SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 1, 2003

| Commission File Number | Registrant, State of Incorporation Address and Telephone Number | I.R.S. Employer Identification No. |
|---|---|---|
| 333-42427 | J. CREW GROUP, INC.<br>(Incorporated in New York)<br>770 Broadway<br>New York, New York 10003<br>Telephone: (212) 209-2500 | 22-2894486 |
| 333-42423 | J. CREW OPERATING CORP.<br>(Incorporated in Delaware)<br>770 Broadway<br>New York, New York 10003<br>Telephone: (212) 209-2500 | 22-3540930 |

Securities Registered Pursuant to section 12(b) of the Act:

J. Crew Group, Inc. None
J. Crew Operating Corp. None

Securities Registered Pursuant to section 12(g) of the Act:

J. Crew Group, Inc. None
J. Crew Operating Corp. None

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of each registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The common stock of each registrant is not publicly traded. Therefore, the aggregate market value is not readily determinable.

As of March 15, 2003, there were 12,870,373 shares of Common Stock, par value $.01 per share, of J. Crew Group, Inc. outstanding and 100 shares of Common Stock, par value $.01 per share, of J. Crew Operating Corp. outstanding (all of which are owned beneficially and of record by J. Crew Group, Inc.).

Documents incorporated by reference: None

J. Crew Operating Corp. meets the conditions set forth in General Instruction (I)(1)(a) and (b) of the Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format.

This combined Form 10-K is separately filed by each of J. Crew Group, Inc. and J. Crew Operating Corp. The information contained herein relating to each individual registrant is filed by such registrant on its own behalf. No registrant makes any representation as to information relating to the other registrant.

FILING FORMAT

This Annual Report on Form 10-K is a combined report being filed by two different registrants: J. Crew Group, Inc. ("Holdings") and J. Crew Operating Corp., a wholly-owned subsidiary of Holdings ("Operating Corp."). Except where the content clearly indicates otherwise, any references in this report to the "Company", "J. Crew" or "Holdings" include all subsidiaries of Holdings, including Operating Corp. Operating Corp. makes no representation as to the information contained in this report in relation to Holdings and its subsidiaries other than Operating Corp.

FORWARD LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K under the captions "Business", "Selected Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Financial Statements and Supplementary Data" and elsewhere constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make written or oral forward looking statements in our periodic reports to the Securities and Exchange Commission on Forms 10-Q, 8-K, etc., in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from historical results, any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, competitive pressures in the apparel industry, changes in levels of consumer spending or preferences in apparel and acceptance by customers of the Company's products, overall economic conditions, governmental regulations and trade restrictions, acts of war or terrorism in the United States or worldwide, political or financial instability in the countries where the Company's goods are manufactured, postal rate increases, paper and printing costs, availability of suitable store locations at appropriate terms, the level of the Company's indebtedness and exposure to interest rate fluctuations, and other risks and uncertainties described in this report and the Company's other reports and documents filed or which may be filed, from time to time, with the Securities and Exchange Commission. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Forward looking statements speak only as of the date they are made and we undertake no obligation to update publicly any of them in light of new information or future events.

References herein to fiscal years are to the fiscal years of J. Crew Group, Inc. and J. Crew Operating Corp., which end on the Saturday closest to January 31 in the following calendar year for fiscal years 1998, 1999, 2000, 2001 and 2002. Accordingly, fiscal years 1998, 1999, 2000, 2001 and 2002 ended on January 30, 1999, January 29, 2000, February 3, 2001, February 2, 2002 and February 1, 2003. All fiscal years for which financial information is included had 52 weeks, except fiscal year 2000 which had 53 weeks.

WEBSITE ACCESS TO COMPANY REPORTS

The Company's filings under the Securities Exchange Act of 1934 (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports) are available free of charge on our internet website at www.jcrew.com. These reports are available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The reference to the Company's website address does not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

Part I

In this section, "we," "us" and "our" refer to Holdings and its subsidiaries.

General

We are a leading retailer of women's and men's apparel, shoes, and accessories sold under the "J. Crew" brand name. Started in 1983, we have built and reinforced our brand name and image through the circulation of catalogs that use magazine-quality photography to portray a classic American perspective and aspirational lifestyle and the operation of our

stores and Internet website. We believe that the "J. Crew" brand name is widely recognized for its timeless styles at price points that represent exceptional product value. We offer a full line of men's and women's clothing, including basic durables (casual weekend), workwear (casual weekday), swimwear, sport, accessories and shoes to meet our customers lifestyle needs. Many of the original items introduced by us 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 our core product offerings.

J. Crew products are distributed exclusively through our retail and factory stores, our catalog and our Internet website located at www.jcrew.com. As of February 1, 2003, we operated 152 retail stores and 42 factory outlet stores in the United States. We believe that our customer base consists primarily of college-educated, professional and upscale customers who in our experience have demonstrated strong brand loyalty and a tendency to make repeated purchases. In addition, J. Crew products are distributed through 50 free-standing and shop-in-shop stores in Japan under a licensing agreement with Itochu Corporation.

We have three major operating divisions: J. Crew Retail, J. Crew Direct, and J. Crew Factory, each of which operate under the J. Crew brand name. In fiscal 2002, products sold under the J. Crew brand contributed $732.2 million in revenues, comprised of:

- $408.0 million from J. Crew Retail;
- $248.0 million from J. Crew Direct; and
- $76.2 million from J. Crew Factory.

In addition, in fiscal 2002, we generated licensing revenues of $2.3 million and shipping and handling revenues of $31.8 million. We refer you to "J. Crew Retail," "J. Crew Factory," "J. Crew Direct," "Trademarks and Licensing" and "Management's Discussion and Analysis of Financial Condition and Results of Operations of Holdings."

Holdings was incorporated in the State of New York in 1988. Our principal executive offices are located at 770 Broadway, New York, NY 10003, and our telephone number is (202) 209-2500.

Merchandising and Design

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 strategy had the effect of increasing overall J. Crew brand sales volume and significantly increasing revenues from sales of women's apparel to 75% of J. Crew brand sales in 2002.

All of our products are designed by an in-house design staff to reflect a classic, clean aesthetic that is consistent with our American lifestyle brand image. Design teams are formed around J. Crew product lines and categories to develop concepts, themes and products for each of our J. Crew businesses. Our 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, production and quality assurance staffs in order to gain market and other input and ensure quality of the J. Crew products.

Sourcing and Production

All of our merchandise is produced for us by a variety of manufacturers in over 22 countries. We do not own or operate any manufacturing facilities and instead contract with third-party vendors for production of our merchandise. In fiscal 2002, approximately 80% of our merchandise was sourced in Asia, 5% was sourced in the United States and 15% was sourced in Europe and other regions. Any event causing a sudden disruption of manufacturing or imports from China, including the imposition of additional import restrictions, could have a material adverse impact on our operations. In addition, one vendor supplies approximately 16% of our merchandise, but we believe that the loss of this vendor would not have a material adverse impact on our ability to source our products. Substantially all of our foreign purchases are negotiated and paid for in U.S. dollars.

We cannot predict whether any of the countries in which our merchandise is currently produced or may be produced in the future will be subject to additional trade restrictions imposed by the U.S. and other foreign governments, including the likelihood, type or effect of any such restrictions. Trade restrictions, including increased tariffs or quotas, against apparel and other items sold by us could increase the cost or reduce the supply of merchandise available to us and adversely affect our business, financial condition and results of operations. Our sourcing operations may also be adversely affected by political and financial instability in any country in which our goods are produced or acts of war or terrorism in the United States or worldwide to the extent these acts impact the production, shipment or receipt of merchandise. Sourcing operations may also be adversely affected by significant fluctuation in the value of the U.S. dollar against foreign currencies or restrictions on the transfer of funds.

Distribution

We operate two major customer contact and distribution facilities for our operations. Order fulfillment for J. Crew Direct takes place primarily at a 406,500 square foot facility located in Lynchburg, Virginia. The Lynchburg facility processes catalog and Internet website orders and serves as the distribution center for our factory store operations. This facility employs approximately 800 full and part-time employees during our non-peak season and additional employees during our peak season. The main distribution center for our retail store operations and a back-up order taking facility for catalog orders is located in a 192,500 square foot facility in Asheville, North Carolina. This facility employs approximately 300 full- and part-time employees during our non-peak season and additional employees during our peak season. Orders for merchandise may be received by telephone, facsimile, mail and through our Internet website. Each customer contact associate is trained to assist customers in determining the customer's correct size and describing merchandise fabric, texture and function. We believe that our fulfillment and distribution operations are designed to process and ship customer orders in a customer-friendly, quick, and cost-effective manner.

In March 2003, we announced our plan to permanently close the customer contact department of the Asheville facility in May 2003.

We ship merchandise via the United States Postal Service, Airborne and FedEx. To enhance efficiency, each facility is fully equipped with an advanced telephone system, automated warehouse locator system and inventory bar coding system. In addition, our Lynchburg facility has automated packing and shipping sorters.

Information Systems

Our 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 our business. We have point-of-sale registers in our retail and factory outlet stores that enable us to track inventory from store receipt to final sale on a real-time basis. We believe our merchandising and financial systems, coupled with our point-of-sale registers and software programs, allow for rapid stock replenishment, concise merchandise planning and real-time inventory accounting practices. Our telephone and telemarketing systems, warehouse package sorting systems, automated warehouse locator and inventory bar coding systems utilize advanced technology. These systems have provided us with a number of benefits in the form of enhanced customer service, improved operational efficiency and increased management control and reporting. In addition, our real-time inventory systems provide inventory management on a stock keeping unit basis and allow for an efficient fulfillment process.

We have installed a SAP enterprise resource planning system for our information technology requirements. This system was implemented in fiscal years 2000 and 2001. In fiscal 2000, our accounting systems were implemented. A corporate-wide purchasing system, a retail sales and inventory system (including new point-of-sale registers) and a human resource and payroll system were completed in fiscal 2001. In November 2000, we outsourced our data center, desktop, network and telecommunication services management and operations support. In February 2001, we outsourced the hosting and support of our Internet website to a third-party vendor.

J. Crew Retail

At February 1, 2003, we operated 152 retail stores throughout the United States, of which 16 stores were opened during fiscal 2002. These stores are located in upscale regional malls, lifestyle centers, shopping centers and street

locations. During fiscal 2002, J. Crew Retail generated revenues of $408.0 million, representing 55.7% of our total revenues.

An important aspect of our business strategy is an expansion program designed to reach new and existing customers through the opening of J. Crew Retail stores. As a result of the slowdown in the overall economic environment and our declining comparable store sales trends for the last two years, we have decided to restrict the number of new store openings in fiscal 2003 to four. We do not plan to close any retail stores in 2003. 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. Store locations are determined based on several factors, including the following:

- geographic location;
- demographic information;
- anchor tenants in mall locations; and
- proximity to other specialty retail stores in mall and street locations.

J. Crew Retail stores that were open during all of fiscal 2002 averaged $2.8 million per store in sales, produced sales per gross square foot of $365 and generated store contribution margins of approximately 14%. J. Crew Retail stores have an average size of 7,712 total square feet.

The table below highlights certain information regarding J. Crew Retail stores opened through fiscal 2002.

| Fiscal Year | Stores Open At Beginning of Fiscal Year | Stores Opened During Fiscal Year | Stores Closed During Fiscal Year | Stores Open at End of Fiscal Year | Total Square Footage (in thousands) | Average Store Square Footage |
|---|---|---|---|---|---|---|
| 1998 | 51 | 14 | -- | 65 | 530 | 8,150 |
| 1999 | 65 | 16 | -- | 81 | 668 | 8,243 |
| 2000 | 81 | 24 | -- | 105 | 833 | 7,933 |
| 2001 | 105 | 34 | 3 | 136 | 1,054 | 7,752 |
| 2002 | 136 | 16 | -- | 152 | 1,172 | 7,712 |

J. Crew Direct

J. Crew Direct consists of our catalog and Internet website operations. During fiscal 2002, J. Crew Direct generated $248.0 million in revenues (including $108.6 from the catalog and $139.4 million from the Internet website), representing 33.9% of our total J. Crew revenues.

We believe we have distinguished ourselves from other catalog retailers by our award-winning catalog which utilizes magazine-quality, "real moment" pictures to depict an aspirational lifestyle image. In fiscal 2002, we distributed 32 catalog editions with a total circulation of approximately 66 million and pages circulated of approximately 7.8 billion. This represented a decrease from fiscal 2001's total circulation of approximately 71 million and pages circulated of approximately 8.3 billion.

J. Crew Direct's circulation strategy focuses on continually improving the segmentation of customer files and the acquisition of additional customer names. In fiscal 2002, approximately 65% of J. Crew Direct revenues were from customers who have made a purchase from any J. Crew catalog or on the Internet in the prior 12 months. We segment our customer file and tailor our catalog offerings to address the different product needs of our customer segments. To increase core catalog productivity and improve the effectiveness of marginal and prospecting circulation, each customer segment is offered appropriate catalog editions. We also acquire new names from various sources, including the following:

- our retail stores;
- our Internet website;

- list rentals;
- exchanges with other catalog companies; and
- "friend's names" card inserts.

We are in the process of placing telephones in all of our J. Crew Retail stores with direct access to the J. Crew Direct telemarketing center to allow customers in the stores to order catalog-specific or out-of-stock items.

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 desktop publishing system. Digital images are transmitted directly to outside printers, thereby reducing lead times and improving reproduction quality. We believe that appropriate page presentation of our merchandise stimulates demand, and therefore we place great emphasis on page layout.

J. Crew Direct does not have long-term contracts with paper mills. Projected paper requirements are communicated on an annual basis to paper mills to ensure the availability of an adequate supply. Management believes that our long-standing relationships with a number of the largest coated paper mills in the United States allow us to purchase paper at favorable prices commensurate with our size.

In 1996, we launched our Internet website located at www.jcrew.com, making J. Crew merchandise available to our customers over the Internet. In fiscal 2002, the website logged over 41 million unique visitors and represents over 50% of the J. Crew Direct business. We design and operate our website using an in-house technical staff and our website emphasizes simplicity and ease of customer use while integrating the J. Crew brand's aspirational lifestyle imagery used in the catalog. A significant aspect of our Internet marketing strategy is to utilize an email program to generate repeat and new customers, and we deliver weekly marketing emails targeted to customers based upon certain demographic and purchase transaction information.

J. Crew Factory

As of February 1, 2003, we operated 42 factory stores in the United States, which offer J. Crew merchandise at an average of 30% below retail prices. The factory stores target value-oriented customers and also serve to liquidate excess, irregular or out-of-season J. Crew merchandise. During fiscal 2002, J. Crew Factory generated revenues of $76.2 million, representing 10.4% of our total revenues.

J. Crew Factory stores have an average size of 6,500 total square feet and are generally located in major regional outlet centers in 24 states across the United States. We believe that the factory stores, which are designed in-house, maintain fixturing, visual presentation and service standards comparable to those typically associated with outlet stores.

Trademarks and Licensing

The "J. Crew" trademark and variations thereon, and certain other trademarks, are registered or are subject to pending trademark applications with the United States Patent and Trademark Office and with the registries of many foreign countries.

In addition, we license our "J. Crew" trademark to Itochu Corporation in Japan for which we receive royalty fees. Under the license agreement, we retain a high degree of control over the manufacture, design, marketing and sale of merchandise by Itochu Corporation under the J. Crew trademark. This agreement expires in January 2005. In fiscal 2002, licensing revenues totaled $2.3 million.

Employees

As of February 1, 2003, we had approximately 5,600 associates, of whom approximately 1,800 were full-time associates and 3,800 were part-time associates. In addition, approximately 2,600 associates are hired on a seasonal basis to meet demand during the peak season. None of our associates are represented by a union. We believe that our relationship with our associates is good.

Competition

All aspects of our business are highly competitive. We compete primarily with specialty brand retailers, other catalog and Internet operations, department stores, and mass merchandisers that offer similar merchandise. We believe that the principal bases upon which we compete are quality, design, efficient service, selection and price. Many of our competitors are substantially larger, have a more established retail store presence and experience and have greater financial, marketing and other resources than us. There is no assurance that we will be able to successfully compete with our competitors in the future. In addition, our business is sensitive to a number of factors that could affect the level of consumer spending, including the following:

- adverse economic conditions;
- the levels of disposable consumer income;
- consumer confidence; and
- interest rates.

We have suffered a substantial loss of customer sales and traffic in the recent past and the continuation of this as well as further declines in the current economic conditions and declines in consumer spending on apparel and accessories could have a material adverse effect on our financial condition and operating results.

ITEM 2. PROPERTIES

We are headquartered in New York City. The New York City headquarter offices are leased under a lease agreement expiring in 2012, with an option to renew thereafter. We own two customer contact and distribution facilities: a 406,500-square-foot customer contact and distribution center for J. Crew Direct operations in Lynchburg, Virginia and a 192,500-square-foot distribution center in Asheville, North Carolina servicing the J. Crew Retail operations. In March 2003, we announced our plan to permanently close the customer contact department of the Asheville facility in May 2003.

As of February 1, 2003, we operated 152 J. Crew retail stores and 42 factory stores in 38 states and the District of Columbia. All of the retail and factory stores are leased from third parties, and the leases in most cases have terms of 10 to 12 years, with options to renew for periods typically ranging from five to ten years. 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 generally comprised of annual base rent plus a contingent rent payment based on the store's sales in excess of a specified threshold. Substantially all of the leases are guaranteed by us.

The table below sets forth the number of stores by state operated by us in the United States as of February 1, 2003.

| | Retail Stores | Factory Stores | Total Number Of Stores |
|---|---|---|---|
| Alabama | 1 | 1 | 2 |
| Arizona | 4 | -- | 4 |
| California | 20 | 3 | 23 |
| Colorado | 4 | 2 | 6 |
| Connecticut | 5 | 1 | 6 |
| Delaware | 1 | 1 | 2 |
| Florida | 4 | 3 | 7 |
| Georgia | 4 | 2 | 6 |
| Illinois | 9 | -- | 9 |
| Indiana | 2 | 2 | 4 |
| Kansas | 1 | -- | 1 |
| Kentucky | 1 | -- | 1 |
| Louisiana | 1 | -- | 1 |
| Maine | -- | 2 | 2 |
| Maryland | 3 | 1 | 4 |
| Massachusetts | 6 | 2 | 8 |
| Michigan | 6 | 1 | 7 |
| Minnesota | 3 | -- | 3 |
| Missouri | 2 | 1 | 3 |
| Nevada | 1 | -- | 1 |
| New Hampshire | 1 | 2 | 3 |
| New Jersey | 9 | 1 | 10 |
| New Mexico | 1 | -- | 1 |
| New York | 15 | 4 | 19 |
| North Carolina | 4 | -- | 4 |
| Ohio | 7 | -- | 7 |
| Oklahoma | 2 | -- | 2 |
| Oregon | 2 | -- | 2 |
| Pennsylvania | 7 | 3 | 10 |
| Rhode Island | 1 | - | 1 |
| South Carolina | 2 | 2 | 4 |
| Tennessee | 3 | 1 | 4 |
| Texas | 7 | 2 | 9 |
| Utah | 2 | -- | 2 |
| Vermont | 1 | 1 | 2 |
| Virginia | 5 | 2 | 7 |
| Washington | 2 | 1 | 3 |
| Wisconsin | 1 | 1 | 2 |
| District of Columbia | 2 | -- | 2 |
| Total. | 152 | 42 | 194 |

ITEM 3. LEGAL PROCEEDINGS

Charles E. Hill & Associates, Inc., or Hill, filed a lawsuit on August 16, 2002 in the U. S. District Court for the Eastern District of Texas against us and seventeen other defendants, primarily large retailers, alleging infringement of three patents registered to Hill relating to electronic catalog systems and methods for processing data at a remote location and updating and displaying that data. The suit seeks an injunction against continuing infringement, unspecified damages, including treble damages for willful infringement, and interest, costs, expenses and fees. We believe that we have meritorious defenses and intend to defend ourselves vigorously.

In addition, we are subject to various legal proceedings and claims that arise in the ordinary conduct of our business. Although the outcome of these other claims cannot be predicted with certainty, management does not believe that the ultimate resolution of these matters will have a material adverse effect on our financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended February 1, 2003.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

There is no established public trading market for Holdings or Operating Corp. Common Stock. As of March 15, 2003, there were 39 shareholders of record of the Holdings Common Stock. See "Item 12. Security Ownership of Certain Beneficial Owners and Management" for a discussion of the ownership of Holdings. Holdings owns 100% of the Common Stock of Operating Corp.

Holdings has not paid cash dividends on its Common Stock and does not anticipate paying any such dividends in the foreseeable future. Operating Corp. may from time to time pay cash dividends on its Common Stock to permit Holdings to make required payments relating to its Senior Discount Debentures.

The credit agreement (the "Credit Agreement") and the Indenture relating to the Senior Discount Debentures (the "Holdings Indenture") prohibit the payment of dividends by Holdings on shares of Common Stock (other than dividends payable solely in shares of capital stock of Holdings). Additionally, because Holdings is a holding company, its ability to pay dividends is dependent upon the receipt of dividends from its direct and indirect subsidiaries. Each of the Credit Agreement, the Holdings Indenture and the Indenture relating to the Senior Subordinated Notes of Operating Corp., contains covenants which impose substantial restrictions on Operating Corp.'s ability to pay dividends or make distributions to Holdings.

The Directors of Holdings have the right to receive all or a portion of the fees for their services as a Director in Common Stock. In fiscal year 2002, certain Directors elected to receive a total of 12,318 shares of Common Stock in payment of their fees, at purchase price per share equal to the fair market value thereof. Holdings issued the Common Stock to the Directors in transactions which did not involve any public offering in reliance upon Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act").

Equity Compensation Plan Information

The following table summarizes information about the Amended and Restated J.Crew Group, Inc. 1997 Stock Option Plan and the J.Crew Group, Inc. 2003 Equity Incentive Plan (the "2003 Plan"), as of February 1, 2003. Our shareholders have approved both of these plans.

| Plan Category | (a) Number of Securities to be Issued Upon Exercise of Outstanding Options Warrants and Rights | (b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights | (c) Number of Securites Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securites Reflected in Column (a)) |
|---|---|---|---|
| Equity Compensation Plans Approved by Shareholders | 4,474,469 | $18.10 | 782,967 |
| Equity Compensation Plans Not Approved by Shareholders | 0 | N/A | 0 |
| TOTAL | 4,474,469 | $18.10 | 782,967 |

In addition to options, the 2003 Plan authorizes the issuance of restricted stock of Holdings. The 2003 Plan contains a sub-limit of 1,450,724 shares on the aggregate number of shares of restricted Holdings Common Stock which may be issued.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated historical financial, operating, balance sheet and other data of the Company. The selected income statement and balance sheet data for each of the five fiscal years ended February 1, 2003 are derived from the Consolidated Financial Statements of the Company, which have been audited by KPMG LLP, independent auditors. 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 | | | | |
|---|---|---|---|---|---|
| | January 30, 1999 | January 29, 2000 | February 3, 2001 | February 2, 2002 | February 1, 2003 |
| | (dollars in thousands, except per square foot data) | | | | |
| Income Statement Data: | | | | | |
| Revenues | $ 870,842 | $ 750,696 | $ 825,975 | $ 777,940 | $ 766,382 |
| Cost of goods sold(a) | 511,716 | 431,193 | 463,909 | 462,371 | 478,700 |
| Selling, general and administrative expenses | 332,050 | 279,302 | 301,865 | 295,568 | 291,518 |
| Other charges | 7,995 | 7,018 | -- | -- | -- |
| Charges incurred in connection with discontinuance of Clifford & Wills | 13,300 | 4,000 | 4,130 | -- | -- |
| Income/(loss) from operations | 5,781 | 29,183 | 56,071 | 20,001 | (3,836) |
| Interest expense-net | 39,323 | 38,861 | 36,642 | 36,512 | 40,954 |
| Gain on sale of Popular Club Plan | (10,000) | (1,000) | -- | -- | -- |
| Provision (benefit) for income taxes | (8,162) | (2,050) | 7,500 | (5,500) | (4,200) |
| Net income (loss) | $ (15,380) | $ (6,628) | $ 11,929 | $ (11,011) | $ (40,590) |
| Balance Sheet Data (at period end): | | | | | |
| Cash and cash equivalents | $ 9,643 | $ 38,693 | $ 32,930 | $ 16,201 | $ 18,895 |
| Working capital | 95,710 | 75,929 | 49,482 | 39,164 | 38,015 |
| Total assets | 376,330 | 373,604 | 389,861 | 401,320 | 348,878 |
| Total long term debt and redeemable preferred stock | 433,243 | 458,218 | 464,310 | 510,147 | 556,038 |
| Stockholders' deficit | $(235,773) | $(264,593) | $(278,347) | $(319,043) | $(391,663) |
| Operating Data: | | | | | |
| Revenues: | | | | | |
| J. Crew retail | $ 273,972 | $ 333,575 | $ 406,784 | $ 397,998 | $ 408,028 |
| J. Crew direct | | | | | |
| Catalog | 230,752 | 213,308 | 177,535 | 135,353 | 108,531 |
| Internet | 22,000 | 65,249 | 107,225 | 122,844 | 139,456 |
| | 252,752 | 278,557 | 284,760 | 258,197 | 247,987 |
| J. Crew factory | 96,461 | 101,987 | 96,114 | 85,085 | 76,264 |
| J. Crew licensing | 2,712 | 2,505 | 3,020 | 2,560 | 2,280 |
| J. Crew shipping & handling fees | 30,575 | 34,072 | 35,297 | 34,100 | 31,823 |
| Total J. Crew brand | 656,472 | 750,696 | 825,975 | 777,940 | 766,382 |
| Other divisions(b) | 214,370 | -- | -- | -- | -- |
| Total | $ 870,842 | $ 750,696 | $ 825,975 | $ 777,940 | $ 766,382 |
| J. Crew Direct: | | | | | |
| Number of catalogs circulated (in thousands) | 73,440 | 75,479 | 72,522 | 71,000 | 66,000 |
| Number of pages circulated (in millions) | 8,819 | 9,319 | 8,677 | 8,300 | 7,800 |
| J. Crew Retail: | | | | | |
| Sales per gross square foot(c) | $ 558 | $ 571 | $ 567 | $ 439 | $ 365 |
| Store contribution margin(c) | 25.0% | 26.0% | 23.9% | 18.0% | 14.1% |
| Number of stores open at end of period | 65 | 81 | 105 | 136 | 152 |
| Comparable store sales change(c) | 9.0% | 1.8% | 1.7% | (15.5)% | (10.4)% |
| Depreciation and amortization | $ 15,972 | $ 19,241 | $ 22,600 | $ 31,718 | $ 34,451 |
| Net capital expenditures(d) | | | | | |
| New store openings | $ 14,749 | $ 13,300 | $ 16,700 | $ 17,572 | $ 11,400 |
| Other | 21,605 | 27,953 | 25,475 | 25,003 | 9,018 |
| Total net capital expenditures | $ 36,354 | $ 41,253 | $ 42,175 | $ 42,575 | $ 20,418 |

(a) Includes buying and occupancy costs.
(b) Includes revenues from the Company's Popular Club Plan, Inc. ("PCP") and Clifford & Wills, Inc. ("C&W") divisions and finance charge income from PCP installment sales. PCP was sold effective October 30, 1998 and the Company made a decision in 1998 to exit the catalog and outlet store operations of C&W.
(c) Includes stores that have been opened for a full twelve month period.
(d) Capital expenditures are net of proceeds from construction allowances.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - J.CREW GROUP, INC.

