

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO.1

TO

FORM S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

J. Crew Group, Inc.

(Exact name of registrant as specified in its charter)

New York	6719	22-2894486
(State or other jurisdiction incorporation or organization)	(Primary standard industrial classification code number)	(I.R.S. employer identification number)

770 Broadway
New York, New York 10003
(212) 209-2500

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

Michael P. McHugh
Vice President
J. Crew Group, Inc.
770 Broadway
New York, New York 10003
(212) 209-2500

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copies of correspondence to:

Paul J. Shim, Esq.
Cleary, Gottlieb, Steen & Hamilton
One Liberty Plaza
New York, New York 10006

Approximate date of commencement of proposed sale to the
public: As soon as practicable after the Registration Statement
becomes effective.

If the securities being registered on this Form are being
offered in connection with the formation of a holding company and
there is compliance with General Instruction G, check the
following box:

CALCULATION OF REGISTRATION FEE

The Registrant hereby amends this Registration Statement on
such date or dates as may be necessary to delay its effective
date until the Registrant shall file a further amendment which
specifically states that this Registration Statement shall
thereafter become effective in accordance with Section 8(a) of
the Securities Act of 1933 or until the Registration Statement
shall become effective on such date as the Commission, acting
pursuant to said Section 8(a), may determine.

J. CREW GROUP, INC.

Registration Statement on Form S-4

(Cross Reference Sheet Furnished Pursuant to Item 501(b) of Regulation S-K)

Item	Location in Prospectus
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1. Forepart of the

Registration Statement and Outside Front Cover Page of Prospectus	Facing Page of the Registration Statement; Cross Reference Sheet; Outside Front Cover Page of Prospectus
2. Inside Front and Outside Back Cover Pages of Prospectus	Available Information; Incorporation of Certain Documents by Reference; Outside Back Cover Page of Prospectus
3. Risk Factors, Ratio of Earnings to Fixed Charges and Other Information	Prospectus Summary; Risk Factors; Selected Financial Data
4. Terms of the Transaction	Prospectus Summary; Risk Factors; The Exchange Offer; Description of the New Debentures; Plan of Distribution; Certain U.S. Federal Considerations Tax
5. Pro Forma Financial Information	Pro Forma Capitalization; Unaudited Pro Forma Consolidated Financial Data
6. Material Contracts With the Company Being Acquired	Not Applicable
7. Additional Information Required for Reoffering by Persons and Parties Deemed to be Underwriters	Not Applicable
8. Interests of Named Experts and Counsel	Not Applicable
9. Disclosure of Commission Position on Indemnification for Securities Act Liabilities	Not Applicable
10. Information with Respect to S-3 Registrants	Not Applicable
11. Incorporation of Certain Information by Reference	Not Applicable
12. Information with Respect to S-2 or S-3 Registrants	Not Applicable
13. Incorporation of Certain Information by Reference	Not Applicable
14. Information with Respect to Registrants Other Than S-3 or S-2 Registrants	Outside Front Cover of Prospectus; Prospectus Summary; Selected Consolidated Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; Business; Consolidated Financial Statements
15. Information with Respect to S-3 Companies	Not Applicable
16. Information with Respect to S-2 or S-3 Companies	Not Applicable
17. Information with Respect to Companies Other Than S-3 or S-2 Companies	Not Applicable
18. Information if Proxies, Consents or Authorizations Are To Be Solicited	Not Applicable
19. Information if Proxies, Consents or Authorizations Are Not To Be Solicited or in an Exchange Offer	Prospectus Summary; Management; Capital Stock of Holdings and Operating Corp; Certain Relationships and Related Transactions

X----- X
X Information contained herein is subject to completion or X
X amendment. A registration statement relating to these securities X
X has been filed with the Securities and Exchange Commission. These X
X securities may not be sold nor may offers to buy be accepted X
X prior to the time the registration statement becomes effective. X
X This prospectus shall not constitute an offer to sell or the X
X solicitation of an offer to buy nor shall there be any sale of X
X these securities in any State in which such offer, solicitation X
X or sale would be unlawful prior to registration or qualification X
X under the securities laws of any such State X
X----- X

SUBJECT TO COMPLETION-DATED FEBRUARY 6, 1998

PROSPECTUS

J. Crew Group, Inc.

Offer to Exchange Series B 13 1/8% Senior Discount Debentures due 2008, which have been registered under the Securities Act of 1933, as amended, for any and all outstanding Series A 13 1/8% Senior Discount Debentures due 2008

The Exchange Offer will expire at 5:00 p.m., New York City time, on _____, 1998, unless extended. J. Crew Group, Inc., a New York corporation (the "Issuer" or "Holdings"), hereby offers, upon the terms and subject to the conditions set forth in this Prospectus and the accompanying letter of transmittal (the "Letter of Transmittal" and such offer being the "Exchange Offer"), to exchange Series B 13 1/8% Senior Discount Debentures due 2008 of the Issuer (the "New Debentures"), which have been registered under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to a Registration Statement of which this Prospectus is a part, for an equal principal amount of outstanding Series A 13 1/8% Senior Discount Debentures due 2008 of the Issuer (the "Old Debentures"), of which \$142,000,000 aggregate principal amount at maturity is outstanding as of the date hereof. The New Debentures and the Old Debentures are collectively referred to herein as the "Debentures."

Any and all Old Debentures that are validly tendered and not withdrawn on or prior to 5:00 P.M., New York City time, on the date the Exchange Offer expires, which will be _____, 1998 (30 calendar days following the commencement of the Exchange Offer) unless the Exchange Offer is extended (such date, including as extended, the "Expiration Date"), will be accepted for exchange. Tenders of Old Debentures may be withdrawn at any time prior to 5:00 P.M., New York City time on the Expiration Date. The Exchange Offer is not conditioned upon any minimum principal amount of Old Debentures being tendered for exchange. However, the Exchange Offer is subject to certain customary conditions, which may be waived by the Issuer, and to the terms of the Registration Rights Agreement, dated as of October 17, 1997, by and among the Issuer and Donaldson, Lufkin & Jenrette Securities Corporation and Chase Securities Inc. (the "Initial Purchasers") (the "Registration Rights Agreement"). Old Debentures may only be tendered in integral multiples of \$1,000 of principal amount at maturity. See "The Exchange Offer."

The New Debentures will be entitled to the benefits of the same Indenture (as defined herein) that governs the Old Debentures and that will govern the New Debentures. The form and terms of the New Debentures are the same in all material respects as the form and terms of the Old Debentures, except that the New Debentures have been registered under the Securities Act and therefore will not bear legends restricting the transfer thereof. See "The Exchange Offer" and "Description of the New Debentures."

The New Debentures will be represented by permanent global debentures in fully registered form and will be deposited with, or on behalf of, The Depository Trust Company ("DTC") and registered in the name of a nominee of DTC. Beneficial interests in the permanent global debentures will be shown on, and transfers thereof will be effected through, records maintained by DTC and its participants.

Based on interpretations by the staff of the Securities and Exchange Commission (the "Commission"), as set forth in no-action letters issued to third parties, including Exxon Capital Holdings Corporation, SEC No-Action Letter (available May 13, 1988), Morgan Stanley & Co. Incorporated, SEC No-Action Letter (available June 5, 1991) and Shearman & Sterling, SEC No-Action Letter (available July 2, 1993) (collectively, the "Exchange Offer No-Action Letters"), the Issuer believes that the New Debentures issued pursuant to the Exchange Offer may be offered for resale, resold or otherwise transferred by each holder (other than a broker-dealer who acquires such New Debentures directly

from the Issuer for resale pursuant to Rule 144A under the Securities Act or any other available exemption under the Securities Act and other than any holder that is an "affiliate" (as defined in Rule 405 under the Securities Act) of the Issuer) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Debentures are acquired in the ordinary course of such holder's business and such holder is not engaged in, and does not intend to engage in, a distribution of such New Debentures and has no arrangement with any person to participate in a distribution of such New Debentures. By tendering Old Debentures in exchange for New Debentures, each holder, other than a broker-dealer, will represent to the Issuer that: (i) it is not an affiliate (as defined in Rule 405 under the Securities Act) of the Issuer; (ii) it is not a broker-dealer tendering Old Debentures acquired for its own account directly from the Issuer; (iii) any New Debentures to be received by it will be acquired in the ordinary course of its business; and (iv) it is not engaged in, and does not intend to engage in, a distribution of such New Debentures and has no arrangement or understanding to participate in a distribution of New Debentures. If a holder of Old Debentures is engaged in or intends to engage in a distribution of New Debentures or has any arrangement or understanding with respect to the distribution of New Debentures to be acquired pursuant to the Exchange Offer, such holder may not rely on the applicable interpretations of the staff of the Commission and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any secondary resale transaction.

(continued on next page)

FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PARTICIPANTS IN THE EXCHANGE OFFER, SEE "RISK FACTORS" BEGINNING ON PAGE 16 OF THIS PROSPECTUS.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

[GRAPHIC OMITTED]The date of this Prospectus is _____, 1998

(continued from cover page)

Each broker-dealer that receives New Debentures for its own account pursuant to the Exchange Offer (a "Participating Broker-Dealer") must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such New Debentures. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a Participating Broker-Dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a Participating Broker-Dealer in connection with resales of New Debentures received in exchange for Old Debentures where such Old Debentures were acquired by such Participating Broker-Dealer as a result of market-making activities or other trading activities. Pursuant to the Registration Rights Agreement, the Issuer has agreed that it will make this Prospectus available to any Participating Broker-Dealer for a period of time not to exceed one year after the date on which the Exchange Offer is consummated for use in connection with any such resale. See "Plan of Distribution."

The Issuer will not receive any proceeds from this offering. The Issuer has agreed to pay the expenses of the Exchange Offer. No underwriter is being utilized in connection with the Exchange Offer.

THE EXCHANGE OFFER IS NOT BEING MADE TO, NOR WILL THE ISSUER ACCEPT SURRENDERS FOR EXCHANGE FROM, HOLDERS OF OLD DEBENTURES IN ANY JURISDICTION IN WHICH THE EXCHANGE OFFER OR THE ACCEPTANCE THEREOF WOULD NOT BE IN COMPLIANCE WITH THE SECURITIES AND BLUE SKY LAWS OF SUCH JURISDICTION.

The Old Debentures have been designated as eligible for trading in the Private Offerings, Resale and Trading through Automated Linkages ("PORTAL") market. Prior to this Exchange Offer, there has been no public market for the New Debentures. If such a market were to develop, the New Debentures could trade at prices that may be higher or lower than their principal amount. The Issuer does not intend to apply for listing of the New Debentures on any securities exchange or for quotation of the New Debentures on The Nasdaq Stock Market's National Market or otherwise. The Initial Purchasers have previously made a market in the Old Debentures, and the Issuer has been advised that the Initial Purchasers currently intend to make a market in the New Debentures, as permitted by applicable laws and regulations, after consummation of the Exchange Offer. The Initial Purchasers are not obligated, however, to make a market in the Old Debentures or the New Debentures and any such market making activity may be discontinued at any time without notice at the sole discretion of the Initial Purchasers. There can be no assurance as to the liquidity of the public market for the New Debentures or that any active public market for the New Debentures will develop or continue. If an active public market does not develop or continue, the market price and liquidity of the New Debentures may be adversely affected. See "Risk Factors--Absence of a Public Market."

AVAILABLE INFORMATION

The Issuer is not currently subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Issuer will become subject to such requirements upon the effectiveness of the Registration Statement (as defined herein). Pursuant to the indenture by and among the Issuer and State Street Bank and Trust Company (as trustee), dated as of October 17, 1997 (the "Indenture"), the Issuer has agreed to file with the Commission and provide to the holders of the Old Debentures annual reports and the information, documents and other reports which are required to be delivered pursuant to Sections 13 and 15(d) of the Exchange Act.

This Prospectus constitutes a part of a registration statement on Form S-4 (together with all amendments and exhibits, the "Registration Statement") filed by the Issuer with the Commission, through the Electronic Data Gathering, Analysis and Retrieval System ("EDGAR"), under the Securities Act, with respect to the New Debentures offered hereby. This Prospectus omits certain of the information contained in the Registration Statement, and reference is hereby made to the Registration Statement for further information with respect to the Issuer and the securities offered hereby. Although statements concerning and summaries of certain documents are included herein, reference is made to the copies of such documents filed as exhibits to the Registration Statement or otherwise filed with the Commission. These documents may be inspected without charge at the office of the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and copies may be obtained at fees and charges prescribed by the Commission. Copies of such materials may also be obtained from the Web site that the Commission maintains at <http://www.sec.gov>.

PROSPECTUS SUMMARY

Prior to the Recapitalization (as defined herein), Holdings owned all of the stock, directly or indirectly, of the various subsidiaries that had carried on the businesses described herein. In connection with the Recapitalization, Holdings organized J. Crew Operating Corp., a Delaware corporation ("Operating Corp"), and immediately prior to the consummation of the Recapitalization, Holdings transferred substantially all of its assets and liabilities to Operating Corp. Holdings' current operations are, and future operations are expected to be, limited to owning the stock of the Operating Corp. Holdings and its subsidiaries are collectively referred to herein as the "Company." The following summary is qualified in its entirety by the more detailed information and financial statements and the Unaudited Pro Forma Consolidated Financial Data of the Issuer, including the notes thereto, appearing elsewhere in this Prospectus. Except as otherwise set forth herein, references herein to "pro forma" financial data of the Issuer are to financial data of the Issuer which gives effect to the Recapitalization, including the issuance of the Debentures, the issuance of the Holdings Preferred Stock (as defined herein), the Holdings Common Equity Contribution (as defined herein) and the Operating Corp Distribution (as defined herein). References herein to fiscal years are to the fiscal years of Holdings, which end on the Friday closest to January 31 in the following calendar year. Accordingly, fiscal years 1992, 1993, 1994, 1995 and 1996 ended on January 29, 1993, January 28, 1994, February 3, 1995, February 2, 1996 and January 31, 1997. All fiscal years for which financial information is included in this Prospectus had 52 weeks, except fiscal 1994 which had 53 weeks.

The Company

Overview

The Company is a leading mail order and store retailer of women's and men's apparel, shoes and accessories operating primarily under the J. Crew(R) brand name. Under the direction of Emily Woods and Arthur Cinader (co-founders of the J. Crew brand and father and daughter), the Company has built a strong and widely recognized brand name known for its timeless styles at price points that the Company believes represent exceptional product value. The J. Crew image has been built and reinforced over its 14-year history through the circulation of more than one-half billion catalogs that use magazine-quality photography to portray a classic American perspective and aspirational lifestyle. Many of the original items introduced by the Company in the early 1980s (such as the rollneck sweater, weathered chino, barn jacket and pocket tee) were instrumental in establishing the J. Crew brand and continue to be core product offerings. The Company has capitalized on the strength of the J. Crew brand to provide customers with clothing to meet more of their lifestyle needs, including casual, career and sport. The strength of the J. Crew brand is demonstrated by a compound annual growth rate of 15.4% in J. Crew brand revenues between fiscal 1992 and fiscal 1996.

The J. Crew merchandising strategy emphasizes timeless styles and a broad assortment of high-quality products designed to provide customers with one-stop shopping opportunities at attractive prices. J. Crew catalogs and retail stores offer a full line of men's and women's basic durables (casual weekend wear), sport, swimwear, accessories and shoes, as well as the more tailored men's sportswear and women's "Classics" lines. Approximately 60% of the Company's J. Crew brand sales are derived from its core offerings of durables and sport clothing, the demand for which the Company believes is stable and resistant to changing fashion trends. The Company believes that the J. Crew image and merchandising strategy appeal to college-educated, professional and affluent customers who, in the Company's experience, have demonstrated strong brand loyalty and a tendency to make repeat purchases.

J. Crew products are distributed exclusively through the Company's catalog and store distribution channels. The Company currently circulates over 76 million J. Crew catalogs per annum and owns and operates 49 J. Crew retail stores and 42 J. Crew factory outlets. In addition, J. Crew products are distributed through 67 free-standing and shop-in-shop stores in Japan under a licensing agreement with Itochu Corporation and Itochu Fashion System Co., Ltd. (collectively "Itochu").

In addition to the Company's J. Crew operations, the Company operates Clifford & Wills, Inc. ("C&W"), a mail order and factory store women's apparel business that targets older, more conservative customers, and Popular Club Plan, Inc. ("PCP"), a direct selling catalog merchandiser of consumer branded goods through a "club" concept that provides credit sales to lower-income customers. During the twelve-month period ended November 7, 1997, the Company generated total revenues of \$836.7 million, of which \$583.1 million or approximately 70% was attributable to the J. Crew brand, and total Adjusted EBITDA of \$47.6 million. See "--Summary Unaudited Pro Forma Consolidated Financial Data" for a description of Adjusted EBITDA.

Business Strengths

Since its inception, the Company has pursued a consistent operating strategy which has resulted in the following key strengths and distinguishing characteristics:

- Strong, Recognizable Brand. The Company has created a recognizable, differentiated brand image reflecting an American aspirational lifestyle. The J. Crew image is consistently communicated through all aspects of the Company's business including its merchandise design, distinctive catalogs and retail store environment. The Company's high-quality products, strong brand image and customer loyalty have resulted in strong gross margins and retail sales productivity.
- Premium Quality Products and Distinctive Designs at Attractive Price Points. The Company offers premium quality products reflecting a classic, clean aesthetic with a consistent design philosophy. All J. Crew products are designed by an in-house team of 15 designers led by Emily Woods. The Company believes that its in-house design capabilities ensure a coherent set of product offerings from season to season and year to year that provides significant value to its customers through attractive price points.
- Proven Retail Store Concept. J. Crew retail stores historically have generated strong and stable operating results. The Company believes that its sales per gross square foot are among the highest in its industry segment. J. Crew retail stores open during all of fiscal 1996 generated the following key operating statistics:

	Fiscal 1996 ----- Average -----
Sales per gross square foot	\$575
Store contribution margin	25.9%

Approximately 81% of the J. Crew retail stores that were open during all of 1996 had store contribution margins above 20%. All of the Company's J. Crew retail stores are profitable and have generated positive store contribution within the first twelve months of operation. In addition, J. Crew retail stores opened since fiscal 1992 have averaged approximately \$550 in sales per gross square foot and 23.0% store contribution margin during the first twelve months of operation.

- Broad and Stable Product Offering. The Company's J. Crew product offering includes a broad array of items which appeal to a diverse customer base, spanning gender and age segments. A substantial portion of the J. Crew product line consists of basic durables, such as chinos, jeans and sweaters, which are not significantly modified from year to year and, in the Company's opinion, are resistant to shifting fashion trends. In 1996, sales of durables and sport clothing represented approximately 60% of total J. Crew brand revenues, having increased at a compound annual growth rate of approximately 15% since 1992.
- Synergistic Distribution Channels. The Company believes that the concurrent operation of the J. Crew mail order business and J. Crew retail stores provides a distinct advantage in the development of the J. Crew brand. Visibility and exposure of the brand are enhanced by the broad circulation of catalogs, aiding the expansion of the retail concept. In addition, the Company believes that the retail operations help attract first-

time "walk-by" customers to the catalog and improve the salability of fit-critical items through the catalog. The Company further believes that diversified distribution channels help insulate the Company against circumstances and events uniquely affecting one distribution channel or the other.

- Tightly Controlled Distribution. By selling products exclusively through J. Crew catalogs, J. Crew retail stores and J. Crew factory outlets, the Company is able to present and maintain a consistent brand image, control the presentation and pricing of its merchandise, provide a higher level of customer service, and closely monitor retail sell-through. The Company believes that tight control over the distribution of its products provides competitive advantages over other branded apparel retailers that distribute their goods through department stores.

Opportunities

The Company believes that substantial opportunities exist to enhance revenue and profitability by increasing efficiencies in the J. Crew mail order business and by expanding the J. Crew retail business.

- Implement Tactical Cost Savings Opportunities. While the Company believes that gross margins in the J. Crew mail order business have been strong, overall catalog profitability has been depressed by unnecessarily high operating expenses. The Company has identified a number of tactical cost savings that could be realized without affecting the Company's franchise or brand image. Included in Adjusted EBITDA are \$7.5 million in estimated annual savings resulting from actions implemented prior to the Recapitalization, including the recent renegotiation of its catalog vendor contract, selected headcount and net payroll reductions and the insourcing of certain photography functions. The Company has identified approximately \$7 million of further potential annual savings that are not reflected in Adjusted EBITDA, including process efficiencies currently under review, reduction of the Base Book trim size, installation of automatic sorting equipment and consolidation of the J. Crew and C&W New York corporate offices. The Company believes these additional cost savings could be implemented by mid-1998.
- Realize Cash Flow Increases Through J. Crew Mail Order SKU Rationalization. The Company's J. Crew mail order product offerings have increased from 33,000 stock-keeping units ("SKUs") in 1992 to 66,000 SKUs in 1996, partly as a result of a proliferation in colors and sizes offered. In recent season-to-season testing on the Company's swimwear and chino lines, the Company reduced SKUs by 33% and 45%, respectively, while posting category revenue increases. By eliminating slower-selling colors and sizes from its core offering, the Company believes it will be better able to forecast demand, increase fill rates and increase inventory turns, resulting in enhanced operating cash flow.
- Increase J. Crew Catalog Productivity Through Increased Segmentation. The Company believes that it circulates fewer and less-targeted catalog editions than its competitors, and that catalog productivity (as measured by initial demand per page circulated) could be enhanced by more precise targeting of catalog mailings through further customer segmentation. For example, in 1996 the Company introduced a Women's catalog which to date has achieved 20% higher initial demand per page circulated than that of the Company's primary mailing, the Base Book. To further enhance its segmentation efforts, the Company has recently introduced a College catalog and plans to introduce a Swimwear catalog in 1998. From 1997 to 1998, the increased segmentation is expected to result in an approximately 5% increase in the number of catalogs circulated, but an approximately 8% decrease in total pages circulated. Reductions in total pages circulated should result in a decrease in paper and postage expenses.
- Expand J. Crew Retail Operations. The Company's J. Crew retail store expansion strategy is to continue to increase its market share in its existing markets and to penetrate new markets. The Company expects to open a total of 12 stores in fiscal 1997, ten of which were open as of November 7, 1997. The Company currently intends to open 12 to 20 stores annually, funded primarily by cash flow generated from operations, resulting in approximately 100 stores in operation by the end of fiscal 2000. Historically, new stores have cost the

Company an average of \$1.5 million in building improvements and working capital expenditures and have experienced a pay-back period of approximately 20 months. The Company has established an administrative infrastructure that it believes is sufficient to accommodate the retail expansion plan, providing the Company with additional margin improvement through overhead leverage. In addition, the Company believes, with a store base of only 49 stores, its markets are underpenetrated relative to its competitors and enough suitable locations exist nationwide to accommodate its expansion plan.

Holdings was incorporated under the laws of the State of New York in 1988 as a successor to Popular Services, Inc. Holdings maintains its principal executive office at 770 Broadway, New York, New York, 10003, and its telephone number is (212) 209-2500.

J. Crew (R) is a registered trademark of a wholly-owned subsidiary of the Company.

The Recapitalization

Holdings, its shareholders (the "Shareholders") and TPG Partners II, L.P. ("TPG Partners II") entered into a Recapitalization Agreement dated as of July 22, 1997, as amended as of October 17, 1997 (the "Recapitalization Agreement") which provided for the recapitalization of Holdings (the "Recapitalization"). Pursuant to the Recapitalization Agreement, Holdings purchased from the Shareholders all outstanding shares of Holdings' capital stock, other than shares having an implied value of \$11.1 million, almost all of which continues to be held by Emily Woods, and which represented 14.8% of the outstanding shares of common stock, par value \$.01 per share, of Holdings ("Holdings Common Stock") immediately following the transaction.

In connection with the Recapitalization, Holdings organized Operating Corp and immediately prior to the consummation of the Recapitalization, Holdings transferred substantially all of its assets and liabilities to Operating Corp. Holdings' current operations are, and future operations are expected to continue to be, limited to owning the stock of Operating Corp. Operating Corp has repaid substantially all of the Company's funded debt obligations existing immediately before the consummation of the Recapitalization (the "Debt Retirement"). At October 17, 1997, the aggregate principal amount of the Company's funded indebtedness was \$186.0 million, consisting of \$85.0 million aggregate principal amount of Senior Notes (the "Retired Senior Notes"), \$99.0 million outstanding under a seasonal revolving credit facility (the "Retired Bank Credit Facility") and \$2.0 million outstanding under an industrial revenue bond (the "Industrial Revenue Bond").

Cash funding requirements for the Recapitalization (which was consummated on October 17, 1997) totalled \$559.7 million (including \$99.0 million in seasonal borrowings) and were satisfied through the purchase by TPG Partners II and investors of an aggregate \$188.9 million in Holdings' equity securities together with an aggregate \$330.8 million in borrowings and \$40.0 million in proceeds from the securitization of certain of the Company's accounts receivable, as follows: (i) the purchase by TPG Partners II, its affiliates and other investors of shares of Holdings' Common Stock (representing 85.2% of the outstanding shares) for \$63.9 million (the "Holdings Common Equity Contribution"); (ii) the purchase by TPG Partners II, its affiliates and other investors of \$125.0 million in liquidation value of preferred stock issued by Holdings (the "Holdings Preferred Stock"); (iii) gross proceeds of \$75.3 million from the issuance and sale by Holdings of the Old Debentures (the "Offering"); (iv) \$150.0 million from the gross proceeds of the offering by Operating Corp of the 10 3/8% Senior Subordinated Notes due 2007 (the "Operating Corp Senior Subordinated Notes") in a separate offering in which the Initial Purchasers acted as initial purchasers; (v) \$40.0 million in proceeds from the securitization of certain of the Company's accounts receivable (the "Securitization"); (vi) \$70.0 million of borrowings under a senior secured term loan facility among Operating Corp, Holdings, the several lenders from time to time parties thereto (collectively, the "Banks"), The Chase Manhattan Bank, as administrative and collateral agent ("Chase"), and Donaldson, Lufkin & Jenrette Securities Corporation, as syndication agent ("DLJ"), (the "Term Loan Facility"); and (vii) \$35.6 million of borrowings under a senior secured revolving credit facility among the Operating Corp, Holdings, the Banks, Chase and DLJ (the "Revolving Credit Facility" and, together with the Term Loan Facility, the "Bank Facilities"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital

Resources," "Description of the New Debentures," "Description of Operating Corp Indebtedness" and "Capital Stock of Holdings and Operating Corp."

The Recapitalization was accounted for as a recapitalization transaction for accounting purposes. The repurchase of shares from the Shareholders, the Debt Retirement, the Holdings Common Equity Contribution, the issuance and sale by Holdings of the Holdings Preferred Stock and the Old Debentures, the borrowing by Operating Corp of funds under the Bank Facilities and the Securitization and the issuance and sale by Operating Corp of the Operating Corp Senior Subordinated Notes were effected in connection with the "Recapitalization."

The following table sets forth the sources and uses of funds in connection with the Recapitalization as it occurred on October 17, 1997:

	(dollars in thousands)
Sources:	
Revolving Credit Facility (1).....	\$ 35,559
Term Loan Facility.....	70,000
Securitization (2).....	40,000
Operating Corp Senior Subordinated Notes..	150,000
Debentures issued in the Offering.....	75,257
Holdings Preferred Stock.....	125,000
Holdings Common Equity Contribution.....	63,891

Total Sources.....	\$ 559,707
	=====
Uses:	
Repurchase of Holdings' Capital Stock.....	\$ 316,688
Repayment of Retired Bank Credit Facility (3)	99,212
Repayment of Retired Senior Notes (4).....	93,104
Retirement of Industrial Revenue Bond.....	1,963
Transaction Fees and Expenses and Other Transacayments(5)	48,740

Total Uses.....	\$ 559,707
	=====

- (1) Reflects borrowings to partially refinance seasonal borrowings outstanding under the Retired Bank Credit Facility. Giving effect to the Recapitalization, average outstanding borrowings under the Revolving Credit Facility would have been \$12.2 million during the twelve months ended November 7, 1997. Excludes letters of credit issued to facilitate international merchandise purchases, which had an aggregate outstanding balance of \$37.4 million as of November 7, 1997. See the notes to the "Unaudited Pro Forma Statements of Operations" included herein.
- (2) The Company securitized approximately \$40 million of PCP consumer loan installment receivables off-balance sheet simultaneously with the consummation of the Recapitalization pursuant to a facility arranged by affiliates of the Initial Purchasers. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" and "Description of Other Issuer Indebtedness--Receivables Facility."
- (3) Includes \$0.2 million of accrued interest.
- (4) Includes a \$5.8 million make-whole premium in connection with the prepayment of the Retired Senior Notes and \$2.3 million of accrued interest.
- (5) Includes Holdings' expenses, management bonuses, financial advisory, consulting and other professional fees and deferred financing costs. See "Certain Relationships and Related Transactions."

Texas Pacific Group

Texas Pacific Group ("TPG") was founded by David Bonderman, James G. Coulter and William S. Price, III in 1992 to pursue public and private investment opportunities through a variety of methods, including leveraged buyouts, recapitalizations, joint ventures, restructurings and strategic public securities investments. The principals of TPG operate TPG Partners, L.P. and TPG Partners II, both Delaware limited partnerships with aggregate committed capital of over \$3.2 billion. Among TPG's investments are branded consumer products companies Beringer Wine Estates, Del Monte Foods Company and Ducati Motor. Other TPG portfolio companies include America West Airlines, Belden & Blake Corporation, Favorite Brands International, Paradyne, Virgin Entertainment and Vivra Specialty Partners. In addition, the principals of TPG led the \$9 billion reorganization of Continental Airlines in 1993.

The Exchange Offer

Registration Rights Agreement.....	The Old Debentures were issued on October 17, 1997 to the Initial Purchasers. The Initial Purchasers placed the Old Debentures with institutional investors. In connection therewith, the Issuer and the Initial Purchasers entered into the Registration Rights Agreement, providing, among other things, for the Exchange Offer. See "The Exchange Offer."
The Exchange Offer.....	New Debentures are being offered in exchange for an equal principal amount of Old Debentures. As of the date hereof, \$142,000,000 aggregate principal amount at maturity of Old Debentures is outstanding. Old Debentures may be tendered only in integral multiples of \$1,000 of principal amount at maturity.
Resale of New Debentures.....	Based on interpretations by the staff of the Commission, as set forth in no-action letters issued to third parties, including the Exchange Offer No-Action Letters, the Issuer believes that the New Debentures issued pursuant to the Exchange Offer may be offered for resale, resold or otherwise transferred by each holder thereof (other than a broker-dealer who acquires such New Debentures directly from the Issuer for resale pursuant to Rule 144A under the Securities Act or any other available exemption under the Securities Act and other than any holder that is an "affiliate" (as defined under Rule 405 of the Securities Act) of the Issuer) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Debentures are acquired in the ordinary course of such holder's business and such holder is not engaged in, and does not intend to engage in, a distribution of such New Debentures and has no arrangement with any person to participate in a distribution of such New Debentures. By tendering the Old Debentures in exchange for New Debentures, each holder, other than a broker-dealer, will represent to the Issuer that: (i) it is not an affiliate (as defined in Rule 405 under the Securities Act) of the Issuer; (ii) it is not a broker-dealer tendering Old Debentures acquired for its own account directly from the Issuer; (iii) any New Debentures to be received by it were acquired in the ordinary course of its business; and (iv) it is not engaged in, and does not intend to engage in, a

distribution of such New Debentures
and has no

arrangement or understanding to participate in a distribution of the New Debentures. If a holder of Old Debentures is engaged in or intends to engage in a distribution of the New Debentures or has any arrangement or understanding with respect to the distribution of the New Debentures to be acquired pursuant to the Exchange Offer, such holder may not rely on the applicable interpretations of the staff of the Commission and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any secondary resale transaction. Each Participating Broker-Dealer that receives New Debentures for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such New Debentures. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a Participating Broker-Dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a Participating Broker-Dealer in connection with resales of New Debentures received in exchange for Old Debentures where such Old Debentures were acquired by such Participating Broker-Dealer as a result of market-making activities or other trading activities. The Issuer has agreed that it will make this Prospectus available to any Participating Broker-Dealer for a period of time not to exceed one year after the date on which the Exchange Offer is consummated for use in connection with any such resale. See "Plan of Distribution." To comply with the securities laws of certain jurisdictions, it may be necessary to qualify for sale or register the New Debentures prior to offering or selling such New Debentures. The Issuer has agreed, pursuant to the Registration Rights Agreement and subject to certain specified limitations therein, to register or qualify the New Debentures for offer or sale under the securities or "blue sky" laws of such jurisdictions as may be necessary to permit consummation of the Exchange Offer.

Consequences of
Failure to Exchange Old
Debentures.....

Upon consummation of the Exchange Offer, subject to certain exceptions, holders of Old Debentures who do not exchange their Old Debentures for New Debentures in the Exchange Offer will no longer be entitled to registration rights and will not be able to offer or sell their Old Debentures, unless such Old Debentures are subsequently registered under the Securities Act (which, subject to certain limited exceptions, the Issuer will have no obligation to do), except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. See "Risk Factors--Risk Factors Relating to the Debentures--Consequences of Failure to Exchange" and "The Exchange Offer--Terms of the Exchange Offer."

Expiration Date..... 5:00 p.m., New York City time, on _____, 1998 (30 calendar days following the commencement of the Exchange Offer), unless the Exchange Offer is extended, in which case the term "Expiration Date" means the latest date and time to which the Exchange Offer is extended.

Yield and Interest on the New Debentures.....13 1/8% (computed on a semi-annual bond equivalent basis) calculated from October 17, 1997. The New Debentures will accrete at a rate of 13 1/8%, compounded semi-annually, to an aggregate principal amount of \$142.0 million by October 15, 2002. Cash interest will not accrue on the New Debentures prior to October 15, 2002. Commencing October 15, 2002, cash interest on the New Debentures will accrue and be payable, at a rate of 13 1/8% per annum, semi-annually in arrears on each April 15 and October 15.

Conditions to the Exchange Offer The Exchange Offer is not conditioned upon any minimum principal amount of Old Debentures being tendered for exchange. However, the Exchange Offer is subject to certain customary conditions, which may, under certain circumstances, be waived by the Issuer. See "The Exchange Offer--Conditions." Except for the requirements of applicable federal and state securities laws, there are no federal or state regulatory requirements to be complied with or obtained by the Issuer connection in with the Exchange Offer.

Procedures for Tendering Old Debentures Each holder of Old Debentures wishing to accept the Exchange Offer must complete, sign and date the Letter of Transmittal, in accordance with the instructions contained herein and therein, and mail or otherwise deliver such Letter of Transmittal, together with the Old Debentures to be exchanged and any other required documentation to the Exchange Agent (as defined herein) at the address set forth herein or effect a tender of Old Debentures pursuant to the procedures for book-entry transfer as provided for herein. See "The Exchange Offer--Procedures for Tendering" and "--Book Entry Transfer."

Guaranteed Delivery Procedures..... Holders of Old Debentures who wish to tender their Old Debentures and whose Old Debentures are not immediately available or who cannot deliver their Old Debentures and a properly completed Letter of Transmittal or any other documents required by the Letter of Transmittal to the Exchange Agent prior to the Expiration Date may tender their Old Debentures according to the guaranteed delivery procedures set forth in "The Exchange Offer--Guaranteed Delivery Procedures."

Withdrawal Rights..... Tenders of Old Debentures may be withdrawn at any time prior to 5:00 p.m., New York City time, on the Expiration Date. To withdraw a tender of Old Debentures, a written notice of withdrawal must be received by the Exchange Agent at its address set forth herein under "The Exchange

Offer--Exchange Agent" prior to 5:00 p.m.,
New York City time, on the Expiration Date.

Acceptance of Old
Debentures and
Delivery of

New Debentures Subject to certain conditions, any and all Old Debentures that are properly tendered in the Exchange Offer prior to 5:00 p.m., New York City time, on the Expiration Date will be accepted for exchange. The New Debentures issued pursuant to the Exchange Offer will be delivered promptly following the Expiration Date. See "The Exchange Offer--Terms of the Exchange Offer."

Certain Tax Considerations... The exchange of New Debentures for Old Debentures should not be considered a sale or exchange or otherwise a taxable event for Federal income tax purposes. See "Certain U.S. Federal Tax Considerations."

Exchange Agent..... State Street Bank and Trust Company is serving as exchange agent (the "Exchange Agent") in connection with the Exchange Offer.

Fees and Expenses..... All expenses incident to consummation of the Exchange Offer and compliance with the Registration Rights Agreement will be borne by the Issuer. See "The Exchange Offer--Fees and Expenses."

Use of Proceeds..... There will be no cash proceeds payable to the Issuer from the issuance of the New Debentures pursuant to the Exchange Offer. See "Use of Proceeds."

Summary of Terms of New Debentures

The Exchange Offer relates to the exchange of up to \$142,000,000 aggregate principal amount at maturity of Old Debentures for up to an equal aggregate principal amount of New Debentures. The New Debentures will be entitled to the benefits of the same Indenture that governs the Old Debentures and that will govern the New Debentures. The form and terms of the New Debentures are the same in all material respects as the form and terms of the Old Debentures, except that the New Debentures have been registered under the Securities Act and therefore will not bear legends restricting the transfer thereof. See "Description of the New Debentures."

Maturity Date..... October 15, 2008.

Yield and Interest Rate and Payment Dates..... 13 1/8% (computed on a semi-annual bond equivalent basis) calculated from October 17, 1997. The New Debentures will accrete at a rate of 13 1/8%, compounded semi-annually, to an aggregate principal amount of \$142.0 million by October 15, 2002. Cash interest will not accrue on the New Debentures prior to October 15, 2002. Commencing October 15, 2002, cash interest on the New Debentures will accrue and be payable, at a rate of 13 1/8% per annum, semi-annually in arrears on each April 15 and October 15.

Optional Redemption..... The New Debentures will be redeemable at the option of Holdings, in whole or in part, at any time on or after October 15, 2002, in cash at the redemption prices set forth herein, plus accrued and unpaid interest and Liquidated Damages (as defined herein), if any, thereon to the redemption date. In addition, at any time prior to October 15, 2000, Holdings may, at its option, on any one or more occasions, redeem up to 35% of the aggregate principal amount at maturity of the New Debentures originally issued at a redemption price equal to 113.125% of the Accreted Value (as defined herein) thereof, plus Liquidated Damages, if any, with the net cash proceeds of one or more Equity Offerings (as defined herein); provided that at least 65% of the original aggregate principal amount at maturity of the New Debentures will remain outstanding immediately following each such redemption. See "Description of the New Debentures--Optional Redemption."

Repurchase at the Option of Holders..... Upon the occurrence of a Change of Control (as defined herein) each holder of New Debentures will have the right to require Holdings to repurchase all or any part of such holder's New Debentures at a price in cash equal to 101% of the Accreted Value thereof plus Liquidated Damages, if any, thereon to the date of repurchase in the case of any such purchase on or after October 15, 2002. Holdings does not have, and may not in the future have, any assets other than common stock of Operating Corp (which will be pledged to secure Operating Corp's obligations under the Bank Facilities). As a result, Holdings' ability to repurchase all or any part of the New Debentures upon the occurrence of a Change of Control will be dependent upon the receipt of dividends or other distributions from its direct and indirect subsidiaries. The Bank Facilities and the Operating Corp Senior Subordinated Notes restrict Operating Corp from paying

dividends and making any

other distributions to Holdings. If Holdings is unable to obtain dividends from Operating Corp sufficient to permit the repurchase of the New Debentures or does not refinance such indebtedness, Holdings will likely not have the financial resources to purchase New Debentures upon the occurrence of a Change of Control. In any event, there can be no assurance that Holdings' subsidiaries will have the resources available to pay any such dividend or make any such distribution. Furthermore, the Bank Facilities provide that certain change of control events will constitute a default thereunder and the Operating Corp Senior Subordinated Notes provide that, in the event of a Change of Control, Operating Corp will be required to offer to repurchase the Operating Corp Senior Subordinated Notes at the price specified therefore. Holdings' failure to make a Change of Control Offer (as defined herein) when required or to purchase tendered New Debentures when tendered would constitute an Event of Default (as defined herein) under the Indenture. See "Description of the New Debentures--Repurchase at the Option of Holders."

Ranking..... The New Debentures will be senior obligations of Holdings. The New Debentures will rank pari passu in right of payment with all future senior indebtedness of Holdings and will rank senior in right of payment to all future subordinated indebtedness of Holdings. The New Debentures will be effectively subordinated to all liabilities of Holdings' subsidiaries. See "Description of the New Debentures."

Covenants..... The Indenture contains certain covenants that, among other things, will limit the ability of Holdings and its Restricted Subsidiaries (as defined herein) to: incur indebtedness and issue preferred stock, repurchase Capital Stock (as defined herein) and certain indebtedness, engage in transactions with affiliates, incur or suffer to exist certain liens, pay dividends or other distributions, make certain investments, sell assets and engage in certain mergers and consolidations. See "Description of the New Debentures--Certain Covenants."

Use of Proceeds

There will be no cash proceeds payable to the Issuer from the issuance of the New Debentures pursuant to the Exchange Offer. The proceeds from the sale of the Old Debentures were used to fund the Recapitalization. See "Use of Proceeds" and "The Recapitalization."

Risk Factors

See "Risk Factors" for a discussion of certain factors that should be considered in evaluating an investment in the Debentures.

Summary Unaudited Pro Forma Consolidated Financial Data

The following table sets forth summary unaudited pro forma consolidated statement of operations data of Holdings for the fiscal year ended January 31, 1997, for the forty weeks ended November 8, 1996 and November 7, 1997 and for the twelve months ended November 7, 1997 and summary unaudited historical and pro forma consolidated balance sheet data at November 7, 1997. The pro forma consolidated statement of operations data for the fiscal year ended January 31, 1997, for the forty weeks ended November 8, 1996 and November 7, 1997, and for the twelve months ended November 7, 1997 give effect to the Recapitalization as if it had occurred at February 3, 1996. The data presented below should be read in conjunction with the Consolidated Financial Statements, including the related Notes thereto, included herein, the other financial information included herein, "Unaudited Pro Forma Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Fiscal Year Ended ----- January 31, 1997 -----	Forty Weeks Ended ----- November ----- 8, 1996 7, 1997 -----		Twelve Months ----- Ended ----- November 7, 1997 -----
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(dollars in thousands)

Statement of

Operations Data:

Revenues (1)	\$ 806,193	\$ 536,743	\$ 564,958	\$ 834,408
Gross profit	377,474	244,687	254,093	386,880
Selling, general and administrative expenses	350,105	241,582	254,544	363,067
Income from operations	27,369	3,105	(451)	23,813
Net income (loss)(2)...	(4,301)	(13,691)	(40,138)	(30,748)

Other Data:

Depreciation and amortization	\$ 10,541	\$ 7,625	\$ 10,191	\$ 13,107
Net capital expenditures (3)				
New store openings ..	10,894	6,903	15,253	19,244
Other	11,587	8,044	13,012	16,555
Total net capital expenditures	\$ 22,481	\$ 14,947	\$ 28,265	\$ 35,799
Ratio of earnings to fixed charges (7).....	-	-	-	-

Credit Ratios:

Total average debt (6)	\$ 307,494
Adjusted EBITDA (4) ...	47,590
Cash interest expense (5)	22,941
Total interest expense (5)	36,304
Adjusted EBITDA/cash interest expense	2.1
Adjusted EBITDA/total interest expense	1.3
Total average debt/Adjusted EBITDA (6)	6.5

Cash flows from operating activities...	\$ (1,837)
Cash flows from investing activities...	\$(35,799)
Cash flows from financing activities...	\$ 39,990

(1) Revenues include the pro forma effect of the Securitization of accounts receivable. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" and "Description of Other Issuer Indebtedness-- Receivables Facility."

(2) In the forty weeks ended November 7, 1997, the Company recognized an extraordinary loss of \$4.5 million, net of income tax benefit, related to the early retirement of debt. The Company also recognized expenses of \$19.9 million in connection with the Recapitalization.

- (3) Capital expenditures are net of proceeds from construction allowances.
- (4) EBITDA represents income (loss) before extraordinary item and cumulative effect of accounting changes, income taxes, interest expense, depreciation and amortization and expenses of \$19.9 million incurred in connection with the Recapitalization. The Issuer believes that EBITDA provides useful information regarding the Company's ability to service its debt; however, holders tendering Old Debentures in

the Exchange Offer should consider the following factors in evaluating such measures: EBITDA and related measures (i) should not be considered in isolation, (ii) are not measures of performance calculated in accordance with generally accepted accounting principles ("GAAP"), (iii) should not be construed as alternatives or substitutes for income from operations, net income or cash flows from operating activities in analyzing the Company's operating performance, financial position or cash flows (in each case, as determined in accordance with GAAP) and (iv) should not be used as indicators of the Company's operating performance or measures of its liquidity. Additionally, because all companies do not calculate EBITDA and related measures in a uniform fashion, the calculations presented in this Prospectus may not be comparable to other similarly titled measures of other companies.

Adjusted EBITDA is defined as EBITDA, as defined above, revised to reflect management's estimate of certain cost savings and cost eliminations implemented prior to the Recapitalization. Holders tendering Old Debentures in the Exchange Offer should consider that Adjusted EBITDA (i) should not be considered in isolation, (ii) is not a measure of performance calculated in accordance with GAAP, (iii) should not be construed as alternatives or substitutes for income from operations, net income or cash flows from operating activities in analyzing the Company's operating performance, financial position or cash flows (in each case, as determined in accordance with GAAP) and (iv) should not be used as indicators of the Company's operating performance or measures of its liquidity. See notes to "Unaudited Pro Forma Statements of Operations" included herein. This information should be read in conjunction with the Unaudited Pro Forma Consolidated Financial Data and the related Notes thereto included herein.

Twelve Months Ended

November 7, 1997

(dollars in thousands)

Historical EBITDA	\$40,970
Recapitalization pro forma adjustments:	
Loss on Securitization of accounts receivable	(2,250)
Cost savings and cost eliminations implemented prior to the Recapitalization:	
Renegotiation of catalog vendor contract(a)	2,100
Headcount and net payroll reductions(b)	4,550
Insourcing of photography shop(c)	820
Non-recurring severance(d)	1,400

Total adjustments	6,620

Adjusted EBITDA	\$47,590
	=====

- (a) Reflects the recent renegotiation of the Company's catalog vendor contract. The adjustment represents the difference between the amounts previously expensed for such items and the amounts which are expected to be expensed under the terms of the new contract.
- (b) Represents compensation savings as a result of the termination of certain positions.
- (c) Represents the estimated cost savings from bringing in-house certain photography functions that were previously performed by outside vendors.
- (d) Reflects non-recurring severance associated with the termination of certain managers.

(5) Cash interest expense excludes, and total interest expense includes, non-cash interest in respect of the Debentures.

(6) For purposes of computing the ratio of total average debt to Adjusted EBITDA, total average debt on a pro forma basis as of November 7, 1997 reflects average outstanding balances under the Revolving Credit Facility of \$12.2 million during the twelve months ended November 7, 1997 (giving effect to the Recapitalization), \$70.0 million in aggregate principal amount of indebtedness under the Term Loan Facility and \$150.0 million in aggregate principal amount of the Operating Corp

Senior Subordinated Notes and \$75.3 million in initial aggregate principal amount of the Debentures issued in the Offering. See the notes to "Unaudited Pro Forma Statements of Operations" included herein.

- (7) For purposes of computing the pro forma ratio of earnings to fixed charges, pro forma earnings include income before income taxes (adjusted for pro forma interest expense), extraordinary items, cumulative effect of accounting changes and non-recurring expenses incurred in connection with the Recapitalization of \$19.9 million in the periods ended November 7, 1997, plus pro forma fixed charges. Pro forma fixed charges consist of pro forma interest expense and one-third of rental expense (deemed by management to be representative of the interest factor of rental payments). Pro forma earnings were inadequate to cover pro forma fixed charges by \$8,441 and \$2,452 for the twelve months ended November 7, 1997 and January 31, 1997, respectively, and by \$25,589 and \$19,600 for the forty weeks ended November 7, 1997 and November 8, 1996, respectively.

Summary Consolidated Financial And Operating Data

The following table sets forth summary consolidated historical financial, operating and other data of Holdings. The summary financial data for each of the five fiscal years ended January 31, 1997 are derived from the Consolidated Financial Statements of Holdings, which have been audited by Deloitte & Touche LLP, independent auditors. The summary financial data for the forty weeks ended November 8, 1996 and November 7, 1997 have been derived from the Unaudited Condensed Consolidated Financial Statements of the Company and include, in the opinion of management, all adjustments necessary to present fairly the data for such periods. The results for the forty weeks ended November 7, 1997 are not necessarily indicative of the results to be expected for the fiscal year ending January 30, 1998 or for any future period. The data presented below should be read in conjunction with the Consolidated Financial Statements, including the related Notes thereto included herein, the other financial information included herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Fiscal Year Ended				Forty Weeks Ended		
	January 29,	January 28,	February 3,	February 2,	January 31,	Nov. 8,	Nov. 7,
	1993	1994	1995	1996	1997	1996	1997
	----	----	----	----	----	----	----
	(dollars in thousands, except per square foot data)				(unaudited)		
Financial Data:							
Revenues	\$ 571,047	\$ 646,972	\$ 737,725	\$ 745,909	\$ 808,843	\$538,781	\$566,596
Gross profit	267,120	292,083	343,652	346,241	380,124	246,725	255,731
Selling, general and administrative expenses	238,730	265,857	311,468	327,672	348,305	240,197	253,159
Income from operations	28,390	26,226	32,184	18,569	31,819	6,528	2,572
Net income (loss) (1) ..	14,019	12,019	14,919	6,450	12,549	(573)	(28,598)
Operating Data:							
Revenues:							
J. Crew mail order ...	\$ 201,463	\$ 199,954	\$ 247,272	\$ 274,653	\$ 289,772	\$165,936	\$157,840
J. Crew retail	72,906	108,650	135,726	134,959	167,957	110,399	140,574
J. Crew factory	38,563	49,253	62,626	79,203	94,579	70,266	75,965
J. Crew licensing	--	1,900	3,269	3,975	3,817	3,729	2,968
Total J. Crew brand ..	312,932	359,757	448,893	492,790	556,125	350,330	377,347
Other divisions (2) ..	258,115	287,215	288,832	253,119	252,718	188,451	189,249
Total	\$ 571,047	\$ 646,972	\$ 737,725	\$ 745,909	\$ 808,843	\$538,781	\$566,596
EBITDA(3):							
J. Crew mail order ...	\$ 12,840	\$ 11,980	\$ 24,345	\$ 16,831	\$ 17,524	\$ (1,924)	\$ (8,225)
J. Crew retail	6,720	5,055	13,333	15,194	16,847	8,800	8,177
J. Crew factory.	3,660	1,797	1,653	(66)	2,876	3,395	3,244
J. Crew licensing	(51)	1,239	2,422	2,820	2,467	2,797	2,285
Total J. Crew brand ..	23,169	20,071	41,753	34,779	39,714	13,068	5,481
Other divisions (2) ..	11,611	12,941	(1,459)	(5,938)	2,646	1,085	7,282
Total	\$ 34,780	\$ 33,012	\$ 40,294	\$ 28,841	\$ 42,360	\$ 14,153	\$ 12,763

Other Data:

Cash flows from operating activities	\$22,400	\$1,467	\$1,774	\$(7,849)	\$16,497	\$(42,766)	\$(61,110)
Cash flows from investing activities	\$(14,965)	\$(11,086)	\$(13,467)	\$(14,640)	\$(22,481)	\$(14,947)	\$(28,265)
Cash flows from financing activities	\$638	\$5,020	\$6,763	\$17,763	\$(413)	\$54,822	\$95,255
J. Crew Mail Order:							
Number of catalogs circulated (in thousand\$)	\$ 56,983	62,547	\$ 61,187	\$ 67,519	\$ 76,087	\$ 53,942	\$ 53,977
Number of pages circulated (in millions)	6,576	6,965	8,277	10,198	9,827	6,341	6,293
J. Crew Retail:							
Sales per gross square foot (4)	\$ 622	\$ 559	\$ 594	\$ 533	\$ 551	NM	NM
Store contribution margin (5)	24.0%	18.7%	22.7%	25.5%	25.4%	NM	NM
Number of stores open at end of period	18	28	29	31	39	39	49
Comparable store sales change (6)	22.0%	(8.0)%	6.9%	(6.0)%	4.5%	4.0%	(6.1)%
Depreciation and amortization	\$ 6,390	\$ 6,786	\$ 8,110	\$ 10,272	\$ 10,541	\$ 7,625	\$ 10,191
Net capital expenditures (7)							
New store openings ..	5,519	2,789	2,804	6,009	10,894	6,903	15,253
Other	9,446	8,297	10,663	8,631	11,587	8,044	13,012
	-----	-----	-----	-----	-----	-----	-----
Total net capital expenditures	\$14,965	\$11,086	\$ 13,467	\$ 14,640	\$ 22,481	\$14,947	\$ 28,265
	=====	=====	=====	=====	=====	=====	=====

(1) In fiscal 1995, Holdings changed its method of accounting for catalog costs and for merchandise inventories and recognized an increase in net income from the aggregate cumulative effect of such accounting changes, net of income taxes, of \$2.6 million. In the same year, Holdings recognized an extraordinary loss of \$1.7 million, net of income tax benefit, related to the early retirement of debt. See Notes 11 and 12 of Notes to Consolidated Financial Statements.

During the forty weeks ended November 7, 1997, the Company recognized an extraordinary loss of \$4.5 million, net of income tax benefit, related to the early retirement of debt and incurred other expenses of \$19.9 million in connection with the Recapitalization.

(2) Includes the Company's PCP and C&W divisions and finance charge income derived from PCP installment sales.

(3) EBITDA represents income (loss) before extraordinary items and cumulative effect of accounting changes plus income taxes, interest expense, depreciation and amortization and expenses of \$19.9 million incurred in connection with the Recapitalization. The Company believes that EBITDA provides useful information regarding the Company's ability to service its debt; however, EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles and should not be considered as a substitute for net income as an indicator of the Company's operating performance or cash flow as a measure of liquidity. Holders tendering Old Debentures in the Exchange Offer should consider the following factors in evaluating such measures: EBITDA and related measures (i) should not be considered in isolation, (ii) are not measures of performance calculated in accordance with GAAP, (iii) should not be construed as alternatives or substitutes for income from operations, net income or cash flows from operating activities in analyzing the Company's operating performance, financial position or cash flows (in each case, as determined in accordance with GAAP) and (iv) should not be used as indicators of the Issuer's operating performance or measures of its liquidity. Additionally, because all companies do not calculate EBITDA and related measures in a uniform fashion, the calculations presented in this Prospectus may not be comparable to other similarly titled measures of other companies.

(4) Sales per gross square foot is the result of dividing annualized net retail sales for the period (reflecting

adjustments based on management estimates of the impact of opening stores in different periods during the year) by gross square footage at the end of each fiscal period.

- (5) Store contribution margin is computed as gross profit less in-store operating expenses divided by sales.
- (6) Comparable store sales includes stores that have been open for one full twelve-month period.
- (7) Capital expenditures are net of proceeds from construction allowances.

RISK FACTORS

Prospective holders of the New Debentures should carefully review the information contained and incorporated by reference in this Prospectus and should particularly consider the following matters:

Risk Factors Relating to the Company

Substantial Leverage; Liquidity; Stockholders' Deficit

In connection with the Recapitalization, the Company incurred a significant amount of additional indebtedness, the debt service obligations of which could, under certain circumstances, have material consequences to security holders of Holdings, including holders of New Debentures. The Company had \$342.3 million of indebtedness and its stockholders' deficit was \$194.7 million as of November 7, 1997, as compared to indebtedness of \$142.2 million and stockholders' equity of \$89.1 million as of November 8, 1996. In addition, subject to the restrictions in the Bank Facilities, the Operating Corp Senior Subordinated Notes and the Debentures, the Company may incur additional senior or other indebtedness from time to time to finance acquisitions or capital expenditures or for other general corporate purposes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." On a pro forma basis for the forty week period ended November 7, 1997, Holdings has estimated the increase in cash interest expense from borrowings used to finance the Recapitalization to be \$7.0 million and the increase in non-cash interest expense from the amortization of original issue discount of the Debentures and debt issuance costs relating to such borrowings to be \$9.3 million. See "Unaudited Pro Forma Consolidated Financial Data." The Bank Facilities and the Senior Subordinated Note Indenture restrict, but do not prohibit, the payment of dividends by Operating Corp to Holdings to finance the payment of interest on the Debentures. See "Description of Operating Corp Indebtedness" and "Description of the New Debentures."

The level of the Company's indebtedness could have important consequences to the holders of the Debentures, including, but not limited to, the following: (i) the Company's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired; (ii) a significant portion of the Company's cash flow from operations must be dedicated to the payment of principal and interest on its indebtedness, thereby reducing the funds available to the Company for its operations; (iii) significant amounts of the Company's borrowings will bear interest at variable rates, which could result in higher interest expense in the event of increases in interest rates; (iv) the Indenture, the Senior Subordinated Note Indenture (as defined herein) and the Bank Facilities contain financial and restrictive covenants, the failure to comply with which may result in an event of default which, if not cured or waived, could have a material adverse effect on the Company; (v) the indebtedness outstanding under the Bank Facilities is secured and matures prior to the maturity of the Debentures; (vi) the Company may be substantially more leveraged than certain of its competitors, which may place the Company at a competitive disadvantage; and (vii) the Company's substantial degree of leverage may limit its flexibility to adjust to changing market conditions, reduce its ability to withstand competitive pressures and make it more vulnerable to a downturn in general economic conditions or its business. See "Description of the New Debentures" and "Description of Other Issuer Indebtedness."

The Company's ability to make scheduled payments or to refinance its debt obligations will depend upon its future financial and operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, certain of which are beyond its control. There can be no assurance that the Company's operating results, cash flow and capital resources will be sufficient for payment of its indebtedness in the future. In the absence of such operating results and resources, the Company could face substantial liquidity problems and might be required to dispose of material assets or operations to meet its debt service and other obligations, and there can be no assurance as to the timing of such sales or the proceeds that the Company could realize therefrom. In addition, because significant amounts of the Company's borrowings will bear interest at variable rates, an increase in interest rates could adversely affect, among other things, the Company's ability to meet its debt service obligations. If the Company is unable to service its indebtedness, it may take actions such as

reducing or delaying planned expansion and capital expenditures, selling assets, restructuring or refinancing its indebtedness or seeking additional equity capital. There can be no assurance that any of these actions could be effected on satisfactory terms, if at all.

Dependence on Key Personnel

Emily Woods' leadership in the areas of design, merchandising and operations has been a significant factor in the Company's success. The loss of Ms. Woods' services could have a material adverse affect on the Company. The Company also depends on the services of key members of its design and merchandising teams and other key officers and employees. While the Company believes that it has developed depth and experience among its key personnel, there can be no assurance that the Company's business would not be affected if one or more of these individuals left the Company.

The Company has entered into an employment agreement with Ms. Woods and has employment agreements with certain other employees. See "Management--Employment Agreements and Other Compensation Arrangements." The Company maintains key person life insurance on Ms. Woods.

Fashion and Apparel Industry Risks

The Company believes that its success depends in substantial part on its ability to originate and define product and fashion trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. There can be no assurance that the Company will continue to be successful in this regard. The Company attempts to reduce the risks of changing fashion trends and product acceptance by devoting a substantial portion of its product line to basic durables which are not significantly modified from year to year. Nevertheless, if the Company misjudges the market for its products, it may be faced with significant excess inventories for some products and missed opportunities with others.

The industry in which the Company operates is cyclical. Purchases of apparel and related merchandise tend to decline during recessionary periods and also may decline at other times. There can be no assurance that the Company will be able to maintain its historical growth in revenues or earnings, or remain profitable in the future. Further, a recession in the general economy or uncertainties regarding future economic prospects could affect consumer spending habits and have an adverse effect on the Company's results of operations.

Increases in Costs of Mailing, Paper and Printing

Postal rate increases and paper and printing costs affect the cost of the Company's catalog and promotional mailings. The Company relies on discounts from the basic postal rate structure, such as discounts for bulk mailings and sorting by zip code and carrier routes. The Company is not a party to any long-term contracts for the supply of paper. The Company's cost of paper has fluctuated significantly during the past three fiscal years, and its future paper costs are subject to supply and demand forces external to its business. The Company's average cost per hundred-pound weight of paper was \$39, \$58 and \$52 during fiscal 1994, 1995 and 1996, respectively, and \$52 and \$41 during the forty weeks ended November 8, 1996 and November 7, 1997, respectively. Consequently, there can be no assurance that the Company will not be subject to an increase in paper costs. Although the Company has recently entered into a new four-year contract for the printing of its catalogs, the contract offers no assurance that the Company's printing costs will not increase following expiration of the contract. Future increases in postal rates or paper or printing costs would have a negative impact on the Company's earnings to the extent that the Company is unable to pass such increases on directly to customers or offset such increases by raising selling prices or by implementing more efficient mailings. See "Business--J. Crew Brand--J. Crew Mail Order--Catalog Creation and Production."

Reliance on Foreign Sourcing

In 1996, approximately 50% of the J. Crew brand and Clifford & Wills merchandise was sourced from independent foreign factories located primarily in the Far East, and many of the Company's domestic vendors import a substantial portion of their merchandise from abroad. The Company has no long-term merchandise supply

contracts and many of its imports are subject to existing or potential duties, tariffs or quotas that may limit the quantity of certain types of goods which may be imported into the United States from countries in those regions. The Company competes with other companies for production facilities and import quota capacity. The Company's business is also subject to a variety of other risks generally associated with doing business abroad, such as political instability (including issues concerning the future of Hong Kong following the transfer of Hong Kong to The People's Republic of China on July 1, 1997), currency and exchange risks and potential local issues. The Company's future performance will be subject to such factors, which are beyond its control, and there can be no assurance that such factors would not have a material adverse effect on the Company's results of operations. See "Business--General--Sourcing, Production and Quality."

The Company requires its licensing partners and independent manufacturers to operate in compliance with applicable laws and regulations. While the Company's internal and vendor operating guidelines promote ethical business practices, the Company does not control such manufacturers or their labor practices. The violation of labor or other laws by an independent manufacturer of the Company or by one of the Company's licensing partners, or the divergence of an independent manufacturer's or licensing partner's labor practices from those generally accepted as ethical in the United States, could have a material adverse effect on the Company's financial condition and results of operations.

Uncertainty Relating to Ability to Implement J. Crew Retail Growth Strategy

The Company intends to expand its base of J. Crew retail stores as part of its growth strategy. There can be no assurance that this strategy will be successful. The actual number and type of such stores to be opened and their success will be dependent upon a number of factors, including, among other things, the ability of the Company to manage such expansion and hire and train qualified associates, the availability of suitable store locations and the negotiation of acceptable lease terms for new locations and upon lease renewals for existing locations. There is no assurance that the Company will be able to open and operate new stores on a timely or profitable basis. In 1996, net of construction allowances, the Company spent \$10.9 million for new stores and remodeling and anticipates spending approximately \$16.2 million in 1997 and \$23.0 million in 1998 for such capital expenditures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--J. Crew Brand--J. Crew Retail--New Store Expansion." The Company believes that the opening of J. Crew retail stores has diverted some customer revenues from the J. Crew mail order operations. There can be no assurance that future store openings will not continue to have such an effect.

Seasonality

The Company experiences seasonal fluctuations in its revenues and operating income, with a disproportionate amount of the Company's revenues and a majority of its income from operations typically realized during the fourth quarter of its fiscal year. Revenues and income from operations are generally weakest during the first and second quarters of the Company's fiscal year. The Company's quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of new store openings and of catalog mailings, and the revenues contributed by new stores, merchandise mix and the timing and level of markdowns. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-- Seasonality."

Competition

All aspects of the Company's businesses are highly competitive. The Company competes primarily with other catalog operations, specialty brand retailers, department stores, and mass merchandisers engaged in the retail sale of men's and women's apparel, accessories, footwear and general merchandise. The Company believes that the principal bases upon which it competes are quality, design, efficient service, selection and price. However, certain of the Company's competitors are larger and have greater financial, marketing and other resources than the Company, and there can be no assurance that the Company will be able to compete successfully with them in the future.

