our retail store design and implemented several changes to make our retail stores more welcoming and user-friendly for our customers. We created more of a boutique environment through the introduction of framed pictures and display forms. Our primary goals were to make it easier for our customers to recognize merchandise trends, to improve the way we feature our signature pieces and to better display our merchandise. We also wanted to increase the appeal of our stores by giving them a warmer look and feel. All stores opened since the latter half of fiscal 2003 have incorporated these new design elements, and we expect to continue to incorporate these elements in our future retail stores. In addition, we have retrofitted many of our existing retail stores with these new elements and we expect to retrofit the remaining stores by the end of the first quarter of 2004.

The intranet site at the concierge desk in our retail stores continues to play a pivotal role in ensuring that our retail customers have access to virtually all products that we currently offer. This service has been well received by our customers and generated approximately 8% of total retail net sales in fiscal 2003, enabling us to not only provide superior customer service but also to capture incremental sales.

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Direct Catalog and Internet

In fiscal 2003, we mailed approximately 73 million catalogs. Our circulation strategy is focused on mailing to customers who have already purchased from us and acquiring new customers through targeted prospecting. Our goal is to circulate at breakeven or above (that is, to mail only to the point where the incremental projected net sales are at least equal to the incremental costs associated with mailing a catalog). In order to mitigate our liquidity risk in 2004 while we make the aforementioned investments in our product development and merchandising infrastructure, we have decided to reduce the number of pages in our 2004 catalogs by roughly 15% as compared to fiscal 2003.

The internet component of our direct business continues to be an important channel for us. All current J. Jill catalog merchandise is available on *jjill.com*. Customers can use *jjill.com* to enter catalog orders, shop online, check order status and check inventory availability. Our ongoing goals within the internet channel are to maintain the ease of navigation, to periodically enhance the functionality of the website, to find cost effective ways to drive customer traffic to the website and to provide first rate customer service on the website. In fiscal 2003, we continued to improve the functionality of *jjill.com*. Some of the major improvements in fiscal 2003 included implementing a store locator so that customers can locate the name and phone number of store locations throughout the country; introducing our "J. Jill Boutique" which allows our customer to shop for complete outfits; improving our "catalog quick order" functionality to streamline and improve the ordering process for customers who simply wish to enter an order from a catalog; improving the styling of our digital photography; and making the lifestyle shots from the catalog available on product pages so that the customer can get a better idea about the product look and fit. In addition, during fiscal 2003 we launched the J. Jill brand on Amazon.com's "Apparel and Accessories" section.

We also continued our web-specific "pay-for-performance" affiliate marketing programs in fiscal 2003. These programs have provided a way to increase traffic to our website and add to our customer base. Through these commission-based programs we work with other brand relevant websites or search engines to promote the J. Jill brand and provide direct links to our website. At December 27, 2003 we had 115 affiliates in our affiliate marketing programs and we estimate that these programs generated roughly \$8.4 million in net sales in fiscal 2003.

Merchandising and Product Development

We are in the process of implementing a new strategic direction in merchandising and product development. In order to define and facilitate these changes, all merchandising and supply chain functions were re-positioned under new leadership in fiscal 2003 and the organization began its makeover process. In addition to creating the position of Executive Vice President of Merchandising and Product Development, we also created the position of Vice President of Sourcing and Product Management and in early 2004 added both a new Vice President of Visual Merchandising for our retail stores and a new Design Director.

Merchandising and Design

Our merchandising and design strategy is to offer trend relevant, sophisticated casual lifestyle clothing and complementary accessories and footwear that appeals to our target customer. We design, develop and oversee the execution of virtually all of our apparel offerings in-house. Our apparel is manufactured to our specifications by both foreign and domestic vendors. In fiscal 2003, we offered over 750 misses' apparel styles. Third party vendors design most of our accessories and outerwear styles for us with input from us. Over the next 12 to 24 months we expect to progressively increase the level of our in-house design and development of accessories and outerwear. The only third party brand name products that we offer today are in footwear and those styles are selected primarily from the regular offerings of our footwear vendors with occasional modifications made for exclusivity. Our apparel styles are offered in a broad assortment of sizes including misses', petite, woman's and tall. In fiscal 2003, approximately 63% of our direct segment

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misses' apparel styles were also offered in an extended size. In fiscal 2003, approximately 86% of the misses' apparel styles offered through our catalog and internet channels were also offered in our retail channel. Approximately 16% of the misses' apparel styles carried in our retail stores in fiscal 2003 were offered only in our retail stores.

We believe that within merchandising and design our biggest opportunity to grow our business is to reach out to our current core customers with a more compelling assortment and variety of merchandise that will also attract new customers seeking unique, artistic expression in their apparel. We are currently addressing this opportunity through the following initiatives:

Providing clearer, brighter color palettes that are differentiated across more distinctly defined end uses;

Standardizing and streamlining our fit offerings across all product categories to provide our customers with more body conscious and flattering silhouettes, while retaining the comfort of fit that has traditionally existed in our garments;

Reducing our style counts by roughly 20% to 30% for fall 2004 in order to provide a more focused collection and point of view for the J. Jill brand;

Defining and supporting a core offering of products within our overall assortment that will be the foundation upon which our collections are built, available seasonally and/or annually as appropriate for our customer;

Aligning our direct and retail channel product flow and enabling marketing synergies, improved customer service and satisfaction; and

Building in-house non-apparel design, sourcing and merchandising capabilities to enable us to significantly grow our accessories business.