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity of J. Crew Group, Inc. and subsidiaries during the three-year period ended February 1, 2003. This discussion should be read in conjunction with the audited consolidated financial statements of J. Crew Group, Inc. and subsidiaries for the three-year period ended February 1, 2003 and notes thereto included elsewhere herein.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon the consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires estimates and judgements that effect the reported amounts of assets, liabilities, revenues and expenses. The Company bases its estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances and evaluates these estimates on an on-going basis. Actual results may differ from these estimates under different assumptions or conditions.

The following critical accounting policies reflect the more significant estimates and judgements used in the preparation of the consolidated financial statements.

(a) Inventory valuation

Merchandise inventories are carried at the lower of average cost or market. We evaluate all of our inventories to determine excess inventories based on estimated future sales. Excess inventories may be disposed of through outlet stores, clearance catalogs, Internet clearance sales and other liquidations. Based on the historical results experienced by the Company through the various methods of disposition the Company writes down the carrying value of inventories which are not expected to be sold at or above costs.

In March 2003 the Company decided to modify its strategy on the disposition of inventory to achieve inventory clearing at the end of each selling season. Under its previous disposition strategy, excess prior season inventories would have been carried over for sale in subsequent seasons. Under its new strategy, the Company will accelerate the disposition of these excess inventories through factory stores, Internet promotions, clearance catalogs and warehouse sales. These changes in the method and timing of inventory disposition are expected to result in a decrease in the amounts ultimately received for these inventories. Accordingly, the Company took additional inventory reserves of $9.0 million as of February 1, 2003.

(b) Deferred catalog costs

The costs associated with direct response advertising, which consist primarily of catalog production and mailing costs, are capitalized and amortized over the expected future revenue stream of the catalog mailings, which approximates four months. The expected future revenue stream is determined based on historical revenue trends developed over an extended period of time. If the current revenue streams were to diverge from the expected trend, the future revenue streams would be adjusted accordingly.

(c) Asset impairment

The Company is exposed to potential impairment if the book value of its assets exceeds their future cash flows. The major component of our long lived assets represents store fixtures, equipment and leasehold improvements. The impairment of unamortized costs is measured at the store level and the unamortized cost

is reduced to fair value if it is determined that the sum of expected future net cash flows is less than net book value.

(d) Sales returns

The Company must make estimates of future sales returns related to current period sales. Management analyzes historical returns, current economic trends and changes in customer acceptance of its products when evaluating the adequacy of the reserve for sales returns.

(e) Deferred income taxes

The Company has significant deferred tax assets resulting from net operating loss carryforwards and deductible temporary differences, which will reduce taxable income in future periods. SFAS No. 109 "Accounting for Income Taxes" states that a valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. A review of all available positive and negative evidence needs to be considered, including a company's current and past performance, the market environment in which a company operates, length of carryback and carryforward periods, existing contracts or sales backlog that will result in future profits, etc. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. Cumulative losses weigh heavily in the overall assessment. As a result of our assessment, we established a valuation allowance for the net deferred tax assets at February 1, 2003. The Company does not expect to recognize any tax benefit in future results of operations until an appropriate level of profitability is sustained.

Results of Operations

Consolidated statements of operations presented as a percentage of revenues are as follows:

| | Fiscal year ended | | |
|---|---|---|---|
| | February 1, 2003 | February 2, 2002 | February 3, 2001 |
| Revenues | 100.0% | 100.0% | 100.0% |
| Cost of goods sold, including buying and occupancy costs | 62.5 | 59.4 | 56.2 |
| Selling, general and administrative expenses | 38.0 | 38.0 | 36.5 |
| Charges incurred in connection with discontinuance of C&W | -- | -- | .5 |
| Income/(loss) from operations | (.5) | 2.6 | 6.8 |
| Interest expense, net | (5.3) | (4.7) | (4.4) |
| Income/(loss) before income taxes | (5.8) | (2.1) | 2.4 |
| Income taxes | .5 | .7 | (.9) |
| Net income/(loss) | (5.3)% | (1.4)% | 1.5% |

Fiscal 2002 Compared to Fiscal 2001

Revenues

Revenues in the fiscal year ended February 1, 2003 decreased 1.5% to $766.4 million from $778.0 million in the fiscal year ended February 2, 2002.

J. Crew Retail net sales increased by 2.5% from $398.0 million in fiscal 2001 to $408.0 million in fiscal 2002. The percentage of the Company's total net sales derived from J. Crew Retail increased to 55.7% in fiscal year 2002 compared to 53.7% in fiscal 2001. The increase in net sales was due to net sales from stores opened for less than a full fiscal year. This increase was offset by a decrease of 10.4% in comparable store sales. The decrease in comparable store sales was primarily attributable to a decrease in store traffic. There were 152 retail stores open at February 1, 2003 compared to 136 at February 2, 2002.

J. Crew Direct net sales (which includes net sales from catalog and internet operations) decreased by 4.0% from $258.2 million in fiscal 2001 to $248.0 million in fiscal 2002. The percentage of the Company's total net sales derived from J. Crew Direct decreased to 33.9% in fiscal 2002 from 34.8% in fiscal 2001. Catalog net sales decreased to $108.6 million in fiscal 2002 from $135.3 million in fiscal 2001. Pages circulated decreased from 8.3 billion in fiscal 2001 to 7.8 billion

in fiscal 2002. Internet net sales increased to $139.4 million in fiscal 2002 from $122.9 million in fiscal 2001 as the Company continued to migrate catalog customers to the Internet.

J.Crew Factory net sales decreased by 10.5% from $85.1 million in fiscal 2001 to $76.2 million in fiscal 2002. The percentage of the Company's total net sales derived from J. Crew Factory decreased to 10.4% in fiscal 2002 from 11.5% in fiscal 2001. Comparable store sales for J. Crew Factory decreased by 14.1% in fiscal 2002. There were 42 J. Crew Factory outlet stores open at February 1, 2003 compared to 41 at February 2, 2002.

Other revenues which consist of shipping and handling fees and royalties decreased to $34.1 million in fiscal 2002 from $36.7 million in fiscal 2001, primarily as a result of a decrease in shipping and handling fees which is attributable to the decrease in net sales of J.Crew Direct.

Cost of sales, including buying and occupancy costs

Cost of sales (including buying and occupancy costs) as a percentage of revenues increased to 62.5% in fiscal 2002 from 59.4% in fiscal 2001. This increase was caused by a 130 basis point increase in buying and occupancy costs caused by a decrease in leverage related to the decline in comp store sales and a 180 basis point decrease in merchandising margin due to markdowns taken to clear inventories in the fourth quarter which contributed to the improvement in our year-end inventory position compared to the prior year. The fourth quarter also included a $9,000,000 charge as a result of the Company's decision to modify its strategy on the disposition of inventory to accelerate inventory clearing at the end of each selling season.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased to $291.5 million in fiscal 2002 (38.0% of revenues) from $295.6 million in fiscal 2001 (38.0% of revenues).

Selling expenses were $53.2 million in fiscal 2002 (6.9% of revenues) compared to $60.8 million in fiscal 2001 (7.8% of revenues). This decrease was due to a decrease in pages circulated from 8.3 billion pages in fiscal year 2001 to 7.8 billion pages in fiscal 2002 and a decrease in paper costs.

General and administrative expenses increased to $238.3 million in fiscal 2002 (31.0% of revenues) from $234.8 million in fiscal 2001 (30.2% of revenues). This increase resulted from severance and other one-time employment related charges of $13.7 million in fiscal year 2002 versus $3.2 million last year and additional retail stores in operation in 2002 partially offset by the cost reduction initiatives instituted in the first quarter of 2002.

Interest expense

Interest expense, net was $41.0 million in fiscal year 2002 compared to $36.5 million in fiscal 2001. The increase in interest expense resulted primarily from (a) an increase of $2.1 million relating to the 13-1/8% Senior Discount Notes and (b) an increase of $2.4 million in amortization of deferred financing costs, including $1.8 million written off in December 2002 related to the refinancing of the revolving credit arrangement with a new lender. Average borrowings under the Revolving Credit Facility were $40.4 million in fiscal year 2002 compared to $43.1 million in fiscal 2001.

Interest expense included non-cash interest and amortization of deferred financing costs of $16.7 million in fiscal 2002 compared to $17.4 million in fiscal 2001. Interest expense related to the 13 1/8% Senior Discount Debentures became cash pay commencing in October 2002 with the first semi-annual payment of $9.3 million due in April 2003.

Income Taxes

The effective tax rate was a benefit of 9.4% in fiscal 2002 compared to a benefit of 33.3% in fiscal 2001. The lower effective rate in 2002 resulted from the non-recognition of a full tax benefit due to the establishment of a valuation allowance to reduce the net deferred tax assets to estimated recoverable amount at February 1, 2003. The Company does not expect to recognize any tax benefits in future results of operations until an appropriate level of profitability is sustained.

Fiscal 2001 Compared to Fiscal 2000

Revenues

Revenues in the fiscal year ended February 2, 2002 decreased 5.8% to $778.0 million from $826.0 million in the fiscal year ended February 3, 2001. The fiscal year ended February 2, 2002 consisted of 52 weeks compared to 53 weeks in fiscal year 2000. Net sales for the fifty-third week were $10.8 million.

J. Crew Retail net sales decreased by 2.2% from $406.8 million in fiscal 2000 to $398.0 million in fiscal 2001. The percentage of the Company's total net sales derived from J. Crew Retail increased to 53.7% in fiscal year 2001 compared to 51.6% in fiscal 2000. The decrease in net sales was due to a decrease of 15.5% in comparable store sales. This decrease offset a 30% increase in the number of stores from 105 at February 3, 2001 to 136 at February 2, 2002.

J.Crew Direct net sales (which includes net sales from catalog and internet operations) decreased by 9.3% from $284.8 million in fiscal 2000 to $258.2 million in fiscal 2001. The percentage of the Company's total net sales derived from J. Crew Direct decreased to 34.8% in fiscal 2001 from 36.2% in fiscal 2000. Catalog net sales decreased to $135.3 million in fiscal 2001 from $177.5 million in fiscal 2000. Pages circulated decreased from 8.7 billion in fiscal 2000 to 8.3 billion in fiscal 2001. Internet net sales increased to $122.9 million in fiscal 2001 from $107.3 million in fiscal 2000 as the Company continued to migrate catalog customers to the Internet.

J.Crew Factory net sales decreased from $96.1 million in fiscal 2000 to $85.1 million in fiscal 2001. The percentage of the Company's total net sales derived from J. Crew Factory decreased to 11.5% in fiscal 2001 from 12.2% in fiscal 2000. Comparable store sales for J. Crew Factory decreased by 10.5% in fiscal 2001. There were 41 J. Crew Factory outlet stores at February 2, 2002 and February 3, 2001.

Other revenues which consist of shipping and handling fees and royalties decreased to $36.7 million in fiscal 2001 from $38.3 million in fiscal 2000, primarily as a result of a decrease in shipping and handling fees which is attributable to the decrease in net sales of J.Crew Direct.

Cost of sales, including buying and occupancy costs

Cost of sales (including buying and occupancy costs) as a percentage of revenues increased to 59.4% in fiscal 2001 from 56.2% in fiscal 2000. This increase was caused by a significant increase in markdowns as a result of the highly promotional retail environment and an increase in buying and occupancy costs caused by a decrease in leverage related to the decline in comp store sales.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased to $295.6 million in fiscal 2001 (38.0% of revenues) from $301.9 million in fiscal 2000 (36.6% of revenues).

General and administrative expenses of the J.Crew brand decreased to $234.8 million in fiscal 2001 (30.2% of revenues) from $239.2 million in fiscal 2000 (29.0% of revenues). This decrease resulted from a decrease in bonus provision in fiscal 2001 and the cost cutting initiatives instituted in the first quarter of 2001 which were offset by the additional retail stores in operation during fiscal 2001 and a $10.1 million increase in depreciation and amortization.

Selling expenses were $60.8 million in fiscal 2001 (7.8% of revenues) compared to $62.7 million in fiscal 2000 (7.6% of revenues). This decrease was due to a decrease in pages circulated from 8.7 billion pages in fiscal year 2000 to 8.3 billion pages in fiscal 2001.

Interest expense

Interest expense, net was $36.5 million in fiscal year 2001 compared to $36.6 million in fiscal 2000. The increase resulting from higher average borrowings in fiscal 2001 under the Revolving Credit Facility and higher non-cash interest was offset by the pay off of the term loan in January 2001 and a decrease in interest rates. Average borrowings under the Revolving Credit Facility required to fund inventories and capital expenditures were $43.1 million in fiscal 2001 compared to $9.8 million in fiscal 2000.

Interest expense included non-cash interest and amortization of deferred financing costs of $17.4 million in fiscal 2001 compared to $16.4 million in fiscal 2000.

Income Taxes

The effective tax rate was a benefit of 33.3% in fiscal 2001 compared to a provision of 38.6% in fiscal 2000. The effective rate in 2001 was less than the normal rate due primarily to the inability of subsidiaries to carry back net operating losses for state tax purposes.

Liquidity and Capital Resources

The Company's sources of liquidity have been primarily cash flows from operations and borrowings under the Revolving Credit Facility. The Company's primary cash needs have been for capital expenditures incurred primarily for opening new stores and system enhancements, debt service requirements and working capital.

On December 23, 2002 the Company entered into a Loan and Security Agreement with Wachovia Bank, N.A., as arranger, Congress Financial Corporation, as administrative and collateral agent, and a syndicate of lenders which provides for maximum credit availability of up to $180.0 million (the "Congress Credit Facility"). The Congress Credit Facility replaced a revolving credit facility which was scheduled to expire in October 2003. The Congress Credit Facility provides for revolving loans of up to $160.0 million; supplemental loans of up to $20.0 million each year during the period from April 15 to September 15; and letter of credit accommodations. The Congress Credit Facility expires in December 2005. The total amount of availability is subject to limitations based on specified percentages of eligible receivables, inventories and real property. The Congress Credit Facility includes restrictions, including the incurrence of additional indebtedness, the payment of dividends and other distributions, the making of investments, the granting of loans and the making of capital expenditures. The Company is required to maintain minimum levels of earnings before interest, taxes, depreciation, amortization and certain non-cash items, ("EBITDA") if excess availability is less than $15.0 million for any 30 consecutive day period.

Cash provided by operating activities was $24.7 million in fiscal 2002 compared to $25.8 million in fiscal 2001. The increase in net loss in 2002 was offset by an improvement in working capital, primarily a $31.6 million decrease in inventories, net of an $11.8 million decrease in accounts payable.

Capital expenditures, net of construction allowances, were $20.4 million in fiscal 2002 compared to $42.6 million in fiscal 2001. Capital expenditures in 2002 related primarily to the opening of 16 retail stores during the year. Capital expenditures in 2001 related primarily to the opening of 34 retail stores and for systems enhancements, primarily the SAP enterprise resource planning system.

Capital expenditures are expected to be approximately $10.0 million in fiscal 2003, primarily for the opening of four retail stores. The expected capital expenditures will be funded from internally generated cash flows and by borrowings from available financing sources.

There were no borrowings under the Revolving Credit Facility at February 1, 2003 and February 2, 2002. Average borrowings under the Revolving Credit Facility were $40.4 million for fiscal 2002 and $43.1 million for fiscal 2001.

Effective October 15, 2002, the interest payments accruing on the 13 1/8% Senior Discount Debentures became payable in cash on April 15 and October 15 of each year subsequent thereto. The annual cash payments will be approximately $18.6 million. On April 4, 2003, Holdings commenced through J. Crew Intermediate LLC, its newly formed wholly-owned subsidiary ("Intermediate"), an offer to exchange the outstanding 13 1/8% Senior Discount Debentures due 2008 issued by Holdings for Intermediate's unissued 16.0% Senior Discount Contingent Principal Notes due 2008.

Holdings will not pay accrued and unpaid interest on the existing debentures on the scheduled interest payment date of April 15, 2003. Rather, Holdings will pay such interest on the settlement date of the exchange offer (which is expected to occur on or about May 6, 2003) together with interest thereon at a rate of 13 1/8% per annum from April 15, 2003 to the settlement date, to the holders of the existing debentures who do not tender their existing debentures in the exchange offer.

Management believes that cash flow from operations and availability under the Congress 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 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.

Contractual Obligations And Other Commercial Commitments

The following summarizes the Company's contractual and other commercial obligations as of February 1, 2003 and the effect such obligations are expected to have on its liquidity and cash flows in future periods.

| Contractual Obligations | Within 1 year | 2 - 3 years | 4 - 5 years | after 5 years | Total |
|---|---|---|---|---|---|
| | | | ($ in millions) | | |
| Long term debt | $ -- | $ -- | $ 150.0 | $ 142.0 | $ 292.0 |
| Operating lease obligations | 52.4 | 97.3 | 88.8 | 143.9 | 382.4 |
| Inventory purchase commitments | 110.2 | -- | -- | -- | 110.2 |
| | $ 162.6 | $ 97.3 | $ 238.8 | $ 285.9 | $ 784.6 |

| Other commercial commitments | Within 1 year | 2 - 3 years | 4 - 5 years | after 5 years | Total |
|---|---|---|---|---|---|
| Letters of Credit | | | | | |
| Stand by | $ .7 | $ -- | $ -- | $ 1.9 | $ 2.6 |
| Import | 43.3 | -- | -- | -- | 43.3 |
| | $ 44.0 | $ -- | $ -- | $ 1.9 | $ 45.9 |

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.

Seasonality

The Company's retail and direct businesses experience two distinct selling seasons, spring and fall. The spring season is comprised of the first and second quarters and the fall season is comprised of the third and fourth quarters. Net sales are usually substantially higher in the fall season and selling, general and administrative expenses as a percentage of net sales are usually higher in the spring season. Approximately 32% of annual net sales in fiscal 2002 occurred in the fourth quarter. The Company's working capital requirements also fluctuate throughout the year, increasing substantially in September and October in anticipation of the holiday season inventory requirements.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - J.CREW OPERATING CORP.

This discussion should be read in conjunction with the audited consolidated financial statement of J.Crew Operating Corp. and subsidiaries for the two year period ended February 1, 2003 and notes thereto included elsewhere in this Annual Report on Form 10-K.

Results of Operations

Fiscal 2002 Compared to Fiscal 2001

Revenues

Revenues in the fiscal year ended February 1, 2003 decreased 1.5% to $766.4 million from $778.0 million in the fiscal year ended February 2, 2002.

J. Crew Retail net sales increased by 2.5% from $398.0 million in fiscal 2001 to $408.0 million in fiscal 2002. The percentage of the Company's total net sales derived from J. Crew Retail increased to 55.7% in fiscal year 2002 compared to 53.7% in fiscal 2001. The increase in net sales was due to net sales from stores opened for less than a full fiscal year. This increase was offset by a decrease of 10.4% in comparable store sales. The decrease in comparable store sales was primarily attributable to a decrease in store traffic. There were 152 retail stores open at February 1, 2003 compared to 136 at February 2, 2002.

J. Crew Direct net sales (which includes net sales from catalog and internet operations) decreased by 4.0% from $258.2 million in fiscal 2001 to $248.0 million in fiscal 2002. The percentage of the Company's total net sales derived from J. Crew Direct decreased to 33.9% in fiscal 2002 from 34.8% in fiscal 2001. Catalog net sales decreased to $108.6 million in fiscal 2002 from $135.3 million in fiscal 2001. Pages circulated decreased from 8.3 billion in fiscal 2001 to 7.8 billion in fiscal 2002. Internet net sales increased to $139.4 million in fiscal 2002 from $122.9 million in fiscal 2001 as the Company continued to migrate catalog customers to the Internet.

J.Crew Factory net sales decreased from $85.1 million in fiscal 2001 to $76.2 million in fiscal 2002. The percentage of the Company's total net sales derived from J. Crew Factory decreased to 10.4% in fiscal 2002 from 11.5% in fiscal 2001. Comparable store sales for J. Crew Factory decreased by 14.1% in fiscal 2002. There were 42 J. Crew Factory stores open at February 1, 2003 compared to 41 at February 2, 2002.

Other revenues which consist of shipping and handling fees and royalties decreased to $34.1 million in fiscal 2002 from $36.7 million in fiscal 2001, primarily as a result of a decrease in shipping and handling fees which is attributable to the decrease in net sales of J.Crew Direct.

Cost of sales, including buying and occupancy costs

Cost of sales (including buying and occupancy costs) as a percentage of revenues increased to 62.5% in fiscal 2002 from 59.4% in fiscal 2001. This increase was caused by a 130 basis point increase in buying and occupancy costs caused by a decrease in leverage related to the decline in comp store sales and an 180 basis point decrease in merchandising margin due to markdowns taken to clear inventories in the fourth quarter which contributed to the improvement in our year-end inventory position compared to the prior year. The fourth quarter also included a $9,000,000 charge as a result of the Company's decision to modify its strategy on the disposition of inventory to accelerate inventory clearing at the end of each selling season.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased to $291.1 million in fiscal 2002 (38.0% of revenues) from $294.9 million in fiscal 2001 (37.9% of revenues).

Selling expenses were $53.2 million in fiscal 2002 (6.9% of revenues) compared to $60.8 million in fiscal 2001 (7.8% of revenues). This decrease was due to a decrease in pages circulated from 8.3 billion pages in fiscal year 2001 to 7.8 billion pages in fiscal 2002 and a decrease in paper costs.

General and administrative expenses increased to $237.9 million in fiscal 2002 (31.0% of revenues) from $234.1 million in fiscal 2001 (30.1% of revenues). This increase resulted from severance and other one-time employment related charges of $13.7 million in fiscal year 2002 versus $3.2 million last year and additional retail stores in operation in 2002 partially offset by the cost reduction initiatives instituted in the first quarter of 2002.

Interest expense

Interest expense, net was $23.4 million in fiscal year 2002 compared to $20.9 million in fiscal 2001. The increase in interest expense resulted primarily from an increase of $2.5 million in amortization of deferred financing costs, including $1.8 million related to the old revolving credit arrangement which were written off in December 2002. Average borrowings under the Revolving Credit Facility were $40.4 million in fiscal year 2002 compared to $43.1 million in fiscal 2001.

Income Taxes

The effective tax rate was a benefit of 66.8% in fiscal 2002 compared to a benefit of 73.2% in fiscal 2001. The benefit in 2002 resulted from the reversal of prior year tax accruals, whereas the 2001 effective rate was effected by the low dollar amount of pre-tax income.

Factors Affecting Future Results of Operations

We must successfully gauge fashion trends and changing consumer preferences to succeed.

We believe that our success depends in substantial part on our 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 we will be successful in this regard. We attempt to reduce the risks of changing fashion trends and product acceptance by devoting a substantial portion of our product line to basic durables which are not significantly modified from year to year. Nevertheless, if we misjudge the market for our products, we may be faced with significant excess inventories for some products and missed opportunities with others.

The fashion and apparel industry is highly competitive.

The fashion and apparel industry is highly competitive. We compete primarily with other catalog operations, specialty brand retailers, department stores, mass merchandisers and Internet businesses that engage in the retail sale of men's and women's apparel, accessories footwear and general merchandise. We believe that the principal bases upon which we compete are quality, design, efficient service, selection and price. However, many of our competitors are larger and have greater financial, marketing and other resources, and there can be no assurance that we will be able to compete successfully with them in the future. We have lost market share to some of our competitors in the recent past, and we may not recover that share and could also lose additional market share in the future if we do not strengthen our competitive position.

Competition for qualified personnel is intense in the fashion and apparel industry.

Our ability to anticipate and effectively respond to changing fashion trends depends in part on our ability to attract and retain key personnel in our design, merchandising and marketing staff. Competition for these personnel is intense, and there can be no assurance that we will be able to attract and retain a sufficient number of qualified personnel in the future. Our future performance depends, in substantial part, on the performance of our new management team implemented in January 2003. We rely, in particular, on the strategic guidance of Millard S. Drexler, our Chief Executive Officer, and Jeffrey A. Pfeifle, our President. The loss, for any reason, of the services of either of these individuals could have a material adverse effect on us.

The fashion and apparel industry is cyclical and further decline in consumer spending on apparel and accessories could have an adverse effect on our results of operation.

The industry in which we operate is cyclical. Purchases of apparel and related merchandise is sensitive to a number of factors that influence the levels of general consumer spending, including economic conditions and the level of disposable consumer income, consumer debt, interest rates and consumer confidence. The recent and current recessionary economic environment has had a negative impact on our sales and has contributed to a higher level of promotional sales activities, which have adversely affected our profitability. The war in Iraq or acts of terrorism in the United States or world wide

may prolong the current recessionary economic environment. A further decline in consumer spending on apparel and accessories could have an adverse effect on our financial condition and results of operations.

Increase in costs of mailing, paper and printing will have an adverse effect on our results of operations.