Cautionary Statement Concerning Ability to Achieve Anticipated Cost Savings and Forward-Looking Statements

Management of the Company estimates that approximately \$7 million of annualized net cost savings (in addition to the \$7.5 million in estimated annual savings included in Adjusted EBITDA) could be achieved by mid- 1998, including process efficiencies, reduction of the Base Book trim size, installation of an automated sortation system at the Company's Lynchburg, Virginia distribution center and relocation of C&W to the J. Crew corporate headquarters office. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview," "Business--Overview" and "--Opportunities." The cost savings estimates were prepared solely by members of the management of the Company. The estimates necessarily reflect numerous assumptions as to future sales levels and other operating results, the availability of funds for capital expenditures as well as general industry and business conditions and other matters, many of which are beyond the control of the Company. Other estimates were based on a management consensus as to what levels of purchasing and similar efficiencies should be achievable by an entity the size of the Company. All of these forward-looking statements are based on estimates and assumptions made by management of the Company, which although believed to be reasonable, are inherently uncertain and difficult to predict. There can be no assurance that the savings anticipated in these forward-looking statements will be achieved. In addition, there can be no assurance that unforeseen costs and expenses or other factors will not offset the estimated cost savings or other components of the Company's plan in whole or in part.

The information contained herein contains forward-looking statements that involve a number of risks and uncertainties. A number of factors could cause actual results, performance, achievements of the Company, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, the competitive environment in the apparel industry in general and in the Company's specific market areas; changes in prevailing interest rates and the availability of and terms of financing to fund the anticipated growth of the Company's business; inflation; changes in costs of goods and services; economic conditions in general and in the Company's specific market areas; demographic changes; changes in or failure to comply with federal, state and/or local government regulations; liability and other claims asserted against the Company; changes in operating strategy or development plans; the ability to attract and retain qualified personnel; the ability to control inventory levels; the significant indebtedness of the Company; labor disturbances; the ability to negotiate agreements with suppliers on favorable terms; changes in the Company's capital expenditure plan; and other factors referenced herein. In addition, such forward-looking statements are necessarily dependent upon assumptions, estimates and dates that may be incorrect or imprecise and involve known and unknown risks, uncertainties and other factors. Forward-looking statements regarding revenues and EBITDA are particularly subject to a variety of assumptions, some or all of which may not be realized. Accordingly, any forward-looking statements included herein do not purport to be predictions of future events or circumstances and may not be realized. Forward-looking statements can be identified by, among other things, the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "pro forma," "anticipates" or "intends" or the negative of any thereof, or other variations thereon or comparable terminology, or by discussions of strategy or intentions. Given these uncertainties, prospective purchasers of New Debentures are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligations to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Risk Factors Relating to the Debentures

Limitation on Access to Cash Flow of Subsidiaries; Holding Company Structure

Holdings is a holding company, and its ability to pay interest on the Debentures is dependent upon the receipt of dividends from its direct and indirect subsidiaries. Holdings does not have and may not in the future have, any assets other than the common stock of Operating Corp. Operating Corp and its subsidiaries are parties to the Bank Facilities and an indenture relating to the Operating Corp Senior Subordinated Notes (the "Senior Subordinated Note Indenture"), each of which imposes substantial restrictions on Operating Corp's ability to pay dividends to Holdings. Any payment of dividends will be subject to the satisfaction of certain financial conditions set forth in the Senior Subordinated Note Indenture and the Bank Facilities. The ability of Operating Corp and its subsidiaries to comply with

such conditions in the Senior Subordinated Note Indenture may be affected by events

that are beyond the control of Holdings. The breach of any such conditions could result in a default under the Senior Subordinated Note Indenture, the Term Loan Facility and/or the Revolving Credit Facility, and in the event of any such default, the holders of the Operating Corp Senior Subordinated Notes or the lenders under the Bank Facilities could elect to accelerate the maturity of all the Operating Corp Senior Subordinated Notes or the loans under such facilities. If the maturity of the Operating Corp Senior Subordinated Notes or the loans under the Bank Facilities were to be accelerated, all such outstanding debt would be required to be paid in full before Operating Corp or its subsidiaries would be permitted to distribute any assets or cash to Holdings. There can be no assurance that the assets of Holdings would be sufficient to repay all of such outstanding debt and to meet its obligations under the Indenture. Future borrowings by Operating Corp can be expected to contain restrictions or prohibitions on the payment of dividends by Operating Corp and its subsidiaries to Holdings. In addition, under Delaware law, a subsidiary of a company is permitted to pay dividends on its capital stock, only out of its surplus or, in the event that it has no surplus, out of its net profits for the year in which a dividend is declared or for the immediately preceding fiscal year. Surplus is defined as the excess of a company's total assets over the sum of its total liabilities plus the par value of its outstanding capital stock. In order to pay dividends in cash, Operating Corp must have surplus or net profits equal to the full amount of the cash dividend at the time such dividend is declared. In determining Operating Corp's ability to pay dividends, Delaware law permits the Board of Directors of Operating Corp to revalue its assets and liabilities from time to time to their fair market values in order to create surplus. Holdings cannot predict what the value of its subsidiaries' assets or the amounts of their liabilities will be in the future and, accordingly, there can be no assurance that Holdings will be able to pay its debt service obligations on the Debentures. In addition, indebtedness outstanding under the Bank Facilities will be secured by substantially all of the assets of the Company (including the common stock of Operating Corp).

As a result of the holding company structure of Holdings, the Holders of the Debentures will be structurally junior to all creditors of the Holdings' subsidiaries, except to the extent that Holdings is itself recognized as a creditor of any such subsidiary, in which case the claims of Holdings would still be subordinate to any security in the assets of such subsidiary and any indebtedness of such subsidiary senior to that held by Holdings. In the event of insolvency, liquidation, reorganization, dissolution or other winding-up of the Holdings' subsidiaries, Holdings will not receive any funds available to pay to creditors of the subsidiaries. As of November 7, 1997, the aggregate amount of indebtedness and other obligations of Holdings' subsidiaries (including trade payables and other accrued liabilities) was \$508.3 million.

Restrictive Debt Covenants

The Indenture, the Senior Subordinated Note Indenture and the Bank Facilities contain a number of significant covenants that, among other things, restrict the ability of the Company to dispose of assets, incur additional indebtedness, prepay other indebtedness (including the Debentures) or amend certain debt instruments pay dividends, create liens on assets, enter into sale and leaseback transactions, make investments, loans or advances, make acquisitions, engage in mergers or consolidations, change the business conducted by the Issuer or its subsidiaries, make capital expenditures or engage in certain transactions with affiliates and otherwise restrict certain corporate activities. In addition, under the Bank Facilities, Operating Corp is required to comply with specified financial ratios and tests, including minimum interest coverage ratios, leverage ratios below a specified maximum, minimum net worth levels and minimum ratios of inventory to senior debt. See "Description of the New Debentures" and "Description of Operating Corp Indebtedness."

The Company's ability to comply with such agreements may be affected by events beyond its control, including prevailing economic, financial and industry conditions. The breach of any of such covenants or restrictions could result in a default under the Bank Facilities, the Senior Subordinated Note Indenture and/or the Indenture, which would permit the senior lenders, or the holders of the Operating Corp Senior Subordinated Notes and/or the Debentures, or both, as the case may be, to declare all amounts borrowed thereunder to be due and payable, together with accrued and unpaid interest, and the commitments of the senior lenders to make further extensions of credit under the Bank Facilities could be terminated. If the Company were unable to repay its indebtedness to its senior lenders, such lenders could proceed against the collateral securing such indebtedness as described under "Description of Operating Corp Indebtedness."

Fraudulent Transfer Statutes

Under federal or state fraudulent transfer laws, if a court were to find that, at the time the Debentures were issued, the Issuer (i) issued the Debentures with the intent of hindering, delaying or defrauding current or future creditors or (ii) (A) received less than fair consideration or reasonably equivalent value for incurring the indebtedness represented by the Debentures, and (B)(1) was insolvent or was rendered insolvent by reason of the issuance of the Debentures, (2) was engaged, or about to engage, in a business or transaction for which its assets were unreasonably small or (3) intended to incur, or believed (or should have believed) it would incur, debts beyond its ability to pay as such debts mature (as all of the foregoing terms are defined in or interpreted under such fraudulent transfer statutes), such court could avoid all or a portion of the Issuer's obligations to the holders of Debentures, subordinate the Issuer's obligations to the holders of the Debentures to other existing and future indebtedness of the Issuer, the effect of which would be to entitle such other creditors to be paid in full before any payment could be made on the Debentures, and take other action detrimental to the holders of the Debentures, including in certain circumstances, invalidating the Debentures. In that event, there would be no assurance that any repayment on the Debentures would ever be recovered by the holders of the Debentures.

The definition of insolvency for purposes of the foregoing considerations varies among jurisdictions depending upon the federal or state law that is being applied in any such proceeding. However, the Issuer generally would be considered insolvent at the time it incurs the indebtedness constituting the Debentures if (i) the fair market value (or fair saleable value) of its assets is less than the amount required to pay its total existing debts and liabilities (including the probable liability on contingent liabilities) as they become absolute or matured or (ii) it is incurring debts beyond its ability to pay as such debts mature. There can be no assurance as to what standard a court would apply in order to determine whether the Issuer was "insolvent" as of the date the Debentures were issued, or that, regardless of the method of valuation, a court would not determine that the Issuer was insolvent on that date. Nor can there be any assurance that a court would not determine, regardless of whether the Issuer was insolvent on the date the Debentures were issued, that the payments constituted fraudulent transfers on another ground. To the extent that proceeds from the sale of the Debentures are used to make a distribution to a stockholder on account of the ownership of capital stock, a court may find that the Issuer did not receive fair consideration or reasonably equivalent value for the incurrence of the indebtedness represented by the Debentures.

Based upon financial and other information currently available to it, management of the Issuer believes that the Debentures are being incurred for proper purposes and in good faith and that the Issuer (i) is solvent and will continue to be solvent after issuing the Debentures, (ii) will have sufficient capital for carrying on its business after such issuance, and (iii) will be able to pay its debts as they mature. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Possible Inability to Repurchase Debentures upon Change of Control

In the event of a Change of Control, each holder of Debentures will have the right to require Holdings to repurchase all or any part of such holder's Debentures at the offer price specified therefore in the Indenture. Holdings does not have, and may not in the future have, any assets other than common stock of Operating Corp (which is pledged to secure Operating Corp's obligations under the Bank Facilities). As a result, Holdings' ability to repurchase all or any part of the Debentures upon the occurrence of a Change of Control will be dependent upon the receipt of dividends or other distributions from its direct and indirect subsidiaries. The Bank Facilities and the Operating Corp Senior Subordinated Notes restrict Operating Corp from paying dividends and making any other distributions to Holdings. If Holdings does not obtain dividends from Operating Corp sufficient to permit the repurchase of the Debentures or does not refinance such indebtedness, Holdings will likely not have the financial resources to purchase Debentures upon the occurrence of a Change of Control. In any event, there can be no assurance that Holdings' subsidiaries will have the resources available to pay such dividend or make any such distribution. Furthermore, the Bank Facilities provide that certain change of control events will constitute a default thereunder, and the Operating Corp Senior Subordinated Notes provide that, in the event of a Change of Control, Operating Corp will be required to offer to repurchase the Operating Corp Senior Subordinated Notes at the price specified therefore. Holdings' failure to make a Change of Control offer when required or to purchase tendered

Debentures when tendered would constitute an Event of Default under the Indenture. See "Description of the New Debentures" and "Description of Other Issuer Indebtedness."

Original Issue Discount; Limitations on Holders' Claims

Under the Indenture, in the event of an acceleration of the maturity of the Debentures upon the occurrence of an Event of Default, the holders of the Debentures, which have been (in the case of Old Debentures) or will be (in the case of New Debentures) issued at a substantial original issue discount from their principal amount at maturity, may be entitled to recover only the amount which may be declared due and payable pursuant to the Indenture, which will be less than the principal amount at maturity of such Debentures. See "Description of the Debentures-- Events of Default and Remedies."

If a bankruptcy case is commenced by or against Holdings under the Bankruptcy Code (as defined herein), the claim of a holder of Debentures with respect to the principal amount thereof may be limited to an amount equal to the sum of (i) the issue price of the Debentures and (ii) that portion of the original issue discount (as determined on the basis of such issue price) which is not deemed to constitute "unmature interest" for purposes of the Bankruptcy Code. Accordingly, holders of the Debentures under such circumstances may, even if sufficient funds are available, receive a lesser amount than they would be entitled to under the express terms of the Indenture. In addition, the same rules as those used for the calculation of original issue discount under federal income tax law and, accordingly, a holder might be required to recognize gain or loss in the event of a distribution related to such a bankruptcy case.

Consequences of Failure to Exchange

Holders of Old Debentures who do not exchange their Old Debentures for New Debentures pursuant to the Exchange Offer will continue to be subject to the restrictions on transfer of such Old Debentures as set forth in the legend thereon as a consequence of the issuance of the Old Debentures pursuant to exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the Old Debentures may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. The Issuer does not currently anticipate that it will register the Old Debentures under the Securities Act. To the extent that Old Debentures are tendered and accepted in the Exchange Offer, the trading market for untendered and tendered but unaccepted Old Debentures could be adversely affected.

Absence of Public Market

The Old Debentures have been designated as eligible for trading in the PORTAL market. Prior to this Exchange Offer, there has been no public market for the New Debentures. If such a market were to develop, the New Debentures could trade at prices that may be higher or lower than their principal amount. The Issuer does not intend to apply for listing of the New Debentures on any securities exchange or for quotation of the New Debentures on The Nasdaq Stock Market's National Market or otherwise. The Initial Purchasers have previously made a market in the Old Debentures, and the Issuer has been advised that the Initial Purchasers currently intend to make a market in the New Debentures, as permitted by applicable laws and regulations, after consummation of the Exchange Offer. The Initial Purchasers are not obligated, however, to make a market in the Old Debentures or the New Debentures and any such market making activity may be discontinued at any time without notice at the sole discretion of the Initial Purchasers. There can be no assurance as to the liquidity of the public market for the New Debentures or that any active public market for the New Debentures will develop or continue. If an active public market does not develop or continue, the market price and liquidity of the New Debentures may be adversely affected.

THE RECAPITALIZATION

The Shareholders, Holdings and TPG Partners II are parties to the Recapitalization Agreement which provided for the recapitalization of Holdings. Pursuant to the Recapitalization Agreement, Holdings purchased from the Shareholders all outstanding shares of Holdings' capital stock, other than shares having an implied value of \$11.1 million, almost all of which continues to be held by Emily Woods, and which represented 14.8% of the outstanding shares of Holdings' Common Stock immediately following the transaction.

In connection with the Recapitalization, Holdings organized Operating Corp and immediately prior to the consummation of the Recapitalization, Holdings transferred substantially all of its assets and liabilities to Operating Corp. Holdings' current operations are, and future operations are expected to be, limited to owning the stock of Operating Corp. Operating Corp repaid substantially all of the Company's funded debt obligations existing immediately before the consummation of the Recapitalization. At October 17, 1997, the aggregate principal amount of the Company's funded indebtedness was \$186.0 million, consisting of the Retired Senior Notes, the Retired Bank Credit Facility and the Industrial Revenue Bond.

Cash funding requirements for the Recapitalization (which was consummated on October 17, 1997) totalled \$559.7 million (including \$99.0 million in seasonal borrowings) and were satisfied through the purchase by TPG Partners II and investors of an aggregate \$188.9 million in Holdings' equity securities together with an aggregate \$330.8 million in borrowings and \$40.0 million in proceeds from the Securitization, as follows: (i) the purchase by TPG Partners II, its affiliates and other investors of shares of Holdings' Common Stock (representing 85.2% of the outstanding shares) for \$63.9 million; (ii) the purchase by TPG Partners II, its affiliates and other investors of \$125.0 million in liquidation value of Holdings Preferred Stock; (iii) gross proceeds of \$75.3 million from the issuance and sale by Holdings of Holdings Senior Discount Debentures; (iv) \$150.0 million from the gross proceeds of the Offering; (v) \$40.0 million in proceeds from the Securitization; (vi) \$70.0 million of borrowings under the Term Loan Facility; and (vii) \$35.6 million of borrowings under the Revolving Credit Facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources," "Description of the New Debentures," "Description of Operating Corp Indebtedness" and "Capital Stock of Holdings and Operating Corp."

The Recapitalization was accounted for as a recapitalization transaction for accounting purposes. The repurchase of shares from the Shareholders, the Debt Retirement, the Holdings Common Equity Contribution, the issuance and sale by Holdings of the Holdings Preferred Stock and the Holdings Senior Discount Debentures, the borrowing by Operating Corp of funds under the Bank Facilities and the Securitization and the issuance and sale by Operating Corp of the Operating Corp Senior Subordinated Notes were effected in connection with the Recapitalization.

The following table summarizes the sources and uses of funds in the Recapitalization:

	(dollars in thousands)
Sources:	
Revolving Credit Facility (1).....	\$ 35,559
Term Loan Facility.....	70,000
Securitization (2).....	40,000
Operating Corp Senior Subordinated Notes..	150,000
Debentures issued in the Offering.....	75,257
Holdings Preferred Stock.....	125,000
Holdings Common Equity Contribution.....	63,891
Total Sources.....	\$559,707
	=====
Uses:	
Repurchase of Holdings' Capital Stock.....	\$ 316,688
Repayment of Retired Bank Credit Facility	(99,212)
Repayment of Retired Senior Notes (4).....	93,104
Retirement of Industrial Revenue Bond (5)	1,963
Transaction Fees and Expenses and Other Transaction Payments (6).....	48,740
Total Uses.....	\$559,707
	=====

- (1) Reflects borrowings to partially refinance seasonal borrowings outstanding under the Retired Bank Credit Facility. Giving effect to the Recapitalization, average outstanding borrowings under the Revolving Credit Facility would have been \$12.2 million during the twelve months ended November 7, 1997. Excludes letters of credit issued to facilitate international merchandise purchases, which had an aggregate outstanding balance of \$37.4 million as of November 7, 1997. See the notes to the "Unaudited Pro Forma Statements of Operations" included herein.
- (2) The Company securitized approximately \$40 million of PCP consumer loan installment receivables off-balance sheet simultaneously with the consummation of the Recapitalization pursuant to a facility arranged by affiliates of the Initial Purchasers. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" and "Description of Other Issuer Indebtedness--Receivables Facility."
- (3) The Retired Bank Credit Facility was in an aggregate principal amount of up to \$200.0 million, of which up to \$120.0 million was available for direct borrowings. Borrowings under the Retired Bank Credit Facility were prepaid in whole without penalty or premium and included accrued interest of \$0.2 million.
- (4) The Retired Senior Notes were prepaid in connection with the Recapitalization. The prepayment required the Issuer to pay a make-whole premium in the amount of \$5.8 million. Also included is \$2.3 million of accrued interest.
- (5) The industrial revenue bond was prepaid in whole without penalty or premium.
- (6) Includes Holdings' expenses, management bonuses, financial advisory, consulting and other professional fees and deferred financing costs. See "Certain Relationships and Related Transactions."

TEXAS PACIFIC GROUP

TPG was founded by David Bonderman, James G. Coulter and William S. Price, III in 1992 to pursue public and private investment opportunities through a variety of methods, including leveraged buyouts, recapitalizations, joint ventures, restructurings and strategic public securities investments. The principals of TPG operate TPG Partners, L.P. and TPG Partners II, both Delaware limited partnerships with aggregate committed capital of over \$3.2 billion. Among TPG's investments are branded consumer products companies Beringer Wine Estates, Del Monte Foods Company and Ducati Motor. Other TPG portfolio companies include America West Airlines, Belden & Blake Corporation, Favorite Brands International, Paradyne, Virgin Entertainment and Vivra Specialty Partners. In addition, the principals of TPG led the \$9 billion reorganization of Continental Airlines in 1993.

The principal executive office of TPG is located at 201 Main Street, Suite 2420, Fort Worth, Texas 76102 and its telephone number is (817) 871-4000.

USE OF PROCEEDS

There will be no cash proceeds payable to the Issuer from the issuance of the New Debentures pursuant to the Exchange Offer. The proceeds from the sale of the Old Debentures were used by Holdings to finance the Recapitalization.

CAPITALIZATION

The following table sets forth as of November 7, 1997 the actual unaudited capitalization of the Company. See "The Recapitalization," "Use of Proceeds," "Description of the New Debentures," "Description of Operating Corp Indebtedness" and "Capital Stock of Holdings and Operating Corp." This table should be read in conjunction with the "Selected Consolidated Financial Data" and "Unaudited Pro Forma Consolidated Financial Data" included elsewhere in this Prospectus.

As of November 7, 1997
Actual
(dollars in thousands)

Cash and cash equivalents.....	\$12,992
	=====
Debt:	
Revolving Credit Facility(1)	\$47,000
Term Loan Facility	70,000
10-3/8% Senior Subordinated Notes due 2007	150,000
13-1/8% Senior Discount Debentures	75,257
Total debt	342,257
14-1/2% Preferred Stock	125,000
Stockholders' deficit	(194,712)
Total capitalization	\$272,545
	=====

(1) Excludes letters of credit issued to facilitate international merchandise purchases, which had an aggregate outstanding balance of \$37.4 million as of November 7, 1997.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma consolidated financial data with respect to the Company (the "Unaudited Pro Forma Financial Data") is based on the historical Consolidated Financial Statements of the Company included elsewhere in this Prospectus adjusted to give effect to the Recapitalization. The Unaudited Pro Forma Statements of Operations give effect to the Recapitalization as if it had occurred on February 3, 1996. The Recapitalization and the related adjustments are described in the accompanying notes. The pro forma adjustments are based upon preliminary estimates and certain assumptions that management of the Company believes are reasonable in the circumstances. In the opinion of management, all adjustments have been made that are necessary to present fairly the pro forma data. Actual amounts could differ from those set forth below.

The Unaudited Pro Forma Financial Data should be read in conjunction with the notes included herewith, the Company's Consolidated Financial Statements and notes thereto as of February 2, 1996 and January 31, 1997 and for each of the fiscal years in the three-year period ended January 31, 1997, the Company's Unaudited Condensed Consolidated Financial Data as of November 7, 1997 and for the forty week periods ended November 7, 1997 and November 8, 1996, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus. The Unaudited Pro Forma Financial Data do not purport to represent what the Company's results of operations would have been had the Recapitalization occurred on the dates specified, or to project the Company's results of operations for any future period or date.

The unaudited supplemental data reflect (i) certain pro forma adjustments and (ii) management's estimates of certain cost savings and cost eliminations which management believes will be attained. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview."

UNAUDITED PRO FORMA STATEMENTS OF OPERATIONS

Twelve Months Ended November 7, 1997

Pro Forma Adjustments

	Historical	Operating Corp	Holdings	Pro Forma
(dollars in thousands)				
Revenues.....	\$836,658	\$ (2,250)(1)	\$ --	\$834,408
Cost of sales.....	447,528	--	--	447,528
Gross profit.....	389,130	(2,250)(1)	--	386,880
Selling, general and administrative expenses	361,267	1,800(5)	--	363,067
Income (loss) from operations	27,863	(4,050)	--	23,813
Interest expense:				
Non-cash interest expense	1,052	1,397(2)	10,914(7)	13,363
Cash interest expense.....	13,736	9,205(3)	--	22,941
Expenses incurred in connection with the Recapitalization	19,851	--	-- (8)	19,851
Provision (benefit) for income taxes	4,200	(6,007)(4)	(4,487)(4)	(6,904)
Extraordinary loss (net of income benefit)	4,500	--	-- (8)	4,500
Net income (loss).....	\$(15,476)	\$(8,645)	\$(6,627)	\$(30,748)

Pro Forma and

Supplemental

Historical	Adjustments	Adjusted
------------	-------------	----------

(dollars in thousands)

Supplemental Data:

Depreciation and amortization	\$13,107	\$ --	\$13,107
EBITDA.....	40,970	6,620(8)	47,590
Ratio of Adjusted EBITDA/cash interest expense (6)			2.1x
Ratio of Adjusted EBITDA/total interest expense (6)			1.3x
Ratio of total average debt/Adjusted EBITDA (9)			6.5x
Cash flows from operating activities.....	\$(1,837)		
Cash flows from investing activities.....	\$(35,799)		
Cash flows from financing activities.....	\$ 39,990		

Fiscal Year Ended January 31, 1997

Pro Forma Adjustments

Historical	Operating Corp	Holdings	ProForma	
(dollars in thousands)				
Revenues.....	\$808,843	(2,650)(1)	--	\$806,193
Cost of sales.....	428,719	--	--	428,719
Gross profit.....	380,124	(2,650)(1)	--	377,474
Selling, general and				

administrative expenses	348,305	1,800 (5)	--	350,105
Income (loss) from operations	31,819	(4,450)	--	27,369
Interest expense:				
Non-cash interest expense	401	1,485 (2)	10,422	12,308
Cash interest expense....	10,069	11,894 (3)	--	21,963
Provision (benefit) for income taxes	8,800	(7,310)(4)	(4,091)(4)	(2,601)
Net income (loss).....	\$12,549	(10,519)	\$(6,331)	(4,301)

See accompanying notes to the unaudited pro forma statements of operations.

UNAUDITED PRO FORMA STATEMENTS OF OPERATIONS

Forty Weeks Ended November 7, 1997

Pro Forma Adjustments

	Historical	Operating Corp	Holdings	Pro Forma
	-----	-----	-----	-----
		Corp		

		(dollars in thousands)		
Revenues.....	\$566,596	\$(1,638)(1)	\$ --	\$564,958
Cost of sales.....	310,865	--	--	310,865
	-----	-----	-----	-----
Gross profit.....	255,731	(1,638)(1)	--	254,093
Selling, general and administrative expenses	253,159	1,385 (5)	--	254,544
	-----	-----	-----	-----
Income (loss) from operations	2,572	(3,023)	--	(451)
Interest expense:				
Non-cash interest expense	962	1,052 (2)	8,274(7)	10,288
Cash interest expense....	10,907	6,966 (3)	--	17,873
Expenses incurred in connection with the Recapitalization.....	19,851	--	--	19,851
Provision (benefit) for income taxes	(5,050)	(4,527)(4)	(3,248)(4)	(12,825)
Extraordinary loss (net of income benefit)	4,500	--	--	4,500
	-----	-----	-----	-----
Net income (loss).....	<u>\$ (28,598)</u>	<u>(6,514)</u>	<u>\$(5,026)</u>	<u>\$(40,138)</u>
	=====	=====	=====	=====

Forty Weeks Ended November 8, 1996

Pro Forma Adjustments

	Historical	Operating Corp	Holdings	Pro Forma
	-----	-----	-----	-----
		(dollars in thousands)		
Revenues.....	\$538,781	\$(2,038)(1)	\$--	536,743
Cost of sales.....	292,056	--	--	292,056
	-----	-----	-----	-----
Gross profit.....	246,725	(2,038)(1)	--	244,687
Selling, general and administrative expenses	240,197	1,385 (5)	--	241,582
	-----	-----	-----	-----
Income (loss) from operations	6,528	(3,423)	--	3,105
Interest expense:				
Non-cash interest expense	311	1,140 (2)	7,782(7)	9,233
Cash interest expense....	7,240	9,655 (3)	--	16,895
Provision (benefit) for income taxes	(450)	(5,829)	(3,053)(4)	(9,332)
	-----	-----	-----	-----
Net income (loss).....	<u>\$ (573)</u>	<u>\$(8,389)(5)</u>	<u>\$(4,729)</u>	<u>(13,691)</u>

See accompanying notes to the unaudited pro forma statements of operations.

NOTES TO UNAUDITED PRO FORMA STATEMENTS OF OPERATIONS

- (1) Represents the estimated loss on the Securitization of accounts receivable. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" and "Description of Operating Corp Indebtedness--Receivables Facility."
- (2) Represents the net increase in non-cash interest expense relating to the amortization of debt issuance costs of Operating Corp of \$13.0 million relating to debt issued in connection with the Recapitalization.
- (3) Gives effect to the increase in estimated cash interest expense from the use of borrowings to finance the Recapitalization and future working capital requirements of Operating Corp:

	Fiscal Year Ended January 31, 1997 ----	Forty Weeks Ended ----- November 8, 1996 ----	November 7, 1997 ----	Twelve Months Ended November 7, 1997 ----
	(dollars in thousands)			
Interest on the Operating Corp Senior Subordinated Notes(a)	\$15,563	\$11,972	\$11,972	\$15,563
Interest on the Bank Facilities:				
Term Loan Facility(b)	5,600	4,308	4,308	5,600
Revolving Credit Facility(b)	--	--	978	978
Other	800	615	615	800
	-----	-----	-----	-----
Total	21,963	16,895	17,873	22,941
Less: amounts in historical statement of operations	10,069	7,240	10,907	13,736
	-----	-----	-----	-----
Adjustment to interest expense	\$11,894	\$9,655	\$6,966	\$ 9,205
	=====	=====	=====	=====

- (a) Interest is calculated at an effective interest rate of 10.375% for the period indicated.
- (b) Interest is calculated at an estimated weighted average effective interest rate of 8.0%.
- (c) Interest is based on the average of historical daily outstanding borrowings under the revolving credit facility during the period, reduced (without giving effect to any negative average daily balances) by \$63.5 million, reflecting the application of the proceeds of the Recapitalization. No interest income was assumed.

- (4) Estimated income tax effects of the pro forma adjustments at an effective tax rate of 41%.
- (5) Reflects non-cash compensation expense in connection with a grant of restricted stock.
- (6) Cash interest expense excludes, and total interest expense includes, non-cash interest in respect of the Debentures.
- (7) Represents the increase in non-cash interest expense relating to the amortization of original issue discount of the Debentures at an annual rate of 13.125%, compounded semi-annually, and amortization of debt issuance costs of Holdings of \$2.4 million.
- (8) Historical EBITDA is defined as income before extraordinary items and cumulative effect of accounting changes, interest expense, income tax expense, depreciation and amortization and expenses of \$19.9 million incurred in connection with the Recapitalization. The Issuer believes that EBITDA provides useful information regarding the Company's ability to service its debt; however holders tendering Old Debentures in the Exchange Offer should consider the following factors in evaluating such measures: EBITDA and related measures (i) should not be considered in isolation, (ii) are not measures of performance calculated in accordance with GAAP, (iii) should not be construed as alternatives or substitutes for income from operations, net income or cash flows from operating activities in analyzing the Company's operating performance, financial position or cash flows (in each case, as determined in accordance with GAAP) and (iv) should not be used as indicators of the

Company's operating performance or measures of its liquidity. Additionally, because

all companies do not calculate EBITDA and related measures in a uniform fashion, the calculations presented in this Prospectus may not be comparable to other similarly titled measures of other companies.

Adjusted EBITDA is defined as EBITDA, revised to reflect management's estimate of certain cost savings and cost eliminations implemented prior to the Recapitalization. The Issuer believes that EBITDA provides useful information regarding the Company's ability to service its debt; however, Adjusted EBITDA (i) should not be considered in isolation, (ii) is not a measure of performance calculated in accordance with GAAP, (iii) should not be construed as alternatives or substitutes for income from operations, net income or cash flows from operating activities in analyzing the Company's operating performance, financial position or cash flows (in each case, as determined in accordance with GAAP) and (iv) should not be used as indicators of the Company's operating performance or measures of its liquidity. The management estimates of cost savings and cost eliminations which are anticipated on a going-forward basis and which are reflected in Adjusted EBITDA are as set forth below:

Twelve Months Ended

November 7, 1997

(dollars in thousands)

Historical EBITDA	\$40,970
Recapitalization pro forma adjustments:	
Loss on Securitization of accounts receivable	(2,250)
Cost savings and cost eliminations implemented prior to the Recapitalization:	
Renegotiation of catalog vendor contract(a)	2,100
Headcount and net payroll reductions(b)	4,550
Insourcing of photography shop(c)	820
Non-recurring severance(d)	1,400

Total adjustments	6,620

Adjusted EBITDA	\$47,590
	=====

(a) Reflects the recent renegotiation of the Company's catalog vendor contract. The adjustment represents the difference between the amounts previously expensed for such items and the amounts which are expected to be expensed under the terms of the new contract.

(b) Represents compensation savings as a result of the termination of certain positions.

(c) Represents the estimated cost savings from bringing in-house certain photography functions that were previously performed by outside vendors.

(d) Reflects non-recurring severance associated with the termination of certain managers.

(9) For purposes of computing the ratio of total average debt to Adjusted EBITDA, total average debt on a pro forma basis as of November 7, 1997 reflects average outstanding balances under the Revolving Credit Facility of \$12.2 million during the twelve months ended November 7, 1997 (giving effect to the Recapitalization), \$70.0 million in aggregate principal amount of indebtedness under the Term Loan Facility, \$150.0 million in aggregate principal amount of Operating Corp Senior Subordinated Notes and \$75.3 million in initial aggregate principal amount of the Old Debentures. Actual daily outstanding borrowings under the revolving credit facility were reduced (without giving effect to any negative average daily balances) by \$63.5 million, reflecting the application of the proceeds of the Recapitalization, in computing average outstanding borrowings.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated historical financial, operating, other and balance sheet data of Holdings. The selected financial and balance sheet data for each of the five fiscal years ended January 31, 1997 are derived from the Consolidated Financial Statements of Holdings, which have been audited by Deloitte & Touche LLP, independent auditors. The selected financial data for the forty weeks ended November 8, 1996 and November 7, 1997 have been derived from the Holdings' Unaudited Condensed Consolidated Financial Statements and include, in the opinion of management, all adjustments necessary to present fairly the data for such periods. The results for the forty weeks ended November 7, 1997 are not necessarily indicative of the results to be expected for the fiscal year ending January 30, 1998 or for any future period. The data presented below should be read in conjunction with the Consolidated Financial Statements, including the related Notes thereto, included herein, the other financial information included herein, and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Fiscal Year Ended					Forty Weeks Ended	
	January 29,	January 28,	February 3,	February 2,	January 31,	November 8,	November 7,
	1993	1994	1995	1996	1997	1996	1997
	(dollars in thousands, except per square foot data)					(unaudited)	
Financial Data:							
Revenues.....	\$ 571,047	\$ 646,972	\$ 737,725	\$ 745,909	\$ 808,843	\$ 538,781	\$ 566,596
Cost of goods sold(1).....	303,927	354,889	394,073	399,668	428,719	292,056	310,865
Gross profit.....	267,120	292,083	343,652	346,241	380,124	246,725	255,731
Selling, general and administrative expenses ..	238,730	265,857	311,468	327,672	348,305	240,197	253,159
Income from operations	28,390	26,226	32,184	18,569	31,819	6,528	2,572
Interest expense-net.....	5,241	6,107	6,965	9,350	10,470	7,551	11,869
Expenses incurred-Recapitalization	--	--	--	--	--	--	19,851
for income taxes	9,130	8,100	10,300	3,700	8,800	(450)	(5,050)
Extraordinary item and cumulative effect of accounting changes(2).....	--	--	--	931	--	--	(4,500)
Net income (loss)(2).....	\$ 14,019	\$ 12,019	\$ 14,919	\$ 6,450	\$ 12,549	\$ (573)	\$ (28,598)
Operating Data:							
Revenues:							
J. Crew mail order.....	\$ 201,463	\$ 199,954	\$ 247,272	\$ 274,653	\$ 289,772	\$ 165,936	\$ 157,840
J. Crew retail.....	72,906	108,650	135,726	134,959	167,957	110,399	140,574
J. Crew factory.....	38,563	49,253	62,626	79,203	94,579	70,266	75,965
J. Crew licensing.....	--	1,900	3,269	3,975	3,817	3,729	2,968
Total J. Crew brand.....	312,932	359,757	448,893	492,790	556,125	350,330	377,347
Other divisions(3).....	258,115	287,215	288,832	253,119	252,718	188,451	189,249
Total.....	\$ 571,047	\$ 646,972	\$ 737,725	\$ 745,909	\$ 808,843	\$ 538,781	\$ 566,596
EBITDA(4):							
J. Crew mail order.....	\$ 12,840	\$ 11,980	\$ 24,345	\$ 16,831	\$ 17,524	\$ (1,924)	\$ (8,225)
J. Crew retail.....	6,720	5,055	13,333	15,194	16,847	8,800	8,177
J. Crew factory.....	3,660	1,797	1,653	(66)	2,876	3,395	3,244
J. Crew licensing.....	(51)	1,239	2,422	2,820	2,467	2,797	2,285
Total J. Crew brand.....	23,169	20,071	41,753	34,779	39,714	13,068	5,481
Other divisions(3).....	11,611	12,941	(1,459)	(5,938)	2,646	1,085	7,282
Total.....	\$ 34,780	\$ 33,012	\$ 40,294	\$ 28,841	\$ 42,360	\$ 14,153	\$ 12,763
Other Data:							
Cash flows from operating activities	\$22,400	\$1,467	\$1,774	\$(7,849)	\$16,497	\$(42,766)	\$(61,100)
Cash flows from investing activities	\$(14,965)	\$(11,086)	\$(13,467)	\$(14,640)	\$(22,481)	\$(14,947)	\$(28,265)
Cash flows from financing activities	\$638	\$5,020	\$6,763	\$17,763	\$(413)	\$54,822	\$ 95,225

J. Crew Mail Order:

Number of catalogs

circulated

(in thousands)

56,983

62,547

61,187

67,519

76,087

53,942

53,977

Number of pages

circulated

(in millions)

6,576

6,965

8,277

10,198

9,827

6,341

6,293

J. Crew Retail:

Sales per gross square foot(5)	\$ 622	\$ 559	\$ 594	\$ 533	\$ 551	NM	NM
Store contribution margin(6)	24.0%	18.7%	22.7%	25.5%	25.4%	NM	NM
Number of stores open at end of period ...	18	28	29	31	39	39	49
Comparable store sales change(7)	22.0%	(8.0)%	6.9%	(6.0)%	4.5%	4.0%	(6.1)%
Depreciation and amortization	\$ 6,390	\$ 6,786	\$ 8,110	\$ 10,272	\$ 10,541	\$ 7,625	\$ 10,191
Net capital expenditures(8)							
New store openings	5,519	2,789	2,804	6,009	10,894	6,903	15,253
Other	9,446	8,297	10,663	8,631	11,587	8,044	13,012
-----	-----	-----	-----	-----	-----	-----	-----
Total net capital expenditures	14,965	11,086	13,467	14,640	22,481	14,947	28,265
Ratio of earnings to fixed charges(9)	3.1x	2.5x	2.6x	1.5x	2.0x	-	-
Balance Sheet Data (at period end):							
Cash and cash equivalents .	\$ 27,784	\$ 23,185	\$18,255	\$ 13,529	\$ 7,132	\$ 10,638	\$ 12,992
Working capital(10)	56,864	75,391	96,437	118,964	125,327	167,908	173,341
Total assets	232,582	287,233	324,795	355,249	410,821	454,177	439,391
Total debt	56,783	61,803	69,566	87,329	87,092	142,151	342,257
Stockholders' equity (deficit)	53,584	66,221	82,041	89,633	102,006	89,060	(194,712)

(1) Includes buying and occupancy costs.

(2) In fiscal 1995, Holdings changed its method of accounting for catalog costs and for merchandise inventories and recognized an increase in net income from the aggregate cumulative effect of such accounting changes, net of income taxes, of \$2.6 million. In the same year, Holdings recognized extraordinary losses of \$1.7 million, net of income tax benefit, related to the early retirement of debt. See Notes 11 and 12 of Notes to Consolidated Financial Statements. In the forty weeks ended November 7, 1997, Holdings recognized an extraordinary loss of \$4.5 million net of income tax benefit related to the early retirement of debt.

(3) Includes the Company's PCP and C&W divisions and finance charge income derived from PCP installment sales.

(4) EBITDA represents income (loss) before extraordinary items and cumulative effect of accounting changes plus income taxes, interest expense, depreciation and amortization and expenses of \$19.9 million incurred in connection with the Recapitalization. The Company believes that EBITDA provides useful information regarding the Company's ability to service its debt; however, EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles and should not be considered as a substitute for net income as an indicator of the Company's operating performance or cash flow as a measure of liquidity. Holders tendering Old Debentures in the Exchange Offer should consider the following factors in evaluating such measures: EBITDA and related measures (i) should not be considered in isolation, (ii) are not measures of performance calculated in accordance with GAAP, (iii) should not be construed as alternatives or substitutes for income from operations, net income or cash flows from operating activities in analyzing the Company's operating performance, financial position or cash flows (in each case, as determined in accordance with GAAP) and (iv) should not be used as indicators of the Issuer's operating performance or measures of its liquidity. Additionally, because all companies do not calculate EBITDA and related measures in a uniform fashion, the calculations presented in this Prospectus may not be comparable to other similarly titled measures of other companies.

(5) Sales per gross square foot is the result of dividing annualized net retail sales for the period (reflecting adjustments based on management estimates of the impact of opening stores in different periods during the year) by gross square footage at the end of each fiscal period.

(6) Store contribution margin is computed as gross profit less in-store operating expenses divided by sales.

(7) Comparable store sales includes stores that have been open

for one full twelve-month period.

- (8) Capital expenditures are net of proceeds from construction allowances.
- (9) For purposes of computing the ratio of earnings to fixed charges, earnings include income before income taxes, extraordinary items and cumulative effect of accounting changes and expenses incurred in connection with the Recapitalization of \$19.9 million in the forty weeks ended November 7, 1997, plus fixed charges. Fixed charges consist of interest expense and one-third of rental expense (deemed by management to be representative of the interest factor of rental payments). Earnings were inadequate to cover fixed charges by \$9,297 and \$1,023 during the forty weeks ended November 7, 1997 and November 8, 1996, respectively.
- (10) Working capital is computed as current assets less current liabilities, excluding cash and cash equivalents, current portion of long-term debt and borrowings under the revolving credit facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Selected Consolidated Financial Data and the Consolidated Financial Statements of Holdings and the related notes thereto which are included elsewhere in this Prospectus. The Company's fiscal year ends on the Friday closest to January 31. Accordingly, fiscal years 1992, 1993, 1994, 1995 and 1996 ended on January 29, 1993, January 28, 1994, February 3, 1995, February 2, 1996 and January 31, 1997. All fiscal years for which financial information is included in this Prospectus had 52 weeks, except fiscal 1994 which had 53 weeks.

Overview

The Company's origins date back to the 1947 founding of Popular Merchandising Co. which operated PCP, a direct selling catalog merchandiser of consumer branded goods. In 1983, drawing upon their family's 35-year experience in catalog retailing, Arthur Cinader and Emily Woods, the son and granddaughter of PCP's founder, founded the J. Crew brand with innovative durables products (including the rollneck sweater, weathered chino, barn jacket and pocket tee) that continue to be core J. Crew brand product offerings today. In 1984, C&W was founded as a mail order women's apparel business targeting an older, more conservative customer than J. Crew. Capitalizing on the strength of its J. Crew brand franchise, the Company began developing select retail store locations in 1989. Today, the Company is a leading mail order and store retailer of women's and men's apparel, shoes and accessories operating primarily under the J. Crew brand name. Since the introduction of the J. Crew brand in 1983, the Company has mailed more than one-half billion J. Crew catalogs, opened 49 J. Crew retail stores and 42 J. Crew Factory Outlet stores. In addition, J. Crew products are distributed through 67 free-standing and shop-in-shop stores in Japan under a licensing agreement with Itochu. The Company's J. Crew brand revenues have increased from \$312.9 million in fiscal 1992 to \$556.1 million in fiscal 1996, representing a compound annual growth rate of 15.4%.

The following table sets forth, for the periods indicated, revenues and EBITDA for the Company's major operating divisions:

	Fiscal Year					Forty Weeks Ended		Twelve Months
	-----					-----		-----
	1992	1993	1994	1995	1996	Nov. 8, 1996	Nov. 7, 1997	Ended Nov. 7, 1997
-----	-----	-----	-----	-----	-----	-----	-----	
(dollars in millions)								
Revenues:								
J. Crew mail order	\$201.5	\$200.0	\$247.3	\$274.6	\$289.8	\$166.0	\$157.8	\$281.6
J. Crew retail	72.9	108.7	135.7	135.0	168.0	110.4	140.6	198.2
J. Crew factory	38.5	49.2	62.6	79.2	94.5	70.2	76.0	100.3
J. Crew licensing	--	1.9	3.3	4.0	3.8	3.7	2.9	3.0
	--	---	---	---	---	---	---	---
Total J. Crew brand	312.9	359.8	448.9	492.8	556.1	350.3	377.3	583.1
Other divisions (1)	258.1	287.2	288.8	253.1	252.7	188.4	189.3	253.6
	-----	-----	-----	-----	-----	-----	-----	-----
Total revenues	\$571.0	\$647.0	\$737.7	\$745.9	\$808.8	\$538.7	\$566.6	\$836.7
	=====	=====	=====	=====	=====	=====	=====	=====
EBITDA (2):								
J. Crew mail order	\$ 12.8	\$ 12.0	\$ 24.4	\$ 16.8	\$ 17.5	\$ (1.9)	\$ (8.2)	\$ 11.2
J. Crew retail	6.7	5.1	13.3	15.2	16.8	8.8	8.2	16.2
J. Crew factory	3.7	1.8	1.7	--	2.9	3.4	3.2	2.7
J. Crew licensing	--	1.2	2.4	2.8	2.5	2.8	2.3	2.0
	--	---	---	---	---	---	---	---
Total J. Crew brand	23.2	20.1	41.8	34.8	39.7	13.1	5.5	32.1
Other divisions (3)	11.6	12.9	(1.5)	(5.9)	2.6	1.0	7.3	8.9
	----	----	-----	-----	---	---	---	---
Total EBITDA	\$34.8	\$33.0	\$40.3	\$28.9	\$42.3	\$14.1	\$12.8	\$41.0
	=====	=====	=====	=====	=====	=====	=====	=====
Cash flow								
from operating activities	\$22.4	\$1.5	\$1.8	\$(7.8)	\$16.5	\$(42.8)	\$(61.1)	\$(1.8)
Cash flow from investing activities	\$(15.0)	\$(11.1)	\$(13.5)	\$(14.6)	\$(22.5)	\$(14.9)	\$(28.3)	\$(35.8)
Cash flow from financing activities	\$0.6	\$5.0	\$6.8	\$17.8	\$(0.4)	\$54.8	\$ 95.2	\$(40.0)

(1) Includes net sales from the Company's PCP and C&W divisions and finance charge income derived from PCP installment sales.

(2) EBITDA represents income (loss) before extraordinary items and cumulative effect of accounting changes plus income taxes, interest expense, depreciation and amortization and expenses of \$19.9 million incurred in connection with the Recapitalization. The Company believes that EBITDA provides useful information regarding the Company's ability to service its debt; however, EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles and should not be considered as a substitute for net income as an indicator of the Company's operating performance or cash flow as a measure of liquidity. Holders tendering Old Debentures in the Exchange Offer should consider the following factors in evaluating such measures: EBITDA and related measures (i) should not be

considered in isolation, (ii) are not measures of performance calculated in accordance with GAAP, (iii) should not be construed as alternatives or substitutes for income from operations, net income or cash flows from operating activities in analyzing the Company's operating performance, financial position or cash flows (in each case, as determined in accordance with GAAP) and (iv) should not be used as indicators of the Issuer's operating performance or measures of its liquidity. Additionally, because all companies do not calculate EBITDA and related measures in a uniform fashion, the calculations presented in this Prospectus may not be comparable to other similarly titled measures of other companies.

- (3) Includes EBITDA from the Company's PCP and C&W divisions.

The following sets forth, for the periods indicated, the percentage relationship to revenues of certain items in the Company's consolidated statements of operations for the fiscal periods shown below:

	Fiscal Year			Forty Weeks Ended	
	1994	1995	1996	Nov. 8, 1996	Nov. 7, 1997
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold, including buying and occupancy costs	53.4	53.6	53.0	54.2	54.9
Gross profit	46.6	46.4	47.0	45.8	45.1
Selling, general and administrative expenses	42.2	43.9	43.1	44.6	44.7
Income from operations	4.4	2.5	3.9	1.2	0.4
Interest expense, net	1.0	1.3	1.3	1.4	2.1
Expenses incurred-recapitalization ..	--	--	--	--	3.5
Income (loss) before provision for income taxes, extraordinary item and cumulative effect of accounting changes	3.4	1.2	2.6	(0.2)	(5.2)
Provision (benefit) for income taxes ..	1.4	0.5	1.0	(0.1)	(0.9)
Income (loss) before extraordinary item and cumulative effect of accounting changes	2.0%	0.7%	1.6%	(0.1)%	(4.3)%

The Company's revenues include sales of the Company's merchandise offered through the J. Crew, C&W and PCP catalogs, as well as through the C&W Factory stores, the retail stores operated through Grace Holmes, Inc. ("J. Crew Retail") and the factory outlet stores operated through H.F.D. No. 55, Inc. ("J. Crew Factory Outlet"). Also included in revenues are J. Crew brand licensing royalties and finance charge income derived from PCP installment sales. Cost of goods sold includes the cost of products purchased for sale, design, purchasing and warehousing costs, as well as occupancy costs of the Company's retail and factory stores. Selling, general and administrative expenses include all other operating expenses, principally catalog and other selling costs, payroll, depreciation and corporate expenses.

In fiscal 1995, the Company operations were affected by: (i) an increase in selling, general and administrative expenses tied to a spike in paper prices to levels never before experienced in the Company's history coupled with an increase in catalog circulation; (ii) the unsuccessful repositioning of C&W from targeting more mature, conservative customers to targeting younger, more urban customers; and (iii) negative comparable store sales in the J. Crew Retail and J. Crew Factory Outlet operations, primarily as a result of severe weather conditions during the holiday season and weak menswear performance. Since 1995, paper prices have declined in each period indicated and C&W has been reoriented toward its traditional conservative, career-oriented customer base and its operating results have stabilized.

The Company has identified a number of tactical cost savings that could be realized without affecting the Company's franchise or brand image. The Company implemented actions prior to the Recapitalization which management believes will result in estimated annual savings of \$7.5 million. These actions include the recent renegotiation of its new catalog vendor contract, selected headcount and net payroll reductions and insourcing of certain photography functions. The Company has identified approximately \$7 million of further potential savings through process efficiencies, reduction of the Base Book trim size, installation of automatic sorting equipment and consolidation of J. Crew and

C&W New York corporate offices. The Company believes these additional cost savings could be implemented by mid-1998. See "Risk Factors--Cautionary Statement Concerning Ability to Achieve Anticipated Cost Savings and Forward-Looking Statements."

In August 1997, United Parcel Service ("UPS"), which had traditionally shipped approximately 60% of merchandise orders for J. Crew Mail Order and C&W, experienced a two-week strike. In anticipation of the strike, J. Crew Mail Order, C&W and PCP made alternative arrangements with the United States Postal Service to ensure uninterrupted delivery service for the same volume of shipments as ordinarily made during the affected period. However, under the perception that orders would not be filled in a timely manner, many consumers hesitated to place orders for catalog merchandise during the strike, adversely affecting operations of J. Crew Mail Order, C&W and PCP. The Company also delayed, by approximately three weeks of the "back-to-school" season mailing of its J. Crew College catalog during the pendency of the strike.

Results of Operations

The Forty Weeks Ended November 7, 1997 Compared to the Forty Weeks Ended November 8, 1996

Revenues

Revenues increased 5.2% to \$566.6 million in the forty weeks ended November 7, 1997 from \$538.7 million in the forty weeks ended November 8, 1996, as a result of increased sales of J. Crew brand merchandise. J. Crew brand revenues increased by 7.7% to \$377.3 million in the forty weeks ended November 7, 1997 from \$350.3 million in the comparable 1996 period. Other divisions contributed \$189.3 million of revenues during the forty weeks ended November 7, 1997 as compared to \$188.4 million in the same period in 1996.

J. Crew Mail Order revenues decreased 4.9% to \$157.8 million in the forty weeks ended November 7, 1997 from \$166.0 million in the forty weeks ended November 8, 1996. The percentage of the Company's total revenues derived from J. Crew Mail Order decreased to 27.9% in the forty weeks ended November 7, 1997 from 30.8% in the forty weeks ended November 8, 1996. The decrease in J. Crew Mail Order revenues was primarily the result of the UPS strike. Gross sales were down 19% from July 18, 1997 to the end of the UPS strike on August 23, 1997 compared to the same period in 1996. Additionally, weak performance in menswear sales and unseasonably warm weather on the east coast in the first part of the fall season also contributed to the decreased sales. The number of catalogs mailed were at the same approximate level of 54 million as in the same forty week period in the prior year.

J. Crew Retail revenues increased by 27.4% to \$140.6 million in the forty weeks ended November 7, 1997 from \$110.4 million in the forty weeks ended November 8, 1996. The percentage of the Company's total revenues derived from its J. Crew Retail stores increased to 24.8% in the forty weeks ended November 7, 1997 from 20.5% in the forty weeks ended November 8, 1996. The increase in J. Crew Retail revenues is the result of opening 10 new stores since the comparable period in 1996. Comparable store sales decreased 6.1% as the result of the opening of new stores in proximity to existing store locations and weak performance in menswear sales. Unseasonably warm weather in the first part of the fall season also contributed to a decreased sales of fall and winter clothing.

J. Crew Factory Outlet revenues increased by 8.1% to \$76.0 million in the forty weeks ended November 7, 1997 from \$70.2 million in the forty weeks ended November 8, 1996. The percentage of the Company's total revenue derived from J. Crew Factory Outlet remained at approximately 13.0% in the forty weeks ended November 7, 1997 as compared to the forty weeks ended November 8, 1996. J. Crew Factory stores comparable store sales increased 6% in the forty weeks ending November 7, 1997. The comparable store sales increase was principally due to the overall improvement in store merchandising under the direction of a new factory outlet merchandising Vice President. J. Crew Factory Outlet opened two new stores and closed one store.

PCP revenues increased 2.0% to \$136.7 million in the forty weeks ended November 7, 1997 compared to \$134.0 million in the forty weeks ended November 8, 1996. The percentage of the Company's total revenues derived from PCP decreased to 24.1% in the forty weeks ended November 7, 1997 from 24.9% in the forty weeks ended November 8, 1996. The number of catalogs mailed remained at the same approximate level of 7 million and the number of selling agents remained unchanged at approximately 106,000 during the forty weeks ended November 7, 1997 compared to the same period in 1996. The increased sales in the forty week period ended November 7, 1997 over the same period in the prior year is attributable to better performance in ready-to-wear and specifically in the new branded merchandise.

C&W revenues decreased 3.3% to \$52.6 million in the forty weeks ended November 7, 1997 from \$54.4 million in the forty weeks ended November 8, 1996. The percentage of the Company's revenues derived from C&W decreased to 9.3% in the forty weeks ended November 7, 1997 from 10.1% in the forty weeks ended November 8, 1996. The number of catalogs mailed increased to approximately 27.9 million in the forty weeks ended November 7, 1997 from approximately 24.8 million in the forty weeks ended November 8, 1996. The decrease in sales is the

result of unseasonably warm weather on the east coast in the first part of the fall season affecting the sales of fall and winter clothing.

Gross Profit

Gross profit as a percentage of revenues was 45.1% for the forty weeks ended November 7, 1997 as compared to 45.8% in the same period in 1996. The slight decrease in gross profit was primarily due to an increase in J. Crew Retail buying and occupancy costs, reflecting the higher cost associated with opening new stores in urban areas such as New York City.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of revenues increased to 44.7% in the forty weeks ended November 7, 1997 from 44.6% in the forty weeks ended November 8, 1996. The increase as a percentage of revenues is a result of increased general and administration expenses of 2.2% of revenues primarily in J. Crew Mail Order, which was partially offset by decreases in selling expenses in J. Crew Mail Order, C&W and PCP of 2.1% of revenues. The increase in general and administrative expenses was primarily a result of increased staffing and the decrease in selling expenses was principally a result of decreased paper costs.

Interest Expense

Interest expense increased to \$11.9 million or 2.1% of revenues in the forty weeks ended November 7, 1997 from \$7.6 million or 1.4% of revenues in the forty weeks ended November 8, 1996. This increase was due to an over 90% increase in average borrowing to \$66.7 million in the forty weeks ended November 7, 1997 compared to average borrowings of \$34.5 million in the same period last year. The borrowings were required to fund the increased inventory levels and the increased capital expenditures. Additionally, the issuance of the Old Notes in the Offering in aggregate principal amount of \$150 million contributed approximately \$0.9 million to the increased interest and the issuance of Senior Discount Debentures of \$75.3 million contributed approximately \$0.6 million to the increased interest.

Fiscal 1996 Compared to Fiscal 1995

Revenues

Revenues increased 8.4% to \$808.8 million in fiscal 1996 from \$745.9 million in fiscal 1995, as the result of increased sales of J. Crew brand merchandise. J. Crew brand revenues increased 12.8% to \$556.1 million in fiscal 1996 from \$492.8 million in fiscal 1995. Other divisions contributed \$252.7 million in revenues in fiscal 1996 as compared to \$253.1 million in fiscal 1995.

J. Crew Mail Order revenues increased 5.5% to \$289.8 million in fiscal 1996 from \$274.6 million in fiscal 1995. The percentage of the Company's total revenues derived from J. Crew Mail Order decreased to 35.8% in fiscal 1996 from 36.8% in fiscal 1995. The increase in J. Crew Mail Order revenues principally resulted from the introduction of the Women's Book and the related increase in overall J. Crew catalog circulation to approximately 76 million in 1996 from approximately 68 million in 1995.

J. Crew Retail revenues increased by 24.4% to \$168.0 million in fiscal 1996 from \$135.0 million in fiscal 1995. The percentage of the Company's total revenues derived from its J. Crew Retail stores increased to 20.8% in 1996 from 18.1% in 1995. The increase in revenues was principally the result of the opening of eight new stores and a 4.5% increase in comparable store sales in fiscal 1996. The increase in comparable store sales was principally due to strong performance in the J. Crew womenswear lines, including Durables, Classics and Collection.

J. Crew Factory Outlet revenues increased by 19.3% to \$94.5 million in fiscal 1996 from \$79.2 million in fiscal 1995. The percentage of the Company's total revenues derived from its J. Crew Factory Outlet stores increased to 11.7% in fiscal 1996 from 10.6% in fiscal 1995. The increase in J. Crew Factory Outlet revenues was principally the result of a 7.0% increase in comparable store sales. During fiscal 1996, J. Crew Factory Outlets opened three stores and closed four stores. Similar to J. Crew Retail, the increase in comparable store sales for J. Crew Factory Outlets was principally due to strong performance in the J. Crew womenswear lines.

PCP revenues decreased by 2.4% to \$177.7 million in fiscal 1996 from \$182.1 million in fiscal 1995. The percentage of the Company's total revenues derived from PCP decreased to 22.0% in fiscal 1996 from 24.4% in fiscal 1995. The decrease in revenues primarily resulted from competitive discounting in the northeastern market which was partially offset by revenues from the introduction of brand-name apparel. During fiscal 1996, the number of catalogs mailed remained flat at approximately seven million and the number of selling agents remained unchanged at approximately 106,000.

C&W revenues increased by 5.6% to \$75.0 million in fiscal 1996 from \$71.0 million in fiscal 1995. The percentage of the Company's revenues derived from C&W decreased slightly to 9.3% in fiscal 1996 from 9.5% in fiscal 1995. The increase in C&W revenues during fiscal 1996 reflected: (i) the return to its original merchandising strategy of providing conservative career-oriented clothing, see "--Overview;" and (ii) the introduction of a value pricing strategy. In addition, the Company reduced the catalog circulation of C&W in fiscal 1996 to 38 million from 40 million in fiscal 1995. The Company believes that C&W's return to its original focus is in place and currently plans to increase its C&W catalog mailings.

Gross Profit

Gross profit increased to 47.0% of revenues in 1996 as compared to 46.4% of revenues in 1995. This increase primarily resulted from an increase in merchandise margins in J. Crew Mail Order.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to 43.1% of revenues in fiscal 1996 from 43.9% of revenues in 1995. The decline in selling, general and administrative expenses as a percentage of revenues principally reflects a decrease in catalog circulation costs (consisting primarily of paper, postage and printing). These costs declined to 15.9% of revenues in fiscal 1996 from 16.9% of revenues in fiscal 1995, principally as a result of a decrease in paper costs to 3.2% of revenues in fiscal 1996 from 3.9% of revenues in fiscal 1995, and a decrease in number of pages circulated by J. Crew Mail Order from 10.2 billion in fiscal 1995 to 9.8 billion in fiscal 1996 as a result of the J. Crew Mail Order customer segmentation strategy. Circulation at C&W also decreased. This decrease was partially offset by an increase in general and administrative expenses related to payroll for new J. Crew retail stores opened during the period. Absolute dollar amounts of selling, general and administrative expenses increased to \$348.3 million in fiscal 1996 from \$327.7 million in fiscal 1995, primarily reflecting volume related costs.

Interest Expense

Interest expense increased to \$10.5 million or 1.3% of revenues in fiscal 1996 from \$9.4 million or 1.3% of revenues in fiscal 1995. This increase was due primarily to higher average borrowings under the revolving credit agreement.

Fiscal 1995 Compared to Fiscal 1994

Revenues. Revenues increased 1.1% to \$745.9 million in fiscal 1995 from \$737.7 million in fiscal 1994, reflecting increased sales of J. Crew brand merchandise, which more than offset declines in other divisions. J. Crew brand revenues increased by 9.8% to \$492.8 million in fiscal 1995 from \$448.9 million in fiscal 1994. Other

divisions contributed \$253.1 million in revenues in fiscal 1995 compared to \$288.8 million in fiscal 1994, a decrease of 12.4%.

J. Crew Mail Order revenues increased 11.0% to \$274.6 million in fiscal 1995 from \$247.3 million in fiscal 1994. The percentage of the Company's total revenues derived from J. Crew Mail Order increased to 36.8% in fiscal 1995 from 33.5% in fiscal 1994. The revenue improvement was primarily due to an increase in the number of catalogs mailed to approximately 68 million in fiscal 1995 from approximately 61 million in fiscal 1994 as a result of growth in the 12-month buyer file.

J. Crew Retail revenues were \$135.0 million in fiscal 1995 compared to \$135.7 million in fiscal 1994. The percentage of the Company's total revenues derived from its J. Crew Retail stores decreased to 18.1% in fiscal 1995 from 18.4% in fiscal 1994. The sales performance was primarily the result of a 6.3% decrease in comparable store sales which was partially offset by the opening of two new stores in November, 1995. The decrease in comparable store sales was principally a result of: (i) severe weather conditions in the Northeast, which negatively affected sales during the holiday season; and (ii) weak performance in menswear as a result of competitive pressures from men's sport offerings by the Company's principal competitors.

J. Crew Factory Outlet revenues increased by 26.5% to \$79.2 million in fiscal 1995 from \$62.6 million in fiscal 1994. The percentage of the Company's total revenues derived from its J. Crew Factory Outlet stores increased to 10.6% in fiscal 1995 from 8.5% in fiscal 1994. J. Crew Factory Outlet revenue improvement primarily reflected the opening of 12 new stores (and the closing of two underperforming stores) in fiscal 1995, partially offset by a 9.9% decrease in comparable store sales. The decrease in comparable store sales was principally due to the lack of key products in the merchandise assortment in the stores and poor weather in the Northeast which negatively affected the holiday retail season.

PCP revenues decreased by 4.0% to \$182.1 million in fiscal 1995 from \$189.7 million in fiscal 1994. The percentage of the Company's total revenues derived from PCP decreased to 24.4% in fiscal 1995 from 25.7% in fiscal 1994. The decrease in revenues principally resulted from fulfillment disruptions during PCP's relocation to its new distribution center in Edison, New Jersey. During fiscal 1995, the number of catalogs mailed remained flat at approximately seven million and the number of selling agents remained unchanged at approximately 106,000.

C&W revenues decreased by 28.4% to \$71.0 million in fiscal 1995 from \$99.1 million in fiscal 1994. The percentage of the Company's revenues derived from C&W decreased to 9.5% in fiscal 1995 from 13.4% in fiscal 1994. The decrease in revenues reflected the unsuccessful attempt at repositioning C&W as a retailer of urban-oriented clothing. See "--Overview." The number of C&W catalogs circulated remained at 40 million during fiscal 1995 compared to fiscal 1994.

Gross Profit

In 1995, gross profit was 46.4% of revenues as compared to 46.6% of revenues in 1994. The decrease was primarily attributable to an increase in buying and occupancy costs, which was offset by improved merchandise margins in J. Crew Mail Order.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were 43.9% of revenues in fiscal 1995 as compared to 42.2% of revenues in 1994. The increase primarily reflects a substantial increase in catalog circulation costs (consisting primarily of paper, postage and printing) to 16.9% of revenues in fiscal 1995 from 14.5% of revenues in fiscal 1994. Paper costs increased from 2.7% of revenues in fiscal 1994 to 3.9% of revenues in fiscal 1995, reflecting a spike in paper prices to levels not previously experienced in the Company's history. Postage costs increased sharply, as a result of an approximately 14% postal rate increase that occurred in January, 1995. Increased catalog circulation costs also reflected an approximately 10% increase in catalogs circulated by J. Crew Mail Order, from 61 million in

fiscal 1994 to 68 million in fiscal 1995 and an approximately 23% increase in pages circulated from 8.3 billion in fiscal 1994 to 10.2 billion in fiscal 1995. C&W circulation was unchanged. These factors more than offset a decrease in general and administrative expenses and a decrease in J. Crew Retail store operating expenses.

