J JILL GROUP INC
Form 10-K
March 16, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

OR

o **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	**04-2973769**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
4 Batterymarch Park, Quincy, MA	**02169**
(Address of Principal Executive Offices)	(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:

<u>Title of Each Class</u>

Common Stock, $0.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o

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

At June 25, 2005, the aggregate market value of common stock held by non-affiliates of the Registrant was $287,142,000 based on the closing price ($14.36 per share) for the common stock as reported on The NASDAQ Stock Market on June 25, 2005.

Shares outstanding of the Registrant s common stock at March 10, 2006: 20,480,861

THE J. JILL GROUP, INC.
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FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

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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.

Potential Sale of the Company

On February 5, 2006, The J. Jill Group, Inc. (J. Jill) entered into an Agreement and Plan of Merger (the Merger Agreement) with The Talbots, Inc., (Talbots) and Jack Merger Sub, Inc., a wholly owned subsidiary of Talbots (Merger Sub). Pursuant to the Merger Agreement, Talbots will acquire J. Jill in a taxable all-cash transaction whereby Merger Sub will merge with and into J. Jill (the Merger). J. Jill will continue as the corporation surviving the Merger and will become a wholly owned subsidiary of Talbots. The Merger Agreement provides, upon consummation of the Merger, for our stockholders to receive $24.05 in cash, without interest, for each share of common stock of J. Jill. Options outstanding under J. Jill s stock option plans, whether or not exercisable or vested, will be cancelled as of the effective time of the Merger. Holders of options will be entitled to receive a cash payment (less required tax withholdings) equal to the excess, if any, of $24.05 over the exercise price of each such option, multiplied by the amount of shares covered by each such option. The Merger Agreement is subject to adoption by J. Jill s stockholders, as well as the satisfaction or waiver of other conditions, including, among others, the expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The Merger Agreement contains certain termination rights and provides that, upon the termination of the Merger Agreement under specified circumstances, J. Jill will be required to pay Talbots a termination fee of $18.0 million.

The Company

We are a multi-channel specialty retailer of women s apparel, including accessories and footwear. We currently have two reportable business segments, retail and direct. The retail segment markets merchandise through our retail stores. The direct segment markets merchandise through our catalogs and website. For more information about our reportable business segments, see Note L to the accompanying consolidated financial statements.

Our Business Strategy

Our strategic mission is to build J. Jill into a premier national brand by offering sophisticated casual apparel designed to appeal to active, affluent women age 35 and older through our integrated multi-channel operating platform. Our current growth strategy is based primarily on our retail store initiative. During fiscal 2005, we opened 42 retail stores and ended the fiscal year with 192 retail stores in 35 states. In 2006, we expect to continue our retail segment growth by opening 40 additional retail stores. We believe there is a total market potential for 300 to 500 of our retail stores throughout the United States. Our direct segment performance continued to decline in fiscal 2005 primarily as a result of poor customer response to our merchandise offerings and cannibalization from our retail stores. We are currently working to improve the overall appeal and productivity of our catalogs by refocusing our attention on our core customer. Over the past two years, we have tested different catalog layouts, models and copy formats in an attempt to broaden the appeal of our catalogs. The response to these initiatives has been lackluster, and we are now returning to the overall creative approach that worked for us in the early 2000 s. We are also increasing the penetration of extended sizes, shoes and accessories in our catalogs and replacing certain multi-channel product offerings with catalog-only product offerings that specifically target our catalog customer.

The J. Jill Brand

Our target customers are active, affluent women age 35 or older. We offer our customers a broad range of apparel in a wide range of sizes. Our brand tenets attempt to reflect our core customers beliefs and needs comfort, individuality, artistic simplicity, a woman s version of femininity and social responsibility. Our creative approach aims to capture and communicate these brand tenets consistently and clearly across all of our distribution channels. We seek to differentiate our brand through the use of lifestyle photography that depicts women with whom our core customers can identify women with graceful confidence, women with strong connections to friends, family and community and women who are alluring yet real.