Postal rate increases and paper and printing costs affect the cost of our catalog and promotional mailings. We rely on discounts from the basic postal rate structure, such as discounts for bulk mailings and sorting by zip code and carrier routes. We are not a party to any long-term contracts for the supply of paper. Our cost of paper has fluctuated significantly, and our future paper costs are subject to supply and demand forces external to our business. Consequently, there can be no assurance that we will not be subject to an increase in paper costs. Future increases in postal rates or paper or printing costs would have a negative impact on our earnings to the extent that we are unable to pass such increases directly to customers or offset such increases by raising selling prices or by implementing more efficient mailings.

We rely on foreign sourcing and are subject to a variety of risks associated with doing business abroad.

In fiscal 2002, approximately 95% of our merchandise was sourced from independent foreign factories located primarily in Asia, and many of our domestic vendors import a substantial portion of their merchandise from abroad. Any event causing a sudden disruption of manufacturing or imports from China, including the imposition of additional import restrictions, could have a material adverse impact on our operations. We have no long-term merchandise supply contracts, and many of our imports are subject to existing or potential duties, tariffs or quotas that may limit the quantity of certain types of goods that may be imported into the United States from countries in those regions. We compete with other companies for production facilities and import quota capacity. Our business is also subject to a variety of other risks generally associated with doing business abroad, such as political instability, currency and exchange risks and potential local issues. Trade restrictions, including increased tariffs or quotas, against apparel and other items sold by us could increase the cost or reduce the supply of merchandise available to us and adversely affect our business, financial condition and results of operations. Our sourcing operations may also be adversely affected by political and financial instability in any country in which our goods are produced or acts of war or terrorism in the United States or worldwide to the extent these acts impact the production, shipment or receipt of merchandise. Our future performance will be subject to such factors, which are beyond our control, and there can be no assurance that such factors would not have a material adverse effect on our financial condition and results of operations.

We require our licensing partner and independent manufacturers to operate in compliance with applicable laws and regulations. While our internal and vendor operating guidelines promote ethical business practices, we do not control such manufacturers or their labor practices. Violation of labor or other laws by our independent manufacturers or our licensing partner, or the divergence of an independent manufacturer's or our licensing partner's labor practices from those generally accepted as ethical in the United States, could have a material adverse effect on our financial condition and results of operations if, as a result of such violation, we were to incur substantial liability or attract negative publicity that damaged our brand.

Success of J.Crew Retail growth strategy remains uncertain.

We intend to expand our base of J.Crew retail stores as part of our growth strategy. There can be no assurance that this strategy will be successful. Our success depends, in part on our ability to improve sales and margins in our stores. 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 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 can be no assurance that we will be able to open and operate new stores on a timely or profitable basis. We believe that the opening of J.Crew retail stores has diverted some revenues from the J.Crew Direct operations. There can be no assurance that future store openings will not continue to have such an effect.

Our quarterly results of operations fluctuate significantly due to seasonality and a variety of other factors.

We experience seasonal fluctuations in revenues and operating income, with a disproportionate amount of our revenues and a majority of our income from operations typically realized during the fourth quarter of each fiscal year. Revenues and income from operations are generally weakest during the first and second quarters of each fiscal year. Our quarterly results of operations may also fluctuate significantly as a result of 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce net income or the net assets of the Company. The Company's variable rate debt consists of borrowings under the Congress Credit Facility. The interest rates are a function of the bank prime rate or LIBOR. A one percentage point change in the base interest rate would result in approximately $400,000 change in income before taxes.

The Company enters into letters of credit to facilitate the international purchase of merchandise. The letters of credit are primarily denominated in U.S. dollars. Outstanding letters of credit at February 1, 2003 were approximately $45.9 million.

The Company has a licensing agreement in Japan which provides for royalty payments based on sales of J. Crew merchandise as denominated in yen. The Company has from time to time entered into forward foreign exchange contracts to minimize this risk. There were no forward foreign exchange contracts outstanding during fiscal year 2002.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements are set forth herein commencing on page F-1 of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

Information required by items 10 - 14 with respect to Operating Corp. has been omitted pursuant to General Instruction I of Form 10-K. Information required by items 10 -14 with respect to Holdings is described below.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth the name, age and position of individuals who are serving as directors and executive officers of Holdings as of April 1, 2003. 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 are elected by the Board of Directors and serve at the discretion of the Board.

| Name | Age | Position |
|---|---|---|
| Millard S. Drexler | 58 | Chief Executive Officer, Chairman of the Board and Director |
| Jeffrey A. Pfeifle | 44 | President |
| Kathy Boyer | 54 | Executive Vice President, Merchandising |
| Michael Dadario | 44 | Executive Vice President, Stores |
| Scott M. Rosen | 44 | Executive Vice President, Chief Financial Officer |
| Scott Gilbertson | 34 | Chief Operating Officer |
| Scott D. Hyatt | 45 | Senior Vice President, Manufacturing |
| Nicholas Lamberti | 60 | Vice President, Corporate Controller |
| Richard W. Boyce | 48 | Director |
| Jonathan J. Coslet | 38 | Director |
| James G. Coulter | 43 | Director |
| Steven Grand-Jean | 60 | Director |
| Thomas W. Scott | 37 | Director |
| Josh S. Weston | 74 | Director |
| Emily Woods | 41 | Director |

Millard S. Drexler

Mr. Drexler has been Chief Executive Officer since January 2003 and became Chairman of the Board and a Director in March 2003. Before joining Holdings, he was Chief Executive Officer of The Gap, Inc. from 1995 until September 2002, and prior thereto he was President of The Gap, Inc. since 1987. Mr. Drexler also serves as a director of Apple Computer Inc.

Jeffrey A. Pfeifle

Mr. Pfeifle has been President since February 2003. Before joining Holdings, he was Executive Vice President, Product and Design of the Old Navy division of The Gap, Inc. from 1995.

Kathy Boyer

Ms. Boyer has been Executive Vice President, Merchandising since June 2002. Before joining Holdings, she was Senior Vice President, Merchandising of the Banana Republic division of The Gap, Inc. from 1995 to September 2001.

Michael Dadario

Mr. Dadario has been Executive Vice President, Stores since January 2003. Before joining Holdings, he was a retail consultant with Sense Consulting from February 2000 until end of 2002 and Executive Vice President (retail store operations) of the Banana Republic division of The Gap, Inc. for more than five years.

Scott M. Rosen

Mr. Rosen has been Executive Vice President and Chief Financial Officer since 1999. He was Senior Vice President and Chief Financial Officer from 1998 to 1999 and prior thereto he was Chief Financial Officer of the Mail Order Division for four years.

Scott Gilbertson

Mr. Gilbertson has been Chief Operating Officer since January 2003. Before joining Holdings, he was a principal of Texas Pacific Group from January 2001 to January 2003 and a portion of 1998. He was a founding partner of eVolution Global Partners (a private venture capital company) from March 2000 to January 2001 and held various positions at Holdings from September 1998 to April 2000, including President of e-commerce.

Scott D. Hyatt

Mr. Hyatt has been Senior Vice President, Manufacturing since 1998. Before joining Holdings, he was Vice President, Production and Source of the Express division of Limited Brands (retail apparel company) from 1996 to 1998.

Nicholas Lamberti

Mr. Lamberti has been Vice President, Corporate Controller for more than five years.

Richard W. Boyce

Mr. Boyce became a director in 1997 and has served as Chief Executive Officer during portions of 1997 and 1999 while also providing operating oversight to the remainder of the Texas Pacific Group portfolio. He is the senior operating partner of Texas Pacific Group and joined Texas Pacific Group in 1997. He was Chairman of Favorite Brands International Holding Corp., which filed for protection under Chapter 11 of the Bankruptcy Code in 1999. He is also a director of Burger King Corp., ON Semiconductor Corporation and Spirit Group Holdings, Ltd.

Jonathan J. Coslet

Mr. Coslet became a director in 2003. He is a senior partner of Texas Pacific Group, responsible for the firm's generalist and healthcare investment activities. Prior to joining Texas Pacific Group, Mr. Coslet worked in the investment banking department of Donaldson, Lufkin & Jenrett, specializing in leveraged acquisitions and high-yield finance from 1991 to 1993. He is a director of Magellan Health Services, Inc., Oxford Health Plans, Inc., Petco Animal Supplies, Inc., Endurance Specialty and Burger King Corporation.

James G. Coulter

Mr. Coulter became a director in 1997. He is a founding partner of Texas Pacific Group and has been Managing General Partner of Texas Pacific Group for more than eight years. He is a director of Genesis Health Ventures, Inc., Globespan, Inc., Seagate Technology, Inc., MEMC Electronic Materials, Inc., Evolution Global Partners and Zhone Technologies.

Steven Grand-Jean

Mr. Grand-Jean became a director in 2003. He has been President of Grand-Jean Capital Management for more than five years.

Thomas W. Scott

Mr. Scott became a director in January 2002. He is a founding partner of Nantucket Allserve Inc. (beverage supplier) and has been Co-Chairman thereof since 1989 and Co-Chairman and Co-Chief Executive Officer from 1989 to

2000. He has also been Co-Chairman of Shelflink (supply chain software company) since 2000. Mr. Scott is married to Emily Woods, the Chairperson of the Board of Directors of Holdings.

Josh S. Weston

Mr. Weston became a director in 1998. He has been Honorary Chairman of the Board of Directors of Automatic Data Processing (computing services business) since 1998. He was Chairman of the Board of Automatic Data Processing from 1996 until 1998, and Chairman and Chief Executive Officer for more than five years prior thereto. He is also a director of Gentiva Health Services, Inc., Aegis Communications Group, Inc. and Russ Berrie & Company, Inc.

Emily Woods

Ms. Woods resigned as Chairperson of the Board of Directors of Holdings in March 2003 but continues to serve as director. She co-founded the J. Crew brand in 1983 and has served as Chief Executive Officer and Vice Chairperson of Holdings and as Chief Executive Officer of Operating Corp. She is also a director of Yankee Candle Company, Inc. Ms. Woods is married to Thomas Scott, a director of Holdings.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth compensation paid by Holdings for fiscal 2002, 2001, and 2000:

- to each individual serving as our chief executive officer during fiscal 2002;
- to each of the four other most highly compensated executive officers as of the end of fiscal 2002; and
- to two additional executive officers who were not employed as of the end of fiscal 2002.

| | | Annual Compensation | | | Long-Term Compensation: Awards | | Long-Term Compensation: Payouts | |
|---|---|---|---|---|---|---|---|---|
| Name And Principal Position | Fiscal Year | Salary ($) | Bonus ($) | Other ($) | Restricted Stock Award(s) (1) | Numbers of Securities Underlying Options/ SARS (1) | LTIP Payouts ($) | All Other Compensation ($) (2) |
| Millard S. Drexler ..... Chief Executive Officer And Chairman (3) | 2002 | -- | -- | -- | (4) | 2,231,704 | -- | -- |
| Kenneth S. Pilot ..... Chief Executive Officer (6) | 2002 | 201,900 | 520,000(5) | -- | 105,000 | 150,000 | -- | 3,341,900 |
| Mark A. Sarvary ..... | 2002 | 247,700 | -- | -- | -- | -- | -- | 1,407,500 |
| Chief Executive Officer (7) | 2001 | 675,000 | -- | -- | -- | -- | -- | 5,250 |
| | 2000 | 675,000 | 502,500 | -- | -- | -- | -- | 5,250 |
| Emily Woods ..... | 2002 | 886,900 | -- | -- | -- | -- | -- | 7,600 |
| Director (8) | 2001 | 1,000,000 | -- | -- | -- | -- | -- | 5,250 |
| | 2000 | 1,000,000 | 1,000,000 | -- | -- | -- | -- | 5,250 |
| Blair Gordon (9) ..... Executive Vice President, Creative Director | 2002 | 400,000 | -- | -- | -- | 30,000 | -- | -- |
| Scott D. Hyatt ..... | 2002 | 364,000 | -- | -- | -- | -- | -- | 9,700 |
| Senior Vice President, | 2001 | 364,000 | -- | -- | -- | 10,000 | -- | 5,250 |
| Manufacturing | 2000 | 350,000 | 183,800 | -- | -- | -- | -- | 5,250 |
| Walter Killough (10) ..... | 2002 | 390,000 | -- | -- | -- | -- | -- | 7,400 |
| Executive Vice President, | 2001 | 390,000 | -- | -- | -- | 25,000 | -- | 5,250 |
| Direct and Supply Chain | 2000 | 390,000 | 429,400 | -- | -- | 18,600 | -- | 5,250 |
| Scott M. Rosen ..... | 2002 | 365,000 | -- | -- | -- | -- | -- | 7,400 |
| Executive Vice President, | 2001 | 365,000 | -- | -- | -- | -- | -- | 5,250 |
| Chief Financial Officer | 2000 | 357,000 | 298,800 | -- | -- | 18,600 | -- | 5,250 |
| Michael Scandiffio (11) ..... | 2002 | 402,000 | | -- | -- | -- | -- | 157,900 |
| Executive Vice President, Mens | 2001 | 262,800 | 100,000(5) | -- | -- | 40,000 | -- | 223,600 |

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(1) There is no established public market for shares of Holdings common stock. Holders of restricted stock have the same right to receive dividends as other holders of Holdings common stock. Holdings has not paid any cash dividends on its common stock.

(2) For Mr. Pilot, this includes $2,494,500 in severance compensation paid upon the termination of his employment and $847,400 in relocation compensation. For Mr. Sarvary, this includes $1,400,000 in severance compensation paid upon the termination of his employment. For Mr. Scandiffio, this includes $293,900 in relocation compensation and $85,000 in severance compensation. The remaining amounts represent Holdings' matching contributions to its 401(k) plan.

(3) Mr. Drexler became Chief Executive Officer in January 2003 and Chairman of the Board of Directors in March 2003.

(4) Mr. Drexler was granted 725,303 shares of Holdings common stock on February 12, 2003, of which 181,326 shares will vest on each January 27 of 2004, 2005 and 2006 and 181,325 shares will vest on January 27, 2007. Mr. Drexler paid $800,000 to Holdings for these shares, which was in excess of their fair market value at the time of grant. A corporation of which Mr. Drexler is a principal was also granted 55,793 shares of Holdings common stock on February 12, 2003, all of which vested immediately upon grant.

(5) Represents sign-on bonus.

(6) Mr. Pilot was Chief Executive Officer from September 2002 to January 2003.

(7) Mr. Sarvary's employment terminated in April 2002.

(8) Ms. Woods was granted 661,600 shares of Holdings common stock on October 17, 1997, all of which are currently vested. Ms. Woods was Chairperson of the Board until her resignation from this position in March 2003.

(9) Mr. Gordon's employment commenced in January 2002 and terminated in January 2003.

(10) Mr. Killough's employment terminated in March 2003.

(11) Mr. Scandiffio's employment commenced in June 2001 and terminated in October 2002.

The following table shows information concerning stock options to purchase shares of Holdings common stock granted to any of the named executive officers during fiscal 2002.

| | Individual Grants | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2) | |
|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Options Granted (1) | Percent of Total Options Granted to Employees in Fiscal Year | Exercise Price($/Sh) | Expiration Date | 5%($) | 10% ($) |
| Blair Gordon (2) ..... | 30,000 | 7% | $10.00 | 2/28/2012 | -- | -- |

(1) Holdings has not granted any SARs.

(2) Mr. Gordon's employment terminated in January 2003, at which time all of these options were forfeited automatically pursuant to Holdings' Stock Option Plan. As a result, the potential realizable value for these options is zero.

The following table shows the number of stock options held to purchase shares of Holdings common stock by the named executive officers at the end of fiscal 2002. The named executive officers did not exercise any stock options in fiscal 2002.

| Name | Number of Securities Underlying Unexercised Options at Fiscal Year End Exercisable/Unexercisable | Value of Unexercised In-the-Money Options/ SARs at Fiscal Year End ($) (1) Exercisable/Unexercisable |
|---|---|---|
| Millard S. Drexler (2) ..... | 0/2,231,704 | 0/0 |
| Kenneth S. Pilot (3) ..... | 0/0 | 0/0 |
| Mark A. Sarvary (4) ..... | 163,200/0 | 0/0 |
| Scott D. Hyatt ..... | 22,000/13,000 | 0/0 |
| Walter Killough (5) ..... | 47,560/27,440 | 0/0 |
| Scott M. Rosen ..... | 47,560/27,440 | 0/0 |
| Emily Woods ..... | 164,000/328,200 | 0/0 |
| Blair Gordon (6) ..... | 0/0 | 0/0 |
| Michael Scandiffio (7) ..... | 0/0 | 0/0 |

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(1) There is no established public market for shares of Holdings common stock.

(2) Mr. Drexler became Chief Executive Officer in January 2003.

(3) Mr. Pilot was Chief Executive Officer from September 2002 to January 2003.

(4) Mr. Sarvary resigned as Chief Executive Officer in April 2002.

(5) Mr. Killough's employment terminated in March 2003.

(6) Mr. Gordon's employment terminated in January 2003.

(7) Mr. Scandiffio's employment terminated in October 2002.

Employment Agreements and Other Compensation Arrangements

Employment Agreements

Emily Woods. Ms. Woods had an employment agreement with Holdings and Operating Corp. pursuant to which she served as Chairperson of the Board of Directors of Holdings for five years beginning on October 17, 1997. The agreement provided for a minimum annual base salary of $1.0 million, an annual bonus of up to $1.0 million based on achievement of earnings objectives to be determined each year, the grant of 661,600 shares of Holdings Common Stock, which we refer to as the "Woods Restricted Shares", the reimbursement of income taxes incurred by Ms. Woods in connection with such grant, and various executive benefits and perquisites. The employment agreement expired by its terms on October 17, 2002. Ms. Woods currently receives an annual base salary of $200,000.

Under the terms of stock options awarded to Ms. Woods under Holdings' stock option plan, all unvested options shall become exercisable (1) if Ms. Woods' employment is terminated by Holdings without cause, by Ms. Woods for good reason or by reason of death or disability or (2) in the event of a change in control of Holdings.

Millard S. Drexler. Mr. Drexler has a services agreement with Holdings and Operating Corp. pursuant to which he will serve as Chief Executive Officer for five years beginning on January 27, 2003, provided that Mr. Drexler can step down as Chief Executive Officer after January 2006 and serve only as Executive Chairman. The agreement provides for a minimum annual base salary of $200,000, an annual bonus based on the achievement of earnings objectives to be determined each year, and reimbursement of business expenses, provided that such total compensation not exceed $700,000 per year. The agreement also provides for the grant of options to purchase 557,926 shares of Holdings common stock, which we refer to as initial options, and the grant of premium options to purchase an additional 1,673,778 shares of Holdings common stock, which we refer to as premium options. The agreement also provides for the grant of 55,793 immediately vested shares of Holdings common stock and the grant of 725,303 shares of Holdings common stock, which we refer to as the "Drexler Restricted Shares". We refer you to footnote 4 to the Executive Compensation Table for information on the vesting of the Drexler Restricted Shares. Mr. Drexler paid Holdings $200,000 for the Initial Options and $800,000 for the Drexler Restricted Shares.

If Mr. Drexler's employment is terminated without "cause" or for "good reason" (each as defined in the services agreement), Mr. Drexler will be entitled to receive his base salary for one year, the immediate vesting of any unvested Drexler Restricted Shares and the immediate vesting of that portion of the initial options and the premium options that would have become vested and exercisable on the anniversary of the grant date immediately following the termination date. If such termination occurs after a "change in control" (as defined in the services agreement), all of the unvested initial options and premium options will immediately vest and become exercisable.

Kenneth S. Pilot. Mr. Pilot had an employment agreement with Holdings and Operating Corp. pursuant to which he would serve as Chief Executive Officer for five years commencing on September 9, 2002. Holdings would also cause Mr. Pilot to be elected as a director. The agreement provided for a minimum annual base salary of $700,000, a signing bonus of $520,000, two additional payments of $60,000 payable in September 2003 and 2004, and certain relocation benefits. The agreement also provided for an annual bonus based on the achievement of earnings objectives to be determined each year, provided that he was guaranteed prorated bonuses for fiscal 2002 equal to 85% of his base salary and 42.5% of his base salary for fiscal 2003. He also received a grant of 105,000 shares of Holdings common stock, which we refer to as the "Pilot Restricted Shares", of which 35,000 shares would vest over time and 70,000 shares vested immediately, and a grant of options to purchase 150,000 shares of Holdings common stock. If Mr. Pilot was terminated without "cause" or for "good reason" (as defined in the employment agreement), he was entitled to receive any accrued bonus and a lump-sum payment equal to two times his base salary.

Mr. Pilot resigned effective January 29, 2003. Pursuant to his separation agreement, Mr. Pilot was entitled to $2,494,500 in severance compensation, the immediate vesting of 35,000 Pilot Restricted Shares, the continuation of his medical benefits for the eighteen month period following his resignation and certain outplacement benefits. In addition, Holdings waived the call rights it had in respect of such Pilot Restricted Shares.

Mark A. Sarvary. Mr. Sarvary had an employment agreement with Holdings and Operating Corp. pursuant to which he would serve as Chief Executive Officer for a period of five years commencing on May 10, 1999. Holdings would also cause Mr. Sarvary to be elected as a director.

The agreement provided for a minimum annual base salary of $670,000, a $1,000,000 signing bonus, and an annual target bonus of 50% of his annual base salary based on achievement of earnings objectives to be determined each year. The agreement also provided for the grant of options to purchase 272,000 shares of Holdings common stock and the grant of additional options to purchase 68,000 shares on the earlier of the date of an initial public offering of Holdings common stock or May 10, 2004. In the event of a change in Mr. Sarvary's duties and responsibilities, upon the termination of Mr. Sarvary's employment, he was entitled to receive severance and other benefits described in the January 15, 2002 amendment to his employment agreement. These included a lump-sum payment equal to two times his base salary and the continuation of medical and life insurance benefits for a period of time after the termination date. In addition, all of his vested options will remain exercisable for three years.

Mr. Sarvary resigned effective April 30, 2002. Pursuant to his separation agreement, he is entitled to $1,400,000

in severance compensation and the continuation of medical benefits for two years and life insurance benefits for 21 months. In addition, the portion of his stock options scheduled to vest on the anniversary of their grant date following the termination date was permitted to vest and become exercisable.

Blair Gordon. Mr. Gordon had an employment agreement with Holdings and Operating Corp. pursuant to which he would serve as Executive Vice-President and Creative Director for three years commencing on January 7, 2002. The agreement provided for a minimum annual base salary of $400,000, an annual bonus based on achievement of earnings objectives to be determined each year, and the grant of options to purchase 30,000 shares of Holdings common stock. The agreement also provided for the continuation of Mr. Gordon's base salary and medical benefits for one year if he was terminated without "cause" (as defined in the employment agreement). Mr. Gordon's employment terminated effective January 30, 2003. Pursuant to his separation agreement, he is entitled to these payments and benefits.

Walter Killough. Mr. Killough had a severance agreement with Holdings and Operating Corp. which provided that, in the event of a termination for any reason other than death, disability or cause, as defined in the severance agreement, he will receive a continuation of his base salary and certain expense reimbursement for a period of one year, subject to offset if he obtains new full-time employment during that period. Mr. Killough's employment terminated effective March 14, 2003. Pursuant to his agreement, he is entitled to these payments and benefits.

Michael Scandiffio. Mr. Scandiffio had an employment agreement with Holdings and Operating Corp. pursuant to which he would serve as Executive Vice-President of Mens for three years commencing June 12, 2001. The agreement provided for a minimum annual base salary of $480,000, a $100,000 signing bonus, an annual bonus based on achievement of earnings objectives to be determined each year, and the grant of options to purchase 40,000 shares of Holdings common stock. The agreement also provided for relocation benefits and the continuation of base salary and medical benefits for one year if Mr. Scandiffio is terminated without "cause" (as defined in the employment agreement). Mr. Scandiffio's employment terminated effective October 17, 2002 as a result of which he is entitled to these payments and benefits.

Executive Severance Arrangements

Messrs. Hyatt and Rosen each have an agreement with Holdings and Operating Corp. which provides that, in the event of a termination without "cause" (as defined in the agreement), he will receive a continuation of his base salary and medical benefits for a period of one year after the termination date and the payment of any bonus that he would otherwise have received for the fiscal year ending before the termination date.

Shareholders Agreements

The Woods Restricted Shares, the Pilot Restricted Shares, and the Drexler Restricted Shares and any shares of Holdings common stock acquired by any of the named executive officers described above pursuant to the exercise of options are subject to a shareholders' agreement providing for certain transfer restrictions, registration rights and customary tag-along and drag-along rights.

In addition, Mr. Drexler's shareholders' agreement provides him with certain rights to appoint three directors by himself and three additional directors by mutual agreement with Texas Pacific Group, consent to our operating/capital budgets, and antidilution and co-investment rights. Pursuant to this right, Mr. Drexler appointed Steven Grand-Jean as a director in March 2003. The agreement also requires Mr. Drexler to pay $1.0 million to us if Jeffrey Pfeifle, current President of Holdings and Operating Corp. is terminated for cause or resigns without good reason, or if Mr. Pfeifle is terminated without cause with Mr. Drexler's consent or for good reason as a result of actions approved by Mr. Drexler before February 1, 2005. Mr. Drexler is also required to pay the excess of $480,000 over Mr. Pfeifle's pro-rata bonus if such termination is without cause or for good reason. If such termination occurs between February 1, 2004 and February 1, 2005, Mr. Drexler is also required to pay us the amount of any long-term incentive paid to Mr. Pfeifle, not to exceed $400,000.

Compensation Committee Interlocks and Insider Participation

Ms. Woods, a director, and Mr. Boyce, a director and former Chief Executive Officer, are members of the Compensation Committee of Holdings.

Compensation of Directors

An attendance fee of $10,000 for each Board of Directors meeting (up to a maximum of $40,000 per year) is paid to each director who is neither an employee of Holdings nor a representative of Texas Pacific Group. Directors have the option to receive all or a portion of that fee paid in cash or in shares of Holdings common stock at a per share purchase price equal to the fair market value.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of the common stock of Holdings as of April 1, 2003 for each person who is known to Holdings to be the beneficial owner of 5% or more of Holdings common stock. The holders listed have sole voting power and investment power over the shares held by them, except as indicated by the notes following the table.