Interest Expense

Interest expense increased to \$9.4 million or 1.3% of revenues in fiscal 1995 from \$7.0 million or 1.0% of revenues in fiscal 1994. This increase was due primarily to higher average borrowings under the revolving credit agreement and the issuance of an additional \$15.0 million of long-term debt.

Seasonality

The Company's retail and mail order businesses experience two distinct selling seasons, spring and fall. The spring season is comprised of the first and second quarters, consisting of twelve and sixteen weeks, respectively, and the fall season is comprised of the third and fourth quarters, each consisting of twelve weeks. J. Crew Retail stores, J. Crew Factory Outlet stores, C&W Factory stores and PCP are stronger in the third and fourth quarters and the J. Crew and C&W Mail Order businesses are strongest in the fourth quarter. In addition, the Company's working capital requirements fluctuate throughout the year, increasing substantially in September and October in anticipation of the holiday season inventory requirements. The Company funds its working capital requirements primarily through a revolving credit facility, which historically has been paid down in full at the end of the Company's fiscal year.

The following table sets forth certain unaudited quarterly information for fiscal 1995 and 1996:

	Fiscal Year 1995				Fiscal Year 1996			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	--	--	--	--	--	--	--	--
	(dollars in millions)							
Revenues:								
J. Crew mail order ..	\$ 45.5	\$ 57.5	\$ 61.8	\$109.8	\$ 46.1	\$ 54.1	\$ 65.6	\$124.0
J. Crew retail	23.3	35.3	33.1	43.3	27.3	40.8	42.3	57.6
J. Crew factory	13.0	25.3	21.2	19.7	15.4	30.9	24.0	24.2
J. Crew licensing ...	1.2	1.2	1.2	0.4	1.2	1.2	1.3	0.1
	---	---	---	---	---	---	---	---
Total J. Crew brand	83.0	119.3	117.3	173.2	90.0	127.0	133.2	205.9
Other divisions ...	57.8	61.0	72.2	62.1	56.5	60.8	71.0	64.4
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Total revenues .	\$140.8	\$180.3	\$189.5	\$235.3	\$146.5	\$187.8	\$204.2	\$270.3
	=====	=====	=====	=====	=====	=====	=====	=====
% of full year	18.9%	24.2%	25.4%	31.5%	18.1%	23.3%	25.2%	33.4%
Gross profit	\$ 66.5	\$ 87.3	\$ 82.9	\$109.5	\$ 68.9	\$ 83.6	\$ 94.2	\$133.4
% of full year	19.2%	25.2%	23.9%	31.7%	18.1%	22.0%	24.8%	35.1%
Operating income (loss)	\$ (2.3)	\$ (3.1)	\$ 11.3	\$ 12.7	\$ (4.5)	\$ (9.6)	\$ 20.7	\$ 25.2
% of full year	(12.4)%	(16.7)%	60.8%	68.3%	(14.2)%	(30.2)%	65.1%	79.3%

Liquidity and Capital Resources

Historical

The Company's primary cash needs have been for opening new stores, warehouse expansion and working capital. The Company's sources of liquidity have been cash flow from operations, proceeds from the private placement of long-term debt and borrowings under a revolving credit facility.

In April 1997, the Company entered into the Retired Bank Credit Facility with a group of twelve banks with Morgan Guaranty Trust Company of New York as agent. The Retired Bank Credit Facility provided for commitments in an aggregate amount of up to

\$200.0 million of which up to \$120.0 million was available for direct borrowings. The Retired Bank Credit Facility replaced the Company's previous revolving credit agreement which provided for commitments in an aggregate amount of up to \$125.0 million, of which up to \$75.0 million was available for direct borrowings. Borrowings under the Retired Bank Credit Facility were unsecured and bore

interest, at the Company's option, at the base rate (defined as the higher of the bank's prime rate or the Federal Funds rate plus 0.5%) or the London Interbank Offering Rate ("LIBOR") plus 0.625%. The Retired Bank Credit Facility was to expire on April 17, 2000. There were no borrowings outstanding under the Company's revolving credit agreements at January 31, 1997 and February 2, 1996. Average borrowings under the Company's revolving credit agreements were \$25.5 million and \$31.2 million for the years ended on February 2, 1996 and January 31, 1997, respectively. Outstanding letters of credit issued to facilitate international merchandise purchases were \$25.9 million and \$37.8 million on February 2, 1996 and January 31, 1997, respectively.

Borrowings under the Retired Bank Credit Facility on October 17, 1997, prior to the Recapitalization, were \$99.0 million and letters of credit outstanding were \$38.7 million. Average borrowings under the credit agreement were \$68.8 million for the period ended on October 17, 1997.

In June 1995, the Company issued \$85.0 million of the Retired Senior Notes to institutional investors in a private placement. At October 17, 1997 the Retired Senior Notes were retired by the Company at a cost of \$93.1 million that included accrued interest on the Retired Senior Notes and a make-whole premium.

In the first forty weeks of fiscal 1997, cash used in operating activities was \$61.1 million compared to \$42.8 million in the comparable period in 1996, an increase of \$18.3 million. This increase resulted primarily from an increase in the net loss of \$28.0 million and is primarily attributable to \$25.6 million of cash paid relating to expenses incurred in connection with the Recapitalization and an extraordinary item of \$4.5 million relating to the early retirement of debt.

Net cash provided by (used in) operating activities was \$16.5 million, (\$7.8) million and \$1.8 million for fiscal years 1996, 1995 and 1994, respectively. The improvement in cash flow from operations in 1996 was primarily attributable to the increase in net income and the timing of income tax payments/refunds for fiscal years 1995 and 1996. In 1995, the decrease in cash flow from operations was attributable to the decrease in net income.

Net cash used in investing activities included capital expenditures, primarily for the Company's J. Crew Retail expansion strategy, net of construction allowances. Net capital expenditures increased from \$14.9 million in the forty weeks ended November 8, 1996 to \$28.3 million in the comparable period in 1997. Capital expenditures in the 1996 period resulted from the opening of eight J. Crew Retail stores and the \$6.0 million relocation of the retail warehouse to Asheville, North Carolina. Capital expenditures in the 1997 period included the opening of ten J. Crew Retail stores and the \$6.0 million relocation of the Company's headquarters office in New York City.

Net capital expenditures totaled \$22.5 million, \$14.6 million and \$13.5 million in fiscal years 1996, 1995 and 1994. Capital expenditures included the opening of eight J. Crew Retail stores and three J. Crew Factory Outlet stores in 1996, two J. Crew Retail stores and 12 J. Crew Factory Outlet stores in 1995 and one J. Crew Retail store and seven J. Crew Factory Outlet stores in 1994. In fiscal 1994, \$4.2 million was expended for the PCP distribution facility in Edison, New Jersey and \$2.2 million was used to expand the Lynchburg, Virginia telemarketing and distribution center.

Net cash provided by (used in) financing activities totaled (\$0.4) million, \$17.8 million and \$6.8 million in fiscal years 1996, 1995 and 1994. In fiscal 1995, the Company borrowed \$85.0 million in private placement debt of which \$67.0 million was used to repay then outstanding long-term debt. In fiscal 1994, \$15.0 million of additional long-term debt was offset by required payments of \$7.0 million for outstanding long-term debt and a \$1.0 million dividend.

After the Recapitalization

Since consummating the Recapitalization, the Company's primary sources of liquidity have been cash flow from operations and borrowings under the Revolving Credit Facility. The Company's primary uses of cash have been debt service requirements, capital expenditures and working capital. The Company expects that ongoing

requirements for debt service, capital expenditures and working capital will be funded from operating cash flow and borrowings under the Revolving Credit Facility.

The Company has incurred substantial indebtedness in connection with the Recapitalization. After giving effect to the Recapitalization and application of the proceeds of the Old Debentures, the Holdings Preferred Stock, the Holdings Common Equity contribution and the distribution by Operating Corp to Holdings of the net proceeds of the issuance of the Operating Corp Senior Subordinated Notes, the Securitization and borrowings under the Bank Facilities (less the repayment of the Retired Bank Credit Facility, the Retired Senior Notes and other indebtedness and transaction expenses), the Company had \$342.3 million of indebtedness outstanding and \$194.7 million of stockholders' deficit, in each case as of November 7, 1997. The Company's significant debt service obligations following the Recapitalization could, under certain circumstances, have material consequences to security holders of the Company, including holders of the New Debentures. See "Risk Factors."

Concurrent with the Recapitalization, Operating Corp issued the Operating Corp Senior Subordinated Notes for \$150.0 million in gross proceeds, entered into the Term Loan Facility and the Revolving Credit Facility and consummated the Securitization. The Term Loan Facility is a single tranche term loan in the aggregate principal amount of \$70.0 million. The Revolving Credit Facility provides revolving loans in an aggregate amount of up to \$200.0 million. Upon closing of the Recapitalization, Operating Corp borrowed the full amount available under the Term Loan Facility and approximately \$35.6 million under the Revolving Credit Facility. Borrowings under the Revolving Credit Facility were used to partially refinance seasonal borrowings outstanding under the Retired Bank Credit Facility. The amount remaining available under the Revolving Credit Facility is available to fund the working capital requirements of Operating Corp. The Securitization generated approximately \$40 million in proceeds. Proceeds to Operating Corp from the issuance of the Operating Corp Senior Subordinated Notes, the Securitization and from initial borrowings under the Bank Facilities, less the repayment of the Retired Bank Credit Facility, the Retired Senior Notes and other indebtedness and transaction expenses, were distributed to Holdings to finance the Recapitalization and the fees and expenses in connection therewith (the "Operating Corp Distribution"). To provide additional financing to fund the Recapitalization, Holdings raised \$264.2 million through (i) the sale to TPG Partners II, its affiliates and other investors of approximately 46,853 shares of Holdings Common Stock (representing 85.2% of the outstanding shares) for \$63.9 million, (ii) gross proceeds of \$75.3 million from the issuance of the Old Debentures and (iii) the issuance of \$125.0 million in liquidation value of Holdings Preferred Stock.

The proceeds of the Operating Corp Senior Subordinated Notes, the Securitization, the Holdings Senior Discount Debentures, the Holdings Preferred Stock, the purchase of Holdings Common Stock by TPG Partners II, its affiliates and other investors and the initial borrowings under the Bank Facilities were used to finance the repurchase from the Shareholders of all outstanding shares of Holdings' capital stock (other than shares of Holdings Common Stock having an implied value of \$11.1 million, almost all of which continues to be held by Emily Woods, and which represented 14.8% of the shares of Holdings Common Stock immediately following the transaction) to refinance outstanding indebtedness of Holdings and to pay fees and expenses incurred in connection with the Recapitalization.

Borrowings under the Bank Facilities bear interest at a rate per annum equal (at Operating Corp's option) to a margin over either a base rate or LIBOR. The Bank Facilities will mature six years after the closing date of the Recapitalization. Operating Corp's obligations under the Bank Facilities are guaranteed by each of Operating Corp's direct and indirect subsidiaries. The Bank Facilities and the guarantees thereof are secured by substantially all assets of Holdings and its direct and indirect subsidiaries (other than any receivables subsidiary) and a pledge of the capital stock of Operating Corp and all direct and indirect subsidiaries of Holdings, subject to certain limitations with respect to foreign subsidiaries. The Bank Facilities contain customary covenants and events of default, including substantial restrictions on Operating Corp's ability to make dividends or distributions to Holdings. See "Description of Operating Corp Indebtedness."

Simultaneously with the consummation of the Recapitalization, the Company entered into an agreement with affiliates of the Initial Purchasers establishing a revolving securitization facility in which the initial transaction was the securitization of approximately \$40 million of PCP consumer loan installment receivables. The Securitization involved the transfer of receivables to a trust in exchange for cash and subordinated interests in the pool of receivables, and the subsequent sale by the trust of certificates of beneficial interest to third party investors. Although the Company remains obligated to repurchase receivables in the event of return of the related merchandise and under certain other limited circumstances, the Company has no obligation to reimburse the trust or the purchasers of beneficial interests for credit losses. The trust is held by PCP Receivables Corp. ("Receivables Sub"), a special-purpose, bankruptcy remote subsidiary ("SPV") established by PCP. At November 7, 1997, the SPV had net assets of approximately \$17.5 million. The SPV is not a guarantor of the Operating Corp Senior Subordinated Notes or the Bank Facilities. See "Description of Operating Corp Indebtedness--Receivables Facility." The Securitization was accounted for as a sale of receivables, and resulted in a charge to earnings of approximately \$0.4 million for the period ended November 7, 1997.

The Operating Corp Senior Subordinated Notes are guaranteed by each subsidiary of Operating Corp (other than Receivables Sub) but are not guaranteed by Holdings. The Operating Corp Senior Subordinated Notes mature in 2007. Interest on the Operating Corp Senior Subordinated Notes is payable semi-annually in cash. The Operating Corp Senior Subordinated Notes contain customary covenants and events of default, including covenants that limit the ability of Operating Corp and its subsidiaries to incur debt, pay dividends and make certain investments.

The Holdings Preferred Stock bears cumulative dividends at the rate of 14.50% per annum (payable quarterly) for all periods ending on or prior to October 17, 2009 and 16.50% per annum thereafter. Dividends compound to the extent not paid in cash. Subject to restrictions imposed by the Operating Corp Senior Subordinated Notes, the Bank Facilities, the Debentures and other documents relating to the Company's indebtedness, Holdings may redeem the Holdings Preferred Stock at any time, at the then-applicable redemption price and, in certain circumstances (including the occurrence of a change of control of Holdings), may be required to repurchase shares of Holdings Preferred Stock at liquidation value plus accumulated and unpaid dividends to the date of repurchase. See "Capital Stock of Holdings and Operating Corp."

The New Debentures will mature on October 15, 2008. Cash interest will not accrue on the New Debentures prior to October 15, 2002. Thereafter, interest on the New Debentures will be payable semiannually in cash. See "Description of the New Debentures."

The Company expects that capital expenditures, net of construction allowances, during fiscal 1997 will be approximately \$34 million, primarily to fund the opening of 12 retail stores, the relocation of the Company's headquarters office in New York City and the consolidation of J. Crew and C&W corporate offices. Capital expenditures are expected to be funded from internally generated cash flows and by borrowing from available financing sources. See "Business--J. Crew Brand--J. Crew Retail--New Store Expansion."

Borrowings outstanding under the Revolving Credit Facility on November 7, 1997 were \$47.0 million and letters of credit outstanding as of November 7, 1997 were \$37.4 million.

Management believes that cash flow from operations and availability under the Revolving Credit Facility will provide adequate funds for the Company's foreseeable working capital needs, planned capital expenditures and debt service obligations. The Company's ability to fund its operations and make planned capital expenditures, to make scheduled debt payments, to refinance indebtedness and to remain in compliance with all of the financial covenants under its debt agreements depends on its future operating performance and cash flow, which in turn, are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond its control. See "Risk Factors."

Recapitalization Expenses

The recapitalization expenses of \$19.9 million consisted of management bonuses of \$12.1 million, TPG financial advisory fee of \$5.6 million, legal and accounting fees of \$1.0 million, consulting fee of \$1.0 million and other expenses of \$0.2 million. The Company's results of operations were negatively impacted by these recapitalization expenses. The loss before income taxes and extraordinary item of \$29.1 million for the forty week period ended November 7, 1997 includes the \$19.9 million of non-recurring recapitalization expenses, all of which were paid before January 31, 1998.

The Year 2000 Issue

The effect of Year 2000 issues on the Company's operations are being addressed by the Company's Information Technology Department. A plan has been developed which identifies the systems and related programs which must be upgraded and a timetable has been established for the completion of these upgrades.

This plan contemplates the use of internal programming resources, outside consulting services, system upgrades from existing vendors and the replacement of existing packages with packages that are Year 2000 compliant. The designed plan estimates that the Company will be in compliance with Year 2000 issues by the Fall of 1999.

The estimated cost of the Year 2000 upgrade is not expected to be material to the Company's results of operations.

Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, which will be effective for financial statements beginning after December 15, 1997. SFAS No. 131 redefines how operating segments are determined and requires expanded quantitative and qualitative disclosures relating to a company's operating segments. The Company has not yet completed its analysis of how it will be affected.

Impact of Inflation

The Company's results of operations and financial condition are presented based upon historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, the Company believes that the effects of inflation, if any, on its results of operations and financial condition have been minor. However, there can be no assurance that during a period of significant inflation, the Company's results of operations would not be adversely affected.

BUSINESS

Overview

The Company is a leading mail order and store retailer of women's and men's apparel, shoes and accessories operating primarily under the J. Crew(R) brand name. Under the direction of Emily Woods and Arthur Cinader (co-founders of the J. Crew brand and father and daughter), the Company has built a strong and widely recognized brand name known for its timeless styles at price points that the Company believes represent exceptional product value. The J. Crew image has been built and reinforced over its 14-year history through the circulation of more than one-half billion catalogs that use magazine-quality photography to portray a classic American perspective and aspirational lifestyle. Many of the original items introduced by the Company in the early 1980s (such as the rollneck sweater, weathered chino, barn jacket and pocket tee) were instrumental in establishing the J. Crew brand and continue to be core product offerings. The Company has capitalized on the strength of the J. Crew brand to provide customers with clothing to meet more of their lifestyle needs, including casual, career and sport. The strength of the J. Crew brand is demonstrated by a compound annual growth rate of 15.4% in J. Crew brand revenues between fiscal 1992 and fiscal 1996.

The J. Crew merchandising strategy emphasizes timeless styles and a broad assortment of high-quality products designed to provide customers with one-stop shopping opportunities at attractive prices. J. Crew catalogs and retail stores offer a full line of men's and women's basic durables (casual weekend wear), sport, swimwear, accessories and shoes, as well as the more tailored men's sportswear and women's "Classics" lines. Approximately 60% of the Company's J. Crew brand sales are derived from its core offerings of durables and sport clothing, the demand for which the Company believes is stable and resistant to changing fashion trends. The Company believes that the J. Crew image and merchandising strategy appeal to college-educated, professional and affluent customers who, in the Company's experience, have demonstrated strong brand loyalty and a tendency to make repeat purchases.

J. Crew products are distributed exclusively through the Company's catalog and store distribution channels. The Company currently circulates over 76 million J. Crew catalogs per annum and owns and operates 49 J. Crew retail stores and 42 J. Crew factory outlets. In addition, J. Crew products are distributed through 67 free-standing and shop-in-shop stores in Japan under a licensing agreement with Itochu.

In addition to the Company's J. Crew operations, the Company operates C&W, a mail order and factory store women's apparel business that targets older, more conservative customers, and PCP, a direct selling catalog merchandiser of consumer branded goods through a "club" concept that provides credit sales to lower-income customers. During the twelve-month period ended November 7, 1997, the Company generated total revenues of \$836.7 million, of which \$583.1 million or approximately 70% was attributable to the J. Crew brand, and total Adjusted EBITDA of \$47.6 million. See "Summary--Summary Unaudited Pro Forma Consolidated Financial Data" for a description of Adjusted EBITDA.

Business Strengths

Since its inception, the Company has pursued a consistent operating strategy which has resulted in the following key strengths and distinguishing characteristics:

- Strong, Recognizable Brand. The Company has created a recognizable, differentiated brand image reflecting an American aspirational lifestyle. The J. Crew image is consistently communicated through all aspects of the Company's business including its merchandise design, distinctive catalogs and retail store environment. The Company's high-quality products, strong brand image and customer loyalty have resulted in strong gross margins and retail sales productivity.

- Premium Quality Products and Distinctive Designs at Attractive Price Points. The Company offers premium quality products reflecting a classic, clean aesthetic with a consistent design philosophy. All J. Crew products are designed by an in-house team of 15 designers led by Emily Woods. The Company believes that its in-house design capabilities ensure a coherent set of product offerings from season to season and year to year that provides significant value to its customers through attractive price points.
- Proven Retail Store Concept. J. Crew Retail stores historically have generated strong and stable operating results. The Company believes that its sales per gross square foot are among the highest in its industry segment. J. Crew Retail stores open during all of fiscal 1996 generated the following key operating statistics:

	Fiscal 1996 Average
Sales per gross square foot	\$575
Store contribution margin	25.9

Approximately 81% of the J. Crew Retail stores that were open during all of 1996 had store contribution margins above 20%. All of the Company's J. Crew Retail stores are profitable and have generated positive store contribution within the first twelve months of operation. In addition, J. Crew Retail stores opened since fiscal 1992 have averaged approximately \$550 in sales per gross square foot and 23.0% store contribution margin during the first twelve months of operation.

- Broad and Stable Product Offering. The Company's J. Crew product offering includes a broad array of items which appeal to a diverse customer base, spanning gender and age segments. A substantial portion of the J. Crew product line consists of basic durables, such as chinos, jeans and sweaters, which are not significantly modified from year to year and, in the Company's opinion, are resistant to shifting fashion trends. In 1996, sales of durables and sport clothing represented approximately 60% of total J. Crew brand revenues, having increased at a compound annual growth rate of approximately 15% since 1992.
- Synergistic Distribution Channels. The Company believes that the concurrent operation of the J. Crew Mail Order business and J. Crew Retail stores provides a distinct advantage in the development of the J. Crew brand. Visibility and exposure of the brand are enhanced by the broad circulation of catalogs, aiding the expansion of the retail concept. In addition, the Company believes that the retail operations help attract first-time "walk-by" customers to the catalog and improve the salability of fit-critical items through the catalog. The Company further believes that diversified distribution channels help insulate the Company against circumstances and events uniquely affecting one distribution channel or the other.
- Tightly Controlled Distribution. By selling products exclusively through J. Crew catalogs, J. Crew Retail stores and J. Crew Factory Outlets, the Company is able to present and maintain a consistent brand image, control the presentation and pricing of its merchandise, provide a higher level of customer service, and closely monitor retail sell-through. The Company believes that tight control over the distribution of its products provides competitive advantages over other branded apparel retailers that distribute their goods through department stores.

Opportunities

The Company believes that substantial opportunities exist to enhance revenue and profitability by increasing efficiencies in the J. Crew Mail Order business and by expanding the J. Crew Retail business.

- Implement Tactical Cost Savings Opportunities--While the Company believes that gross margins in the J. Crew Mail Order business have been strong, overall catalog profitability has been depressed by unnecessarily high operating expenses. The Company has identified a number of tactical cost savings that could be realized

without affecting the Company's franchise or brand image. Included in Adjusted EBITDA are \$7.5 million in estimated annual savings resulting from actions implemented prior to the Recapitalization, including negotiation of a new catalog vendor contract, selected headcount and net payroll reductions and the insourcing of certain photography functions. The Company has identified approximately \$7 million of further potential annual savings that are not reflected in Adjusted EBITDA, including process efficiencies currently under review, reduction of the Base Book trim size, installation of automatic sorting equipment and consolidation of the J. Crew and C&W New York corporate offices. The Company believes these additional cost savings could be implemented by mid-1998.

- Realize Cash Flow Increases Through J. Crew Mail Order SKU Rationalization--The Company's J. Crew Mail Order product offerings have increased from 33,000 SKUs in 1992 to 66,000 SKUs in 1996, partly as a result of a proliferation in colors and sizes offered. In recent season-to-season testing on the Company's swimwear and chino lines, the Company reduced SKUs by 33% and 45%, respectively, while posting category revenue increases. By eliminating slower-selling colors and sizes from its core offering, the Company believes it will be better able to forecast demand, increase fill rates and increase inventory turns, resulting in enhanced operating cash flow.
- Increase J. Crew Catalog Productivity Through Increased Segmentation--The Company believes that it circulates fewer and less-targeted catalog editions than its competitors, and that catalog productivity (as measured by initial demand per page circulated) could be enhanced by more precise targeting of catalog mailings through further customer segmentation. For example, in 1996 the Company introduced a Women's catalog which to date has achieved 20% higher initial demand per page circulated than that of the Company's primary mailing, the Base Book. To further enhance its segmentation efforts, the Company has recently introduced a College catalog and plans to introduce a Swimwear catalog in 1998. From 1997 to 1998, the increased segmentation is expected to result in an approximately 5% increase in the number of catalogs circulated, but an approximately 8% decrease in total pages circulated. Reductions in total pages circulated should result in a decrease in paper and postage expenses.
- Expand J. Crew Retail Operations--The Company's J. Crew Retail store expansion strategy is to continue to increase its market share in its existing markets and to penetrate new markets. The Company expects to open a total of 12 stores in fiscal 1997, ten of which were open as of November 7, 1997. The Company currently intends to open 12 to 20 stores annually, funded primarily by cash flow generated from operations, resulting in approximately 100 stores in operation by the end of fiscal 2000. Historically, new stores have cost the Company an average of \$1.5 million in building improvements and working capital expenditures and have experienced a pay-back period of approximately 20 months. The Company has established an administrative infrastructure that it believes is sufficient to accommodate the retail expansion plan, providing the Company with additional margin improvement through overhead leverage. In addition, the Company believes, with a store base of only 49 stores, its markets are underpenetrated relative to its competitors and enough suitable locations exist nationwide to accommodate its expansion plan.

The Company has five major operating divisions: J. Crew Mail Order, J. Crew Retail, J. Crew Factory Outlets, PCP and C&W. J. Crew Mail Order, J. Crew Retail and J. Crew Factory Outlets each operate under the J. Crew brand name. In 1996, products sold under the J. Crew brand contributed \$556.1 million in revenues (including licensing revenues) or 68.8% of the Company's total revenues. J. Crew brand revenues in 1996 were comprised of \$289.8 million (52.1%) from J. Crew Mail Order, \$168.0 million (30.2%) from J. Crew Retail and \$94.5 million (17.0%) from J. Crew Factory Outlets. In fiscal 1996, PCP and C&W contributed revenues of \$177.7 million and \$75.0 million, respectively, representing approximately 22.0% and 9.3%, respectively, of the Company's total revenues.

J. Crew Brand

Merchandising and Design Strategy

The J. Crew merchandising strategy focuses on creating and delivering a broad assortment of high-quality products in timeless styles intended to provide customers with one-stop shopping opportunities at attractive prices. Many of the original items introduced by the Company in the early 1980s (such as the rollneck sweater, weathered chino, barn jacket and pocket tee) were instrumental in establishing the J. Crew brand, and continue to be core product offerings. The Company has capitalized on the strength of the J. Crew brand image to provide its customers with clothing to meet more of their lifestyle needs, including casual, career and sport.

Over time, the J. Crew merchandising strategy has evolved from providing unisex products to creating full lines of men's and women's clothing, shoes and accessories. This has had the effect of increasing overall J. Crew brand sales volume, and significantly increasing revenues from sales of women's apparel as a percentage of total J. Crew brand sales. J. Crew Mail Order sales in 1996 were approximately 55% women's and 45% men's, while sales in the J. Crew Retail stores were approximately 60% women's and 40% men's. The following table sets forth the J. Crew merchandise mix as a percentage of total J. Crew Mail Order and Retail revenues for the years 1992 through 1996. (J. Crew brand sales statistics throughout this section exclude sales in J. Crew Factory Outlets.)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Women's	38%	42%	47%	53%	56%
Men's	62	58	53	47	44
	---	---	---	---	---
	100%	100%	100%	100%	100%
	===	===	===	===	===

J. Crew Womenswear

The ready-to-wear women's apparel market is divided by price point into five segments ranging from lowest to highest as follows: Budget, Moderate, Better, Bridge and Designer. J. Crew womenswear competes primarily in the Better and Bridge segments of the market. J. Crew womenswear comprises the Durables, Sport, Classics, Collection, Swim, Shoes, Accessories and Intimates lines. The Durables and Sport lines consist of casual apparel and comprised 52.5% of J. Crew womenswear sales in 1996. The Durables line includes core items such as jeans, knits and sweaters that retail between \$20 to \$100, while the Sport line includes basic outerwear and knits that retail between \$40 to \$200. Revenues from the Durables and Sport lines have increased from \$44.2 million in 1992 to \$135.6 million in 1996, representing a compound annual growth rate of 32.3%. The Company has capitalized on the strength of these lines with the successful extension of its womenswear offering through its Classics and Collection lines. The Classics line features women's suits, dresses, jackets and trousers that retail between \$50 to \$300. Women's Collection is positioned as a designer line at substantially lower price points than other designer lines, and features suits, dresses, jackets and trousers made of fine Italian fabrics that retail between \$250 to \$1,800. Women's Accessories includes sunglasses, hats, scarves, gloves, belts, bags, hosiery, hair products and small leather goods.

J. Crew catalogs provide a broader selection of the Durables and Sport lines than the retail stores, while the retail stores provide a broader selection of the Classics line than the catalogs. The Collection line is featured exclusively in select retail stores, and Classics are sold primarily through retail stores, to reinforce a high-end brand image and to accommodate customer fit, fabric and price considerations before purchase.

J. Crew Menswear

J. Crew menswear comprises the Durables, Sport, Sportswear, Swim, Shoes, Accessories and Underwear/Loungewear lines. The Durables and Sport lines consist of casual apparel and comprised 78.2% of J. Crew menswear sales in 1996. The Durables line includes casual jeans and chinos, sweaters and outerwear that retail between \$40 and \$400. The Company recently introduced the Sport line to meet growing consumer demand for sport and outdoor apparel that combines designer styling with technical authenticity. Revenues from the Durables and Sport lines have increased from \$121.8 million in 1992 to \$155.8 million in 1996, representing a compound

annual growth rate of 6.3%. The Sportswear line includes men's sportcoats, shirts and trousers that retail between \$50 and \$500.

J. Crew catalogs feature a broader selection of men's casual Durables and Sport merchandise than in the retail stores. Men's Sportswear is featured exclusively in the retail stores to reinforce a high-end brand image and to accommodate customer fit, fabric and price considerations before purchase.

Design

Every J. Crew product is designed by Emily Woods and her in-house design staff of 15 designers to reflect a classic, clean aesthetic that is consistent with the brand's American lifestyle image. Design teams are formed around J. Crew product lines and categories to develop concepts, themes and products for each of the Company's J. Crew businesses. Members of the J. Crew technical design team develop construction and fit specifications for every product to ensure quality workmanship and consistency across product lines. These teams work in close collaboration with the merchandising and production staff in order to gain market and other input. Product merchandisers provide designers with market trend and other information at initial stages of the design process. J. Crew designers and merchants source globally for fabrics, yarns and finishing products to ensure quality and value, while manufacturing teams research and develop key vendors worldwide to identify and maintain the essential characteristics for every style.

J. Crew Mail Order

Since its inception in 1983, J. Crew Mail Order has distinguished itself from other catalog retailers by its award-winning catalog, which utilizes magazine-quality "real moment" pictures to depict an aspirational lifestyle image. During fiscal 1996, J. Crew Mail Order distributed 30 catalog editions with a combined circulation of more than 76 million, generating \$289.8 million in revenues or 52.1% of the Company's total J. Crew brand revenues.

Circulation Strategy

J. Crew Mail Order's circulation strategy focuses on continually improving the segmentation of customer files and the acquisition of additional customer names. In 1996, approximately 60% of J. Crew Mail Order revenues were from customers in the 12-month buyer file (buyers who have made a purchase from any J. Crew catalog in the prior 12 months). Between 1992 and 1996 the J. Crew Mail Order 12-month buyer file grew at a compound annual growth rate of 10.0%.

Customer Segmentation. In 1996, the Company began segmenting its customer file and tailoring its catalog offerings to address the different product needs of its customer segments. To increase core catalog productivity and improve the effectiveness of marginal and prospecting circulation, each customer segment is offered different catalog editions. The Company currently circulates Base, Women's, Prospect and Sale catalogs to targeted customer segments, has recently introduced a College catalog and intends to introduce a Swimwear catalog in 1998.

Descriptions of the Company's current catalogs follow:

- Base Books. These catalogs contain the entire mail order product offering and are sent primarily to 12-month buyers.
- Women's Books. Introduced in the spring of 1996, the Women's books feature women's merchandise and are sent to buyers who purchase primarily women's merchandise. These books represent an additional customer contact potentially generating incremental revenue from women customers.
- Prospect Books. Introduced in late 1995, these editions are abridged versions of the Base Books and are sent to less active and prospective customers in order to cost-effectively reactivate old customers and acquire new customers.

- Sale Books. These catalogs contain overstock merchandise to be sold at reduced prices without adversely affecting the J. Crew brand image.

The following are descriptions of the recently introduced College book and the Swimwear book planned for 1998:

- College Books. College books present a merchandise mix (primarily men's and women's Durables, Sport and Swimwear) that is most often purchased by and for students. These catalogs consist of a new creative presentation involving a lifestyle setting appealing to the youth market. The Company believes that these new catalogs will also be effective as prospecting vehicles: the page counts are relatively low (68 pages) and the product lines offered are of above average productivity.
- Swimwear Books. The Company plans to offer its full swimwear line together with selected casual weekend clothing in a special catalog edition to be mailed to its most productive women customers as well as to prospective customers. The Company's analysis of buyer performance indicates that swimwear is the most productive category for existing buyers and the product classification most frequently purchased by first-time buyers.

The Company believes that it circulates fewer and less-targeted catalog editions than its competitors, and that segmentation will improve the productivity (as measured by initial demand per page circulated) of its circulation by: (i) increasing its offers to its most productive customers and decreasing its offers to its less productive customers, and (ii) reducing both the page count and number of mailings of its Base Books. For example, in 1996, the Company introduced the Women's catalog which to date has achieved 20% higher initial demand per page circulated than that of the Base Book. The overall effect of increased segmentation is expected to be an increase in books circulated (and customer contacts made) and a decrease in pages circulated. In 1996, total circulation increased to approximately 76 million from approximately 68 million in 1995, primarily as a result of the introduction of Prospect and Women's catalogs, while pages circulated during this period decreased to 9.8 billion from 10.2 billion. From 1997 to 1998, the increased segmentation is expected to result in an approximately 5% increase in the number of catalogs circulated, but an approximately 8% decrease in total pages circulated. Reductions in total pages circulated should result in a decrease in paper and postage expenses.

Customer Acquisition and List Management. J. Crew Mail Order's name acquisition programs are designed to attract new customers in a cost-effective manner. The Company acquires new names from various sources, including list rentals, exchanges with other catalog and credit card companies, "friends' name" card inserts and, recently, through J. Crew Retail stores which represent an increasingly significant resource in prospecting for new names. Names and addresses of 25% to 30% of the customers making credit card purchases at J. Crew Retail stores are automatically captured at the point of sale. Customers are also asked to fill out cards at the cash register when they make purchases. In addition, the Company is exploring the feasibility of placing telephones in its J. Crew Retail stores with direct access to the J. Crew Mail Order telemarketing center to allow customers in the stores to order catalog-specific or out-of-stock items.

The Company believes that circulation planning based on more sophisticated statistical circulation models will increase the effectiveness of catalog mailings and maximize the productivity of its buyer file. As a result, the Company is testing increasingly sophisticated statistical circulation planning models to improve its ability to predict customer purchase behavior based on a wide range of variables. The Company plans to use these analyses to enhance its circulation efficiencies.

Catalog Creation and Production

The Company is distinguished from other catalog retailers by its award-winning catalog, which utilizes magazine-quality "real moment" pictures to depict an aspirational lifestyle image. All creative work on the catalogs is coordinated by J. Crew personnel to maintain and reinforce the J. Crew brand image. Photography is executed both on location and in studios, and creative design and copy writing are executed on a desk-top publishing system.

Digital images are transmitted directly to outside printers, thereby reducing lead times and improving reproduction quality. The Company believes that appropriate page presentation of its merchandise stimulates demand and therefore places great emphasis on page layout.

J. Crew Mail Order does not have long-term contracts with paper mills and, instead, purchases paper from paper mills at a two and one-half month specified rate. Projected paper requirements are communicated on an annual basis to paper mills to ensure the availability of an adequate supply. Management believes that the Company's long-standing relationships with a number of the largest coated paper mills in the United States allow it to purchase paper at favorable prices commensurate with the Company's size and payment terms. See "Risk Factors--Increases in Costs of Mailing, Paper and Printing."

Telemarketing and Customer Service

J. Crew Mail Order's primary telemarketing and fulfillment facilities are located in Lynchburg, Virginia. Telemarketing operations are open 24 hours a day, seven days a week and handled over 7.5 million calls in fiscal 1996. Orders for merchandise may be received by telephone, facsimile, mail and the Company's website, although orders through the toll-free telephone service accounted for 90% of orders in fiscal 1996. The telemarketing center is staffed by a total of 900 full-time telemarketing associates, and up to 2,500 associates during peak periods, who are trained to assist customers in determining the customer's correct size and to describe merchandise fabric, texture and function. Each telemarketing associate utilizes a terminal with access to an IBM mainframe computer which houses complete and up-to-date product and order information. The fulfillment operations are designed to process and ship customer orders in a quick and cost-effective manner. Orders placed before 9:00 p.m. are shipped the following day. Same-day shipping is available for orders placed before noon. During non-peak periods, approximately 11,000 packages are shipped daily, and during peak periods, 25,000 daily.

J. Crew Retail

An important aspect of the Company's business strategy is an expansion program designed to reach new and existing customers through the opening of J. Crew Retail stores. In addition to generating sales of J. Crew products, J. Crew Retail stores help set and reinforce the J. Crew brand image. The stores are designed in-house and fixtured to create a distinctive J. Crew environment and store associates are trained to maintain high standards of visual presentation and customer service. The result is a complete statement of J. Crew's timeless American style, classic design and attractive product value. During fiscal 1996, J. Crew Retail generated revenues of \$168.0 million, representing 30.2% of the Company's total J. Crew brand revenues.

The Company believes that J. Crew Retail derives significant benefits from the concurrent operation of J. Crew Mail Order. The broad circulation of J. Crew catalogs performs an advertising function, enhancing the visibility and exposure of the brand, aiding the expansion of the retail concept and increasing the profitability of the stores.

J. Crew Retail maintains a uniform appearance throughout its store base, in terms of merchandise display and location on the selling floor. Store managers receive detailed store plans that dictate fixture and merchandise placement to ensure uniform execution of the merchandising strategy at the store level. Standardization of store design and merchandise presentation also maximizes usage and productivity of selling space and lowers the cost of store furnishings allowing J. Crew Retail to cost-effectively open new stores and refurbish existing ones.

Store Economics

The Company believes that its J. Crew Retail stores are among the most productive in its industry segment. All of the Company's J. Crew Retail stores are profitable and have generated positive store contribution within the first 12 months of opening. J. Crew Retail stores that were open during all of fiscal 1996 averaged \$4.8 million per store in sales, produced sales per gross square foot of approximately \$575 and generated store contribution margins of approximately 25.9%. The Company believes that these results compare favorably to the average among retailers that the Company believes to be its primary competitors. J. Crew Retail stores have an average size of 8,300 gross

square feet. The Company's historical average cost for leasehold improvements, furniture and fixtures for new stores was approximately \$950,000 per store, after giving effect to construction allowances. The Company anticipates that the cost of these improvements will increase as it targets more urban, high-traffic areas for its stores. Average pre-opening costs per store, which are expensed as incurred, were \$87,000. In addition, working capital requirements, consisting almost entirely of inventory purchases, averaged approximately \$550,000 per store.

Current Stores

As of November 7, 1997 J. Crew Retail operated 49 retail stores nationwide, having expanded from 18 stores in 1993. The Company intends to open 12 stores in fiscal 1997, ten of which were open as of November 7, 1997. The stores are located in upscale shopping malls and in retail areas within major metropolitan markets that have an established higher-end retail business.

The table below highlights certain information regarding J. Crew Retail stores opened through fiscal 1996.

	Stores Open at Beginning of Fiscal Year	Stores Opened During Fiscal Year	Stores Closed During Fiscal Year	Stores at End of Fiscal Year	Total Square Footage at End of Year (000's)	Average Store Total Square Footage at End of Year
1992 ...	9	9	--	18	140	7,778
1993 ...	18	10	--	28	226	8,071
1994 ...	28	1	--	29	235	8,103
1995 ...	29	2	--	31	266	8,581
1996 ...	31	8	--	39	338	8,667

New Store Expansion

J. Crew Retail plans to expand its store base to 51 in 1997 and currently intends to increase the number of stores in operation by 12 to 20 stores annually, resulting in approximately 100 stores in operation by the end of fiscal 2000. The retail expansion plan will initially focus on markets in which J. Crew Mail Order has been successful and, more generally, in areas within major metropolitan markets with affluent and well educated populations. The Company will continue to cluster stores in markets which provide the greatest sales potential, such as New York, New Jersey, Massachusetts, California and Florida. Historically, new stores have cost the Company an average of \$1.5 million in building and working capital expenditures and have experienced a pay-back period of approximately 20 months. The Company believes, with a base of 49 stores, its markets are underpenetrated relative to its competitors and enough suitable locations exist nationwide to accommodate its expansion plan.

The following is a summary of the stores opened as of November 7, 1997 and those expected to be opened in 1997 after November 7, 1997:

	Location	Opening Date	Total Square Footage
Opened:	91 Fifth Avenue, New York, NY	3/4	5,875
	Boca Town Center, Boca Raton, FL	4/16	7,099
	Copley Place, Boston, MA	5/9	6,792
	Short Hills Mall, Short Hills, NJ	6/4	10,000
	South Park, Charlotte, NC	6/18	8,402
	Danbury Fair (Durables), Danbury, CT	7/16	5,398
	Century City, Los Angeles, CA	7/30	6,497
	Westfarms, West Hartford, CT	8/1	8,000
	Beachwood, Cleveland, OH	9/19	7,900
	Fashion Valley, San Diego, CA	10/8	8,312
Expected:	South Shore Mall, Braintree, MA	11/12	7,600
	Aventura Mall, Miami, FL	11/30	7,749

J. Crew Factory Outlets

The Company extends its reach to additional consumer groups through its 42 J. Crew Factory Outlets. Offering J. Crew products at an average of 30% below full retail prices, J. Crew Factory Outlets target value-oriented consumers. The factory outlet stores also serve to liquidate excess, irregular or out-of-season J. Crew products outside of the Company's two primary distribution channels. During fiscal 1996, J. Crew Factory Outlets generated revenues of \$94.5 million, representing 17.0% of the Company's total J. Crew brand revenues.

J. Crew Factory Outlets offer selections of J. Crew menswear and womenswear. Ranging in size from 3,800 to 10,000 square feet with an average of 6,500 square feet, the stores are generally located in major outlet centers in 25 states across the United States. The Company believes that the outlet stores, which are designed in-house, maintain fixturing, visual presentation and service standards superior to those typically associated with outlet stores.

Popular Club Plan

PCP is a direct selling catalog business offering a broad range of department store merchandise on proprietary, in-house credit plans to the lower and lower-middle income market. PCP markets its catalog products primarily in eleven states in the northeastern United States. PCP offers two distinct product categories: Home Store (53% of 1996 sales) and Ready-to-Wear (47% of 1996 sales). Home Store products include textiles, home furnishings, housewares and electronics. Ready-to-Wear includes men's and women's sportswear, coats, lingerie, juniors, accessories, jewelry, shoes, children's wear, infants, special size and swimwear. During fiscal 1996, Popular Club Plan's annual circulation of 7.3 million catalogs generated revenues of \$177.7 million, representing 22.0% of total Company revenues.

PCP markets products through an extensive network of over 100,000 local independent sales representatives ("Secretaries"), using a unique combination of mail order and direct selling methods. In contrast to a retail store sales associate, a Secretary is a lead shopper who solicits his or her own circle of friends, relatives, and co-workers to shop from the catalog. Secretaries are compensated through commission reward credits which can be redeemed for free merchandise. This provides them with both a sales and collection incentive. All Secretary applicants are screened and scored with proprietary behavior models in conjunction with national credit bureau information. Only 60% of applicants are set up as new accounts.

PCP offers customers a 22-week payment plan and a 44-week payment plan for payment of merchandise ordered from PCP. Sales through these proprietary credit products accounted for 96.3% of PCP revenues in 1996. PCP performs ongoing credit analysis on each Secretary and his or her club. Although Secretaries do not guarantee payment of members they recruit, reward credits of club Secretaries may be withheld to offset poor credit performance. PCP monitors collections through its approximately 70-person credit and collection department. While the primary dunning process is done through club Secretaries, if an individual is delinquent more than ten weeks, credit collectors will also take on the responsibility of contacting the customer directly. Over the last five years, PCP's annual credit losses have averaged approximately 4% of net credit sales.

Clifford & Wills

C&W is a direct mail order and factory store business which offers a broad range of women's updated apparel covering career to casual as well as accessories and shoes. The typical customer is a 36 to 55 year old upper-moderate to better-priced women's apparel customer, parallel to that of a full-price department store.

The brand is positioned to offer bridge level clothing at prices which are 20% to 30% below the prices offered in better departments of department stores, thereby satisfying the target customer's desire for updated apparel at a compelling price advantage. The Company also operates nine C&W outlet stores in Pennsylvania, Florida, Wisconsin, Indiana, Texas, Georgia and Connecticut. During 1996, C&W had revenues of \$75.0 million representing 9.3% of total Company revenues.

General

Sourcing, Production and Quality

The Company maintains separate merchandising, design, manufacturing and quality assurance teams for the production of J. Crew and C&W merchandise. The Company's products are designed exclusively by in-house design and product development teams which support each line and class of product. These teams provide individual attention and expertise to every style, ensuring that these styles fit the respective J. Crew and C&W brand images. PCP primarily purchases merchandise from manufacturers and distributors.

The Company's merchandise is produced for the Company by a variety of manufacturers, both domestically and outside the United States. The Company does not own or operate any manufacturing facilities, instead contracting with third party vendors for the production of its products. Manufacturing teams research and develop products and source from vendors across 38 countries to identify and maintain essential quality and value for every product. In 1996, approximately 60% of the Company's J. Crew brand products were sourced in the Far East, 20% were sourced domestically and 20% were from Europe and other regions. PCP and C&W source the majority of their products through domestic vendors. Rarely does the Company represent the majority of any one vendor's business and no one vendor supplies more than 10% of the Company's merchandise.

The Company employs independent buying agents to conduct in-line and final quality inspections at each manufacturing site. Random inspections of all incoming J. Crew and C&W merchandise at the Lynchburg and Asheville distribution facilities further assure that the Company's products are of a consistently high quality. PCP primarily sells consumer goods which have been subjected to the manufacturer's own quality control processes prior to receipt by PCP.

Due to the high concentration of foreign suppliers of J. Crew brand merchandise, the Company estimates 10-month lead times for its products. Currently, the Company must make commitments on its piece goods eight to nine months prior to the issuance of the respective catalog and must decide on SKU color buys within six months of issuance. The Company is working to establish, either through the use of more domestic vendors or through strategic partnerships, a core group of long-term suppliers that provide quicker response times. The Company

believes that the implementation of shorter lead times will improve fill rates, reduce the overall complexity in inventory management and improve its ability to more accurately forecast demand, all of which should provide substantial savings to the Company.

Distribution

The Company operates three main telemarketing and distribution facilities for its operations. Order fulfillment for J. Crew Mail Order and C&W takes place at the 406,500 square foot telemarketing and distribution center located in Lynchburg, Virginia. The Lynchburg facility processes approximately 3.8 million orders per year and employs approximately 1,800 full- and part-time employees during its peak season.

The 192,500 square foot telemarketing and distribution facility in Asheville, North Carolina was recently converted into the main distribution center to service the retail and outlet store operations and also houses a J. Crew Mail Order telemarketing center. This facility employs approximately 700 full- and part-time employees during its non-peak season and an additional 1,100 employees during the peak holiday season. PCP conducts its fulfillment operations from a 369,000 square foot distribution facility located in Edison, New Jersey. The Edison facility employs approximately 300 and 600 full- and part-time employees during the non-peak and peak seasons, respectively.

Each fulfillment center is designed to process and ship customer orders in a quick and cost-efficient manner. Same-day shipping is available for orders placed before noon; and orders placed before 9:00 p.m. are shipped the following day. The Company ships merchandise via the UPS, the United States Postal Service and FedEx. To enhance efficiency, each facility is fully equipped with a highly advanced telephone system, an automated warehouse locator system and an inventory bar coding system. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Recent Developments."

Management Information Systems

The Company's management information systems are designed to provide, among other things, comprehensive order processing, production, accounting and management information for the marketing, manufacturing, importing and distribution functions of the Company's business. The Company has installed sophisticated point-of-sale registers in its J. Crew Retail and Factory Outlet stores that enable it to track inventory from store receipt to final sale on a real-time basis. The Company believes its merchandising and financial system, coupled with its point-of-sale registers and software programs, allow for rapid stock replenishment, concise merchandise planning and real-time inventory accounting practices. J. Crew Mail Order and C&W share the same management information system and each of the Company's business units has its own information system that is customized to the needs of that particular business.

The Company's telephone and telemarketing systems, warehouse package sorting systems, automated warehouse locators and inventory bar coding systems utilize advanced technology. These systems have provided the Company with a number of benefits in the form of enhanced customer service, improved operational efficiency and increased management control and reporting. The Company's IBM 3990 system stores data, such as customer list segmentation and analysis of market trends, and rapidly transfers the information throughout the Company. In addition, the Company's real-time inventory computer systems provide inventory management on a per SKU basis and allow for a more efficient fulfillment process. J. Crew's management information systems also produce daily and weekly sales and performance reports.

Trademarks and International Licensing

J. Crew International, Inc., an indirect subsidiary of Holdings, currently owns all of the trademarks for the J. Crew name that the Company holds in the United States and internationally, as well as its international licensing

contracts with third parties. Trademarks related to the J. Crew name are registered in the United States Patent and Trademark Office.

The Company derives revenues from the international licensing of its trademarks in the J. Crew name and the know-how it has developed. The Company has entered into a licensing agreement with Itochu in Japan which gives the Company the right to receive payments of percentage royalty fees in exchange for the exclusive right to use the Company's trademarks in Japan. In 1996, licensee sales at retail stores in Japan were approximately \$100 million through 67 free-standing and shop-in-shop stores. Under the license agreement the Company retains a high degree of control over the manufacture, design, marketing and sale of merchandise under the J. Crew trademarks. The Company is currently negotiating a five-year renewal of this agreement which otherwise expires in January, 1998.

The Company believes there is significant growth potential in international markets as the Company can leverage off its base in Japan into other key Asian markets. The Company is in the process of exploring licensing agreements covering Hong Kong, China, Singapore, Thailand and Malaysia. In 1996, licensing revenues totaled \$3.8 million.

Employees

The Company focuses significant resources on the selection and training of sales associates in both its mail order, retail and factory operations. Sales associates are required to be familiar with the full range of merchandise of the business in which they are working and have the ability to assist customers with merchandise selection. Both retail and factory store management are compensated in a combination of annual salary plus performance-based bonuses. Retail, telemarketing and factory associates are compensated on an hourly basis and may earn team-based performance incentives.

At November 7, 1997, the Company had approximately 6,300 associates, of whom approximately 4,300 were full-time associates and 2,000 were part-time associates. In addition, approximately 3,000 associates are hired on a seasonal basis to meet demand during the peak holiday buying season. None of the associates employed by J. Crew Mail Order, J. Crew Retail, J. Crew Factory Outlets or C&W are represented by a union. Approximately 240 warehouse employees at PCP are represented by the Teamsters under a collective bargaining agreement which expires in June 1999. The Company believes that its relationship with its associates is good.

Properties

The Company is headquartered in New York City, although PCP maintains a separate main office in Garfield, New Jersey. Both the New York City headquarters offices and PCP's Garfield office are leased from third parties. The Company owns two telemarketing and distribution facilities: a 406,500-square-foot telemarketing and distribution center for J. Crew and C&W mail order in Lynchburg, Virginia and a 192,500-square-foot distribution center in Asheville, North Carolina servicing the J. Crew Retail and J. Crew and C&W outlet store operations. The Company also leases from a third party a 369,000-square-foot distribution facility located in Edison, New Jersey dedicated to PCP's fulfillment operations.

As of November 7, 1997, the Company operated 100 retail and factory outlet stores. All of the retail and factory outlet stores are leased from third parties, and the leases in most cases have terms of 10 to 12 years, not including renewal options. As a general matter, the leases contain standard provisions concerning the payment of rent, events of default and the rights and obligations of each party. Rent due under the leases is comprised of annual base rent plus a contingent rent payment based on the store's sales in excess of a specified threshold. Substantially all the leases are guaranteed by Holdings.

The table below sets forth the number of stores by state operated by the Company in the United States as of November 7, 1997:

	Retail Stores -----	Outlet Stores(1) -----	Total Number of Stores -----
Alabama	--	1	1
Arizona	1	--	1
California	8	3	11
Colorado	1	2	3
Connecticut	3	2	5
Delaware	--	1	1
Florida	2	5	7
Georgia	1	3	4
Illinois	4	--	4
Indiana	1	3	4
Kansas	--	1	1
Maine	--	2	2
Maryland	1	--	1
Massachusetts	4	1	5
Michigan	1	1	2
Minnesota	1	--	1
Missouri	1	1	2
New Hampshire	--	2	2
New Jersey	2	1	3
New Mexico	1	--	1
New York	4	4	8
North Carolina	2	--	2
Ohio	2	--	2
Oregon	1	--	1
Pennsylvania	2	5	7
South Carolina	--	1	1
Tennessee	--	1	1
Texas	3	5	8
Utah	--	1	1
Vermont	--	1	1
Virginia	1	1	2
Washington	1	1	2
Wisconsin	--	2	2
District of Columbia ..	1	--	1
	----	----	----
Total	49	51	100
	===	===	===

(1) Includes nine C&W outlet stores.

Competition

All aspects of the Company's businesses are highly competitive. The Company competes primarily with other catalog operations, specialty brand retailers, department stores, and mass merchandisers engaged in the retail sale of men's and women's apparel, accessories, footwear and general merchandise. The Company believes that the principal bases upon which it competes are quality, design, efficient service, selection and price.

The Company believes that it has significant competitive strength because of its strong brand name, distinctive designs, premium quality products, controlled distribution and strong catalog and retail market positions. However, certain of the Company's competitors are larger and have greater financial, marketing and other resources than the Company, and there can be no assurance that the Company will be able to compete successfully with them in the future.

Legal and Regulatory Matters

The Company is a defendant in several lawsuits arising in the ordinary course of business. Although the amount of any liability that could arise with respect to any such lawsuit cannot be accurately predicted, in the opinion of management, the resolution of these matters is not expected to have a material adverse effect on the financial position or results of operations of the Company.

A 1992 Supreme Court decision confirmed that the Commerce Clause of the United States Constitution prevents a state from requiring the collection of its use tax by a mail order company unless the company has a physical presence in the state. However, there continues to be some uncertainty in this area due to inconsistent application of the Supreme Court decision by state and federal courts. The Company attempts to conduct its operations in compliance with its interpretation of the applicable legal standard, but there can be no assurance that this compliance will not be challenged. From time to time, various states have sought to require companies to begin collection of use taxes and/or pay taxes from previous sales. The Company has not received assessments from any state in which it is not currently collecting sales taxes since the 1992 Supreme Court decision.

The Supreme Court decision also established that Congress has the power to enact legislation that would permit states to require collection of use taxes by mail order companies. Congress has from time to time considered proposals for such legislation. The Company anticipates that any legislative change, if adopted, would be applied only on a prospective basis.

MANAGEMENT

Directors and Executive Officers

The following table sets forth the name, age and position of individuals who are serving as directors of Holdings and executive officers of the Company. TPG Partners II anticipates that it will cause to be elected additional individuals, including individuals unaffiliated with either TPG Partners II or the Company, to serve as directors of Holdings. Each director of Holdings will hold office until the next annual meeting of shareholders or until his or her successor has been elected and qualified. Officers of the Company are elected by their respective Boards of Directors and serve at the discretion of such Board.

Name	Age	Position
Emily Woods	35	Director--J. Crew Group, Inc. Chairman and Chief Executive Officer-- J. Crew Group, Inc. Chief Executive Officer--J. Crew Operating Corp. President--J. Crew, Inc.
David Bonderman	54	Director--J. Crew Group, Inc.
James G. Coulter	37	Director--J. Crew Group, Inc.
Richard W. Boyce	43	Director--J. Crew Group, Inc.
Michael P. McHugh	58	Vice President--Finance - CFO--J. Crew Group, Inc. Vice President--Finance - CFO--J. Crew Operating Corp. President--J. Crew International, Inc. and J. Crew Services, Inc.
Matthew E. Rubel	39	President--Popular Club Plan, Inc.
David M. DeMattei	41	President--Grace Holmes, Inc.; H.F.D. No. 55, Inc.
Nicholas Lamberti	55	Vice President--J. Crew Operating Corp.

Emily Woods
Chairman and Chief Executive Officer--J. Crew Group, Inc.; Chief
Executive Officer and President--J. Crew Operating Corp.;
President--J. Crew, Inc.

Ms. Woods became Chairman of the Board of Directors and
Chief Executive Officer of Holdings upon consummation of the
Recapitalization. Ms. Woods is also currently the Chief Executive
Officer and a director of Operating Corp and the President of J.
Crew, Inc., a wholly owned subsidiary of Operating Corp. Ms.
Woods co-founded the J. Crew brand in 1983 and is currently its
designer. Ms. Woods has also served as Vice-Chairman of J. Crew
Group, Inc.

David Bonderman
Director--J. Crew Group, Inc.

Mr. Bonderman became a director of Holdings upon
consummation of the Recapitalization. Mr. Bonderman is also
currently serving as a director of Operating Corp. Mr. Bonderman
is a principal and founding partner of TPG. Prior to forming TPG,
Mr. Bonderman was Chief Operating Officer and Chief Investment
Officer of Keystone Inc. ("Keystone"), the private investment
firm, from 1983 to August 1992. Mr. Bonderman serves on the
Boards of Directors of Continental Airlines, Inc., Bell & Howell
Company, Virgin Entertainment, Beringer Wine Estates, Inc.,
Denbury Resources, Inc., Ducati Motor Holdings, S.p.A.,
Washington Mutual, Inc., Ryanair, Ltd., and Credicom Asia, N.V.
Mr. Bonderman also serves in general partner advisory board roles
for Acadia Partners, L.P., Newbridge Investment Partners, L.P.,
Newbridge Latin America, L.P. and Aqua International, L.P.

James G. Coulter

Director--J. Crew Group, Inc.

Mr. Coulter became a director of Holdings upon consummation of the Recapitalization. Mr. Coulter is also currently serving as a director of Operating Corp. Mr. Coulter is a principal and founding partner of TPG. Prior to forming TPG, Mr. Coulter was a Vice President of Keystone from 1986 to 1992. Mr. Coulter serves on the Boards of Directors of America West Airlines, Inc., Virgin Entertainment, Beringer Wine Estates, Inc. and Paradyne Partners, L.P. and was formerly on the Board of Directors of Allied Waste Industries Inc. and Continental Airlines, Inc.

Richard W. Boyce

Director--J. Crew Group, Inc.

Mr. Boyce became a director of Holdings upon consummation of the Recapitalization. Mr. Boyce is also currently serving as a director of Operating Corp and J. Crew Operating Corp., C&W Outlet, Inc., Clifford & Wills, Inc., J. Crew Retail, J. Crew Factory Outlet, J. Crew, Inc, J. Crew International, Inc., J. Crew Services, Inc. and Popular Club Plan, Inc., each of which is a wholly owned subsidiary of Operating Corp. Mr. Boyce is the President of CAF, Inc., a management consulting firm which advises various companies controlled by TPG. Prior to founding CAF, Inc. in 1997, Mr. Boyce served as Senior Vice President of Operations for Pepsi-Cola North America ("PCNA") from 1996 to 1997, and Chief Financial Officer of PCNA from 1994 to 1996. From 1992 to 1994, Mr. Boyce served as Senior Vice President-Strategic Planning for PepsiCo. Prior to joining PepsiCo., Mr. Boyce was a Director at the management consulting firm of Bain & Company where he was employed from 1980 to 1992.

Michael P. McHugh

Vice President Finance - CFO--J. Crew Group, Inc.; Vice President Finance - CFO--J. Crew Operating Corp.; President--J. Crew International, Inc. and J. Crew Services, Inc.

Mr. McHugh is the Vice President Finance and Chief Financial Officer of Holdings. Mr. McHugh has been with the Company since September 1986 and is also currently the Vice President Finance and Chief Financial Officer of Operating Corp and the President of J. Crew International, Inc. and J. Crew Services, Inc. Prior to joining the Company, Mr. McHugh was the Vice President of Finance and Director of the Regina Company from 1983 to 1986, served as the Controller of Operations for Revlon, Inc. from 1977 to 1983, was the U.S. Controller for Canada Dry Corp. from 1975 to 1977 and was a Division Controller and Division Vice President of Finance and Administration at Borden, Inc. from 1968 to 1975.

David M. DeMattei

President--Grace Holmes, Inc.; H.F.D. No. 55, Inc.

Mr. DeMattei became President of J. Crew Factory Outlet upon consummation of the Recapitalization. Mr. DeMattei joined the Company in 1995 and has served as President of J. Crew Retail since June 1995. From 1993 to 1994, Mr. DeMattei served as President of Banana Republic, a division of The Gap, Inc., and from 1983 to 1993, Mr. DeMattei worked in various other executive level positions at The Gap, Inc., including Executive Vice President-Chief Financial Officer from April 1992 to May 1995 and Senior Vice President-Chief Financial Officer from February 1991 to March 1992.

Matthew E. Rubel

President--Popular Club Plan, Inc.

Mr. Rubel joined the Company in September 1994 as the President of PCP. Prior to joining the Company, Mr. Rubel served as the President, CEO, and a member of the Board of Directors at Pepe Jeans USA in 1994, and from 1987 to 1993, he was the President of Specialty Division at Revlon, Inc. From 1984 to 1987, Mr. Rubel served as an Executive Vice President of Murjani International and from 1980 to 1984, he was employed by Bonwit Teller.

Nicholas Lamberti

Vice President--J. Crew Operating Corp.

Mr. Lamberti joined the Company in January 1991 as Vice President - Corporate Controller. Prior to joining the Company, Mr. Lamerti was with Deloitte & Touche from 1966 to 1991.

Employment Agreements and Other Compensation Arrangements

Holdings and Operating Corp (the "Employers") and Ms. Woods entered into an employment agreement, which provides that, for a period of five years commencing on the closing of the Recapitalization, she will serve as Chairman of the Board of Directors and Chief Executive Officer of Holdings and as Chief Executive Officer of Operating Corp. The employment agreement provides for an annual base salary of \$1.0 million, and provides an annual target bonus of up to \$1.0 million based on achievement of earnings objectives to be determined each year. The employment agreement also provides for the grant of 3,308 shares of Holdings Common Stock (the "Restricted Shares") on January 1, 1998. The Restricted Shares will vest as follows: (i) 393 shares immediately upon grant; (ii) 972 shares on each of the third and fourth anniversaries of the Recapitalization and (iii) 971 shares on the fifth anniversary of the Recapitalization. In connection with the grant of the Restricted Shares, the Employers will pay Ms. Woods an amount equal to the federal, state and local income and payroll taxes incurred by Ms. Woods in 1998 as a result of the grant of the Restricted Shares and any federal, state and local income and payroll taxes incurred as a result of such payment. Ms. Woods is also entitled to various executive benefits and perquisites under the employment agreement.

In connection with the Recapitalization, Ms. Woods retained shares of Holdings Common Stock representing approximately 14.8% of the total outstanding shares of Holdings Common Stock determined immediately after the closing of the Recapitalization, such retention effected using an implied purchase price for the retained shares equal to the price that TPG Partners II paid for shares of Holdings Common Stock in connection with the Recapitalization (the "TPG Partners II Price"). Ms. Woods also purchased approximately \$3.0 million of Preferred Stock issued in connection with the Recapitalization.

Under the Option Plan (as defined herein), Holdings has granted Ms. Woods an option to purchase 1,641 shares of Holdings Common Stock at an exercise price equal to the TPG Partners II Price, 20% of which shall become exercisable following the end of each of fiscal years 1998 through 2002, provided that the Company attains certain earnings targets; however, all unvested options shall become exercisable (i) if Ms. Woods' employment is terminated by Holdings without cause, by Ms. Woods for good reason or by reason of death or disability, (ii) in the event of a change in control of Holdings, or (iii) if Ms. Woods is still employed by Holdings, on the seventh anniversary of the closing of the Recapitalization.

Also under the Option Plan, Holdings has granted Ms. Woods the option to purchase 820 shares of Holdings Common Stock. Under this option, Ms. Woods has the right to exercise 20% of the option after each of the first through the fifth anniversaries of the grant date at an exercise price equal to 125%, 156.25%, 195.31%, 244.14% and 305.18% of the TPG Partners II Price, respectively. The exercise of this option may require Ms. Woods to purchase a proportional amount of Preferred Stock issued in connection with the Recapitalization. In addition, all options shall become exercisable (i) if Ms. Woods' employment is terminated by Holdings without cause, by Ms. Woods for good reason or by reason of her death or disability or (ii) in the event of a change in control of Holdings.

All options granted to Ms. Woods are generally governed by and subject to the J. Crew Group, Inc. Stock Option Plan described below.