All of these initiatives should enable us to more effectively deliver the fresh and innovative merchandise that has been the hallmark of the J. Jill brand.

Product Management and Sourcing

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We sell both domestically produced and imported merchandise. In fiscal 2003 we purchased merchandise from 188 vendors. Approximately 77% of the merchandise purchased in fiscal 2003 was purchased directly from foreign sources, primarily located in Hong Kong and China. In addition, goods purchased from domestic vendors may be sourced abroad by such vendors. We believe that our combined foreign purchases, including direct purchases and indirect purchases through domestic vendors, totaled roughly 93% of our total purchases during fiscal 2003. During fiscal 2003 we did not purchase more than 10% of our inventory directly from any one vendor. However, we did purchase approximately 38% of our inventory through one buying agent. We expect that we will continue to purchase significant amounts of merchandise from foreign sources in the future. We seek to establish long-term relationships with our merchandise vendors and work closely with them to ensure high standards of merchandise quality. As part of our sourcing initiatives over the next year we will be looking for opportunities to move some of our foreign purchases to new markets in an effort to improve quality, decrease lead times and reduce our current concentration risk in China and Hong Kong.

Inventory Control and Merchandise Distribution

Our inventory management strategy is to maintain flexibility in deploying inventory across all three distribution channels while maintaining appropriate levels of fulfillment in the catalog and internet channels and appropriate in-stock positions in the retail channel. We use a centralized warehouse management system, under which all merchandise is received, processed and distributed, through our operations, fulfillment and distribution center in Tilton, New Hampshire (the "Tilton facility").

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Merchandise received at the Tilton facility is promptly inspected and allocated to either direct or retail. Retail merchandise is subsequently assigned to individual retail stores, packed for delivery and shipped to the stores. We ship merchandise to our retail stores virtually every week. Direct receipts are used to fulfill backorders to the extent possible and the remainder is put into its assigned location awaiting future customer orders. We believe that our centralized warehousing system as well as the synergy of our products across all channels allows us to move merchandise efficiently between our three distribution channels to take better advantage of sales trends and to liquidate overstocks more efficiently.

The Tilton facility contains 573,000 square feet of space, of which 149,000 square feet is currently used solely for retail store distribution. We expect to be able to support the distribution requirements for up to 240 retail stores within our existing distribution center.

All of our retail stores have point-of-sale terminals that transmit information daily on sales by item, color and size. Our stores are equipped with bar code scanning devices for the recording of store sales, returns, inventories, price changes, receipts and transfers. We evaluate this information, together with weekly reports on merchandise statistics, prior to making merchandising decisions regarding reorders of fast selling items and the allocation of merchandise.

In the direct segment, we schedule initial inventory deliveries to be received two to three weeks prior to the planned offering date. This timing is critical to our ability to promptly fulfill customer orders on these catalogs. Reorders are received periodically throughout the year and are meant to replenish fast selling items and fulfill backorders.

We monitor our overstock levels and attempt to reduce our overstocks through a variety of promotional efforts. In our direct segment, we offer certain overstocked items to our customers at the time they place orders for other merchandise in an attempt to increase sales of the overstocked items. We also plan several sales events throughout the year including periodic value-priced offerings in our full price catalogs, seasonal sales catalogs and package inserts. We also use our website and outbound e-mail capabilities to liquidate overstocked items. In our retail segment, we use markdowns or other promotional efforts to increase the sell-through of overstocked items. Because all of our inventory is delivered to our Tilton facility prior to distribution to our retail stores, we are able to adjust the quantities of slower selling items before they are delivered to our retail stores. By refraining from sending large quantities of slower selling items to the stores we are able to mitigate the amount of in-store overstocks and liquidate this merchandise more efficiently through our other distribution channels. We also sell excess inventory through our outlet stores, and to a lesser degree through inventory liquidators. We have four outlet stores that are used solely for the purpose of liquidating overstocks. In 2004, we plan to open two additional outlet stores to support our expansion.

Customer Database

In fiscal 2003, we consolidated all of our catalog, internet and retail customer and transaction data into one multi-channel database. This database enables us to see how our customers use our various channels to shop and should promote effective cross-channel marketing to our customers. We currently capture customer information for 100% of our catalog and internet customers and roughly 50% to 70% of our retail store customers. Our customer database contains detailed purchasing information and certain demographic information for our customers, e-mail addresses and the names and addresses of individuals who have requested catalogs from us. At December 27, 2003, our customer database

contained approximately 3.9 million individual customer names, including 998,000 customers who had placed a catalog or internet order with us within the previous 12 months ("12-month buyers"). We estimate that 41% of these 12-month buyers have made multiple purchases from us within the previous 12 months. At December 27, 2003, our database contained approximately 867,000 e-mail addresses and approximately 660,000 retail-only names and addresses. We continue to add functionality to the database that will allow

us to fully utilize the cross-channel marketing capabilities of the system. We expect to complete this project by mid-2004.

Our database is maintained off-site by a service bureau, which processes the information in accordance with instructions from us. Our agreement with the service bureau requires the service bureau to safeguard the confidentiality of our database. Since consolidating the data from each of our distribution channels, the database is generally being updated on a daily basis.