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class |
|---|---|---|---|
| Common stock ..... | TPG Partners II, L.P.<br>301 Commerce Street, Suite 3300<br>Fort Worth, TX 76102 | 8,780,073 shares (1) (4) | 59% |
| Common stock ..... | Emily Woods<br>J. Crew Group, Inc.<br>770 Broadway<br>New York, NY 10003 | 2,429,177 shares (2) | 16% |
| Common stock ..... | Millard S. Drexler<br>J. Crew Group, Inc.<br>770 Broadway<br>New York, NY 10003 | 1,522,249 shares (3) (4) | 10% |

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(1) These shares of common stock are beneficially owned by Texas Pacific Group and the following affiliates of Texas Pacific Group (collectively, "TPG Affiliates"): TPG Parallel II L.P., TPG Partners II L.P., TPG Investors II, L.P., and TPG Bacchus II, LLC.

(2) Includes 164,000 shares not currently owned but which are issuable upon the exercise of stock options awarded under stock option plan that are currently exercisable.

(3) These shares of common stock are beneficially owned by a company of which Mr. Drexler is a principal.

(4) Includes 1,466,276 shares not currently owned but which are issuable to each of TPG Bacchus II, LLC and Mr. Drexler's company upon the exercise by each of them of an exchange right. We refer you to "Certain Relationships and Related Transactions" for more information.

The following table sets forth information regarding the beneficial ownership of each class of equity securities of Holdings as of April 1, 2003 for (a) each director, (b) each of the executive officers identified in the table set forth under Management and (c) all directors and executive officers as a group. The holders listed have sole voting power and investment power over the shares held by them, except as indicated by the notes following the table.

| Title of Class | Name of Beneficial Owner | Number of Shares and Nature of Beneficial Ownership | Percent of Class |
|---|---|---|---|
| Common stock | Richard W. Boyce | 55,200 (1) | * |
| Common stock | Jonathan J. Coslet | 8,780,073 (2) | 59% |
| Common stock | James G. Coulter | 8,780,073 (2) | 59% |
| Common stock | Millard S. Drexler | 1,522,249 (3) | 10% |
| Common stock | Scott D. Hyatt | 22,000 (1) | |
| Common stock | Steven Grand-Jean | | |
| Common stock | Walter Killough (4) | 47,560 (1) | * |
| Common stock | Kenneth S. Pilot (5) | 105,000 | |
| Common stock | Scott M. Rosen | 47,560 (1) | |
| Common stock | Mark A. Sarvary (6) | 163,200 (1) | * |
| Common stock | Thomas W. Scott | 0 | * |
| Common stock | Josh S. Weston | 25,478 | * |
| Common stock | Emily Woods | 2,429,177 (7) | 16% |
| Common stock | All directors and executive officers as a group | 13,197,497 (1)(2)(3)(7) | 89% |
| Series A preferred stock | Jonathan J. Coslet | 73,475 (2) | 79% |
| Series A preferred stock | James G. Coulter | 73,475 (2) | 79% |
| Series A preferred stock | Josh S. Weston | 60 | * |
| Series A preferred stock | Emily Woods | 2,979 | 3% |
| Series A preferred stock | All directors and executive officers as a group | 76,514 (2) | 83% |

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* Represents less than 1% of the class.

(1) These are shares not currently owned but which are issuable upon the exercise of stock options awarded under the stock option plan that are currently exercisable or become exercisable within 60 days.

(2) Attributes ownership of the shares beneficially owned by TPG Affiliates to Messrs. Coslet and Coulter, who are partners of Texas Pacific Group. Includes 1,466,276 shares not currently owned but which are issuable to TPG Bacchus II, LLC upon the exercise of an exchange right. We refer you to "Certain Relationships and Related Transactions" for more information. Messrs. Coslet and Coulter disclaim beneficial ownership of the shares owned by TPG Affiliates.

(3) Attributes ownership of the shares beneficially owned by Mr. Drexler's company to Mr. Drexler. Includes 1,466,276 shares not currently owned but which are issuable to Mr. Drexler's company upon the exercise of an exchange right. We refer you to "Certain Relationships and Related Transactions" for more information.

(4) Mr. Killough's employment terminated in March 2003.

(5) Mr. Pilot was Chief Executive Officer from September 2002 to January 2003.

(6) Mr. Sarvary resigned as Chief Executive Officer in April 2002.

(7) Includes 164,000 shares not currently owned but which are issuable upon the exercise of stock options awarded under the stock option plan that are currently exercisable.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mark Sarvary Loan

In connection with Mr. Sarvary's relocation to our headquarters, Holdings loaned Mr. Sarvary $1.0 million on an interest-free basis to purchase a residence, which loan was secured by a mortgage on that residence. The largest amount outstanding in fiscal 2002 was $850,000. As part of Mr. Sarvary's separation from Holdings in April 2002, Mr. Sarvary agreed to repay the loan on the earlier of (a) June 1, 2005, (b) the sale of his residence and (c) the first anniversary of his employment with a new employer. In October 2002, Mr. Sarvary paid $782,000 to Holdings in full satisfaction of the loan in exchange for a $68,000 present value discount granted by us in consideration of his early repayment.

Tax Sharing Arrangement

Holdings and its subsidiaries 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 on a "separate return" basis.

TPG-MD Investment Notes Payable

On February 4, 2003, Operating Corp. entered into a credit agreement with TPG-MD Investment, LLC, an entity controlled by Texas Pacific Group and Millard S. Drexler, which provides for:

- Tranche A loan in an aggregate principal amount of $10.0 million; and

- Tranche B loan in an aggregate principal amount of $10.0 million.

The loans are due in February 2008 and bear interest at 5.0% per annum payable semi-annually in arrears on January 31 and July 31, commencing on July 31, 2003. Interest will compound and be capitalized and added to the principal amount on each interest payment date. Payment of the loans is subordinated in right of payment to the prior payment of all senior debt and on the same terms as Operating Corp.'s senior subordinated notes. The loans are guaranteed by certain subsidiaries of Operating Corp.

The lender has the right, exercisable at anytime prior to the maturity date, to exchange the principal amount of and accrued and unpaid interest on the loans into shares of common stock of Holdings at an exercise price of $6.82 per share. The lender also has the right to require Operating Corp. to prepay the Tranche B loan without premium or penalty under certain circumstances.

ITEM 14. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this Annual Report on Form 10-K, the Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of disclosure controls and procedures as provided in Rule 13a-14 under the Securities Exchange Act of 1934, as amended. There are inherent limitations on the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

J. Crew Group, Inc.

(a) 1. Financial Statements

The following financial statements of J. Crew Group, Inc. and subsidiaries are included in Item 8:

(i) Report of KPMG LLP, Independent Auditors
(ii) Consolidated Balance Sheets as of February 1, 2003 and February 2, 2002
(iii) Consolidated Statements of Operations - Years ended February 1, 2003, February 2, 2002 and February 3, 2001
(iv) Consolidated Statements of changes in Stockholders' Deficit - Years ended February 1, 2003, February 2, 2002 and February 3, 2001
(v) Consolidated Statements of Cash Flows - Years ended February 1, 2003, February 2, 2002 and February 3, 2001
(vi) Notes to consolidated financial statements

2. Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts.

3. Exhibits

The exhibits listed on the accompanying Exhibit Index are incorporated by reference herein and filed as part of this report.

(b) Reports on Form 8-K

The Company filed the following reports on Form 8-K during the quarter ended February 1, 2003:

| Date of Report | Item(s) Reported |
|---|---|
| Dec. 27, 2002 | Item 5 |
| Jan. 27, 2003 | Item 5 |

(c) Exhibits

See Item 15(a) 3 above.

(d) Financial Statement Schedules

See Item 15(a) 1 and 15(a) 2 above.

J. Crew Operating Corp.

(a) 1. Financial Statements

The following financial statements of J. Crew Operating Corp. and subsidiaries are included in Item 8:

(i) Report of KPMG LLP, Independent Auditors
(ii) Consolidated Balance Sheets as of February 1, 2003 and February 2, 2002
(iii) Consolidated Statements of Operations - Years ended February 1, 2003, February 2, 2002 and February 3, 2001
(iv) Consolidated Statements of Cash Flows - Years ended February 1, 2003, February 2, 2002 and February 3, 2001
(v) Notes to consolidated financial statements

2. Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 21, 2003

J. CREW GROUP, INC.
J. CREW OPERATING CORP.

By: /s/ Millard S. Drexler
Millard S. Drexler
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of each registrant and in the capacities indicated, on April 21, 2003.

| Signature | Title |
|---|---|
| /s/ Millard S. Drexler<br>Millard S. Drexler | Chairman of the Board, Chief Executive Officer and a Director (Principal Executive Officer) |
| /s/ Scott M. Rosen<br>Scott M. Rosen | Executive Vice President, Chief Financial Officer (Principal Financial Officer) |
| /s/ Nicholas Lamberti<br>Nicholas Lamberti | Vice President, Corporate Controller (Principal Accounting Officer) |
| /s/ Richard W. Boyce<br>Richard W. Boyce | Director |
| /s/ Jonathan J. Coslet<br>Jonathan J. Coslet | Director |
| /s/ James G. Coulter<br>James G. Coulter | Director |
| /s/ Steven Grand-Jean<br>Steven Grand-Jean | Director |
| /s/ Thomas W. Scott<br>Thomas W. Scott | Director |
| /s/ Josh Weston<br>Josh Weston | Director |
| /s/ Emily Woods<br>Emily Woods | Director |

CERTIFICATION

I, Millard S. Drexler, certify that:

1. I have reviewed this annual report on Form 10-K of J. Crew Group, Inc. and J. Crew Operating Corp.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of each registrant as of, and for, the periods presented in this annual report.

4. Each registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for such registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to such registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of such registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Report"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. Each registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to such registrant's auditors and the audit committee of such registrant's board of directors (or persons performing the equivalent function);

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect such registrant's ability to record, process, summarize and report financial data and have identified for such registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in such registrant's internal controls; and

6. Each registrant's other certifying officers and I have indicated in this annual report whether or not there were any significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

April 21, 2003

/s/ Millard S. Drexler
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Millard S. Drexler
Chief Executive Officer

CERTIFICATION

I, Scott M. Rosen, certify that:

1. I have reviewed this annual report on Form 10-K of J. Crew Group, Inc. and J. Crew Operating Corp.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of each registrant as of, and for, the periods presented in this annual report.

4. Each registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for such registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to such registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of such registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Report"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. Each registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to such registrant's auditors and the audit committee of such registrant's board of directors (or persons performing the equivalent function);

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect such registrant's ability to record, process, summarize and report financial data and have identified for such registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in such registrant's internal controls; and

6. Each registrant's other certifying officers and I have indicated in this annual report whether or not there were any significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

April 21, 2003

/s/ Scott M. Rosen
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Scott M. Rosen
Executive Vice-President
and Chief Financial Officer

Independent Auditors' Report

The Board of Directors and Stockholders
J. Crew Group, Inc. and Subsidiaries:

We have audited the consolidated financial statements of J. Crew Group, Inc. and subsidiaries (the "Company") as listed in the accompanying Index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J. Crew Group, Inc. and subsidiaries as of February 1, 2003 and February 2, 2002 and the results of their operations and their cash flows for each of the years in the three-year period ended February 1, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

KPMG LLP

March 25, 2003,
except as to note 17, which is as of
April 4, 2003

J. CREW GROUP, INC. AND
SUBSIDIARIES

Consolidated Balance Sheets

| Assets | February 1, 2003 | February 2, 2002 |
|---|---|---|
| | (in thousands) | |
| Current assets: | | |
| Cash and cash equivalents | $ 18,895 | $ 16,201 |
| Merchandise inventories | 107,318 | 138,918 |
| Prepaid expenses and other current assets | 24,886 | 27,026 |
| Refundable income taxes | 6,278 | - |
| Total current assets | 157,377 | 182,145 |
| Property and equipment - at cost: | | |
| Land | 1,710 | 1,610 |
| Buildings and improvements | 11,705 | 11,700 |
| Furniture, fixtures and equipment | 102,108 | 105,292 |
| Leasehold improvements | 182,226 | 170,195 |
| Construction in progress | 3,161 | 4,903 |
| | 300,910 | 293,700 |
| Less accumulated depreciation and amortization | 129,363 | 106,427 |
| | 171,547 | 187,273 |
| Deferred income tax assets | 5,000 | 18,071 |
| Other assets | 14,954 | 13,831 |
| Total assets | $ 348,878 | $ 401,320 |
| **Liabilities and Stockholders' Deficit** | | |
| Current liabilities: | | |
| Accounts payable | $ 54,921 | $ 66,703 |
| Other current liabilities | 61,463 | 61,788 |
| Income taxes payable | 2,978 | 8,840 |
| Deferred income tax liabilities | - | 5,650 |
| Total current liabilities | 119,362 | 142,981 |
| Deferred credits and other long-term liabilities | 65,141 | 67,235 |
| Long-term debt | 292,000 | 279,687 |
| Redeemable preferred stock | 264,038 | 230,460 |
| Stockholders' deficit | (391,663) | (319,043) |
| Total liabilities and stockholders' deficit | $ 348,878 | $ 401,320 |

See accompanying notes to consolidated financial statements.

J. CREW GROUP, INC. AND
SUBSIDIARIES

Consolidated Statements of Operations

| | Years ended | | |
|---|---|---|---|
| | February 1, 2003 | February 2, 2002 | February 3, 2001 |
| | (in thousands) | | |
| Revenues: | | | |
| Net sales | $ 732,279 | $ 741,280 | $ 787,658 |
| Other | 34,103 | 36,660 | 38,317 |
| | 766,382 | 777,940 | 825,975 |
| Operating costs and expenses: | | | |
| Cost of goods sold, including buying and occupancy costs | 478,700 | 462,371 | 463,909 |
| Selling, general and administrative expenses | 291,518 | 295,568 | 301,865 |
| Write down of assets and other charges in connection with discontinuance of Clifford & Wills | -- | -- | 4,130 |
| | 770,218 | 757,939 | 769,904 |
| Income/(loss) from operations | (3,836) | 20,001 | 56,071 |
| Interest expense - net | 40,954 | 36,512 | 36,642 |
| Income/(loss) before income taxes | (44,790) | (16,511) | 19,429 |
| (Provision) benefit for income taxes | 4,200 | 5,500 | (7,500) |
| Net income/(loss) | $ (40,590) | $ (11,011) | $ 11,929 |

See accompanying notes to consolidated financial statements.

J. CREW GROUP, INC. AND
SUBSIDIARIES
Consolidated Statements of Cash Flows

| | Years ended | | |
|---|---|---|---|
| | February 1, 2003 | February 2, 2002 | February 3, 2001 |
| | (in thousands) | | |
| Cash flows from operating activities: | | | |
| Net income/(loss) | $ (40,590) | $ (11,011) | $ 11,929 |
| Adjustments to reconcile net income/(loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 34,451 | 31,718 | 22,600 |
| Amortization of deferred financing costs | 4,435 | 1,997 | 2,793 |
| Non-cash interest expense | 12,313 | 15,395 | 13,608 |
| Deferred income taxes | 7,421 | (3,460) | 27 |
| Non-cash compensation expense | (589) | 1,574 | 649 |
| Write down of assets and other charges in connection with discontinued catalog | -- | -- | 4,130 |
| Changes in operating assets and liabilities: | | | |
| Merchandise inventories | 31,600 | 1,749 | (10,739) |
| Prepaid expenses and other current assets | 2,140 | (3,286) | 6,343 |
| Other assets | (2,470) | (3,416) | (2,788) |
| Net assets held for disposal | -- | -- | 4,797 |
| Accounts payable | (11,782) | 16,998 | 8,754 |
| Other liabilities | 495 | (13,767) | 5,263 |
| Income taxes payable | (12,140) | (8,741) | 2,894 |
| Net cash provided by operating activities | 25,284 | 25,750 | 70,260 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (26,920) | (61,862) | (55,694) |
| Proceeds from construction allowances | 6,502 | 19,287 | 13,519 |
| Net cash used in investing activities | (20,418) | (42,575) | (42,175) |
| Cash flows from financing activities: | | | |
| Costs incurred in refinancing Credit Facility | (3,256) | -- | -- |
| Repayment of long-term debt | -- | -- | (34,000) |
| Proceeds from the issuance of common stock | 1,084 | 96 | 178 |
| Repurchase of common stock | -- | -- | (26) |
| Net cash provided by/(used in) financing activities | (2,172) | 96 | (33,848) |
| Increase (decrease) in cash and cash equivalents | 2,694 | (16,729) | (5,763) |
| Cash and cash equivalents at beginning of year | 16,201 | 32,930 | 38,693 |
| Cash and cash equivalents at end of year | $ 18,895 | $ 16,201 | $ 32,930 |
| Supplementary cash flow information: | | | |
| Income taxes paid | $ 453 | $ 6,442 | $ 4,279 |
| Interest paid | $ 19,380 | $ 19,389 | $ 20,513 |
| Noncash financing activities: | | | |
| Dividends on redeemable preferred stock | $ 33,578 | $ 30,442 | $ 26,484 |

See accompanying notes to consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Deficit

(in thousands, except shares)

| | Common stock | | Additional paid-in capital | Retained earnings (deficit) | Treasury stock | Deferred compen-sation | Stock-holders' deficit |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| Balance at January 29, 2000 | 12,214,265 | $ 1 | $ 70,537 | $ (331,178) | $ (2,325) | $ (1,628) | $ (264,593) |
| Net loss | -- | -- | -- | 11,929 | -- | -- | 11,929 |
| Preferred stock dividends | -- | -- | -- | (26,484) | -- | -- | (26,484) |
| Issuance of common stock | 18,400 | -- | 178 | -- | -- | -- | 178 |
| Amortization of restricted stock | -- | -- | -- | -- | -- | 649 | 649 |
| Repurchase of common stock | -- | -- | -- | -- | (26) | -- | (26) |
| Balance at February 3, 2001 | 12,232,665 | 1 | 70,715 | (345,733) | (2,351) | (979) | (278,347) |
| Net loss | -- | -- | -- | (11,011) | -- | -- | (11,011) |
| Preferred stock dividends | -- | -- | -- | (30,442) | -- | -- | (30,442) |
| Issuance of common stock | 5,524 | -- | 96 | -- | -- | -- | 96 |
| Amortization of restricted stock | -- | -- | -- | -- | -- | 661 | 661 |
| Balance at February 2, 2002 | 12,238,189 | 1 | 70,811 | (387,186) | (2,351) | (318) | (319,043) |
| Net loss | -- | -- | -- | (40,590) | -- | -- | (40,590) |
| Preferred stock dividends | -- | -- | -- | (33,578) | -- | -- | (33,578) |
| Issuance of common stock | 737,621 | -- | 1,084 | -- | -- | -- | 1,084 |
| Issuance of restricted stock | 383,963 | -- | 311 | -- | -- | (311) | -- |
| Amortization of restricted stock | -- | -- | -- | -- | -- | 464 | 464 |
| Balance at February 1, 2003 | 13,359,773 | 1 | 72,206 | (461,354) | (2,351) | (165) | (391,663) |

See accompanying notes to consolidated financial statements.

J. CREW GROUP, INC. AND
SUBSIDIARIES

Notes to Consolidated Financial Statements

Years ended February 1, 2003, February 2, 2002 and February 3, 2001

(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. ("Holdings") and its wholly-owned subsidiaries (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Business

The Company designs, contracts for the manufacture of, markets and distributes men's and women's apparel, shoes and accessories under the J.Crew brand name. The Company's products are marketed, primarily in the United States, through various channels of distribution, including retail and factory stores, catalogs, and the Internet. The Company is also party to a licensing agreement which grants the licensee 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 a specified percentage 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 seasons) 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) Segment Information

The Company operates in one reportable business segment. All of the Company's identifiable assets are located in the United States. Export sales are not significant.

(d) Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31. The fiscal years 2002, 2001, and 2000 ended on February 1, 2003 (52 weeks), February 2, 2002 (52 weeks), and February 3, 2001 (53 weeks).

(e) 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 $11,224,000 and $7,895,000 at February 1, 2003 and February 2, 2002, are stated at cost, which approximates market value.

(f) Merchandise Inventories

Merchandise inventories are stated at the lower of average cost or market. The Company capitalizes certain design, purchasing and warehousing costs in inventory.

(g) Advertising and Catalog Costs

Direct response advertising which consists primarily of catalog production and mailing costs, are capitalized and amortized over the expected future revenue stream. 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 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 1, 2003 and February 2, 2002 were $6,197,000 and $7,959,000. Catalog costs, which are reflected in selling and administrative expenses, for the fiscal years 2002, 2001, and 2000 were $56,695,000 $65,477,000 and $69,000,000.

All other advertising costs, which are not significant, are expensed as incurred.

(h) Property and Equipment

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

Significant systems development costs are capitalized and amortized on a straight-line basis over periods ranging from three to five years. Approximately $.6 million and $8.5 million of system development costs were capitalized in fiscal years 2002 and 2001.

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) Debt Issuance Costs

Debt issuance costs (included in other assets) of $6,743,000 and $6,906,000 at February 1, 2003 and February 2, 2002 are amortized over the term of the related debt agreements.

(j) Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". This statement requires the use of the asset and liability method of accounting for income taxes. Under the asset and 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. 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.

(k) Revenue Recognition

Revenue is recognized for catalog and internet sales when merchandise is shipped to customers and at the time of sale for retail sales. The Company accrues a sales return allowance for estimated returns of merchandise subsequent to the balance sheet date that relate to sales prior to the balance sheet date. Amounts billed to customers for shipping and handling fees related to catalog and internet sales are included in other revenues at the time of shipment.

(l) Store Preopening Costs

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

(m) Derivative Financial Instruments

Derivative financial instruments are used by the Company from time to time to manage its interest rate and foreign currency exposures. For interest rate swap agreements, the net interest paid is recorded as interest expense on a current basis. Gains or losses resulting from market fluctuations are not recognized. 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.

(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

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company assesses the recoverability of such assets based upon estimated cash flow forecasts.

(p) Stock Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method of accounting for employee stock options as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation". Accordingly, compensation expense is not recorded for options granted if the option price is equal to or in excess of the fair market price at the date of grant. If the Company had adopted the fair value recognition provisions of SFAS No. 123, the effect on net income would not be material.

Restricted stock awards which are granted at less than fair market value result in the recognition of deferred compensation, which is charged to expense over the vesting period of the awards. Deferred compensation is shown as a reduction of stockholders' equity.

(2) Events of September 11, 2001

The terrorist events of September 11, 2001 resulted in the destruction of the Company's retail store located at the World Trade Center in New York City, resulting in the loss of inventories and store fixtures, equipment and leasehold improvements. These losses and the resulting business interruption are covered by insurance policies maintained by the Company.

The statement of operations for the year ended February 2, 2002 included losses of $1.9 million relating to inventories and stores fixtures, equipment and leasehold improvements. Insurance recoveries in fiscal 2001 were recorded to the extent of the losses recognized. The statement of operations for the year ended February 1, 2003 includes a gain of $1,420,000, as a result of additional insurance recoveries during fiscal 2002. This gain was classified as a reduction of selling, general and administrative expenses. Additional insurance recoveries, which may be received in the future including recoveries for business interruption, will be recorded at the time of settlement.

(3) Disposal of a Business

In 1998, management of the Company made a decision to exit the catalog and outlet store operations of Clifford & Wills ("C&W"). Revenues and expenses of C&W for fiscal 2000 were not material and as a result have been netted in the accompanying consolidated statements of operations.

In February 2000, the Company sold certain intellectual property assets to Spiegel Catalog Inc. for $3.9 million. In connection with this sale the Company agreed to cease the fulfillment of catalog orders but retained the right to operate C&W outlet stores and conduct other liquidation sales of inventories through December 31, 2000. After consideration of the proceeds from the sale of assets and other terms of the agreement the Company provided $4,000,000 to write down inventories to net realizable value as of January 29, 2000. At February 3, 2001, the Company determined that the realizable value of the remaining net assets of C&W, primarily inventories, was less than their carrying amounts and an additional charge of $4,130,000 was taken.

(4) Other Current Liabilities

Other current liabilities consist of:

| | February 1, 2003 | February 2, 2002 |
|---|---|---|
| Customer liabilities | $9,993,000 | $11,381,000 |
| Accrued catalog and marketing costs | 2,536,000 | 3,655,000 |
| Taxes, other than income taxes | 2,670,000 | 2,930,000 |
| Accrued interest | 9,598,000 | 4,690,000 |
| Accrued occupancy | 1,024,000 | 1,036,000 |
| Reserve for sales returns | 5,313,000 | 6,475,000 |
| Accrued compensation | 7,475,000 | 1,697,000 |
| Other | 22,854,000 | 29,924,000 |
| | $61,463,000 | $61,788,000 |

(5) Lines of Credit

On December 23, 2002 the Company entered into a Loan and Security Agreement with Wachovia Bank, N.A., as arranger, Congress Financial Corporation, as administrative and collateral agent, and a syndicate of lenders which provides for a maximum credit availability of up to $180.0 million (the "Congress Credit Facility"). The Congress Credit Facility replaced a revolving credit facility which was scheduled to expire in October 2003.

The Congress Credit Facility provides for revolving loans of up to $160.0 million; supplemental loans of up to $20.0 million each year during the period from April 15 to September 15; and letter of credit accommodations. The Congress Credit Facility expires in December 2005. The total amount of availability is subject to limitations based on specified percentages of eligible receivables, inventories and real property. Real property availability is limited to $5.8 million and will be reduced at a rate of $97,000 per month commencing June 1, 2003.

Borrowings are secured by a perfected first priority security interest in all the assets of the Company's subsidiaries and bear interest, at the Company's option, at the prime rate plus 0.5% or the Eurodollar rate plus 2.5%. Supplemental loans bear interest at the prime rate plus 3.0%.

The Congress Credit Facility includes restrictions, including the incurrence of additional indebtedness, the payment of dividends and other distributions, the making of investments, the granting of loans and the making of capital expenditures. The Company is required to maintain minimum levels of earnings before interest, taxes, depreciation, amortization and certain non-cash items, ("EBITDA") if excess availability is less than $15.0 million for any 30 consecutive day period.

The Congress Credit Facility was amended on February 7, 2003 to provide for an exclusion from the definition of consolidated net income of severance and other one-time employment-related charges of up to $6.7 million in the last quarter of fiscal 2002 and $3.0 million in the first quarter of fiscal 2003.