The shares of Holdings Common Stock acquired by Ms. Woods pursuant to the foregoing are subject to a shareholders' agreement providing for certain transfer restrictions, registration rights and customary tag-along and drag-along rights.

Operating Corp and Mr. DeMattei are parties to an employment agreement which provides that Mr. DeMattei will be employed as president of J. Crew Retail Division with an annual salary of \$525,000, which increases by \$25,000 on each of June 1, 1998 and June 1, 1999. In addition, the agreement provides that Mr. DeMattei is eligible for an annual bonus for fiscal year 1997 of up to approximately \$350,000 and a long-term incentive bonus if certain performance objectives are satisfied. Annual bonuses for subsequent years will be

determined on a year to year basis. Mr. DeMattei is also entitled to various executive benefits and perquisites under the agreement. The agreement provides for continuation of salary and medical benefits for a period one year if Mr. DeMattei's employment is terminated without cause (as defined in the agreement) and otherwise provides that Mr. DeMattei's relationship with Operating Corp and Holdings is one of employment at will.

Operating Corp and Mr. Rubel are parties to an employment agreement which provides that Mr. Rubel will be employed as president of PCP with an annual salary of \$475,000. The agreement provides that Mr. Rubel is eligible for annual bonus and long-term incentive bonus based on the performance of PCP. The agreement expires on January 31, 1999.

Holdings has adopted, the J. Crew Group Inc. Stock Option Plan (the "Option Plan") in order to promote the interests of the Company and its shareholders by providing the Company's key employees and consultants with an appropriate incentive to encourage them to continue in the employ of the Company and to improve the growth and profitability of the Company. Under the Option Plan, the Board of Directors of Holdings will appoint a committee to administer the Option Plan and to grant options to purchase shares of Holdings Common Stock to certain key employees and consultants of the Company. Currently, there is an aggregate of 7,388 shares of Holdings Common Stock available for grants to key employees and consultants under the Option Plan (including the 2,461 shares underlying the options granted to Ms. Woods as described above). The options granted under the Option Plan may be subject to various vesting conditions, including, under some circumstances, the achievement of certain performance objectives. All shares of Holdings Common Stock acquired by key employees or consultants pursuant to the foregoing shall be subject to a shareholders' agreement providing for certain transfer restrictions, registration rights and customary tag-along and drag-along rights.

Executive Compensation

The following table sets forth compensation paid by the Company for fiscal years 1994, 1995 and 1996 to each individual serving as its chief executive officer during fiscal 1996 and to each of the four other most highly compensated executive officers of the Company as of the end of fiscal 1996.

Name and Principal Positions	Fiscal Year	Salary (\$)	Bonus (\$)	Other Annual Comp. (\$)	Long Term Compensation	
					LTIP Payouts (\$)	All Other Comp. (\$)
Arthur Cinader (1) Chief Executive Officer	1996	307,692	--	--	--	--
	1995	700,000	109,000	--	--	--
	1994	700,000	83,000	--	--	--
Emily Woods (2) President	1996	700,000	--	--	--	--
	1995	700,000	1,327,700(3)	1,079,713(4)	--	--
	1994	700,000	1,970,040(5)	1,816,811(6)	--	--
David DeMattei (7) President, J. Crew Retail	1996	475,771	100,000	--	--	--
	1995	352,661	100,000	--	--	--
Matthew Rubel President, Popular Club Plan	1996	422,418	150,000	--	--	--
	1995	391,346	50,000	--	--	--
	1994	112,500	--	--	--	--
Paul Raffin (8) (9) President, J. Crew Catalogue	1996	426,663	75,000	--	--	--
	1995	304,200	50,000	--	--	--
Robert Bernard (10)	1996	650,000	136,500	752,500(11)	--	--
	1995	650,000	350,000	--	--	--
	1994	581,930	--	--	--	--

- (1) Mr. Cinader was replaced as Chief Executive Officer on October 17, 1997.
- (2) Ms. Woods became Chief Executive Officer on October 17, 1997.
- (3) Of this amount, \$1,139,000 represents the value of a grant to the executive of Holdings Common Stock.
- (4) This amount was paid as reimbursement for income taxes incurred as a result of the grant of Holdings Common Stock.
- (5) Of this amount, \$1,884,240 represents the value of a grant to the executive of Holdings Common Stock.
- (6) This amount was paid as reimbursement for income taxes incurred as a result of the grant of Holdings Common Stock.
- (7) Mr. DeMattei was not employed by the Company in 1994.
- (8) Mr. Raffin resigned from the Company as of November 13, 1997.
- (9) Mr. Raffin was not employed by the Company in 1994.
- (10) Mr. Bernard resigned from the Company as of October 28, 1996.
- (11) This amount represents a severance payment to the executive.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As part of arrangements made prior to the negotiation and execution of the Recapitalization Agreement, Holdings agreed to make bonus payments to certain of its executive officers upon consummation of any merger, acquisition, recapitalization or other transaction resulting in a change of control of Holdings. Thus, Holdings made bonus payments in the amount of (i) \$10.0 million to Emily Woods, (ii) \$0.3 million to Matthew Rubel, (iii) \$0.3 million to Michael McHugh and (iv) \$1.2 million to other employees.

In addition, effective on the closing of the Recapitalization, the Company and Arthur Cinader entered into an Employment/Consulting and Non-Compete Agreement, under which Mr. Cinader agreed to serve as an employee and/or consultant for twelve months following the closing of the Recapitalization. Under the agreement, Mr. Cinader agreed, for a period of five years from the closing of the Recapitalization, not to compete, directly or indirectly, in association with or as a stockholder, director, officer, consultant, employee, partner, joint venturer, member or otherwise through any person or entity work for, act as a consultant to, or own any interest in, any competitor of the Company or its affiliates. In consideration of Mr. Cinader's non-compete, employment and consulting undertakings, the Company paid Mr. Cinader a total of \$4.2 million. In addition, during this five-year period, Mr. Cinader is entitled to coverage under the Company's health and welfare plans.

In connection with the Recapitalization, the Company paid TPG a financial advisory fee in the amount of \$5.5 million.

Holdings and its subsidiaries also entered into a tax sharing agreement providing (among other things) that each of the subsidiaries will reimburse Holdings for its share of income taxes determined as if such subsidiary had filed its tax returns separately from Holdings.

CAPITAL STOCK OF HOLDINGS AND OPERATING CORP

General

Operating Corp is authorized by the terms of its certificate of incorporation to issue 1,000 shares of common stock and 1,000 shares of preferred stock. Operating Corp has issued and outstanding 100 shares of common stock, each share of which is entitled to one vote. Holdings owns all of the issued and outstanding stock of Operating Corp. Holdings does not have any material assets other than the common stock of Operating Corp.

Holdings' restated certificate of incorporation authorizes Holdings to issue capital stock consisting of 100,000,000 shares of common stock, par value \$.01 per share, 1,000,000 shares of Series A cumulative preferred stock, par value \$.01 per share ("Series A Preferred Stock"), and 1,000,000 shares of Series B cumulative preferred stock, par value \$.01 per share ("Series B Preferred Stock"). Holdings currently has outstanding 55,000 shares of common stock, 92,500 shares of Series A Preferred Stock and 32,500 shares of Series B Preferred Stock.

The Series A Preferred Stock and Series B Preferred Stock (collectively, the "Holdings Preferred Stock") will accumulate dividends at the rate of 14.50% per annum (payable quarterly) for periods ending on or prior to October 17, 2009. Thereafter, the Series A Preferred Stock will accumulate dividends at the rate of 16.50% per annum. Dividends on the Holdings Preferred Stock will compound to the extent not paid. The Holdings Preferred Stock had an initial liquidation preference of \$1,000 per share. Holdings will be required on October 17, 2009 to redeem shares of Series B Preferred Stock and to pay all accumulated dividends that have been applied, if any, to increase liquidation value of the Series A Preferred Stock (the "clean-down"). Shares of Holdings Preferred Stock may be redeemed at the option of Holdings, in whole or in part, at the redemption prices set forth below (expressed as percentages of liquidation preference), together with all accumulated and unpaid dividends to the redemption date, if redeemed during the six month period beginning on the dates indicated below:

October 17, 1997	103.0%
April 17, 1998	102.5%
October 17, 1998	102.0%
April 17, 1999	101.5%
October 17, 1999	101.0%
April 17, 2000	100.5%
October 17, 2000 and thereafter	100.0%

Optional redemption of the Holdings Preferred Stock is subject to, and expressly conditioned upon, certain limitations under the Senior Subordinated Note Indenture, the Bank Facilities, the Debentures and other documents relating to the Company's indebtedness. Holdings may also be required to redeem shares of Holdings Preferred Stock in certain other circumstances, including the occurrence of a change of control of Holdings, in each case subject to the terms of the Senior Subordinated Note Indenture, the Bank Facilities, the Debentures and other documents relating to the Company's indebtedness. Holders of Holdings Preferred Stock do not have any voting rights with respect thereto, except for such rights as are provided under applicable law, the right to elect, as a class, two directors of Holdings in the event that Holdings fails to comply with its redemption and clean-down obligations and class voting rights with respect to transactions adversely affecting the rights, preferences or powers of the Holdings Preferred Stock.

Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Beneficial Owners of More Than 5% of the Issuer's Voting Securities

(1) Title of Class	(2) Name and Address of Beneficial Owner	(3) Amount and Nature of Beneficial Ownership	(4) Percent of Class
Holdings Common Stock	TPG Partners II, L.P. 201 Main Street, Suite 2420 Fort Worth, TX 76102	31,566.779 shares	57.39%
Holdings Common Stock	Emily Woods Chairman and Chief Executive Officer J. Crew Group, Inc. 770 Broadway New York, NY 10003	8,017.883 shares	14.58%

Security Ownership of Management

(1) Title of Class	(2) Name of Beneficial Owner	(3) Amount and Nature of Beneficial Ownership	(4) Percent of Class
Holdings Common Stock	Emily Woods	8,017.883	14.58%
Holdings Series A Preferred Stock	Emily Woods	2,978.505	3.22%

DESCRIPTION OF OPERATING CORP INDEBTEDNESS

Bank Facilities

On the closing date of the Recapitalization, Operating Corp entered into the Bank Facilities among Operating Corp, Holdings, the several lenders from time to time parties thereto (collectively, the "Banks"), Chase, as administrative and collateral agent (the "Administrative Agent") and DLJ as syndication agent (collectively, the "Agents"). The following is a summary description of the principal terms of the Bank Facilities and the other loan documents. The description set forth below does not purport to be complete and is qualified in its entirety by reference to certain agreements setting forth the principal terms and conditions of the Bank Facilities, which are available upon request from the Issuer.

Structure. The Bank Facilities provide Operating Corp with: (i) a senior secured term loan facility of up to \$70.0 million; and (ii) a senior secured revolving credit facility of up to \$200.0 million.

The full amount of the Term Loan Facility and approximately \$35.6 million of Revolving Credit Facility were borrowed on the closing date under the Bank Facilities (i) to partially finance the Recapitalization, (ii) to repay certain existing outstanding indebtedness of Operating Corp and (iii) to pay certain fees and expenses related to the Recapitalization. See "The Recapitalization." The Bank Facilities may be utilized to fund Operating Corp's working capital requirements, including issuance of stand-by and trade letters of credit, bankers' acceptances and for other general corporate purposes.

The Term Loan Facility is a single tranche term facility of \$70.0 million which has a maturity of six years. Loans, letters of credit and bankers' acceptances under the Revolving Credit Facility will be available at any time during its six-year term subject to the fulfillment of customary conditions precedent including the absence of a default under the Bank Facilities; provided, that at least once during each fiscal year, for a period of 30 consecutive days, Operating Corp must repay all loans outstanding under the Revolving Credit Facility in excess of the amounts set forth below:

Fiscal Year	Amount (in millions)
-----	-----
1998	\$ 25.0
1999	\$ 20.0
2000	\$ 15.0
2001	\$ 10.0
2002 and thereafter	\$ 0.0

Security; Guaranty. Operating Corp's obligations under the Bank Facilities are guaranteed by each of its direct and indirect domestic and, to the extent no adverse tax consequences would result, foreign subsidiaries, other than any receivables subsidiary. The Bank Facilities and the guarantees thereof are secured by a perfected first priority security interest in substantially all assets of Operating Corp and its direct and indirect domestic and, to the extent no adverse tax consequences would result, foreign subsidiaries including: (i) all real property; (ii) all accounts receivable (but excluding the accounts receivable of PCP), inventory and intangibles; and (iii) all of the capital stock of Operating Corp and its direct and indirect domestic and, to the extent no adverse tax consequences would result, foreign subsidiaries.

Interest; Maturity. Borrowings under the Bank Facilities bear interest at a rate per annum equal (at Operating Corp's option) to: (i) the Administrative Agent's Eurodollar rate plus an applicable margin or (ii) an alternate base rate equal to the highest of the Administrative Agent's prime rate, a certificate of deposit rate plus 1%, or the Federal Funds effective rate plus 1/2 of 1% plus, in each case, an applicable margin. Initially, the

applicable margin is 2.25% per annum for Eurodollar rate loans and 1.25% per annum for alternate base rate loans. The Bank Facilities will mature October 17, 2003.

Fees. Operating Corp is required to pay the Banks, on a quarterly basis, a commitment fee on the undrawn portion of the Bank Facilities at a rate equal to 1/2 of 1% per annum. Operating Corp is also obligated to pay (i) a per annum letter of credit fee on the aggregate amount of outstanding letters of credit; (ii) a fronting bank fee for the letter of credit issuing bank; (iii) certain fees in connection with the issuance of bankers' acceptances; and (iv) customary agent, arrangement and other similar fees.

Covenants. The Bank Facilities contain a number of covenants that, among other things, restrict the ability of Operating Corp and its subsidiaries to dispose of assets, incur additional indebtedness, prepay other indebtedness or amend certain debt instruments, pay dividends, create liens on assets, enter into sale and leaseback transactions, make investments, loans or advances, make acquisitions, engage in mergers or consolidations, change the business conducted by Operating Corp or its subsidiaries, or engage in certain transactions with affiliates and otherwise restrict certain corporate activities. In addition, under the Bank Facilities, Operating Corp is required to maintain specified financial ratios and tests, including minimum interest coverage ratios, leverage ratios below a specified maximum, minimum net worth levels and minimum ratios of inventory to senior debt.

Events of Default. The Bank Facilities contain customary events of default, including nonpayment of principal, interest or fees, material inaccuracy of representations and warranties, violation of covenants, cross- default and cross-acceleration to certain other indebtedness, certain events of bankruptcy and insolvency, material judgments against Operating Corp, invalidity of any guarantee or security interest and a change of control of Operating Corp in certain circumstances as set forth therein.

Receivables Facility

In connection with the Recapitalization, affiliates of the Initial Purchasers (the "Receivables Lenders") arranged a facility to securitize certain PCP consumer loan installment receivables (the "Receivables") on a revolving basis under a receivables program (the "Receivables Facility"). The Securitization involved the transfer of the Receivables through a special purpose, bankruptcy-remote subsidiary to a trust in exchange for cash and subordinated certificates representing undivided interests in the pool of Receivables, and the subsequent sale by the trust of certificates of beneficial interests, also representing undivided interests in the Receivables, to third party investors. The Securitization provided approximately \$40 million of proceeds. The Company is obligated to repurchase Receivables related to customer credits such as merchandise returns and other Receivables defects, and to make payments in circumstances where the Company has breached its representations or covenants with respect to the Receivables Facility. The Company has no obligation to reimburse the trust or the purchasers of beneficial interests for credit losses.

The Receivables Facility is contemplated to be an interim agreement pending the consummation of a private placement of Receivables-based securities or such other refinancing as the parties may agree to, proceeds of which will be used to prepay the Receivables Facility. If the Receivables Facility is not refinanced within two months of the date of closing, the interest rates thereunder will increase.

THE EXCHANGE OFFER

The summary herein of certain provisions of the Registration Rights Agreement does not purport to be complete and reference is made to the provisions of the Registration Rights Agreement, which has been filed as an exhibit to the Registration Statement and a copy of which is available as set forth under the heading "Available Information."

Terms of the Exchange Offer

In connection with the issuance of the Old Debentures pursuant to a Purchase Agreement dated as of October 14, 1997, by and among the Issuer and the Initial Purchasers, the Initial Purchasers and their respective assignees became entitled to the benefits of the Registration Rights Agreement.

Under the Registration Rights Agreement, the Issuer is required to file within 60 days after October 17, 1997 (the date the Registration Rights Agreement was entered into (the "Closing Date")) a registration statement (the "Exchange Offer Registration Statement") for a registered exchange offer with respect to an issue of new debentures identical in all material respects to the Old Debentures except that the new debentures shall contain no restrictive legend thereon. Under the Registration Rights Agreement, the Issuer is required to (i) cause the Exchange Offer Registration Statement to be filed with the Commission no later than 60 days after the Closing Date, (ii) use its best efforts to cause such Exchange Offer Registration Statement to become effective within 135 days after the Closing Date, (iii) use its best efforts to keep the Exchange Offer open for at least 20 Business Days (or longer if required by applicable law), (iv) use its best efforts to consummate the Exchange Offer on or prior to the 30th Business Day following the date on which the Exchange Offer Registration Statement is declared effective by the Commission and (v) cause the Exchange Offer to comply with all applicable federal and state securities laws. The Exchange Offer being made hereby, if commenced and consummated within the time periods described in this paragraph, will satisfy those requirements under the Registration Rights Agreement.

Upon the terms and subject to the conditions set forth in this Prospectus and in the Letter of Transmittal, all Old Debentures validly tendered and not withdrawn prior to 5:00 p.m., New York City time, on the Expiration Date will be accepted for exchange. New Debentures of the same class will be issued in exchange for an equal principal amount of outstanding Old Debentures accepted in the Exchange Offer. Old Debentures may be tendered only in integral multiples of \$1,000 of principal amount at maturity. This Prospectus, together with the Letter of Transmittal, is being sent to all registered holders as of _____, 1998. The Exchange Offer is not conditioned upon any minimum principal amount of Old Debentures being tendered in exchange. However, the obligation to accept Old Debentures for exchange pursuant to the Exchange Offer is subject to certain conditions as set forth herein under "--Conditions."

Old Debentures shall be deemed to have been accepted as validly tendered when, as and if the Trustee has given oral or written notice thereof to the Exchange Agent. The Exchange Agent will act as agent for the tendering holders of Old Debentures for the purposes of receiving the New Debentures and delivering New Debentures to such holders.

Based on interpretations by the staff of the Commission, as set forth in no-action letters issued to third parties, including the Exchange Offer No-Action Letters, the Issuer believes that the New Debentures issued pursuant to the Exchange Offer may be offered for resale, resold or otherwise transferred by each holder thereof (other than a broker-dealer who acquires such New Debentures directly from the Issuer for resale pursuant to Rule 144A under the Securities Act or any other available exemption under the Securities Act and other than any holder that is an "affiliate" (as defined in Rule 405 under the Securities Act) of the Issuer without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Debentures are acquired in the ordinary course of such holder's business and such holder is not engaged in, and does not intend to engage in, a distribution of such New Debentures and has no arrangement with any person to participate in a

distribution of such New Debentures. By tendering the Old Debentures in exchange for New Debentures, each holder, other than a broker-dealer, will represent to the Issuer that: (i) it is not an affiliate (as defined in Rule 405 under the Securities Act) of the Issuer; (ii) it is not a broker-dealer tendering Old Debentures acquired for its own account directly from the Issuer; (iii) any New Debentures to be received by it will be acquired in the ordinary course of its business; and (iv) it is not engaged in, and does not intend to engage in, a distribution of such New Debentures and has no arrangement or understanding to participate in a distribution of the New Debentures. If a holder of Old Debentures is engaged in or intends to engage in a distribution of the New Debentures or has any arrangement or understanding with respect to the distribution of the New Debentures to be acquired pursuant to the Exchange Offer, such holder may not rely on the applicable interpretations of the staff of the Commission and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any secondary resale transaction. Each Participating Broker-Dealer that receives New Debentures for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Debentures. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a Participating Broker-Dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a Participating Broker-Dealer in connection with resales of New Debentures received in exchange for Old Debentures where such Old Debentures were acquired by such Participating Broker-Dealer as a result of market-making activities or other trading activities. The Issuer has agreed that it will make this Prospectus available to any Participating Broker-Dealer for a period of time not to exceed one year after the date on which the Exchange Offer is consummated for use in connection with any such resale. See "Plan of Distribution."

In the event that (i) any changes in law or the applicable interpretations of the staff of the Commission do not permit the Issuer to effect the Exchange Offer, or (ii) if any holder of Old Debentures shall notify the Issuer within 20 business days following the consummation of the Exchange Offer that (A) such holder was prohibited by law or Commission policy from participating in the Exchange Offer or (B) such holder may not resell the New Debentures acquired by it in the Exchange Offer to the public without delivering a prospectus and the prospectus contained in the Exchange Offer Registration Statement is not appropriate or available for such resales by such holder or (C) such holder is a broker-dealer and holds Old Debentures acquired directly from the Issuer or one of its affiliates, then the Issuer shall (x) cause to be filed a shelf registration statement pursuant to Rule 415 under the Act (the "Shelf Registration Statement") on or prior to 30 days after the date on which the Issuer determines that it is not required to file the Exchange Offer Registration Statement pursuant to clause (i) above or 60 days after the date on which the Issuer receives the notice specified in clause (ii) above and shall (y) use its best efforts to cause such Shelf Registration Statement to become effective within 135 days after the date on which the Issuer becomes obligated to file such Shelf Registration Statement. If, after the Issuer has filed an Exchange Offer Registration Statement, the Issuer is required to file and make effective a Shelf Registration Statement solely because the Exchange Offer shall not be permitted under applicable federal law, then the filing of the Exchange Offer Registration Statement shall be deemed to satisfy the requirements of clause (x) above. Such an event shall have no effect on the requirements of clause (y) above. The Issuer shall use its best efforts to keep the Shelf Registration Statement continuously effective, supplemented and amended to the extent necessary to ensure that it is available for sales of Transfer Restricted Securities (as defined below) by the holders thereof for a period of at least two years following the date on which such Shelf Registration Statement first becomes effective under the Securities Act. The term "Transfer Restricted Securities" means each Debenture, until the earliest to occur of (a) the date on which such Debenture is exchanged in the Exchange Offer and entitled to be resold to the public by the holder thereof without complying with the prospectus delivery requirements of the Act, (b) the date on which such Debenture has been disposed of in accordance with a Shelf Registration Statement, (c) the date on which such Debenture is disposed of by a broker-dealer pursuant to the "Plan of Distribution" contemplated by the Exchange Offer Registration Statement (including delivery of the prospectus contained therein) or (d) the date on which such Debenture is distributed to the public pursuant to Rule 144 under the Act.

If (i) the Exchange Offer Registration Statement or the Shelf Registration Statement is not filed with the Commission on or prior to the date specified in the Registration Rights Agreement, (ii) any such Registration Statement has not been

declared effective by the Commission on or prior to the date specified for such effectiveness

in the Registration Rights Agreement, (iii) the Exchange Offer has not been consummated within 180 days after the Closing Date or (iv) any Registration Statement required by the Registration Rights Agreement is filed and declared effective but shall thereafter cease to be effective or fail to be usable for its intended purpose without being succeeded immediately by a post-effective amendment to such Registration Statement that cures such failure and that is itself declared effective immediately (each such event referred to in clauses (i) through (iv), a "Registration Default"), then the Issuer has agreed to pay liquidated damages to each holder of Transfer Restricted Securities. With respect to the first 90-day period immediately following the occurrence of such Registration Default the liquidated damages shall equal \$.05 per week per \$1,000 principal amount of Transfer Restricted Securities held by such holder for each week or portion thereof that the Registration Default continues. The amount of the liquidated damages shall increase by an additional \$.05 per week per \$1,000 in principal amount of Transfer Restricted Securities with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum amount of liquidated damages of \$.25 per week per \$1,000 principal amount of Transfer Restricted Securities. Notwithstanding anything to the contrary set forth herein, (1) upon filing of the Exchange Offer Registration Statement (and/or, if applicable, the Shelf Registration Statement), in the case of (i) above, (2) upon the effectiveness of the Exchange Offer Registration Statement (and/or, if applicable, the Shelf Registration Statement), in the case of (ii) above, (3) upon consummation of the Exchange Offer, in the case of (iii) above, or (4) upon the filing of a post-effective amendment to the Registration Statement or an additional Registration Statement that causes the Exchange Offer Registration Statement (and/or, if applicable, the Shelf Registration Statement) to again be declared effective or made usable in the case of (iv) above, the liquidated damages payable with respect to the Transfer Restricted Securities a result of such clause (i), (ii), (iii) or (iv), as applicable, shall cease.

All accrued liquidated damages shall be paid to the holder of the global debenture representing the Old Debentures by wire transfer of immediately available funds or by federal funds check and to holders of certificated securities by mailing checks to their registered addresses on each April 15 and October 15. All obligations of the Issuer set forth in the preceding paragraph that are outstanding with respect to any Transfer Restricted Security at the time such security ceases to be a Transfer Restricted Security shall survive until such time as all such obligations with respect to such security shall have been satisfied in full.

Upon consummation of the Exchange Offer, subject to certain exceptions, holders of Old Debentures who do not exchange their Old Debentures for New Debentures in the Exchange Offer will no longer be entitled to registration rights and will not be able to offer or sell their Old Debentures, unless such Old Debentures are subsequently registered under the Securities Act (which, subject to certain limited exceptions, the Issuer will have no obligation to do), except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. See "Risk Factors--Risk Factors Relating to the Debentures--Consequences of Failure to Exchange."

Expiration Date; Extensions; Amendments; Termination

The term "Expiration Date" shall mean _____, 1998 (30 calendar days following the commencement of the Exchange Offer), unless the Exchange Offer is extended, if and as required by applicable law, in which case the term "Expiration Date" shall mean the latest date to which the Exchange Offer is extended.

In order to extend the Expiration Date, the Issuer will notify the Exchange Agent of any extension by oral or written notice and will notify the holders of the Old Debentures by means of a press release or other public announcement prior to 9:00 A.M., New York City time, on the next business day after the previously scheduled Expiration Date.

The Issuer reserves the right (i) to delay acceptance of any Old Debentures, to extend the Exchange Offer or to terminate the Exchange Offer and not permit acceptance of Old Debentures not previously accepted if any of the conditions set forth herein under "--Conditions" shall have occurred and shall not have been waived by the Issuer, by giving oral or written notice of such delay, extension or termination to the Exchange Agent, or (ii) to amend the terms of the Exchange Offer in any manner deemed by it to be advantageous to the holders of the Old

Debentures. Any such delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by oral or written notice thereof to the Exchange Agent. If the Exchange Offer is amended in a manner determined by the Issuer to constitute a material change, the Issuer will promptly disclose such amendment in a manner reasonably calculated to inform the holders of the Old Debentures of such amendment.

Yield Interest on the New Debentures

The New Debentures will accrete at a rate of 13 1/8%, compounded semi-annually, to an aggregate principal amount of \$142.0 million by October 15, 2002. Cash interest will not accrue on the New Debentures prior to October 15, 2002. Commencing October 15, 2002, cash interest on the New Debentures will accrue and be payable, at a rate of 13 1/8% per annum, semi-annually in arrears on each April 15 and October 15.

Procedures for Tendering

To tender in the Exchange Offer, a holder must complete, sign and date the Letter of Transmittal, have the signatures thereon guaranteed if required by the Letter of Transmittal, and mail or otherwise deliver such Letter of Transmittal, together with any other required documents, to the Exchange Agent prior to 5:00 p.m., New York City time, on the Expiration Date. In addition, either (i) certificates for such Old Debentures must be received by the Exchange Agent along with the Letter of Transmittal, (ii) a timely confirmation of a book-entry transfer (a "Book-Entry Confirmation") of such Old Debentures, if such procedure is available, into the Exchange Agent's account at DTC (the "Book-Entry Transfer Facility") pursuant to the procedure for book-entry transfer described below, must be received by the Exchange Agent prior to the Expiration Date or (iii) the holder must comply with the guaranteed delivery procedures described below. THE METHOD OF DELIVERY OF OLD DEBENTURES, LETTERS OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS IS AT THE ELECTION AND RISK OF THE HOLDERS OF THE DEBENTURES. IF SUCH DELIVERY IS BY MAIL, IT IS RECOMMENDED THAT REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, BE USED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE TIMELY DELIVERY. NO LETTERS OF TRANSMITTAL OR OLD DEBENTURES SHOULD BE SENT TO THE ISSUER. Delivery of all documents must be made to the Exchange Agent at its address set forth below. Holders of Debentures may also request their respective brokers, dealers, commercial banks, trust companies or nominees to effect such tender for such holders.

The tender by a holder of Old Debentures will constitute an agreement between such holder and the Issuer in accordance with the terms and subject to the conditions set forth herein and in the Letter of Transmittal.

Only a holder of Old Debentures may tender such Old Debentures in the Exchange Offer. The term "holder" with respect to the Exchange Offer means any person in whose name Old Debentures are registered on the books of the Issuer or any other person who has obtained a properly completed bond power from the registered holder.

Any beneficial owner whose Old Debentures are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender should contact such registered holder promptly and instruct such registered holder to tender on his behalf. If such beneficial owner wishes to tender on his own behalf, such beneficial owner must, prior to completing and executing the Letter of Transmittal and delivering his Old Debentures, either make appropriate arrangements to register ownership of the Old Debentures in such owner's name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time.

Signatures on a Letter of Transmittal or a notice of withdrawal, as the case may be, must be guaranteed by any member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the United States or an "eligible guarantor" institution within the meaning of Rule 17Ad-15 under the Exchange Act (each an "Eligible Institution") unless the Old Debentures tendered pursuant thereto are tendered (i) by a registered holder who has not completed

the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" on the Letter of Transmittal or (ii) for the account of an Eligible Institution.

If the Letter of Transmittal is signed by a person other than the registered holder of any Old Debentures listed therein, such Old Debentures must be endorsed or accompanied by bond powers and a proxy which authorizes such person to tender the Old Debentures on behalf of the registered holder, in each case as the name of the registered holder or holders appears on the Old Debentures.

If the Letter of Transmittal or any Old Debentures or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and unless waived by the Issuer, evidence satisfactory to the Issuer of their authority to so act must be submitted with the Letter of Transmittal.

All questions as to the validity, form, eligibility (including time of receipt) and withdrawal of the tendered Old Debentures will be determined by the Issuer in its sole discretion, which determination will be final and binding. The Issuer reserves the absolute right to reject any and all Old Debentures not properly tendered or any Old Debentures which, if accepted, would, in the opinion of counsel for the Issuer, be unlawful. The Issuer also reserves the absolute right to waive any irregularities or conditions of tender as to particular Old Debentures. The Issuer's interpretation of the terms and conditions of the Exchange Offer (including the instructions in the Letter of Transmittal) will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of Old Debentures must be cured within such time as the Issuer shall determine. Neither the Issuer, the Exchange Agent nor any other person shall be under any duty to give notification of defects or irregularities with respect to tenders of Old Debentures, nor shall any of them incur any liability for failure to give such notification. Tendere of Old Debentures will not be deemed to have been made until such irregularities have been cured or waived. Any Old Debentures received by the Exchange Agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned without cost to such holder by the Exchange Agent to the tendering holders of Old Debentures, unless otherwise provided in the Letter of Transmittal, as soon as practicable following the Expiration Date.

In addition, the Issuer reserves the right in its sole discretion, subject to the provisions of the Indenture, to (i) purchase or make offers for any Old Debentures that remain outstanding subsequent to the Expiration Date or, as set forth under "--Conditions", (ii) to terminate the Exchange Offer in accordance with the terms of the Registration Rights Agreement and (iii) to the extent permitted by applicable law, purchase Old Debentures in the open market, in privately negotiated transactions or otherwise. The terms of any such purchases or offers could differ from the terms of the Exchange Offer.

Acceptance of Old Debentures for Exchange; Delivery of New Debentures

Upon satisfaction or waiver of all of the conditions to the Exchange Offer, all Old Debentures properly tendered will be accepted, promptly after the Expiration Date, and the New Debentures will be issued promptly after acceptance of the Old Debentures. See "-- Conditions" below. For purposes of the Exchange Offer, Old Debentures shall be deemed to have been accepted as validly tendered for exchange when, as and if the Issuer has given oral or written notice thereof to the Exchange Agent.

In all cases, issuance of New Debentures for Old Debentures that are accepted for exchange pursuant to the Exchange Offer will be made only after timely receipt by the Exchange Agent of certificates for such Old Debentures or a timely Book-Entry Confirmation of such Old Debentures into the Exchange Agent's account at the Book-Entry Transfer Facility, a properly completed and duly executed Letter of Transmittal and all other required documents. If any tendered Old Debentures are not accepted for any reason set forth in the terms and conditions of the Exchange Offer or if Old Debentures are submitted for a greater principal amount than the holder desires to exchange, such unaccepted or nonexchanged Old Debentures will be returned without expense to the tendering holder thereof (or, in the case of Old Debentures tendered by book-entry transfer procedures described below, such

nonexchanged Old Debentures will be credited to an account maintained with such Book-Entry Transfer Facility) as promptly as practicable after the expiration or termination of the Exchange Offer.

Book-Entry Transfer

The Exchange Agent will make a request to establish an account with respect to the Old Debentures at the Book-Entry Transfer Facility for purposes of the Exchange Offer within two business days after the date of this Prospectus. Any financial institution that is a participant in the Book-Entry Transfer Facility's systems may make book-entry delivery of Old Debentures by causing the Book-Entry Transfer Facility to transfer such Old Debentures into the Exchange Agent's account at the Book-Entry Transfer Facility in accordance with such Book-Entry Transfer Facility's procedures for transfer. However, although delivery of Old Debentures may be effected through book-entry transfer at the Book-Entry Transfer Facility, the Letter of Transmittal with any required signature guarantees and any other required documents must, in any case, be transmitted to and received by the Exchange Agent at one of the addresses set forth below under "--Exchange Agent" on or prior to the Expiration Date or the guaranteed delivery procedures described below must be complied with.

Guaranteed Delivery Procedures

If a registered holder of the Old Debentures desires to tender such Old Debentures, and the Old Debentures are not immediately available, or time will not permit such holder's Old Debentures or other required documents to reach the Exchange Agent before the Expiration Date, or the procedures for book-entry transfer cannot be completed on a timely basis, a tender may be effected if (i) the tender is made through an Eligible Institution, (ii) prior to the Expiration Date, the Exchange Agent receives from such Eligible Institution a properly completed and duly executed Letter of Transmittal and Notice of Guaranteed Delivery, substantially in the form provided by the Issuer (by mail or hand delivery), setting forth the name and address of the holder of Old Debentures and the amount of Old Debentures tendered, stating that the tender is being made thereby and guaranteeing that within three New York Stock Exchange ("NYSE") trading days after the date of execution of the Notice of Guaranteed Delivery, the certificates for all physically tendered Old Debentures, in proper form for transfer, or a Book-Entry Confirmation, as the case may be, and any other documents required by the Letter of Transmittal will be deposited by the Eligible Institution with the Exchange Agent and (iii) the certificates for all physically tendered Old Debentures, in proper form for transfer, or a Book-Entry Confirmation, as the case may be, and all other documents required by the Letter of Transmittal are received by the Exchange Agent within three NYSE trading days after the date of execution of the Notice of Guaranteed Delivery.

Withdrawal of Tenders

Tenders of Old Debentures may be withdrawn at any time prior to 5:00 p.m., New York City time on the Expiration Date.

For a withdrawal to be effective, a written notice of withdrawal must be received by the Exchange Agent prior to 5:00 p.m., New York City time on the Expiration Date at one of the addresses set forth below under "--Exchange Agent." Any such notice of withdrawal must specify the name of the person having tendered the Old Debentures to be withdrawn, identify the Old Debentures to be withdrawn (including the principal amount of such Old Debentures) and (where certificates for Old Debentures have been transmitted) specify the name in which such Old Debentures are registered, if different from that of the withdrawing holder. If certificates for Old Debentures have been delivered or otherwise identified to the Exchange Agent, then, prior to the release of such certificates, the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and a signed notice of withdrawal with signatures guaranteed by an Eligible Institution unless such holder is an Eligible Institution. If Old Debentures have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Old Debentures and otherwise comply with the procedures of such facility. All questions as to the validity, form and eligibility (including time of receipt) of such notices will be

determined by the Issuer, whose determination shall be final and binding on all parties. Any Old Debentures so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the Exchange Offer. Any Old Debentures which have been tendered for exchange but which are not exchanged for any reason will be returned to the holder thereof without cost to such holder (or, in the case of Old Debentures tendered by book-entry transfer into the Exchange Agent's account at the Book-Entry Transfer Facility pursuant to the book-entry transfer procedures described above, such Old Debentures will be credited to an account maintained with such Book-Entry Transfer Facility for the Old Debentures) as soon as practicable after withdrawal, rejection of tender or termination of the Exchange Offer. Properly withdrawn Old Debentures may be retendered by following one of the procedures described under "--Procedures for Tendering" and "--Book-Entry Transfer" above at any time on or prior to the Expiration Date.

Conditions

Notwithstanding any other term of the Exchange Offer, Old Debentures will not be required to be accepted for exchange, nor will New Debentures be issued in exchange for any Old Debentures, and the Issuer may terminate or amend the Exchange Offer as provided herein before the acceptance of such Old Debentures, if because of any change in law, or applicable interpretations thereof by the Commission, the Issuer determines that they are not permitted to effect the Exchange Offer. The Issuer has no obligation to, and will not knowingly, permit acceptance of tenders of Old Debentures from affiliates (within the meaning of Rule 405 under the Securities Act) of the Issuer or from any other holder or holders who are not eligible to participate in the Exchange Offer under applicable law or interpretations thereof by the Commission, or if the New Debentures to be received by such holder or holders of Old Debentures in the Exchange Offer, upon receipt, will not be tradable by such holder without restriction under the Securities Act and the Exchange Act and without material restrictions under the "blue sky" or securities laws of substantially all of the states of the United States.

Exchange Agent

State Street Bank & Trust Company has been appointed as Exchange Agent for the Exchange Offer. Questions and requests for assistance and requests for additional copies of this Prospectus or of the Letter of Transmittal should be directed to the Exchange Agent addressed as follows:

By Mail: P.O. Box 778 Boston, Massachusetts 02102 Attention: Corporate Trust Department Kellie Mullen	By Overnight Mail or Courier: Two International Place Boston, Massachusetts 02102 Attention: Corporate Trust Department Kellie Mullen
By Hand in New York to 5:00 p.m. (as drop agent): 61 Broadway 15th Floor Corporate Trust Window New York, New York 10006	By Hand in Boston to 5:00 p.m.: Two International Place Fourth Floor Corporation Trust Boston, Massachusetts 02110

For information call:
(617) 664-5587

Fees and Expenses

The expenses of soliciting tenders pursuant to the Exchange Offer will be borne by the Issuer. The principal solicitation for tenders pursuant to the Exchange Offer is being made by mail; however, additional solicitations may be made by telegraph, telephone, telecopy or in person by officers and regular employees of the Company.

The Issuer will not make any payments to brokers, dealers or other persons soliciting acceptances of the Exchange Offer. The Issuer, however, will pay the Exchange Agent reasonable and customary fees for its services and will reimburse the Exchange Agent for its reasonable out-of-pocket expenses in connection therewith. The Issuer may also pay brokerage houses and other custodians, nominees and fiduciaries the reasonable out-of-pocket expenses incurred by them in forwarding copies of the Prospectus and related documents to the beneficial owners of the Old Debentures, and in handling or forwarding tenders for exchange.

The expenses to be incurred in connection with the Exchange Offer will be paid by the Issuer, including fees and expenses of the Exchange Agent and Trustee and accounting, legal, printing and related fees and expenses.

The Issuer will pay all transfer taxes, if any, applicable to the exchange of Old Debentures pursuant to the Exchange Offer. If, however, certificates representing New Debentures or Old Debentures for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be registered or issued in the name of, any person other than the registered holder of the Old Debentures tendered, or if tendered Old Debentures are registered in the name of any person other than the person signing the Letter of Transmittal, or if a transfer tax is imposed for any reason other than the exchange of Old Debentures pursuant to the Exchange Offer, then the amount of any such transfer taxes (whether imposed on the registered holder or any other persons) will be payable by the tendering holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted with the Letter of Transmittal, the amount of such transfer taxes will be billed directly to such tendering holder.

DESCRIPTION OF THE NEW DEBENTURES

General

The Old Debentures were issued, and the New Debentures will be, issued pursuant to the Indenture which is dated as of October 17, 1997 and is between the Company and State Street Bank and Trust Company, as trustee (the "Trustee"). The terms of the New Debentures will include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (the "Trust Indenture Act"). The New Debentures will be subject to all such terms, and prospective holders of New Debentures are referred to the Indenture and the Trust Indenture Act for a statement thereof. The following summary of the material provisions of the Indenture does not purport to be complete and is qualified in its entirety by reference to the Indenture, including the definitions therein of certain terms used below. Copies of the proposed form of Indenture and Registration Rights Agreement are available as set forth below under "--Additional Information." The definitions of certain terms used in the following summary are set forth below under "--Certain Definitions."

The New Debentures will be general unsecured obligations of the Issuer and will be pari passu in right of payment to all current and future unsubordinated Indebtedness of the Issuer and senior in right of payment to all subordinated Indebtedness of the Issuer. The operations of the Issuer are conducted entirely through its Subsidiaries and, therefore, the Issuer is dependent in part upon the cash flow of its Subsidiaries to meet its obligations, including its obligations under the New Debentures. See "Risk Factors--Limitation on Access to Cash Flow of Subsidiaries; Holding Company Structure." The New Credit Facility and the Operating Corp Senior Subordinated Notes restrict Operating Corp. from paying any dividends or making any other distributions to the Issuer. The ability of Operating Corp to comply with the conditions in the Operating Corp Senior Subordinated Notes may be affected by certain events that are beyond the Issuer's control. The New Debentures will be effectively subordinated to all Indebtedness and other liabilities (including, without limitation, to Operating Corp's obligations under the New Credit Facility and the Operating Corp Senior Subordinated Notes). Any right of the Issuer to receive assets of any of its Subsidiaries upon such Subsidiary's liquidation or reorganization (and the consequent right of holders of the Operating Corp Senior Subordinated Notes to participate in those assets) will be effectively subordinated to the claims of that Subsidiary's creditors except to the extent that the Issuer itself is recognized as a creditor of such Subsidiary, in which case the claims of the Issuer would still be subordinate to the claims of such creditors who hold security in the assets of such Subsidiary and to the claims of such creditors who hold Indebtedness of such Subsidiary senior to that held by the Issuer. As of November 7, 1997, the Issuer had Indebtedness of \$75.3 million (all of which was attributable to the Old Debentures) and the Issuer's Subsidiaries had \$508.3 million of outstanding liabilities, including Indebtedness under the Operating Corp Senior Subordinated Notes and the Bank Facilities and including trade payables and other accrued liabilities. The Indenture will permit the incurrence of certain additional Indebtedness of the Issuer and the Issuer's Subsidiaries in the future. See "--Certain Covenants--Incurrence of Indebtedness and Issuance of Preferred Stock."

As of the Issue Date, all of the Issuer's subsidiaries other than any Receivables Subsidiary were Restricted Subsidiaries. However, under certain circumstances, the Issuer will be able to designate current or future Subsidiaries as Unrestricted Subsidiaries. Unrestricted Subsidiaries will not be subject to many of the restrictive covenants set forth in the Indenture.

Principal, Maturity and Interest

New Debentures in an aggregate principal amount at maturity of up to \$142.0 million will be issued in the Exchange Offer. The New Debentures will mature on October 15, 2008. The New Debentures will be issued at a substantial discount from their principal amount at maturity. Until October 15, 2002, no interest will accrue on the New Debentures, but the Accreted Value will increase (representing amortization of original issue discount) between the date of original issuance and October 15, 2002, on a semi-annual bond equivalent basis using a 360-day year comprised of twelve 30-day months, such that the Accreted Value shall be equal to the full principal amount at maturity of the New Debentures on October 15, 2002. Beginning on October 15, 2002, interest on the New

Debentures will accrue at the rate of 13-1/8% per annum and will be payable semi-annually in arrears on April 15 and October 15, commencing on April 15, 2003, to holders of record on the immediately preceding April 1 and October 1, respectively. Interest on the New Debentures will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from October 15, 2002. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Principal, premium, if any, and interest and Liquidated Damages on the New Debentures will be payable at the office or agency (the "Paying Agent") of the Issuer maintained for such purpose within the City and State of New York or, at the option of the Issuer, payment of principal, premium, interest, and Liquidated Damages may be made by check mailed to the holders of the New Debentures at their respective addresses set forth in the register of holders of Debentures; provided that all payments of principal, premium, interest and Liquidated Damages with respect to New Debentures represented by one or more permanent global debentures ("Global Debentures") will be required to be made by wire transfer of immediately available funds to the accounts of DTC or any successor thereto. Until otherwise designated by the Issuer, the Issuer's office or agency in New York will be the office of the Trustee maintained for such purpose. The New Debentures will be issued in denominations of \$1,000 and integral multiples thereof.

Optional Redemption

Except as described below, the New Debentures will not be redeemable at the Issuer's option prior to October 15, 2002. Thereafter, the New Debentures will be subject to redemption at any time at the option of the Issuer, in whole or in part, upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and Liquidated Damages thereon to the applicable redemption date, if redeemed during the twelve-month period beginning on October 15 of the years indicated below:

Year	Percentage
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2002	106.563
2003	104.375
2004	102.188
2005 and thereafter ...	100.000

Notwithstanding the foregoing, at any time on or prior to October 15, 2000, the Issuer may (but shall not have the obligation to) redeem, on one or more occasions, up to an aggregate of 35% of the principal amount of New Debentures originally issued at a redemption price equal to 113.125% of the Accreted Value thereof, plus Liquidated Damages thereon, if any, to the redemption date, with the net cash proceeds of one or more Equity Offerings; provided that at least 65% of the aggregate principal amount at maturity of the New Debentures originally issued remain outstanding immediately after the occurrence of such redemption; and provided further, that such redemption shall occur within 90 days of the date of the closing of such Equity Offering.

Mandatory Redemption

Except as set forth under "--Repurchase at the Option of Holders," the Issuer is not required to make mandatory redemption or sinking fund payments with respect to the New Debentures.

Repurchase at the Option of Holders

Change of Control

Upon the occurrence of a Change of Control, each holder of New Debentures will have the right to require the Issuer to repurchase all or any part (equal to \$1,000 or an integral multiple thereof) of such holder's New Debentures pursuant to the offer described below (the "Change of Control Offer") at an offer price in cash equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest and Liquidated Damages thereon,

if any, to the date of purchase or, in the case of repurchases of New Debentures prior to October 15, 2002 at a purchase price equal to 101% of the Accreted Value thereof as of the date of repurchase (the "Change of Control Payment"). Within 65 days following any Change of Control, the Issuer will mail a notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase New Debentures on the date specified in such notice, which date shall be no earlier than 30 days (or such shorter time period as may be permitted under applicable law, rules and regulations) and no later than 60 days from the date such notice is mailed (the "Change of Control Payment Date"), pursuant to the procedures required by the Indenture and described in such notice. The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the New Debentures as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture relating to such Change of Control Offer, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations described in the Indenture by virtue thereof.

On the Change of Control Payment Date, the Issuer will, to the extent lawful, (1) accept for payment all New Debentures or portions thereof properly tendered pursuant to the Change of Control Offer, (2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all New Debentures or portions thereof so tendered and (3) deliver or cause to be delivered to the Trustee the New Debentures so accepted together with an officers' certificate stating the aggregate principal amount of New Debentures or portions thereof being purchased by the Issuer. The Paying Agent will promptly mail to each holder of New Debentures so tendered the Change of Control Payment for such New Debentures, and the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new New Debenture equal in principal amount to any unpurchased portion of the New Debentures surrendered, if any; provided that each such new New Debenture will be in a principal amount of \$1,000 or an integral multiple thereof. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The Change of Control provisions described above will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the holders of the New Debentures to require that the Issuer repurchase or redeem the New Debentures in the event of a takeover, recapitalization or similar transaction.

The New Credit Facility and the Operating Corp Senior Subordinated Notes restrict Operating Corp from paying any dividends or making any other distributions to the Issuer. If the Issuer is unable to obtain dividends from Operating Corp sufficient to permit the repurchase of the New Debentures or does not refinance such Indebtedness, the Issuer will likely not have the financial resources to purchase New Debentures. In any event, there can be no assurance that the Issuer's Subsidiaries will have the resources available to pay any such dividend or make any such distribution. Prior to complying with the provisions of the preceding paragraphs, but in any event within 90 days following a Change of Control, the Issuer will either repay all outstanding Indebtedness of its Subsidiaries or obtain the requisite consents, if any, under the New Credit Facility and the Operating Corp Senior Subordinated Notes to permit the repurchase of the New Debentures required by this covenant. The Issuer will not be required to purchase any New Debentures until it has complied with the preceding sentence, but the Issuer's failure to make a Change of Control Offer when required or to purchase tendered New Debentures when tendered would constitute an Event of Default under the Indenture. See "Risk Factors--Substantial Leverage; Liquidity; Stockholders' Deficit" and "--Limitation on Access to Cash Flow of Subsidiaries; Holding Company Structure."

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all New Debentures validly tendered and not withdrawn under such Change of Control Offer.

The definition of Change of Control includes a phrase relating to the sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the assets of the Issuer and its Subsidiaries taken as a whole.

Although there is a developing body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of New Debentures to require the Issuer to repurchase such New Debentures as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Issuer and its Subsidiaries taken as a whole to another Person or group may be uncertain.

Asset Sales

The Indenture provides that the Issuer will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless (i) the Issuer (or the Restricted Subsidiary, as the case may be) receives consideration at the time of such Asset Sale at least equal to the fair market value (evidenced by a resolution of the Board of Directors set forth in an officers' certificate delivered to the Trustee) of the assets or Equity Interests issued or sold or otherwise disposed of and (ii) at least 75% of the consideration therefor received by the Issuer or such Restricted Subsidiary is in the form of (A) cash or Cash Equivalents or (B) Qualified Proceeds; provided that the aggregate fair market value of Qualified Proceeds (other than cash or Cash Equivalents), which may be received in consideration for asset sales pursuant to this clause (ii) (B) shall not exceed \$7.5 million since the Issue Date; provided further that the amount of (x) any liabilities (as shown on the Issuer's or such Restricted Subsidiary's most recent balance sheet), of the Issuer or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the New Debentures) that are assumed by the transferee of any such assets pursuant to a customary novation agreement that releases the Issuer or such Restricted Subsidiary from further liability and (y) any securities, notes or other obligations received by the Issuer or any such Restricted Subsidiary from such transferee that are converted by the Issuer or such Restricted Subsidiary into cash (to extent of the cash received) within 180 days following the closing of such Asset Sale, shall be deemed to be cash for purposes of this provision.

Within 395 days after the receipt of any Net Proceeds from an Asset Sale, the Issuer or its Restricted Subsidiaries may apply such Net Proceeds, at its option, (a) to repay Indebtedness of a Restricted Subsidiary of the Issuer, or (b) to the investment in, or the making of a capital expenditure or the acquisition of other property or assets in each case used or useable in a Permitted Business, or Capital Stock of any Person primarily engaged in a Permitted Business if, as a result of the acquisition by the Issuer or any Restricted Subsidiary thereof, such Person becomes a Restricted Subsidiary, or (c) as combination of the uses described in clauses (a) and (b). Pending the final application of any such Net Proceeds, the Issuer or its Restricted Subsidiaries may temporarily reduce Indebtedness of a Restricted Subsidiary of the Issuer or otherwise invest such Net Proceeds in any manner that is not prohibited by the Indenture. Any Net Proceeds from Asset Sales, other than 20% of the net proceeds from any sale of all or substantially all of the Capital Stock or assets of the Company's Popular Club Plan business or Clifford & Wills business (as each such business is constituted on the Issue Date) which have been utilized to repay, redeem, repurchase or otherwise retire outstanding New Debentures, that are not applied or invested as provided in the first sentence of this paragraph will be deemed to constitute "Excess Proceeds." When the aggregate amount of Excess Proceeds exceeds \$10.0 million, the Issuer will be required to make an offer to all holders of New Debentures and, to the extent required by the terms of any Pari Passu Indebtedness to all holders of such Pari Passu Indebtedness (an "Asset Sale Offer"), to purchase the maximum principal amount of New Debentures and any such Pari Passu Indebtedness that may be purchased out of the Excess Proceeds, at an offer price in cash in an amount equal to 100% of the principal amount thereof plus accrued and unpaid interest and Liquidated Damages thereon, if any, to the date of purchase (or, in the case of repurchases of New Debentures prior to October 15, 2002, at a purchase price equal to 100% of the Accreted Value thereof plus Liquidated Damages, as of the date of repurchase), in accordance with the procedures set forth in the Indenture or such Pari Passu Indebtedness, as applicable. To the extent that the aggregate principal amount at maturity of New Debentures (or Accreted Value, as the case may be) and any such Pari Passu Indebtedness tendered pursuant to an Asset Sale Offer is less than the Excess Proceeds, the Issuer or its Restricted Subsidiaries may use any remaining Excess Proceeds for general corporate purposes. If the aggregate principal amount at maturity (or Accreted Value, as the case may be) of New Debentures and any such Pari Passu Indebtedness surrendered by holders thereof exceeds the amount of Excess Proceeds, the Trustee shall

select the New Debentures to be purchased on a pro rata basis. Upon completion of such Asset Sale Offer, the amount of Excess Proceeds shall be reset at zero.

The New Credit Facility and the Senior Subordinated Notes restrict J. Crew Corp. from paying any dividends or making any other distributions to the Issuer. If the Issuer is unable to obtain dividends from J. Crew Corp. sufficient to permit the repurchase of the New Debentures or does not refinance such Indebtedness, the Issuer will likely not have the financial resources to purchase New Debentures. In any event, there can be no assurance that the Issuer's Subsidiaries will have the resources available to pay any such dividend or make any such distribution. The Issuer's failure to make an Asset Sale Offer when required or to purchase tendered New Debentures when tendered would constitute an Event of Default under the New Debenture Indenture. See "Risk Factors--Substantial Leverage; Liquidity; Stockholders' Deficit" and "--Limitation on Access to Cash Flow of Subsidiaries; Holding Company Structure."

Selection and Notice

If less than all of the New Debentures are to be redeemed or repurchased in an offer to purchase at any time, selection of New Debentures for redemption or repurchase will be made by the Trustee in compliance with the requirements of the principal national securities exchange, if any, on which the New Debentures are listed, or, if the New Debentures are not so listed, on a pro rata basis, by lot or by such other method as the Trustee deems fair and appropriate; provided that Notes to be redeemed with the proceeds of an Equity Offering shall be selected on a pro rata basis; provided further that no Notes of \$1,000 or less shall be redeemed or repurchased in part. Notices of redemption may not be conditional. Notices of redemption or repurchase shall be mailed by first class mail at least 30 but not more than 60 days before the redemption date or repurchase date to each holder of New Debentures to be redeemed or repurchased at its registered address. If any New Debenture is to be redeemed or repurchased in part only, the notice of redemption or repurchase that relates to such New Debenture shall state the portion of the principal amount thereof to be redeemed or repurchased. A new New Debenture in principal amount equal to the unredeemed or unrepurchased portion thereof will be issued in the name of the holder thereof upon cancellation of the original New Debenture. On and after the redemption or repurchase date, interest and Liquidated Damages will cease to accrue on New Debentures or portions of them called for redemption or repurchase.

Certain Covenants

Restricted Payments

The Indenture provides that the Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly: (i) declare or pay any dividend or make any other payment or distribution on account of the Issuer's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any such dividend, distribution or other payment made as a payment in connection with any merger or consolidation involving the Issuer), other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Issuer or dividends or distributions payable to the Issuer or any Wholly Owned Subsidiary of the Issuer; (ii) purchase, redeem or otherwise acquire or retire for value (including, without limitation, any such purchase, redemption or other acquisition or retirement for value made as a payment in connection with any merger or consolidation involving the Issuer) any Equity Interests of the Issuer or any Restricted Subsidiary (other than any such Equity Interests owned by the Issuer or any Restricted Subsidiary of the Issuer); (iii) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness that is subordinated to the New Debentures, except a payment of interest or a payment of principal at Stated Maturity; or (iv) make any Restricted Investment (all such payments and other actions set forth in clauses (i) through (iv) above being collectively referred to as "Restricted Payments"), unless, at the time of and immediately after giving effect to such Restricted Payment:

- (a) no Default or Event of Default shall have occurred and be continuing; and

(b) the Issuer would, at the time of such Restricted Payment and after giving pro forma effect thereto, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under caption "--Incurrence of Indebtedness and Issuance of Preferred Stock;" and

(c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Issuer and its Restricted Subsidiaries after the date of the Indenture (excluding Restricted Payments permitted by clauses (ii), (iii), (iv), and (vi) of the next succeeding paragraph), is less than the sum (without duplication) of (i) 50% of the Consolidated Net Income of the Issuer for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing after the date of the Indenture to the end of the Issuer's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit), plus (ii) 100% of the aggregate Qualified Proceeds received by the Issuer from contributions to the Issuer's capital or the issue or sale subsequent to the date of the Indenture of Equity Interests of the Issuer (other than Disqualified Stock) or of Disqualified Stock or debt securities of the Issuer that have been converted into such Equity Interests (other than Equity Interests (or Disqualified Stock or convertible debt securities) sold to a Subsidiary of the Issuer and other than Disqualified Stock or convertible debt securities that have been converted into Disqualified Stock), plus (iii) to the extent that any Restricted Investment that was made after the date of the Indenture is sold for Qualified Proceeds or otherwise liquidated or repaid (including, without limitation, by way of a dividend or other distribution, a repayment of a loan or advance or other transfer of assets) for in whole or in part, the lesser of (A) the Qualified Proceeds with respect to such Restricted Investment, (less the cost of disposition, if any) and (B) the initial amount of such Restricted Investment, plus (iv) upon the redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the lesser of (x) the fair market value of such Subsidiary or (y) the aggregate amount of all Investments made in such Subsidiary subsequent to the Issue Date by the Issuer and its Restricted Subsidiaries, plus (v) \$15.0 million.

The foregoing provisions will not prohibit (i) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions of the Indenture; (ii) the redemption, repurchase, retirement, defeasance or other acquisition of any subordinated Indebtedness or Equity Interests of the Issuer in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Restricted Subsidiary of the Issuer) of, other Equity Interests of the Issuer (other than any Disqualified Stock); provided that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement, defeasance or other acquisition shall be excluded from clause (c) (ii) of the preceding paragraph; (iii) the defeasance, redemption, repurchase, retirement or other acquisition of subordinated Indebtedness in exchange for, or with the net cash proceeds from, an incurrence of Permitted Refinancing Indebtedness; (iv) the payment of any dividend (or the making of a similar distribution or redemption) by a Restricted Subsidiary of the Issuer to the holders of its common Equity Interests on a pro rata basis; (v) so long as no Default or Event of Default shall have occurred and is continuing, the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Issuer, or any Restricted Subsidiary of the Issuer, held by any member of the Issuer's (or any of its Restricted Subsidiaries') management, employees or consultants pursuant to any management, employee or consultant equity subscription agreement or stock option agreement in effect as of the date of the Indenture; provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests shall not exceed the sum of (A) \$10.0 million and (B) the aggregate cash proceeds received by the Issuer from any reissuance of Equity Interests by the Issuer to members of management of the Issuer and its Restricted Subsidiaries (provided that the cash proceeds referred to in this clause (B) shall be excluded from clause (c)(ii) of the preceding paragraph); (vi) distributions made by the Issuer on the date of the Indenture, the proceeds of which are utilized solely to consummate the Recapitalization; and (vii) so long as no Default or Event of Default has occurred and is continuing, the declaration and payment of dividends to holders of any class or series of Disqualified Stock of the Issuer issued after the date of the Indenture in accordance with the covenant described below under the caption "--Incurrence of Indebtedness and Issuance of

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if such designation would not cause a Default or an Event of Default. For purposes of making such determination, all outstanding Investments by the Issuer and its Restricted Subsidiaries (except to the extent repaid in cash) in the Subsidiary so designated will be deemed to be Restricted Payments at the time of such designation and will reduce the amount available for Restricted Payments under the first paragraph of this covenant. All such outstanding Investments will be deemed to constitute Investments in an amount equal to the greater of (i) the net book value of such Investments at the time of such designation and (ii) the fair market value of such Investments at the time of such designation. Such designation will only be permitted if such Restricted Payment would be permitted at such time and if such Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary.

The amount of (i) all Restricted Payments (other than cash) shall be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Issuer or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment and (ii) Qualified Proceeds (other than cash) shall be the fair market value on the date of receipt thereof by the Issuer of such Qualified Proceeds. The fair market value of any non-cash Restricted Payment and Qualified Proceeds shall be determined by the Board of Directors whose resolution with respect thereto shall be delivered to the Trustee, such determination to be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of national standing if such fair market value exceeds \$10.0 million. Not later than the date of making any Restricted Payment, the Issuer shall deliver to the Trustee an officers' certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by the covenant "Restricted Payments" were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Incurrence of Indebtedness and Issuance of Preferred Stock

The Indenture provides that the Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt) and that the Issuer will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; provided, however, that the Issuer or any of its Restricted Subsidiaries may incur Indebtedness (including Acquired Debt) or issue shares of Disqualified Stock if the Fixed Charge Coverage Ratio for the Issuer's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock is issued would have been at least 1.75 to 1.0, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred, or the Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period.

The Indenture also provides that the Issuer will not incur any Indebtedness that is contractually subordinated in right of payment to any other Indebtedness of the Issuer unless such Indebtedness is also contractually subordinated in right of payment to the New Debentures on substantially identical terms; provided, however, that no Indebtedness of the Issuer shall be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Issuer solely by virtue of being unsecured.

The provisions of the first paragraph of this covenant will not apply to the incurrence of any of the following items of Indebtedness (collectively, "Permitted Debt"):

(i) Indebtedness of the Issuer and its Restricted Subsidiaries under Credit Facilities; provided that the aggregate principal amount of all Indebtedness (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of the Issuer and its Restricted Subsidiaries thereunder) outstanding under all Credit Facilities after giving effect to such incurrence, including all Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (i), does not exceed an amount equal to \$270.0 million less the aggregate principal of all principal payments thereunder

constituting permanent reductions of such Indebtedness pursuant to and in accordance with the covenant described under "--Repurchase at the Option of Holders--Asset Sales;"

(ii) the incurrence by the Issuer of Indebtedness represented by the New Debentures and the incurrence by J. Crew Corp. and its Subsidiaries of Indebtedness represented by the Senior Subordinated Notes and any guarantee thereof;

(iii) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvements of property used in the business of the Issuer or such Restricted Subsidiary, in an aggregate principal amount not to exceed \$25.0 million at any time outstanding;

(iv) other Indebtedness of the Issuer and its Restricted Subsidiaries outstanding on the Issue Date;

(v) the incurrence by the Issuer or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace Indebtedness (other than intercompany Indebtedness) that was permitted by the Indenture to exist or be incurred;

(vi) the incurrence of intercompany Indebtedness (A) between or among the Issuer and any Wholly Owned Restricted Subsidiaries of the Issuer or (B) by a Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary of the Issuer or a Wholly Owned Subsidiary; provided, however, that (i) if the Issuer is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all Obligations with respect to the New Debentures and (ii)(A) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Issuer or a Wholly Owned Restricted Subsidiary of the Issuer and (B) any sale or other transfer of any such Indebtedness to a Person that is not either the Issuer or a Wholly Owned Restricted Subsidiary of the Issuer shall be deemed, in each case, to constitute an incurrence of such Indebtedness by the Issuer or such Subsidiary, as the case may be;

(vii) the incurrence by the Issuer or any of the Guarantors of Hedging Obligations that are incurred for the purpose of fixing or hedging (i) interest rate risk with respect to any floating rate Indebtedness that is permitted by the terms of this Indenture to be outstanding or (ii) the value of foreign currencies purchased or received by the Issuer in the ordinary course of business;

(viii) Indebtedness incurred in respect of workers' compensation claims, self-insurance obligations, performance, surety and similar bonds and completion guarantees provided by the Issuer or a Restricted Subsidiary in the ordinary course of business;

(ix) Indebtedness arising from guarantees of Indebtedness of the Issuer or any Subsidiary or the agreements of the Issuer or a Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or Capital Stock of a Restricted Subsidiary, or other guarantees of Indebtedness incurred by any person acquiring all or any portion of such business, assets or Capital Stock of a Restricted Subsidiary for the purpose of financing such acquisition, provided that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds actually received by the Issuer and its Restricted Subsidiaries in connection with such disposition;

(x) Indebtedness of a Receivables Subsidiary that is not recourse to the Issuer or any other Restricted Subsidiary of the Issuer (other than Standard Securitization Undertakings) incurred in connection with a Qualified Receivables Transaction;

(xi) the guarantee by any Restricted Subsidiary of the Issuer of Indebtedness of any Restricted Subsidiary of the Issuer that was permitted to be incurred by another provision of this covenant;

(xii) the incurrence by the Issuer or any of its Restricted Subsidiaries of Acquired Debt in an aggregate principal amount at any time outstanding not to exceed \$20.0 million;

(xiii) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five business days of incurrence; and

(xiv) the incurrence by the Issuer or any Restricted Subsidiary of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (xiv), not to exceed \$30.0 million.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (i) through (xiv) above or is entitled to be incurred pursuant to the first paragraph of this covenant, the Issuer shall, in its sole discretion, classify such item of Indebtedness in any manner that complies with this covenant and such item of Indebtedness will be treated as having been incurred pursuant to only one of such clauses or pursuant to the first paragraph hereof. Accrual of interest, the accretion of accreted value and the payment of interest in the form of additional Indebtedness will not be deemed to be an incurrence of Indebtedness for purposes of this covenant.