The information stored in the database serves a variety of purposes. To determine which of our customers will receive a particular catalog mailing, we analyze the information stored in our database using statistical modeling techniques. We use e-mail addresses contained in the database to contact our customers with advance screenings of upcoming catalogs, wardrobing ideas and promotional offers. Our retail data is used to determine which customers should be selected for targeted mailings about in-store promotions and events.

We acquire lists of prospective customers by renting or exchanging lists with a database cooperative and other sources, including direct competitors. The most productive prospects tend to come from the customer lists of other women's apparel catalogs. We also rent our customer list to others, including direct competitors. To determine which prospective customers will receive a particular catalog mailing, we analyze available information concerning such prospects and, to the extent possible, use the same type of statistical modeling techniques used to target mailings to our own customers.

Unconditional Guarantee

We offer an unconditional merchandise guarantee. If a customer is not completely satisfied with any item for any reason, the customer may return it through any of our distribution channels for a merchandise exchange or a full refund. To simplify the return process for our catalog and internet customers, we include a self-addressed return label with every catalog and internet package, which customers can use to return any item to us through the United States Postal Service without paying return postage fees in advance. We believe that our return rates are consistent with industry standards for comparable merchandise. Return trends for both the direct and retail channels are closely monitored to identify any product quality or fit issues. Returned merchandise is inspected carefully and, unless damaged, is cleaned, repackaged if necessary and returned to inventory. Approximately 93% of customer returns are recycled into inventory.

Private Label Credit Card and Loyalty Program

As part of our brand building strategy, we offer our own private label credit card. A third party administrator bears the credit risk associated with the credit card without recourse to us. The card can be used in any of our distribution channels. We believe that customers who use the card tend to purchase more frequently and tend to have a larger average order size than those who do not. Roughly 27% of transaction dollars processed during fiscal 2003 related to the J. Jill credit card. At December 27, 2003, there were 576,000 J. Jill credit card holders.

We target our cardholders with special incentives as a reward for having and using the card. All of our cardholders are automatically enrolled in our customer loyalty program called "Take 5." The program entitles a customer to a 10% discount on her first purchase with the card and a 5% discount on any purchases made with the card thereafter. Finally, the 5% discount is offset somewhat by lower credit card processing fees on the J. Jill card versus all other accepted credit cards.

J. Jill credit card holders are also invited to periodic "wardrobing events." These events are designed to increase store sales and provide added benefits to our existing loyal customers. When a new collection is introduced, certain cardholders are invited, along with a friend, to their local store where they receive one-on-one wardrobing tips and individualized sales assistance. During these special events, customers also receive an additional discount on their purchases. During fiscal 2003, we hosted over 250 of these events.

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Our information systems consist of a full range of retail, financial and merchandising systems, including order management, warehouse management, sales reporting, merchandise reporting, inventory planning, allocation, forecasting and control, human resource management, accounts payable and general ledger. We protect company sensitive information on our servers from unauthorized access using industry standard network security systems and monitoring in addition to anti-virus and firewall protection. Our website uses encryption technology to protect sensitive customer information.

We are committed to making ongoing investments in our information systems to increase operating efficiency and support our anticipated growth. We believe that our ability to capture and analyze operational and financial data and relevant information about our customers and their purchasing history is critical to our success. In 2004 we plan to make significant investments in our information systems related to our supply chain and merchandising initiatives.

In addition to our in-house data processing and information systems resources, we also use several outside vendors for key services such as website hosting, network monitoring, list management and credit card administration and approval.

Community Outreach

We are committed to establishing long-term relationships with nonprofit community-based organizations whose missions are to aid women and children in need. Profits from the sale of selected items as well as direct company contributions to the J. Jill Compassion Fund at the Boston Foundation are being used to support the work that these organizations do to improve the lives of women and children. We also participate in co-sponsored fund raising initiatives with selected organizations. Through contributions to the fund as well as direct donations to selected charities we contributed nearly \$400,000 to charitable causes in fiscal 2003. In addition, we provide all of our full-time employees with the opportunity to directly support their communities by allowing them to use one paid workday per year to participate in a volunteer service activity. We believe it is important to show our commitment to the communities in which we live.

Competition

The women's apparel market is highly competitive. We compete with other direct marketers, specialty apparel and accessory retailers and traditional department store retailers. Many of our competitors are larger and have greater financial, marketing and other resources. We believe that we compete principally on the basis of the lifestyle element of the J. Jill brand.

Employees

As of February 27, 2004, we employed 2,606 individuals, of whom 1,216 were full-time (those employees scheduled to work 30 hours or more per week). None of our employees are represented by a union. We consider our employee relations to be good.

Trademarks and Service Marks

We have registered various trademarks and service marks with the United States Patent and Trademark Office, including "J. Jill."

Information Available on our Website

Our corporate internet address is www.jjill.com. Our website provides a hyperlink to a third party website through which our annual, quarterly and current reports, amendments to those reports, as well as other documents we file electronically with the Securities and Exchange Commission ("SEC") are available free of charge. We believe these reports are made available as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. We do not provide any information directly to the third party website, and we do not check its accuracy. Copies of these reports can also be obtained from the SEC's website at www.sec.gov.