Maximum borrowings under revolving credit agreements were $63,000,000, $95,000,000 and $34,000,000 during fiscal years 2002, 2001 and 2000 and average borrowings were $40,400,000, $43,100,000 and $9,800,000. There were no borrowings outstanding at February 1, 2003 and February 2, 2002.

Outstanding letters of credit established primarily to facilitate international merchandise purchases at February 1, 2003 and February 2, 2002 amounted to $45,900,000 and $46,300,000.

(6) Long-Term Debt

Long term debt consists of:

| | February 1, 2003 | February 2, 2002 |
|---|---|---|
| 10-3/8% senior subordinated notes (a) | $150,000,000 | $150,000,000 |
| 13-1/8% senior discount debentures (b) | 142,000,000 | 129,687,000 |
| Total | $292,000,000 | $279,687,000 |

(a) The senior subordinated notes are unsecured general obligations of J. Crew Operating Corp., a subsidiary of Holdings, and are subordinated in right of payment to all senior debt. Interest on the notes accrues at the rate of 10-3/8% per annum and is payable semi-annually in arrears on April 15 and October 15. The notes 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% of principal in 2002 to 100% in 2005 and thereafter.

(b) The senior discount debentures were issued in aggregate principal amount of $142.0 million at maturity and mature on October 15, 2008. These debentures are senior unsecured obligations of Holdings. Cash interest did not accrue prior to October 15, 2002. However, the Company recorded non-cash interest expense as an accretion of the principal amount of the debentures at a rate of 13-1/8% per annum. Interest will be payable in arrears on April 15 and October 15 of each year subsequent to October 15, 2002. The senior discount debentures may be redeemed at the option of Holdings on or after October 15, 2002 at prices ranging from 106.563% of principal to 100% in 2005 and thereafter.

Long term debt of $150,000,000 matures in fiscal 2007.

(7) Redeemable Preferred Stock

The restated certificate of incorporation authorizes Holdings to issue up to:

(a) 1,000,000 shares of Series A cumulative preferred stock; par value $.01 per share; and

(b) 1,000,000 shares of Series B cumulative preferred stock; par value $.01 per share.

At February 1, 2003, 92,800 shares of Series A Preferred Stock and 32,500 shares of Series B Preferred Stock were outstanding.

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, 1998 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.

Accumulated but unpaid dividends amounted to $138,738,000 at February 1, 2003. Dividends are recorded as an increase to redeemable preferred stock and a reduction of retained earnings.

(8) Common Stock

The restated certificate of incorporation authorizes Holdings to issue up to 100,000,000 shares of common stock; par value $.01per share. At February 1, 2003, shares issued were 13,359,773 and shares outstanding were 12,870,373. During 2000, 2001 and 2002 directors converted fees into 18,400, 5,524 and 12,318 shares of Holdings common stock.

(9) Commitments and Contingencies

(a) Operating Leases

As of February 1, 2003, the Company was obligated under various long-term operating leases for retail and outlet stores, warehouses, office space and equipment requiring minimum annual rentals. These operating leases expire on varying dates through 2014. At February 1, 2003 aggregate minimum rentals in future periods are, as follows:

| Fiscal year | Amount |
|---|---|
| 2003 | 52,372,000 |
| 2004 | 49,867,000 |
| 2005 | 47,396,000 |
| 2006 | 45,192,000 |
| 2007 | 43,636,000 |
| Thereafter | 143,875,000 |

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

Rent expense for fiscal 2002, 2001, and 2000 was $50,403,000, $46,573,000 and $45,138,000 including contingent rent based on store sales of $1,187,000, $1,023,000, and $1,974,000.

(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.

(c) Litigation

The Company is subject to various legal proceedings and claims that arise in the ordinary conduct of its business. Although the outcome of these claims cannot be predicted with certainty, management does not believe that the ultimate resolution of these matters will have a material adverse effect on the Company's financial condition or results of operations.

(10) 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 were $1,834,000, $1,334,000 and $1,241,000 for fiscal 2002, 2001 and 2000.

(11) License Agreement

The Company has a licensing agreement through January 2005 with Itochu Corporation, 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 2002, 2001, and 2000 was $2,280,000, $2,560,000 and $3,020,000.

(12) Interest Expense - Net

Interest expense, net consists of the following:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Interest expense | $36,548,000 | $34,810,000 | $34,390,000 |
| Amortization of deferred financing costs | 4,435,000 | 1,997,000 | 2,793,000 |
| Interest income | (29,000) | (295,000) | (541,000) |
| Interest expense, net | $40,954,000 | $36,512,000 | $36,642,000 |

Deferred financing costs of $1,800,000 were written off in connection with the refinancing of our revolving credit facility in December 2002.

(13) Other Revenues

Other revenues consist of the following:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Shipping and handling fees | $31,823,000 | $34,100,000 | $35,297,000 |
| Royalties | 2,280,000 | 2,560,000 | 3,020,000 |
| | $34,103,000 | $36,660,000 | $38,317,000 |

(14) 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 is estimated to be approximately $238,692,000 and $187,191,000 at February 1, 2003 and February 2, 2002, and is based on dealer quotes or quoted market prices of the same or similar instruments. The carrying amounts of long-term debt were $292,000,000 and 279,687,000 at February 1, 2003 and February 2, 2002. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, notes payable-bank, accounts payable and other current liabilities 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.

(15) Income Taxes

The income tax provision/benefit consists of:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Current: | | | |
| Foreign | $ 193,000 | $ 260,000 | $ 300,000 |
| Federal | (12,014,000) | (2,400,000) | 6,253,000 |
| State and local | 200,000 | 100,000 | 920,000 |
| | (11,621,000) | (2,040,000) | 7,473,000 |
| Deferred | 7,421,000 | (3,460,000) | 27,000 |
| Total | $ (4,200,000) | $ (5,500,000) | $ 7,500,000 |

A reconciliation between the provision/(benefit) for income taxes based on the U.S. Federal statutory rate and the Company's effective rate is as follows.

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Federal income tax rate | (35.0)% | (35.0)% | 35.0% |
| State and local income taxes, net of federal benefit | - | (2.3) | 7.6 |
| Valuation allowance | 47.0 | - | - |
| Reversal of prior tax accruals | (20.9) | - | - |
| Nondeductible expenses and other | (.5) | 4.0 | (4.0) |
| Effective tax rate | (9.4)% | (33.3)% | 38.6% |

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

| | February 1, 2003 | February 2, 2002 |
|---|---|---|
| Deferred tax assets: | | |
| Original issue discount | $ 24,896,000 | $ 20,836,000 |
| Federal NOL carryforwards | 7,100,000 | - |
| State and local NOL carryforwards | 1,400,000 | 1,900,000 |
| Reserve for sales returns | 2,202,000 | 2,603,000 |
| Other | 3,873,000 | 3,826,000 |
| | 39,471,000 | 29,165,000 |
| Valuation allowance | (21,046,000) | -- |
| | 18,425,000 | 29,165,000 |
| Deferred tax liabilities: | | |
| Prepaid catalog and other prepaid expenses | (9,872,000) | (8,841,000) |
| Difference in book and tax basis for property and equipment | (3,553,000) | (7,903,000) |
| | (13,425,000) | (16,744,000) |
| Net deferred income tax asset | $ 5,000,000 | $ 12,421,000 |

The Company has significant deferred tax assets resulting from net operating loss carryforwards and deductible temporary differences, which will reduce taxable income in future periods. SFAS No. 109 "Accounting for Income Taxes" states that a valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. A review of all available positive and negative evidence needs to be considered, including a company's current and past performance, the market environment in which a company operates, length of carryback and carryforward periods, existing contracts or sales backlog that will result in future profits, etc. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. Cumulative losses weigh heavily in the overall assessment. As a result of our assessment, we established a valuation allowance for the net deferred tax

assets at February 1, 2003. The Company does not expect to recognize any tax benefits in future results of operations until an appropriate level of profitability is sustained.

The Company has state and local income tax net operating loss carryforwards of varying amounts.

(16) Stock Compensation Plans

1997 Stock Option Plan

Under the terms of the 1997 Stock Option Plan, an aggregate of 1,910,000 shares are available for grant to certain key employees or consultants. The options have terms of seven to ten years and become exercisable over a period of five years. Options granted under the Option Plan are subject to various conditions, including under some circumstances, the achievement of certain performance objectives.

A summary of stock option activity for the 1997 Plan was, as follows:

| | 2002 | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted average exercise price | Shares | Weighted average exercise price | Shares | Weighted average exercise price |
| Outstanding, beginning of year | 1,808,790 | $ 9.97 | 1,788,750 | $ 9.15 | 1,532,800 | $ 8.87 |
| Granted | 395,500 | 7.64 | 283,000 | 14.53 | 374,700 | 10.17 |
| Exercised | -- | -- | -- | -- | (2,000) | 6.82 |
| Cancelled | (597,560) | 10.29 | (262,960) | 9.31 | (116,750) | 8.72 |
| Outstanding, end of year | 1,606,730 | $ 9.27 | 1,808,790 | $ 9.97 | 1,788,750 | $ 9.15 |
| Options exercisable at end of year | 842,340 | $ 9.81 | 728,950 | $ 9.21 | 583,000 | $ 9.24 |

2003 Equity Incentive Plan

In January 2003, the Board of Directors of Holdings approved the adoption of the 2003 Equity Incentive Plan. Under the terms of the 2003 Plan, an aggregate of 4,798,160 shares of common stock are available for award to key employees and consultants in the form of non-qualified stock options and restricted shares as follows:

- 1,115,812 shares are reserved for the issuance of stock options at an exercise price of $6.82 of fair market value, whichever is greater;
- 1,115,812 shares are reserved for the issuance of stock options at an exercise price of $25.00 or fair market value, whichever is greater;
- 1,115,812 shares are reserved for the issuance of stock options at an exercise price of $35.00 or fair market value, whichever is greater;
- 1,450,724 shares are reserved for the issuance of restricted shares.

The options have terms of ten years and become exercisable over the period provided in each grant agreement.

During fiscal 2002, Holdings granted 836,889 options with an exercise price of $6.82, 1,015,425 options with an exercise price of $25.00 and 1,015,425 options with an exercise price of $35.00, and issued 1,004,266 restricted shares under the 2003 plan.

(17) Subsequent Events

TPG - MD Investment Loans

On February 4, 2003, Operating Corp. entered into a credit agreement with TPG-MD Investment, LLC, a related party, which provides for a Tranche A loan to Operating Corp. in an aggregate principal amount of $10.0 million and a Tranche B loan to Operating Corp. in an aggregate principal amount of $10.0 million. The loans are due in February 2008 and bear interest at 5.0% per annum payable semi-annually in arrears on January 31 and July 31, commencing on July 31, 2003. Interest will compound and be capitalized and added to the principal amount on each interest payment date. Payment of the loans is subordinated in right of payment to the prior payment of all senior debt and on the same terms as Operating Corp's 10-3/8% senior subordinated notes due 2008.

Exchange Offer

On April 4, 2003, Holdings commenced through J. Crew Intermediate LLC, its newly formed wholly-owned subsidiary ("Intermediate"), an offer to exchange the outstanding 13 1/8% Senior Discount Debentures due 2008 issued by Holdings for Intermediate's unissued 16.0% Senior Discount Contingent Principal Notes due 2008.

Holdings will not pay accrued and unpaid interest on the existing debentures on the scheduled interest payment date of April 15, 2003. Rather, Holdings will pay such interest on the settlement date of the exchange offer (which is expected to occur on or about May 6, 2003) together with interest thereon at a rate of 13 1/8% per annum from April 15, 2003 to the settlement date, to the holders of the existing debentures who do not tender their existing debentures in the exchange offer.

Congress Credit Facility

The Congress Credit Facility was amended on April 4, 2003 to (a) consent to the formation of J.Crew Intermediate LLC and the Exchange Offer; (b) carve-out a $9.0 million one-time charge for non-current inventory from the EBITDA covenant; (c) modify required EBITDA covenant levels and (d) eliminate the supplemental loan availability in fiscal 2003.

(18) Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board, ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets and a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. SFAS No. 143 is effective for fiscal years beginning after

June 15, 2002. Management does not believe that the adoption of SFAS No. 143 will have a significant impact on the Company's financial statements.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142., "Goodwill and Other Intangible Assets". SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001 and modifies the application of the purchase accounting method effective for transactions that are completed after June 30, 2001. SFAS No. 142 eliminated the requirement to amortize goodwill and intangible assets having indefinite useful lives but requires testing at least annually for impairment. Intangible assets that have finite lives will continue to be amortized over their useful lives. SFAS No. 142 applies to goodwill and intangible assets arising from transactions completed before and after the statement's effective dated of January 1, 2002. The adoption of these statements in fiscal 2002 did not have any effect on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment of disposal of long-lived assets and requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 144 was effective for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 did not have a significant impact on the Company's financial statements.

EITF Issue No. 01-9 "Accounting for Consideration Given to a Customer or a Reseller of the Vendor's Products" (formerly EITF Issue 00-14) became effective in the first quarter of fiscal 2002. This EITF addresses the accounting for and classification of consideration given to a customer from a vendor in connection with the purchase or promotion of the vendor's product. The adoption of the EITF did not have a significant effect on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146 - "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 in the fourth quarter of 2002 did not have an impact on the Company's financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB statements No. 4, 44, and 64, Amendment of FASB Statement No 13, and Technical Corrections". SFAS No. 145 primarily affects the reporting requirements and classification of gains and losses from the extinguishment of debt, rescinds the transitional accounting requirement for intangible assets of motor carriers, and requires that certain lease modifications with economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 is effective for financial statements issued after April 2003, with the exception of the provisions affecting the accounting for lease transactions, which should be applied for transactions entered into after May 15, 2002, and the provisions affecting classification of gains and losses from the extinguishment of debt, which should be applied in fiscal years after May 15, 2002. Management has classified the loss from the refinancing of its credit facility in December 2002 as a component of interest expense in the Company's financial statements.

In November 2002, the FASB issued FASB interpretation ("FIN") No. 45 - "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued and requires that they be recorded at fair value. The initial recognition and measurement provisions of this interpretation are to be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of this interpretation are effective for periods ending after December 15, 2002.

In December 2002, the FASB issued SFAS No. 148, - "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123". This Statement amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternate methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This Statement also amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments to SFAS 123 regarding disclosure are effective for fiscal years ending after December 15, 2002. The Company applies APB Opinion No. 25 in accounting for its employee stock option plans.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities - and Interpretation of Accounting Research Bulletin No. 51". FIN No. 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risks and rewards of ownership among their owners and other parties involved. The provisions of FIN No. 46 are applicable immediately to all variable interest entities created after January 31, 2003 and variable interest entities in which a company obtains an interest after that date. For variable interest entities created before January 31, 2003, the provisions of this interpretation are effective July 1, 2003. The adoption of FIN No. 46 is not expected to have any effect on the Company's financial statements.

(19) Quarterly Financial Information (Unaudited)

($ in millions)

| | 13 weeks ended 5/4/02 (a) | 13 weeks ended 8/3/02 | 13 weeks ended 11/2/02 | 13 weeks ended 2/1/03 (b) | 52 weeks ended 2/1/03 |
|---|---|---|---|---|---|
| Net sales | $ 157.9 | $160.9 | $181.9 | $ 231.6 | $ 732.3 |
| Gross profit | 67.0 | 61.0 | 75.9 | 83.8 | 287.7 |
| Net income (loss) | $ (12.1) | $ (7.1) | $ (.7) | $ (20.7) | $ (40.6) |

| | 13 weeks ended 5/5/01 | 13 weeks ended 8/4/01 | 13 weeks ended 11/3/01 | 14 weeks ended 2/2/02 | 53 weeks ended 2/2/02 |
|---|---|---|---|---|---|
| Net sales | $ 158.9 | $160.5 | $187.1 | $ 234.8 | $ 741.3 |
| Gross profit | 68.2 | 60.5 | 82.8 | 104.1 | 315.6 |
| Net income (loss) | $ (9.3) | $ (8.6) | $ .3 | $ 6.6 | $ (11.0) |

(a) Net income (loss) includes a pre-tax charge of $4.6 million for severance charges.

(b) Net income (loss) includes (a) pre-tax charges of $7.7 million for severance and other one-time employment related charges, (b) $1.8 million to write-off deferred financing charges in connection with the refinancing of our credit facility (c) a $9,000,000 inventory writedown as a result of the Company's decision to modify its strategy on the disposition of inventory to accelerate inventory clearing at the end of each selling season and (d) a tax provision of $6.5 million on a pre-tax loss of $14.2 million as a result of providing a valuation allowance against deferred tax assets at February 1, 2003.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

| | beginning balance | charged to cost and expenses | charged to other accounts | deductions | ending balance |
|---|---|---|---|---|---|
| | | | ($ in thousands) | | |
| Inventory reserve - (deducted from inventories) | | | | | |
| fiscal year ended: | | | | | |
| February 1, 2003 | $8,367 | $4,053 (a) | $ -- | $ -- | $12,420 |
| February 2, 2002 | 7,360 | 1,007 (a) | -- | -- | 8,367 |
| February 3, 2001 | 4,447 | 2,913 (a) | -- | -- | 7,360 |
| Allowance for sales returns - (included in other current liabilities) | | | | | |
| fiscal year ended: | | | | | |
| February 1, 2003 | $6,475 | $(1,162)(a) | $ -- | $ -- | $5,313 |
| February 2, 2002 | 6,530 | (55)(a) | -- | -- | 6,475 |
| February 3, 2001 | 5,011 | 1,519(a) | -- | -- | 6,530 |

(a) The inventory 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 write-downs and sales returns are charged to the statement of operations as incurred.

Independent Auditors' Report

The Board of Directors and Stockholders
J. Crew Operating Corp. and Subsidiaries:

We have audited the consolidated financial statements of J. Crew Operating Corp. and subsidiaries (the "Company") as listed in the accompanying Index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J. Crew Operating Corp. and subsidiaries as of February 1, 2003 and February 2, 2002 and the results of their operations and their cash flows for each of the years in the three-year period ended February 1, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

March 25, 2003,
except as to note 15, the date of which is
April 4, 2003

J. CREW OPERATING CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

| Assets | February 1, 2003 | February 2, 2002 |
|---|---|---|
| | (in thousands) | |
| Current assets: | | |
| Cash and cash equivalents | $ 18,895 | $ 16,201 |
| Merchandise inventories | 107,318 | 138,918 |
| Prepaid expenses and other current assets | 24,886 | 27,026 |
| Refundable income taxes | 6,278 | -- |
| Total current assets | 157,377 | 182,145 |
| Property and equipment - at cost: | | |
| Land | 1,710 | 1,610 |
| Buildings and improvements | 11,705 | 11,700 |
| Furniture, fixtures and equipment | 102,108 | 105,292 |
| Leasehold improvements | 182,226 | 170,195 |
| Construction in progress | 3,161 | 4,903 |
| | 300,910 | 293,700 |
| Less accumulated depreciation and amortization | 129,363 | 106,427 |
| | 171,547 | 187,273 |
| Other assets | 13,646 | 12,310 |
| Total assets | $ 342,570 | $381,728 |
| Liabilities and Stockholder's Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 54,921 | $ 66,703 |
| Other current liabilities | 56,255 | 61,788 |
| Income taxes payable | 2,978 | 10,109 |
| Deferred income taxes | 910 | 5,604 |
| Total current liabilities | 115,064 | 144,204 |
| Long-term debt | 150,000 | 150,000 |
| Deferred credits and other long-term liabilities | 65,141 | 67,235 |
| Due to J.Crew Group, Inc. | 2,040 | 1,142 |
| Stockholder's equity | 10,325 | 19,147 |
| Total liabilities and stockholder's equity | $ 342,570 | $381,728 |

See accompanying notes to consolidated financial statements.

J. CREW OPERATING CORP. AND
SUBSIDIARIES

Consolidated Statements of Operations

| | Years ended | | |
|---|---|---|---|
| | February 1, 2003 | February 2, 2002 | February 3, 2001 |
| | | (in thousands) | |
| Revenues: | | | |
| Net sales | $732,279 | $741,280 | $ 787,658 |
| Other | 34,103 | 36,660 | 38,317 |
| | 766,382 | 777,940 | 825,975 |
| Operating costs and expenses: | | | |
| Cost of goods sold, including buying and occupancy costs | 478,700 | 462,371 | 463,909 |
| Selling, general and administrative expenses | 291,054 | 294,907 | 301,216 |
| Write down of assets and other charges in connection with discontinuance of Clifford & Wills | -- | - | 4,130 |
| | 769,754 | 757,278 | 769,255 |
| Income/(loss) from operations | (3,372) | 20,662 | 56,720 |
| Interest expense - net | 23,200 | 20,890 | 22,787 |
| Income/(loss) before income taxes | (26,572) | (228) | 33,933 |
| (Provision) benefit for income taxes | 17,750 | 167 | (12,180) |
| Net income/(loss) | $ (8,822) | $ (61) | $ 21,753 |

See accompanying notes to consolidated financial statements.

J. CREW OPERATING CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

| | Years ended | | |
|---|---|---|---|
| | February 1, 2003 | February 2, 2002 | February 3, 2001 |
| | | (in thousands) | |
| Cash flows from operating activities: | | | |
| Net income/(loss) | $ (8,822) | $ (61) | $ 21,753 |
| Adjustments to reconcile net income/(loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 34,451 | 31,718 | 22,600 |
| Amortization of deferred financing costs | 4,202 | 1,770 | 2,548 |
| Deferred income taxes | (4,694) | 1,873 | 4,706 |
| Non-cash compensation expense | (1,053) | 913 | -- |
| Write down of assets and other charges in connection with discontinued catalog | -- | -- | 4,130 |
| Changes in operating assets and liabilities: | | | |
| Merchandise inventories | 31,600 | 1,749 | (10,739) |
| Prepaid expenses and other current assets | 2,140 | (3,286) | 6,343 |
| Other assets | (2,470) | (3,416) | (2,781) |
| Net assets held for disposal | -- | -- | 4,797 |
| Accounts payable | (11,782) | 16,998 | 8,754 |
| Other liabilities | (3,835) | (13,671) | 5,407 |
| Income taxes payable | (13,409) | (8,741) | 2,894 |
| Net cash provided by operating activities | 26,368 | 25,846 | 70,412 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (26,920) | (61,862) | (55,694) |
| Proceeds from construction allowances | 6,502 | 19,287 | 13,519 |
| Net cash used in investing activities | (20,418) | (42,575) | (42,175) |
| Cash flows from financing activities: | | | |
| Costs incurred in refinancing Credit Facility | (3,256) | -- | -- |
| Repayment of long-term debt | -- | -- | (34,000) |
| Net cash used in financing activities | (3,256) | -- | (34,000) |
| Increase (decrease) in cash and cash equivalents | 2,694 | (16,729) | (5,763) |
| Cash and cash equivalents at beginning of year | 16,201 | 32,930 | 38,693 |
| Cash and cash equivalents at end of year | $ 18,895 | $ 16,201 | $ 32,930 |

See accompanying notes to consolidated financial statements.

(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 Operating Corp. ("Operating Corp.") and its wholly-owned subsidiaries (collectively, the "Company"). Operating Corp. is a wholly owned subsidiary of J.Crew Group, Inc. ("Holdings"). All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Business

The Company designs, contracts for the manufacture of, markets and distributes men's and women's apparel, shoes and accessories under the J.Crew brand name. The Company's products are marketed, primarily in the United States, through various channels of distribution, including retail and factory stores, catalogs, and the Internet. The Company is also party to a licensing agreement which grants the licensee 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 a specified percentage 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 seasons) 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) Segment Information

The Company operates in one reportable business segment. All of the Company's identifiable assets are located in the United States. Export sales are not significant.

(d) Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31. The fiscal years 2002, 2001, and 2000 ended on February 1, 2003 (52 weeks), February 2, 2002 (52 weeks), and February 3, 2001 (53 weeks).

(e) 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 $11,224,000 and $7,895,000 at February 1, 2003 and February 2, 2002, are stated at cost, which approximates market value.

(f) Merchandise Inventories

Merchandise inventories are stated at the lower of average cost or market. The Company capitalizes certain design, purchasing and warehousing costs in inventory.

(g) Advertising and Catalog Costs

Direct response advertising which consists primarily of catalog production and mailing costs, are capitalized and amortized over the expected future revenue stream. 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 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 1, 2003 and February 2, 2002 were $6,197,000 and $7,959,000. Catalog costs, which are reflected in selling and administrative expenses, for the fiscal years 2002, 2001, and 2000 were $56,695,000, $65,477,000 and $69,000,000.

All other advertising costs, which are not significant, are expensed as incurred.

(h) Property and Equipment

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

Significant systems development costs are capitalized and amortized on a straight-line basis over periods ranging from three to five years. Approximately $.6 million and $8.5 million of system development costs were capitalized in fiscal years 2002 and 2001.

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) Debt Issuance Costs

Debt issuance costs (included in other assets) of $5,435,000 and $5,195,000 at February 1, 2003 and February 2, 2002 are amortized over the term of the related debt agreements.

(j) Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". This statement requires the use of the asset and liability method of accounting for income taxes. Under the asset and 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. 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.

(k) Revenue Recognition

Revenue is recognized for catalog and internet sales when merchandise is shipped to customers and at the time of sale for retail sales. The Company accrues a sales return allowance for estimated returns of merchandise

subsequent to the balance sheet date that relate to sales prior to the balance sheet date. Amounts billed to customers for shipping and handling fees related to catalog and internet sales are included in other revenues at the time of shipment.

(l) Store Preopening Costs

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

(m) Derivative Financial Instruments

Derivative financial instruments are used by the Company from time to time to manage its interest rate and foreign currency exposures. For interest rate swap agreements, the net interest paid is recorded as interest expense on a current basis. Gains or losses resulting from market fluctuations are not recognized. 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.

(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

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company assesses the recoverability of such assets based upon estimated cash flow forecasts.

(p) Stock Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method of accounting for employee stock options as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation". Accordingly, compensation expense is not recorded for options granted if the option price is equal to or in excess of the fair market price at the date of grant. If the Company had adopted the fair value recognition provisions of SFAS No. 123, the effect on net income would not be material.