Liens

The Indenture provides that the Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien securing Indebtedness or trade payables on any asset now owned or hereafter acquired, or any income or profits therefrom or assign or convey any right to receive income therefrom for purposes of security, except Permitted Liens, unless (i) in the case of Liens securing Indebtedness that is expressly subordinate or junior in right of payment to the New Debentures, the New Debentures are secured by a Lien on such property, assets or proceeds that is senior in priority to such Liens, (with the same relative priority as such subordinate or junior Indebtedness shall have with respect to the New Debentures) and (ii) in all other cases, the New Debentures are secured by such Lien on an equal and ratable basis.

Dividend and Other Payment Restrictions Affecting Subsidiaries

The Indenture provides that the Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to (i)(A) pay dividends or make any other distributions to the Issuer or any of its Restricted Subsidiaries (1) on its Capital Stock or (2) with respect to any other interest or participation in, or measured by, its profits, or (B) pay any Indebtedness owed to the Issuer or any of its Restricted Subsidiaries, (ii) make loans or advances to the Issuer or any of its Restricted Subsidiaries or (iii) transfer any of its properties or assets to the Issuer or any of its Restricted Subsidiaries, except for such encumbrances or restrictions existing under or by reason of (A) the New Credit Facility and the Senior Subordinated Notes, as in effect as of the date of the Indenture, and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings thereof, provided that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are no more restrictive with respect to such dividend and other payment restrictions than those contained in the New Credit Facility or the Senior Subordinated Notes, as the case may be, as in effect on the date of the Indenture, (B) the Indenture and the Notes, (C) applicable law or any applicable rule, regulation or order, (D) any agreement or instrument governing Indebtedness or Capital Stock of a Person acquired by the Issuer or any of its Restricted Subsidiaries as in effect at the time of such

acquisition (except to the extent such agreement or instrument was created or entered into in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired, (E) by reason of customary non-assignment provisions in leases, licenses, encumbrances, contracts or similar assets entered into or acquired in the ordinary course of business and consistent with past practices, (F) purchase money obligations for property acquired in the ordinary course of business that impose restrictions of the nature described in clause (iii) above on the property so acquired, (G) any Purchase Money Note, or other Indebtedness or contractual requirements incurred with respect to a Qualified Receivables Transaction relating to a Receivables Subsidiary, (H) Permitted Refinancing Indebtedness, provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are no more restrictive than those contained in the agreements governing the Indebtedness being refinanced and (I) contracts for the sale of assets containing customary restrictions with respect to a Subsidiary pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock or assets of such Subsidiary.

Merger, Consolidation or Sale of Assets

The Indenture provides that the Issuer may not consolidate or merge with or into (whether or not the Issuer is the surviving corporation), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets in one or more related transactions, to another Person unless (i) the Issuer is the surviving corporation or the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made is a corporation or limited liability company organized or existing under the laws of the United States, any state thereof or the District of Columbia; (ii) the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or the Person to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made assumes all the obligations of the Issuer under the New Debentures and the Indenture pursuant to a supplemental indenture in a form reasonably satisfactory to the Trustee; (iii) immediately after such transaction no Default or Event of Default exists; and (iv) except in the case of a merger of the Issuer with or into a Wholly Owned Restricted Subsidiary of the Issuer (other than a Receivables Subsidiary), the Issuer or the entity or Person formed by or surviving any such consolidation or merger (if other than the Issuer), or to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made at the time of such transaction and after giving pro forma effect thereto as if such transaction had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "--Incurrence of Indebtedness and Issuance of Preferred Stock." For purposes of this covenant, the sale, lease, conveyance, assignment, transfer, or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Issuer, which properties and assets, if held by the Issuer instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Issuer on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Issuer. The foregoing clause (iv) will not prohibit (a) a merger between the Issuer and a Wholly Owned Subsidiary of the Issuer created for the purpose of holding the Capital Stock of the Issuer, (b) a merger between the Issuer and a Wholly Owned Restricted Subsidiary of the Issuer or (c) a merger between the Issuer and an Affiliate incorporated solely for the purpose of reincorporating the Issuer in another State of the United States so long as, in the case of each of clause (a), (b) and (c), the amount of Indebtedness of the Issuer and its Restricted Subsidiaries is not increased thereby.

Transactions with Affiliates

The Indenture provides that the Issuer will not, and will not permit any of its Restricted Subsidiaries to, make any payment to or Investment in, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each of the foregoing, an "Affiliate Transaction"), unless (i) such Affiliate Transaction is on terms that are no less favorable to the Issuer or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the

Issuer or such Restricted Subsidiary with an unrelated Person and (ii) the Issuer delivers to the Trustee (A) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$1.0 million, a resolution of the Board of Directors set forth in an officers' certificate certifying that such Affiliate Transaction complies with clause (i) above and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors and (B) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$10.0 million, an opinion as to the fairness to the holders of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing; provided that (v) transactions with suppliers or other purchasers or sales of goods or services, in each case in the ordinary course of business (including, without limitation, pursuant to joint venture agreements) and otherwise in accordance with the terms of the Indenture which are fair to the Issuer, in the good faith determination of the Board of Directors of the Issuer or the senior management of the Issuer and are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated party, (w) any employment agreements, stock option or other compensation agreements or plans (and the payment of amounts or the issuance of securities thereunder) and other reasonable fees, compensation, benefits and indemnities paid or entered into by the Issuer or any of its Restricted Subsidiaries in the ordinary course of business of the Issuer or such Restricted Subsidiary to or with the officers, directors or employees of the Issuer or its Restricted Subsidiaries, (x) transactions between or among the Issuer and/or its Restricted Subsidiaries, (y) sales or other transfers or dispositions of accounts receivable and other related assets customarily transferred in an asset securitization transaction involving accounts receivable to a Receivables Subsidiary in a Qualified Receivables Transaction, and acquisitions of Permitted Investments in connection with a Qualified Receivables Transaction and (z) Restricted Payments (other than Restricted Investments) that are permitted by the provisions of the Indenture described above under the caption "--Restricted Payments," in each case, shall not be deemed Affiliate Transactions.

Business Activities

The Issuer will not, and will not permit any Restricted Subsidiary to, engage in any business other than Permitted Businesses.

Reports

The Indenture provides that, whether or not required by the rules and regulations of the Commission, so long as any New Debentures are outstanding, the Issuer will furnish to the holders of New Debentures (i) all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if the Issuer were required to file such Forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" that describes the financial condition and results of operations of the Issuer and its consolidated Subsidiaries and, with respect to the annual information only, a report thereon by the Issuer's certified independent accountants and (ii) all current reports that would be required to be filed with the Commission on Form 8-K if the Issuer were required to file such reports, in each case within the time periods set forth in the Commission's rules and regulations. In addition, whether or not required by the rules and regulations of the Commission, at any time after the consummation of the Exchange Offer contemplated by the Registration Rights Agreement, the Issuer will file a copy of all such information and reports with the Commission for public availability within the time periods set forth in the Commission's rules and regulations (unless the Commission will not accept such a filing) and make such information available to securities analysts and prospective investors upon request. In addition, at all times that the Commission does not accept the filings provided for in the preceding sentence, the Issuer has agreed that, for so long as any New Debentures remain outstanding, they will furnish to the holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Events of Default and Remedies

The Indenture provides that each of the following constitutes an Event of Default (each an "Event of Default"): (i) default for 30 days in the payment when due of interest on, or Liquidated Damages with respect to, the New Debentures; (ii) default in payment when due of the principal of or premium, if any, on the New Debentures; (iii) failure by the Issuer or any of its Restricted Subsidiaries for 30 days after notice by the Trustee or by the holders of at least 25% in principal amount of New Debentures then outstanding to comply with the provisions described under the captions "--Repurchase at the Option of Holders--Change of Control" or "--Asset Sales" or "--Certain Covenants--Restricted Payments" or "--Incurrence of Indebtedness and Issuance of Preferred Stock;" (iv) failure by the Issuer or any of its Restricted Subsidiaries for 60 days after notice by the Trustee or by the holders of at least 25% in principal amount of New Debentures then outstanding to comply with any of its other agreements in the Indenture or the New Debentures; (v) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Issuer or any of its Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the date of the Indenture, which default (a) is caused by a failure to pay principal of such Indebtedness after giving effect to any grace period provided in such Indebtedness (a "Payment Default") or (b) results in the acceleration of such Indebtedness prior to its stated maturity and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$20 million or more; (vi) failure by the Issuer or any of its Restricted Subsidiaries to pay final judgments aggregating in excess of \$20 million (net of any amounts with respect to which a reputable and creditworthy insurance company has acknowledged liability in writing), which judgments are not paid, discharged or stayed for a period of 60 days; and (vii) certain events of bankruptcy or insolvency with respect to the Issuer or any of its Significant Subsidiaries.

If any Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in principal amount of the then outstanding New Debentures may declare all the New Debentures to be due and payable immediately. Notwithstanding the foregoing, in the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to the Issuer, all outstanding New Debentures will become due and payable without further action or notice. Upon any acceleration of maturity of the New Debentures, all principal of and accrued interest and Liquidated Damages, if any, on (if on or after October 15, 2002) or Accreted Value of and Liquidated Damages, if any, on (if prior to October 15, 2002) the New Debentures shall be due and payable immediately. Holders of the New Debentures may not enforce the Indenture or the New Debentures except as provided in the Indenture. Subject to certain limitations, holders of a majority in principal amount of the then outstanding New Debentures may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from holders of the New Debentures notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in their interest. In the event of a declaration of acceleration of the New Debentures because an Event of Default has occurred and is continuing as a result of the acceleration of any Indebtedness described in clause (v) of the preceding paragraph, the declaration of acceleration of the New Debentures shall be automatically annulled if the holders of any Indebtedness described in clause (v) of the preceding paragraph have rescinded the declaration of acceleration in respect of such Indebtedness within 30 days of the date of such declaration and if (a) the annulment of the acceleration of New Debentures would not conflict with any judgment or decree of a court of competent jurisdiction and (b) all existing Events of Default, except nonpayment of principal or interest on the New Debentures that became due solely because of the acceleration of the New Debentures, have been cured or waived.

The holders of a majority in aggregate principal amount of the New Debentures then outstanding by notice to the Trustee may on behalf of the holders of all of the New Debentures waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, the New Debentures.

The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture, and the Issuer is required upon becoming aware of any Default or Event of Default, to deliver to the Trustee a statement specifying such Default or Event of Default.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer, as such, shall have any liability for any obligations of the Issuer under the New Debentures or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of New Debentures by accepting a New Debenture waives and releases all such liability. The waiver and release are part of the consideration for issuance of the New Debentures. Such waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the Commission that such a waiver is against public policy.

Legal Defeasance and Covenant Defeasance

The Issuer may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding New Debentures ("Legal Defeasance") except for (i) the rights of holders of outstanding New Debentures to receive payments in respect of the principal of, premium, if any, and interest and Liquidated Damages on such New Debentures when such payments are due from the trust referred to below, (ii) the Issuer's obligations with respect to the New Debentures concerning issuing temporary New Debentures, registration of New Debentures, mutilated, destroyed, lost or stolen New Debentures and the maintenance of an office or agency for payment and money for security payments held in trust, (iii) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's obligations in connection therewith and (iv) the Legal Defeasance provisions of the Indenture. In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer released with respect to certain covenants that are described in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default with respect to the New Debentures. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under "--Events of Default and Remedies" will no longer constitute an Event of Default with respect to the New Debentures.

In order to exercise either Legal Defeasance or Covenant Defeasance, (i) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the holders of the New Debentures, cash in U.S. dollars, non-callable government securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal amount at maturity of or Accreted Value (as applicable) of, premium, if any, and interest and Liquidated Damages on the outstanding New Debentures on the stated maturity or on the applicable redemption date, as the case may be, and the Issuer must specify whether the New Debentures are being defeased to maturity or to a particular redemption date; (ii) in the case of Legal Defeasance, the Issuer shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that (A) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall confirm that, subject to customary assumptions and exclusions, the holders of the outstanding New Debentures will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred; (iii) in the case of Covenant Defeasance, the Issuer shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that, subject to customary assumptions and exclusions, the holders of the outstanding New Debentures will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred; (iv) no Default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the financing of amounts to be applied to such deposit) or insofar as Events of Default from bankruptcy or insolvency events are

concerned, at any time in the period ending on the 91st day after the date of deposit; (v) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the Indenture) to which the Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound; (vi) the Issuer must have delivered to the Trustee an opinion of counsel to the effect that, subject to customary assumptions and exclusions (which assumptions and exclusions shall not relate to the operation of Section 547 of the United States Bankruptcy Code or any analogous New York State law provision), after the 91st day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally; (vii) the Issuer must deliver to the Trustee an officers' certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of New Debentures over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding creditors of the Issuer or others; and (viii) the Issuer must deliver to the Trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent provided for relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Transfer and Exchange

A holder may transfer or exchange New Debentures in accordance with the Indenture. The Registrar and the Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents and the Issuer may require a holder to pay any taxes and fees required by law or permitted by the Indenture. The Issuer is not required to transfer or exchange any New Debentures selected for redemption. Also, the Issuer is not required to transfer or exchange any New Debentures for a period of 15 days before a selection of New Debentures to be redeemed.

The registered holder of a New Debentures will be treated as the owner of it for all purposes.

Amendment, Supplement and Waiver

Except as provided in the next two succeeding paragraphs, the Indenture or the New Debentures may be amended or supplemented with the consent of the holders of at least a majority in principal amount at maturity of the New Debentures then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, New Debentures), and any existing default or compliance with any provision of the Indenture or the New Debentures may be waived with the consent of the holders of a majority in principal amount of the then outstanding New Debentures (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, New Debentures).

Without the consent of each holder affected, an amendment or waiver may not (with respect to any New Debentures held by a non-consenting holder): (i) reduce the principal amount of New Debentures whose holders must consent to an amendment, supplement or waiver, (ii) reduce the principal of or change the fixed maturity of any New Debentures or alter the provisions with respect to the redemption of the New Debentures (other than provisions relating to the covenants described above under the caption "--Repurchase at the Option of Holders") or amend or modify the calculation of the Accreted Value so as to reduce the amount of the Accreted Value of the New Debentures, (iii) reduce the rate of or change the time for payment of interest on any New Debenture, (iv) waive a Default or Event of Default in the payment of principal of or premium, if any, or interest on the New Debentures (except a rescission of acceleration of the New Debentures by the holders of at least a majority in aggregate principal amount at maturity of the New Debentures and a waiver of the payment default that resulted from such acceleration), (v) make any New Debenture payable in money other than that stated in the New Debentures, (vi) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of holders of New Debentures to receive payments of principal of or premium, if any, or interest on the New Debentures, (vii) waive a redemption payment with respect to any New Debenture (other than a payment required by one of the covenants described above under the caption "--Repurchase at the Option of Holders"), or (viii) make any change in the foregoing amendment and waiver provisions.

Notwithstanding the foregoing, without the consent of any holder of New Debentures, the Issuer and the Trustee may amend or supplement the Indenture or the New Debentures to cure any ambiguity, defect or inconsistency, to provide for uncertificated New Debentures in addition to or in place of certificated New Debentures, to provide for the assumption of the Issuer's obligations to holders of New Debentures in the case of a merger or consolidation, to make any change that would provide any additional rights or benefits to the holders of New Debentures or that does not adversely affect the legal rights under the Indenture of any such holder, to comply with requirements of the Commission in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act.

Concerning the Trustee

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the Commission for permission to continue or resign.

The holders of a majority in principal amount at maturity of the then outstanding New Debentures will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default shall occur (which shall not be cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of New Debentures, unless such holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

Book-Entry, Delivery and Form

The Old Debentures were offered and sold to qualified institutional buyers in reliance on Rule 144A ("Rule 144A New Debentures"). New Debentures will be issued in registered, global form in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess thereof. The Global Debentures will be deposited upon issuance with the Trustee as custodian for DTC in New York, New York, and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant in DTC as described below.

Except as set forth below, the Global Debentures may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Debentures may not be exchanged for New Debentures in certificated form except in the limited circumstances described below. See "--Exchange of Book-Entry Debentures for Certificated Debentures." In addition, transfer of beneficial interests in the Global Debentures will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and CEDEL), which may change from time to time.

Initially, the Trustee will act as Paying Agent and Registrar with respect to the New Debentures. The New Debentures may be presented for registration of transfer and exchange at the offices of the Registrar.

Depository Procedures

DTC has advised the Issuer that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the "Participants") and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the Initial Purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship

with a Participant, either directly or indirectly (collectively, the "Indirect Participants"). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests and transfer of ownership interests of each actual purchaser of each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised the Issuer that, pursuant to procedures established by it, (i) upon deposit of the Global Debentures, DTC will credit the accounts of Participants tendering Old Debentures with portions of the applicable Global Debentures and (ii) ownership of such interests in the Global Debentures will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Debentures).

Investors in the Global Debentures may hold their interests therein directly through DTC, if they are participants in such system, or indirectly through organizations (including Euroclear and CEDEL) which are participants in such system. Euroclear or CEDEL will hold interests in the Global Debentures on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which are Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear, and Citibank, N.A., as operator of CEDEL. The depositaries, in turn, will hold such interests in the Global Debentures in customers' securities accounts in the depositaries' names on the books of DTC. All interests in a Global Debenture, including those held through Euroclear or CEDEL, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or CEDEL may also be subject to the procedures and requirements of such systems. The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Debenture to such persons will be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants and certain banks, the ability of a person having beneficial interests in a Global Debenture to pledge such interests to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests. For certain other restrictions on the transferability of the New Debentures, see "--Exchange of Book-Entry Debentures for Certificated Debentures" and "--Exchange of Certificated Debentures for Book-Entry Debentures."

EXCEPT AS DESCRIBED BELOW, OWNERS OF INTERESTS IN THE GLOBAL DEBENTURES WILL NOT HAVE NEW DEBENTURES REGISTERED IN THEIR NAMES, WILL NOT RECEIVE PHYSICAL DELIVERY OF NEW DEBENTURES IN CERTIFICATED FORM AND WILL NOT BE CONSIDERED THE REGISTERED OWNERS OR HOLDERS THEREOF UNDER THE INDENTURE FOR ANY PURPOSE.

Payments in respect of the principal of, premium, if any, interest and Liquidated Damages, if any, on a Global Debenture registered in the name of DTC or its nominee will be payable by the Trustee to DTC in its capacity as the registered holder under the Indenture. Under the terms of the Indenture, the Issuer and the Trustee will treat the persons in whose names the New Debentures, including the Global Debentures, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever. Consequently, neither the Issuer nor the Trustee has or will have any responsibility or liability for (i) any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interest in the Global Debentures, or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Debentures or (ii) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants. DTC has advised the Issuer that its current practice, upon receipt of any payment in respect of securities such as the New Debentures (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date, in amounts proportionate to their respective holdings in the principal amount of beneficial interest in the relevant security as shown on the records of DTC unless DTC has reason to believe it will not receive payment on such payment date. Payments by the Participants and the Indirect Participants to the beneficial owners of New Debentures will be governed by standing instructions and customary

practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Trustee or the Issuer. Neither the Issuer nor the Trustee will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the New Debentures, and the Issuer and the Trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Except for trades involving only Euroclear and CEDEL participants, interests in the Global Debentures are expected to be eligible to trade in DTC's Same-Day Funds Settlement System and secondary market trading activity in such interests will therefore settle in immediately available funds, subject in all cases to the rules and procedures of DTC and its participants. See "--Same-Day Settlement and Payment."

Transfers between Participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and CEDEL will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Cross-market transfers between the Participants in DTC, on the one hand, and Euroclear or CEDEL participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or CEDEL, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or CEDEL, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or CEDEL, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Debentures in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and CEDEL participants may not deliver instructions directly to the depositories for Euroclear or CEDEL.

Because of time zone differences, the securities account of a Euroclear or CEDEL participant purchasing an interest in Global Debentures from a Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or CEDEL participant, during the securities settlement processing day (which must be a business day for Euroclear and CEDEL) immediately following the settlement date of DTC. DTC has advised the Issuer that cash received in Euroclear or CEDEL as a result of sales of interests in a Global Debenture by or through a Euroclear or CEDEL participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or CEDEL cash account only as of the business day for Euroclear or CEDEL following DTC's settlement date.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of New Debentures only at the direction of one or more Participants to whose account with DTC interests in the Global Debentures are credited and only in respect of such portion of the aggregate principal amount of the New Debentures as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the New Debentures, DTC reserves the right to exchange the Global Debentures for legended New Debentures in certificated form, and to distribute such New Debentures to its Participants.

The information in this section concerning DTC, Euroclear and CEDEL and their book-entry systems has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

Although DTC, Euroclear and CEDEL have agreed to the foregoing procedures to facilitate transfers of interests in the Global Debentures among Participants in DTC, Euroclear and CEDEL, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the Trustee will have any responsibility for the performance by DTC, Euroclear or CEDEL or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Book-Entry Debentures for Certificated Debentures

A Global Debenture is exchangeable for definitive New Debentures in registered certificated form if (i) DTC (X) notifies the Issuer that it is unwilling or unable to continue as depositary for the Global Debentures and the Issuer thereupon fails to appoint a successor depositary or (y) has ceased to be a clearing agency registered under the Exchange Act, (ii) the Issuer, at its option, notifies the Trustee, in writing that it elects to cause the issuance of the New Debentures in certificated form or (iii) there shall have occurred and be continuing an Event of Default or any event which after notice or lapse of time or both would be an Event of Default with respect to the New Debentures. In addition, beneficial interests in a Global Debenture may be exchanged for certificated New Debentures upon request but only upon at least 20 days prior written notice given to the Trustee by or on behalf of DTC in accordance with its customary procedures. In all cases, certificated New Debentures delivered in exchange for any Global Debenture or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in "Notice to Investors," unless the Issuer determines otherwise in compliance with applicable law.

Same-Day Settlement and Payment

The Indenture requires that payments in respect of the New Debentures represented by the Global Debentures (including principal, premium, if any, and interest and Liquidated Damages, if any) be made by wire transfer of immediately available funds to the accounts specified by the Global Debentures holder. With respect to New Debentures in certificated form, the Issuer will make all payments of principal, premium, if any, interest and Liquidated Damages, if any, by wire transfer of immediately available funds to the accounts specified by the holders thereof or, if no such account is specified, by mailing a check to each such holder's registered address. The New Debentures represented by the Global Debentures are expected to be eligible to trade in the PORTAL market and to trade in the Depositary's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such New Debentures will, therefore, be required by the Depositary to be settled in immediately available funds. The Issuer expects that secondary trading in any certificated New Debentures will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or CEDEL participant purchasing an interest in a Global Debenture from a Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or CEDEL participant, during the securities settlement processing day (which must be a business day for Euroclear and CEDEL) immediately following the settlement date of DTC. DTC has advised the Issuer that cash received in Euroclear or CEDEL as a result of sales of interests in a Global Debenture by or through a Euroclear or CEDEL participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or CEDEL cash account only as of the business day for Euroclear or CEDEL following DTC's settlement date.

Registration Rights; Liquidated Damages

Pursuant to the Registration Rights Agreement, the Issuer agreed to file with the Commission the Exchange Offer Registration Statement on the appropriate form under the Securities Act with respect to the New Debentures. Upon the effectiveness of the Exchange Offer Registration Statement, the Issuer will offer to the holders of Transfer Restricted Securities pursuant to the Exchange Offer who are able to make certain representations the opportunity to exchange their Transfer Restricted Securities for New Debentures. If (i) the Issuer is not required to file the Exchange Offer Registration Statement or permitted to consummate the Exchange Offer because the Exchange Offer is not permitted by applicable law or Commission policy or (ii) any holder of Transfer Restricted Securities notifies the Issuer within the specified time period that (A) it is prohibited by law or Commission policy from participating in the Exchange Offer (other than due solely to the status of such holder as an affiliate of the Issuer within the meaning of the Securities Act) or (B) that it may not resell the New Debentures acquired by it in the Exchange Offer to the public without delivering a prospectus and the prospectus contained in the Exchange Offer

Registration Statement is not appropriate or available for such resales or (C) that it is a broker-dealer and owns Debentures acquired directly from the Issuer or an affiliate of the Issuer, the Issuer will file with the Commission a Shelf Registration Statement to cover resales of the Debentures by the holders thereof who satisfy certain conditions relating to the provision of information in connection with the Shelf Registration Statement. The Issuer will use its best efforts to cause the applicable registration statement to be declared effective as promptly as possible by the Commission. For purposes of the foregoing, "Transfer Restricted Securities" means each Debenture until (i) the date on which such Debenture has been exchanged by a person other than a broker-dealer for a New Debenture in the Exchange Offer, (ii) following the exchange by a broker-dealer in the Exchange Offer of a Debenture for a New Debenture, the date on which such New Debenture is sold to a purchaser who receives from such broker-dealer on or prior to the date of such sale a copy of the prospectus contained in the Exchange Offer Registration Statement, (iii) the date on which such Debenture has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement or (iv) the date on which such Debenture is distributed to the public pursuant to Rule 144 under the Act.

The Registration Rights Agreement will provide that (i) the Issuer will file an Exchange Offer Registration Statement with the Commission on or prior to 60 days after the Closing Date, (ii) the Issuer will use its best efforts to have the Exchange Offer Registration Statement declared effective by the Commission on or prior to 135 days after the Closing Date, (iii) unless the Exchange Offer would not be permitted by applicable law or Commission policy, the Issuer will commence the Exchange Offer and use its best efforts to issue within 180 days after the Issue Date New Debentures in exchange for all Debentures tendered prior thereto in the Exchange Offer and (iv) if obligated to file the Shelf Registration Statement, the Issuer will use its best efforts to file the Shelf Registration Statement with the Commission on or prior to 60 days after such filing obligation arises and to cause the Shelf Registration to be declared effective by the Commission on or prior to 135 days after such obligation arises. If (a) the Issuer fails to file any of the Registration Statements required by the Registration Rights Agreement on or before the date specified for such filing, (b) any of such Registration Statements is not declared effective by the Commission on or prior to the date specified for such effectiveness (the "Effectiveness Target Date"), or (c) the Issuer fails to consummate the Exchange Offer within 180 days after the Issue Date, or (d) the Shelf Registration Statement or the Exchange Offer Registration Statement is declared effective but thereafter ceases to be effective or usable in connection with resales of Transfer Restricted Securities during the periods specified in the Registration Rights Agreement (each such event referred to in clauses (a) through (d) above a "Registration Default"), then the Issuer will pay liquidated damages ("Liquidated Damages") determined as follows: to each holder of Debentures, with respect to such 90-day period immediately following the occurrence of the first Registration Default in an amount equal to \$0.05 per week per \$1,000 principal amount of Debentures held by such holder. The amount of the Liquidated Damages will increase by an additional \$0.05 per week per \$1,000 principal amount of Debentures with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum amount of Liquidated Damages of \$0.25 per week per \$1,000 principal amount of Debentures. All accrued Liquidated Damages will be paid by the Issuer to the Global Debenture holder by wire transfer of immediately available funds or by federal funds check and to holders of Certificated Debentures by wire transfer to the accounts specified by them or by mailing checks to their registered addresses if no such accounts have been specified. Following the cure of all Registration Defaults, the accrual of Liquidated Damages will cease.

Holders of Debentures will be required to make certain representations to the Issuer (as described in the Registration Rights Agreement) in order to participate in the Exchange Offer and will be required to deliver information to be used in connection with the Shelf Registration Statement and to provide comments on the Shelf Registration Statement within the time periods set forth in the Registration Rights Agreement in order to have their Debentures included in the Shelf Registration Statement and benefit from the provisions regarding Liquidated Damages set forth above.

Certain Definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"Accreted Value" means, as of any date of determination prior to October 15, 2002, with respect to any Debenture, the sum of (a) the initial offering price (which shall be calculated by discounting the aggregate principal amount at maturity of such Debenture at a rate of 13-1/8% per annum, compounded semi-annually on each April 15 and October 15 from October 15, 2002 to the date of issuance) of such Debenture and (b) the portion of the excess of the principal amount of such Debenture over such initial offering price which shall have been accreted thereon through such date, such amount to be so accreted on a daily basis at a rate of 13-1/8% per annum of the initial offering price of such Debenture, compounded semi-annually on each April 15 and October 15 from the date of issuance of the Debentures through the date of determination, computed on the basis of a 360-day year of twelve 30-day months.

"Acquired Debt" means, with respect to any specified Person, (i) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, and (ii) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person or assumed in connection with the acquisition of any asset used or useful in a Permitted Business acquired by such specified Person; provided that such Indebtedness was not incurred in connection with, or in contemplation of, such other Person merging with or into or becoming a Subsidiary of such specified Person, or such acquisition, as the case may be.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 10% or more of the voting securities of a Person shall be deemed to be control.

"Asset Sale" means (i) the sale, lease (other than an operating lease), conveyance or other disposition of any assets or rights (including, without limitation, by way of a sale and leaseback) other than in the ordinary course of business consistent with past practices (provided that the sale, lease (other than an operating lease), conveyance or other disposition of all or substantially all of the assets of the Issuer and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption "--Repurchase at the Option of Holders--Change of Control" and/or the provisions described above under the caption "--Certain Covenants--Merger, Consolidation or Sale of Assets" and not by the provisions of the Asset Sale covenant), and (ii) the sale by the Issuer and the issue or sale by any of the Restricted Subsidiaries of the Issuer of Equity Interests of any of the Issuer's Subsidiaries, in the case of either clause (i) or (ii), whether in a single transaction or a series of related transactions that have a fair market value (as determined in good faith by the Board of Directors) in excess of \$1.0 million or for net cash proceeds in excess of \$1.0 million. Notwithstanding the foregoing: (i) a transfer of assets by the Issuer to a Wholly Owned Restricted Subsidiary of the Issuer (other than a Receivables Subsidiary) or by a Wholly Owned Restricted Subsidiary of the Issuer (other than a Receivables Subsidiary) to the Issuer or to a Wholly Owned Restricted Subsidiary of the Issuer (other than a Receivables Subsidiary), (ii) an issuance of Equity Interests by a Restricted Subsidiary of the Issuer to the Issuer or to a Wholly Owned Restricted Subsidiary of the Issuer (other than a Receivables Subsidiary), (iii) a Restricted Payment that is permitted by the covenant described above under the caption "--Restricted Payments," (iv) the sale and leaseback of any assets within 90 days of the acquisition of such assets, (v) foreclosures on assets, (vi) the clearance of inventory and (vii) the sale, conveyance or other disposition of accounts receivables and related assets customarily transferred in an asset securitization transaction involving accounts receivable to a Receivables Subsidiary or by a Receivables Subsidiary, in connection with a Qualified Receivables Transaction, in each case, will not be deemed to be Asset Sales.

"Capital Lease Obligation" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be required to be capitalized on a balance sheet in accordance with GAAP.

"Capital Stock" means (i) in the case of a corporation, corporate stock, (ii) in the case of an association or business entity, any and all shares, interests, participation, rights or other equivalents (however designated) of corporate stock, (iii) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited) and (iv) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Cash Equivalents" means (i) securities issued or unconditionally and fully guaranteed or insured by the full faith and credit of the United States government or any agency or instrumentality thereof having maturities of not more than one year from the date of acquisition, (ii) obligations issued or fully guaranteed by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either Standard & Poor's Ratings Group ("S&P") or Moody's Investors Service, Inc. ("Moody's"), (iii) certificates of deposit and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers' acceptances with maturities not exceeding one year and overnight bank deposits, in each case with any lender party to the New Credit Facility or with any domestic commercial bank having capital and surplus in excess of \$250.0 million, (iv) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (i) and (iii), above entered into with any financial institution meeting the qualifications specified in clause (iii) above, (v) commercial paper having one of the two of the highest ratings obtainable from either Moody's or S&P and in each case maturing within one year after the date of acquisition and (vi) investments in funds investing exclusively in investments of the types described in clauses (i) through (v) above.

"Change of Control" means the occurrence of any of the following: (i) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of the Issuer and its Subsidiaries taken as a whole to any "person" (as such term is used in Section 13(d)(3) of the Exchange Act), other than the Principals and their Related Parties (ii) the adoption of a plan relating to the liquidation or dissolution of the Issuer, (iii) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that (A) any "person" (as defined above), other than the Principal and their Related Parties, becomes the "beneficial owner" (as such term is defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act), directly or indirectly, of 40% or more of the Voting Stock of the Issuer (measured by voting power rather than number of shares) and (B) the Principals and their Related Parties beneficially own, directly or indirectly, in the aggregate a lesser percentage of the Voting Stock of the Issuer than such other "person", (iv) the first day on which a majority of the members of the Board of Directors of the Issuer are not Continuing Directors or (v) the Issuer consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, the Issuer, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Issuer is converted into or exchanged for cash, securities or other property, other than any such transaction where (A) the Voting Stock of the Issuer outstanding immediately prior to such transaction is converted into or exchanged for Voting Stock (other than Disqualified Stock) of the surviving or transferee Person and (B) the "beneficial owners" (as defined above) of the Voting Stock of the Issuer immediately prior to such transaction own, directly or indirectly through one or more subsidiaries, not less than a majority of the total Voting Stock of the surviving or transferee corporation immediately after such transaction.

"Consolidated Cash Flow" means, with respect to any Person for any period, the Consolidated Net Income of such Person for such period plus (i) an amount equal to any extraordinary loss plus any net loss realized in connection with an Asset Sale (to the extent such losses were deducted in computing such Consolidated Net Income of such Person and its Restricted Subsidiaries), plus (ii) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was included in computing such Consolidated Net Income, plus (iii) consolidated interest expense of such Person and its Restricted

Subsidiaries for such period, whether paid or accrued and whether or not capitalized (including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net payments (if any) pursuant to Hedging Obligations), to the extent that any such expense was deducted in computing such Consolidated Net Income, plus (iv) depreciation and amortization (including amortization of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash charges (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash charges in any future period or amortization of a prepaid cash charge that was paid in a prior period) of such Person and its Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income, plus (v) any interest expense on Indebtedness of another Person that is Guaranteed by such Person or any of its Restricted Subsidiaries or secured by a Lien on assets of such Person or any of its Restricted Subsidiaries, in each case, to the extent that such interest expense is deducted in computing such Consolidated Net Income, minus (vi) non-cash items increasing such Consolidated Net Income for such period, in each case, on a consolidated basis and determined in accordance with GAAP. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and other non-cash charges of, a Restricted Subsidiary of a Person shall be added to Consolidated Net Income to compute Consolidated Cash Flow only to the extent (and in the same proportion) that the Net Income of such Restricted Subsidiary was included in calculating the Consolidated Net Income of such Person.

"Consolidated Net Income" means, with respect to any Person for any period, the aggregate of the Net Income of such Person and its Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP, provided that (i) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting shall be included only to the extent of the amount of dividends or distributions paid in cash to the referent Person or a Restricted Subsidiary thereof, (ii) the Net Income of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition shall be excluded, and (iii) the cumulative effect of a change in accounting principles shall be excluded.

"Continuing Directors" means, as of any date of determination, any member of the Board of Directors of the Issuer or any Holding Company of the Issuer who (i) was a member of such Board of Directors on the date of the Indenture immediately after consummation of the Recapitalization or (ii) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were either members of such Board at the time of such nomination or election or are successor Continuing Directors appointed by such Continuing Directors (or their successors).

"Credit Facilities" means, with respect to the Issuer, one or more debt facilities (including, without limitation, the New Credit Facility) or commercial paper facilities with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time. Indebtedness under Credit Facilities outstanding on the Issue Date shall be deemed to have been incurred on such date in reliance on the exceptions provided by clauses (i) and (ii) of the definition of Permitted Debt.

"Default" means any event that is or with the passage of time or the giving of notice or both would be an Event of Default.

"Disqualified Stock" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date on which the Debentures mature;

provided, however, that a class of Capital Stock shall not be Disqualified Stock hereunder solely as the result of any maturity or redemption that is conditioned upon, and subject to, compliance with the covenant described above under the caption "--Certain Covenants--Restricted Payments;" and provided further, that Capital Stock issued to any plan for the benefit of employees of the Issuer or its subsidiaries or by any such plan to such employees shall not constitute Disqualified Stock solely because it may be required to be repurchased by the Issuer in order to satisfy applicable statutory or regulatory obligations.

"Equity Interests" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"Equity Offering" means an offering of common stock (other than Disqualified Stock) of the Issuer, pursuant to an effective registration statement filed with the Commission in accordance with the Securities Act, other than an offering pursuant to Form S-8 (or any successor thereto).

"Fixed Charges" means, with respect to any Person for any period, the sum, without duplication, of (i) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued (including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net payments (if any) pursuant to Hedging Obligations; provided, however, that in no event shall any amortization of deferred financing costs incurred in connection with the Recapitalization be included in Fixed Charges) and (ii) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period, and (iii) any interest expense on Indebtedness of another Person that is Guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries (whether or not such Guarantee or Lien is called upon) and (iv) the product of (a) (without duplication) (1) all dividends paid or accrued in respect of Disqualified Stock which are not included in the interest expense of such Person for tax purposes for such period and (2) all cash dividend payments on any series of preferred stock of such Person or any of its Restricted Subsidiaries, other than dividend payments on Equity Interests payable solely in Equity Interests (other than Disqualified Stock) of the Issuer, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

"Fixed Charge Coverage Ratio" means with respect to any Person for any period, the ratio of the Consolidated Cash Flow of such Person and its Restricted Subsidiaries for such period to the Fixed Charges of such Person and its Restricted Subsidiaries for such period. In the event that the Issuer or any of its Restricted Subsidiaries incurs, assumes, Guarantees, repays or redeems any Indebtedness (other than revolving credit borrowings) or issues or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated but prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "Calculation Date"), then the Fixed Charge Coverage Ratio shall be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment or redemption of Indebtedness, or such issuance or redemption of preferred stock, as if the same had occurred at the beginning of the applicable four-quarter reference period. In addition, for purposes of making the computation referred to above, (i) acquisitions that have been made by the Issuer or any of its Restricted Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date shall be deemed to have occurred on the first day of the four-quarter reference period and Consolidated Cash Flow and Fixed Charges for such reference period shall be calculated without giving effect to clause (ii) of the proviso set forth in the definition of Consolidated Net Income and shall reflect any pro forma expense and cost reductions attributable to such acquisitions (to the extent such expense and cost reduction would be permitted by the Commission to be reflected in pro forma financial statements included in a registration statement filed with the Commission), and (ii) the Consolidated Cash Flow and Fixed Charges attributable to discontinued operations, as determined in accordance

with GAAP, and operations or businesses disposed of prior to the Calculation Date, shall be excluded and Consolidated Cash Flow shall reflect any pro forma expense or cost reductions relating to such discontinuance or disposition (to the extent such expense or cost reductions would be permitted by the Commission to be reflected in pro forma financial statements included in a registration statement filed with the Commission), and (iii) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, shall be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the referent Person or any of its Subsidiaries following the Calculation Date.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect on the date of the Indenture provided, however, that all reports and other financial information provided by the Issuer to the holders, the Trustee and/or the Commission shall be prepared in accordance with GAAP, as in effect on the date of such report or other financial information.

"Guarantee" means a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner (including, without limitation, letters of credit and reimbursement agreements in respect thereof), of all or any part of any Indebtedness.

"Hedging Obligations" means, with respect to any Person, the obligations of such Person under (i) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements and (ii) other agreements or arrangements designed to protect such Person against fluctuations in interest rates or the value of foreign currencies.

"Indebtedness" means, with respect to any Person, any indebtedness of such Person, whether or not contingent, in respect of borrowed money or evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof) or banker's acceptances or representing Capital Lease Obligations or the balance deferred and unpaid of the purchase price of any property or representing any Hedging Obligations, except any such balance that constitutes an accrued expense or trade payable, if and to the extent any of the foregoing indebtedness (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP, as well as all indebtedness of others secured by a Lien on any asset of such Person (whether or not such indebtedness is assumed by such Person) and, to the extent not otherwise included, the Guarantee by such Person of any indebtedness of any other Person. The amount of any Indebtedness outstanding as of any date shall be (i) the accreted value thereof, in the case of any Indebtedness that does not require current payments of interest, and (ii) the principal amount thereof, together with any interest thereon that is more than 30 days past due, in the case of any other Indebtedness.

"Investments" means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the forms of direct or indirect loans (including guarantees of Indebtedness or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. If the Issuer or any Restricted Subsidiary of the Issuer sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary of the Issuer such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary of the Issuer, the Issuer shall be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Equity Interests of such Restricted Subsidiary not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "--Certain Covenants--Restricted Payments."

"Issue Date" means the date on which notes are first issued and authenticated under the Indenture.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any lease in the nature thereof, and any option or other agreement to sell or give a security interest therein).

"Net Income" means, with respect to any Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however, (i) any gain (but not loss), together with any related provision for taxes on such gain (but not loss), realized in connection with (a) any Asset Sale (including, without limitation, dispositions pursuant to sale and leaseback transactions) or (b) the extinguishment of any Indebtedness of such Person or any of its Subsidiaries and (ii) any extraordinary or nonrecurring gain (but not loss), together with any related provision for taxes on such extraordinary or nonrecurring gain (but not loss).

"Net Proceeds" means the aggregate cash proceeds received by the Issuer or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees, and sales commissions) and any relocation expenses incurred as a result thereof, taxes paid or payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements), amounts required to be applied to the repayment of Indebtedness (other than Indebtedness under the Credit Facilities) secured by a Lien on the asset or assets that were the subject of such Asset Sale and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP.

"New Credit Facility" means that certain credit facility, dated as of October 17, 1997, by and among the J. Crew Corp., Holdings, Chase, DLJ and DLJ Capital Funding, as agents and lenders, providing for up to \$70.0 million of term borrowings and \$200.0 million of revolving credit borrowings, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, extended, modified, renewed, refunded, replaced or refinanced from time to time.

"Non-Recourse Debt" means Indebtedness (i) as to which neither the Issuer nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), or (b) is directly or indirectly liable (as a guarantor or otherwise), and (ii) as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of the Issuer or any of its Restricted Subsidiaries, including the stock of such Unrestricted Subsidiary.

"Obligations" means, with respect to any Indebtedness, any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"Permitted Business" means the design, manufacture, importing, exporting, distribution, marketing, licensing and wholesale and retail sale of apparel, housewares, home furnishings and related items, and businesses reasonably related thereto.

"Permitted Investments" means (a) any Investment in the Issuer or in a Restricted Subsidiary of the Issuer (other than a Receivables Subsidiary) (b) any Investment in Cash and Cash Equivalents; (c) any Investment by the Issuer or any Restricted Subsidiary in a Person, if as a result of such Investment (i) such Person becomes a Restricted Subsidiary of the Issuer (other than a Receivables Subsidiary) or (ii) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Issuer or a Restricted Subsidiary of the Issuer (other than a Receivables Subsidiary); (d) any Restricted Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "--Repurchase at the Option of Holders--Asset Sales" or any transaction not constituting an Asset Sale by reason of the \$1.0 million threshold contained in the definition

thereof; (e) any acquisition of assets solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of the Issuer; (f) Hedging Obligations entered into in the ordinary course of the Issuer's or its Restricted Subsidiaries' Businesses and otherwise in compliance with the Indenture; (g) loans and advances to employees and officers of the Issuer and its Restricted Subsidiaries in the ordinary course of business for bona fide business purposes not in excess of \$5 million at any one time outstanding; (h) additional Investments not to exceed \$25 million at any one time outstanding; (i) Investments in securities of trade creditors or customers received in settlement of obligations or pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditors or customers; and (j) Investments by the Issuer or a Restricted Subsidiary in a Receivables Subsidiary or any Investment by a Receivables Subsidiary in any other Person, in each case, in connection with a Qualified Receivables Transaction, provided, that any Investment in any such Person is in the form of a Purchase Money Note, any equity interest or interests in accounts receivable and related assets generated by the Issuer or a Restricted Subsidiary and transferred to any Person in connection with a Qualified Receivables Transaction or any such Person owning such accounts receivable.

"Permitted Liens" means (i) Liens existing as of the Issue Date to the extent and in the manner such Liens are in effect on the Issue Date; (ii) Liens on assets of Restricted Subsidiaries securing Indebtedness of Restricted Subsidiaries permitted to be incurred under the Indenture; (iii) Liens securing the Debentures; (iv) Liens securing the Issuer's obligations under the New Credit Facility; (v) Liens of the Issuer or a Wholly Owned Restricted Subsidiary on assets of any Restricted Subsidiary of the Issuer; (vi) Liens securing Permitted Refinancing Indebtedness which is incurred to refinance any Indebtedness which has been secured by a Lien permitted under the Indenture and which has been incurred in accordance with the provisions of the Indenture, provided, however, that such Liens (A) are not materially less favorable to the holders and are not materially more favorable to the lienholders with respect to such Liens than the Liens in respect of the Indebtedness being refinanced and (B) do not extend to or cover any property or assets of the Issuer or any of its Restricted Subsidiaries not securing the Indebtedness so refinanced; (vii) Liens for taxes, assessments or governmental charges or claims either (A) not delinquent or (B) contested in good faith by appropriate proceedings and as to which the Issuer or its Restricted Subsidiaries shall have set aside on its books such reserves as may be required pursuant to GAAP; (viii) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, supplies, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent for a period of more than 60 days or being contested in good faith, if such reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made in respect thereof; (ix) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance or other types of social security or similar obligations, including any Lien securing letters of credit issued in the ordinary course of business consistent with past practice in connection therewith, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money); (x) judgment Liens not giving rise to an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgement shall not have been finally terminated or the period within which such proceedings may be initiated shall not have expired; (xi) easements, rights-of-way, zoning restrictions and other similar charges or encumbrances in respect of real property not interfering in any material respect with the ordinary conduct of the business of the Issuer or any of its Restricted Subsidiaries; (xii) any interest or title of a lessor under any lease, whether or not characterized as capital or operating; provided that such Liens do not extend to any property or assets which is not leased property subject to such lease; (xiii) Liens securing Capital Lease Obligations and purchase money Indebtedness incurred in accordance with the covenant described under "-- Certain Covenants--Incurrence of Indebtedness and Issuance of Preferred Stock;" provided, however, that (A) the Indebtedness shall not exceed the cost of such property or assets being acquired or constructed and shall not be secured by any property or assets of the Issuer or any Restricted Subsidiary of the Issuer other than the property or assets of the Issuer or any Restricted Subsidiary of the Issuer other than the property and assets being acquired or constructed and (B) the Lien securing such Indebtedness shall be created within 90 days of such acquisition or construction; (xiv) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or

created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
(xv) Liens securing reimbursement obligations

with respect to letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof; (xvi) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Issuer or any of its Restricted Subsidiaries, including rights of offset and set-off; (xvii) Liens securing Hedging Obligations which Hedging Obligations relate to Indebtedness that is otherwise permitted under the Indenture; (xviii) Liens securing Acquired Debt incurred in accordance with the covenant described under "--Certain Covenants--Incurrence of Indebtedness and Issuance of Preferred Stock;" provided that (A) such Liens secured such Acquired Debt at the time of and prior to the incurrence of such Acquired Debt by the Issuer or a Restricted Subsidiary of the Issuer and were not granted in connection with, or in anticipation of, the incurrence of such Acquired Debt by the Issuer or a Restricted Subsidiary of the Issuer and (B) such Liens do not extend to or cover any property or assets of the Issuer or any of its Restricted Subsidiaries other than the property or assets that secured the Acquired Debt prior to the time such Indebtedness became Acquired Debt of the Issuer or a Restricted Subsidiary of the Issuer and are not more favorable to the lienholders than those securing the Acquired Debt prior to the incurrence of such Acquired Debt by the Issuer or a Restricted Subsidiary of the Issuer; (xix) leases or subleases granted to others not interfering in any material respect with the business of the Issuer or its Restricted Subsidiaries; (xx) Liens arising out of consignment or similar arrangements for the sale of goods entered into by the Issuer or any Restricted Subsidiary in the ordinary course of business; and (xxi) Liens or assets of a Receivables Subsidiary arising in connection with a Qualified Receivables Transaction.

"Permitted Refinancing Indebtedness" means any Indebtedness of the Issuer or any of its Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, prepay, retire, renew, replace, defease or refund Indebtedness of the Issuer or any of its Subsidiaries (other than such Indebtedness described in clauses (i), (vi), (vii), (viii), (ix), (x), (xi), (xiii) and (xiv) of the covenant described above under the caption "-- Certain Covenants--Incurrence of Indebtedness and Issuance of Preferred Stock"); provided that: (i) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount of (or accreted value, if applicable), plus accrued interest on, the Indebtedness so extended, refinanced, renewed, prepaid, retired, replaced, defeased or refunded (plus the amount of reasonable expenses incurred in connection therewith including premiums paid, if any, to the holders thereof); (ii) such Permitted Refinancing Indebtedness has a final maturity date at or later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, prepaid, retired, replaced, defeased or refunded; (iii) if the Indebtedness being extended, refinanced, renewed, prepaid, retired, replaced, defeased or refunded is subordinated in right of payment to the Debentures, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the Notes on terms at least as favorable to the holders of Debentures as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and (iv) such Indebtedness is incurred either by the Issuer or by the Restricted Subsidiary who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

"Person" means an individual, partnership, corporation, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

"Principals" means TPG Partners II, L.P., a Delaware limited partnership.

"Purchase Money Note" means a promissory note evidencing a line of credit, or evidencing other Indebtedness owed to the Issuer or any Restricted Subsidiary in connection with a Qualified Receivables Transaction, which note shall be repaid from cash available to the maker of such note, other than amounts required to be established as reserves pursuant to agreement, amounts paid to investors in respect of interest, principal and other amounts owing to such investors and amounts paid in connection with the purchase of newly generated receivables.

"Qualified Proceeds" means any of the following or any combination of the following: (i) cash, (ii) Cash Equivalents, (iii) long-term assets that are used or useful in a Permitted Business and (iv) the Capital Stock of any Person engaged primarily in a Permitted Business if, in connection with the receipt by the Issuer or any Restricted

Subsidiary of the Issuer of such Capital Stock, (a) such Person becomes a Wholly-Owned Restricted Subsidiary and a Guarantor or (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Issuer or any Wholly-Owned Restricted Subsidiary of the Issuer that is a Guarantor.

"Qualified Receivables Transaction" means any transaction or series of transactions that may be entered into by the Issuer or any Restricted Subsidiary pursuant to which the Issuer or any Restricted Subsidiary may sell, convey or otherwise transfer to (a) a Receivables Subsidiary (in the case of a transfer by the Issuer or any Restricted Subsidiary) and (b) any other Person (in the case of a transfer by a Receivables Subsidiary), or may grant a security interest in, any accounts receivable (whether now existing or arising in the future) of the Issuer or any Restricted Subsidiary and any asset related thereto including, without limitation, all collateral securing such accounts receivable, all contracts and all guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivable and other assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with asset securitization transactions involving accounts receivable.

"Receivables Subsidiary" means a Wholly Owned Restricted Subsidiary which engages in no activities other than in connection with the financing of accounts receivables and which is designated by the Board of Directors of the Issuer (as provided below) as a Receivables Subsidiary (a) no portion of the Indebtedness or any other Obligations (contingent or otherwise) of which (i) is guaranteed by the Issuer or any other Restricted Subsidiary (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings), (ii) is recourse to or obligates the Issuer or any other Restricted Subsidiary in any way other than pursuant to Standard Securitization Undertakings or (iii) subjects any property or asset of the Issuer or any other Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings, (b) with which neither the Issuer nor any other Restricted Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Purchase Money Note or Qualified Receivables Transaction) other than on terms no less favorable to the Issuer or such other Restricted Subsidiary than those that might be obtained at the time from persons that are not Affiliates of the Issuer, other than fees payable in the ordinary course of business in connection with servicing accounts receivable, and (c) to which neither the Issuer nor any other Restricted Subsidiary has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results. Any such designation by the Board of Directors of the Issuer shall be evidenced by the Trustee by filing with the Trustee a certified copy of the resolution of the Board of Directors of the Issuer giving effect to such designation and an officers' certificate certifying, to the best of such officer's knowledge and belief after consulting with counsel, that such designation complied with the foregoing conditions.

"Related Party" with respect to any Principal means (A) any controlling stockholder or a majority of (or more) owned Subsidiary of such Principal or, in the case of an individual, any spouse or immediate family member of such Principal, or (B) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a majority (or more) controlling interest of which consist of such Principal and/or such other Persons referred to in the immediately preceding clause (A).

"Restricted Investment" means an Investment other than a Permitted Investment.

"Restricted Subsidiary" means any Subsidiary of the Issuer other than an Unrestricted Subsidiary.

"Significant Subsidiary" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Act, as such Regulation is in effect on the date hereof of the Indenture.

"Standard Securitization Undertakings" means representations, warranties, covenants and indemnities entered into by the Issuer or any Restricted Subsidiary which are reasonably customary in an accounts receivable transaction.

"Stated Maturity" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which such payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and shall not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"Subsidiary" means, with respect to any Person, (i) any corporation, association or other business entity of which more than 50% of the total Voting Stock thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof) and (ii) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

"Unrestricted Subsidiary" means any Subsidiary of the Issuer that is designated by the Board of Directors as an Unrestricted Subsidiary pursuant to a Board Resolution; but only to the extent that such Subsidiary: (a) is not party to any agreement, contract, arrangement or understanding with the Issuer or any Restricted Subsidiary unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Issuer or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Issuer; (b) is a Person with respect to which neither the Issuer nor any of its Restricted Subsidiaries has any direct or indirect obligation (x) to subscribe for additional Equity Interests or (y) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and (c) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Issuer or any of its Restricted Subsidiaries. Any such designation by the Board of Directors shall be evidenced to the Trustee by filing with a Trustee a certified copy of the Board Resolution giving effect to such designation and an officers' certificate certifying that such designation complied with the foregoing conditions and was permitted by the covenant described above under the caption "--Certain Covenants--Restricted Payments." If, at any time, any Unrestricted Subsidiary would fail to meet the foregoing requirements as an Unrestricted Subsidiary, it shall thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary shall be deemed to be incurred by a Restricted Subsidiary of the Issuer as of such date. The Board of Directors of the Issuer may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided that such designation shall be deemed to be an incurrence of Indebtedness and issuance of preferred stock by a Restricted Subsidiary of the Issuer of any outstanding Indebtedness or outstanding issue of preferred stock of such Unrestricted Subsidiary and such designation shall only be permitted if (i) such Indebtedness and preferred stock is permitted under the covenant described under the caption "--Certain Covenants--Incurrence of Indebtedness and Issuance of Preferred Stock," and (ii) no Default or Event of Default would exist following such designation.

"Voting Stock" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (i) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment, by (ii) the then outstanding principal amount of such Indebtedness.

"Wholly Owned Subsidiary" of any Person means a Restricted Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which (other than directors' qualifying shares) shall at the time be owned by such Person or by one or more Wholly Owned Restricted Subsidiaries of such Person or by such Person and one or more Wholly Owned Subsidiaries of such Person.

CERTAIN U.S. FEDERAL TAX CONSIDERATIONS

Exchange of Old Debentures for New Debentures

The following summary describes the principal U.S. federal income tax consequences of the exchange of the Old Debentures for New Debentures (the "Exchange") that may be relevant to a beneficial owner of Debentures that will hold the New Debentures as capital assets and that is a citizen or resident of the United States, or that is a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust if (i) a U.S. court is able to exercise primary supervision over the trust's administration and (ii) one or more U.S. fiduciaries have the authority to control all of the trust's substantial decisions.

The Exchange pursuant to the Exchange Offer will not be a taxable event for U.S. federal income tax purposes. As a result, a holder of an Old Debenture whose Old Debenture is accepted in an Exchange Offer will not recognize gain on the Exchange. A tendering holder's tax basis in the New Debentures will be the same as such holder's tax basis in its Old Debentures. A tendering holder's holding period for the New Debentures received pursuant to the Exchange Offer will include its holding period for the Old Debentures surrendered therefor.

ALL HOLDERS OF OLD DEBENTURES ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE U.S. FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF THE EXCHANGE OF OLD DEBENTURES FOR NEW DEBENTURES AND OF THE OWNERSHIP AND DISPOSITION OF NEW DEBENTURES RECEIVED IN THE EXCHANGE OFFER IN VIEW OF THEIR OWN PARTICULAR CIRCUMSTANCES.

Tax Considerations for Non-United States Holders

The following is a general discussion of certain United States federal income and estate tax consequences of the acquisition, ownership and disposition of Debentures by an initial beneficial owner of Debentures that, for United States federal income tax purposes, is not a "United States person" (a "Non-United States Holder"), but does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Debentures. This discussion is based upon the United States federal tax law now in effect, which is subject to change, possibly retroactively, which could affect the continued validity of this summary. For purposes of this discussion, a "United States person" means a holder of a Debenture who is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in the United States or under the laws of the United States or of any political subdivision thereof, an estate whose income is includable in gross income for United States federal income tax purposes regardless of its source or a trust, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust. The tax treatment of the holders of the Debentures may vary depending upon their particular situations. U.S. persons acquiring the Debentures are subject to different rules than those discussed below. In addition, certain other holders (including insurance companies, tax exempt organizations, financial institutions, subsequent purchasers of Debentures and broker-dealers) may be subject to special rules not discussed below. In addition, this summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the United States federal government. In general, the summary assumes that a Non-U.S. Holder acquires a Debenture at original issuance and holds such Debenture as a capital asset and not as part of a "hedge," "straddle," "conversion transaction," "synthetic security" or other integrated investment. Prospective investors are urged to consult their tax advisors regarding the United States federal tax consequences of acquiring, holding and disposing of Debentures, as well as any tax consequences that may arise under the laws of any foreign, state, local or other taxing jurisdiction.

Interest

Interest paid by the Issuer to a Non-United States Holder will not be subject to United States federal income or withholding tax if such interest is not effectively connected with the conduct of a trade or business within the United States by such Non-United States Holder and Non-United States Holder (i) does not actually or constructively own 10% or more of the total combined voting power of all classes of stock of the Issuer; (ii) is not a controlled foreign corporation with respect to which the Issuer is a "related person" within the meaning of the United States Internal Revenue Code of 1986 (the "Code") and (iii) certifies, under penalties of perjury, that such holder is not a United States person and provides such holder's name and address.

Gain on Disposition

A Non-United States Holder will generally not be subject to United States federal income tax on gain recognized on a sale, redemption or other disposition of a Debenture unless (i) the gain is effectively connected with the conduct of a trade or business within the United States by the Non-United States Holder or (ii) in the case of a Non-United States Holder who is a nonresident alien individual and holds the Debenture as a capital asset, such holder is present in the United States for 183 or more days in the taxable year and certain other requirements are met.

Federal Estate Taxes

If interest on the Debentures is exempt from withholding of United States federal income tax under the rules described above, the Debentures will not be included in the estate of a deceased Non-United States Holder for United States federal estate tax purposes.

Information Reporting and Backup Withholding

The Issuer will, where required, report to the holders of Debentures and the Internal Revenue Service the amount of any interest paid on the Debentures in each calendar year and the amounts of tax withheld, if any, with respect to such payments.

In the case of payments of interest to Non-United States Holders, temporary Treasury regulations provide that the 31% backup withholding tax and certain information reporting will not apply to such payments with respect to which either the requisite certification, as described above, has been received or an exemption has otherwise been established; provided that neither the Issuer nor its payment agent has actual knowledge that the holder is a United States person or that the conditions of any other exemption are not in fact satisfied. Under temporary Treasury regulations, these information reporting and backup withholding requirements will apply, however, to the gross proceeds paid to a Non-United States Holder on the disposition of the Debentures by or through a United States office of a United States or foreign broker, unless the holder certifies to the broker under penalties of perjury as to its name, address and status as a foreign person or the holder otherwise establishes an exemption. Information reporting requirements, but not backup withholding, will also apply to a payment of the proceeds of a disposition of the Debentures by or through a foreign office of a United States broker or foreign brokers with certain types of relationships to the United States unless such broker has documentary evidence in its file that the holder of the Debentures is not a United States person, and such broker has no actual knowledge to the contrary, or the holder establishes an exception. Neither information reporting nor backup withholding generally will apply to payment of the proceeds of a disposition of the Debentures by or through a foreign office of a foreign broker not subject to the preceding sentence.

On October 14, 1997, the Treasury Department published final regulations regarding the withholding and information reporting rules discussed above. In general, the final regulations do not alter the substantive withholding and information reporting requirements but unify current certification procedures and forms and clarify reliance standards. The final regulations will generally be effective for payments made after December 31, 1998 subject to certain transition rules.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the Non-United States Holder's United States federal income tax liability, provided that the required information is furnished to the Internal Revenue Service.

PLAN OF DISTRIBUTION

Each broker-dealer that receives New Debentures for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such New Debentures. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Debentures received in exchange for Old Debentures where such Old Debentures were acquired as a result of market-making activities or other trading activities. The Issuer and the Guarantors have agreed that they will make this Prospectus available to any Participating Broker-Dealer for a period of time not to exceed one year after the date on which the Exchange Offer is consummated for use in connection with any such resale. In addition, until such date, all broker-dealers effecting transactions in the New Debentures may be required to deliver a prospectus.

Neither the Issuer nor the Guarantors will receive any proceeds from any sale of New Debentures by broker-dealers. New Debentures received by broker-dealers for their own account pursuant to the Exchange Offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the New Debentures or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such New Debentures. Any broker-dealer that resells New Debentures that were received by it for its own account pursuant to the Exchange Offer and any broker or dealer that participates in a distribution of such New Debentures may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any such resale of New Debentures and any commissions or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The Letter of Transmittal states that by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

Starting on the Expiration Date, the Issuer and the Guarantors will promptly send additional copies of this Prospectus and any amendment or supplement to this Prospectus to any broker-dealer that requests such documents in the Letter of Transmittal. The Issuer has agreed to pay all expenses incident to the Exchange Offer (including the expenses of one counsel for the holders of the Old Debentures) other than commissions or concessions of any brokers or dealers and will indemnify the holders of the Old Debentures (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity of the New Debentures have been passed upon for the Issuer by Cleary, Gottlieb, Steen & Hamilton, New York, New York. Certain legal matters relating to the New Debentures have been passed upon for the Initial Purchasers by Latham & Watkins, New York, New York.

EXPERTS

The consolidated financial statements of J. Crew Group, Inc. and subsidiaries, as of January 31, 1997 and February 2, 1996, and for the fiscal years ended February 3, 1995, February 2, 1996 and January 31, 1997, appearing in this Prospectus and the related financial statement schedules included elsewhere in the Registration Statement have been audited by Deloitte & Touche LLP, independent auditors as stated in their reports appearing herein and elsewhere in the Registration Statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

CHANGE IN ACCOUNTANTS

At a meeting held on October 9, 1997, the Board of Directors of the Company approved the engagement of KPMG Peat Marwick LLP as its independent auditors for the fiscal year ending January 1998 to replace the firm of Deloitte & Touche LLP, effective October 9, 1997.

The reports of Deloitte & Touche LLP on the financial of J. Crew Group, Inc. statements for the past two fiscal years did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

In connection with the audits of the financial statements of J. Crew Group, Inc. for each of the two fiscal years ended January 31, 1997 and in the subsequent interim period, there were no disagreements with Deloitte & Touche LLP on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of Deloitte & Touche LLP would have caused Deloitte & Touche LLP to make reference to the matter in their report.

The Issuer has requested Deloitte & Touche LLP to furnish it a letter addressed to the Commission stating whether it agrees with the above statements. A copy of that letter, dated February 6, 1998 is filed as Exhibit 16.1 to this Registration Statement.