Item 1A. Risk Factors

Customer response to our merchandise offerings is dependent on a variety of factors.

Customer response to our merchandise offerings is substantially dependent on our merchandise assortment, availability and creative presentation. It can also be affected by factors that are outside of our control. We have historically experienced fluctuations in customer

response. If we are unable to achieve anticipated customer response, our sales and profitability could be adversely affected.

Our retail store initiative may be unsuccessful, and our retail business is subject to a number of uncertainties.

Our current growth strategy is based primarily on our retail store initiative. At the present time, we are devoting significant financial resources and operational efforts to the opening and operation of our retail stores. At December 27, 2003, we had 122 retail stores open. During 2004, we plan to continue our retail store growth strategy by opening an additional 20 retail stores. The operation of retail stores presents a number of risks and challenges not present in our direct business, including the following:

We are required to make long-term financial commitments when leasing retail store locations;

We make substantial investments in store design, leasehold improvements and other areas prior to the opening of each store, and thereafter, we must continue to invest to maintain our store facilities;

Our retail store assets and personnel are substantially under the control of individual store management. We rely on our store managers to ensure that our assets are secure, our people are properly trained and managed and our stores are operating effectively. We expect to become further decentralized as we open more retail stores. If we are unable to effectively operate in a decentralized environment, our sales could decline and our assets could be inadequately safeguarded;

We must hire and retain qualified retail sales and management personnel in the areas where our stores are located;

The success of our individual stores may depend significantly on the success of the shopping malls in which they are located; and

Our retail store initiative is likely to require us to expand our operations, fulfillment and distribution center in Tilton, New Hampshire, or to lease or acquire other warehouse and distribution facilities.

We may not be able to successfully address the risks that the operation of retail stores entails. There can be no assurance that our retail store initiative will be successful, and if it is not, our business and financial condition would be adversely affected. In addition, our continued growth could result in a strain on our management, financial, merchandising, marketing, distribution and other resources. We cannot assure that we will be able to manage growth effectively.

Our direct business is subject to a number of uncertainties.

Our direct business presents a number of risks and uncertainties, including the following:

A significant percentage of our 12-month buyers live in proximity to one of our retail stores. Competition from our retail stores may result in fewer catalog and internet orders in these areas;

Our ability to sustain our direct business is largely dependent on our ability to acquire and retain customers;

We are reducing our page counts in 2004 by roughly 15% as compared to fiscal 2003 in order to lower our liquidity risk as we invest in our product development and merchandising infrastructure. These page count reductions could adversely affect our net sales and profitability;

The operation of our direct business is dependent on our ability to maintain the efficient and uninterrupted operation of our order taking and fulfillment operations and our website. Disruptions or slowdowns in these areas could include those resulting from disruptions in telephone service or electrical outages, inadequate system capacity, human error or accidents, fire, natural disasters or adverse weather conditions and lack of labor availability. These problems could result in a reduction in net sales as well as increased administrative and order processing costs;

Each edition of a catalog requires substantial investments in layout and design, paper, printing, postage and inventory prior to mailing. As a result, we are not able to adjust these costs for a particular mailing in response to the actual performance of the catalog;

Some of our catalog marketing programs rely on prospect mailings and as a result involve risks not present in mailings to our existing customers, including potentially lower and less predictable response rates and the possibility that third parties who provide customer lists may stop making them available; and

The operation of our direct business is dependent on our ability to prepare catalogs in a timely manner. Preparation of our catalogs requires the involvement of many different groups within our organization as well as certain outside vendors. Any delay in the completion of a catalog could cause customers to forego or defer purchases from us.

Our current product development and merchandising infrastructure is inadequate to support our planned growth.

In fiscal 2003, we determined that our business had reached a level of growth and complexity that could no longer be adequately supported by the front-end product development and merchandising infrastructure that had historically worked well in our catalog business. We felt we needed an infrastructure that could support a more complex multi-channel business. Consequently, we committed to make significant investments in both personnel and systems to re-engineer and upgrade our operating infrastructure and processes in the areas of design, product management, sourcing, product integrity, technical design and merchandising. We believe that these investments will allow us to fundamentally change the way we source and develop product, how we flow product, how we present product and the product itself. There can be no assurance that our investments will result in an improved infrastructure that will result in improved sales or profitability. If our new infrastructure is not able to support the requirements of our multi-channel model our business and financial condition could be adversely affected. In addition, the cost of these investments may adversely affect our profitability in the short-term.

The success of our business depends on our ability to anticipate and interpret fashion trends.

Our future success depends on our ability to anticipate fashion trends and interpret them for our target market. We begin the product development process approximately 12 months before the merchandise is available to customers. We can provide no assurance that we will be able to identify and offer merchandise that appeals to our customer base or that any introduction of new merchandise categories will be successful or profitable. Our failure to anticipate fashion trends or to interpret them in a manner acceptable to our target customers could impact our profitability by creating a need for us to sell our merchandise at markdown prices.

Our private label branding strategy requires long product lead times and large initial purchases.

The use of private label merchandise requires us to incur costs and risks relating to the design and purchase of products, including long product lead times for orders and high initial purchase commitments.

These long product lead times and high initial purchase commitments amplify the consequences of any miscalculation that we might make in anticipating fashion trends or interpreting them for our customers.