(2) Events of September 11, 2001

The terrorist events of September 11, 2001 resulted in the destruction of the Company's retail store located at the World Trade Center in New York City, resulting in the loss of inventories and store fixtures, equipment and leasehold improvements. These losses and the resulting business interruption are covered by insurance policies maintained by the Company.

The statement of operations for the year ended February 2, 2002 included losses of $1.9 million relating to inventories and stores fixtures, equipment and leasehold improvements. Insurance recoveries in fiscal 2001 were recorded to the extent of the losses recognized. The statement of operations for the year ended February 1, 2003 includes a gain of $1,420,000, as a result of additional insurance recoveries during fiscal 2002. This gain was classified as a reduction of selling, general and administrative expenses. Additional insurance recoveries, which may be received in the future including recoveries for business interruption, will be recorded at the time of settlement.

(3) Disposal of a Business

In 1998, management of the Company made a decision to exit the catalog and outlet store operations of Clifford & Wills ("C&W"). Revenues and expenses of C&W for fiscal 2000 were not material and as a result have been netted in the accompanying consolidated statements of operations.

In February 2000, the Company sold certain intellectual property assets to Spiegel Catalog Inc. for $3.9 million. In connection with this sale the Company agreed to cease the fulfillment of catalog orders but retained the right to operate C&W outlet stores and conduct other liquidation sales of inventories through December 31, 2000. After consideration of the proceeds from the sale of assets and other terms of the agreement the Company provided $4,000,000 to write down inventories to net realizable value as of January 29, 2000. At February 3, 2001, the Company determined that the realizable value of the remaining net assets of C&W, primarily inventories, was less than their carrying amounts and an additional charge of $4,130,000 was taken.

(4) Other Current Liabilities

Other current liabilities consist of:

| | February 1, 2003 | February 2, 2002 |
|---|---|---|
| Customer liabilities | $ 9,993,000 | $11,381,000 |
| Accrued catalog and marketing costs | 2,536,000 | 3,655,000 |
| Taxes, other than income taxes | 2,670,000 | 2,930,000 |
| Accrued interest | 4,390,000 | 4,690,000 |
| Accrued occupancy | 1,024,000 | 1,036,000 |
| Reserve for sales returns | 5,313,000 | 6,475,000 |
| Accrued compensation | 7,475,000 | 1,697,000 |
| Other | 22,854,000 | 29,924,000 |
| | $56,255,000 | $61,788,000 |

(5) Lines of Credit

On December 23, 2002 the Company entered into a Loan and Security Agreement with Wachovia Bank, N.A., as arranger, Congress Financial Corporation, as administrative and collateral agent, and a syndicate of lenders which provides for a maximum credit availability of up to $180.0 million (the "Congress Credit Facility"). The Congress Credit Facility replaced a revolving credit facility which was scheduled to expire in October 2003.

The Congress Credit Facility provides for revolving loans of up to $160.0 million; supplemental loans of up to $20.0 million each year during the period from April 15 to September 15; and letter of credit accommodations. The Congress Credit Facility expires in December 2005. The total amount of availability is subject to limitations based on specified percentages of eligible receivables, inventories and real property. Real property availability is limited to $5.8 million and will be reduced at a rate of $97,000 per month commencing June 1, 2003.

Borrowings are secured by a perfected first priority security interest in all the assets of the Company's subsidiaries and bear interest, at the Company's option, at the prime rate plus 0.5% or the Eurodollar rate plus 2.5%. Supplemental loans bear interest at the prime rate plus 3.0%.

The Congress Credit Facility includes restrictions, including the incurrence of additional indebtedness, the payment of dividends and other distributions, the making of investments, the granting of loans and the making of capital expenditures. The Company is required to maintain minimum levels of earnings before interest, taxes, depreciation, amortization and certain non-cash items, ("EBITDA") if excess availability is less than $15.0 million for any 30 consecutive day period.

The Congress Credit Facility was amended on February 7, 2003 to provide for an exclusion from the definition of consolidated net income of severance and other one-time employment-related charges of up to $6.7 million in the last quarter of fiscal 2002 and $3.0 million in the first quarter of fiscal 2003.

Maximum borrowings under revolving credit agreements were $63,000,000, $95,000,000 and $34,000,000 during fiscal years 2002, 2001 and 2000 and average borrowings were $40,400,000, $43,100,000 and $9,800,000. There were no borrowings outstanding at February 1, 2003 and February 2, 2002.

Outstanding letters of credit established primarily to facilitate international merchandise purchases at February 1, 2003 and February 2, 2002 amounted to $45,900,000 and $46,300,000.

(6) Long-Term Debt

Long term debt consists of:

| | February 1, 2003 | February 2, 2002 |
|---|---|---|
| 10-3/8% senior subordinated notes | $150,000,000 | $150,000,000 |

The senior subordinated notes are unsecured general obligations of J. Crew Operating Corp., a subsidiary of Holdings, and are subordinated in right of payment to all senior debt. Interest on the notes accrues at the rate of 10-3/8% per annum and is payable semi-annually in arrears on April 15 and October 15. The notes 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% of principal in 2002 to 100% in 2005 and thereafter.

(7) Commitments and Contingencies

(a) Operating Leases

As of February 1, 2003, the Company was obligated under various long-term operating leases for retail and outlet stores, warehouses, office space and equipment requiring minimum annual rentals. These operating leases expire on varying dates through 2014. At February 1, 2003 aggregate minimum rentals in future periods are, as follows:

| Fiscal year | Amount |
|---|---|
| 2003 | 52,372,000 |
| 2004 | 49,867,000 |
| 2005 | 47,396,000 |
| 2006 | 45,192,000 |
| 2007 | 43,636,000 |
| Thereafter | 143,875,000 |

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

Rent expense for fiscal 2002, 2001, and 2000 was $50,403,000, $46,573,000 and $45,138,000 including contingent rent based on store sales of $1,187,000, $1,023,000, and $1,974,000.

(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.

(c) Litigation

The Company is subject to various legal proceedings and claims that arise in the ordinary conduct of its business. Although the outcome of these claims cannot be predicted with certainty, management does not believe that the ultimate resolution of these matters will have a material adverse effect on the Company's financial condition or results of operations.

(8) 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 were $1,834,000, $1,334,000 and $1,241,000 for fiscal 2002, 2001 and 2000.

(9) License Agreement

The Company has a licensing agreement through January 2005 with Itochu Corporation, 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 2002, 2001, and 2000 was $2,280,000, $2,560,000 and $3,020,000.

(10) Interest Expense - Net

Interest expense, net consists of the following:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Interest expense | $19,027,000 | $19,415,000 | $20,780,000 |
| Amortization of deferred financing costs | 4,202,000 | 1,770,000 | 2,548,000 |
| Interest income | (29,000) | (295,000) | (541,000) |
| Interest expense, net | $23,200,000 | $20,890,000 | $22,787,000 |

Deferred financing costs of $1,800,000 were written off in connection with the refinancing of our revolving credit facility in December 2002.

(11) Other Revenues

Other revenues consist of the following:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Shipping and handling fees | $ 31,823,000 | $ 34,100,000 | $ 35,297,000 |
| Royalties | 2,280,000 | 2,560,000 | 3,020,000 |
| | $ 34,103,000 | $ 36,660,000 | $ 38,317,000 |

(12) 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 is estimated to be approximately $138,110,000 and $119,754,000 at February 1, 2003 and February 2, 2002, and is based on dealer quotes or quoted market prices of the same or similar instruments. The carrying amount of long-term debt was $150,000,000 at February 1, 2003 and February 2, 2002. The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, notes payable-bank, accounts payable and other current liabilities 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.

(13) Income Taxes

The income tax provision/benefit consists of:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Current: | | | |
| Foreign | $ 193,000 | $ 260,000 | $ 300,000 |
| Federal | (13,449,000) | (2,400,000) | 6,253,000 |
| State and local | 200,000 | 100,000 | 920,000 |
| | (13,056,000) | (2,040,000) | 7,473,000 |
| Deferred | (4,694,000) | 1,873,000 | 4,707,000 |
| Total | $ (17,750,000) | $ (167,000) | $ 12,180,000 |

A reconciliation between the provision/(benefit) for income taxes based on the U.S. Federal statutory rate and the Company's effective rate is as follows.

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Federal income tax rate | (35.0)% | (35.0)% | 35.0% |
| State and local income taxes, net of federal benefit | -- | 134.6 | 3.2 |
| Reversal of prior year tax accruals | (38.6) | -- | -- |
| Nondeductible expenses and other | 6.8 | (172.8) | (2.3) |
| Effective tax rate | (66.8)% | (73.2)% | 35.9% |

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

| | February 1, 2003 | February 2, 2002 |
|---|---|---|
| Deferred tax assets: | | |
| Federal NOL carryforwards | $ 5,040,000 | $ -- |
| State and local NOL carryforwards | 1,400,000 | 1,900,000 |
| Reserve for sales returns | 2,202,000 | 2,603,000 |
| Other | 3,873,000 | 6,637,000 |
| | 12,515,000 | 11,140,000 |
| Deferred tax liabilities: | | |
| Prepaid catalog and other prepaid expenses | (9,872,000) | (8,841,000) |
| Difference in book and tax basis for property and equipment | (3,553,000) | (7,903,000) |
| | (13,425,000) | (16,744,000) |
| Net deferred income tax liabilities | $ (910,000) | $ (5,604,000) |

The Company has state and local income tax net operating loss carryforwards of varying amounts.

(14) Stock Compensation Plans

1997 Stock Option Plan

Under the terms of the 1997 Stock Option Plan, an aggregate of 1,910,000 shares are available for grant to certain key employees or consultants. The options have terms of seven to ten years and become exercisable over a period of five years. Options granted under the Option Plan are subject to various conditions, including under some circumstances, the achievement of certain performance objectives.

A summary of stock option activity for the 1997 Plan was, as follows:

| | 2002 | | 2001 | | 2000 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted average exercise price | Shares | Weighted average exercise price | Shares | Weighted average exercise price |
| Outstanding, beginning of year | 1,808,790 | $ 9.97 | 1,788,750 | $ 9.15 | 1,532,800 | $ 8.87 |
| Granted | 395,500 | 7.64 | 283,000 | 14.53 | 374,700 | 10.17 |
| Exercised | -- | -- | -- | -- | (2,000) | 6.82 |
| Cancelled | (597,560) | 10.29 | (262,960) | 9.31 | (116,750) | 8.72 |
| Outstanding, end of year | 1,606,730 | $ 9.27 | 1,808,790 | $ 9.97 | 1,788,750 | $ 9.15 |
| Options exercisable at end of year | 842,340 | $ 9.81 | 728,950 | $ 9.21 | 583,000 | $ 9.24 |

2003 Equity Incentive Plan

In January 2003, the Board of Directors of Holdings approved the adoption of the 2003 Equity Incentive Plan. Under the terms of the 2003 Plan, an aggregate of 4,798,160 shares of common stock are available for award to key employees and consultants in the form of non-qualified stock options and restricted shares as follows:

- 1,115,812 shares are reserved for the issuance of stock options at an exercise price of $6.82 of fair market value, whichever is greater;
- 1,115,812 shares are reserved for the issuance of stock options at an exercise price of $25.00 or fair market value, whichever is greater;
- 1,115,812 shares are reserved for the issuance of stock options at an exercise price of $35.00 or fair market value, whichever is greater;
- 1,450,724 shares are reserved for the issuance of restricted shares.

The options have terms of ten years and become exercisable over the period provided in each grant agreement.

During fiscal 2002, Holdings granted 836,889 options with an exercise price of $6.82, 1,015,425 options with an exercise price of $25.00 and 1,015,425 options with an exercise price of $35.00, and issued 1,004,266 restricted shares under the 2003 plan.

(15) Stockholder's Equity

The Company has authorized 100 shares of common stock par value $1 per share, all of which was issued and outstanding at February 1, 2003 and February 2, 2002.

A reconciliation of stockholder's equity is, as follows:

| | Year ended February 1, 2003 | February 2, 2002 |
|---|---|---|
| Balance, beginning of year | $ 19,147,000 | $ 19,208,000 |
| Net loss | (8,822,000) | (61,000) |
| Balance, end of year | $ 10,325,000 | $ 19,147,000 |

(16) Subsequent Events

TPG - MD Investment Loans

On February 4, 2003, Operating Corp. entered into a credit agreement with TPG-MD Investment, LLC, a related party, which provides for a Tranche A loan to Operating Corp. in an aggregate principal amount of $10.0 million and a Tranche B loan to Operating Corp. in an aggregate principal amount of $10.0 million. The loans are due in February 2008 and bear interest at 5.0% per annum payable semi-annually in arrears on January 31 and July 31, commencing on July 31, 2003. Interest will compound and be capitalized and added to the principal amount on each interest payment date. Payment of the loans is subordinated in right of payment to the prior payment of all senior debt and on the same terms as Operating Corp's 10-3/8% senior subordinated notes due 2008.

Exchange Offer

On April 4, 2003, Holdings commenced through J. Crew Intermediate LLC, its newly formed wholly-owned subsidiary ("Intermediate"), an offer to exchange the outstanding 13 1/8% Senior Discount Debentures due 2008 issued by Holdings for Intermediate's unissued 16.0% Senior Discount Contingent Principal Notes due 2008.

Holdings will not pay accrued and unpaid interest on the existing debentures on the scheduled interest payment date of April 15, 2003. Rather, Holdings will pay such interest on the settlement date of the exchange offer (which is expected to occur on or about May 6, 2003) together with interest thereon at a rate of 13 1/8% per annum from April 15, 2003 to the settlement date, to the holders of the existing debentures who do not tender their existing debentures in the exchange offer.

Congress Credit Facility

The Congress Credit Facility was amended on April 4, 2003 to (a) consent to the formation of J.Crew Intermediate LLC and the Exchange Offer; (b) carve-out a $9.0 million one-time charge for non-current inventory from the EBITDA covenant; (c) modify required EBITDA covenant levels and (d) eliminate the supplemental loan availability in fiscal 2003.

(17) Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board, ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets and a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Management does not believe that the adoption of SFAS No. 143 will have a significant impact on the Company's financial statements.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142., "Goodwill and Other Intangible Assets". SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001 and modifies the application of the purchase accounting method effective for transactions that are completed after June 30, 2001. SFAS No. 142 eliminated the requirement to amortize goodwill and intangible assets having indefinite useful lives but requires testing at least annually for impairment. Intangible assets that have finite lives will continue to be amortized over their useful lives. SFAS No. 142 applies to goodwill and intangible assets arising from transactions completed before and after the statement's effective dated of January 1, 2002. The adoption of these statements in fiscal 2002 did not have any effect on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment of disposal of long-lived assets and requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. This statement requires

that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 144 was effective for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 did not have a significant impact on the Company's financial statements.

EITF Issue No. 01-9 "Accounting for Consideration Given to a Customer or a Reseller of the Vendor's Products" (formerly EITF Issue 00-14) became effective in the first quarter of fiscal 2002. This EITF addresses the accounting for and classification of consideration given to a customer from a vendor in connection with the purchase or promotion of the vendor's product. The adoption of the EITF did not have a significant effect on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146 - "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 in the fourth quarter of 2002 did not have an impact on the Company's financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB statements No. 4, 44, and 64, Amendment of FASB Statement No 13, and Technical Corrections". SFAS No. 145 primarily affects the reporting requirements and classification of gains and losses from the extinguishment of debt, rescinds the transitional accounting requirement for intangible assets of motor carriers, and requires that certain lease modifications with economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 is effective for financial statements issued after April 2003, with the exception of the provisions affecting the accounting for lease transactions, which should be applied for transactions entered into after May 15, 2002, and the provisions affecting classification of gains and losses from the extinguishment of debt, which should be applied in fiscal years after May 15, 2002. Management has classified the loss from the refinancing of its credit facility in December 2002 as a component of interest expense in the Company's financial statements.

In November, 2002, the FASB issued FASB interpretation ("FIN") No. 45 - "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued and requires that they be recorded at fair value. The initial recognition and measurement provisions of this interpretation are to be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of this interpretation are effective for periods ending after December 15, 2002.

In December 2002, the FASB issued No. 148, - "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123" ("SFAS 148"). This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternate methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This Statement also amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments to Statement 123 regarding disclosure are effective for fiscal years ending after December 15, 2002. The Company applies APB Opinion No. 25 in accounting for its employee stock option plans.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities - an Interpretation of Accounting Research Bulletin No. 51". FIN No. 46 requires unconsolidated variable interest entities to be

consolidated by their primary beneficiaries if the entities do not effectively disperse the risks and rewards of ownership among their owners and other parties involved. The provisions of FIN No. 46 are applicable immediately to all variable interest entities created after January 31, 2003 and variable interest entities in which a company obtains an interest after that date. For variable interest entities created before January 31, 2003, the provisions of this interpretation are effective July 1, 2003. The adoption of FIN No. 46 is not expected to have any effect on the Company's financial statements.

(17) Quarterly Financial Information (Unaudited)

($ in millions)

| | 13 weeks ended 5/4/02 (a) | 13 weeks ended 8/3/02 | 13 weeks ended 11/2/02 | 13 weeks ended 2/1/03 (b) | 52 weeks ended 2/1/03 |
|---|---|---|---|---|---|
| Net sales | $ 157.9 | $ 160.9 | $ 181.9 | $ 231.6 | $ 732.3 |
| Gross profit | 67.0 | 61.0 | 75.9 | 83.8 | 287.7 |
| Net income (loss) | $ (9.1) | $ (4.1) | $ 2.1 | $ 2.3 | $ (8.8) |

| | 13 weeks ended 5/5/01 | 13 weeks ended 8/4/01 | 13 weeks ended 11/3/01 | 14 weeks ended 2/2/02 | 53 weeks ended 2/2/02 |
|---|---|---|---|---|---|
| Net sales | $ 158.9 | $ 160.5 | $ 187.1 | $ 234.8 | $ 741.3 |
| Gross profit | 68.2 | 60.5 | 82.8 | 104.1 | 315.6 |
| Net income (loss) | $ (7.1) | $ (6.1) | $ 2.7 | $ 10.4 | $ (.1) |

(a) Net income (loss) includes a pre-tax charge of $4.6 million for severance charges.

(b) Net income (loss) includes pre-tax charges of (a) $7.7 million for severance and other one-time employment related charges, (b) $1.8 million to write-off deferred financing charges in connection with the refinancing of our credit facility and (c) a $9,000,000 inventory writedown as a result of the Company's decision to modify its strategy on the disposition of inventory to accelerate inventory clearing at the end of each selling season and (d) a tax benefit of $11.8 million on a pre-tax loss of $9.5 million as a result of the reversal of $10.3 million of prior year tax accruals at February 1, 2003.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

| | beginning balance | charged to cost and expenses | charged to other accounts | deductions | ending balance |
|---|---|---|---|---|---|
| | | | ($ in thousands) | | |
| Inventory reserve - (deducted from inventories) | | | | | |
| fiscal year ended: | | | | | |
| February 1, 2003 | $ 8,367 | $ 4,053 (a) | $ -- | $ -- | $ 12,420 |
| February 2, 2002 | 7,360 | 1,007 (a) | -- | -- | 8,367 |
| February 3, 2001 | 4,447 | 2,913 (a) | -- | -- | 7,360 |
| Allowance for sales returns - (included in other current liabilities) | | | | | |
| fiscal year ended: | | | | | |
| February 1, 2003 | $ 6,475 | $(1,162)(a) | $ -- | $ -- | $ 5,313 |
| February 2, 2002 | 6,530 | (55)(a) | -- | -- | 6,475 |
| February 3, 2001 | 5,011 | 1,519 (a) | -- | -- | 6,530 |

(a) The inventory 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 write-downs and sales returns are charged to the statement of operations as incurred.

EXHIBIT INDEX

Articles of Incorporation and By-Laws

3.1 Restated Certificate of Incorporation of J. Crew Group, Inc. Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-4, File No. 333-42427, filed December 16, 1997 (the "Group Registration Statement").

3.2 By-laws of J. Crew Group, Inc., as amended. Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2001.

3.3 Certificate of Incorporation of J.Crew Operating Corp., as amended. Incorporated by reference to Exhibits 3.1 and 3.2 to the Company's Registration Statement on Form S-4, File No. 333-4243, filed December 16, 1997 (the "Operating Registration Statement").

3.4 By-laws of J.Crew Operating Corp., as amended. Incorporated by reference to Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the period ended October 31, 1998 and Exhibit 3.14 to the Operating Registration Statement.

Instruments Defining the Rights of Security Holders, Including Indentures

4.1 Indenture, dated as of October 17, 1997, between J.Crew Group, Inc. and State Street Bank and Trust Company. Incorporated by reference to Exhibit 4.3 to the Group Registration Statement.

4.2 Indenture, dated as of October 17, 1997, between J.Crew Operating Corp. and State Street Bank and Trust Company. Incorporated by reference to Exhibit 4.1 to the Operating Registration Statement.

4.3 Registration Rights Agreement, dated as of October 17, 1997, by and among the Company, Donaldson, Lufkin & Jenrette Securities Corporation and Chase Securities Inc. Incorporated by reference to Exhibit 4.10 to the Group Registration Statement.

4.4 Stockholders' Agreement, dated as of October 17, 1997, between the Company and the Stockholder signatories thereto. Incorporated by reference to Exhibit 4.1 to the Group Registration Statement.

4.5(a) Stockholders' Agreement, dated as of October 17, 1997, among the Company, TPG Partners II, L.P. and Emily Woods. Incorporated by reference to Exhibit 10.1 to the Group Registration Statement.

4.5(b) Amendment to Stockholders' Agreement, dated as of February 3, 2003, among the Company, TPG Partners II, L.P. and Emily Woods. Incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on February 7, 2003.

4.6* Stockholders' Agreement, dated as of September 9, 2002, between the Company, TPG Partners II, L.P. and Kenneth Pilot.

4.7 Stockholders' Agreement, dated as of January 24, 2003, among the Company, TPG Partners II, L.P. and Millard S. Drexler. Incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on February 3, 2003.

4.8 Stockholders' Agreement, dated as of February 20, 2003, among the Company, TPG Partners II, L.P. and Jeffrey A. Pfeifle. Incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on February 26, 2003.

4.9 Stockholders' Agreement, dated as of February 12, 2003, among the Company, TPG Partners II, L.P. and Scott Gilbertson. Incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on February 14, 2003.

Material Contracts

10.1(a) Loan and Security Agreement, dated as of December 23, 2002, by and among J. Crew Operating Corp., J. Crew Inc., Grace Holmes, Inc. and H.F.D. No. 55, Inc. as Borrowers, J. Crew Group, Inc. and J. Crew International, Inc. as Guarantors, Wachovia Bank, National Association as Arranger, Congress Financial Corporation as Administrative and

Collateral Agent, and the Lenders. Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on December 27, 2002.

10.1(b) Amendment No. 1, dated as of February 7, 2003, to the Loan and Security Agreement. Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on February 14, 2003.

10.1(c) Amendment No. 2, dated as of April 4, 2003, to the Loan and Security Agreement. Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on April 8, 2003.

10.2 Credit Agreement, dated as of February 4, 2003, by and between J. Crew Group, Inc., J. Crew Operating Corp., and certain subsidiaries thereof, and TPG-MD Investment, LLC. Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on February 7, 2003.

Management Contracts and Compensatory Plans and Arrangements

10.3 Amended and Restated J. Crew Group, Inc. 1997 Stock Option Plan. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended August 3, 2002.

10.4* J. Crew Group, Inc. 2003 Equity Incentive Plan.

10.5(a) Employment Agreement, dated May 3, 1999, between the Company and Mark Sarvary. Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended May 1, 1999.

10.5(b) Letter Agreement, dated August 9, 1999, between the Company and Mark Sarvary. Incorporated by reference to Exhibit 10.5(b) to the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2000.

10.5(c) Letter Agreement, dated January 15, 2002, between the Company and Mark Sarvary. Incorporated by reference to Exhibit 10.5(c) of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2002.

10.5(d)* Separation Agreement, dated April 29, 2002, between the Company and Mark Sarvary.

10.6(a) Employment Agreement, dated May 17, 2001, between the Company and Michael Scandiffio. Incorporated by reference to Exhibit 10.12 of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2002.

10.6(b)* Separation Agreement, dated October 17, 2002, between the Company and Michael Scandiffio.

10.7(a) Employment Agreement, dated December 12, 2001, between the Company and Blair Gordon. Incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2002.

10.7(b)* Separation Agreement, dated January 30, 2003, between the Company and Blair Gordon.

10.8(a) Employment Agreement, dated August 26, 2002, between the Company and Kenneth Pilot. Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended August 3, 2002.

10.8(b)* Separation Agreement, dated January 29, 2003, between the Company and Kenneth Pilot.

10.9* Services Agreement, dated January 24, 2003, between the Company, Millard S. Drexler, Inc. and Millard S. Drexler.

10.10* Employment Agreement, dated January 24, 2003, between the Company and Jeffrey A. Pfeifle.

10.11* Employment Agreement, dated January 27, 2003, between the Company and Scott Gilbertson.

10.12* Separation Agreement, dated March 7, 2003, between the Company and Walter Killough.

Other Exhibits

21.1* Subsidiaries of J. Crew Group, Inc.

23.1* Consent of KPMG LLP, Independent Auditors.

99.1* Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.

99.2* Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.

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* Filed herewith

Exhibit 4.6

# STOCKHOLDERS' AGREEMENT

STOCKHOLDERS' AGREEMENT (this "Agreement"), dated as of September 9, 2002, between J. Crew Group, Inc. (the "Company"), TPG Partners II, L.P. ("TPG") and Kenneth S. Pilot (the "Stockholder").

WHEREAS, the Stockholder is an employee of the Company and J. Crew Operating Corp., a wholly-owned subsidiary of the Company (the "Subsidiary"), in such capacity is on the date hereof being, and may in the future be, granted certain options (the "Options") to purchase shares of common stock, $.01 par value per share, of the Company ("Common Stock") pursuant to the Company's 1997 Stock Option Plan (the "Option Plan") or the Employment Agreement, dated August 26, 2002, among the Stockholder, the Company and the Subsidiary (the "Employment Agreement"), and is being granted pursuant to the Employment Agreement certain Granted Shares and Restricted Shares (each as defined therein) and may be granted additional shares of Common Stock or rights to purchase Common Stock in the future in connection with his employment; and

WHEREAS, the Stockholder and the Company desire to enter into this Agreement and to have this Agreement apply to the shares of Common Stock to be purchased or granted pursuant to the Option Plan or the Employment Agreement, and to any shares of Common Stock acquired after the date hereof by the Stockholder from whatever source, subject to any future agreement between the Company and the Stockholder to the contrary (in the aggregate, the "Shares").