J. CREW GROUP, INC. AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
J. Crew Group, Inc.

We have audited the accompanying consolidated balance sheets of J. Crew Group, Inc. and subsidiaries as of February 2, 1996 and January 31, 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three fiscal years in the period ended January 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of J. Crew Group, Inc. and subsidiaries as of February 2, 1996 and January 31, 1997, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 31, 1997 in conformity with generally accepted accounting principles.

As discussed in Note 12 to the consolidated financial statements, in 1995, the Company changed its method of accounting for catalog costs to conform with the provisions of Statement of Position 93-7, "Reporting on Advertising Costs," and changed its method of accounting for merchandise inventories.

Deloitte & Touche LLP

New York, New York
March 31, 1997

J. CREW GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

February 2, 1996 January 31, 1997
(In thousands)

ASSETS

CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 13,529	\$ 7,132
Accounts receivable (net of allowance for doubtful accounts of \$4,824 and \$4,357, respectively).....	58,280	58,079
Merchandise inventories.....	148,055	197,657
Prepaid expenses and other current assets.....	54,311	58,318
Refundable income taxes.....	4,900	--
	-----	-----
Total current assets.....	279,075	321,186
	-----	-----
PROPERTY AND EQUIPMENT--at cost:		
Land	1,405	1,405
Buildings and improvements.....	11,360	11,167
Furniture, fixtures and equipment.....	38,703	43,537
Leasehold improvements.....	60,218	75,378
Construction in progress.....	2,128	4,063
	-----	-----
	113,814	135,550
Less accumulated depreciation and amortization....	41,005	49,121
	-----	-----
	72,809	86,429
	-----	-----
OTHER ASSETS.....	3,365	3,206
	-----	-----
TOTAL ASSETS.....	\$355,249	\$410,821
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable.....	\$ 71,415	\$103,279
Other current liabilities.....	59,243	62,938
Deferred income taxes.....	13,739	12,555
Federal and state income taxes payable.....	2,185	9,955
Current portion of long-term debt.....	237	237
	-----	-----
Total current liabilities.....	146,819	188,964
	-----	-----
LONG-TERM DEBT.....	87,092	86,855
	-----	-----
DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES.....	31,705	32,996
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
6% noncumulative preferred stock.....	1,579	1,579
8% cumulative preferred stock.....	500	500
Common stock.....	263	263
Additional paid-in capital.....	3,710	3,710
Retained earnings.....	89,477	101,850
Treasury stock, at cost.....	(5,896)	(5,896)
	-----	-----
Total stockholders' equity.....	89,633	102,006
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$355,249	\$410,821
	=====	=====

See notes to consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Year Ended		
	February 3, 1995	February 2, 1996	January 31, 1997
	-----	-----	-----
		(In thousands)	
Net sales.....	\$724,756	\$732,580	\$795,931
Other revenues.....	12,969	13,329	12,912
	-----	-----	-----
Revenues.....	737,725	745,909	808,843
Cost of goods sold, including buying and occupancy costs.....	394,073	399,668	428,719
	-----	-----	-----
Gross profit.....	343,652	346,241	380,124
Selling, general and administrative expenses.....	311,468	327,672	348,305
	-----	-----	-----
Income from operations.....	32,184	18,569	31,819
Interest expense--net.....	6,965	9,350	10,470
	-----	-----	-----
Income before provision for income taxes, extraordinary item and cumulative effect of accounting changes.....	25,219	9,219	21,349
Provision for income taxes.....	10,300	3,700	8,800
	-----	-----	-----
Income before extraordinary item and cumulative effect of accounting changes.....	14,919	5,519	12,549
Extraordinary item--loss on early retirement of debt (net of income tax benefit of \$1,200).....	--	(1,679)	--
Cumulative effect of accounting changes (net of income taxes of \$1,800).....	--	2,610	--
	-----	-----	-----
Net income.....	\$14,919	\$6,450	\$12,549
	=====	=====	=====

See notes to consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
	February 3, 1995	February 2, 1996	January 31, 1997
	----	-----	-----
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$14,919	\$6,450	\$12,549
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	8,110	10,272	10,541
Amortization of deferred financing costs.....	249	1,186	401
Deferred incomes taxes.....	(987)	10,131	(1,184)
Provision for losses on accounts receivable...	7,956	7,277	6,945
Noncash compensation expense.....	1,901	1,142	--
Changes in operating assets and liabilities:			
Accounts receivable.....	(7,041)	(7,708)	(6,744)
Merchandise inventories.....	(35,409)	(10,417)	(49,602)
Prepaid expenses and other current assets.....	(4,349)	(12,444)	(4,007)
Other assets.....	(1,244)	(2,031)	(375)
Accounts payable.....	7,876	6,318	31,864
Other liabilities.....	2,504	(5,351)	3,439
Federal and state income taxes payable.....	7,289	(12,674)	12,670
	-----	-----	-----
Net cash provided by (used in) operating activities...	1,774	(7,849)	16,497
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures.....	(14,595)	(18,466)	(27,462)
Proceeds from construction allowances.....	1,128	3,826	4,981
	-----	-----	-----
Net cash used in investing activities...	(13,467)	(14,640)	(22,481)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt.....	15,000	85,000	--
Repayment of long-term debt.....	(7,237)	(67,237)	(237)
Dividends paid.....	(1,000)	--	(176)
	-----	-----	-----
Net cash provided by (used in) financing activities.....	6,763	17,763	(413)
	-----	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS.....	(4,930)	(4,726)	(6,397)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR.....	23,185	18,255	13,529
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF YEAR.....	\$18,255	\$13,529	\$7,132
	=====	=====	=====
SUPPLEMENTARY CASH FLOW INFORMATION:			
Income taxes paid (refunded).....	\$4,063	\$7,000	\$(3,600)
	=====	=====	=====
Interest paid.....	\$6,520	\$9,601	\$9,880
	=====	=====	=====

See notes to consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	6% Noncumulative Preferred Stock Issued		8% Cumulative Preferred Stock Issued		Common Stock Issued		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Stock- holders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
BALANCE, JANUARY 28, 1994.....	15,794	\$1,579	5,000	\$500	262,912	\$263	\$1,827	\$69,108	\$(7,056)	\$66,221
Net income.....	--	--	--	--	--	--	--	14,919	--	14,919
Issuance of 5,033 shares of common stock from treasury under stock bonus agreement.....	--	--	--	--	--	--	1,166	--	735	1,901
Dividends.....	--	--	--	--	--	--	--	(1,000)	--	(1,000)
BALANCE, FEBRUARY 3, 1995.....	15,794	1,579	5,000	500	262,912	263	2,993	83,027	(6,321)	82,041
Net income.....	--	--	--	--	--	--	--	6,450	--	6,450
Issuance of 2,898 shares of common stock from treasury under stock bonus agreement.....	--	--	--	--	--	--	717	--	425	1,142
BALANCE, FEBRUARY 2, 1996.....	15,794	1,579	5,000	500	262,912	263	3,710	89,477	(5,896)	89,633
Net income.....	--	--	--	--	--	--	--	12,549	--	12,549
Dividends.....	--	--	--	--	--	--	--	(176)	--	(176)
BALANCE, JANUARY 31, 1997.....	15,794	\$1,579	5,000	\$500	262,912	\$263	\$3,710	\$101,850	\$(5,896)	\$102,006

See notes to consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FISCAL YEARS ENDED FEBRUARY 3, 1995, FEBRUARY 2, 1996 AND JANUARY 31, 1997

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation--The accompanying consolidated financial statements include the accounts of J. Crew Group, Inc. and its wholly-owned subsidiaries (the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

b. Business--The Company, which operates in one business segment, designs, contracts for the manufacture of, markets and distributes men's, women's and children's apparel, accessories and home furnishings. The Company's products are marketed through catalogs and retail stores primarily in the United States. The Company is also party to a licensing agreement which grant the licensees exclusive rights to use the Company's trademarks in connection with the manufacture and sale of products in Japan. The license agreement provides for payments based on specified percentages of net sales.

The Company is subject to seasonal fluctuations in its merchandise sales and results of operations. The Company expects its sales and operating results generally to be lower in the first, and second quarters than in the third and fourth quarters (which include the back-to-school and holiday season) of each fiscal year.

A significant amount of the Company's products are produced in the Far East through arrangements with independent contractors. As a result, the Company's operations could be adversely affected by political instability resulting in the disruption of trade from the countries in which these contractors are located or by the imposition of additional duties or regulations relating to imports or by the contractor's inability to meet the Company's production requirements.

c. Fiscal Year--The Company's fiscal year ends on the Friday closest to January 31. The fiscal years 1994, 1995 and 1996 ended on February 3, 1995 (53 weeks), February 2, 1996 (52 weeks) and January 31, 1997 (52 weeks).

d. Cash Equivalents--For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments, with maturities of 90 days or less when purchased, to be cash equivalents. Cash equivalents, which were \$9,700,000 and \$1,968,000 at February 2, 1996 and January 31, 1997, are stated at cost, which approximates market value.

e. Accounts Receivable--Accounts receivable consists of installment receivables resulting from the sale of merchandise of Popular Club Plan, Inc. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers comprising the accounts receivable base. Finance charge income, which is included in other revenues, for the fiscal years 1994, 1995 and 1996 was \$9,700,000, \$9,354,000 and \$9,095,000.

f. Merchandise Inventories--Merchandise inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market. The Company capitalizes certain design, purchasing and warehousing costs into inventory. (See Note 12.)

g. Catalog Costs--Catalog costs, which primarily consist of catalog production and mailing costs, are capitalized and amortized over the expected future revenue stream, which is principally from three to five months from the date catalogs are mailed. The Company accounts for catalog costs in accordance with the AICPA Statement of Position ("SOP") 93-7, "Reporting on Advertising Costs." SOP 93-7 requires that the amortization of capitalized advertising costs should be the amount computed using the ratio that current period revenues for the

catalog cost pool bear to the total of current and estimated future period revenues for that catalog cost pool. Deferred catalog costs, included in prepaid expenses and other current assets, as of February 2, 1996 and January 31, 1997 were \$40,743,000 and \$41,191,000. Catalog costs, which are reflected in selling and administrative expenses, for the fiscal years 1994, 1995 and 1996 were \$112,979,000, \$132,566,000, and \$135,633,000. (See Note 12).

h. Property and Equipment--Property and equipment are stated at cost. Buildings and improvements are depreciated by the straight-line method over the estimated useful lives of the respective assets of twenty years. Furniture, fixtures and equipment are depreciated by the straight-line method over the estimated useful lives of the respective assets, ranging from three to ten years. Leasehold improvements are amortized over the shorter of their useful lives or related lease terms.

The Company receives construction allowances upon entering into certain store leases. These construction allowances are recorded as deferred credits and are amortized over the term of the related lease.

i. Other Assets--Other assets consist primarily of debt issuance costs which are amortized over the term of the related debt agreements.

j. Income Taxes--The provision for income taxes includes taxes currently payable and deferred taxes resulting from the tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes."

k. Revenue Recognition--Revenue is recognized when merchandise is shipped to customers. The Company accrues a sales return allowance in accordance with its return policy for estimated returns of merchandise subsequent to the balance sheet date that relate to sales prior to the balance sheet date.

l. Store Preopening Costs--Costs associated with the opening of new retail and outlet stores are expensed as incurred.

m. Financial Instruments--The following disclosure about the fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." The fair value of the Company's long-term debt, including current portion, is estimated to be approximately \$93,500,000 and \$89,100,000 at February 2, 1996 and January 31, 1997, and is based on management's estimate of the present value of future cash flows discounted at the current market rate for financial instruments with similar characteristics and maturity. The carrying amounts of long-term debt are \$87,329,000 and \$87,092,000 at February 2, 1996 and January 31, 1997. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term maturity of those financial instruments. The estimates presented herein are not necessarily indicative of amounts the Company could realize in a current market exchange.

The Company from time to time enters into forward foreign exchange contracts as hedges relating to identifiable currency positions to reduce the risk from exchange rate fluctuations. Gains and losses on these contracts are deferred and recognized as adjustments to the bases of those assets. Such gains and losses were not material.

At February 2, 1996, the Company had a forward foreign exchange contract outstanding with J. P. Morgan to deliver 230 million yen on March 29, 1996. At January 31, 1997, the Company had a forward foreign exchange contract outstanding with J. P. Morgan to deliver 235 million yen on March 31, 1997. These contracts are hedges relating to foreign licensing revenues. The fair value of these contracts approximated carrying value due to their short-term maturities.

The Company is exposed to credit losses in the event of nonperformance by the counterparties to the forward foreign exchange contract, but it does not expect any counterparties to fail to meet their obligation given their high-credit rating.

n. Use of Estimates in the Preparation of Financial Statements--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

o. Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of--In March 1995, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, and is effective for fiscal years beginning after December 15, 1995. The adoption of SFAS No. 121 did not have an effect on the Company's financial position or results of operations.

p. Reclassifications--Certain items in prior years in specific captions of the consolidated financial statements and notes to financial statements have been reclassified for comparative purposes.

2. OTHER CURRENT LIABILITIES

Other current liabilities consist of:

	February 2, 1996	January 31, 1997
Customer liabilities.....	\$18,827,000	\$22,968,000
Accrued catalog and marketing costs.....	9,191,000	10,734,000
Taxes, other than income taxes.....	7,235,000	9,093,000
Other.....	23,990,000	20,143,000
	-----	-----
Total.....	\$59,243,000	\$62,938,000
	=====	=====

3. LONG-TERM DEBT

	February 2, 1996	January 31, 1997
Senior Notes(a).....	\$85,000,000	\$85,000,000
Industrial Development Revenue Bond, bearing interest at 73.33% of prime rate (8.25% at January 31, 1997); due in monthly principal payments of \$19,737 from January 1, 1987 through December 1, 2005(b).....	2,329,000	2,092,000
	-----	-----
.....	87,329,000	87,092,000
	-----	-----
Less payments due within one year.....	(237,000)	(237,000)
	-----	-----
Total.....	\$87,092,000	\$86,855,000
	=====	=====

(a) In June 1995, the Company issued privately to institutional investors \$85,000,000 of 8.1% Senior Notes (the "Senior Notes") due December 15, 2004. Interest on the Senior Notes is payable semiannually on June 15 and December 15. The Senior Notes are payable in annual installments of \$4,000,000 in December 1998 and \$13,500,000 from December 1999 through December 2004. The proceeds of this private placement were used to prepay \$58,000,000 principal amount of senior notes then outstanding and for general corporate purposes.

The provisions of the note agreement and the credit agreement (see Note 4) include (i) requirements that the Company maintain minimum levels of tangible net worth, fixed charges coverage, current ratio and funded debt as a percentage of tangible net worth; and (ii) limitations on liens, sale and leaseback transactions, funded debt, payment of dividends and repurchases of capital stock, acquisitions, investments and sales of assets, among others.

- (b) Property with a net carrying value of approximately \$3,400,000 is encumbered as collateral under the Industrial Development Revenue Bond as of January 31, 1997 and February 2, 1996.

The maturities of long-term debt required during the next five fiscal years are:

Fiscal Year	Amount
1997.....	\$ 237,000
1998.....	4,237,000
1999.....	13,737,000
2000.....	13,737,000
2001.....	13,737,000

4. LINES OF CREDIT

In March 1995, the Company entered into a \$125 million syndicated revolving credit agreement (the "Credit Agreement") with a group of seven banks with J. P. Morgan as agent. The Credit Agreement provides for commitments for direct borrowings of up to \$75 million and letters of credit of up to \$125 million. Borrowings under the Credit Agreement are unsecured and bear interest, at the Company's option, at the base rate (defined as the higher of the bank's prime rate or the Federal funds rate plus .5%) or the London Interbank Offering Rate plus .5%. The Credit Agreement expires on March 31, 1998.

During fiscal 1994, 1995 and 1996, maximum borrowings under revolving credit agreements were \$25,900,000, \$49,000,000 and \$55,000,000, and average borrowings were \$6,600,000, \$25,500,000 and \$31,200,000. There were no borrowings outstanding under the Credit Agreement at February 2, 1996 or January 31, 1997.

Outstanding letters of credit issued to facilitate international merchandise purchases at February 2, 1996 and January 31, 1997 amounted to \$25,850,000 and \$37,800,000.

5. STOCKHOLDERS' EQUITY

The Company has authorized 1,000,000 shares of common stock, \$1 par value; 20,000 shares of 6% noncumulative preferred stock, \$100 par value; and 10,000 shares of 8% cumulative preferred stock, \$100 par value. The common and preferred stock have the right to vote, with each share entitled to one vote.

The holders of the 8% cumulative preferred stock shall be entitled to receive cash dividends when, as and if declared by the Board of Directors, at the rate of 8% per annum on its par value in priority to the payment of any dividends for other classes of stock during any year. Such dividends shall be cumulative from the date of issue, so that if applicable dividends for any past dividend period shall not have been paid thereon or declared and a sum sufficient for payment not set apart, the deficiency shall be fully paid or set apart, without interest, before any dividend shall be paid or set apart for any other class of stock.

The Company has agreements with its stockholders requiring the stockholders to offer preferred or common shares to the Company at prices computed in accordance with the agreements before disposing of these shares to others. The Company may, at its option, redeem shares of preferred stock at a price equal to the par value of the preferred stock.

At January 31, 1997, the Company had 34,925 shares of common stock, 6,455 shares of 6% noncumulative preferred stock and 2,495 shares of 8% cumulative preferred stock held in treasury.

6. COMMITMENTS AND CONTINGENCIES

a. Operating Leases--As of January 31, 1997, the Company was obligated under various long-term operating leases for retail and outlet stores, warehouses and office space and equipment requiring minimum annual rentals. These operating leases expire on varying dates to 2012. At January 31, 1997 aggregate minimum rentals in future periods are as follows:

Fiscal Year	Amount
-----	-----
1997.....	\$27,949,000
1998.....	28,766,000
1999.....	26,591,000
2000.....	24,000,000
2001.....	22,003,000
Thereafter.....	116,438,000

Certain of these leases include renewal options and provide for contingent rentals based upon sales and require the lessee to pay taxes, insurance and other occupancy costs.

Rent expense for fiscal 1994, 1995 and 1996 was \$25,902,000, \$27,366,000 and \$29,852,000, including percentage rent of \$2,470,000, \$2,197,000 and \$2,850,000.

b. Employment Agreements--The Company is party to employment agreements with certain executives which provide for compensation and certain other benefits. The agreements also provide for severance payments under certain circumstances.

In connection with an employment agreement, the Company was obligated to pay to an employee a bonus based upon a predetermined formula, payable in shares of common stock at fair value and cash. In connection with the agreement, the Company issued 5,033 and 2,898 treasury shares during fiscal 1994 and 1995.

c. Litigation--The Company is involved in various legal proceedings, both as plaintiff and as defendant, which are routine litigations incidental to the conduct of its business. The Company believes that the ultimate resolution of these matters will not have a material effect on its financial position or results of operations.

7. EMPLOYEE BENEFIT PLAN

The Company has a thrift/savings plan pursuant to Section 401 of the Internal Revenue Code whereby all eligible employees may contribute up to 15% of their annual base salaries subject to certain limitations. The Company's contribution is based on a percentage formula set forth in the plan agreement. Company contributions to the thrift/savings plan for fiscal 1994, 1995 and 1996 were \$1,325,000, \$1,478,000 and \$1,680,000.

8. LICENSE AGREEMENTS

The Company has a licensing agreement through January 1998 with Itochu, a Japanese trading company. The agreement permits Itochu to distribute J. Crew merchandise in Japan. The Company earns royalty payments under the agreement based on the sales of its merchandise. Royalty income, which is included in other revenues, for fiscal 1994, 1995 and 1996 was \$3,269,000, \$3,975,000 and \$3,817,000.

9. INTEREST EXPENSE--NET

Interest expense, net consists of the following:

	Fiscal 1994	Fiscal 1995	Fiscal 1996
Interest expense.....	\$7,145,000	\$9,548,000	\$10,613,000
Interest income.....	(180,000)	(198,000)	(143,000)
Interest expense--net...	\$6,965,000	\$9,350,000	\$10,470,000

10. INCOME TAXES

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". This statement requires the use of the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax expense represents the change in the deferred tax asset/liability balance.

The provision for income taxes consists of:

	Fiscal 1994	Fiscal 1995	Fiscal 1996
Current:			
Federal	\$9,100,000	\$(5,131,000)	\$9,384,000
State and local	2,187,000	500,000	600,000
	11,287,000	(4,631,000)	9,984,000
Deferred	(987,000)	8,331,000	(1,184,000)
Income taxes before tax effect of extraordinary item and cumulative effect of accounting changes	10,300,000	3,700,000	8,800,000
Extraordinary item--current	--	(1,200,000)	--
Cumulative effect of accounting changes--deferred .	--	1,800,000	--
Total provision for income taxes	\$10,300,000	\$4,300,000	\$8,800,000

The difference between the provision for income taxes based on the U.S. Federal statutory rate and the Company's effective rate is due primarily to state income taxes.

	Fiscal 1994	Fiscal 1995	Fiscal 1996
Federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of Federal benefit	5.8	5.1	6.2
Effective tax rate	40.8%	40.1%	41.2%

The tax effect of temporary differences which give rise to deferred tax assets and liabilities are:

	February 2 1996	January 31, 1997
Deferred tax assets:		
Allowance for doubtful accounts...	\$1,979,000	\$1,769,000
State net operating loss carryforwards	1,100,000	1,300,000
Other	1,177,000	3,155,000
	4,256,000	6,224,000
Deferred tax liabilities:		
Prepaid catalog costs and other prepaid costs	(17,995,000)	(18,779,000)
Net deferred income taxes	\$(13,739,000)	\$(12,555,000)

11. EXTRAORDINARY ITEM

In June 1995, the Company prepaid \$58 million principal amount of senior notes and recorded an extraordinary loss of \$1,679,000 (net of an income tax benefit of \$1,200,000), consisting of the write-off of deferred financing costs and redemption premiums related to the early retirement of debt.

12. ACCOUNTING CHANGES

Effective February 4, 1995, the Company changed its method of accounting for catalog costs to conform with the provisions of the SOP 93-7. SOP 93-7 requires that the amortization of capitalized advertising costs should be the amount computed using the ratio that current period revenues for the catalog cost pool bear to the total of current and estimated future period revenues for that catalog cost pool. Prior to fiscal 1995, such costs were amortized on a straight-line basis over the estimated productive life of the catalog. The cumulative effect of applying this change in accounting on prior periods was a decrease in net income of \$1,600,000 (net of an income tax benefit of \$1,000,000).

Effective February 4, 1995, the Company modified its inventory accounting practices to include the capitalization of certain design, purchasing and warehousing costs. Prior to this change, these costs were charged to expense in the period incurred rather than in the period in which the inventories were sold. The Company believes this change is preferable because it provides a better matching of revenues and costs and improves the comparability of operating results and financial position with those of other companies. The cumulative effect of applying this change in accounting on prior periods was an increase in net income of \$4,210,000 (net of income taxes of \$2,800,000).

The effect of these changes on fiscal 1995's results, excluding the cumulative effect, was to increase net income by \$1,000,000. The pro forma effect of these changes on net income in fiscal 1994 would not have been material.

J. CREW GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

January 31, 1997 November 7, 1997
(unaudited)

(In thousands)

ASSETS

Current assets:

Cash and cash equivalents.....	\$7,132	\$12,992
Accounts receivable (net of allowance for doubtful accounts of \$4,357 and \$4,670, respectively).....	58,079	17,493
Merchandise inventories.....	197,657	260,506
Prepaid expenses and other current assets	58,318	69,467
Refundable income taxes.....	--	4,481
	-----	-----
Total current assets.....	321,186	364,939
Property and equipment--at cost:	135,550	171,976
Less accumulated depreciation and amortization.....	(49,121)	(61,485)
	-----	-----
	86,429	110,491
	-----	-----
Other assets.....	3,206	17,961
	-----	-----
Total assets.....	\$410,821	\$493,391
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:

Notes payable--bank.....	\$ --	\$47,000
Accounts payable.....	103,279	115,648
Other current liabilities.....	62,938	50,403
Federal and state income taxes payable	9,955	--
Deferred income taxes.....	12,555	12,555
Current portion of long-term debt.....	237	--
	-----	-----
Total current liabilities.....	188,964	225,606
Long-term debt.....	86,855	295,257
Deferred credits and other long-term liabilities.....	32,996	42,240
	-----	-----
Total liabilities.....	308,815	563,103
Redeemable preferred stock	--	125,000
Stockholders' equity (deficit).....	102,006	(194,712)
	-----	-----
Total liabilities, redeemable preferred stock and stockholders' equity (deficit).....	\$410,821	\$493,391
	=====	=====

See notes to unaudited condensed consolidated financial
statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Forty Week Period Ended	
	November 8, 1996	November 7, 1997
	(Unaudited)	(Unaudited)
	(In thousands)	
Net sales.....	\$528,351	\$556,993
Other revenues.....	10,430	9,603
	-----	-----
Revenues.....	538,781	566,596
Cost of goods sold, including buying and occupancy costs	292,056	310,865
Gross profit.....	246,725	255,731
Selling, general and administrative expenses.....	240,197	253,159
	-----	-----
Income from operations.....	6,258	2,572
Interest expense--net.....	7,551	11,869
Expenses incurred in connection with recapitalization	--	19,851
	-----	-----
Loss before income taxes and extraordinary items	(1,023)	(29,148)
Income tax benefit.....	450	5,050
	-----	-----
Net loss before extraordinary item	\$ (573)	\$(24,098)
Extraordinary item--loss on refinancing of debt (\$7,627 net of income tax benefit of \$3,127).....	--	(4,500)
	-----	-----
Net loss.....	\$ (573)	\$(28,598)
	=====	=====

See notes to unaudited condensed consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Forty Week Period Ended	
	November 8, 1996	November 7, 1997
	(Unaudited)	(Unaudited)
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$(573)	\$(28,598)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,625	10,191
Amortization of deferred financing costs.....	311	2,268
Provision for losses on accounts receivable	4,921	4,946
Changes in assets and liabilities providing/(using) cash:		
Accounts receivable	(3,204)	35,640
Merchandise inventories	(79,203)	(62,849)
Prepaid expenses and other current assets	(18,927)	(11,149)
Other assets	(590)	(464)
Accounts payable	55,853	12,369
Other liabilities	(11,134)	(9,018)
Income taxes payable	2,155	(14,436)
	-----	-----
Net cash used in operating activities	(42,766)	(61,100)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(19,826)	(37,010)
Proceeds from construction allowances	4,879	8,745
	-----	-----
Net cash used in investing activities	(14,947)	(28,265)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit agreement	55,000	47,000
Issuance of long-term debt	--	295,257
Costs incurred in connection with issuance of debt	--	(16,820)
Repayment of long-term debt	(178)	(87,092)
Issuance of preferred stock.....	--	125,000
Issuance of common stock.....	--	63,891
Repurchase of capital stock.....	--	(316,688)
Preferred stock dividends.....	--	(1,005)
Costs incurred in connection with the repurchase of capital stock.....	--	(14,318)
	-----	-----
Net cash provided by financing activities	54,822	95,225
	-----	-----
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,891)	5,860
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	13,529	7,132
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$10,638</u>	<u>\$12,992</u>
	=====	=====

See notes to unaudited condensed consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FORTY WEEK PERIODS ENDED NOVEMBER 8, 1996 AND NOVEMBER 7, 1997

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of J. Crew Group, Inc. ("Holdings") and its wholly-owned subsidiaries (the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Prior to the Recapitalization, Holdings owned all of the stock, directly or indirectly, of its various operating subsidiaries. In connection with the Recapitalization, Holdings formed J. Crew Operating Corp. and immediately prior to the consummation of the Recapitalization, Holdings transferred substantially all of its assets and liabilities to J. Crew Operating Corp.

The consolidated balance sheet as of November 7, 1997 and the consolidated statements of operations and cash flows for the forty week periods ended November 8, 1996 and November 7, 1997 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial position of the Company, the results of its operations and cash flows have been made.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Consolidated Financial Statements of Holdings for the fiscal year ended January 31, 1997.

The results of operations for the forty week period ended November 7, 1997 are not necessarily indicative of the operating results for the full fiscal year.

2. RECAPITALIZATION TRANSACTION

Holdings, its shareholders (the "Shareholders") and TPG Partners II, L.P. ("TPG") are parties to a Recapitalization Agreement dated July 22, 1997 as amended as of October 17, 1997 (the "Recapitalization Agreement") which provided for the recapitalization of Holdings (the "Recapitalization"). Pursuant to the terms of the Recapitalization Agreement, Holdings purchased from the Shareholders for an aggregate purchase price of approximately \$316,688,000 all of the outstanding shares of Holdings' capital stock, other than a certain number of shares of Holdings' common stock held by existing shareholders which represented 14.8% of the outstanding shares of Holdings' common stock immediately following consummation of the Recapitalization. The purchase of such outstanding shares of capital stock was financed by, among other things, (a) issuing to TPG, its affiliates and other investors shares of common stock of Holdings for approximately \$63,891,000 and shares of preferred stock of Holdings for \$125,000,000 and (b) consummating the transactions described below in Notes 4 and 5.

The Recapitalization Agreement was accounted for as a recapitalization transaction for accounting purposes.

The following costs incurred in connection with the Recapitalization have been expensed in the forty week period ended November 7, 1997:

Management bonuses	\$ 12,084,000
TPG financial advisory fee	5,550,000
Legal and accounting fees	1,028,000
Consulting Fee	1,000,000
Other	189,000
Total	\$ 19,851,000
	=====

3. LINES OF CREDIT

On October 17, 1997, in connection with the Recapitalization (as defined below), the Company entered into a syndicated revolving credit agreement of up to \$200.0 million (the "Revolving Credit Agreement") with a group of banks with The Chase Manhattan Bank, as administrative and collateral agent (the "Administrative Agent"), and Donaldson, Lufkin & Jenrette Securities Corporation, as syndication agent. The Bank Facilities may be utilized to fund the working capital requirements of the Company's subsidiaries, including issuance of stand-by and trade letters of credit and bankers' acceptances. Borrowings under the Bank Facilities are secured by a perfected first priority security interest in all assets (except for the accounts receivable of Popular Club Plan, Inc.) of the Company's direct and indirect domestic, and to the extent no adverse tax consequences would result, foreign subsidiaries and bear interest, at the Company's option at a base rate equal to the Administrative Agent's Eurodollar rate plus an applicable margin or an alternate base rate equal to the highest of the Administrative Agent's prime rate, a certificate of deposit rate plus 1% or the Federal Funds effective rate plus one-half of 1% plus, in each case, an applicable margin. The Revolving Credit Agreement matures on October 17, 2003. The Revolving Credit Agreement replaced the Company's previous revolving credit agreement which provided for commitments in an aggregate amount of up to \$200.0 million, of which up to \$120.0 million was available for direct borrowings.

During the forty week periods ended November 8, 1996 and November 7, 1997, maximum borrowings under the revolving credit agreements were \$55,000,000 and \$104,000,000, and average borrowings were \$34,500,000 and \$66,700,000. Borrowings outstanding under the Revolving Credit Agreement were \$47,000,000 at November 7, 1997.

Outstanding letters of credit issued to facilitate international merchandise purchases at November 7, 1997 amounted to \$37,400,000 million.

4. LONG TERM DEBT

The \$70.0 million term loan is subject to the same interest rates and security terms as the Revolving Credit Agreement. The term loan is repayable in quarterly installments of \$4.0 million from February 2001 through November 2001 and \$6.75 million from February 2002 through November 2003. See Note 3, "Lines of Credit."

The \$150.0 million Senior Subordinated Notes are unsecured general obligations of J. Crew Operating Corp. and are subordinated in right of payment to all senior debt. Interest on the notes will accrue at the rate of 10-3/8% per annum and will be payable semi-annually in arrears on April 15 and October 15. The notes will mature on October 15, 2007 and may be redeemed at the option of the issuer subsequent to October 15, 2002 at prices ranging from 105.188% in 2002 to 100% in 2005 and thereafter.

The Senior Discount Debentures were issued in aggregate principal amount of \$142.0 million at maturity and will mature on October 15, 2008. These debentures are senior unsecured obligations of Holdings. Cash interest will not accrue prior to October 15, 2002 and the principal amount of the debentures will accrete at a rate of 13- 1/8% per annum and will be payable in arrears on April 15 and October 15 of each year. The Senior Discount Debentures may be redeemed at the option of Holdings on or after October 15, 2002 at prices ranging from 106.563% to 100% in 2005 and thereafter.

5. SECURITIZATION

In connection with the Recapitalization, a facility was entered into to securitize certain consumer loan installment receivables of Popular Club Plan, Inc. on a revolving basis. This securitization involved the transfer of receivables through a special purpose bankruptcy remote subsidiary to a trust in exchange for cash and subordinated certificates representing undivided interests in the pool of receivables and the subsequent sale by the trust of certificates of beneficial interest to third party investors. The Company has no obligation to reimburse the trust or the purchasers of beneficial interests for credit losses. This transaction has been accounted for as a sale in accordance with the provisions of Statement of Financial Accounting Standards No. 125 and accordingly the accounts receivable and the corresponding obligations are not reflected in the consolidated financial statements as of November 7, 1997. At November 7, 1997, \$42.0 million of proceeds were received from the sale of accounts receivable and a loss on sale of \$400,000 has been recognized in the statement of operations.

6. CAPITAL STOCK

Holdings' restated certificate of incorporation authorizes Holdings to issue capital stock consisting of:

- (a) 100,000,000 shares of common stock; par value \$.01 per share;
- (b) 1,000,000 shares of Series A cumulative preferred stock; par value \$.01 per share (the "Series A Preferred Stock"); and
- (c) 1,000,000 shares of Series B cumulative preferred stock; par value \$.01 per share (the "Series B Preferred Stock" and together with the Series A Preferred Stock, the "Preferred Stock").

In connection with the Recapitalization, Holdings issued 55,000 shares of common stock, 92,500 shares of Series A Preferred Stock and 32,500 shares of Series B Preferred Stock.

The Preferred Stock has an initial liquidation value of \$1,000 per share. The Preferred Stock accumulates dividends at the rate of 14.5% per annum (payable quarterly) for periods ending on or prior to October 17, 2009. Dividends compound to the extent not paid in cash. On October 17, 2009, Holdings is required to redeem the Series B Preferred Stock and to pay all accumulated but unpaid dividends on the Series A Preferred Stock. Thereafter, the Series A Preferred Stock will accumulate dividends at the rate of 16.5% per annum. Subject to restrictions imposed by certain indebtedness of the Company, Holdings may redeem shares of the Preferred Stock at any time at redemption prices ranging from 103% of liquidation value plus accumulated and unpaid dividends at October 17, 1997 to 100% of liquidation value plus accumulated and unpaid dividends at October 17, 2000 and thereafter. In certain circumstances (including a change of control of Holdings), subject to restrictions imposed by certain indebtedness of the Company, Holdings may be required to repurchase shares of the Preferred Stock at liquidation value plus accumulated and unpaid dividends.

7. STOCKHOLDERS' EQUITY (DEFICIT)

Stockholders' equity (deficit) decreased by \$296,718,000 from \$102,006,000 at January 31, 1997 to \$(194,712,000) at November 7, 1997. A reconciliation of this decrease is as follows:

Balance as of January 31, 1997	\$ 102,006,000
Net loss for the forty weeks ended November 7, 1997	(28,598,000)
Proceeds from the issuance of common stock	63,891,000
Preferred stock dividends	(1,005,000)
Costs incurred in connection with the repurchase of capital stock	(14,318,000)
Repurchase of capital stock	(316,688,000)

Balance as of November 7, 1997	\$(194,712,000)
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No person has been authorized to give any information or to make any representations other than those contained or incorporated by reference in this Prospectus and the accompanying Letter of Transmittal and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or the Exchange Agent. Neither this Prospectus nor the accompanying Letter of Transmittal, or both together, constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this Prospectus, nor the accompanying Letter of Transmittal, or both together, nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Company since the date hereof or thereof or that the information contained herein is correct at any time subsequent to the date hereof or thereof.

Until _____, 1998 (90 days after the date of this Prospectus), all dealers effecting transactions in the New Debentures, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of the dealers to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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J. Crew Group, Inc.

Offer to Exchange

Series B 13-1/8% Senior Discount Debentures due 2008,

which have been registered under the
Securities Act of 1933, as amended,

for any and all outstanding
13-1/8% Senior Discount Debentures due 2008

PROSPECTUS

_____, 1998

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers.

The Issuer's Articles of Incorporation provide that a person who is or was a director of the Issuer shall not have any personal liability to the corporation or its shareholders for damages for any breach of duty in such capacity, provided that the foregoing shall not eliminate or limit liability where such liability is imposed under the New York Business Corporation Law (the "NYBCL"). The By-Laws of the Issuer provide that except to the extent expressly prohibited by the NYBCL, the Issuer shall indemnify each person made or threatened to be made a party to or called as a witness in or asked to provide information in connection with any pending or threatened action, proceeding, hearing or investigation, whether civil or criminal, and whether judicial, quasi-judicial, administrative, or legislative, and whether or not for or in the right of the Issuer or any other enterprise, by reason of the fact that such person or such persons testator or intestate is or was a director or officer of the Issuer, or is or was a director or officer of the Issuer who also serves or served at the request of the Issuer any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in any capacity, against judgments, fines, penalties, amounts paid in settlement and reasonable expenses, including attorneys' fees, incurred in connection with such action or proceeding, or any appeal therein, provided that no such indemnification shall be made if a judgment or other final adjudication adverse to such person establishes that his or her acts were committed in bad faith or were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, or that he or she personally gained in fact a financial profit or other advantage to which he or she was not legally entitled, and provided further that no such indemnification shall be required with respect to any settlement or other nonadjudicated disposition of any threatened or pending action or proceeding unless the Issuer has given its prior consent to such settlement or other disposition.

In case any provision in the By-Laws of the Issuer relating to indemnification shall be determined at any time to be unenforceable in any respect, the affected provision shall be given the fullest possible enforcement in the circumstances, it being the intention of the Issuer to afford indemnification and advancement of expenses to its directors and officers, acting in such capacities or in the other capacities mentioned herein, to the fullest extent permitted by law. Section 722 of the NYBCL provides as follows:

Authorization for indemnification of directors and officers

(a) A corporation may indemnify any person made, or threatened to be made, a party to an action or proceeding (other than one by or in the right of the corporation to procure a judgment in its favor), whether civil or criminal, including an action by or in the right of any other corporation of any type or kind, domestic or foreign, or any partnership, joint venture, trust, employee benefit plan or other enterprise, which any director or officer of the corporation served in any capacity at the request of the corporation, by reason of the fact that he, his testator or intestate, was a director or officer of the corporation, or served such other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in any capacity, against judgments, fines, amounts paid in settlement and reasonable expenses, including attorneys' fees actually and necessarily incurred as a result of such action or proceeding, or any appeal therein, if such director or officer acted, in good faith, for a purpose which he reasonably believed to be in, or, in the case of service for any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise, not opposed to, the best interests of the corporation and, in criminal actions or proceedings, in addition, had no reasonable cause to believe that his conduct was unlawful.

(b) The termination of any such civil or criminal action or proceedings by judgment, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not in itself create a presumption that any such director or officer did not act, in good faith, for a purpose which he reasonably believed to be in, or, in the case of service for any other corporation or any partnership, joint venture, trust,

employee benefit plan or other enterprise, not opposed to, the best interests of the corporation or that he had reasonable cause to believe that his conduct was unlawful.

(c) A corporation may indemnify any person made, or threatened to be made, a party to an action by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he, his testator or intestate, is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of any other corporation of any type or kind, domestic or foreign, of any partnership, joint venture, trust, employee benefit plan or other enterprise, against amounts paid in settlement and reasonable expenses, including attorneys' fees, actually and necessarily incurred by him in connection with the defense or settlement of such actions, or in connection with an appeal therein, if such director or officer acted, in good faith, for a purpose which he reasonably believed to be in, or, in the case of service for any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise, not opposed to, the best interests of the corporation, except that no indemnification under this paragraph shall be made in respect of (1) a threatened action, or a pending action which is settled or otherwise disposed of, or (2) any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation, unless and only to the extent that the court in which the action was brought, or, if no action was brought, any court of competent jurisdiction, determines upon application that, in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnify for such portion of the settlement amount and expenses as the court deems proper.

(d) For the purposes of this section, a corporation shall be deemed to have requested a person to serve an employee benefit plan where the performance by such person of his duties to the corporation also imposes duties on, or otherwise involves services by, such person to the plan or participants or beneficiaries of the plan; excise taxes assessed on a person with respect to an employee benefit plan pursuant to applicable law shall be considered fines; and action taken or omitted by a person with respect to an employee benefit plan in the performance of such person's duties for a purpose reasonably believed by such person to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is not opposed to the best interests of the corporation.

The Issuer maintains directors' and officers' liability insurance.

Item 21. Exhibits and Financial Statement Schedules.

(a) Exhibits. A list of exhibits included as part of this Registration Statement is set forth in the Exhibit Index which immediately precedes such exhibits and is hereby incorporated by reference herein.

(b) Financial Statement Schedules. Schedules, other than Schedule II set forth below, have been omitted since the required information is not present, or not present in amounts sufficient to require submission of the schedule, or because the information is included in the financial statements or notes thereto.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
J. Crew Group, Inc.

We have audited the consolidated financial statements of J. Crew Group, Inc. as of February 2, 1996 and January 31, 1997, and for each of the three fiscal years in the period ended January 31, 1997, and have issued our report thereon dated March 31, 1997 (included elsewhere in this Registration Statement). Our audits also included the financial statement schedules listed in Item 21 of this Registration Statement. These financial statement schedules are the responsibility of the Corporation's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

New York, New York
March 31, 1997

Schedule II - Valuation and Qualifying Accounts

Description	beginning balance	additions		deductions	ending balance
		charged to cost and expenses	charged to other accounts		
----- Allowance for doubtful accounts ----- (deducted from accounts receivable) fiscal year ended:					
January 31, 1997	\$4,824	\$6,945	\$ ---	\$(7,412)(a)	\$4,357
February 2, 1996	6,518	7,277	---	(8,971)(a)	4,824
February 3, 1995	4,681	7,956	---	(6,119)(a)	6,518
----- Inventory impairment reserve ----- (deducted from inventories)					
fiscal year ended:					
January 31, 1997	\$5,226	\$(1,937)(b)	\$ ---	\$ ---	\$3,289
February 2, 1996	9,074	(3,848)(b)	---	---	5,226
February 3, 1995	9,146	(72)(b)	---	---	9,074
----- Allowance for sales returns ----- (included in other current liabilities) -----					
fiscal year ended:					
January 31, 1997	\$2,384	\$ 22(b)	\$ ---	\$ ---	\$2,406
February 2, 1996	1,935	449(b)	---	---	2,384
February 3, 1995	2,365	(430)(b)	---	---	1,935

(a) accounts deemed to be uncollectible

(b) The inventory impairment reserve and allowance for sales returns are evaluated at the end of each fiscal quarter and adjusted (plus or minus) based on the quarterly evaluation. During each period inventory writedowns and sales returns are charged to the statement of operations as incurred.

Item 22. Undertakings.

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plans annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant, pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by any such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether or not such indemnification is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Item 4, 10(b), 11, or 13 of this form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 1 to the registration statement to be signed on its behalf, thereunto duly authorized, in the City of New York, State of New York, on February 6, 1998.

J. CREW GROUP, INC.

By: /s/ Emily Woods

Name: Emily Woods*

Title: Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the registration statement has been signed by the following persons in the capacities indicated, on February 6, 1998.

Signature -----	Title -----
/s/ Emily Woods ----- Emily Woods*	Director and Chief Executive Officer
/s/ David Bonderman ----- David Bonderman*	Director
/s/ James G. Coulter ----- James G. Coulter*	Director
/s/ Richard W. Boyce ----- Richard W. Boyce*	Director

*By /s/ Michael P. McHugh

Michael P. McHugh
Vice President Finance

Signature

Title

/s/ Michael P. McHugh

Vice President Finance and
Chief Financial Officer

Michael P. McHugh

/s/ Nicholas Lamberti

Vice President and Chief
Accounting Officer

Nicholas Lamberti*

*By /s/ Michael P. McHugh

Michael P. McHugh
Vice President Finance

EXHIBIT INDEX

Exhibit No. -----	Description -----
2.1+	Recapitalization Agreement, dated as of July 22, 1997 between TPG Partners II, L.P. and J. Crew Group, Inc. (the "Recapitalization Agreement")
	NOTE: Pursuant to the provisions of paragraph (b)(2) of Item 601 of Regulation S-K, the Registrant hereby undertakes to furnish to the Commission upon request copies of any schedule to the Recapitalization Agreement.
2.2+	Amendment to Recapitalization Agreement, dated as of October 17, 1997 between TPG Partners II, L.P. and J. Crew Group, Inc. (the "Amendment")
	NOTE: Pursuant to the provisions of paragraph (b)(2) of Item 601 of Regulation S-K, the Registrant hereby undertakes to furnish to the Commission upon request copies of any schedule to the Amendment.
3.1+	Restated Certificate of Incorporation of J. Crew Group, Inc.
3.2+	By-laws of J. Crew Group, Inc.
4.1+	Stockholders' Agreement, dated as of October 17, 1997, among J. Crew Group, Inc. and the Stockholder signatories thereto
4.2+	Stockholders' Agreement, dated as of October 17, 1997, among J. Crew Group, Inc., TPG Partners II, L.P. and Emily Woods (included as Exhibit B to the Woods Employment Agreement filed as Exhibit 10.1)
4.3+	Indenture, dated as of October 17, 1997, between J. Crew Group, Inc. as issuer, and State Street Bank and Trust Company, as trustee, relating to the Debentures (the "Indenture")
4.4+	Form of Series B 13-1/8% Senior Discount Debenture due 2008 of J. Crew Group, Inc. (the "New Debentures") (included as Exhibit B of the Indenture filed as Exhibit 4.2)
4.5	Credit Agreement, dated as of October 17, 1997, among J. Crew Group, Inc., J. Crew Operating Corp., the Lenders Party thereto, the Chase Manhattan Bank, as Administrative Agent, and Donaldson, Lufkin & Jenrette Securities Corporation, as Syndication Agent
4.6+	Guarantee Agreement dated as of October 17, among J. Crew Group, Inc., the subsidiary guarantors of J. Crew Operating Corp. that are signatories thereto and The Chase Manhattan Bank
- - - - -	
+	previously filed

Exhibit No. -----	Description -----
4.7+	Indemnity, Subrogation and Contribution Agreement dated as of October 17, 1997, among J. Crew Operating Corp., the subsidiary guarantors of J. Crew Operating Corp. that are signatories thereto and The Chase Manhattan Bank
4.8+	Pledge Agreement, dated as of October 17, among J. Crew Operating Corp., J. Crew Group, Inc., the subsidiary guarantors of J. Crew Operating Corp. that are signatories thereto and The Chase Manhattan Bank
4.9+	Security Agreement, dated as of October 17, among J. Crew Operating Corp., J. Crew Group, Inc., the subsidiary guarantors of J. Crew Operating Corp. that are signatories thereto and The Chase Manhattan Bank
4.10+	Registration Rights Agreement, dated as of October 17, 1997 by and among J. Crew Group, Inc., Donaldson, Lufkin & Jenrette Securities Corporation and Chase Securities Inc.

NOTE: Pursuant to the provisions of paragraph (b)(4)(iii) of Item 601 of Regulation S-K, the Registrant hereby undertakes to furnish to the Commission upon request copies of the instruments pursuant to which various entities hold long-term debt of the Company or its subsidiaries, none of which instruments govern indebtedness exceeding 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis.

5.1+	Opinion of Cleary, Gottlieb, Steen & Hamilton regarding legality of the New Debentures
10.1+	Employment Agreement, dated October 17, 1997, among J. Crew Group, Inc., J. Crew Operating Corp., TPG Partners II, L.P. (only with respect to Section 2(c) therein) and Emily Woods (the "Woods Employment Agreement")
10.2+	J. Crew Operating Corp. Senior Executive Bonus Plan (included as Exhibit A to the Woods Employment Agreement filed as Exhibit 10.1)
10.3+	Stock Option Grant Agreement, made as of October 17, 1997 between J. Crew Group Inc. and Emily Woods (time based)
10.4+	Stock Option Grant Agreement, made as of October 17, 1997 between J. Crew Group Inc. and Emily Woods (performance based)
10.5#	Letter Agreement between Matthew Rubel and J. Crew Group, Inc.

- + previously filed
- # to be filed by amendment

Exhibit No.	Description
10.6+	Contract Carrier Agreement, between J. Crew Group, Inc. and United Parcel Service, Inc.
10.7+	Custom Pricing Agreement, made November 15, 1996 between Federal Express Corporation and J Crew Group, Inc.
10.8+	Lease dated as of October 21, 1981 between Vornado, Inc. and Popular Services, Inc.
10.9+	Agreement of Sublease dated November 4, 1993 between Revlon Holdings Inc., as Sublessor, and Popular Club Plan, Inc., as Sublessee
10.10+	Letter Agreement, dated July 29, 1996, between World Color and Clifford & Wills, Inc.
10.11+	Agreement dated August 14, 1997 between R.R. Donnelley & Sons Company and J. Crew Inc.
10.12	Letter Agreement between David DeMattei and J. Crew Group, Inc.
10.13+	J. Crew Group, Inc. 1997 Stock Option Plan
16.1	Letter re Change in Certifying Accountant
21.1	Subsidiaries of J. Crew Group, Inc.
23.1	Consent of Deloitte & Touche LLP
23.2+	Consent of Cleary, Gottlieb, Steen & Hamilton (included in its opinion filed as Exhibit 5.1)
25.1+	Form T-1 with respect to the eligibility of State Street Bank and Trust Company with respect to the Indenture
27.1+	Financial Data Schedule
99.1+	Form of Letter of Transmittal
99.2+	Form of Notice of Guaranteed Delivery
99.3+	Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees
99.4+	Form of Letter to Clients

- -----

+ previously filed

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CREDIT AGREEMENT

dated as of

October 17, 1997

among

J. CREW OPERATING CORP., as Borrower,

J. CREW GROUP, INC.,

The Lenders Party Hereto,

THE CHASE MANHATTAN BANK,
as Administrative Agent

and

DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION,
as Syndication Agent

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[6700-529]

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CREDIT AGREEMENT dated as of October 17, 1997, among J. CREW OPERATING CORP., J. CREW GROUP, INC., the LENDERS party hereto, DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION, as Syndication Agent and THE CHASE MANHATTAN BANK, as Administrative Agent.

The parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Acceptance" means a signed promise of the Issuing Bank to honor an Acceptance Draft presented by the Borrower for signature and acceptance by the Issuing Bank for subsequent payment by the Issuing Bank in accordance with the terms of this Agreement.

"Acceptance Disbursement" means a payment made by the Issuing Bank pursuant to an Acceptance Draft.

"Acceptance Draft" means a draft for the payment of money accepted or to be accepted by the Issuing Bank in accordance with Section 2.04.

"Acceptance Obligation" means the obligation of the Borrower to pay the face amount of any Acceptance issued by the Issuing Bank in accordance with the terms of this Agreement on or before the maturity date of such Acceptance.

"Acceptance Rate" means, at any time with respect to any Acceptance Draft, the discount rate for bankers' acceptances in a comparable amount and of comparable maturity generally available from the Issuing Bank at such time, as determined by the Issuing Bank in its sole discretion.

"Adjusted LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"Administrative Agent" means The Chase Manhattan Bank, in its capacity as administrative agent for the Lenders hereunder.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. Notwithstanding the foregoing, no individual shall be deemed to be an Affiliate of a Person solely by reason of his or her being an officer or director of such Person.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate, respectively.

"Alternative Currency" means any currency other than dollars which is freely transferable and convertible into dollars.

"Applicable Percentage" means, with respect to any Revolving Lender, the percentage of the total Revolving Commitments represented by such Lender's Revolving Commitment. If the Revolving Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Revolving Commitments most recently in effect, giving effect to any assignments.

"Applicable Rate" means, for any day with respect to any ABR Loan, Eurodollar Loan or Acceptance, the applicable rate per annum set forth below under the caption "ABR Spread", "Eurodollar Spread" or "Acceptance Spread", as the case may be, based upon the Leverage Ratio as of the most recent determination date; provided that until the delivery of the Borrower's financial statements pursuant to Section 5.01 for the first full fiscal quarter commencing after the date that is six months after the Effective Date the "Applicable Rate" shall be the applicable rate per annum set forth below in Category 1:

Leverage Ratio:	ABR Spread	Eurodollar Spread	Acceptance Spread

Category 1			

greater than 4.50 to 1.00	1.25%	2.25%	2.25%

Category 2			

greater than 4.00 to 1.00 and less than or equal to 4.50 to 1.00	1.00%	2.00%	2.00%

Category 3			

greater than 3.50 to 1.00 and less than or equal to 4.00 to 1.00	0.75%	1.75%	1.75%

Category 4			

less than or equal to 3.50 to 1.00	1.50%	1.50%	1.50%

For purposes of the foregoing, (i) the Leverage Ratio shall be determined as of the end of each fiscal quarter of the Borrower's fiscal year based upon the Borrower's consolidated

financial statements delivered pursuant to Section 5.01(a) or (b) and (ii) each change in the Applicable Rate resulting from a change in the Leverage Ratio shall be effective during the period commencing on and including the date of delivery to the Administrative Agent of such consolidated financial statements indicating such change and ending on the date immediately preceding the effective date of the next such change; provided that the Leverage Ratio shall be deemed to be in Category 1 (A) at any time that an Event of Default has occurred and is continuing or (B) if the Borrower fails to deliver the consolidated financial statements required to be delivered by it pursuant to Section 5.01(a) or (b), during the period from the expiration of the time for delivery thereof until such consolidated financial statements are delivered.

"Assessment Rate" means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as "well-capitalized" and within supervisory subgroup "B" (or a comparable successor risk classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in dollars at the offices of such member in the United States; provided that if, as a result of any change in any law, rule or regulation, it is no longer possible to determine the Assessment Rate as aforesaid, then the Assessment Rate shall be such annual rate as shall be determined by the Administrative Agent to be representative of the cost of such insurance to the Lenders.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Base CD Rate" means the sum of (a) the Three-Month Secondary CD Rate multiplied by the Statutory Reserve Rate plus (b) the Assessment Rate.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

"Borrower" means J. Crew Operating Corp., a Delaware corporation.

"Borrowing" means Loans of the same Class and Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

"Borrowing Request" means a request by the Borrower for a Borrowing in accordance with Section 2.03.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that (a) when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market and (b) when used in connection with any Letter of Credit that provides for the payment of any drawing thereunder in an Alternative Currency, or the determination of any Dollar Amount or Equivalent Amount, the term "Business Day" means any Business Day on

which commercial banks are open for international business (including dealings in dollar deposits) in London, and, where funds are to be paid or made available in an Alternative Currency, on which commercial banks are open for domestic and international business (including dealings in deposits in such Alternative Currency) in both London and the place where such funds are paid or made available.

"C&W" means Clifford & Wills, Inc., a New Jersey corporation.

"Capital Expenditures" means, for any period, (a) the additions to property, plant and equipment and other capital expenditures of the Borrower and its consolidated Subsidiaries that are (or would be) set forth in a consolidated statement of cash flows of the Borrower for such period prepared in accordance with GAAP and (b) Capital Lease Obligations incurred by the Borrower and its consolidated Subsidiaries during such period; provided that the term "Capital Expenditures" (i) shall be net of landlord construction allowances, (ii) shall not include expenditures made in connection with the repair or restoration of assets with insurance or condemnation proceeds and (iii) shall not include the purchase price of equipment to the extent consideration therefor consists of used or surplus equipment being traded in at such time or the proceeds of a concurrent sale of such used or surplus equipment, in each case in the ordinary course of business.

"Capital Lease" means any lease (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which lease is required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any Capital Lease and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Cash Dividend" means any dividend paid in cash on any shares of stock of any class of the Borrower or any payment made in cash (whether or not pursuant to a prior commitment which when made was permitted by the terms of this Agreement) on account of, or any commitment to make any payment on account of, the purchase, redemption or other retirement of any shares of stock of any class of the Borrower or any other distribution made in cash in respect thereof, either directly or indirectly. For purposes of this definition, "stock" shall include any and all shares, interests, participations or other equivalents (however designated) of corporate stock.

"Cash Interest Expense" means, for any period, Consolidated Interest Expense for such period, excluding deferred financing costs and net of cash interest income for such period, determined on a consolidated basis in accordance with GAAP.

"Change in Control" means, at any time, (a) the acquisition of ownership, directly or indirectly, beneficially and of record, by any Person other than Holdings of any shares of capital stock of the Borrower; (b) (i) TPG Partners shall cease to own in the aggregate, directly or indirectly, beneficially and of record, shares representing at least 40% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of Holdings and/or (ii) any Person or group (within the meaning of Rule 13d-5 under the United States Securities and

Exchange Act of 1934 as in effect on the date hereof), other than TPG Partners, shall beneficially own, directly or indirectly, shares of capital stock of Holdings representing more than the percentage of the aggregate ordinary voting power represented by the shares beneficially owned, directly or indirectly, by TPG Partners at such time, unless, in the case of either clause (i) or (ii), TPG Partners shall directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, have the ability to elect a majority of the board of directors of Holdings; (c) occupation of a majority of the seats (other than vacant seats) on the board of directors of Holdings by Persons who were neither (i) nominated by members of TPG Partners or the board of directors of Holdings nor (ii) appointed by directors so nominated; or (d) while any of the Subordinated Debt is outstanding, a "Change of Control" (as defined in the Subordinated Debt Documents) shall have occurred.

"Change in Law" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.15(b), by any lending office of such Lender or by such Lender's or the Issuing Bank's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"Class", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Revolving Loans or Term Loans and, when used in reference to any Commitment, refers to whether such Commitment is a Revolving Commitment or Term Commitment.

"Clean-Down Period" means the "Clean-Down Period" as defined in Section 2.11(e).

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" means any and all "Collateral", as defined in any applicable Security Document.

"Collateral Agent" means the "Collateral Agent", as defined in any applicable Security Document.

"Commitment" means a Revolving Commitment or Term Commitment, or any combination thereof (as the context requires).

"Consolidated EBITDA" means, for any period, Consolidated Net Income for such period (adjusted to exclude gains and losses on non-ordinary course asset sales), plus, without duplication and to the extent deducted from revenues in determining Consolidated Net Income, the sum of (a) the aggregate amount of Consolidated Interest Expense for such period, (b) the aggregate amount of letter of credit fees accrued during such period, (c) the aggregate amount of income tax expense for such period, (d) all amounts attributable to depreciation and amortization for such period, (e) all extraordinary charges during such period, (f) non cash expenses resulting from the grant of stock options to management personnel of the Borrower or

the Subsidiaries pursuant to a written plan or agreement, (g) the aggregate amount of deferred financing expenses for such period, (h) expenses related to the Transactions, (i) other non-cash charges deducted in computing Consolidated Net Income for such period and (j) Excluded Charges paid for such period, and minus, without duplication and to the extent added to revenues in determining Consolidated Net Income for such period, all extraordinary gains during such period, all as determined on a consolidated basis with respect to the Borrower and the Subsidiaries in accordance with GAAP.

"Consolidated EBITDAR" means, for any period, Consolidated EBITDA for such period, plus, without duplication, rental expenses deducted in determining Consolidated Net Income for such period.

"Consolidated Interest Expense" means, for any period, the interest expense deducted in calculating Consolidated Net Income for such period, including deferred financing costs, determined on a consolidated basis in accordance with GAAP.

"Consolidated Net Income" means, for any period, net income or loss of the Borrower and the Subsidiaries for such period determined on a consolidated basis in accordance with GAAP.

"Consolidated Net Worth" means, as at any date of determination, the consolidated stockholders' equity of the Borrower and the Subsidiaries, as determined on a consolidated basis in accordance with GAAP.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Control Group" means (a) Emily Woods, her spouse, direct descendants, and their spouses, trusts solely for the benefit of any of the foregoing individuals and any corporations or partnerships owned solely by any of the foregoing individuals and (b) TPG Partners.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Disclosed Matters" means the actions, suits and proceedings and the environmental matters disclosed in Schedule 3.06.

"Dollar Amount" means in relation to any Letter of Credit that provides for payment of any drawing thereunder in an Alternative Currency, the amount determined as provided in Section 2.05(k).

"dollars" or "\$" refers to lawful money of the United States of America.

"Effective Date" means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 9.02).

"Effective Date Dividend" means a dividend by the Borrower to Holdings on the Effective Date in an aggregate amount of \$68,429,749.

"Eligibility Certificate" means any legend stamped on an Acceptance Draft by the Issuing Bank that sets forth the character of the transaction giving rise to such Acceptance Draft, and, in so doing, establishes that the related Acceptance is eligible for discount by a Federal Reserve Bank pursuant to Regulation A.

"Environmental Laws" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by or with any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, or to worker health and safety matters.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities and reasonable attorneys' fees and costs), of Holdings, the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"Equity Financing" means the contribution by the Initial Investors to Holdings of an aggregate amount of not less than \$66,000,000 in exchange for the issuance by Holdings to the Initial Investors of shares of common stock of Holdings.

"Equivalent Amount" means in connection with the determination of the amount of a LC Disbursement to be made in an Alternative Currency in relation to the Dollar Amount of such LC Disbursement, the amount of such Alternative Currency converted from such Dollar Amount at the spot buying rate of the Issuing Bank (based on the London interbank market rate then prevailing) for dollars against such Alternative Currency as of approximately 9:00 a.m. (New York City time) three Business Days before such date.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which

the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan under Section 4042 of ERISA; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"Eurodollar", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Event of Default" has the meaning assigned to such term in Article VII.

"Excess Cash Flow" means, for any period, the sum (without duplication) of:

(a) the Consolidated Net Income of the Borrower and its consolidated Subsidiaries for such period, adjusted to exclude any gains or losses attributable to Prepayment Events; plus

(b) depreciation, amortization and other non-cash charges or losses deducted in determining such Consolidated Net Income for such period; plus

(c) the sum of (i) the amount, if any, by which Net Working Capital decreased during such period plus (ii) the amount, if any, by which the consolidated deferred revenues of the Borrower and its consolidated Subsidiaries increased during such period plus (iii) the aggregate principal amount of Capital Lease Obligations and other Indebtedness incurred during such period to finance Capital Expenditures, to the extent that mandatory principal payments in respect of such Indebtedness would not be excluded from clause (f) below when made, plus (iv) the amount of the excess, if any, of tax expense deducted in determining Consolidated Net Income for such period over cash taxes paid for such period; minus

(d) the sum of (i) any noncash gains included in determining such Consolidated Net Income for such period plus (ii) the amount, if any, by which Net Working Capital increased during such period plus (iii) the amount, if any, by which the consolidated deferred revenues of the Borrower and its consolidated Subsidiaries decreased during such period plus (iv) the amount of excess, if any, of cash taxes paid for such period over tax expense deducted in determining Consolidated Net Income for such period; minus

(e) Capital Expenditures for such period; minus

(f) the aggregate principal amount of Indebtedness repaid or prepaid by the Borrower and its consolidated Subsidiaries during such period, excluding (i) Indebtedness in respect of Revolving Loans and Letters of Credit and Acceptances, (ii) Term Loans prepaid pursuant to Section 2.11(b) or (d), (iii) repayments or prepayments of Indebtedness financed by incurring other Indebtedness, to the extent that mandatory principal payments in respect of such other Indebtedness would not be excluded from this clause (f) when made and (iv) Indebtedness referred to in clauses (iv), (viii) and (ix) of Section 6.01(a); minus

(g) the aggregate amount of all prepayments of Revolving Loans made during such period to the extent accompanying reductions of the total Revolving Commitments; minus

(h) payments by the Borrower and the Subsidiaries during such period in respect of long-term liabilities of the Borrower and the Subsidiaries other than (i) Indebtedness and (ii) liabilities representing amounts deducted in determining Consolidated Net Income for any period subsequent to the Effective Date; minus

(i) the amount of dividends paid by the Borrower during such period pursuant to Section 6.07.

"Excluded Charges" means non-recurring charges not exceeding \$8,000,000 in the aggregate for severance payments, professional advisory fees, management bonuses for 1997, and one-time payments in respect of the employment arrangements of Emily Woods and David DeMattei.

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender, any withholding tax that is imposed on amounts payable to such Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.19(b)) at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender's failure to comply with Section 2.17(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.17.

"Existing Credit Agreement" means the \$200,000,000 Credit Agreement dated as of April 18, 1997, as amended and in effect on the Effective Date, among Holdings, the several

banks and financial institutions from time to time party thereto and Morgan Guaranty Trust Company, as Agent.

"Existing Letters of Credit" means all letters of credit issued by The Chase Manhattan Bank under the Existing Credit Agreement that are outstanding as of the Effective Date.

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Financial Officer" means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower.