Brand Marketing

In fiscal 2005, we hired a branding agency to assist us with market positioning and establishing specific brand-enhancing opportunities for J. Jill. We conducted extensive consumer and market research based on three primary metrics: quantitative consumer segmentation, qualitative consumer insights and competitive positioning. In October 2005, we hired a new Chief Marketing Officer who worked closely with our branding agency to analyze the research results and develop a brand platform to guide our strategic marketing decisions. Our newly articulated brand platform provides a concise description of what our brand stands for, who our customer is and how we meet her needs and desires. In 2006 we plan to develop a communication strategy that will promote the core signature, look and voice of the J. Jill brand.

Merchandising, Design and Product Development

Our merchandising, design and product development goal is to offer trend relevant, sophisticated casual clothing and complementary accessories and footwear that appeal to our target customer. We design, develop and oversee the execution of virtually all of our apparel offerings in-house. Our apparel is manufactured domestically and abroad. Our apparel styles are offered in a broad assortment of sizes including misses , petite s, women s and tall s in our catalogs and on our website and misses and petite s in our retail stores. Although third party vendors continue to design accessories and outerwear styles for us with our input, over the past two years we have increased the level of our in-house accessory design and development. The only third party brand name products we offer are in jewelry, socks, gift items (e.g., books, candles, etc.) and footwear.

Over the past two years we have been in a merchandising transition and during this time we endeavored to broaden the appeal of the J. Jill brand by standardizing our fits, improving the quality of our apparel, increasing the penetration of color and novelty in our assortment and becoming more contemporary in our design elements. While we believe we have achieved success with respect to improving the quality and fit of our apparel, some of the changes we made with respect to color, novelty and silhouette negatively impacted our performance over the past two years. In hindsight, we believe that some of our color choices, our increased use of bold embellishments and our migration toward a narrower fit were not appropriate for, and ultimately decreased the desirability of our product offerings to, our customer. At the same time, the merchandise changes we made did not attract the number of new customers we expected them to. As a result, our direct business has declined significantly in the past two years and our retail store productivity has not increased to the level we expected.

We are taking several steps in the merchandising and design areas to modify our strategy and adjust our merchandise offerings in the future, the most important of which is refocusing our attention to our core customer. In this regard, we intend to:

- Return to neutral, subtle, wardrobe-building colors that are appropriate year around;
- Feature relaxed, forgiving styling that is body aware but not form-fitting;
- Adjust styling details to be more subtle, feminine and appropriate to our core customer;
- Feature dyed-to-match head-to-toe dressing; and
- Provide versatile multi-purpose items and cozy, comforting materials.

Sourcing and Product Integrity

Our sourcing and product integrity strategy is based on building key strategic relationships with our supply chain vendors. We seek to create these strategic relationships by providing a clear set of product standards and compliance requirements as well as the technical support and training that our vendors need in order to deliver the best possible quality. Over the past two years we have built a sourcing team that has been key to driving significant improvements in the quality of our merchandise. We have also diversified our vendor base to minimize our concentration risk in China and Hong Kong and to increase competition among our vendors. In fiscal 2005, we did not purchase more than 10% of our inventory directly from any one vendor.

Retail Business

Our retail business is our primary growth vehicle. We plan to continue to roll out new retail stores in lifestyle centers and mall locations throughout the United States. In 2006, we expect to open 40 additional retail stores. Excluding our four misses /petite combination stores, our stores range in size from 2,400 to 6,100 square feet. Our current real estate strategy is to focus primarily on locations approximately 2,800 to 3,300 square feet in size. Recently we have shifted our focus away from malls and toward lifestyle centers as locations of choice for new stores. At December 31, 2005, 69% of our retail stores were located in malls and 31% in lifestyle centers or street locations. We expect over 70% of our 2006 retail store openings to be in lifestyle centers. It generally takes two to three months to construct one of our retail stores. Our current prototype for a standard store provides for a total gross store build out cost of approximately $700,000 less $400,000 in expected landlord allowances. We look for locations where the economics can deliver an 18-month payback and a 70% term return on net investment.

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 generated roughly 8% of total retail net sales in fiscal 2005, enabling us not only to provide superior customer service but also to capture incremental sales.