NOW THEREFORE, in consideration of the premises hereinafter set forth, and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows.

1. Investment. The Stockholder represents that the Shares are being acquired for investment and not with a view toward the distribution thereof.

2. Issuance of Shares. The Stockholder acknowledges and agrees that the certificate for the Shares shall bear the following legends (except that the second paragraph of this legend shall not be required after the Shares have been registered and except that the first paragraph of this legend shall not be required after the termination of this Agreement):

> The shares represented by this certificate are subject to the terms and conditions of a Stockholders' Agreement dated as of September 9, 2002 and may not be sold, transferred, hypothecated, assigned or encumbered, except as may be permitted by the aforesaid Agreement. A copy of the Stockholders' Agreement may be obtained from the Secretary of the Company.
>
> The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares have been acquired for investment and may not be sold, transferred, pledged or hypothecated in the absence of an effective registration statement for the shares under the Securities Act of 1933 or an opinion of counsel for the Company that registration is not required under said Act.

Upon the termination of this Agreement, or upon registration of the Shares under the Securities Act of 1933 (the "Securities Act"), the Stockholder shall have the right to exchange any Shares containing the above legend (i) in the case of the registration of the Shares, for Shares legended only with the first paragraph described above and (ii) in the case of the termination of this Agreement, for Shares legended only with the second paragraph described above.

3. Transfer of Shares; Call Rights.

(a) The Stockholder agrees that he will not cause or permit the Shares or his interest in the Shares to be sold, transferred, hypothecated, assigned or encumbered except as expressly permitted by this Section 3; provided, however, that the Shares or any such interest may be transferred (i) on the Stockholder's death by bequest or inheritance to the Stockholder's executors, administrators, testamentary trustees, legatees or beneficiaries, (ii) to a trust or custodianship the beneficiaries of which may include only the Stockholder, the Stockholder's spouse, or the Stockholder's lineal descendants (by blood or adoption) and (iii) in accordance with Section 4 of this Agreement, subject in any such case to the agreement by each transferee (other than the Company) in writing to be bound by the terms of this Agreement and provided in any such case that no such transfer that would cause the Company to be required to register the Common Stock under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), shall be permitted.

(b) The Company (or its designated assignee) shall have the right, during the ninety-day period commencing on the later of (x) the termination of the Stockholder's employment with the Company for any reason and (y) one-hundred-eighty-one (181) days following the date of the acquisition by the Stockholder of any Shares, to purchase from the Stockholder, and upon the exercise of such right the Stockholder shall sell to the Company (or its designated assignee), all or any portion of the Shares held by the Stockholder as of the date as of which such right, is exercised at a per Share price equal to the Fair Market Value (as defined in the Option Plan) of a share of Common Stock determined as of the date as of which such right is exercised. The Company (or its designated assignee) shall exercise such right by delivering to the Stockholder a written notice specifying its intent to purchase Shares held by the Stockholder, the date as of which such right is to be exercised and the number of Shares to be purchased. Such purchase and sale shall occur on such date as the Company (or its designated assignee) shall specify which date shall not be later than ninety (90) days after the fiscal quarter-end immediately following the date as of which the Company's right is exercised.

4. Certain Rights.

(a) Drag Along Rights. If TPG desires to sell all or substantially all of its shares of Common Stock to a good faith independent purchaser (a "Purchaser") (other than any other investment partnership, limited liability company or other entity established for investment purposes and controlled by the principals of TPG or any of its affiliates and other than any employees of TPG or any of its affiliates, hereinafter referred to as a "Permitted Transferee") and said Purchaser desires to acquire all or substantially all of the issued and outstanding shares of Common Stock (or all or substantially all of the assets of the Company) upon such terms and conditions as agreed to with TPG, the Stockholder agrees to sell all of his Shares to said

Purchaser (or to vote all of his Shares in favor of any merger or other transaction which would effect a sale of such shares of Common Stock or assets of the Company) at the same price per share of Common Stock and pursuant to the same terms and conditions with respect to payment for the shares of Common Stock as agreed to by TPG. In such case, TPG shall give written notice of such sale to the Stockholder at least 30 days prior to the consummation of such sale, setting forth (i) the consideration to be received by the holders of shares of Common Stock, (ii) the identity of the Purchaser, (iii) any other material items and conditions of the proposed transfer and (iv) the date of the proposed transfer.

(b) Tag Along Rights. (i) Subject to paragraph ( iv) of this Section 4(b), if TPG or its affiliates proposes to transfer any of its shares of Common Stock to a Purchaser (other than a Permitted Transferee), then TPG or such Permitted Transferee (hereinafter referred to as a "Selling Stockholder") shall give written notice of such proposed transfer to the Stockholder (the "Selling Stockholder's Notice") at least 30 days prior to the consummation of such proposed transfer, and shall provide notice to all other stockholders of the Company to whom TPG has granted similar "tag-along" rights (such stockholders together with the Stockholder, referred to herein as the "Other Stockholders") setting forth (A) the number of shares of Common Stock offered, (B) the consideration to be received by such Selling Stockholder, (C) the identity of the Purchaser, (D) any other material items and conditions of the proposed transfer and (E) the date of the proposed transfer.

(ii) Upon delivery of the Selling Stockholder's Notice, the Stockholder may elect to sell up to the sum of (A) the Pro Rata Portion (as hereinafter defined) and (B) the Excess Pro Rata Portion (as hereinafter defined) of his Shares, at the same price per share of Common Stock and pursuant to the same terms and conditions with respect to payment for the shares of Common Stock as agreed to by the Selling Stockholder, by sending written notice to the Selling Stockholder within 15 days of the date of the Selling Stockholder's Notice, indicating his election to sell up to the sum of the Pro Rata Portion plus the Excess Pro Rata Portion of his Shares in the same transaction. Following such 15 day period, the Selling Stockholder and each Other Stockholder shall be permitted to sell to the Purchaser on the terms and conditions set forth in the Selling Stockholder's Notice the sum of (X) the Pro Rata Portion and (Y) the Excess Pro Rata Portion of its Shares.

(iii) For purposes of Section 4(b) and 4(c) hereof, "Pro Rata Portion" shall mean, with respect to shares of Common Stock held by the Stockholder or Selling Stockholder, as the case may be, a number equal to the product of (x) the total number of such shares then owned by the Stockholder or the Selling Stockholder, as the case may be, and (y) a fraction, the numerator of which shall be the total number of such shares proposed to be sold to the Purchaser as set forth in the Selling Stockholder's Notice or initially proposed to be registered by the Selling Stockholder, as the case may be, and the denominator of which shall be the total number of such shares then outstanding (including such shares proposed to be sold or registered by the Selling Stockholder); provided, however, that any fraction of a share resulting from such calculation shall be disregarded for purposes of determining the Pro Rata Portion. For purposes of Sections 4(b) and 4(c), "Excess Pro Rata Portion" shall mean, with respect to shares of Common Stock held by the Stockholder or the Selling Stockholder, as the case may be, a number equal to the product of (x) the number of Non-Elected Shares (as defined below) and (y) a fraction, the numerator of which shall be such Stockholder's Pro Rata Portion with respect to

such shares, and the denominator of which shall be the sum of (1) the aggregate Pro Rata Portions with respect to the shares of Common Stock of all of the Other Stockholders that have elected to exercise in full their rights to sell their Pro Rata Portion of shares of Common Stock, and (2) the Selling Stockholder's Pro Rata Portion of shares of Common Stock (the aggregate amount of such denominator is hereinafter referred to as the "Elected Shares"). For purposes of this Agreement, "Non-Elected Shares" shall mean the excess, if any, of the total number of shares of Common Stock, proposed to be sold to a Purchaser as set forth in a Selling Stockholder's Notice or initially proposed to be registered by the Selling Stockholder, as the case may be, less the amount of Elected Shares.

(iv) Notwithstanding anything to the contrary contained herein, the provisions of this Section 4(b) shall not apply to any sale or transfer by TPG of shares of Common Stock unless and until TPG, after giving effect to the proposed sale or transfer, shall have sold or transferred in the aggregate (other than to Permitted Transferees) shares of Common Stock, representing 7.5% of shares of Common Stock owned by TPG on the date hereof.

(c) Piggyback Registration Rights.

(i) Notice to Stockholder. If the Company determines that it will file a registration statement under the Securities Act, other than a registration statement on Form S-4 or Form S-8 or any successor form, for an offering which includes shares of Common Stock held by TPG or its affiliates (hereinafter in this paragraph (c) of Section 4 referred to as a "Selling Stockholder"), then the Company shall give prompt written notice to the Stockholder that such filing is expected to be made (but in no event less than 30 days nor more than 60 days in advance of filing such registration statement), the jurisdiction or jurisdictions in which such offering is expected to be made, and the underwriter or underwriters (if any) that the Company (or the person requesting such registration) intends to designate for such offering. If the Company, within 15 days after giving such notice, receives a written request for registration of any Shares from the Stockholder, then the Company shall include in the same registration statement the number of Shares to be sold by the Stockholder as shall have been specified in his request, except that the Stockholder shall not be permitted to register more than the Pro Rata Portion plus the Excess Pro Rata portion of his Shares. The Company shall bear all costs of preparing and filing the registration statement, and shall indemnify and hold harmless, to the extent customary and reasonable, pursuant to indemnification and contribution provisions to be entered into by the Company at the time of filing of the registration statement, the seller of any shares of Common Stock covered by such registration statement.

Notwithstanding anything herein to the contrary, the Company, on prior notice to the participating Stockholder, may abandon its intention to file a registration statement under this Section 4(c) at any time prior to such filing.

(ii) Allocation. If the managing underwriter shall inform the Company in writing that the number of shares of Common Stock requested to be included in such registration exceeds the number which can be sold in (or during the time of) such offering within a price range acceptable to TPG, then the Company shall include in such registration such number of shares of Common Stock which the Company is so advised can be sold in (or during the time of) such offering. All holders of shares of Common Stock proposing to sell shares of Common

Stock shall share pro rata in the number of shares of Common Stock to be excluded from such offering, such sharing to be based on the respective numbers of shares of Common Stock as to which registration has been requested by such holders.

(iii) Permitted Transfer. Notwithstanding anything to the contrary contained herein, sales of Shares pursuant to a registration statement filed by the Company may be made without compliance with any other provision of this Agreement.

5. Termination. This Agreement shall terminate immediately following the existence of a Public Market for the Common Stock except that (i) the requirements contained in Section 2 hereof shall survive the termination of this Agreement and (ii) the provisions contained in Section 3 hereof shall continue with respect to each Share during such period of time, if any, as the Stockholder is precluded from selling such Shares pursuant to Rule 144 of the Securities Act. For this purpose, a "Public Market" for the Common Stock shall be deemed to exist if the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act and trading regularly occurs in such Common Stock in, on or through the facilities of securities exchanges and/or inter-dealer quotation systems in the United States (within the meaning of Section 902(n) of the Securities Act) or any designated offshore securities market (within the meaning of Rule 902(a) of the Securities Act).

6. Distributions With Respect To Shares. As used herein, the term "Shares" includes securities of any kind whatsoever distributed with respect to the Common Stock acquired by the Stockholder pursuant to the Option Plan or any such securities resulting from a stock split or consolidation involving such Common Stock.

7. Amendment; Assignment. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by authorized representatives of the parties or, in the case of a waiver, by an authorized representative of the party waiving compliance. No such written instrument shall be effective unless it expressly recites that it is intended to amend, supersede, cancel, renew or extend this Agreement or to waive compliance with one or more of the terms hereof, as the case may be. Except for the Stockholder's right to assign his or her rights under Section 3(a) or the Company's right to assign its rights under Section 3(b), no party to this Agreement may assign any of its rights or obligations under this Agreement without the prior written consent of the other parties hereto.

8. Notices. All notices and other communications hereunder shall be in writing, shall be deemed to have been given if delivered in person or by certified mail, return receipt requested, and shall be deemed to have been given when personally delivered or three (3) days after mailing to the following address:

If to the Company:

J. Crew Group, Inc.
770 Broadway, Twelfth Floor
New York, New York 10003
Attention: Board of Directors and Secretary

with a copy to:

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

If to TPG:

301 Commerce Street, Suite 3300
Fort Worth, Texas 76102
Attention: John E. Viola

If to the Stockholder, to the address on record with the Company; or for any party, to such other address as any party may have furnished to the others in writing in accordance herewith, except that notices of change of address shall only be effective upon receipt.

9. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but each of which together shall constitute one and the same document.

10. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of NEW YORK, without reference to its principles of conflicts of law.

11. Binding Effect. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by the heirs, personal representatives, successors and permitted assigns of the parties hereto. Nothing expressed or referred to in this Agreement is intended or shall be construed to give any person other than the parties to this Agreement, or their respective heirs, personal representatives, successors or assigns, any legal or equitable rights, remedy or claim under or in respect of this Agreement or any provision contained herein.

12. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof.

13. Severability. If any term, provision, covenant or restriction of this Agreement, is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

14. Miscellaneous. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

* * * * * *

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

_____
Kenneth S. Pilot

J. CREW GROUP, INC.

_____
By:
Title:

TPG PARTNERS II, L.P.

_____
By:
Title:

# J. CREW GROUP, INC.
# 2003 EQUITY INCENTIVE PLAN

## 1. Purpose of the Plan

The purpose of the J. Crew Group, Inc. 2003 Equity Incentive Plan (the "Plan") is to promote the interests of the Company and its stockholders 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.

## 2. Definitions

As used in this Plan, the following capitalized terms shall have the following meanings:

(a) "Affiliate" shall mean the Company and any of its direct or indirect subsidiaries.

(b) "Award" shall mean an Option or shares of Restricted Stock granted to a Participant pursuant to the terms of the Plan and as evidenced by a Grant Agreement.

(c) "Board" shall mean the Board of Directors of the Company.

(d) "Cause" shall mean, when used in connection with the termination of a Participant's Employment, unless otherwise provided in the Participant's Grant Agreement, the termination of the Participant's Employment by the Company or an Affiliate on account of (i) the willful violation by the Participant of any federal or state law or any rule of the Company or any Affiliate, (ii) a breach by a Participant of the Participant's duty of loyalty to the Company and its Affiliates in contemplation of the Participant's termination of Employment, such as the Participant's pre-termination of Employment solicitation of customers or employees of the Company or an Affiliate, (iii) the Participant's unauthorized removal from the premises of the Company or Affiliate of any document (in any medium or form) relating to the Company or an Affiliate or the customers of the Company or an Affiliate, or (iv) any gross negligence in connection with the performance of the Participant's duties as an Employee. Any rights the Company or an Affiliate may have hereunder in respect of the events giving rise to Cause shall be in addition to the rights the Company or Affiliate may have under any other agreement with the Employee or at law or in equity. If, subsequent to a Participant's termination of Employment, it is discovered that such Participant's Employment could have been terminated for Cause, the Participant's Employment shall, at the election of the Committee, in its sole discretion, be deemed to have been terminated for Cause retroactively to the date the events giving rise to Cause occurred.

(e) "Change in Control" shall mean the occurrence of any of the following events: (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company or JCC to any Person or group of related persons for purposes of Section 13(d) of the Exchange Act (a "Group"), together with any affiliates thereof other than to TPG Partnership II, L.P. or any of its affiliates (hereinafter "TPG II") or Millard S. Drexler or any entity that is directly or indirectly controlled by Millard S.

Drexler (hereinafter "MD" and together with TPG II, "TPG Group"); (ii) the approval by the holders of capital stock of the Company or JCC of any plan or proposal for the liquidation or dissolution of the Company or JCC, as the case may be; (iii) (A) any Person or Group (other than TPG Group) shall become the beneficial owner (within the meaning of Section 13(d) of the Exchange Act), directly or indirectly, of shares representing more than 40% of the aggregate voting power of the issued and outstanding stock entitled to vote in the election of directors, managers or trustees (the "Voting Stock") of the Company or JCC and (B) TPG Group beneficially owns, directly or indirectly, in the aggregate a lesser percentage of the Voting Stock of the Company than such other Person or Group; (iv) the replacement of a majority of the Board of Directors of the Company or JCC over a two-year period from the directors who constituted the Board of Directors of the Company or JCC, as the case may be, at the beginning of such period, and such replacement shall not have been approved either by TPG Group or by a vote of at least a majority of the Board of Directors of the Company or JCC, as the case may be, then still in office who either were members of such Board of Directors at the beginning of such period or whose election as a member of such Board of Directors was previously so approved or who were nominated by, or designees of, TPG Group; (v) any Person or Group other than TPG Group shall have acquired the power to elect a majority of the members of the Board of Directors of the Company; or (vi) a merger or consolidation of the Company with another entity in which holders of the Common Stock of the Company immediately prior to the consummation of the transaction hold, directly or indirectly, immediately following the consummation of the transaction, 50% or less of the common equity interest in the surviving corporation in such transaction.

(f) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(g) "Commission" shall mean the U.S. Securities and Exchange Commission.

(h) "Committee" shall mean the Committee appointed by the Board pursuant to Section 3 of the Plan.

(i) "Common Stock" shall mean the common stock of the Company.

(j) "Company" shall mean J. Crew Group, Inc.

(k) "Disability" shall mean a permanent disability as defined in the Company's or an Affiliate's disability plans, or as defined from time to time by the Company, in its discretion, or as specified in the Participant's Grant Agreement.

(l) "EBITDA" shall mean, for any period, the consolidated earnings (losses) of the Company and its affiliates before extraordinary items and the cumulative effect of accounting changes, as determined by the Company in accordance with U.S. generally accepted accounting principles, and before interest (expense or income), taxes, depreciation, amortization, non-cash gains and losses from sales of assets other than in the ordinary course of business, Transaction Costs and Valuation Adjustments. For purposes of clarification, in determining EBITDA, consolidated earnings shall be reduced (or, with respect to losses, increased), but only once, by compensation expenses attributable to this Plan and any other compensation plan, program or

arrangement of the Company or any of its affiliates, to the extent such expenses are recorded in accordance with U.S. generally accepted accounting principles. In the event of the occurrence of any business combination transaction affecting the earnings or indebtedness of the Company, including (without limitation) any transaction accounted for as a pooling or as a recapitalization, the Committee shall adjust EBITDA as the Committee shall in good faith consider necessary or appropriate, including (without limitation) to reflect transaction-related costs attributable to such accounting method ("Transaction Costs").

(m) "Eligible Employee" shall mean (i) any Employee who is a key executive of the Company or an Affiliate, or (ii) certain other Employees, directors or consultants who, in the judgment of the Committee, should be eligible to participate in the Plan due to the services they perform on behalf of the Company or an Affiliate.

(n) "Employment" shall mean employment with the Company or any Affiliate and shall include the provision of services as a director or consultant for the Company or any Affiliate. "Employee" and "Employed" shall have correlative meanings.

(o) "Exercise Date" shall have the meaning set forth in Section 5.10 herein.

(p) "Exercise Notice" shall have the meaning set forth in Section 5.10 herein.

(q) "Exercise Price" shall mean the price that the Participant must pay under the Option for each share of Common Stock as determined by the Committee for each Grant and specified in the Stock Option Grant Agreements.

(r) "Fair Market Value" shall mean, as of any date:

(1) prior to the existence of a Public Market for the Common Stock, the quotient obtained by dividing (i) the excess of (x) the product of (A) 9 (as such number may be changed as provided below, the "Multiple") and (B) EBITDA for the twelve month period ending on the fiscal quarter-end immediately preceding such date over (y) the sum of (I) the weighted arithmetic average indebtedness (net of all cash and cash equivalents) during such period of the Company and its consolidated direct and indirect wholly-owned subsidiaries and (II) for each less than wholly-owned direct or indirect subsidiary of the Company the earnings of which are either consolidated with those of the Company or accounted for on an equity basis, the weighted arithmetic average indebtedness (net of all cash and cash equivalents) during such period of such subsidiary multiplied by the proportion of the total earnings (determined on the same basis as, and excluding the same items as in the determination of, EBITDA) of such subsidiary included in EBITDA (excluding earnings attributable to dividends received from such subsidiary), by (ii) the total number of shares of Common Stock on the last day of such period, determined on a fully diluted basis. For purposes of determining the indebtedness of an entity, all preferred stock of the entity, other than preferred stock convertible into Common Stock, shall be considered indebtedness in the amount of the liquidation value thereof plus accumulated but unpaid dividends thereon. Notwithstanding the foregoing provisions of this paragraph (1), for the ten (10) day period immediately following the occurrence of a Change in Control, Fair Market Value shall not be less than the price per share, if any, paid to any member of the Initial Ownership

Group or the public tender offer price paid in connection with such Change in Control. The Committee shall review the Multiple then in effect following the audit of the Company's financial statements each fiscal year, and shall make such increases or decreases in the Multiple as shall be determined by the Committee in good faith to reflect market conditions and Company performance.

(2) on which a Public Market for the Common Stock exists, (i) the average of the high and low sales prices on such day of a share of Common Stock as reported on the principal securities exchange on which shares of Common Stock are then listed or admitted to trading or (ii) if not so reported, the average of the closing bid and ask prices on such day as reported on the National Association of Securities Dealers Automated Quotation System or (iii) if not so reported, as furnished by any member of the National Association of Securities Dealers, Inc. selected by the Committee. The Fair Market Value of a share of Common Stock as of any such date on which the applicable exchange or inter-dealer quotation system through which trading in the Common Stock regularly occurs is closed shall be the Fair Market Value determined pursuant to the preceding sentence as of the immediately preceding date on which the Common Stock is traded, a bid and ask price is reported or a trading price is reported by any member of NASD selected by the Committee. In the event that the price of a share of Common Stock shall not be so reported or furnished, the Fair Market Value shall be determined by the Committee in good faith to reflect the fair market value of a share of Common Stock.

(s) "Good Reason" shall mean, unless otherwise provided in a Participant's Grant Agreement, (i) a material diminution in a Participant's duties and responsibilities other than a change in such Participant's duties and responsibilities that directly results from a Change in Control, (ii) a decrease in a Participant's base salary, bonus opportunity or benefits other than a decrease in benefits that applies to all employees of the Company or its Affiliates otherwise eligible to participate in the applicable benefit plan, or (iii) a relocation following a Change in Control of a Participant's primary work location more than 50 miles from the work location immediately prior to the Change in Control, in each case without the Participant's written consent and after the Participant has provided the Committee with written notice specifying the circumstances that the Participant believes constitute Good Reason and the Company fails to cure such circumstances within a reasonable period of time (not to exceed 30 days) after receipt of such notice.

(t) "Grant" shall mean a grant of (or to grant) an Option under the Plan evidenced by a Stock Option Grant Agreement or a Grant of (or to grant) Restricted Stock under the Plan evidenced by a Restricted Stock Grant Agreement, provided, that in either case, such grant may or may not be made in exchange for consideration paid in accordance with the terms of the relevant Stock Option Grant Agreement or Restricted Stock Grant Agreement.

(u) "Grant Agreement" shall mean, in the case of the Grant of an Option, an Option Grant Agreement, and in the case of a Grant of Restricted Stock, a Restricted Stock Grant Agreement.

(v) "Grant Date" with respect to an Award, shall mean the date as of which such Award is granted to a Participant and set forth in the Grant Agreement evidencing such Award.

(w) "JCC" shall mean J. Crew Operating Corp., a wholly owned subsidiary of the Company.

(x) "Non-Qualified Stock Option" shall mean an Option that is not an "incentive stock option" within the meaning of Section 422 of the Code.

(y) "Option" shall mean the option to purchase Common Stock granted to any Participant under the Plan. Each Option granted hereunder shall be a Non-Qualified Stock Option and shall be identified as such in the Stock Option Grant Agreement by which it is evidenced.

(z) "Option Spread" shall mean, with respect to an Option, the excess, if any, of the Fair Market Value of a share of Common Stock as of the applicable Valuation Date over the Exercise Price.

(aa) "Participant" shall mean an Eligible Employee to whom a Grant of an Option and/or Restricted Stock under the Plan has been made, and, where applicable, shall include Permitted Transferees.

(bb) "Permitted Transferee" shall have the meaning set forth in Section 5.6.

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

(dd) A "Public Market" for the Common Stock shall be deemed to exist for purposes of the Plan if the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act and trading regularly occurs in such Common Stock in, on or through the facilities of securities exchanges and/or inter-dealer quotation systems in the United States (within the meaning of Rule 902(j) of the Securities Act).

(ee) "Restricted Stock" shall mean a share of Common Stock that is granted to a Participant pursuant to Section 6 herein.

(ff) "Restricted Stock Grant Agreement" shall mean an agreement entered into by the Participant and the Company evidencing the Grant of Restricted Stock pursuant to the Plan (a sample of which is attached hereto as Exhibit A).

(gg) "Retirement" shall mean, when used in connection with the termination of a Participant's Employment, a Participant who is at least age 60 and has been Employed for at least five years at the time of such termination.

(hh) "Securities Act" shall mean the Securities Act of 1933, as amended.

(ii) "Stock Option Grant Agreement" shall mean an agreement entered into by each Participant and the Company evidencing the Grant of each Option pursuant to the Plan (a sample of which is attached hereto as Exhibit B).

(jj) "Stockholders' Agreement" shall mean the Stockholders' Agreement, attached hereto as Exhibit C or such other stockholders' agreement as may be entered into between the Company and any Participant.

(kk) "Transfer" shall mean any transfer, sale, assignment, gift, testamentary transfer, pledge, hypothecation or other disposition of any interest. "Transferee" and "Transferor" shall have correlative meanings.

(ll) "Valuation Adjustments" shall mean that amount of non-cash expense charged against earnings for any period resulting from the application of accounting for business combinations in accordance with Statement of Financial Accounting Standards No. 141. These charges may include, but are not limited to, amounts such as inventory revaluations, property, plant and equipment revaluations, goodwill amortization and finance fee amortization.