Our overseas merchandise purchasing strategy makes it vulnerable to a number of risks.

We purchase a significant portion of our merchandise directly from foreign sources, primarily located in Hong Kong and China. In addition, goods purchased from domestic vendors may be sourced abroad by such vendors. We expect that we will continue to purchase

significant amounts of merchandise from foreign sources in the future. Accordingly, our operations are subject to the normal risks and burdens of purchasing merchandise abroad, including customs compliance; import duties or restrictions; the availability of quota; greater difficulty in supervising distant suppliers; work stoppages; and in certain parts of the world, political and economic instability.

In addition, we require our vendors to abide by a stringent code of conduct that sets guidelines for employment practices such as wages and benefits, health and safety, working hours and working age, and for environmental, ethical and legal matters. We cannot eliminate the possibility of non-compliance with our vendor code of conduct. If any of our vendors are found to be out of compliance with our vendor code of conduct, our sales could be materially affected by the resulting negative publicity.

The success of our business depends on the timely receipt of inventory from our vendors.

The success of our direct business depends on our ability to fulfill orders. The success of our retail business depends on our ability to keep appropriate levels of inventory in our stores. If inventory receipts are delayed, we might be unable to fulfill certain orders and inventory levels in our stores might fall below desirable levels, which could result in cancelled orders or lost sales.

The women's apparel market is highly competitive.

We are in a highly competitive market. Our retail initiative has exposed us to additional competitors. The perceived growth opportunities within the women's apparel market has encouraged the entry of many new competitors as well as increased competition from existing companies. Many of our competitors are larger and have greater financial, marketing and other resources than we do, and we can provide no assurance that we will be able to compete successfully with them in the future.

Our sales tax collection policy may expose us to certain risks.

In July 2003 we merged our catalog/internet subsidiary, J. Jill Direct, Inc., into our retail store subsidiary, The Birch Pond Group, Inc. This restructuring provides us with enhanced customer service and cross-channel marketing opportunities. As a result of these changes, we are now required to collect sales tax on catalog and internet sales to customers in states where we have retail stores, if applicable. Although it is difficult to quantify the impact of this change, we believe the collection of sales taxes has not materially impacted our fiscal 2003 direct segment sales, nor do we expect it to have an adverse effect on sales in the future.

Prior to July 2003, our direct marketing subsidiary collected sales tax on our catalog and internet sales only in Massachusetts. Many states have attempted to require that out-of-state direct marketers and internet retailers collect sales taxes on sales of products shipped to their residents, but the legality of the imposition of such taxes is unsettled. Although we believe that we have collected sales tax where we are required to do so under existing law, state tax authorities may disagree.

Talented personnel are critical to our success.

Our success depends to a significant extent upon our ability to retain key personnel, particularly Gordon R. Cooke, President, Chief Executive Officer and Chairman of our Board of Directors, and to

continue to attract talented new personnel. The loss of the services of Mr. Cooke or one or more of our current members of senior management, or our failure to attract talented new employees, could have a material adverse effect on our business. We do not have employment contracts with any members of our current senior management that would prohibit them from competing with us following the termination of their employment.

A major failure of our information systems could harm our business.

We depend on information systems to operate our website, process orders, respond to customer inquiries, manage inventory, purchase, sell and ship goods on a timely basis and maintain cost-efficient operations. Any material disruption or slowdown of our systems could cause orders to be lost or delayed and could damage our reputation with our customers or cause our customers to cancel orders. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. We cannot assure that our systems will be adequate to support future growth.

Our operating results fluctuate.

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Our annual and quarterly operating results have fluctuated, and we expect these fluctuations to continue. Among the factors that may cause our operating results to fluctuate are customer response to merchandise offerings; the timing of the rollout of our new retail stores; seasonal variations in sales; the timing and size of catalog mailings; the costs of producing and mailing catalogs; the timing of merchandise receipts; the level of merchandise returns; changes in merchandise mix and presentation; and unanticipated operating costs and other factors beyond our control, such as general economic conditions and actions of competitors.

Our current expense levels are based in part on our expectations of future net sales and, as a result, net income for a given period could be disproportionately affected by any reduction in net sales for that period. In addition, we expect our retail store business to be more seasonal than our direct business.

As a result of all of these factors, we believe that period-to-period comparisons of our historical and future results will not necessarily be meaningful and should not be relied on as an indication of future performance.

Our success is dependent on the performance of our vendors and service providers.

Our business depends on the performance of third parties, including manufacturers and foreign buying agents; telecommunications service providers; the United States Postal Service; United Parcel Service; shipping companies; our construction manager, landlords and building contractors; paper manufacturers and printers; photographers, creative designers and models; credit card processing companies; the service bureau that maintains our customer database; and our overflow call center.

Any interruptions or delays in these services could materially and adversely affect our business and financial condition. Although we believe that, in general, the goods and services we obtain from third parties could be purchased from other sources, identifying and obtaining substitute goods and services could result in delays and increased costs. We do not maintain supply contracts with any of our private label or other merchandise vendors. Rather, we acquire merchandise via purchase orders that terminate upon completion of the order. If any significant merchandise vendor or buying agent were to suddenly discontinue its relationship with us, we could experience temporary delivery delays until a substitute supplier could be found.