Direct Business Catalog and Internet

In fiscal 2005, we circulated approximately 55.6 million catalogs and increased our customer e-mail addresses to 1.3 million. In recent years, an increasing percentage of our direct business has been derived from our website. In fiscal 2005, internet sales represented 51.2% of total direct segment net sales. The internet is a more cost effective way of taking orders as well as a powerful overstock liquidation tool. Our circulation strategy has historically focused on mailing to customers who had already purchased from us and acquiring new customers through targeted prospecting. Our current goal is to circulate at breakeven or above (that is, to increase circulation only to the point where the incremental projected net sales are at least equal to the incremental costs associated with mailing additional catalogs). Pursuit of this goal in fiscal 2005, led to significantly reduced prospecting circulation, as the declining profitability of the direct business that we have experienced during our merchandizing transition reduced the breakeven point.

We acquire lists of prospective customers by renting or exchanging lists with database cooperatives and other sources, including direct competitors. The most productive prospects tend to come from the customer lists of other women s apparel catalogs. 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.

Cross-Channel Customer Database

We maintain all of our catalog, internet, intranet and retail customer and transaction data in our multi-channel customer database. This cross-channel customer database contains detailed purchasing information and certain demographic information about our customers, e-mail addresses and the names and addresses of individuals who have requested catalogs from us. This database enables us to see how our customers use our various channels to shop.

We currently capture customer information for 100% of our catalog, internet and intranet customers and roughly 75% of our retail store customers. At December 31, 2005, our database contained approximately 5.0 million individual customer names, of which 1.8 million were customers who had placed a catalog, internet or intranet order with us or made a retail store purchase from us within the previous 12 months. Since we are currently capturing only a portion of our retail store customer information we believe this buyer count is somewhat understated.

Private Label Credit Card

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. At December 31, 2005, there were 836,000 J. Jill credit card holders.

All of our card holders 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. The financial impact of 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 customer appreciation events. These events are designed to increase store sales and provide added benefits to our existing loyal customers such as one-on-one wardrobing tips and individualized sales assistance. During these special events, customers also receive an additional discount on their purchases. During fiscal 2005, we hosted over 600 of these events.

Inventory Management

Our inventory management strategy is to maintain flexibility in deploying inventory across all distribution channels while maintaining appropriate in-stock positions in the retail channel and appropriate levels of fulfillment in the catalog and internet channels. 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). Merchandise received at the Tilton facility is allocated to either retail or direct. 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 segment receipts are used to fulfill orders and the remainder is put into assigned locations awaiting future customer orders. We believe that our centralized warehousing system as well as our ability to sell our products through multiple distribution channels allows us to take better advantage of sales trends and to liquidate overstocks more efficiently.

Our inventory management process begins with pre-season merchandise planning. In-season inventory management in retail includes the weekly allocation and replenishment process and the management of markdowns, sell-through and clearance of monthly merchandise flows. In direct, 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, sales catalogs and package inserts. We also use our website and outbound e-mail capabilities to liquidate overstocked items. Finally, end-of-season overstocks are sold through our outlet stores, and to a lesser degree through inventory liquidators. We have eight outlet stores that are used solely for the purpose of liquidating overstocks. In 2006, we plan to open six additional outlet stores.

Unconditional Merchandise 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. We believe that our return rates are consistent with industry standards for comparable merchandise. Return trends for both the retail and direct 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.

Seasonality and Quarterly Fluctuations

We expect there to be fluctuations in our net sales from quarter to quarter, with the highest net sales generally coming in the second and fourth quarters of our fiscal year and the lowest in the first and third quarters. See Note M for selected quarterly financial data, including information regarding our quarterly net sales. As our retail segment becomes a greater portion of our overall business, our business is becoming more seasonal. Our retail store rollout plan is expected to materially impact year-over-year comparisons of our net sales. Also, January is included in our first fiscal quarter, but is included in the fourth fiscal quarter for many other retailers. Because January is a month that traditionally involves significant promotional pricing, this difference needs to be taken into account when making comparisons of our financial performance for interim periods with that of other retailers.

Information Systems and Technology

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, purchasing and general ledger systems. We seek to protect company sensitive information on our servers from unauthorized access by using industry standard network security systems and monitoring procedures in addition to anti-virus and firewall protection. We use encryption technology to assist us in protecting sensitive customer information.

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 fiscal 2005, we announced our plan to invest approximately $7.0 million on three key systems to support our future growth a product life-cycle management system (PLM), an inventory management and planning system and a corporate data warehouse. The PLM implementation began in fiscal 2005 and will continue into 2006 and 2007. The merchandise management module of the inventory management and planning system is expected to be implemented in 2006. The first phase of the corporate data warehouse implementation is currently scheduled for 2006. We spent $2.3 million in fiscal 2005 on these initiatives and we expect to spend approximately $1.6 million on these systems in 2006.