"Financing Transactions" means (a) the execution, delivery and performance by each Loan Party of the Loan Documents to which it is to be a party, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit and Acceptances hereunder, (b) the execution, delivery and performance by each Loan Party of the Subordinated Debt Documents to which it is to be a party, the issuance of the Subordinated Debt and the use of the proceeds thereof, (c) the Equity Financing, (d) the issuance of the Holdings Senior Discount Debentures, (e) the issuance of the Holdings Preferred Stock and (f) the Qualified Receivables Transaction.

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"Foreign Subsidiary" means any Subsidiary that is organized under the laws of a jurisdiction other than the United States of America or any State thereof or the District of Columbia.

"Funded Debt" means, as of any date, the sum of (a) the aggregate principal amount of all indebtedness (other than Revolving Loans) outstanding as of such date that would appear as indebtedness on a consolidated balance sheet of the Borrower prepared as of such date in accordance with GAAP, plus (b) the aggregate principal amount of all indebtedness outstanding as of such date of Persons other than the Borrower and its consolidated Subsidiaries that would appear as indebtedness on a consolidated balance sheet of such Persons prepared as of such date in accordance with GAAP, to the extent Guaranteed by any of the Borrower and its Subsidiaries, plus (c) the average daily outstanding principal amount of Revolving Loans during the period of four consecutive fiscal quarters of the Borrower most recently ended as of such date, minus (d) the average daily amount of the Borrower's cash balances during such period.

"GAAP" means generally accepted accounting principles in the United States of America.

"Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" of or by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

"Guarantee Agreement" means the Guarantee Agreement, substantially in the form of Exhibit D, made by Holdings and the Subsidiary Loan Parties in favor of the Administrative Agent for the benefit of the Secured Parties.

"Hazardous Materials" means all explosive or radioactive substances or wastes, all hazardous or toxic substances, wastes, pollutants or contaminants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls ("PCBs") and PCB-containing materials, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"Holdings" means J. Crew Group, Inc., a New York corporation.

"Holdings Preferred Stock" means (a) Holdings' 14.50% Series A Preferred Stock and (b) Holdings' 14.50% payment-in-kind Series B Redeemable Cumulative Preferred Stock.

"Holdings Senior Discount Debentures" means (i) up to \$142,000,000 principal amount at final maturity of 13 % Senior Discount Debentures due 2008 of Holdings issued pursuant to the Holdings Senior Discount Debt Documents and (ii) debentures issued in exchange for such Holdings Senior Discount Debentures in an equivalent aggregate principal

amount and having terms and conditions substantially identical to those of such Holdings Senior Discount Debentures, pursuant to a registered exchange offer.

"Holdings Senior Discount Debt Documents" means the indenture under which the Holdings Senior Discount Debentures are issued and all other instruments, agreements and other documents evidencing or governing the Holdings Senior Discount Debentures or providing for any Guarantee or other right in respect thereof.

"Inactive Subsidiary" means any subsidiary, direct or indirect, that (a) has total assets not in excess of \$50,000, (b) conducts no business and (c) has no Indebtedness; provided that if more than one subsidiary is deemed an Inactive Subsidiary pursuant to this definition, all Inactive Subsidiaries shall be considered to be a single consolidated subsidiary for purposes of determining whether the conditions specified above are satisfied.

"Indebtedness" of any Person means, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor. Indebtedness shall not include agreements providing for indemnification, purchase price adjustments or similar obligations incurred or assumed in connection with the acquisition or disposition of assets or stock.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Indemnity, Subrogation and Contribution Agreement" means the Indemnity, Subrogation and Contribution Agreement, substantially in the form of Exhibit C, among the Borrower, Holdings, the Subsidiary Loan Parties and the Administrative Agent.

"Information Memorandum" means the Confidential Information Memorandum dated September 17, 1997, relating to Holdings, the Borrower and the Transactions, as the same has been supplemented from time to time.

"Initial Investors" means TPG Partners and certain investors arranged by TPG Partners.

"Intercreditor Agreement" means the Intercreditor Agreement, substantially in the form of Exhibit G, among the Receivables Trustee and the Collateral Agent.

"Interest Election Request" means a request by the Borrower to convert or continue a Revolving Borrowing or Term Borrowing in accordance with Section 2.07.

"Interest Payment Date" means (a) with respect to any ABR Loan, the last day of each January, April, July and October and (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

"Interest Period" means, with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Borrower may elect; provided, that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (b) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

"Inventory" means all goods owned by the Borrower and its Subsidiaries and held for sale or as raw materials, work in process (wherever located, including items in transit or in the possession of third parties).

"Issuing Bank" means (a) The Chase Manhattan Bank, in its capacity as the issuer of Letters of Credit and Acceptances hereunder, and its successors in such capacity as provided in Section 2.05(i) and (b) any other Lender approved by the Administrative Agent and the Borrower; provided that, at any time, there shall only be two Issuing Banks. The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit or Acceptances to be issued by Affiliates of the Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit and Acceptances issued by such Affiliate.

"LC Disbursement" means a payment made by the Issuing Bank pursuant to a Letter of Credit.

"LC and Acceptance Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit and the aggregate face amount of all outstanding Acceptance Drafts at such time plus (b) the aggregate amount of all LC Disbursements and Acceptance Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC and Acceptance Exposure shall be expressed in dollars, determined as provided in Section 2.05(k) in the case of any amount thereof denominated in an

Alternate Currency. The LC and Acceptance Exposure of any Revolving Lender at any time shall be its Applicable Percentage of the total LC and Acceptance Exposure at such time.

"Lenders" means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance.

"Letter of Credit" means any letter of credit (including, without limitation, any Standby LC) issued pursuant to this Agreement. Each Existing Letter of Credit will be deemed to constitute a Letter of Credit for all purposes under the Loan documents as though each Existing Letter of Credit had been issued hereunder on the Effective Date.

"Leverage Ratio" means, on any date and subject to Section 1.05, the ratio of (a) Funded Debt as of such date to (b) Consolidated EBITDA for the period of four consecutive fiscal quarters of the Borrower most recently ended as of such date (or, if such date is not the last day of a fiscal quarter, then most recently ended prior to such date), all determined on a consolidated basis in accordance with GAAP.

"LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Page 3750 of the Telerate Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBO Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Loan Documents" means this Agreement, the promissory notes, if any, executed and delivered pursuant to Section 2.09(e), the Guarantee Agreement, the Indemnity, Subrogation and Contribution Agreement and the Security Documents.

"Loan Parties" means Holdings, the Borrower and the Subsidiary Loan Parties.

"Loans" means the loans made by the Lenders to the Borrower pursuant to this Agreement.

"Margin Stock" shall have the meaning assigned to such term under Regulation U.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations, prospects or condition, financial or otherwise, of Holdings, the Borrower and the Subsidiaries taken as a whole, (b) the ability of the Loan Parties to perform their obligations under the Loan Documents or (c) any material rights of or benefits available to the Lenders under the Loan Documents.

"Material Indebtedness" means Indebtedness (other than the Loans, Letters of Credit and Acceptances), or obligations in respect of one or more Hedging Agreements, of any one or more of Holdings, the Borrower and its Subsidiaries in an aggregate principal amount exceeding \$5,000,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of Holdings, the Borrower or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that Holdings, the Borrower or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"Maturity Date" means October 17, 2003.

"Moody's" means Moody's Investors Service, Inc.

"Mortgage" means a mortgage, deed of trust, assignment of leases and rents, leasehold mortgage or other security document granting a Lien on any Mortgaged Property to secure the Obligations. Each Mortgage shall be satisfactory in form and substance to the Collateral Agent.

"Mortgaged Property" means, initially, each parcel of real property and the improvements thereto owned by a Loan Party and identified on Schedule 1.01(a), and includes each other parcel of real property and improvements thereto with respect to which a Mortgage is granted pursuant to Section 5.12 or 5.13.

"Multiemployer Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Proceeds" means, with respect to any event (a) the gross cash proceeds received in respect of such event including (i) any cash received in respect of any noncash proceeds, but only as and when received, (ii) in the case of a casualty, insurance proceeds in excess of \$250,000, and (iii) in the case of a condemnation or similar event, condemnation awards and similar payments, net of (b) the sum of (i) all reasonable fees and out-of-pocket expenses (including underwriting discounts and commissions and collection expenses) paid or payable by Holdings, the Borrower and the Subsidiaries to third parties (other than Affiliates) in connection with such event, (ii) in the case of a sale, transfer or other disposition of an asset (including pursuant to a sale and leaseback transaction or a casualty or condemnation or similar

proceeding), the amount of all payments required to be made by Holdings, the Borrower and the Subsidiaries as a result of such event to repay Indebtedness (other than Loans) secured by such asset or otherwise subject to mandatory prepayment as a result of such event, and (iii) the amount of all taxes paid or payable) by Holdings, the Borrower and the Subsidiaries, and the amount of any reserves established by Holdings, the Borrower and the Subsidiaries to fund contingent liabilities reasonably estimated to be payable, in each case during the year that such event occurred or the next succeeding year and that are directly attributable to such event (as determined reasonably and in good faith by the chief financial officer of the Borrower).

"Net Working Capital" means, at any date, (a) the consolidated current assets of the Borrower and its consolidated Subsidiaries as of such date (excluding cash and Permitted Investments) minus (b) the consolidated current liabilities of the Borrower and its consolidated Subsidiaries as of such date (excluding Indebtedness). Net Working Capital at any date may be a positive or negative number. Net Working Capital increases when it becomes more positive or less negative and decreases when it becomes less positive or more negative.

"Obligations" has the meaning assigned to such term in the Security Agreement.

"Operating Lease" means any lease (including leases that may be terminated by the lessee at any time) of any property (whether real, personal or mixed) that is not a Capital Lease.

"Other Taxes" means any and all current or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

"Outstanding Senior Notes" means the \$85,000,000 of 8.1% Senior Notes of Holdings due December 15, 2004.

"PBG" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Perfection Certificate" means a certificate in the form of Annex 1 to the Security Agreement or any other form approved by the Collateral Agent.

"Permitted Encumbrances" means:

(a) Liens imposed by law for taxes, assessments and governmental charges or claims that are not yet due or are being contested in compliance with Section 5.05;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days or are being contested in compliance with Section 5.05;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

(d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, customs bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (k) of Article VII;

(f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business, and minor defects or irregularities in title that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere in any material respect with the ordinary conduct of business of the Borrower or any Subsidiary;

(g) ground leases in respect of real property on which facilities owned or leased by the Borrower or any of its Subsidiaries are located;

(h) any interest or title of a lessor under any lease permitted by this Agreement;

(i) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods; and

(j) leases or subleases granted to others not interfering in any material respect with the business of the Borrower and its Subsidiaries, taken as a whole;

provided that the term "Permitted Encumbrances" shall not include any Lien securing Indebtedness.

"Permitted Investments" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

(b) investments in commercial paper maturing within one year from the date of acquisition thereof and having, at such date of acquisition, one of the two highest credit ratings obtainable from S&P or from Moody's;

(c) investments in certificates of deposit, banker's acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any Lender or any other bank organized under the laws of the United States of America

or any State thereof which has a combined capital and surplus and undivided profits of not less than \$250,000,000 or any domestic office of a foreign bank which has a combined capital and surplus and undivided profits of not less than \$250,000,000; and

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clauses (a) and (b) above and entered into with a financial institution satisfying the criteria described in clause (c) above;

(e) securities issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof or any political subdivision of any such state or any public instrumentality thereof having maturities of not more than one year from the date of acquisition thereof and, at the time of acquisition, having an investment grade rating generally obtainable from either S&P or Moody's (or, if at any time neither S&P nor Moody's shall be rating such obligations, then from another nationally recognized rating service); and

(f) shares of investment companies that are registered under the Investment Company Act of 1940 and invest solely in one or more of the types of securities described in clauses (a) through (e) above.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Pledge Agreement" means the Pledge Agreement, substantially in the form of Exhibit E, among the Loan Parties and the Collateral Agent for the benefit of the Secured Parties.

"Popular Club" means Popular Club Plan, Inc., a New Jersey corporation and wholly owned subsidiary of the Borrower.

"Prepayment Event" means:

(a) any sale, transfer or other disposition (including pursuant to a sale and leaseback transaction) of any property or asset of Holdings, the Borrower or any Subsidiary in excess of \$100,000, other than dispositions described in clauses (a), (b) and (e) of Section 6.05; or

(b) any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of, any property or asset of Holdings, the Borrower or any Subsidiary, but only to the extent that the Net Proceeds therefrom have not been applied to repair, restore or replace such property or asset within 180 days after such event; or

(c) the issuance by Holdings, the Borrower or any Subsidiary of any equity securities, or the receipt by Holdings, the Borrower or any Subsidiary of any capital contribution, other than any such issuance of equity securities to, or receipt of any such capital contribution from, Holdings, the Borrower or a Subsidiary; or

(d) the incurrence by Holdings, the Borrower or any Subsidiary of any Indebtedness, other than Indebtedness permitted under Section 6.01;

provided that, (i) with respect to any event described in clause (a) above, if Holdings shall deliver a certificate of a Financial Officer to the Administrative Agent at the time of such event setting forth the Borrower's or a Subsidiary's intent to use the Net Proceeds of such event to acquire other assets to be used in the same line of business within 180 days of receipt of such Net Proceeds and certifying that no Default has occurred and is continuing, such event shall not constitute a Prepayment Event except to the extent the Net Proceeds therefrom are not so used at the end of such 180-day period, at which time such event shall be deemed a Prepayment Event with Net Proceeds equal to the Net Proceeds so remaining unused, (ii) with respect to clause (c) above and the issuances of new preferred stock of Holdings or the issuances of common stock of Holdings in a Rule 144A or other private placement, if Holdings shall deliver a certificate of a Financial Officer to the Administrative Agent at the time of such issuance setting forth Holdings intent to use the Net Proceeds of such issuance to redeem outstanding Holdings Preferred Stock within 90 days of receipt of such Net Proceeds and certifying that (A) no Default has occurred and is continuing and (B) the terms of the new preferred stock are no less favorable to the Lenders than the outstanding Holdings Preferred Stock, the Net Proceeds from such event shall not be deemed Net Proceeds of a Prepayment Event except to the extent such Net Proceeds therefrom are not so used at the end of such 90-day period, at which time such unused Net Proceeds shall be deemed Net Proceeds of a Prepayment Event equal to the Net Proceeds so remaining unused and (iii) with respect to clause (c) above and the issuance of equity to a member of the Control Group, if Holdings shall deliver a certificate of a Financial Officer to the Administrative Agent at the time of such issuance setting forth Holdings' intent to use up to \$20,000,000 of the Net Proceeds of such equity for investments permitted by Section 6.04(c) within 90 days of receipt of such Net Proceeds and certifying that no Default has occurred and is continuing, the Net Proceeds from such event shall not be deemed Net Proceeds of a Prepayment Event except to the extent such Net Proceeds therefrom are not so used at the end of such 90-day period, at which time such unused Net Proceeds shall be deemed Net Proceeds of a Prepayment Event.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by The Chase Manhattan Bank as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"Purchase Money Note" means a promissory note evidencing a line of credit, or evidencing other Indebtedness owed to the Borrower or any Subsidiary in connection with a Qualified Receivables Transaction, which note shall be repaid from cash available to the maker of such note, other than amounts required to be established as reserves pursuant to the Receivables Transaction Documents, amounts paid to investors in respect of interest, principal

and other amounts owing to such investors and amounts paid in connection with the purchase of newly generated receivables.

"Qualified Receivables Transaction" means any transaction or series of transactions that may be entered into by the Borrower or any Subsidiary pursuant to which the Borrower or any Subsidiary may sell, convey or otherwise transfer to (i) a Receivables Subsidiary (in the case of a transfer by the Borrower or any Subsidiary) and (ii) any other Person (in the case of a transfer by a Receivables Subsidiary), or may grant a security interest in, any accounts receivable (whether now existing or arising in the future) of the Borrower or any Subsidiary and any asset related thereto including, without limitation, all collateral securing such accounts receivable, all contracts and all guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivable and other assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with asset securitization transactions involving accounts receivable.

"Recapitalization" means the recapitalization of Holdings pursuant to, and in accordance with the terms of, the Recapitalization Documents, including (a) the transfer by Holdings of all its assets to the Borrower, (b) the assumption by the Borrower of all liabilities of Holdings and (c) the issuance by the Borrower of all its common stock to Holdings.

"Recapitalization Agreement" means the Recapitalization Agreement dated as of July 22, 1997, between Holdings and TPG Partners, as amended.

"Recapitalization Documents" means the Recapitalization Agreement and all other agreements and documents relating to the transactions contemplated thereby.

"Receivables Pooling Agreement" means the Pooling Agreement relating to a Qualified Receivables Transaction, among the Receivables Subsidiary and the Receivables Trustee.

"Receivables Subsidiary" means a wholly owned Subsidiary which engages in no activities other than in connection with the financing of accounts receivables and which is designated by the board of directors of the Borrower (as provided below) as a Receivables Subsidiary (a) no portion of the Indebtedness or any other Obligations (contingent or otherwise) of which (i) is guaranteed by the Borrower or any other Subsidiary (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings), (ii) is recourse to or obligates the Borrower or any other Subsidiary in any way other than pursuant to Standard Securitization Undertakings or (iii) subjects any property or asset of the Borrower or any other Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings, (b) with which neither the Borrower nor any other Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Purchase Money Note or Qualified Receivables Transaction) other than on terms no less favorable to the Borrower or such other Subsidiary than those that might be obtained at the time from persons that are not Affiliates of the Borrower, other than fees payable in the ordinary course of business in connection with servicing accounts receivable, and (c) to which neither the Borrower nor any other Subsidiary has any obligation to maintain or preserve such entity's financial condition or

cause such entity to achieve certain levels of operating results. Any such designation by the board of directors of the Borrower shall be evidenced by filing with the Receivables Trustee a certified copy of the resolution of the board of directors of the Borrower giving effect to such designation and an officers' certificate certifying, to the best of such officer's knowledge and belief after consulting with counsel, that such designation complied with the foregoing conditions.

"Receivables Transaction Documents" means the documents executed in connection with a Qualified Receivables Transaction, including the Receivables Pooling Agreement.

"Receivables Trustee" means the trustee on behalf of the holders of interests in the receivables and related assets sold pursuant to a Qualified Receivables Transaction.

"Register" has the meaning set forth in Section 9.04.

"Regulation A" means Regulation A of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation G" means Regulation G of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation U" means Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation X" means Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing, emanating or migrating of any Hazardous Material in, into, onto or through the environment.

"Required Lenders" means, at any time, Lenders having Revolving Exposures, Term Loans and unused Commitments representing more than 50% of the sum of the total Revolving Exposures, outstanding Term Loans and unused Commitments at such time.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property) with respect to any shares of any class of capital stock of Holdings, the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of capital stock of Holdings, the Borrower or any Subsidiary or any option, warrant or other right to acquire any such shares of capital stock of Holdings, the Borrower or any Subsidiary.

"Revolving Availability Period" means the period from and including the Effective Date to but excluding the earlier of the Maturity Date and the date of termination of the Revolving Commitments.

"Revolving Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make Revolving Loans and to acquire participations in Letters of Credit and Acceptances hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Revolving Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Revolving Commitment is set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Revolving Commitment, as applicable. The initial aggregate amount of the Lenders' Revolving Commitments is \$200,000,000.

"Revolving Exposure" means, with respect to any Lender at any time, the sum of (a) the outstanding principal amount of such Lender's Revolving Loans and (b) its LC and Acceptance Exposure at such time.

"Revolving Lender" means a Lender with a Revolving Commitment or, if the Revolving Commitments have terminated or expired, a Lender with Revolving Exposure.

"Revolving Loan" means a Loan made pursuant to clause (b) of Section 2.01.

"S&P" means Standard & Poor's.

"Secured Parties" has the meaning assigned to such term in the Security Agreement.

"Security Agreement" means the Security Agreement, substantially in the form of Exhibit F, among the Borrower, the Subsidiary Loan Parties and the Collateral Agent for the benefit of the Secured Parties.

"Security Documents" means the Security Agreement, the Pledge Agreement, the Intercreditor Agreement, the Mortgages and each other security agreement or other instrument or document executed and delivered pursuant to Section 5.12 or 5.13 to secure any of the Obligations.

"Senior Debt" means, with respect to the Borrower and the Subsidiaries on a consolidated basis at any time, all Indebtedness of the Borrower and the Subsidiaries (other than the Subordinated Debt) which at such time would be required to be reflected as a liability for borrowed money on a consolidated balance sheet of the Borrower and its consolidated Subsidiaries prepared in accordance with GAAP.

"Standby LC(s)" means any irrevocable standby letter of credit in support of certain obligations of the Borrower available against sight drafts and payable at sight, issued by the Issuing Bank for the account of the Borrower pursuant to Section 2.05 hereof.

"Standby LC Disbursement" means a payment made by the Issuing Bank pursuant to a Standby LC.

"Standby LC Exposure" means, at any time, the sum of (a) the aggregate undrawn and unexpired amount of all outstanding Standby LCs at such time plus (b) the aggregate amount of all Standby LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time.

"Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject (a) with respect to the Base CD Rate, for new negotiable nonpersonal time deposits in dollars of over \$100,000 with maturities approximately equal to and (b) with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Standard Securitization Undertakings" means representations, warranties, covenants and indemnities entered into by the Borrower or any Subsidiary which are reasonably customary in an accounts receivable transaction.

"Subordinated Debt" means (i) the Senior Subordinated Notes to be issued by the Borrower on or prior to the Effective Date in the aggregate principal amount of \$150,000,000, (ii) notes issued in exchange for such Senior Subordinated Notes in an aggregate principal amount not to exceed \$150,000,000 and having terms and conditions substantially identical to those of such Senior Subordinated Notes, pursuant to a registered exchange offer and (iii) the Indebtedness represented thereby and the Guarantees made by any Subsidiary Loan Party in connection therewith.

"Subordinated Debt Documents" means the indenture under which the Subordinated Debt is issued and all other instruments, agreements and other documents evidencing or governing the Subordinated Debt or providing for any Guarantee or other right in respect thereof.

"subsidiary" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of

the general partnership interests are, as of such date, owned, controlled or held by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" means any subsidiary of Holdings or the Borrower, as the context requires, other than any Inactive Subsidiary.

"Subsidiary Loan Party" means any Subsidiary of the Borrower other than (a) any Foreign Subsidiary that, if it were to Guarantee the Obligations, would result in adverse tax consequences to Holdings or the Borrower and (b) the Receivables Subsidiary.

"Tax Sharing Agreement" means the tax sharing agreement between the Borrower and Holdings.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Term Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make a Term Loan hereunder on the Effective Date, expressed as an amount representing the maximum principal amount of the Term Loan to be made by such Lender hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Term Commitment is set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Term Commitment, as applicable. The initial aggregate amount of the Lenders' Term Commitments is \$70,000,000.

"Term Lender" means a Lender with a Term Commitment or an outstanding Term Loan.

"Term Loan" means a Loan made pursuant to clause (a) of Section 2.01.

"Three-Month Secondary CD Rate" means, for any day, the secondary market rate, expressed as a per annum rate, for three-month certificates of deposit reported as being in effect on such day (or, if such day is not a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day) or, if such rate is not so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day is not a Business Day, on the next preceding Business Day) by the Administrative Agent from three negotiable certificate of deposit dealers of recognized standing selected by it.

"TPG Partners" means (a) TPG Partners II, L.P., (b) the principals who Control TPG Partners II, L.P. as of the date of this Agreement, and (c) any other investment funds Controlled by such principals.

"Transactions" means the Recapitalization and the Financing Transactions.

"Type", when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a "Revolving Loan") or by Type (e.g., a "Eurodollar Loan") or by Class and Type (e.g., a "Eurodollar Revolving Loan"). Borrowings also may be classified and referred to by Class (e.g., a "Revolving Borrowing") or by Type (e.g., a "Eurodollar Borrowing") or by Class and Type (e.g., a "Eurodollar Revolving Borrowing").

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall

have been withdrawn or such provision amended in accordance herewith. References to fiscal years and fiscal quarters shall be to such fiscal periods of the Borrower.

SECTION 1.05. Interim Financial Calculations. For purposes of determining the Leverage Ratio and determining compliance with Sections 6.13 and 6.14:

(a) for determinations made prior to the end of the fiscal quarter ending August 1, 1998, Consolidated EBITDA shall not be determined for periods of four fiscal quarters but instead shall be determined (i) as of January 31, 1998, for the period beginning August 16, 1997, and ended January 31, 1998, and (ii) as of May 2, 1998, for the period beginning August 16, 1997, and ended May 2, 1998;

(b) the average daily outstanding principal amount of Revolving Loans (referred to in clause (c) of the definition "Funded Debt") shall be deemed to be equal to \$1,700,000 for each fiscal quarter ending prior to January 31, 1998;

(c) for determinations made prior to the end of the fiscal quarter ending October 31, 1998, rental expense to be added to Consolidated EBITDA for purposes of determining Consolidated EBITDAR and for purposes of clause (b)(ii) of Section 6.14 shall, in each case, be equal to (i) for purposes of determining compliance with Section 6.14 as of the end of the fiscal quarter ending January 31, 1998, an amount equal to (A) rental expense deducted in determining Consolidated Net Income for the fiscal quarter then ended multiplied by (B) four, (ii) for purposes of determining compliance with Section 6.14 as of the end of the fiscal quarter ending May 2, 1998, an amount equal to (A) rental expense deducted in determining Consolidated Net Income for the two consecutive fiscal quarters then ended multiplied by (B) two and (iii) for purposes of determining compliance with Section 6.14 as of the end of the fiscal quarter ending August 1, 1998, an amount equal to (A) rental expense deducted in determining Consolidated Net Income for the three consecutive fiscal quarters then ended multiplied by (B) four-thirds; and

(d) for determinations made prior to the end of the fiscal quarter ending October 31, 1998, Cash Interest Expense for purposes of clause (b)(i) of Section 6.14 shall be equal to (i) for purposes of determining compliance with Section 6.14 as of the end of the fiscal quarter ending January 31, 1998, an amount equal to (A) Cash Interest Expense for the fiscal quarter then ended multiplied by (B) four, (ii) for purposes of determining compliance with Section 6.14 as of the end of the fiscal quarter ending May 2, 1998, an amount equal to (A) Cash Interest Expense for the two consecutive fiscal quarters then ended multiplied by (B) two and (iii) for purposes of determining compliance with Section 6.14 as of the end of the fiscal quarter ending August 1, 1998, an amount equal to (A) Cash Interest Expense for the three consecutive fiscal quarters then ended multiplied by (B) four-thirds.

ARTICLE II

The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions set forth herein, each Lender agrees (a) to make a Term Loan to the Borrower on the Effective Date in a principal amount not exceeding its Term Commitment and (b) to make Revolving Loans to the Borrower from time to time during the Revolving Availability Period in an aggregate principal amount that will not result in such Lender's Revolving Exposure exceeding such Lender's Revolving Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans. Amounts repaid in respect of Term Loans may not be reborrowed.

SECTION 2.02. Loans and Borrowings. (a) Each Loan shall be made as part of a Borrowing consisting of Loans of the same Class and Type made by the Lenders ratably in accordance with their respective Commitments of the applicable Class. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.14, each Revolving Borrowing and Term Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance herewith. Notwithstanding anything to the contrary contained herein, all Borrowings made on the Effective Date shall be ABR Borrowings. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurodollar Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000. At the time that each ABR Revolving Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of \$500,000 and not less than \$1,000,000; provided that an ABR Revolving Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Revolving Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.05(e). Borrowings of more than one Type and Class may be outstanding at the same time; provided that there shall not at any time be more than a total of 20 Eurodollar Borrowings outstanding.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

SECTION 2.03. Requests for Borrowings. To request a Revolving Borrowing or Term Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing, or (b) in the case of an ABR Borrowing, not later than 11:00 a.m., New York City time, on the date of the proposed Borrowing; provided that any such notice of an ABR Revolving Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.05(e) may be given not later than 11:00 a.m., New York City time, on the date of the proposed

Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or teletype to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) whether the requested Borrowing is to be a Revolving Borrowing or Term Borrowing;
- (ii) the aggregate amount of such Borrowing;
- (iii) the date of such Borrowing, which shall be a Business Day;
- (iv) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing;
- (v) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and
- (vi) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.06.

If no election as to the Type of Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

SECTION 2.04. Acceptances. (a) General.

- (i) Upon the terms and subject to the conditions of this Agreement, the Issuing Bank, upon request by the Borrower, will issue one or more Acceptances denominated in dollars for the account of the Borrower.
- (ii) The Issuing Bank will not be required to issue any Acceptance to the extent that such issuance would cause the total Revolving Exposures to exceed the total Revolving Commitments. Without limiting the provisions of the immediately preceding sentence, the Issuing Bank will not issue any Acceptance to the extent that the amount to be paid under such Acceptance would exceed the Issuing Bank's legal limit for the issuance of acceptances or if the related Acceptance Draft does not have a fixed maturity date occurring on a Business Day that is 30, 60, 90 or 180 days after the date of issuance

of such Acceptance Draft and in any event not later than the date 30 days prior to the Maturity Date.

(iii) The Borrower (A) agrees that the Issuing Bank may cause the Borrower to be joined as a party to any legal proceeding brought against the Issuing Bank with respect to any Acceptance, provided that such proceeding arises out of an action taken by or an omission of the Issuing Bank at the request of the Borrower or pursuant to court order, (B) generally and unconditionally accepts the jurisdiction of any court in which such legal proceeding is maintained and (C) irrevocably consents to the service of process out of any such court by the mailing of copies thereof by registered or certified first class mail, postage prepaid, to the Borrower, such service to become effective thirty days after such mailing.

(b) Issuance. Each Acceptance shall be issued in accordance with the following procedure:

(i) the Borrower shall submit a request for the Acceptance and the terms of the related Acceptance Draft to the Issuing Bank;

(ii) each request for such Acceptance shall relate to an Acceptance Draft in an aggregate amount that is an integral multiple of \$500,000 and not less than \$1,000,000;

(iii) within three Business Days of its receipt of a request for Acceptance and presentation of the related Acceptance Draft, the Issuing Bank shall issue such Acceptance or shall indicate to the Borrower any additional information necessary for review or corrections to be made in the request for Acceptance, or shall issue to the Borrower a rejection of the request for Acceptance and its reasons for rejection; and

(iv) in the case of each Acceptance to be issued by the Issuing Bank, not later than 12:00 (noon), New York City time, on the date of issuance, the Issuing Bank will complete the date, amount and maturity date of such Acceptance, stamp and complete the Eligibility Certificate on the related Acceptance Draft, and execute and accept such Acceptance Draft.

(c) Discount; Payments. (i) On the date of issuance of an Acceptance, the Issuing Bank shall discount the related Acceptance Draft by deducting from the face amount thereof a discount equal to the sum of (A) the Acceptance Rate determined by the Issuing Bank with respect to such Acceptance Draft, and (B) an origination fee in an amount equal to 1/4 of 1% per annum on the face amount of such Acceptance Draft for the period from and including such date of issuance to but excluding the scheduled maturity date of such Acceptance Draft (computed on the basis of a year of 360 days for the actual number of days elapsed), and shall make the net amount available to the Borrower in the same manner as Loans are to be made available to the Borrower as provided herein; provided that the Issuing Bank may, in its discretion, deduct from the net amount to be made available to the Borrower the amount of acceptance fees payable pursuant to Section 2.12(d), in which case the amount of such fees so deducted shall be made available by the Issuing Bank to the Administrative Agent for

distribution to the Revolving Lenders. The Issuing Bank shall retain for its own account the amounts so deducted, except as expressly provided above with respect to acceptance fees.

(ii) The Issuing Bank may, in its sole discretion, either retain for its own account or re-discount to third parties any Acceptance Draft. If the Issuing Bank re-discounts an Acceptance Draft, the Issuing Bank shall retain the proceeds thereof for its own account.

(iii) The Borrower shall be obligated, and hereby agrees, to pay to the Administrative Agent, for the account of the Issuing Bank, the face amount of each Acceptance Draft not later than 2:00 p.m., New York City time, on the stated maturity date thereof. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Revolving Lender of such failure, the payment then due from the Borrower and such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Revolving Lender shall pay to the Administrative Agent its Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in Section 2.06 with respect to Loans made by such Lender (and Section 2.06 shall apply, mutatis mutandis, to the payment obligations of the Revolving Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amount so received by it from the Revolving Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Revolving Lenders have made payments pursuant to this paragraph, then to such Lenders and the Issuing Bank as their interest may appear. Any payment made by a Revolving Lender pursuant to this paragraph shall not constitute a Loan and shall not relieve the Borrower of its obligations in respect of the applicable Acceptance Drafts.

(iv) The Borrower's obligations to make payments pursuant to paragraph (iii) above shall be absolute, unconditional and irrevocable, to the same extent as the Borrower's reimbursement obligations in respect of LC Disbursements (and Section 2.05(e) shall apply, mutatis mutandis, to such obligations).

(v) The provisions of paragraphs (iii) and (iv) above also shall apply to Acceptance Disbursements, which the Borrower shall reimburse as provided in paragraphs (iii) and (iv) above, without duplication.

(vi) If the Borrower fails to make any payment required to be made by it pursuant to this Section, the unpaid amount shall bear interest as provided in Section 2.13(c). Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Revolving Lender pursuant to paragraph (iii) of this Section 2.04(c) shall be for the account of such Lender, to the extent of such payment.

(d) Participations. By the issuance of an Acceptance and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Revolving Lender, and each Revolving Lender hereby acquires from the Issuing Bank, a participation in such Acceptance equal to such Lender's Applicable Percentage of the face amount of the related Acceptance Draft. In consideration and in furtherance of the foregoing,

each Revolving Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent for the account of the Issuing Bank, such Lender's Applicable Percentage of each payment that the Borrower is required to make pursuant to Section 2.04(c)(iii) above and fails to pay when due, as provided in such Section. Each Revolving Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reporting. If the bank serving as Issuing Bank is not the same as the bank serving as Administrative Agent, the Issuing Bank shall notify the Administrative Agent of each Acceptance and the amount and maturity date thereof.

(f) Additional Costs. If an Acceptance issued under the provisions of this Agreement is not an acceptance eligible for discount by a Federal Reserve Bank for a reason beyond the control of the Issuing Bank, the Borrower shall pay to the Issuing Bank upon demand such additional amounts as are necessary to indemnify the Issuing Bank and the Revolving Lenders against any additional costs incurred due to the lack of eligibility or noncompliance, including reserve requirements, premium liability to the Federal Deposit Insurance Corporation, and higher discount rates. The obligations of the Borrower under this paragraph (f) shall survive the termination of this Agreement and the other Loan Documents and payment of the Loans.

(g) Fees. The Borrower shall pay to the Issuing Bank, at the time of the issuance of each Acceptance, a processing or minimum fee computed in accordance with the Issuing Bank's fee schedule then in effect, as it may be amended from time to time.

SECTION 2.05. Letters of Credit. (a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time during the Revolving Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof

and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit (including, without limitation, any Standby LC) shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension, the total Revolving Exposures shall not exceed the total Revolving Commitments. A Standby LC shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of such Standby LC the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension, the Standby LC Exposure shall not exceed \$5,000,000.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days prior to the Maturity Date.

(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Revolving Lender, and each Revolving Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Revolving Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section, or of any reimbursement payment required to be refunded to the Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 2:00 p.m., New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 2:00 p.m., New York City time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that, except in the case of an LC Disbursement made in an Alternative Currency, the Borrower may, in lieu of making such payment directly, request in accordance with Section 2.03 that such

payment be financed with an ABR Revolving Borrowing in an equivalent amount and each Revolving Lender shall be obligated to fund its ratable share of such Borrowing regardless of whether the conditions set forth in Section 4.02 are satisfied. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Revolving Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof (and, if the unreimbursed LC Disbursement was made in an Alternative Currency, the Dollar Amount thereof). Promptly following receipt of such notice, each Revolving Lender shall pay to the Administrative Agent its Applicable Percentage of the payment then due from the Borrower (in dollars, in the amount determined as provided in Section 2.05(k), if such LC Disbursement was made in an Alternative Currency), in the same manner as provided in Section 2.06 with respect to Loans made by such Lender (and Section 2.06 shall apply, mutatis mutandis, to the payment obligations of the Revolving Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Revolving Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Revolving Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Revolving Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms

thereof. The parties hereto expressly agree that, in the absence of gross negligence or wilful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary unless any beneficiary (or a successor beneficiary to whom such Letter of Credit has been transferred in accordance with its terms) and the Borrower shall have notified the Issuing Bank to not comply with the terms and conditions of such Letter of Credit, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Revolving Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Revolving Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.13(c) shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Revolving Lender pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.12(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit and Acceptances to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing

Bank under this Agreement with respect to Letters of Credit and Acceptances issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit or Acceptances.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Revolving Lenders with LC and Acceptance Exposure representing greater than 50% of the total LC and Acceptance Exposure) demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders, an amount in cash equal to the LC and Acceptance Exposure as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Article VII. Each such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements and Acceptance Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC and Acceptance Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Revolving Lenders with LC and Acceptance Exposure representing greater than 50% of the total LC and Acceptance Exposure), be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

(k) The Borrower may request the issuance of a Letter of Credit providing for the payment of drawings in an Alternative Currency subject to the terms and conditions of this subsection (k), in addition to the other conditions applicable to the issuance of Letters of Credit hereunder; provided that the Dollar Amount of the total LC and Acceptance Exposure in respect of all such Letters of Credit shall not at any time exceed \$15,000,000. The issuance of any such Letter of Credit shall be subject to the approval of the Issuing Bank. If any such Letter of Credit is issued, the following provisions shall apply:

(i) For purposes of determining the LC and Acceptance Exposure and for purposes of calculating fees payable under Section 2.12(b), the amount of such Letter of Credit and of any unreimbursed LC Disbursements in respect thereof shall be deemed to be, as of any date of determination, the Dollar Amount thereof at such date. The initial Dollar Amount of any such Letter of Credit shall be determined by the Issuing Bank on the date of issuance thereof and adjusted from time to time thereafter as provided below.

The Dollar Amount of each such Letter of Credit outstanding shall be adjusted by the Issuing Bank on the 15th day and the last day of each calendar month (or, if any such day is not a Business Day, on the next succeeding day that is a Business Day). If a LC Disbursement is made under any such Letter of Credit, the Dollar Amount of such LC Disbursement shall be determined by the Issuing Bank on the date that such LC Disbursement is made. The Issuing Bank shall make each such determination to be made by it by calculating the amount in Dollars that would be required in order for the Issuing Bank to purchase an amount of the applicable Alternative Currency equal to the amount of the relevant Letter of Credit or unreimbursed LC Disbursement, as the case may be, on the date of determination at the Issuing Bank's spot buying rate for Dollars against such Alternative Currency as of approximately 9:00 a.m. (New York City time) on such date of determination. The Issuing Bank shall notify the Borrower promptly of each such Dollar Amount determined by it, on the date that such determination is required to be made.

(ii) Subject to paragraph (iv) below, the obligation of the Borrower to reimburse the Issuing Bank for any LC Disbursement under any such Letter of Credit, and to pay interest thereon, shall be payable only in the Alternative Currency in which such LC Disbursement is made, and shall not be discharged by paying an amount in dollars or any other currency; provided that the Issuing Bank may agree, in its sole discretion, to accept reimbursement in another currency, but any such agreement shall not affect the obligations of the Lenders or the Borrower under paragraphs (iii) and (iv) below if such reimbursement is not actually made to the Issuing Bank when due.

(iii) The obligations of each Lender under Sections 2.05(d) and 2.05(e) to pay its Applicable Percentage of any unreimbursed LC Disbursement under any such Letter of Credit shall be payable only in dollars and shall be in an amount equal to such Applicable Percentage of the Dollar Amount of such unreimbursed LC Disbursement determined as provided in clause (i) above. Under no circumstances shall the provisions hereof permitting the issuance of Letters of Credit in an Alternative Currency be construed, by implication or otherwise, as imposing any obligation upon any Lender to make any Loan or other payment under any Loan Document, or to accept any payment from the Borrower in respect of any Obligations, in any currency other than dollars, it being understood that the parties intend all Obligations to be denominated and payable only in dollars except as expressly provided in paragraph (ii) above.

(iv) If and to the extent that any Lender pays its Applicable Percentage of any unreimbursed LC Disbursement under any such Letter of Credit, then, notwithstanding paragraph (ii) above, the obligation of the Borrower to reimburse the portion of such LC Disbursement funded by such Lender shall be converted to, and shall be payable only in, dollars (in an amount equal to the dollar amount funded by such Lender as provided above) and shall not be discharged by paying an amount in any other currency. Interest accrued on such unreimbursed LC Disbursement to and excluding the date of such payment by such Lender shall be for the account of the Issuing Bank and be payable in the applicable Alternative Currency, but interest thereafter shall accrue on the dollar amount owed to such Lender and shall be payable in dollars.

(v) All payments to be made by the Borrower hereunder in an Alternative Currency pursuant to this Section 2.05(k) shall be made in such Alternative Currency in such funds as may then be customary for the settlement of international transactions in such Alternative Currency for the account of the Issuing Bank at such time and at such place as shall have been notified by the Issuing Bank to the Borrower by not less than four Business Days' notice.

SECTION 2.06. Funding of Borrowings. (a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 2:00 p.m., New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in New York City and designated by the Borrower in the applicable Borrowing Request; provided that ABR Revolving Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e) shall be remitted by the Administrative Agent to the Issuing Bank.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

(c) Nothing in this Section 2.06 shall be deemed to relieve any Lender from its obligation to fulfill its Commitments hereunder or to prejudice any rights that the Borrower may have against any Lender as a result of any default by any such Lender hereunder (it being understood, however, that no Lender shall be responsible for the failure of any other Lender to fulfill its Commitments hereunder).

SECTION 2.07. Interest Elections. (a) Each Revolving Borrowing and Term Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such

portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Revolving Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or teletype to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02 and paragraph (f) of this Section:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurodollar

Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

(f) A Borrowing of any Class may not be converted to or continued as a Eurodollar Borrowing if after giving effect thereto (i) the Interest Period therefor would commence before and end after a date on which any principal of the Loans of such Class is scheduled to be repaid and (ii) the sum of the aggregate principal amount of outstanding Eurodollar Borrowings of such Class with Interest Periods ending on or prior to such scheduled repayment date plus the aggregate principal amount of outstanding ABR Borrowings of such Class would be less than the aggregate principal amount of Loans of such Class required to be repaid on such scheduled repayment date.

SECTION 2.08. Termination and Reduction of Commitments. (a) Unless previously terminated, (i) the Term Commitments shall terminate at 5:00 p.m., New York City time, on the Effective Date and (ii) the Revolving Commitments shall terminate on the Maturity Date.

(b) The Borrower may at any time, without premium or penalty, terminate, or from time to time reduce, the Commitments of either Class; provided that (i) each reduction of the Commitments of either Class shall be in an amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000 and (ii) the Borrower shall not terminate or reduce the Revolving Commitments if, after giving effect to any concurrent prepayment of the Revolving Loans in accordance with Section 2.11, the sum of the Revolving Exposures would exceed the total Revolving Commitments.

(c) In the event that, on the date on which any prepayment would be required pursuant to Section 2.11(b) or 2.11(d), no Term Borrowings remain outstanding or the amount of the prepayment required by Section 2.11(b) or 2.11(d), as the case may be, exceeds the aggregate principal amount of Term Borrowings then outstanding, the Revolving Commitments shall be reduced by an amount equal to the excess of the required prepayment over the principal amount, if any, of Term Borrowings actually prepaid.

(d) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) of this Section, or any required reduction of the Revolving Commitments under paragraph (c) of this Section, at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Revolving Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments of either Class shall be permanent. Each reduction of the Commitments of either Class shall be made ratably among the Lenders in accordance with their respective Commitments of such Class.

SECTION 2.09. Repayment of Loans; Evidence of Debt.

(a) The Borrower hereby unconditionally promises to pay (i) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Revolving Loan of such Lender on the Maturity Date and (ii) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Term Loan of such Lender as provided in Section 2.10.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof, which accounts the Administration agent will make available to the Borrower upon request.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans of any Class made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.10. Amortization of Term Loans. (a) Subject to adjustment pursuant to paragraph (d) of this Section, the Borrower shall repay Term Borrowings on each date set forth below in the aggregate principal amount set forth opposite such date:

Date	Amount
February 3, 2001	\$4,000,000
May 5, 2001	4,000,000
August 4, 2001	4,000,000
November 3, 2001	4,000,000
February 2, 2002	6,750,000
May 4, 2002	6,750,000
August 3, 2002	6,750,000
November 2, 2002	6,750,000
February 1, 2003	6,750,000
May 5, 2003	6,750,000
August 2, 2003	6,750,000
October 10, 2003	6,750,000

(b) To the extent not previously paid, all Term Loans shall be due and payable on the Maturity Date.

(c) If the initial aggregate amount of the Lenders' Term Commitments exceeds the aggregate principal amount of Term Loans that are made on the Effective Date, then the scheduled repayments of Term Borrowings to be made pursuant to this Section shall be reduced ratably by an aggregate amount equal to such excess. Any prepayment of a Term Borrowing shall be applied to reduce the subsequent scheduled repayments of the Term Borrowings to be made pursuant to this Section ratably; provided that any prepayment made pursuant to Section 2.11(a) shall be applied, first, to reduce the next scheduled repayment of the Term Borrowings to be made pursuant to this Section unless and until such next scheduled repayment has been eliminated as a result of reductions hereunder and, second, ratably as provided above.

(d) Prior to any repayment of any Term Borrowings hereunder, the Borrower shall select the Borrowing or Borrowings to be repaid and shall notify the Administrative Agent by telephone (confirmed by telecopy) of such selection not later than 11:00 a.m., New York City time, three Business Days before the scheduled date of such repayment. Each repayment of a Borrowing shall be applied ratably to the Loans included in the repaid Borrowing. Repayments of Term Borrowings shall be accompanied by accrued and unpaid interest on the amount repaid.

SECTION 2.11. Prepayment of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, without premium or penalty but subject to Section 2.16, subject to the requirements of this Section.

(b) In the event and on each occasion that any Net Proceeds are received by or on behalf of Holdings, the Borrower or any Subsidiary in respect of any Prepayment Event, the

Borrower shall, within five Business Days after such Net Proceeds are received, prepay Term Borrowings in an aggregate amount equal to such Net Proceeds; provided that (i) with respect to the sale of Popular Club or C&W, the Borrower shall only be required to prepay Term Borrowings with respect to 80% of the Net Proceeds from such sale and (ii) with respect to issuances of equity securities of Holdings, the Borrower shall only be required to prepay Term Borrowings with respect to 50% of the Net Proceeds from such issuances. If instructed by the Borrower by written notice, the Administration Agent, if the Administration Agent is in possession of Net Proceeds pursuant to any Security Document, shall apply such Net Proceeds toward any prepayment required hereunder.

(c) In the event of any reduction of the Revolving Commitments, if the Revolving Exposure would exceed the Revolving Commitments after giving effect to such reduction, then the Borrower shall, on the date of such reduction, repay or prepay Revolving Borrowings in an amount sufficient to eliminate such excess.

(d) Following the end of each fiscal year of the Borrower, commencing with the fiscal year ending January 30, 1999, the Borrower shall prepay Term Borrowings in an aggregate amount equal to 50% of Excess Cash Flow for such fiscal year. Each prepayment pursuant to this paragraph shall be made on or before the date on which financial statements are delivered pursuant to Section 5.01 with respect to the fiscal year for which Excess Cash Flow is being calculated (and in any event within 90 days after the end of such fiscal year).

(e) The Borrower shall repay or prepay Revolving Borrowings and shall refrain from making additional Revolving Borrowings to the extent necessary in order that there shall be a period of at least 30 consecutive days in each fiscal year during which the Revolving Exposure shall not exceed the amount set forth below opposite such fiscal year (each such 30-day period, a "Clean-Down Period"):

Fiscal Year -----	Revolving Exposure as Reduced -----
1998	\$25,000,000
1999	20,000,000
2000	15,000,000
2001	10,000,000
2002 and thereafter	0

(f) Prior to any optional or mandatory prepayment of Borrowings hereunder, the Borrower shall select the Borrowing or Borrowings to be prepaid and shall specify such selection in the notice of such prepayment pursuant to paragraph (g) of this Section.

(g) The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment or (ii) in the case of prepayment of an ABR Borrowing, not later than 11:00 a.m.,

New York City time, on the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date, the principal amount of each Borrowing or portion thereof to be prepaid and, in the case of a mandatory prepayment, a reasonably detailed calculation of the amount of such prepayment; provided that, if a notice of optional prepayment is given in connection with a conditional notice of termination of the Revolving Commitments as contemplated by Section 2.08, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.08. Promptly following receipt of any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of an advance of a Borrowing of the same Type as provided in Section 2.02, except as necessary to apply fully the required amount of a mandatory prepayment. Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.13.

SECTION 2.12. Fees. (a) The Borrower agrees to pay to the Administrative Agent for the account of each Revolving Lender a commitment fee, which shall accrue at the rate of 1/2 of 1% per annum on the average daily unused amount of each Revolving Commitment of such Lender during the period from and including the Effective Date to but excluding the date on which such Revolving Commitment terminates. Accrued commitment fees shall be payable in arrears on the 2nd day of February, May, August, and November of each year and on the date on which the Revolving Commitments terminate, commencing on the first such date to occur after the Effective Date. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). For purposes of computing commitment fees with respect to Revolving Commitments, a Revolving Commitment of a Lender shall be deemed to be used to the extent of the outstanding Revolving Loans and LC and Acceptance Exposure of such Lender.

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Revolving Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the same Applicable Rate as interest on Eurodollar Revolving Loans on the average daily amount of such Lender's LC and Acceptance Exposure attributable to Letters of Credit (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender's Revolving Commitment terminates and the date on which such Lender ceases to have any LC and Acceptance Exposure attributable to Letters of Credit, and (ii) to the Issuing Bank a fronting fee, which shall accrue at the rate of 1/4 of 1% per annum on the average daily amount of the LC and Acceptance Exposure attributable to Letters of Credit (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Revolving Commitments and the date on which there ceases to be any LC and Acceptance Exposure attributable to Letters of Credit, as well as the Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including the last day of January, April, July and October of each year shall be payable on the third Business Day following such last day, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Revolving Commitments

terminate and any such fees accruing after the date on which the Revolving Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) Upon the issuance of an Acceptance, the Borrower agrees to pay to the Administrative Agent for the account of each Revolving Lender an acceptance fee with respect to such Acceptance in an amount equal to the Applicable Rate at the time on the face amount of the related Acceptance Draft for the period from and including such date of issuance to but excluding the scheduled maturity date of such Acceptance Draft (computed on the basis of a year of 360 days for the actual number of days elapsed).

(e) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, in the case of commitment fees, acceptance fees, and participation fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances.

SECTION 2.13. Interest. (a) The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Revolving Loans as provided in paragraph (a) of this Section.

(d) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and, in the case of Revolving Loans, upon termination of the Revolving Commitments; provided that (i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Revolving Loan prior to the end of the Revolving Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.14. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period;

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Loans (or its Loan) included in such Borrowing for such Interest Period; or

(c) any Lender shall have reasonably determined (which determination shall, absent clearly demonstrable error, be final and conclusive and binding upon all parties hereto) at any time, that the making or continuance of any Eurodollar Loan has become unlawful by compliance by such Lender in good faith with any law, governmental rule, regulation, guideline or order (or would conflict with any such governmental rule, regulation, guideline or order not having the force of law even though the failure to comply therewith would not be unlawful), or has become impracticable as a result of a contingency occurring after the date hereof that materially and adversely affects the interbank Eurodollar market;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing.

SECTION 2.15. Increased Costs. (a) If any Change in Law (except with respect to Taxes, which shall be governed by Section 2.17) shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or the Issuing Bank; or

(ii)] impose on any Lender or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or Acceptance or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit or Acceptance or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or the Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit or Acceptances held by, such Lender, or the Letters of Credit or Acceptances issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or the Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or the Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 270 days prior to the date that such Lender or the Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Bank's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 270-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.16. Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Revolving Loan or Term Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.11(g) and is revoked in accordance therewith), or (d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.19, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the Eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.17. Taxes. (a) Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Bank, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder or under any other Loan Document (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by

the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Bank, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

(f) If the Administrative Agent, Issuing Bank or a Lender (or Transferee) receives a refund solely in respect of Taxes or Other Taxes, it shall pay over such refund to the Borrower to the extent that it has already received indemnity payments or additional amounts pursuant to this Section 2.17 with respect to such Taxes or Other Taxes giving rise to the refund, net of all out-of-pocket expenses and without interest (other than interest paid by the relevant Governmental Authority with respect to such refund); provided, however, that the Borrower shall, upon request of the Administrative Agent or Lender (or Transferee), repay such refund (plus interest imposed by the relevant Governmental Authority) to the Administrative Agent or Lender (or Transferee) if the Administrative Agent or Lender (or Transferee) is required to repay such refund to such Governmental Authority. Nothing contained herein shall require the Administrative Agent or Lender (or Transferee) to make its tax returns (or any other information relating to its taxes which it deems confidential) available to the Borrower or any other person.

SECTION 2.18. Payments Generally; Pro Rata Treatment; Sharing of Set-offs. (a) The Borrower shall make each payment required to be made by it hereunder or under any other Loan Document (whether of principal, interest, fees or reimbursement of LC Disbursements or Acceptance Disbursements, or of amounts payable under Section 2.15, 2.16 or 2.17, or otherwise) prior to 2:00 p.m., New York City time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 270 Park Avenue, New York, New York, except payments to be made directly to the Issuing Bank as expressly provided herein and except that payments pursuant to Sections 2.15, 2.16, 2.17 and 9.03 shall be made directly to the Persons entitled thereto and payments pursuant to other Loan Documents shall be made to the Persons specified therein. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly

following receipt thereof. If any payment under any Loan Document shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. Except as expressly provided in Section 2.05(k), all payments under each Loan Document shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements and Acceptance Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal and unreimbursed LC Disbursements and Acceptance Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements and Acceptance Disbursements then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Revolving Loans, Term Loans or participations in LC Disbursements or Acceptance Disbursements resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Revolving Loans, Term Loans and participations in LC Disbursements and Acceptance Disbursements and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Revolving Loans, Term Loans and participations in LC Disbursements and Acceptance Disbursements of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Revolving Loans, Term Loans and participations in LC Disbursements and Acceptance Disbursements; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements or Acceptance Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on

such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.04(c), 2.05(d) or (e), 2.06(b), 2.18(d) or 9.03(c), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.19. Mitigation Obligations; Replacement of Lenders. (a) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.15 or 2.17, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Revolving Commitment is being assigned, the Issuing Bank), which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements and Acceptance Disbursements, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and

delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

ARTICLE III

Representations and Warranties

Each of Holdings and the Borrower represents and warrants to the Lenders that:

SECTION 3.01. Organization; Powers. Each of Holdings, the Borrower and its Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite corporate power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

SECTION 3.02. Authorization; Enforceability. The Transactions to be entered into by each Loan Party are within such Loan Party's corporate powers and have been duly authorized by all necessary corporate and, if required, stockholder action. This Agreement has been duly executed and delivered by each of Holdings and the Borrower and constitutes, and each other Loan Document to which any Loan Party is to be a party, when executed and delivered by such Loan Party, will constitute, a legal, valid and binding obligation of Holdings, the Borrower or such Loan Party (as the case may be), enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except (i) such as have been obtained or made and are in full force and effect, (ii) except filings necessary to perfect Liens created under the Loan Documents and the Receivables Transaction Documents and (iii) except where the failure to obtain such consent or approval or make such registration or filing, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of Holdings, the Borrower or any of its Subsidiaries or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon Holdings, the Borrower or any of its Subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by Holdings, the Borrower or any of its Subsidiaries, except for violations under retail store leases that in the aggregate could not reasonably be expected to result in a Material Adverse Effect, and (d) will not result in the creation or imposition of any Lien on any asset of Holdings, the Borrower or any of its Subsidiaries, except Liens created under the Loan Documents and the Receivables Transaction Documents.

SECTION 3.04. Financial Condition; No Material Adverse Change. (a) Holdings has heretofore furnished to the Lenders its consolidated balance sheet and

statements of income, stockholders equity and cash flows (i) as of and for the fiscal year ended February 2, 1997, reported on by Deloitte & Touche LLP, independent public accountants, and (ii) as of and for the fiscal quarter and the portion of the fiscal year ended July 18, 1997, certified by its chief financial officer. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of Holdings and its consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes in the case of the statements referred to in clause (ii) above.

(b) Holdings has heretofore furnished to the Lenders its pro forma consolidated balance sheet as of July 18, 1997, prepared giving effect to the Transactions as if the Transactions had occurred on such date. Such pro forma consolidated balance sheet (i) has been prepared in good faith based on the same assumptions used to prepare the pro forma financial statements included in the Information Memorandum (which assumptions are believed by Holdings and the Borrower to be reasonable), (ii) is based on the best information available to Holdings and the Borrower after due inquiry, (iii) accurately reflects in all material respects all adjustments necessary to give effect to the Transactions and (iv) presents fairly, in all material respects, the pro forma financial position of Holdings and its consolidated Subsidiaries as of July 18, 1997 as if the Transactions had occurred on such date.

(c) Except as disclosed in the financial statements referred to in paragraphs (a) and (b) above or the notes thereto or in the Information Memorandum and except for the Disclosed Matters, after giving effect to the Transactions, none of Holdings, the Borrower or its Subsidiaries has, as of the Effective Date, any material contingent liabilities, unusual long-term commitments or unrealized losses.

(d) Since February 2, 1997, there has been no material adverse change in the business, assets, operations, prospects or condition, financial or otherwise, of Holdings, the Borrower and its Subsidiaries, taken as a whole.

SECTION 3.05. Properties. (a) Each of Holdings, the Borrower and its Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business (including its Mortgaged Properties), except for minor defects in title that do not interfere materially with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes.

(b) Each of Holdings, the Borrower and its Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and the use thereof by Holdings, the Borrower and its Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(c) Schedule 3.05 sets forth the address of each real property that is owned or leased by the Borrower or any of its Subsidiaries as of the Effective Date after giving effect to the Transactions.

(d) As of the Effective Date, neither Holdings, the Borrower nor any of its Subsidiaries has received notice of, or has knowledge of, any pending or contemplated condemnation proceeding affecting any Mortgaged Property or any sale or disposition thereof in lieu of condemnation. Neither any Mortgaged Property nor any interest therein is subject to any right of first refusal, option or other contractual right to purchase such Mortgaged Property or interest therein.

SECTION 3.06. Litigation and Environmental Matters.

(a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of Holdings or the Borrower, threatened against or affecting Holdings, the Borrower or any of its Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than the Disclosed Matters) or (ii) that involve any of the Loan Documents or the Transactions.

(b) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither Holdings, the Borrower nor any of its Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or has reason to believe that any such notice will be received or is being threatened, (iv) currently owns or operates property which contains Hazardous Materials, property from which Hazardous Materials were transported, or property at, on or under which Hazardous Materials were Released, generated treated, stored or disposed of, or (v) otherwise knows of, or has reason to believe that there is, any basis for any Environmental Liability.

(c) Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

SECTION 3.07. Compliance with Laws and Agreements.

Each of Holdings, the Borrower and its Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

SECTION 3.08. Investment and Holding Company Status.

Neither Holdings, the Borrower nor any of its Subsidiaries is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.09. Taxes. Each of Holdings, the Borrower

and its Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which Holdings, the Borrower

or such Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the assets of all such underfunded Plans by an amount which, if it were required to be fully paid, would reasonably be expected to result in a Material Adverse Effect.

SECTION 3.11. Disclosure. Holdings and the Borrower have disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which Holdings, the Borrower or any of its Subsidiaries is subject, and all other matters known to any of them, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. Neither the Information Memorandum nor any of the other reports, financial statements, certificates or other information furnished by or on behalf of any Loan Party to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or any other Loan Document or delivered hereunder or thereunder (as modified or supplemented by other information so furnished), when made or delivered, contained any material misstatement of fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, Holdings and the Borrower represent only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

SECTION 3.12. Subsidiaries. After giving effect to the consummation of the Recapitalization on the Effective Date, Holdings does not have any Subsidiaries other than the Borrower and the Borrower's Subsidiaries. Schedule 3.12 sets forth the name of, and the ownership interest of the Borrower in, each Subsidiary of the Borrower and identifies each Subsidiary that is a Subsidiary Loan Party, in each case as of the Effective Date.

SECTION 3.13. Insurance. Schedule 3.13 sets forth a description of all insurance maintained by or on behalf of the Borrower and its Subsidiaries as of the Effective Date. As of the Effective Date, all premiums in respect of such insurance have been paid.

SECTION 3.14. Labor Matters. As of the Effective Date, there are no strikes, lockouts or slowdowns against Holdings, the Borrower or any Subsidiary pending or, to the knowledge of Holdings or the Borrower, threatened. The hours worked by and payments made to employees of Holdings, the Borrower and the Subsidiaries have not been in material violation of the Fair Labor Standards Act or any other applicable Federal, state, local or foreign law dealing with such matters. The consummation of the Transactions will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which Holdings, the Borrower or any Subsidiary is bound.

SECTION 3.15. Solvency. Immediately after the consummation of the Transactions to occur on the Effective Date and immediately following the making of each Loan

made on the Effective Date and after giving effect to the application of the proceeds of such Loans, (a) the fair value of the assets of each Loan Party, at a fair valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise; (b) the present fair saleable value of the property of each Loan Party will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (c) each Loan Party will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (d) each Loan Party will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following the Effective Date.

SECTION 3.16. Senior Indebtedness. The Obligations constitute "Senior Debt" under and as defined in the Subordinated Debt Documents.

SECTION 3.17. Security Documents. (a) The Pledge Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Pledge Agreement) and, when such Collateral is delivered to the Collateral Agent, the Pledge Agreement shall constitute a fully perfected first priority Lien on, and security interest in, all right, title and interest of each pledgor thereunder in such Collateral, in each case prior and superior in right to any other Person.

(b) The Security Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Security Agreement) and, when financing statements in appropriate form are filed in the offices specified on Schedule 5 to the Perfection Certificate, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the grantors thereunder in such Collateral (other than the Intellectual Property (as defined in the Security Agreement)), in each case prior and superior in right to any other Person, other than with respect to Liens expressly permitted by Section 6.02.

(c) When the Security Agreement is filed in the United States Patent and Trademark Office and the United States Copyright Office, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in the Intellectual Property (as defined in the Security Agreement) in which a security interest may be perfected by filing, recording or registering a security agreement, financing statement or analogous document in the United States Patent and Trademark Office or the United States Copyright Office, as applicable, in each case prior and superior in right to any other Person other than Liens expressly permitted by Section 6.02 (it being understood that subsequent recordings in the United States Patent and Trademark Office and the United States Copyright Office may be necessary to perfect a Lien on registered trademarks, trademark applications and copyrights acquired by the Loan Parties after the date hereof).

(d) The Mortgages are effective to create, subject to the exceptions listed in each title insurance policy covering such Mortgage, in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable Lien on all of the Loan Parties' right, title and interest in and to the Mortgaged Properties thereunder and the proceeds thereof,

and when the Mortgages are filed in the offices specified on Schedule 3.17(d), the Mortgages shall constitute a Lien on, and security interest in, all right, title and interest of the Loan Parties in such Mortgaged Properties and the proceeds thereof, in each case prior and superior in right to any other Person, other than with respect to the rights of Persons pursuant to Liens expressly permitted by Section 6.02.

SECTION 3.18. Federal Reserve Regulations. (a) Neither Holdings, the Borrower nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of buying or carrying Margin Stock.

(b) No part of the proceeds of any Loan or any Letter of Credit or any Acceptance will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, for any purpose that entails a violation of, or that is inconsistent with, the provisions of the Regulations of the Board, including Regulation G, U or X.

ARTICLE IV

Conditions

SECTION 4.01. Effective Date. The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit and Acceptances hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.02):

(a) The Administrative Agent (or its counsel) shall have received from each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of each of (i) Cleary, Gottlieb, Steen & Hamilton, counsel for the Borrower, substantially in the form of Exhibit B-1 and (ii) Herzfeld & Ruben, counsel for the Borrower, substantially in the form of Exhibit B-2, and, in the case of each such opinion required by this paragraph, covering such other matters relating to the Loan Parties, the Loan Documents or the Transactions as the Required Lenders shall reasonably request. The Borrower hereby requests such counsel to deliver such opinions.

(c) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of each Loan Party, the authorization of the Transactions and any other legal matters relating to the Loan Parties, the Loan Documents or the Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(d) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by the President, a Vice President or a Financial Officer of each of Holdings and the Borrower, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.02.

(e) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by any Loan Party hereunder or under any other Loan Document.