Although we use a variety of buying agents and buy directly from a variety of domestic vendors, we place significant reliance on our relationship with one foreign buying agent. We believe that this concentration risk is mitigated by the fact that this buying agent purchases our inventory directly from a

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variety of foreign vendors. Although we could purchase this inventory through alternative buying agents and/or directly from vendors, loss of this buying agent could disrupt operations. We attempt to mitigate this risk by working closely with this buying agent and our other key buying agents and vendors.

Our business is subject to a number of external costs that we are unable to control.

Our business is subject to a number of external costs that we are unable to control, including labor costs; insurance costs; printing, paper and postage expenses; shipping charges associated with distributing merchandise to our customers and stores; retail store facility rental and construction costs; and inventory acquisition costs, including product costs, quota and customs charges. Any increase in these or other external costs could adversely affect our financial position, results of operations and cash flows.

Negative economic or political conditions could harm our business.

Our success is influenced by a number of economic conditions affecting consumer disposable income such as employment levels, business conditions, interest rates and taxation rates. Adverse changes in these economic conditions may restrict consumer spending, thereby negatively affecting our growth and profitability. In addition, our success is influenced by a number of political conditions affecting consumer confidence such as war, terrorism and political unrest.

The market price of our common stock is volatile.

The market price of our common stock has fluctuated substantially since our initial public offering in 1993. We believe factors such as quarterly operating results, changes in market conditions, securities analysts' estimates of future operating results, and the overall performance of the stock market may cause the market price of our common stock to continue to fluctuate significantly.

Potential acquirers might be frustrated by certain provisions in Delaware law, our charter and our by-laws.

Provisions of our Certificate of Incorporation and By-Laws and of the Delaware General Corporation Law may make it more difficult for a third party to acquire us, even if doing so would allow our stockholders to receive a premium over the prevailing market price of our common stock. Those provisions of the Certificate of Incorporation and By-Laws and of the Delaware law are intended to encourage potential acquirers to negotiate with us and allow our Board of Directors the opportunity to consider alternative proposals in the interest of maximizing stockholder value. However, those provisions may also discourage acquisition proposals or delay or prevent a change in control, which could negatively affect our stock price.

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Item 2. Properties

The following table sets forth certain information relating to our facilities at December 27, 2003:

Location	Square Footage	Function	Type of Interest (1)	Lease Termination
Tilton, NH (approx. 360 acres)	573,000(2)	Operations, Fulfillment & Distribution Center	Owned	
Quincy, MA	96,000	Corporate Offices	Leased	10/31/09 12/31/09
122 Retail stores throughout the United States	3,000-7,000	Retail store space	Leased	01/31/10 01/31/15
4 Outlet stores in New Hampshire, Massachusetts and Maryland	3,000-4,000	Outlet store space	Leased	06/30/04 01/31/13

(1) The Tilton operations, fulfillment and distribution center is owned by Birch Pond Realty Corporation, a wholly owned subsidiary of The J. Jill Group, Inc. (See Note E to the accompanying consolidated financial statements.) Our retail and outlet stores are leased by The Birch Pond Group, Inc., a wholly owned subsidiary of The J. Jill Group, Inc.

(2) Includes approximately 152,000 square feet of mezzanine space.

We believe that we currently have adequate capacity in our corporate offices and our operations, fulfillment and distribution center to accommodate our planned growth through at least 2006.

Between December 27, 2003 and February 27, 2004, we entered into leases for four additional retail stores, each having lease termination dates in 2015. We plan to open 20 retail stores in 2004. We believe there is a total market potential for 300 to 500 of our retail stores throughout the United States.

Item 3. Legal Proceedings

In May, June and July 2003, three civil actions were filed in the United States District Court for the District of Massachusetts against us and two of our executive officers (Gordon R. Cooke, President and Chief Executive Officer, and Olga L. Conley, Executive Vice President / Chief Financial Officer). These actions have now been consolidated into a single action, allegedly on behalf of a class of purchasers of the common stock of the Company, which alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. An Amended Consolidated Complaint was filed in December 2003. The Amended Consolidated Complaint alleges a class period from February 12, 2002 through December 4, 2002, asserts that we failed to disclose and misrepresented certain adverse facts and seeks compensatory damages in an unspecified amount. In February 2004, we moved to dismiss the Amended Consolidated Complaint. We intend to vigorously defend ourselves against these claims.

In August 2003, a civil action was filed in the California Superior Court, Riverside County, against The Birch Pond Group, Inc. (a subsidiary of The J. Jill Group, Inc.) and certain fictitiously named and unknown defendants who allegedly are or were operating J. Jill stores within the State of California. This action, allegedly on behalf of a class of non-salaried store workers, alleges, among other things, violations of various provisions of the California Labor Code and related regulations regarding meal periods, rest periods and coerced patronage, and unfair

competition. The Complaint seeks compensatory damages, additional wages, civil penalties, interest, attorneys fees and punitive damages in unspecified amounts, as well as restitution in an unspecified amount and injunctive relief. In September 2003, The Birch Pond Group, Inc. filed its answer to the Complaint, denying the plaintiffs' claims and setting forth various affirmative defenses. We intend to vigorously defend ourselves against these claims.

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

No matters were submitted to a vote of our security holders during the fourth quarter of fiscal 2003.