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

Community Outreach

We are committed to establishing long-term relationships with nonprofit community-based organizations that serve 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 used to support the work that these organizations do to improve the lives of women and children. Through contributions to the Compassion Fund, as well as direct donations to selected organizations, we donated approximately $475,000 in fiscal 2005. 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 work-day 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. 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, including a few large, well known and established specialty retailers, as well as increased competition from existing competitors. Many of our competitors are considerably larger and have substantially 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 March 10, 2006, we employed approximately 3,400 individuals, of whom approximately 1,600 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. The J. Jill trademark is a key component of our brand building strategy.

Information Available on our Website

Our corporate internet address is *www.jjill.com*. Our website provides a link 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

Potential Sale of the Company

For additional information with respect to the potential Merger with Talbots, see Item 1. Business.

A significant delay in consummating or a failure to consummate the proposed Merger with Talbots could have a material adverse effect on our stock price and operating results.

If the proposed Merger with Talbots is not completed, it could have a material adverse effect on our stock price. In addition, any significant delay in consummating the Merger could have a material adverse effect on our operating results, adversely affect our vendor and customer relationships and would likely lead to significant diversion of management and employee attention and potential employee attrition.

Expenses related to the proposed Merger with Talbots are significant and will adversely affect our operating results in 2006.

We have incurred and expect to incur significant expenses in connection with the proposed Merger with Talbots, including legal and investment banker fees and retention bonus expenses. We expect these costs to have an adverse effect on our operating results in 2006.

Restrictions on the conduct of our business prior to the completion of the proposed Merger with Talbots may have a negative impact on our operating results.

We have agreed to certain restrictions on the conduct of our business in connection with the proposed Merger with Talbots, that require us to conduct our business only in the ordinary course, subject to specific limitations. These restrictions may delay or prevent us from undertaking business opportunities that may arise pending completion of the transaction.

Our future success depends on our ability to produce a merchandise assortment that resonates with our target customer.

Over the past two years we have been in a merchandising transition and during this time we endeavored to broaden the appeal of the J. Jill brand by standardizing our fits, improving the quality of our apparel, increasing the penetration of color and novelty in our assortment and becoming more contemporary in our design elements. While we believe we have achieved success with respect to improving the quality and fit of our apparel, some of the changes we made with respect to color, novelty and silhouette negatively impacted our performance over the past two years. At the same time, the merchandise changes we made did not attract the number of new customers we expected them to. We are taking several steps in the merchandising and design areas to modify our strategy and adjust our merchandise offerings, but there can be no assurance that we will be able to produce a merchandise assortment that resonates with our target customer.

Our ability to increase our overall profitability will depend upon our ability to successfully grow our retail business while, at the same time, stabilizing and improving our direct segment s performance.

Our current growth strategy is based primarily on our retail store initiative. During fiscal 2005 we opened 42 retail stores and we expect to continue our retail segment growth by opening an additional 40 retail stores in 2006. There can be no assurance, however, that we will be able to manage this growth effectively, and if we are unsuccessful in doing so, our business and financial condition will be adversely affected. In addition, during the past two years our direct segment performance has declined primarily as a result of poor customer response to our merchandise offerings and cannibalization from our retail stores. Although we are taking steps to stabilize and improve the direct segment s performance, there can be no assurance that our direct business will not continue to be negatively affected as our retail business grows or that the steps we are taking to stabilize and improve the direct segment s performance will result in increased direct segment sales and profitability.

Our future success will depend upon our ability to build brand awareness and the effectiveness of our brand development and marketing programs.

Our future success will depend upon our ability to effectively define, evolve and promote the J. Jill brand. In fiscal 2005, we made significant investments in the area of brand development and marketing. We hired a branding agency to assist us with market positioning and establishing specific brand-enhancing opportunities for J. Jill. We also hired a new Chief Marketing Officer. While we believe that our investments in this area will help to build brand awareness and attract new customers, we can provide no assurance that these investments will result in increased sales or profitability in the future.