(f) The Administrative Agent shall have received counterparts of the Pledge Agreement signed on behalf of Holdings, the Borrower and each Subsidiary Loan Party, together with stock certificates representing all the outstanding shares of capital stock of the Borrower and each Subsidiary owned by or on behalf of any Loan Party as of the Effective Date after giving effect to the Transactions (except that stock certificates representing shares of common stock of a Foreign Subsidiary that is not a Subsidiary Loan Party may be limited to 65% of the outstanding shares of common stock of such Foreign Subsidiary), promissory notes evidencing all intercompany Indebtedness (other than the Purchase Money Note) owed to any Loan Party by Holdings, the Borrower or any Subsidiary as of the Effective Date after giving effect to the Transactions and stock powers and instruments of transfer, endorsed in blank, with respect to such stock certificates and promissory notes.

(g) The Administrative Agent shall have received counterparts of the Security Agreement signed on behalf of Holdings, the Borrower and each Subsidiary Loan Party, together with the following:

(i) all documents and instruments, including Uniform Commercial Code financing statements, required by law or reasonably requested by the Administrative Agent to be filed, registered or recorded to create or perfect the Liens intended to be created under the Security Agreement; and

(ii) a completed Perfection Certificate dated the Effective Date and signed by an executive officer or Financial Officer of the Borrower, together with all attachments contemplated thereby, including the results of a search of the Uniform Commercial Code (or equivalent) filings made with respect to the Loan Parties in the jurisdictions contemplated by the Perfection Certificate and copies of the financing statements (or similar documents) disclosed by such search and evidence reasonably satisfactory to the Administrative Agent that the Liens indicated by such financing statements (or similar documents) are permitted by Section 6.02 or have been released.

(h) The Administrative Agent shall have received (i) counterparts of the Guarantee Agreement signed on behalf of Holdings and each Subsidiary Loan Party, and (ii) counterparts of the Indemnity, Subrogation and Contribution Agreement signed on behalf of each Loan Party.

(i) The Administrative Agent shall have received (i) counterparts of a Mortgage with respect to each Mortgaged Property signed on behalf of the record owner of such Mortgaged Property, (ii) a policy or policies of title insurance issued by a nationally recognized title insurance company, insuring the Lien of each such Mortgage as a valid first Lien on the Mortgaged Property described therein, free of any other Liens except as permitted by Section 6.02, in form and substance reasonably acceptable to the Collateral Agent, together with such endorsements, coinsurance and reinsurance as the Collateral Agent or the Required Lenders may reasonably request and (iii) such surveys, abstracts and appraisals as may be required pursuant to such Mortgages or as the Administrative Agent or the Required Lenders may reasonably request.

(j) The Administrative Agent shall have received evidence satisfactory to it that the insurance required by Section 5.07 is in effect.

(k) The Lenders shall be reasonably satisfied as to the amount and nature of any environmental and employee health and safety exposures to which Holdings and its subsidiaries may be subject after giving effect to the Transactions, and with the plans of Holdings and the Borrower with respect thereto, and the Lenders shall have received environmental assessments satisfactory to the Administrative Agent from an environmental consulting firm satisfactory to the Administrative Agent.

(l) Holdings shall have received gross cash proceeds of not less than \$66,000,000 from the Equity Financing and the Initial Investors shall have received not less than 75% of the outstanding common stock of Holdings.

(m) The Borrower shall have received gross cash proceeds of not less than \$150,000,000 from the issuance of the Subordinated Debt. The terms and conditions of the Subordinated Debt (including but not limited to terms and conditions relating to the interest rate, fees, amortization, maturity, subordination, covenants, events of defaults and remedies) and the provisions of the Subordinated Debt Documents shall be satisfactory to the Lenders. The Administrative Agent shall have received copies of the Subordinated Debt Documents, certified by a Financial Officer as complete and correct.

(n) All material consents and approvals required to be obtained from any Governmental Authority or other Person in connection with the Recapitalization shall have been obtained, and all applicable waiting periods and appeal periods shall have expired, in each case without the imposition of any burdensome conditions. The Recapitalization shall have been, or substantially simultaneously with the initial funding of Loans on the Effective Date shall be, consummated in accordance with the Recapitalization Documents and applicable law, without any amendment to or waiver of any material terms or conditions of the Recapitalization Documents not approved by the Required Lenders. The Administrative Agent shall have received copies of the Recapitalization Documents and all certificates, opinions and other documents delivered thereunder, certified by a Financial Officer as complete and correct. The Lenders shall (i) be satisfied with the Recapitalization Agreement and such related documentation and

(ii) be satisfied with the capitalization, structure and equity ownership of Holdings after giving effect to the Transactions.

(o) The Lenders shall have received (i) audited consolidated balance sheets and related statements of income, stockholders' equity and cash flows of Holdings for the five fiscal years ended prior to the Effective Date and (ii) unaudited consolidated balance sheets and related statements of income, stockholders' equity and cash flows of Holdings for the 1997 fiscal quarters preceding the Effective Date (and, to the extent available, for each month preceding the Effective Date since the last such quarter), which audited and unaudited financial statements shall not be materially inconsistent with the financial statements or forecasts previously provided to the Lenders.

(p) The Lenders shall have received a pro forma consolidated balance sheet of Holdings as of July 18, 1997, reflecting all pro forma adjustments as if the Transactions had been consummated on such date, and such pro forma consolidated balance sheet shall be consistent in all material respects with the forecasts and other information previously provided to the Lenders. After giving effect to the Transactions, neither Holdings, the Borrower nor any of its Subsidiaries shall have outstanding any shares of preferred stock or any Indebtedness, other than (i) Indebtedness incurred under the Loan Documents, (ii) the Subordinated Debt, (iii) Holdings Senior Discount Debentures, (iv) Holdings Preferred Stock, (v) Indebtedness and Obligations incurred in connection with the Qualified Receivables Transaction and (vi) other Indebtedness permitted under Section 6.01. The aggregate amount of fees and expenses (including underwriting discounts and commissions) payable or otherwise borne by Holdings, the Borrower and its Subsidiaries in connection with the Transactions shall not exceed \$48,590,957.

(q) The Administrative Agent shall have received a solvency letter, in form and substance reasonably satisfactory to the Lenders, from Valuation Research Corporation, with respect to the solvency of the Loan Parties after giving effect to the Transactions.

(r) The initial closing under the Receivables Sale Agreement and the Receivables Pooling Agreement shall have been consummated and Popular Club Plan shall have received not less than \$39,000,000 as consideration for the initial sale of receivables thereunder.

(s) Holdings shall have received not less than \$75,257,000 in gross cash proceeds from the issuance of the Holdings Senior Discount Debentures in a public offering or in a Rule 144A or other private placement to one or more holders satisfactory to the Administrative Agent. The terms and conditions of the Holdings Senior Discount Debentures (including but not limited to terms and conditions relating to the warrants, interest rate, fees, amortization, maturity, subordination, covenants, collateral, events of defaults and remedies) and the provisions of the Holdings Senior Discount Debt Documents shall be satisfactory in all respects to the Lenders.

(t) Holdings shall have received not less than \$125,000,000 in gross cash proceeds from the issuance of the Holdings Preferred Stock in a public offering or in a

Rule 144A or other private placement to one or more holders satisfactory to the Administrative Agents. The terms and conditions of the Holdings Preferred Stock (including but not limited to terms and conditions relating to the dividend rate and redemption), shall be satisfactory in all respects to the Lenders.

(u) The Administrative Agent shall be reasonably satisfied with the results of an examination of the receivables and inventory of Holdings and its Subsidiaries after giving effect to the Transactions and the consummation of the other transactions contemplated hereby.

(v) The Lenders shall be reasonably satisfied in all respects with the tax position and the contingent tax and other liabilities of, and with any tax sharing agreements (including the Tax Sharing Agreement) among, Holdings and its subsidiaries after giving effect to the Transactions and the other transactions contemplated hereby, and with the plans of Holdings with respect thereto.

(w) The Administrative Agent shall be reasonably satisfied with the sufficiency of amounts available under the Revolving Commitments to meet the ongoing working capital requirements of the Borrower and its Subsidiaries following the consummation of the Transactions and the other transactions contemplated hereby.

(x) The Administrative Agent shall have received counterparts of the Intercreditor Agreement signed by the Receivables Trustee.

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit and Acceptances hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 9.02) at or prior to 3:00 p.m., New York City time, on October 31, 1997 (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

SECTION 4.02. Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit or any Acceptance, is subject to the satisfaction of the following conditions:

(a) The representations and warranties of each Loan Party set forth in the Loan Documents shall be true and correct in all material respects on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit or such Acceptance, as applicable, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct in all material respects as to such earlier date).

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit or such Acceptance, as applicable, no Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit or Acceptance shall be deemed to constitute a representation and warranty by Holdings and the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section.

ARTICLE V

Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit and Acceptances shall have expired or terminated and all LC Disbursements and Acceptance Disbursements shall have been reimbursed, each of Holdings and the Borrower covenants and agrees with the Lenders that:

SECTION 5.01. Financial Statements and Other Information. Holdings and the Borrower will furnish to the Administrative Agent and each Lender:

(a) within 90 days after the end of each fiscal year of Holdings, (i) Holdings' audited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by KPMG Peat Marwick or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of Holdings and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied and (ii) Holdings' unaudited consolidated and consolidating balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of Holdings and its consolidated Subsidiaries on a consolidated and consolidating basis in accordance with GAAP consistently applied;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year of Holdings, Holdings' unaudited consolidated and consolidating balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of Holdings and its consolidated Subsidiaries on a consolidated and consolidating basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) within 30 days after the end of each of the first two fiscal months of each fiscal quarter of Holdings, (i) Holdings' unaudited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such fiscal month and the then elapsed portion of the fiscal year, all certified by one of its Financial Officers as presenting in all material respects the financial condition and results of operations of Holdings and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes, (ii) unaudited financial information with respect to sales, margin and EBITDA information for each of the Borrower's divisions, (iii) unaudited financial information with respect to same store retail sales information and (iv) monthly adjusted seasonal mail order sales/inventory coverage reports; provided that (A) with respect clause (ii), the Borrower will also provide a monthly comparison of such information to budgeted levels prepared on a quarterly basis for each of the Borrower's divisions and (B) with respect to clause (iii), the Borrower will also provide a monthly comparison of such information to budgeted levels prepared on a quarterly basis;

(d) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of Holdings (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Sections 6.12, 6.13, 6.14, 6.15 and 6.16 and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of Holdings' audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(e) concurrently with any delivery of financial statements under clause (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(f) at least 30 days prior to the commencement of each fiscal year of Holdings, a detailed consolidated budget for such fiscal year (including a projected consolidated balance sheet and related statements of projected operations and cash flow as of the end of and for such fiscal year) and, promptly when available, any significant revisions of such budget;

(g) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by Holdings, the Borrower or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or, in the event Holdings becomes a publicly registered company, distributed by Holdings to its shareholders generally, as the case may be; and

(h) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of Holdings, the Borrower or any Subsidiary, or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender may reasonably request.

SECTION 5.02. Notices of Material Events. Holdings and the Borrower will furnish to the Administrative Agent and each Lender, promptly upon Holdings or the Borrower's knowledge thereof, written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting Holdings, the Borrower or any Affiliate thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of Holdings, the Borrower and its Subsidiaries in an aggregate amount exceeding \$10,000,000; and

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03. Information Regarding Collateral. (a) The Borrower will furnish to the Administrative Agent prompt written notice of any change (i) in any Loan Party's corporate name or in any trade name used to identify it (x) in the conduct of its business or (y) in the ownership of its properties, (ii) in the location of any Loan Party's chief executive office, its principal place of business, any office in which it maintains books or records relating to Collateral owned by it or any office or facility at which Collateral owned by it is located (including the establishment of any such new office or facility), (iii) in any Loan Party's identity or corporate structure or (iv) in any Loan Party's Federal Taxpayer Identification Number. The Borrower agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made, or will have been made within any applicable statutory period, under the Uniform Commercial Code or otherwise that are required in order for the Administrative Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral. The Borrower also agrees promptly to notify the Administrative Agent if any material portion of the Collateral is damaged or destroyed.

(b) Each year, at the time of delivery of annual financial statements with respect to the preceding fiscal year pursuant to clause (a) of Section 5.01, the Borrower shall deliver to the Administrative Agent a certificate of a Financial Officer of the Borrower (i) setting forth the

information required pursuant to Section 2 of the Perfection Certificate or confirming that there has been no change in such information since the date of the Perfection Certificate delivered on the Effective Date or the date of the most recent certificate delivered pursuant to this Section and (ii) certifying that all Uniform Commercial Code financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations, including all refilings, rerecordings and reregistrations, containing a description of the Collateral have been filed of record in each governmental, municipal or other appropriate office in each jurisdiction identified pursuant to clause (i) above to the extent necessary to protect and perfect the security interests under the Security Agreement for a period of not less than 18 months after the date of such certificate (except as noted therein with respect to any continuation statements to be filed within such period).

SECTION 5.04. Existence; Conduct of Business. Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges, franchises, patents, copyrights, trademarks and trade names material to the conduct of the business of the Borrower and its Subsidiaries, taken as a whole; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03.

SECTION 5.05. Payment of Obligations. Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, pay its Indebtedness and other obligations, including Tax liabilities, before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) Holdings, the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP, (c) such contest effectively suspends collection of the contested obligation and the enforcement of any Lien securing such obligation and (d) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.06. Maintenance of Properties. Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted.

SECTION 5.07. Insurance. (a) Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurance companies:

(i) fire and extended coverage insurance, on a replacement cost basis, with respect to all personal property and improvements to real property, in such amounts as are customarily maintained by companies in the same or similar business operating in the same or similar locations;

(ii) commercial general liability insurance against claims for bodily injury, death or property damage occurring upon, about or in connection with the use of any properties owned, occupied or controlled by it, providing coverage on an occurrence basis

with a combined single limit of not less than \$1,000,000 and including the broad form GCL endorsement;

(iii) business interruption insurance, insuring against loss of gross earnings for a period of not less than 12 months arising from any risks or occurrences required to be covered by insurance pursuant to clause (i) above; and

(iv) such other insurance of the type and in the amount described in Schedule 3.13 or as may be required by law.

Deductibles or self-insured retention shall not exceed \$25,000 for fire and extended coverage policies, \$25,000 for commercial general liability policies or 24 hours for business interruption policies.

(b) Fire and extended coverage policies (and any policies required to be maintained pursuant to paragraph (c) below) maintained with respect to any Collateral shall be endorsed or otherwise amended to include (i) a non-contributing mortgage clause (regarding improvements to real property) and lenders' loss payable clause (regarding personal property), in each case in favor of the Administrative Agent and providing for losses thereunder to be payable to the Administrative Agent or its designee, (ii) a provision to the effect that neither the Borrower, the Administrative Agent nor any other party shall be a coinsurer and (iii) such other provisions as the Administrative Agent may reasonably require from time to time to protect the interests of the Lenders. Commercial general liability policies shall be endorsed to name the Administrative Agent as an additional insured. Business interruption policies shall name the Administrative Agent as loss payee. Each such policy referred to in this paragraph also shall provide that it shall not be canceled, modified or not renewed (i) by reason of nonpayment of premium except upon not less than 10 days' prior written notice thereof by the insurer to the Administrative Agent (giving the Administrative Agent the right to cure defaults in the payment of premiums) or (ii) for any other reason except upon not less than 30 days' prior written notice thereof by the insurer to the Administrative Agent. The Borrower shall deliver to the Administrative Agent, prior to the cancellation, modification or nonrenewal of any such policy of insurance, a copy of a renewal or replacement policy (or other evidence of renewal of a policy previously delivered to the Administrative Agent) together with evidence satisfactory to the Administrative Agent of payment of the premium therefor.

(c) If at any time the area in which any Mortgaged Property is located is designated (i) a "flood hazard area" in any Flood Insurance Rate Map published by the Federal Emergency Management Agency (or any successor agency), the Borrower shall obtain flood insurance in such total amount as the Administrative Agent or the Required Lenders may from time to time require, and otherwise comply with the National Flood Insurance Program as set forth in the Flood Disaster Protection Act of 1973, as amended from time to time, or (ii) a "Zone 1" area, the Borrower shall obtain earthquake insurance in such total amount as the Administrative Agent or the Required Lenders may from time to time require.

SECTION 5.08. Casualty and Condemnation. (a) The Borrower will furnish to the Administrative Agent and the Lenders prompt written notice of any casualty or other insured damage to any portion of any Collateral or the commencement of any action or proceeding for

the taking of any Collateral or any part thereof or interest therein under power of eminent domain or by condemnation or similar proceeding.

(b) If any event described in paragraph (a) of this Section results in Net Proceeds (whether in the form of insurance proceeds, condemnation award or otherwise), the Administrative Agent is authorized to collect such Net Proceeds and, if received by Holdings, the Borrower or any Subsidiary, such Net Proceeds shall be paid over to the Administrative Agent; provided that (i) if the aggregate Net Proceeds in respect of such event (other than proceeds of business interruption insurance) are less than \$100,000, such Net Proceeds shall be paid over to the Borrower unless a Default has occurred and is continuing, and (ii) all proceeds of business income insurance shall be paid over to the Borrower unless a Default has occurred and is continuing. All such Net Proceeds retained by or paid over to the Administrative Agent shall be held by the Administrative Agent and released from time to time to pay the costs of repairing, restoring or replacing the affected property in accordance with the terms of the applicable Security Document, subject to the provisions of the applicable Security Document regarding application of such Net Proceeds during a Default. If requested by the Borrower, the Administrative Agent shall apply any such Net Proceeds being held by the Administrative Agent to prepay Term Borrowings.

(c) If any Net Proceeds retained by or paid over to the Administrative Agent as provided above continue to be held by the Administrative Agent on the date that is 180 days after the occurrence of the event resulting in such Net Proceeds, then such Net Proceeds shall be applied to prepay Term Borrowings as provided in Section 2.11(b).

SECTION 5.09. Books and Records; Inspection and Audit Rights. Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice and at its own expense, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

SECTION 5.10. Compliance with Laws. Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.11. Use of Proceeds and Letters of Credit and Acceptances. The proceeds of the Term Loans, together with the proceeds of Revolving Loans not exceeding \$37,000,000 to be drawn on the Effective Date, the net proceeds of the Subordinated Debt and the proceeds from the initial sale of receivables under the Qualified Receivables Transaction, will be used (a) for the payment of the Effective Date Dividend, (b) to pay the fees and expenses in connection with the Transactions and (c) to refinance existing Indebtedness of Holdings

(including the redemption of the Outstanding Senior Notes) and its Subsidiaries in an amount not to exceed \$195,074,875. The proceeds of the Effective Date Dividend will be used by Holdings, together with the net proceeds of the Holdings Senior Discount Debentures, the net proceeds of the Holdings Preferred Stock and the Equity Financing, for the payment of the cash consideration to be paid in connection with the Recapitalization. The proceeds of the Revolving Loans (other than the Loans used for the purposes specified in the immediately preceding sentence) and Acceptances will be used for general corporate purposes. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any applicable Regulation of the Board, including Regulations G, U and X. Letters of Credit will be issued to support obligations of the Borrower and its Subsidiaries incurred in connection with general corporate purposes.

SECTION 5.12. Additional Subsidiaries. If any additional Subsidiary is formed or acquired after the Effective Date or if any subsidiary ceases to be an Inactive Subsidiary, Holdings and the Borrower will notify the Administrative Agent and the Lenders thereof and (a) if such Subsidiary is a Subsidiary Loan Party, Holdings and the Borrower will cause such Subsidiary to become a party to the Guarantee Agreement, the Indemnity, Subrogation and Contribution Agreement and each applicable Security Document in the manner provided therein within three Business Days after such Subsidiary is formed or acquired and promptly take such actions to create and perfect Liens on such Subsidiary's assets to secure the Obligations as the Administrative Agent or the Required Lenders shall reasonably request and (b) if any shares of capital stock or Indebtedness of such Subsidiary are owned by or on behalf of any Loan Party, Holdings and the Borrower will cause such shares and promissory notes evidencing such Indebtedness (other than the Purchase Money Note) to be pledged pursuant to the Pledge Agreement within three Business Days after such Subsidiary is formed or acquired (except that, if such Subsidiary is a Foreign Subsidiary and is not a Subsidiary Loan Party, shares of common stock of such Subsidiary to be pledged pursuant to the Pledge Agreement may be limited to 65% of the outstanding shares of common stock of such Subsidiary).

SECTION 5.13. Further Assurances. (a) Each of Holdings and the Borrower will, and will cause each Subsidiary Loan Party to, execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements, fixture filings, mortgages, deeds of trust and other documents), which may be required under any applicable law, or that the Administrative Agent or the Required Lenders may reasonably request, to effectuate the transactions contemplated by the Loan Documents or to grant, preserve, protect or perfect the Liens created or intended to be created by the Security Documents or the validity or priority of any such Lien, all at the expense of the Loan Parties. Holdings and the Borrower also agree to provide to the Administrative Agent, from time to time upon request, evidence reasonably satisfactory to the Administrative Agent as to the perfection and priority of the Liens created or intended to be created by the Security Documents.

(b) If any material assets (including any real property or improvements thereto or any interest therein) are acquired by the Borrower or any Subsidiary Loan Party after the Effective Date (other than assets constituting Collateral under the Security Agreement that become subject to the Lien of the Security Agreement upon acquisition thereof), the Borrower

will notify the Administrative Agent and the Lenders thereof, and, if requested by the Administrative Agent or the Required Lenders, the Borrower will cause such assets to be subjected to a Lien securing the Obligations and will take, and cause the Subsidiary Loan Parties to take, such actions as shall be necessary or reasonably requested by the Administrative Agent to grant and perfect such Liens, including actions described in paragraph (a) of this Section, all at the expense of the Loan Parties.

SECTION 5.14. Interest Rate Protection. As promptly as practicable, and in any event within 90 days after the Effective Date, the Borrower will enter into, and thereafter for a period of not less than three years will maintain in effect, one or more interest rate protection agreements on such terms and with such parties as shall be reasonably satisfactory to the Administrative Agent, the effect of which shall be to fix or limit the interest cost to the Borrower with respect to at least 50% of the outstanding Term Loans.

SECTION 5.15. Change of Fiscal Year. Before January 31, 1998, each of Holdings, the Borrower and its Subsidiaries will change the ends of its fiscal periods so that its fiscal quarters and fiscal years will end on the dates contemplated by Sections 6.12, 6.13, 6.14, 6.15 and 6.16; provided that if any of Holdings, the Borrower or any Subsidiary shall fail to make such change, the Borrower and the Administrative Agent shall negotiate in good faith in order to adjust the timing of such entities' financial reporting for purposes of determining compliance with Sections 6.12, 6.13, 6.14, 6.15 and 6.16 and any other applicable provisions of this Agreement and, pending such adjustment, such compliance shall be determined as though the changes in such entity's fiscal periods had been made in accordance with this Section 5.15.

ARTICLE VI

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit and Acceptances have expired or terminated and all LC Disbursements and Acceptance Disbursements shall have been reimbursed, each of Holdings and the Borrower covenants and agrees with the Lenders that:

SECTION 6.01. Indebtedness; Certain Equity Securities.
(a) The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Indebtedness, except:

- (i) Indebtedness created under the Loan Documents;
- (ii) the Subordinated Debt;
- (iii) Indebtedness that will be fully repaid on the Effective Date;
- (iv) Indebtedness of the Borrower to any Subsidiary and of any Subsidiary to the Borrower or any other Subsidiary; provided that Indebtedness of any Subsidiary that

is not a Loan Party to the Borrower or any Subsidiary
Loan Party shall be subject to Section 6.04;

(v) Guarantees by the Borrower of Indebtedness of any Subsidiary and by any Subsidiary of Indebtedness of the Borrower or any other Subsidiary; provided that Guarantees by the Borrower or any Subsidiary Loan Party of Indebtedness of any Subsidiary that is not a Loan Party shall be subject to Section 6.04;

(vi) Indebtedness of the Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including Capital Lease Obligations and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof; provided that (A) such Indebtedness is incurred prior to or within 90 days after such acquisition or the completion of such construction or improvement and (B) the aggregate principal amount of Indebtedness permitted by this clause (vi) shall not exceed \$15,000,000 at any time outstanding;

(vii) Indebtedness of any Person that becomes a Subsidiary after the date hereof; provided that (A) such Indebtedness exists at the time such Person becomes a Subsidiary and is not created in contemplation of or in connection with such Person becoming a Subsidiary and (B) the aggregate principal amount of Indebtedness permitted by this clause (vii) shall not exceed \$5,000,000 at any time outstanding;

(viii) other unsecured Indebtedness in an aggregate principal amount not exceeding \$5,000,000 at any time outstanding; and

(ix) Indebtedness incurred pursuant to any Qualified Receivables Transaction.

(b) Holdings will not create, incur, assume or permit to exist any Indebtedness except (i) Indebtedness created or permitted under the Loan Documents and (ii) the Holdings Senior Discount Debentures; provided that Holdings may issue additional debt securities having terms and provisions which are, in the reasonable determination of the Required Lenders (which shall be obtained in the manner set forth in Section 9.02(b) and not unreasonably withheld), no less favorable to the Lenders than the terms and provisions of the Holdings Senior Discount Debentures.

(c) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, issue any preferred stock or be or become liable in respect of any obligation (contingent or otherwise) to purchase, redeem, retire, acquire or make any other payment in respect of any shares of capital stock of Holdings, the Borrower or any Subsidiary or any option, warrant or other right to acquire any such shares of capital stock, except Holdings (i) may issue the Holdings Preferred Stock and (ii) may issue additional preferred stock that does not require mandatory cash dividends or redemptions and does not provide for any right on the part of the holder to require redemption or repayment thereof (other than such dividends, redemptions or rights which are expressly subject to compliance with this Agreement), in each case prior to one year after the Maturity Date and (iii) may repurchase stock issued to employee benefit plans to

the extent required by law in order to maintain statutory qualifications and as permitted under Section 6.07(a).

(d) The Borrower will not, and will not permit any of its Subsidiaries to, incur any Indebtedness (other than Indebtedness created under the Loan Documents), whether or not such Indebtedness is permitted under this Section 6.01, in reliance upon such Indebtedness constituting "Credit Facilities" (as defined in the Subordinated Debt Documents). In addition, the Borrower will not, and will not permit any of its Subsidiaries to, designate any Indebtedness (other than Indebtedness created under the Loan Documents) as "Designated Senior Debt" (as defined in the Subordinated Debt Documents).

SECTION 6.02. Liens. (a) The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(i) Liens created under the Loan Documents;

(ii) Permitted Encumbrances;

(iii) any Lien on any property or asset of the Borrower or any Subsidiary existing on the date hereof and set forth in Schedule 6.02; provided that (i) such Lien shall not apply to any other property or asset of the Borrower or any Subsidiary and (ii) such Lien shall secure only those obligations which it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(iv) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary or existing on any property or asset of any Person that becomes a Subsidiary after the date hereof prior to the time such Person becomes a Subsidiary; provided that (A) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary, as the case may be, (B) such Lien shall not apply to any other property or assets of the Borrower or any Subsidiary and (C) such Lien shall secure only those obligations which it secures on the date of such acquisition or the date such Person becomes a Subsidiary, as the case may be and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(v) Liens on fixed or capital assets acquired, constructed or improved by the Borrower or any Subsidiary; provided that (A) such Liens secure Indebtedness permitted by clause (vi) of Section 6.01(a), (B) such Liens and the Indebtedness secured thereby are incurred prior to or within 90 days after such acquisition or the completion of such construction or improvement, (C) the Indebtedness secured thereby does not exceed 90% of the cost of acquiring, constructing or improving such fixed or capital assets and (D) such security interests shall not apply to any other property or assets of the Borrower or any Subsidiary;

(vi) Liens on accounts receivables and related assets of Popular Club or the Receivables Subsidiary in connection with any Qualified Receivables Transaction;

(vii) Liens on goods the purchase price of which is financed by a letter of credit issued for the account of the Borrower or any of its Subsidiaries, provided that any such Lien secures only the obligations of the Borrower or such Subsidiaries in respect of such letter of credit to the extent permitted under Section 6.01;

(viii) Liens, defects and other matters specifically disclosed on title insurance policies delivered to and accepted by the Administrative Agent on the Effective Date;

(ix) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of setoff or similar rights; and

(x) Liens in favor of a landlord on leasehold improvements in leased premises.

(b) Holdings will not create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect thereof, except Liens created under the Pledge Agreement and Permitted Encumbrances.

SECTION 6.03. Fundamental Changes. (a) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing (i) any Subsidiary may merge into the Borrower in a transaction in which the Borrower is the surviving corporation, (ii) any Subsidiary may merge into any Subsidiary Loan Party in a transaction in which the surviving entity is a Subsidiary Loan Party and (iii) any Subsidiary may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders; provided that any such merger involving a Person that is not a wholly owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Section 6.04.

(b) The Borrower will not, and will not permit any of its Subsidiaries (other than the Receivables Subsidiary) to, engage to any material extent in any business other than the design, manufacture, importing, exporting, distribution, marketing, licensing and wholesale and retail sale of apparel, housewares, home furnishings and related items, and businesses reasonably related thereto.

(c) Holdings will not engage in any business or activity other than the ownership of all the outstanding shares of capital stock of the Borrower and activities incidental thereto. Holdings will not own or acquire any assets (other than shares of capital stock of the Borrower, cash and Permitted Investments) or incur any liabilities (other than liabilities under the Loan Documents, the Holdings Senior Discount Debentures, any additional debt securities permitted under the proviso in Section 6.01(b), Guarantees by Holdings of obligations of the Borrower and its Subsidiaries under leases of real property, obligations under any stock option plans or other

benefit plans for management or employees of Holdings and its Subsidiaries, liabilities imposed by law, including tax liabilities, and other liabilities incidental to its existence and permitted business and activities).

(d) The Receivables Subsidiary will not engage in any business or activity other than the purchase and sale and servicing of receivables (or interests therein) in connection with any Qualified Receivables Transaction, together with activities related thereto.

SECTION 6.04. Investments, Loans, Advances, Guarantees and Acquisitions. The Borrower will not, and will not permit any of the Subsidiaries to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a wholly owned Subsidiary prior to such merger) any capital stock, evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(a) Permitted Investments;

(b) investments existing on the date hereof and set forth on Schedule 6.04, to the extent such investments would not be permitted under any other clause of this Section;

(c) investments by the Borrower and its Subsidiaries in the capital stock of their Subsidiaries (other than the Receivables Subsidiary); provided that (i) any such shares of capital stock held by a Loan Party shall be pledged pursuant to the Collateral Agreement (subject to the limitations applicable to common stock of a Foreign Subsidiary referred to in Section 5.12) and (ii) the aggregate amount of investments by Loan Parties in, and loans and advances by Loan Parties to, and Guarantees by Loan Parties of Indebtedness of, Subsidiaries that are not Loan Parties and all investments in joint ventures permitted by clause (k) below, shall not exceed \$10,000,000 in the aggregate at any time outstanding; provided further that the Borrower will be permitted to invest, loan or advance to Subsidiaries that are not Loan Parties up to \$20,000,000 in excess of the limitation imposed by the foregoing clause (ii) to the extent such investments, loans and advances are funded with proceeds from issuance by Holdings of equity to a member of the Control Group;

(d) loans or advances made by the Borrower to any Subsidiary (other than the Receivables Subsidiary) and made by any Subsidiary to the Borrower or any other Subsidiary (other than the Receivables Subsidiary); provided that (i) any such loans and advances made by a Loan Party shall be evidenced by a promissory note pledged pursuant to the Pledge Agreement and (ii) the amount of all such loans and advances by Loan Parties to Subsidiaries that are not Loan Parties shall be subject to the limitation set forth in clause (c)(ii) above;

(e) Guarantees constituting Indebtedness permitted by Section 6.01; provided that (i) neither the Borrower nor any Subsidiary shall Guarantee any Indebtedness of

Holdings, other than the Obligations, (ii) the aggregate principal amount of Indebtedness of Subsidiaries that are not Loan Parties Guaranteed by any Loan Party shall be subject to the limitation set forth in clause (c)(ii) above and (iii) the Subordinated Debt shall not be Guaranteed by any Subsidiary that is not a party to the Guarantee Agreement;

(f) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(g) (i) investments by the Borrower or any Subsidiary in (A) the capital stock of the Receivables Subsidiary and (B) other interests in the Receivables Subsidiary, in each case to the extent necessary in connection with or required by the terms of the Qualified Receivables Transaction and (ii) loans or advances made by the Borrower or any Subsidiary to the Receivables Subsidiary; provided that (i) any such loans and advances made by a Loan Party shall be evidenced by the Purchase Money Note and (ii) the amount of all such loans and advances by Loan Parties to the Receivables Subsidiary shall not exceed \$70,000,000 in the aggregate at any time outstanding;

(h) Guarantees by the Borrower and its Subsidiaries of leases entered into by any Subsidiary as lessee;

(i) extensions of credit in the nature of accounts receivable or notes receivable in the ordinary course of business;

(j) loans and advances to employees in the ordinary course of business; provided that the aggregate amount of all loans and advances permitted by this clause (j) shall not exceed \$1,000,000 at any time outstanding;

(k) investments in joint ventures; provided that the amount of all such investments shall be subject to the limitation set forth in clause (c)(ii) above;

(l) investments constituting obligations under Hedging Agreements;

(m) other investments in an aggregate amount not exceeding \$1,000,000 at any time outstanding; and

(n) intercompany loans made by the Receivables Subsidiary to the Borrower or any other Subsidiary as permitted by the Receivables Transaction Documents.

SECTION 6.05. Asset Sales. The Borrower will not, and will not permit any of its Subsidiaries to, sell, transfer, lease or otherwise dispose of any asset, including any capital stock, nor will the Borrower permit any of its Subsidiaries to issue any additional shares of its capital stock or other ownership interest in such Subsidiary, except:

(a) sales of inventory, vehicles, used or surplus equipment and Permitted Investments in the ordinary course of business;

(b) sales, transfers and dispositions to the Borrower or a Subsidiary; provided

that any such sales, transfers or dispositions involving a Subsidiary that is not a Loan Party shall be made in compliance with Section 6.08;

(c) sales, transfers or dispositions of all or substantially all of the assets or capital stock of Popular Club or C&W.

(d) sales, transfers and dispositions of assets (other than capital stock of a Subsidiary) that are not permitted by any other clause of this Section; provided that the aggregate fair market value of all assets sold, transferred or otherwise disposed of in reliance upon this clause (d) shall not exceed \$1,000,000 during any fiscal year of the Borrower; and

(e) Popular Club may sell or otherwise convey accounts receivable and related assets to the Receivables Subsidiary pursuant to any Qualified Receivables Transaction; provided that the aggregate principal amount of Indebtedness incurred in connection with such sale or conveyance does not to exceed \$70,000,000 at any time outstanding;

provided that all sales, transfers, leases and other dispositions permitted hereby (other than those permitted by clause (b) above) shall be made for fair value and solely for cash consideration.

SECTION 6.06. Hedging Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any Hedging Agreement, other than (a) Hedging Agreements required by Section 5.14 and (b) Hedging Agreements entered into in the ordinary course of business to hedge or mitigate risks to which the Borrower or any Subsidiary is exposed in the conduct of its business or the management of its liabilities.

SECTION 6.07. Restricted Payments; Certain Payments of Indebtedness. (a) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except:

(i) Holdings may make Restricted Payments with respect to its capital stock payable solely in additional shares of its common stock;

(ii) Holdings may make Restricted Payments with respect to the Holdings Preferred Stock payable solely in additional shares of the Holdings Preferred Stock;

(iii) Subsidiaries of the Borrower may make Restricted Payments to the Borrower and to wholly owned Subsidiaries and may declare and pay dividends ratably with respect to their common stock;

(iv) Holdings may make Restricted Payments, not exceeding \$2,000,000 during any fiscal year, pursuant to and in accordance with stock option plans or other benefit plans for management or employees of Holdings and its Subsidiaries, including the redemption or purchase of shares of common stock of Holdings held by former employees of Holdings or any Subsidiary following the termination of their employment; provided, however, that the amount of Restricted Payments permitted under this clause (iv) in any fiscal year shall be increased (but not by more than \$10,000,000) on a

cumulative basis by an amount equal to the total unused amount of permitted Restricted Payments under this clause (iv) for the preceding year;

(v) following the fifth anniversary of the Effective Date, if at the time thereof and after giving effect thereto no Default has occurred and is continuing, the Borrower may pay interest to Holdings at such times and in such amounts, not exceeding \$18,637,500 during any fiscal year, as shall be necessary to permit Holdings to pay, as and when due, interest on the Holdings Senior Discount Debentures accrued subsequent to the fifth anniversary of the Effective Date;

(vi) if at the time thereof and after giving effect thereto no Default has occurred and is continuing, Holdings may redeem, purchase, retire or otherwise acquire outstanding shares of Holdings Preferred Stock with the Net Proceeds from the issuance after the Effective Date of new preferred stock of Holdings or the issuance after the Effective Date of common stock of Holdings issued in a Rule 144A or other private placement;

(vii) if at the time thereof and after giving effect thereto no Default has occurred and is continuing, the Borrower may pay cash dividends to Holdings, in an aggregate amount not exceeding \$1,500,000 during any fiscal year, at such times and in such amounts as shall be necessary to permit Holdings to (A) pay taxes imposed upon it and liabilities incidental to its existence when due and (B) pay directors' fees and management compensation to its directors when due; provided that any dividends permitted to be paid to Holdings shall not be paid prior to the date that Holdings will apply the proceeds of such dividends to the purposes for which such dividends are permitted;

(viii) the Borrower may pay a one time management fee to TPG Partners in amount not exceeding \$5,500,000;

(ix) the Borrower may make payments to Holdings pursuant to and in accordance with the Tax Sharing Agreement;

(x) the Borrower may pay cash dividends to Holdings in such amounts and at such times as Holdings makes Restricted Payments permitted by clause (iv) above and clause (xi) below; and

(xi) at any time after May 1, 1999 if at the time thereof no Default has occurred and is continuing and if the Leverage Ratio of the Borrower is less than 4.00 to 1.00 for the two immediately preceding consecutive fiscal quarters, Holdings may redeem, purchase, retire or otherwise acquire outstanding shares of Holdings Preferred Stock in an aggregate amount not exceeding 50% of the Net Proceeds from the issuance of equity securities of Holdings.

(b) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, make or agree to pay or make, directly or indirectly, any payment or other distribution (whether in cash securities or other property) of or in respect of principal of or interest on any

Indebtedness, or any payment or other distribution (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any Indebtedness, except:

(i) payment of Indebtedness created under the Loan Documents;

(ii) payment of regularly scheduled interest and principal payments as and when due in respect of any Indebtedness, other than payments in respect of the Subordinated Debt prohibited by the subordination provisions thereof;

(iii) refinancing of Indebtedness to the extent permitted by Section 6.01;

(iv) payment of secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(v) payment of interest on the Holdings Senior Discount Debentures payable solely by the issuance of additional Holdings Senior Discount Debentures, provided that after the fifth anniversary of the Effective Date, Holdings will be permitted to pay interest in cash on (A) the Holdings Senior Discount Debentures as and when due and (B) any additional debt securities permitted under the proviso in Section 6.01(b);

(vi) repayment of the Indebtedness under Existing Credit Agreement on the Effective Date;

(vii) payment of unsecured Indebtedness permitted under clause (viii) of Section 6.01(a);

(viii) if at the time thereof and after giving effect thereto no Default has occurred and is continuing and if Popular Club or C & W shall have been sold, Holdings may redeem, purchase, retire or otherwise acquire outstanding Holdings Senior Discount Debentures in an aggregate amount not exceeding the lesser of 20% of the Net Proceeds from such sales or \$25,000,000; and

(ix) payment of Obligations required under the Qualified Transaction Documents.

SECTION 6.08. Transactions with Affiliates. Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (a) transactions in the ordinary course of business that do not involve Holdings and are at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (b) transactions between or among the Borrower and the Subsidiary Loan Parties not involving any other Affiliate, (c) any Restricted Payment permitted by Section 6.07 and (d) any Qualified Receivables Transactions of Popular Club or the Receivables Subsidiary.

SECTION 6.09. Restrictive Agreements. Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (a) the ability of Holdings, the Borrower or any Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets, or (b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that (i) the foregoing shall not apply to restrictions and conditions imposed by law or by any Loan Document or Subordinated Debt Document or Holdings Senior Discount Debt Document, (ii) the foregoing shall not apply to restrictions and conditions existing on the date hereof identified on Schedule 6.09 (but shall apply to any extension or renewal of, or any amendment or modification expanding the scope of, any such restriction or condition), (iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (iv) clause (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness, (v) clause (a) of the foregoing shall not apply to customary provisions in leases restricting the assignment thereof and (vi) the foregoing shall not apply to restrictions and conditions imposed by any Qualified Receivables Transaction.

SECTION 6.10. Amendment of Material Documents. Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, amend or modify, or waive any of its material rights under, (a) any Subordinated Debt Document, (b) any Holdings Senior Discount Debt Document, (c) its certificate of incorporation, by-laws or other organizational documents or (d) the Tax Sharing Agreement.

SECTION 6.11. Sale and Lease-Back Transactions. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any arrangement, directly or indirectly, with any Person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred.

SECTION 6.12. Capital Expenditures. The Borrower will not permit the aggregate amount of Capital Expenditures made by the Borrower and the Subsidiaries in any fiscal year (commencing with the fiscal year beginning February 1, 1998) to exceed the amount set forth below opposite such year; provided, however, that the amount of permitted Capital Expenditures in any fiscal year may be increased by an amount equal to (a) the lesser of (i) 50% of the total amount of Capital Expenditures permitted hereunder for the immediately preceding year (disregarding amounts permitted by reason of this proviso) and (ii) the excess, if any, of the total amount of Capital Expenditures permitted hereunder for the immediately preceding fiscal year (disregarding amounts permitted by reason of this proviso) over the amount of Capital Expenditures made during such preceding year, and (b) the total amount of Capital Expenditures permitted hereunder for the year immediately subsequent to such fiscal year; provided further

that any Capital Expenditures made in reliance upon clause (b) of the foregoing proviso will be deducted from the amount of Capital Expenditures permitted hereunder for such subsequent year:

Fiscal Year Ending -----	Amounts -----
January 30, 1999	\$43,000,000
January 29, 2000	35,000,000
February 3, 2001	31,000,000
February 2, 2002	31,000,000
February 1, 2003	31,000,000

SECTION 6.13. Leverage Ratio. Subject to Section 1.05, the Borrower will not permit the Leverage Ratio as of the last day of any fiscal quarter during any period set forth below to be in excess of the ratio set forth opposite such period:

Quarter Ending During the Period -----	Ratio -----
January 30, 1998 through October 31, 1998	6.00 to 1.00
January 30, 1999	5.50 to 1.00
May 1, 1999 through October 30, 1999	5.75 to 1.00
January 29, 2000 through October 28, 2000	4.75 to 1.00
February 3, 2001 through November 3, 2001	4.25 to 1.00
February 2, 2002 and thereafter	3.50 to 1.00

SECTION 6.14. Interest Coverage Ratio. Subject to Section 1.05, the Borrower will not permit the ratio of (a) Consolidated EBITDAR of the Borrower to (b) the sum of (i) Cash Interest Expense plus (ii) rental expense deducted in determining Consolidated Net Income plus (iii) cash interest expense on the Holdings Senior Discount Debentures, in each case for any period of four consecutive fiscal quarters of the Borrower ending during any period set forth below, to be less than the ratio set forth below opposite such period:

Four-Quarter Period Ending -----	Ratio -----
January 30, 1998 through October 31, 1998	1.20 to 1.00
January 30, 1999 through October 30, 1999	1.35 to 1.00
January 29, 2000 through October 28, 2000	1.40 to 1.00
February 3, 2001 and thereafter	1.50 to 1.00

SECTION 6.15. Net Worth. The Borrower will not permit Consolidated Net Worth at any date to be less than the sum of (a) (\$17,000,000), plus (b) 50% of the cumulative amount of positive Consolidated Net Income for each fiscal year ending on or after January 30, 1999 and on or prior to the date of determination that has positive Consolidated Net Income, plus (c) 100% of all increases in Consolidated Net Worth attributable to the issuance of equity by or capital contributions to the Borrower after the Effective Date.

SECTION 6.16. Inventory Coverage Ratio. The Borrower will not permit the ratio of (a) the sum of (i) Inventory plus (ii) Letters of Credit to (b) the sum of Revolving Exposure, in each case as of the end of any fiscal month, to be less than 1.75 to 1.00.

ARTICLE VII

Events of Default

SECTION 7.01. Events of Default. If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan, any reimbursement obligation in respect of any LC Disbursement and Acceptance Disbursement or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement or any other Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five days;

(c) any representation or warranty made or deemed made by or on behalf of Holdings, the Borrower or any Subsidiary in or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, or any certificate, or other document furnished pursuant to or in connection with any Loan Document or any

amendment or modification thereof or waiver thereunder, shall prove to have been incorrect in any material respect when made or deemed made;

(d) Holdings or the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02, 5.04 (with respect to the existence of Holdings or the Borrower) or 5.11 or in Article VI;

(e) any Loan Party shall fail to observe or perform any covenant, condition or agreement contained in any Loan Document (other than those specified in clause (a), (b) or (d) of this Article), and such failure shall continue unremedied for a period of 30 days after written notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(f) Holdings, the Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable after giving effect to any applicable grace period with respect thereto (without giving effect to any waiver, consent or amendment for which Holdings, the Borrower or any Subsidiary gave any consideration or benefit of any kind (including any increased compensation, prepayment, shortening of maturities, security or other credit support) during the continuation of such failure to make payment);

(g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (or would permit, but for a waiver to or consent or amendment of such event or condition for which Holdings, the Borrower or any Subsidiary gave any consideration or benefit of any kind (including any increased compensation, prepayment, shortening of maturities, security or other credit support) during the continuation of such failure) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this clause (g) shall not apply to Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of Holdings, the Borrower or, subject to Section 7.02, any Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for Holdings, the Borrower or, subject to Section 7.02, any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) Holdings, the Borrower or, subject to Section 7.02, any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency,

receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for Holdings, the Borrower or, subject to Section 7.02, any Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) Holdings, the Borrower or, subject to Section 7.02, any Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount in excess of \$10,000,000 (net of amounts covered by insurance as to which the insurer has not denied liability) shall be rendered against Holdings, the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of Holdings, the Borrower or any Subsidiary to enforce any such judgment;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect;

(m) any Lien purported to be created under any Security Document shall cease to be, or shall be asserted by any Loan Party not to be, a valid and perfected Lien on any material portion of the Collateral, with the priority required by the applicable Security Document, except (i) as a result of the sale or other disposition of the applicable Collateral in a transaction permitted under the Loan Documents, (ii) any action taken by the Collateral Agent to release any such Lien or (iii) as a result of the Collateral Agent's failure to maintain possession of any stock certificates, promissory notes or other instruments delivered to it under the Pledge Agreement; or

(n) a Change in Control shall occur; or

(o) any event or condition occurs that results in any "Early Amortization Event" (as defined in the Receivables Pooling Agreement) with respect to the securities or other instruments issued in connection with a Qualified Receivables Transaction and such securities or other instruments becoming due prior to their scheduled maturity or that enables or permits (or would permit, but for a waiver to or consent or amendment of such event or condition for which Holdings, the Borrower or any Subsidiary gave any consideration or benefit of any kind (including any increased compensation, prepayment, shortening of maturities, security or other credit support) during the continuation of such failure) the holder or holders of such securities or other instruments or any trustee or agent on its or their behalf to cause any such securities or other instruments to become

due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to their scheduled maturity;

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

SECTION 7.02. Exclusion of Immaterial Subsidiaries. Solely for purposes of determining whether a Default has occurred under clause (h), (i) or (j) of Section 7.01, any reference in any such clause to any "Subsidiary" shall be deemed not to include any Subsidiary affected by any event or circumstance referred to in any such clause that did not, as of the last day of the fiscal quarter of the Borrower most recently ended have assets with a value in excess of 2.5% of the total consolidated assets of the Borrower and its Subsidiaries as of such date; provided that if it is necessary to exclude more than one Subsidiary from clause (h), (i) or (j) of Section 7.01 pursuant to this Section in order to avoid a Default thereunder, all excluded Subsidiaries shall be considered to be a single consolidated Subsidiary for purposes of determining whether the condition specified above is satisfied.

ARTICLE VIII

The Administrative Agent

Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent (which term for purposes of this Article shall be deemed to refer to the Administrative Agent and the Collateral Agent) as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto. The Administrative Agent is hereby expressly authorized by the Lenders, without hereby limiting any implied authority, to enter into the Intercreditor Agreement in substantially the form as set forth in Exhibit G and each Lender agrees to be bound by the terms thereof.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with Holdings, the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to Holdings, the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or wilful misconduct. The Administrative Agent shall not be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by Holdings, the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing reasonably believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and reasonably believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative

Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of each Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor the Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed in writing between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or related agreement or any document furnished hereunder or thereunder.

ARTICLE IX

Miscellaneous

SECTION 9.01. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to Holdings or the Borrower, to it at J. Crew Group, Inc., 22 Lincoln Place, Garfield, NJ 07026, Attention of Michael P. McHugh (Telecopy No. (201) 773-7957);

(b) if to the Administrative Agent or the Collateral Agent, to The Chase Manhattan Bank, Loan and Agency Services Group, One Chase Manhattan Plaza, 8th Floor, New York, New York 10081, Attention of Anne Hickey (Telecopy No. (212) 552-5658), with a copy to The Chase Manhattan Bank, 270 Park Avenue, 48th Floor, New York, New York 10017, Attention of Meredith Vanden Handel and Ellen Gertzog (Telecopy No. (212) 270-1474);

(c) if to the Issuing Bank, to it at One Chase Manhattan Plaza, 8th Floor, New York, New York 10081, Attention of Anne Hickey (Telecopy No. (212) 552-5658); and

(d) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

SECTION 9.02. Waivers; Amendments. (a) No failure or delay by the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Collateral Agent, the Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by any Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, the Collateral Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any other Loan Document nor any provision hereof or thereof may be waived, amended or modified except, in the case of this Agreement, pursuant to an agreement or agreements in writing entered into by Holdings, the Borrower and the Required Lenders or, in the case of any other Loan Document, pursuant to an agreement or agreements in writing entered into by the Administrative Agent or the Collateral Agent, as applicable, and the Loan Party or Loan Parties that are parties thereto, in each case with the consent of the Required Lenders; provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal

amount of any Loan or LC Disbursement or Acceptance Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement or Acceptance Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) change Section 2.18(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, (v) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision of any Loan Document specifying the number or percentage of Lenders (or Lenders of any Class) required to waive, amend or modify any rights thereunder or make any determination or grant any consent thereunder, without the written consent of each Lender (or each Lender of such Class, as the case may be), (vi) release Holdings or any Subsidiary Loan Party from its Guarantee under the Guarantee Agreement (except as expressly provided in the Guarantee Agreement), or limit its liability in respect of such Guarantee, without the written consent of each Lender, (vii) except in strict accordance with the express provisions of the Security Documents and the Intercreditor Agreement, release all or any substantial part of the Collateral from the Liens of the Security Documents, without the written consent of each Lender or (viii) change any provisions of any Loan Document in a manner that by its terms adversely affects the rights in respect of payments due to Lenders holding Loans of any Class differently than those holding Loans of any other Class, without the written consent of Lenders holding a majority in interest of the outstanding Loans and unused Commitments of each affected Class; provided further that (A) no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, the Collateral Agent or the Issuing Bank without the prior written consent of the Administrative Agent, the Collateral Agent or the Issuing Bank, as the case may be, and (B) any waiver, amendment or modification of this Agreement that by its terms affects the rights or duties under this Agreement of the Revolving Lenders (but not the Term Lenders), the Term Lenders (but not the Revolving Lenders) may be effected by an agreement or agreements in writing entered into by Holdings, the Borrower and requisite percentage in interest of the affected Class of Lenders that would be required to consent thereto under this Section if such Class of Lenders were the only Class of Lenders hereunder at the time.

SECTION 9.03. Expenses; Indemnity; Damage Waiver. (a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Collateral Agent and their Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent and the Collateral Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of the Loan Documents or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or Acceptance or any demand for payment thereunder and (iii) all out-of-pocket expenses incurred by the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender, including the reasonable fees, charges and disbursements of any counsel for the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender, in connection with the enforcement or protection of its rights in connection with the Loan Documents, including its rights under this Section, or in connection with the

Loans made or Letters of Credit or Acceptances issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit or Acceptances.

(b) The Borrower shall indemnify the Administrative Agent, the Collateral Agent, the Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnatee") against, and hold each Indemnatee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnatee, incurred by or asserted against any Indemnatee arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any other agreement or instrument contemplated hereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or Acceptance or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit or Acceptance if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit or Acceptance), (iii) any actual or alleged presence or release of Hazardous Materials on or from any Mortgaged Property or any other property currently or formerly owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnatee is a party thereto; provided that such indemnity shall not, as to any Indemnatee, be available to the extent that such losses, claims, damages, liabilities or related expenses resulted from the gross negligence or wilful misconduct of such Indemnatee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent, the Collateral Agent or the Issuing Bank under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent, the Collateral Agent or the Issuing Bank, as the case may be, such Lender's pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent, the Collateral Agent or the Issuing Bank in its capacity as such. For purposes hereof, a Lender's "pro rata share" shall be determined based upon its share of the sum of the total Revolving Exposures, outstanding Term Loans and unused Commitments at the time.

(d) To the extent permitted by applicable law, neither Holdings nor the Borrower shall assert, and each hereby waives, any claim against any Indemnatee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or Acceptance or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable promptly after written demand therefor.

SECTION 9.04. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit or any Acceptance), except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit or any Acceptance) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Collateral Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that (i) except in the case of an assignment to a Lender or an Affiliate of a Lender, each of the Borrower and the Administrative Agent (and, in the case of an assignment of all or a portion of a Revolving Commitment or any Lender's obligations in respect of its LC and Acceptance Exposure and the Issuing Bank) must give their prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, (iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, except that this clause (iii) shall not be construed to prohibit the assignment of a proportionate part of all the assigning Lender's rights and obligations in respect of one Class of Commitments or Loans, (iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of \$3,500, and (v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire; and provided further that any consent of the Borrower otherwise required under this paragraph shall not be required if an Event of Default under clause (h) or (i) of Article VII has occurred and is continuing. Subject to acceptance and recording thereof pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and

9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements and Acceptance Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and Holdings, the Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Any Lender may, without the consent of the Borrower, the Administrative Agent or the Issuing Bank, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) Holdings, the Borrower, the Administrative Agent, the Collateral Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce the Loan Documents and to approve any amendment, modification or waiver of any provision of the Loan Documents; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (f) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.18(c) as though it were a Lender.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.17(e) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Loan Parties in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans and issuance of any Letters of Credit and any Acceptances, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit or Acceptance is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit or Acceptances and the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Document and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09. Governing Law; Jurisdiction; Consent to Service of Process. (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) Each of Holdings and the Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against Holdings, the Borrower or its properties in the courts of any jurisdiction.

(c) Each of Holdings and the Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement or any other Loan

Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis from a source other than Holdings or the Borrower. For the purposes of this Section, "Information" means all information received from Holdings or the Borrower relating to Holdings or the Borrower or its business, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by Holdings or the Borrower; provided that, in the case of information received from Holdings or the Borrower after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the

confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13. Interest Rate Limitation.

Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

J. CREW GROUP, INC.,

by
/s/ Michael P. McHugh

Name: Michael P. McHugh
Title: Chief Financial
Officer

J. CREW OPERATING CORP.,

by
/s/ Michael P. McHugh

Name: Michael P. McHugh
Title: Chief Financial
Officer

THE CHASE MANHATTAN BANK,
individually and as
Administrative Agent,

by
/s/ Bruce Borden

Name: Bruce Borden
Title: Vice President

DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION,
as Syndication Agent,

by
/s/ Eric Swanson

Name: Eric Swanson
Title: Managing Director

BANKBOSTON, N.A.,

by
/s/ Diane J. Exter

Name: Diane J. Exter
Title: Managing Director

BANK LEUMI TRUST COMPANY OF
NEW YORK,

by
/s/ John Koenigsberg

Name: John Koenigsberg
Title: Vice President

by
/s/ Phyllis Rosenfeld

Name: Phyllis Rosenfeld
Title: Vice President

BANK OF TOKYO-MITSUBISHI TRUST
COMPANY,

by
/s/ Paul P. Malecki

Name: Paul P. Malecki
Title: Vice President

DLJ CAPITAL FUNDING, INC.

by
/s/ Eric Swanson

Name: Eric Swanson
Title: Managing Director

FIRST UNION NATIONAL BANK,

by
/s/ Edward H. Ross

Name: Edward H. Ross
Title: Vice President

GENERAL ELECTRIC CAPITAL
CORP.,

by
/s/ Eileen T. McColgan

Name: Eileen T. McColgan
Title: Duly Authorized
Signatory

NATIONAL WESTMINSTER BANK PLC,

by
/s/ Andrew S. Weinberg

Name: Andrew S. Weinberg
Title: Vice President

STANDARD CHARTERED BANK,

by
/s/ John Biscette

Name: John Biscette
Title: Assistant Vice
President

by
/s/ Kristina McDavid

Name: Kristina McDavid
Title: Vice President

SUMMIT BANK,

by
/s/ Wayne R. Trotman

Name: Wayne R. Trotman
Title: Vice President &
Regional Manager

WELLS FARGO BANK, NATIONAL
ASSOCIATION,

by

/s/ Michael Real

Name: Michael Real

Title: Assistant Vice
President

BANK OF AMERICA NT&SA

by

/s/ Jonathan M. Kitel

Name: Jonathan M. Kitel

Title: Attorney-in-Fact

December 16, 1997

Mr. David DeMattei
31 North Moore Street
New York, NY 10003

Dear Dave,

This letter will supersede your current employment agreement dated December 6, 1996 (countersigned by you on May 27, 1997) and your Stock Option Plan dated February 5, 1997 as amended on February 10, 1997 ("prior DeMattei Stock Option Agreement") and all of their provisions, as well as any other arrangements of any kind pertaining to your employment, compensation, equity or other incentive programs or transaction bonuses or other perquisites and whether in writing or orally understood. Any and all such employment arrangements shall hereafter be governed solely by this letter agreement and any amendments to this letter signed by an authorized officer of J. Crew Group, Inc. and by you. You will continue to be employed as President, J. Crew Retail (consisting primarily of Grace Holmes, Inc. and H. F. D. No. 55, Inc.).

You are to continue to devote your full time and best efforts, attention, and energy to the performance of your duties as one of the top executives of J. Crew Group and its subsidiaries and affiliates (the "Company"). You will be paid bi-weekly for the annualized base salary as set forth below, commencing:

December 12, 1997 - June 1, 1998	\$525,000.
June 1, 1998 - May 31, 1999	\$550,000
June 1, 1999	\$575,000

In addition, you will continue to be eligible for an annual bonus in fiscal year 1997 which will be determined in accord with the provisions of Appendix A hereto. The Company will present to you in 1998 a bonus schedule for fiscal year 1998. It is Company policy to make bonus payments in mid-April after the close of our fiscal year, and only to individuals actively employed on the date of disbursement. Of course this policy shall apply to all bonuses payable hereunder.

As consideration for the cancellation of the Prior DeMattei Stock Option Agreement and in lieu of any common stock or the proceeds thereof that might otherwise have been or may hereafter be due thereunder, the Company agrees to pay you \$369,063.73, within five business days of your countersignature of this letter agreement. In addition, you will be eligible for a new stock option grant under a new Stock Option Plan which is in process of being finalized. Your option grant will be the subject of a separate letter agreement proposal that will be sent to you as and when the new Stock Option Plan is finalized.

During your employment hereunder, the Company will provide you with a car allowance of \$600 per period (13 periods/year).

The Company's benefit package currently includes 3 weeks vacation, 3 personal days, holidays, life insurance, medical insurance, long term disability, 401(k) tax deferred savings plan, a health flexible spending account, and the employee discount. The Company reserves the right to change these benefits at any time at its sole discretion.

If the Company terminates your employment for any reason whatsoever other than death, disability, or cause (cause shall include breach of this agreement, dishonesty, theft, embezzlement, material dereliction in the performance of your duties, insobriety or drug use while performing duties and conviction of a crime other than traffic violations or minor misdemeanors), the Company will continue your base pay and medical benefits for a period of twelve months; provided that you execute a general release and waiver, waiving all claims you may have against the Company. During such period, salary continuation and medical benefits will be paid provided that you exercise good faith efforts to promptly obtain comparable employment. The Company shall have the right to terminate medical continuation benefits when you obtain new employment and to offset your base pay continuation by the amount of compensation that you earn during such twelve-month period from such new employment. If, however, you resign, become disabled, die, or are terminated for

cause, no salary and benefit continuation will be paid. Your relationship with the Company is one of employment at will and the payments described in this paragraph are the only payments to which you will be entitled as a result of the termination of your employment.

As additional consideration for the Company entering into this agreement and agreeing to make the salary continuation payments described above, you agree that during your employment by the Company and for a period of twelve (12) months after the later of the date on which any employment or consulting relationship is terminated or the date on which the last salary, salary continuation, bonus, or other payment is made, you shall not directly or indirectly solicit, hire, or seek to influence on behalf of any person or entity any employee of the Company.

You agree that, while employed and thereafter, you will hold in strict confidence any proprietary or confidential information or material related to the Company and its affiliates. This includes but is not limited to customer lists, trade practices, marketing techniques, pricing structures and practices, research, trade secrets, processes, systems, programs, methods, software, merchandising, planning, inventory and financial control, store design, staffing, etc. You also agree that breach of the confidentiality or non-pirating provisions previously noted would cause the Company to suffer irreparable harm for which money damages would not be an adequate remedy and we would be entitled to temporary and permanent injunctive relief in any Court of competent jurisdiction (without the need to post any bond).

This Agreement shall inure to the benefit of and be an obligation of the Company's assigns and successors; however you may not assign your duties and obligations hereunder to any other party.

You agree not to disclose any information regarding the existence or substance of this agreement, except to an attorney with whom you choose to consult regarding your consideration of this agreement or to your spouse or tax advisor; provided that you notify such

individuals that they are strictly bound by the non-disclosure restrictions. Further, you agree not to directly or indirectly disparage or defame J. Crew.

This Agreement and all amendments thereof shall, in all respects, be governed by and construed and enforced in accordance with the internal laws (without regard to principles of conflicts of law) of the State of New York. Each party hereto hereby agrees to and accepts the exclusive jurisdiction of any court in New York County or the U.S. District Court for the Southern District of New York in that County in respect of any action or proceeding relating to the subject matter hereof, expressly waiving any defense relating to jurisdiction or forum non conveniens, and consents to service of process by U.S. certified or registered mail in any action or proceeding with respect to this Agreement.

If the terms of this letter agreement meet with your approval, please sign and return one copy to me.

We are very pleased that you will be continuing as a key executive of the Company.

Sincerely,

/s/ Emily Woods

Emily Woods
Chairman

Agreed to and Accepted:

/s/ David DeMattei 12/22/97
David DeMattei Date

Conformed Copy

Securities and Exchange Commission
Mail Stop 3-4
450 Fifth Street, NW
Washington, DC 20549

Ladies and Gentlemen:

We have read and agree with the comments pertaining to our firm contained under the heading "Change in Accountants" in Registration Statement No. 333-42427 on Form S-4 of J. Crew Group, Inc. filed with the Securities and Exchange Commission.

Yours Truly,

/s/ DELOITTE & TOUCHE LLP

New York, New York
February 6, 1998

SUBSIDIARIES OF THE REGISTRANT

J. CREW GROUP, INC.

Name of Subsidiary -----	State of Incorporation -----	Name Under Which Subsidiary Does Business -----
J. Crew Operating Corp.	Delaware	J. Crew Operating Corp.
J. Crew Inc.	New Jersey	J. Crew Inc.
Popular Club Plan, Inc.	New Jersey	Popular Club Plan, Inc.
Clifford & Wills, Inc.	New Jersey	Clifford & Wills, Inc.
Grace Holmes, Inc.	Delaware	(J. Crew Retail Stores)
H.F.D. No. 55, Inc.	Delaware	(J. Crew Factory Outlet Stores)
C & W Outlet, Inc.	New York	C & W Outlet, Inc.
J. Crew International, Inc.	Delaware	J. Crew International, Inc.
J. Crew Services, Inc.	Delaware	J. Crew Services, Inc.
PCP Receivables Corp.	Delaware	PCP Receivables Corp.

Conformed Copy

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Amendment No. 1 to Registration Statement No. 333-42427 of J. Crew Group, Inc. on Form S-4 of our report dated March 31, 1997, appearing in the Prospectus, which is a part of such Registration Statement, and of our report dated March 31, 1997 relating to the financial statement schedules appearing elsewhere in this Registration Statement.

We also consent to the reference to us under the headings "Selected Financial Data" and "Experts" in such Prospectus.

/s/ DELOITTE & TOUCHE LLP

New York, New York
February 6, 1998