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our common stock trades on The NASDAQ Stock Market under the symbol "JILL". As of February 27, 2004, the number of holders of record of our common stock was approximately 496.

The following table sets forth, for the periods indicated, the high and low sales prices for our common stock as reported on The NASDAQ Stock Market, as adjusted to reflect the effects of a three-for-two stock split effected in the form of a stock dividend paid on June 28, 2002 to shareholders of record on June 14, 2002:

	<u>High</u>	<u>Low</u>
Fiscal 2003:		
Quarter ended December 27, 2003	\$ 13.55	\$ 10.50
Quarter ended September 27, 2003	19.54	11.42
Quarter ended June 28, 2003	17.79	11.21
Quarter ended March 29, 2003	14.58	9.51
Fiscal 2002:		
Quarter ended December 28, 2002	24.90	13.38
Quarter ended September 28, 2002	27.50	18.82
Quarter ended June 29, 2002	25.33	17.70
Quarter ended March 30, 2002	\$ 20.49	\$ 12.73

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any earnings for use in the operation and expansion of our business and, therefore, do not anticipate paying any cash dividends in the foreseeable future.

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Item 6. Selected Consolidated Financial Data

Our selected consolidated financial data has been derived from our consolidated financial statements for the periods indicated and should be read in conjunction with the discussion under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and footnotes.

Our fiscal year ends on the last Saturday in December. The 12 months ended December 27, 2003, December 28, 2002 ("fiscal 2002"), December 29, 2001 and December 25, 1999 ("fiscal 1999") were 52-week fiscal years. The 12 months ended December 30, 2000 ("fiscal 2000") was a 53-week fiscal year. In a 53-week fiscal year, three of the quarters are 13-week periods, and one is a 14-week period. The fourth quarter of fiscal 2000 was a 14-week period.

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During fiscal 2002, we effected a three-for-two stock split in the form of a stock dividend paid on June 28, 2002 to shareholders of record on June 14, 2002. All share and per share data has been adjusted for the stock split, however the common stock par value amount presented on the consolidated balance sheet at December 28, 2002 has not been adjusted for the stock split.

Twelve Months Ended

	Dec. 27, 2003	Dec. 28, 2002	Dec. 29, 2001	Dec. 30, 2000 (1)	Dec. 25, 1999 (2)
(53 weeks)					

(in thousands, except per share and selected operating data)

Consolidated Statement of Operations

Data:					
Net sales	\$	376,904	\$	347,574	\$
				287,043	\$
				246,309	\$
					250,281
Income (loss) before taxes and cumulative effect		12,188		31,993	
Net income (loss)		7,193		18,910	
Net income (loss) per share (diluted)	\$	0.36	\$	0.94	\$
Weighted average shares outstanding (diluted)		20,060		20,096	
				18,697	
				15,582	14,818

Consolidated Balance Sheet Data:

Total assets	\$	253,970	\$	228,260	\$	179,977	\$	130,137	\$	101,359
Working capital		77,946		73,224		54,345		23,316		23,553
Long-term debt, less current portion		12,236		13,802		15,590		17,375		19,098
Total stockholders' equity	\$	153,218	\$	145,099	\$	112,937	\$	69,242	\$	55,862

Selected Operating Data: (3)

Direct:

Circulation: (4)

Catalogs (in thousands)	73,100	77,800	62,200	65,000	76,700
Square inches (in millions)	503,100	497,200	407,400	424,600	520,000

Retail: (5)

Stores open:

Beginning of period	88	51	22	2	
End of period	122	88	51	22	2
Weighted average stores open (6)	100	66	32	9	0
Weighted average square footage (7)	472,500	323,800	164,600	44,900	900

Other:

12-month buyers (8)	998,000	1,055,000	1,017,000	991,000	1,043,000
J. Jill credit card holders	576,000	433,000	307,000	196,000	146,000
E-mail addresses	867,000	718,000	740,000	501,000	62,000

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(1) Effective as of December 26, 1999, we changed our revenue recognition policy to be in accordance with the provisions of the Securities and Exchange Commission's Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." Under SAB 101, revenue is recognized at time of customer receipt rather than upon shipment of goods to the customer. The cumulative effect of this change for periods prior to fiscal 2000 totaled \$65,000, net of taxes of \$41,000, and is reflected in the first quarter of fiscal 2000. The pro forma effect of SAB 101 on the net income (loss) for all prior periods presented was immaterial.

(2)

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During fiscal 1999, we recorded charges totaling \$5,987,000 primarily associated with our decision to discontinue our Nicole Summers catalog concept.