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

We purchase a significant portion of our merchandise directly from foreign sources. Approximately 86% of the merchandise we purchased in fiscal 2005 was purchased directly from foreign sources, primarily located in China. Any event causing a disruption in manufacturing or imports from the countries from which we currently source goods, or the imposition of additional import restrictions (particularly with respect to China), could have a material adverse effect on our operations.

We seek to enforce a code of conduct that sets guidelines for our vendors regarding employment practices such as wages and benefits, health and safety, working hours and working age, and for environmental, ethical and legal matters. Although we believe we are allocating appropriate resources to monitor for compliance with our standards, if we or an outside third party discovers that any of our vendors is engaged in practices that materially violate our vendor code of conduct or other generally accepted social responsibility standards, our sales could be materially affected by any resulting negative publicity.

The loss of either of our two primary buying agents could disrupt our operations.

We place significant reliance on our relationship with two foreign buying agents. We believe that this concentration risk is mitigated by the fact that these buying agents purchase our inventory directly from a variety of foreign vendors. During fiscal 2005, we did not purchase more than 10% of our inventory directly from any one vendor. However, we did purchase approximately 80% of our imported inventory through these two buying agents during fiscal 2005. Although we could purchase inventory through alternative buying agents or directly from vendors, loss of these buying agents could disrupt our operations.

The women s apparel market is highly competitive.

We are in a highly competitive market. The perceived growth opportunities within the women s apparel market has encouraged the entry of many new competitors, including a few large, well known and established specialty retailers, as well as increased competition from existing competitors. Many of our competitors are considerably larger and have substantially greater financial, marketing and other resources, and we can provide no assurance that we will be able to compete successfully with them in the future.

Our success depends on our ability to respond to changes in customer demands and fashion trends in a timely manner.

We have historically experienced fluctuations in customer response to our merchandise assortments. Our future success depends on our ability to consistently anticipate, assess and react to the changing demands of our customer. If we fail to anticipate fashion trends, select the right merchandise assortment, maintain appropriate inventory levels and creatively present merchandise in a way that is appealing to our customer on a consistent basis, our sales could decline significantly, and we could then be required to mark down certain merchandise to significantly lower prices to sell excess inventory, which would result in lower gross margins. As a private label merchandiser, we assume certain risks, including long product lead times and high initial purchase commitments, that amplify the consequences of any miscalculation that we might make in anticipating fashion trends or interpreting them for our customer. We can provide no assurance that we will be able to identify and offer merchandise that appeals to our customer.

Our direct business is subject to a number of risks and uncertainties.

The operation of our direct business presents a number of risks and uncertainties, including the following:

- The preparation of our catalogs requires long lead times and, as a result, our ability to make adjustments based on customer response is limited. Any miscalculations in catalog layout, model selection, copy format or merchandising selections could cause reduced demand and lower net sales;

- Each edition of a catalog requires substantial investments in layout and design, paper, printing, postage and inventory prior to mailing which are all costs that cannot be adjusted for a particular mailing in response to the actual performance of the catalog;

- The operation of our direct business is dependent on our ability to prepare catalogs in a timely manner. Any delay in the completion or delivery of a catalog could cause customers to forego or defer purchases from us;

- 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 maintain the efficient and uninterrupted operation of our order taking and fulfillment operations and our website. Disruptions or slowdowns in these areas could result in a reduction in net sales as well as increased administrative and order processing costs.

There can be no assurance that we will be able to successfully address the risks that the operation of our direct business entails.

Our retail business is subject to a number of risks and uncertainties.

The operation of retail stores presents a number of risks and uncertainties, 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 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 store employees are properly trained and managed and our stores are operating effectively. If we are unable to effectively manage our retail stores, our sales could decline and our assets could be inadequately safeguarded; and

- The success of our individual stores may depend significantly on the success of the shopping malls or lifestyle centers in which they are located.

There can be no assurance that we will be able to successfully address the risks that the operation of retail stores entails.

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

Prior to the merger of our retail subsidiary and our catalog/internet subsidiary in July 2003, our catalog/internet subsidiary collected sales tax on our catalog and internet sales only in Massachusetts. Since the time of the merger, we have been collecting sales tax on our catalog and internet sales in states where we have stores. 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.

Our operating results fluctuate.