- (3) All selected operating data exclude data related to the discontinued Nicole Summers catalog concept.
- (4) In order to more closely match net sales to circulation, we calculate circulation on a percentage of completion basis. Catalog circulation takes into account the total number of catalogs mailed during all periods and our estimate of the expected sales life of each catalog edition. Square inches circulated also takes into account the page count and page size of the catalogs circulated during the period.
- (5) Retail information relates to our retail stores only and does not include data for our outlet stores.
- (6) Weighted average stores open refers to the number of retail stores open during the period weighted for the number of days that each store was open during the period.
- (7) Weighted average square footage refers to the square footage of retail stores open during the period weighted for the number of days that each store was open during the period.
- (8) As used throughout this Form 10-K, the term "12-month buyers" means customers who have placed a catalog or internet order with us within the previous 12 months. In addition, for fiscal 2002 and prior periods, 12-month buyers also includes customers who had placed an intranet order with us within the previous 12 months.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report on Form 10-K, including the following discussion, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve substantial risks and uncertainties. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, the words "projected," "anticipated," "planned," "expected" and similar expressions are intended to identify forward-looking statements. In particular, statements regarding future trends are forward-looking statements. Forward-looking statements are not guarantees of our future financial performance, and undue reliance should not be placed on them. Our actual results, performance or achievements may differ significantly from those discussed in or implied by the forward-looking statements. Factors that might cause such a difference include, but are not limited to, the following: significant changes in customer acceptance of our product offerings; the success or failure of our retail store initiative; our ability to effectively manage our operations and growth in a multi-channel environment; the success of our product development and merchandising initiatives; changes in consumer spending, fashion trends and consumer preferences; the customary risks of purchasing merchandise abroad, including longer lead times, higher initial purchase commitments and foreign currency fluctuations; timeliness of receipts of inventory from vendors; changes in competition in the apparel industry; changes in, or the failure to comply with, federal and state tax and other government regulations; our ability to attract and retain qualified personnel; possible future increases in expenses and labor and employee benefit costs; business abilities and judgment of management; the existence or absence of brand awareness; the existence or absence of publicity, advertising and promotional efforts; the success or failure of operating initiatives; the mix of our sales between full price and liquidation merchandise; general political, economic and business conditions; and other factors. See also Item 1A, "Risk Factors." We disclaim any intent or obligation to update any forward-looking statements.

Overview

We are a multi-channel specialty retailer of women's apparel, accessories and footwear. We market our products through retail stores, catalogs and our website *jjill.com*. We currently have two reportable business segments, direct and retail. Each segment is separately managed and utilizes distinct distribution, marketing and inventory management strategies. The direct segment markets merchandise through catalogs and our website. The retail segment markets merchandise through retail stores.

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Our fiscal year ends on the last Saturday in December. The 12 months ended December 27, 2003 ("fiscal 2003"), December 28, 2002 ("fiscal 2002") and December 29, 2001 ("fiscal 2001") were 52-week fiscal years.

During fiscal 2002, we effected a three-for-two stock split in the form of a stock dividend paid on June 28, 2002 to shareholders of record on June 14, 2002. All share and per share data has been adjusted for the stock split.

Net sales for fiscal 2003 increased by 8.4% to \$376.9 million from \$347.6 million in fiscal 2002. Income before interest and taxes for fiscal 2003 was \$12.9 million, or 3.4% of net sales, compared to \$32.8 million, or 9.4% of net sales, in the prior year. Net income for fiscal 2003 was \$7.2 million, or \$0.36 per diluted share, compared to \$18.9 million, or \$0.94 per diluted share, in fiscal 2002.

Fiscal 2003 marked the beginning of an important transition for us. In fiscal 2003, we determined that our business had reached a level of growth and complexity that could no longer be adequately supported by the front-end product development and merchandising infrastructure that had historically worked well in our catalog business. We felt we needed an infrastructure that could support a more complex multi-channel business. Consequently, we committed to make significant investments in both personnel and systems to re-engineer and upgrade our operating infrastructure and processes in the areas of design, product management, sourcing, product integrity, technical design and merchandising. We believe that these investments will allow us to fundamentally change the way we source and develop product, how we

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flow product, how we present product and the product itself. During fiscal 2003 we worked to redefine our strategic objectives in the supply chain area and we began implementing the beginnings of a new front-end product development and merchandising infrastructure. During the latter half of the year we reorganized our entire product area. As a result of our long inventory lead times, we believe that the impact of most of these changes will not be evident in our merchandise assortment until late in 2004.

Some of the changes we are in the process of making include, among other things, providing a more compelling product assortment to our current core customer and upgrades to fabrications, color, fit and overall quality. We plan to reduce our style counts by roughly 20% to 30% for fall 2004 in an effort to provide a more focused collection and point of view for the J. Jill brand. We also plan to define and support a core offering of products within our overall assortment that will be the foundation upon which our collections are built.

In 2004, we are planning to spend approximately \$6.0 million to \$7.0 million on our front-end product development and merchandising infrastructure. This estimate is for 2004 only and does not include any future investments to be made beyond 2004. Additionally, as we execute this strategy this estimate may change. There can be no assurance that our investments will result in an improved infrastructure that will result in improved sales or profitability. In order to mitigate our liquidity risk while we make these investments, we have decided to limit our 2004 store openings to 20 and to reduce the number of pages in our 2004 catalogs by roughly 15% as compared to fiscal 2003. We believe these steps are essential in order to lessen our short-term risk as we make the necessary investment for our long-term growth. Although we are unable to predict the impact that these changes may have, we anticipate that our net sales and net income may be adversely affected in the short-term.

In July 2003 we merged our catalog/internet subsidiary, J. Jill Direct, Inc., into our retail store subsidiary, The Birch Pond Group, Inc. This restructuring provides us with enhanced customer service and cross-channel marketing opportunities which allows us, among other things, to (i) promote our retail stores within our catalogs; (ii) distribute our catalogs in our retail stores; (iii) accept catalog and internet return