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, our retail store business is 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.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The following table sets forth certain information relating to our facilities at December 31, 2005:

Location	**Square Footage**		**Function**	**Type of Interest (1)**	**Lease Termination**
Tilton, New Hampshire	573,000	(2)	Operations, Fulfillment &	Owned	
(approx. 360 acres)			Distribution Center		
Quincy, Massachusetts	96,000		Corporate Offices	Leased	10/31/09 12/31/09
192 Retail stores in 35 states	2,400 7,000		Retail store space	Leased	1/31/10 1/31/16
Eight Outlet stores in seven states	3,000 4,400		Outlet store space	Leased	6/30/06 1/31/16

(1) The Tilton facility 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.)

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

Between December 31, 2005 and March 10, 2006, we entered into leases for eight additional retail stores, each having lease termination dates between 2017 and 2018.

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Item 3. Legal Proceedings

In August 2003, a Complaint was served on The Birch Pond Group, Inc. (a subsidiary of The J. Jill Group, Inc. which was later converted into, and is now known as, J. Jill, LLC) in a civil action filed in the California Superior Court, Riverside County, against The Birch Pond Group, Inc. and certain fictitiously named and unknown defendants who allegedly were operating J. Jill stores within the State of California. This action, allegedly on behalf of a class of salaried and non-salaried store workers, alleged, 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. In April 2005, the parties executed a settlement agreement and the Court certified a class (for settlement purposes only) and preliminarily approved the settlement agreement. In September 2005, the Court approved the settlement agreement and entered an order and final judgment. In November 2005, we made payments of claims to class members as well as attorney s fees, costs and class representative enhancements. In December 2005, we filed with the Court and served on class counsel written certification of settlement administration. On February 10, 2006, class counsel filed with the Court and served us an acknowledgement of full satisfaction of judgment.

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 2005.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on The NASDAQ Stock Market (NASDAQ) under the symbol JILL. As of March 10, 2006, the number of holders of record of our common stock was 576.

The following table sets forth, for the periods indicated, the high and low sale prices for our common stock as reported by NASDAQ:

	High	Low
Fiscal 2005:		
Quarter ended December 31, 2005	$ 19.50	$ 12.16
Quarter ended September 24, 2005	19.50	13.25
Quarter ended June 25, 2005	16.00	12.05
Quarter ended March 26, 2005	16.15	11.50
Fiscal 2004:		
Quarter ended December 25, 2004	$ 20.20	$ 15.10
Quarter ended September 25, 2004	24.72	15.14
Quarter ended June 26, 2004	24.85	19.36
Quarter ended March 27, 2004	20.01	12.25

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.

Item 6. Selected Consolidated Financial Data

Our selected consolidated statement of operations and balance sheet data have 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 31, 2005 (fiscal 2005) 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 2005 was a 14-week period. The 12 months ended December 25, 2004 (fiscal 2004), 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 have been adjusted for the stock split.

	Twelve Months Ended				
	Dec. 31, 2005 (53 weeks)	**Dec. 25, 2004**	**Dec. 27, 2003**	**Dec. 28, 2002**	**Dec. 29, 2001**
	(in thousands, except per share and selected operating data)				
Consolidated Statement of Operations Data:					
Net sales	$ 449,712	$ 434,867	$ 376,904	$ 347,574	$ 287,043
Income before taxes	2,729	15,002	11,898	31,187	21,849
Net income	1,514	8,706	7,025	18,434	12,672
Earnings per share (diluted)	$ 0.07	$ 0.42	$ 0.35	$ 0.92	$ 0.68
Weighted average shares outstanding (diluted)	20,536	20,546	20,060	20,096	18,697
Consolidated Balance Sheet Data:					
Total assets	$ 287,475	$ 282,696	$ 253,970	$ 228,260	$ 180,968
Working capital	85,558	89,603	77,946	73,224	54,345
Long-term debt, less current portion	9,395	10,431	12,236	13,802	15,590
Total stockholders equity	$ 168,121	$ 164,057	$ 151,079	$ 143,128	$ 111,442
Selected Operating Data:					
Retail: (1)					
Stores open:					
Beginning of period	150	122	88	51	22
End of period	192	150	122	88	51
Weighted average stores open (2)	164	131	100	66	32
Weighted average square footage (3)	705,600	594,000	472,500	323,800	164,600
Comparable store sales (4)	(1.2)%	11.1 %	n/a	n/a	n/a
Direct:					
Circulation: (5)					