(mm) "Valuation Date" shall mean (i) prior to the existence of a Public Market for the Common Stock, the last day of each fiscal quarter, (ii) on or after the existence of a Public Market for the Common Stock, the trading date immediately preceding the date of the relevant transaction, or (iii) in the event of a Change in Control, the date of the consummation of such Change in Control.

(nn) "Vesting Date" shall mean, in the case of an Option, the date an Option becomes exercisable pursuant to Section 5.4 herein, and, in the case of Restricted Stock, the date a share of Restricted Stock vests pursuant to Section 6.3 herein.

(oo) "Withholding Request" shall have the meaning set forth in Section 5.10 herein.

3. Administration of the Plan

The Committee shall be appointed by the Board and shall administer the Plan. In the absence of a Committee, the Board shall administer the Plan and all references herein to Committee shall include the Board. No member of the Committee shall participate in any decision that specifically affects such member's interest in the Plan.

3.1 Powers of the Committee. In addition to the other powers granted to the Committee under the Plan, the Committee shall have the power: (a) to determine to which of the Eligible Employees Grants shall be made; (b) to determine the time or times when Grants shall be made and to determine the type of Award and the number of shares of Common Stock subject to each such Grant; (c) to prescribe the form of any instrument evidencing a Grant; (d) to adopt, amend and rescind such rules and regulations as, in its opinion, may be advisable for the administration of the Plan; (e) to construe and interpret the Plan, such rules and regulations and the instruments evidencing Grants; and (f) to make all other determinations necessary or advisable for the administration of the Plan.

3.2 Determinations of the Committee. Any Grant, determination, prescription or other act of the Committee shall be final and conclusively binding upon all persons.

3.3 Indemnification of the Committee. No member of the Committee or the Board shall be liable for any action or determination made in good faith with respect to the Plan or any Grant. To the full extent permitted by law, the Company shall indemnify and hold harmless each person made or threatened to be made a party to any civil or criminal action or proceeding by reason of the fact that such person, or such person's testator or intestate, is or was a member of the Committee.

3.4 Compliance with Applicable Law. Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Common Stock pursuant to any Award, unless and until the Committee has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Common Stock are listed or traded. In addition to the terms and conditions provided herein, the Committee may require that a Participant make such reasonable covenants, agreements and representations as the Committee, in its sole discretion, deems advisable in order to comply with any such laws, regulations or requirements.

3.5 Inconsistent Terms. Except as specifically provided herein or in any Participant's Grant Agreement, in the event of a conflict between the terms of the Plan and the terms of any Grant Agreement, the terms of the Plan shall govern.

4. Shares Subject to the Plan

Subject to the adjustments provided in Section 7 herein, the maximum number of shares of Common Stock available for Awards under the Plan shall be 4,798,160 shares. To the extent that any Option or Restricted Stock granted under the Plan is forfeited, terminates, expires or is canceled without having been exercised, the shares of Common Stock covered by such Option or Restricted Stock shall again be available for Grant under the Plan.

Unless the Board determines otherwise, of the maximum number of shares of Common Stock:

(a) 1,115,812 shares of Common Stock shall be reserved for the issuance of Options with an Exercise Price of $6.82, provided that if the Fair Market Value of a share of Common Stock is greater than $6.82, such Exercise Price may be greater than $6.82;

(b) 1,115,812 shares of Common Stock shall be reserved for the issuance of Options with an Exercise Price of $25.00, provided that if the Fair Market Value of a share of Common Stock is greater than $25.00, such Exercise Price may be greater than $25.00;

(c) 1,115,812 shares of Common Stock shall be reserved for the issuance of Options with an Exercise Price of $35.00, provided that if the Fair Market Value of a share of Common Stock is greater than $35.00, such Exercise Price may be greater than $35.00; and

(d) 1,450,724 shares of Common Stock shall be reserved for the issuance of shares of Restricted Stock.

5. Options

5.1 Identification of Options. The Options granted under the Plan shall be clearly identified in the Stock Option Grant Agreement as Non-Qualified Stock Options.

5.2 Exercise Price. The Exercise Price of any Option granted under the Plan shall be such price as the Committee shall determine (which may be equal to, less than or greater than the Fair Market Value of a share of Common Stock on the Grant Date for such Options) and which shall be specified in the Stock Option Grant Agreement; provided that such price may not be less than the minimum price required by law or provided in Section 4 herein.

5.3 Grant Date. The Grant Date of the Options shall be the date designated by the Committee and specified in the Stock Option Grant Agreement as the date the Option is granted.

5.4 Vesting Date of Options. Each Stock Option Grant Agreement shall indicate the date or conditions under which such Option shall become exercisable; provided, however, that, unless otherwise provided in a Participant's Stock Option Grant Agreement, if during the one-year period after a Change in Control the Participant's Employment is terminated by the Company or its Affiliate without Cause or by the Participant for Good Reason, all outstanding Options held by such Participant shall become immediately exercisable as of the effective date of the termination of such Participant's Employment.

5.5 Expiration of Options. With respect to each Participant, such Participant's Option(s), or portion thereof, which have not become exercisable shall expire on the date such Participant's Employment is terminated for any reason. With respect to each Participant, each Participant's Option(s), or any portion thereof, which have become exercisable shall expire on the earlier of (i) the commencement of business on the date the Participant's Employment is terminated for Cause; (ii) 90 days after the date the Participant's Employment is terminated for any reason other than Cause, Retirement, death or Disability; (iii) one year after the date the Participant's Employment is terminated by reason of death, Retirement or Disability; or (iv) the 10th anniversary of the Grant Date for such Option(s). Notwithstanding the foregoing, the Committee may specify in the Stock Option Grant Agreement a different expiration date or period for any Option granted hereunder, and such expiration date or period shall supersede the foregoing expiration period.

5.6 Limitation on Transfer. During the lifetime of a Participant, each Option shall be exercisable only by such Participant unless the Participant obtains written consent from the Company to Transfer such Option to a specified Transferee (a "Permitted Transferee") or the Participant's Stock Option Grant Agreement provides otherwise.

5.7 Condition Precedent to Transfer of Any Option. It shall be a condition precedent to any Transfer of any Option by any Participant that the Transferee, if not already a Participant in the Plan, shall agree prior to the Transfer in writing with the Company to be bound by the terms of the Plan and the Stock Option Grant Agreement as if he had been an original signatory thereto.

5.8 Effect of Void Transfers. In the event of any purported Transfer of any Options in violation of the provisions of the Plan, such purported Transfer shall, to the extent permitted by applicable law, be void and of no effect.

5.9 Exercise of Options. A Participant may exercise any or all of his vested Options by serving an Exercise Notice on the Company as provided in Section 5.10 herein.

5.10 Method of Exercise. The Option shall be exercised by delivery of written notice to the Company's principal office (the "Exercise Notice"), to the attention of its Secretary, no less than five business days in advance of the effective date of the proposed exercise (the "Exercise Date"). Such notice shall (a) specify the number of shares of Common Stock with respect to which the Option is being exercised, the Grant Date of such Option and the Exercise Date, (b) be signed by the Participant, and (c) prior to the existence of a Public Market for the Common Stock, indicate in writing that the Participant agrees to be bound by the Stockholders' Agreement, and (d) if the Option is being exercised by the Participant's Permitted Transferee(s), such Permitted Transferee(s) shall indicate in writing that they agree to and shall be bound by the Plan and Stock Option Grant Agreement as if they had been original signatories thereto. The Exercise Notice shall include (i) payment in cash for an amount equal to the Exercise Price multiplied by the number of shares of Common Stock specified in such Exercise Notice, (ii) a certificate representing the number of shares of Common Stock with a Fair Market Value equal to the Exercise Price (provided the Participant has owned such shares at least six months prior to the Exercise Date) multiplied by the number of shares of Common Stock specified in such Exercise Notice, or (iii) a combination of (i) and (ii) or any method otherwise approved by the Committee. In addition, the Exercise Notice shall include payment either in cash or previously-owned shares of Common Stock in an amount equal to the applicable withholding taxes based on the Option Spread for each share of Common Stock specified in the Exercise Notice as of the most recent Valuation Date unless the Participant requests, in writing, that the Company withhold a portion of the shares that are to be distributed to the Participant to satisfy the minimum applicable federal, state and local withholding taxes incurred in connection with the exercise of the Option (the "Withholding Request"). The Committee, in its sole discretion, will either grant or deny the Withholding Request and shall notify the Participant of its determination prior to the Exercise Date. If the Withholding Request is denied, the Participant shall pay an amount equal to the applicable withholding taxes based on the Option Spread for each share of Common Stock specified in the Exercise Notice as of the most recent Valuation Date on or before such Exercise Date. The partial exercise of the Option, alone, shall not cause the expiration, termination or cancellation of the remaining Options.

5.11 Certificates of Shares. Upon the exercise of the Options in accordance with Section 5.10 and, prior to the existence of a Public Market for the Common Stock, execution of the Stockholders' Agreement, certificates of shares of Common Stock shall be issued in the name of the Participant and delivered to such Participant as soon as practicable following the Exercise Date. Each certificate shall contain such legends as the Committee deems appropriate. Prior to the existence of a Public Market, no shares of Common Stock shall be issued to any Participant until such Participant agrees to be bound by and executes the Stockholders' Agreement. In addition, prior to the existence of a Public Market for the Common Stock, the

Committee may require that the certificate evidencing any shares of Common Stock be held in custody by the Company.

5.12 Termination of the Options. The Committee may, at any time, in its absolute discretion, without amendment to the Plan or any relevant Stock Option Grant Agreement, terminate the Options then outstanding, whether or not exercisable, provided, however, that the Company, in full consideration of such termination, shall pay (a) with respect to any Option, or portion thereof, then outstanding, an amount equal to the Option Spread determined as of the Valuation Date coincident with or next succeeding the date of termination. Such payment shall be made as soon as practicable after the payment amounts are determined, provided, however, that the Company shall have the option to make payments to the Participants by issuing a note to the Participant bearing a reasonable rate of interest as determined by the Committee in its absolute discretion.

6. Restricted Stock

6.1 Grant of Restricted Stock. The Committee may, in its sole discretion, Grant Awards of Restricted Stock to Eligible Employees at such times, in such amounts and subject to such terms and conditions as the Committee may determine, but not inconsistent with the Plan. The Committee shall send written notice to each Eligible Employee selected to receive an Award of Restricted Stock, which shall include a Restricted Stock Grant Agreement. In order to accept the Award of Restricted Stock, such Eligible Employee must execute the Restricted Stock Grant Agreement and, prior to the existence of a Public Market for the Common Stock, such Eligible Employee must also execute the Stockholders' Agreement.

6.2 Grant Date. The Grant Date of a share of Restricted Stock shall be the date designated by the Committee and specified in the Restricted Stock Grant Agreement as the date the share of Restricted Stock is granted.

6.3 Vesting Date of Restricted Stock. Each Restricted Stock Grant Agreement shall indicate the date or dates under which such the shares of Restricted Stock shall become vested; provided, however, that, unless otherwise provided in a Participant's Restricted Stock Grant Agreement, if during the one-year period after a Change in Control the Participant's Employment is terminated by the Company or its Affiliate without Cause or by the Participant for Good Reason, all unvested shares of Restricted Stock held by such Participant shall become immediately vested as of the effective date of the termination of such Participant's Employment.

6.4 Limitation of Transfer of Restricted Stock. Prior to the existence of a Public Market for Common Shares, each share of Restricted Stock shall not be Transferred unless the Participant obtains written consent from the Company to Transfer such share of Restricted Stock to a specified Permitted Transferee or the Participant's Restricted Stock Grant Agreement provides otherwise. It shall be a condition precedent to any Transfer of any share of Restricted Stock by any Participant that the Transferee, if not already a Participant in the Plan, shall agree prior to the Transfer in writing with the Company to be bound by the terms of the Plan and the Restricted Stock Grant Agreement as if he had been an original signatory thereto. In the event of

any purported Transfer of any share of Restricted Stock in violation of the provisions of the Plan, such purported Transfer shall, to the extent permitted by applicable law, be void and of no effect.

6.5 Issuance of Certificates. Reasonably promptly after the receipt by the Company of the Restricted Stock Grant Agreement and Stockholders' Agreement executed by the Participant with respect to the shares of Restricted Stock granted by the Restricted Stock Grant Agreement, the Company shall cause to be issued stock certificates, registered in the name of the Participant, evidencing the shares of Common Stock granted by the Restricted Stock Grant Agreement. Each certificate shall contain such legends as the Committee deems appropriate. Prior to the existence of a Public Market for the Common Stock, the Committee may require that the certificate evidencing any shares of Common Stock be held in custody by the Company, and that, as a condition of any Award, the Committee may require that the Participant deliver to the Company a stock power, endorsed in blank, relating to the share of Restricted Stock covered by such Award.

6.6 Termination of Restricted Stock. The Committee may, at any time, in its sole discretion, terminate any Award of shares of Restricted Stock then outstanding, whether vested or not, provided, however, that the Company, in full consideration of such termination shall pay with respect to each share of Common Stock, whether or not vested on the date of such termination, an amount equal to the Fair Market Value of a share of Common Stock, determined as of the Valuation Date coincident with or next succeeding the date of termination. Such payment shall be made as soon as practicable after the payment amounts are determined.

6.7 Expiration of Restricted Stock. Subject to Section 6.3 above, with respect to each Participant, such Participant's shares of Restricted Stock which have not become vested on the date such Participant's Employment is terminated for any reason shall be immediately forfeited unless otherwise specified in the Restricted Stock Grant Agreement.

6.8 Other Restrictions. At the time of an Award, the Committee may impose such additional restrictions on the Restricted Stock awarded as it, in its sole discretion, deems appropriate.

6.9 Rights as Shareholders.

(a) Dividends. Unless otherwise provided in the Restricted Stock Grant Agreement, ordinary and routine dividends paid in cash with respect to shares of Restricted Stock that are outstanding as of the relevant record date for such dividends shall be distributed to the Participant at such time and in the manner paid to holders of shares of Common Stock. Stock dividends issued with respect to shares of Restricted Stock covered by the Award shall be treated as additional shares under the Award and shall be subject to the same restrictions and terms and conditions that apply to the shares of Restricted Stock with respect to which such dividends are issued.

(b) Voting. To the extent that the holders of shares of Common Stock are entitled to vote, the Participant shall be entitled to vote his shares of Common Stock, or in the

case of Restricted Stock held in custody by the Company, direct the Company as to the manner as to which the shares of Common Stock underlying the Award shall be voted.

7. Adjustment Upon Changes in Company Stock.

7.1 Increase or Decrease in Issued Shares Without Consideration. Subject to any required action by the stockholders of the Company, in the event of any increase or decrease in the number of issued shares of Common Stock resulting from a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend (but only on the shares of Common Stock), or any other increase or decrease in the number of such shares effected without receipt of consideration by the Company, the Committee shall, make such adjustments with respect to the number of shares of Common Stock subject to the Awards, or in the case of Options, the exercise price per share of Common Stock of each such Option, as the Committee may consider appropriate to prevent the enlargement or dilution of rights.

7.2 Certain Mergers. Subject to any required action by the stockholders of the Company, in the event that the Company shall be the surviving corporation in any merger or consolidation (except a merger or consolidation as a result of which the holders of shares of Common Stock receive securities of another corporation), the Awards outstanding on the date of such merger or consolidation shall pertain to and apply to the securities which a holder of the number of shares of Common Stock subject to any such Award would have received in such merger or consolidation (it being understood that if, in connection with such transaction, the stockholders of the Company retain their shares of Common Stock and are not entitled to any additional or other consideration, the Awards shall not be affected by such transaction).

7.3 Certain Other Transactions. In the event of (i) a dissolution or liquidation of the Company, (ii) a sale of all or substantially all of the Company's assets, (iii) a merger or consolidation involving the Company in which the Company is not the surviving corporation or (iv) a merger or consolidation involving the Company in which the Company is the surviving corporation but the holders of shares of Common Stock receive securities of another corporation and/or other property, including cash, the Committee shall, in its absolute discretion, have the power to:

(a) provide for the exchange of any Award outstanding immediately prior to such event (whether or not then exercisable or vested) for an award with respect to, as appropriate, some or all of the property for which the stock underlying such Award is exchanged and, incident thereto, make an equitable adjustment, as determined by the Committee, in the Exercise Price of the Options, if applicable, or the number of shares or amount of property subject to the Award or, if appropriate, provide a cash payment to the Participants in partial consideration for the exchange of Awards as the Committee may consider appropriate to prevent dilution or enlargement of rights;

(b) cancel, effective immediately prior to the occurrence of such event, any Award outstanding immediately prior to such event (whether or not then exercisable or vested), and in full consideration of such cancellation, pay to the Participant to whom such Award was granted an amount in cash, for each share of Common Stock subject to such Award, equal to (A)

with respect to an Option, the excess of (x) the value, as determined by the Committee in its sole discretion, of securities and property (including cash) received by the holders of shares of Common Stock as a result of such event over (y) the Exercise Price of such Option or (B) with respect to Restricted Stock , the value, as determined by the Committee in its sole discretion, of securities and property (including cash) received by the holders of the shares of Common Stock as a result of such event; or

(c) provide for any combination of (a) or (b).

7.4 Other Changes. In the event of any change in the capitalization of the Company or a corporate change other than those specifically referred to in Sections 7.1, 7.2 or 7.3 hereof, the Committee may make such adjustments in the number and class of shares subject to the Awards outstanding on the date on which such change occurs and, in the case of Options, in the per-share Exercise Price of each such Option, as the Committee may consider appropriate to prevent dilution or enlargement of rights.

7.5 Consideration Received on Unvested Restricted Stock. Notwithstanding the foregoing and unless otherwise determined by the Committee or provided in a Restricted Stock Grant Agreement, in respect of any unvested shares of Restricted Stock underlying an Award, in the event of a Change in Control in connection with which the holders of shares of Common Stock receive cash or any other property as consideration, the Company shall hold such consideration paid (cash or otherwise) in respect of such shares in escrow and such consideration shall be subject to the same restrictions and terms and conditions, including vesting schedule, that applied to the shares of Restricted Stock with respect to which such consideration was paid and except with respect to cash consideration, the terms and conditions of the Plan and Restricted Stock Grant Agreement shall apply to such consideration in the same manner as it applies to the Restricted Stock. With respect to any cash consideration, within a reasonable time following any applicable Vesting Date, the Company shall release to the Participant that portion of the cash consideration paid in respect of his shares of Restricted Stock, provided, that the Participant is continuously Employed by the Company or any of its Affiliates through such Vesting Date.

7.6 No Other Rights. Except as expressly provided in the Plan or the Grant Agreements evidencing the Awards, the Participants shall not have any rights by reason of any subdivision or consolidation of shares of Common Stock or shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of Common Stock or shares of stock of any class or any dissolution, liquidation, merger or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or the Grant Agreements evidencing the Awards, no issuance by the Company of shares of Common Stock or shares of stock of any class, or securities convertible into shares of Common Stock or shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to the Awards or, in the case of Options, the Exercise Price of such Options.

8. Amendment of the Plan or Awards

The Committee may, in its absolute discretion, amend the Plan or terms of any Award, provided, however, that any such amendment shall not impair or adversely affect the Participants' rights under the Plan or such Award without such Participant's written consent.

9. Miscellaneous

9.1 Rights as Stockholders. The Participants shall not have any rights as stockholders with respect to any shares of Common Stock covered by or relating to the Awards granted pursuant to the Plan until the date the Participants become the registered owners of such shares. Except as otherwise expressly provided herein, no adjustment to the Awards shall be made for dividends or other rights for which the record date occurs prior to the date such stock certificate is issued.

9.2 No Special Employment Rights. Nothing contained in the Plan shall confer upon the Participants any right with respect to the continuation of their Employment or interfere in any way with the right of the Company or an Affiliate, subject to the terms of any separate Employment agreements to the contrary, at any time to terminate such Employment or to increase or decrease the compensation of the Participants from the rate in existence at the time of the Grant of any Award.

9.3 No Obligation to Exercise. The Grant to the Participants of the Options shall impose no obligation upon the Participants to exercise such Options.

9.4 Restrictions on Common Stock. Prior to the existence of a Public Market for the Common Stock, the rights and obligations of the Participants with respect to Common Stock obtained through the Grant of Restricted Stock or upon the exercise of any Option provided in the Plan shall be governed by the terms and conditions of the Stockholders' Agreement.

9.5 Withholding Taxes. Whenever shares of Restricted Stock are to be issued hereunder or shares of Common Stock are to be issued upon the exercise of an Option, the Company shall have the right to require the Participant to remit to the Company in cash an amount sufficient to satisfy federal, state and local withholding tax requirements, if any, attributable to such issuance prior to the delivery of any certificate or certificates for such shares.

9.5 Notices. All notices and other communications hereunder shall be in writing and shall be given and shall be deemed to have been duly given if delivered in person, by cable, telegram, telex or facsimile transmission, to the parties as follows:

If to the Participant:

To the address shown on the Grant Agreement.

If to the Company:

J. Crew Group Inc.
770 Broadway, 12th Floor
New York, NY 10003
Attention: General Counsel

or to such other address as any party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall only be effective upon receipt.

9.6 Descriptive Headings. The headings in the Plan are for convenience of reference only and shall not limit or otherwise affect the meaning of the terms contained herein.

9.7 Severability. In the event that any one or more of the provisions, subdivisions, words, clauses, phrases or sentences contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision, subdivision, word, clause, phrase or sentence in every other respect and of the remaining provisions, subdivisions, words, clauses, phrases or sentences hereof shall not in any way be impaired, it being intended that all rights, powers and privileges of the Company and Participants shall be enforceable to the fullest extent permitted by law.

9.8 Governing Law. The Plan shall be governed by and construed and enforced in accordance with the laws of the State of New York, without regard to the provisions governing conflict of laws.

EXHIBIT A

RESTRICTED STOCK GRANT AGREEMENT

THIS AGREEMENT, made as of this [___] day of [_____], 200[__] between J.CREW GROUP INC. (the "Company") and [_____] (the "Participant").

WHEREAS, the Company has adopted and maintains the J. Crew Group, Inc. 2003 Equity Incentive Plan (the "Plan") to promote the interests of the Company and its stockholders by providing the Company's key employees and others 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;

WHEREAS, the Plan provides for the Grant to Participants in the Plan of restricted shares of Common Stock of the Company.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties hereto hereby agree as follows:

1. Investment. The Participant represents that the shares of Restricted Stock (as defined herein) are being acquired for investment and not with a view toward the distribution thereof.

2. Grant of Restricted Stock. Pursuant to, and subject to, the terms and conditions set forth herein and in the Plan, the Company hereby Grants to the Participant an Award of [_____] shares of Common Stock of the Company (collectively, the "Restricted Stock").

3. Grant Date. The Grant Date of the Restricted Stock hereby granted is [_____].

4. Incorporation of Plan. All terms, conditions and restrictions of the Plan are incorporated herein and made part hereof as if stated herein. If there is any conflict between the terms and conditions of the Plan and this Agreement, the terms and conditions of this Agreement, as interpreted by the Committee, shall govern. All capitalized terms used herein shall have the meanings given to such terms in the Plan.

5. Vesting Date. The Restricted Stock shall become vested as follows: [vesting schedule]. Notwithstanding the foregoing, if within the one-year period after a Change in Control the Participant's Employment is terminated by the Company or its Affiliate without Cause or by the Participant for Good Reason, all shares of Restricted Stock underlying this Award shall become immediately vested as of the effective date of the termination of such Participant's Employment.

6. Forfeiture. Subject to the provisions of the Plan, with respect to the shares of Restricted Stock which have not become vested on the date the Participant's Employment is terminated for any reason, the Award of Restricted Stock shall expire and such unvested shares of Restricted Stock shall immediately be forfeited on such date.

7. Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party hereto upon any breach or default of any party under this Agreement, shall impair any such right, power or remedy of such party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party or any provisions or conditions of this Agreement, shall be in writing and shall be effective only to the extent specifically set forth in such writing.

8. Limitation on Transfer. All shares of Restricted Stock granted hereunder shall be subject to the terms and conditions of the Stockholders' Agreement, dated as of _____, 200__, between the Company, the Participant and TPG Partners II, L.P. (the "Stockholders' Agreement"). Prior to the existence of a Public Market for Common Shares, each share of Restricted Stock shall not be Transferred unless the Participant obtains written consent from the Company to Transfer such share of Restricted Stock to a specified Permitted Transferee or the Participant's Restricted Stock Grant Agreement provides otherwise. It shall be a condition precedent to any Transfer of any share of Restricted Stock by the Participant that the Transferee, if not already a Participant in the Plan, shall agree prior to the Transfer in writing with the Company to be bound by the terms of the Plan and this Agreement as if he had been an original signatory thereto. In the event of any purported Transfer of any share of Restricted Stock in violation of the provisions of the Plan and this Agreement, such purported Transfer shall, to the extent permitted by applicable law, be void and of no effect.

9. Integration. This Agreement, the Plan and the Stockholders' Agreement contain the entire understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, representations, warranties, covenants or undertakings with respect to the subject matter hereof other than those expressly set forth herein, the Plan and the Stockholders' Agreement. This Agreement, the Plan and the Stockholders' Agreement supersede all prior agreements and understandings between the parties with respect to its subject matter.

10. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

11. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of NEW YORK, without regard to the provisions governing conflict of laws.

12. Participant Acknowledgment. The Participant hereby acknowledges receipt of a copy of the Plan. The Participant hereby acknowledges that all decisions, determinations and interpretations of the Committee in respect of the Plan, this Agreement and this Award of Restricted Stock shall be final and conclusive.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by its duly authorized officer and said Participant has hereunto signed this Agreement on the Participant's own behalf, thereby representing that the Participant has carefully read and understands this Agreement and the Plan as of the day and year first written above.

J.CREW GROUP INC.

_____
By: [_____]
Title: [_____]

_____
[Insert Participant's Name]

EXHIBIT B

STOCK OPTION GRANT AGREEMENT

THIS AGREEMENT, made as of this [___] day of [_____], 200[__] between J.CREW GROUP INC. (the "Company") and [_____] (the "Participant").

WHEREAS, the Company has adopted and maintains the J. Crew Group, Inc. 2003 Equity Incentive Plan (the "Plan") to promote the interests of the Company and its stockholders by providing the Company's key employees and others 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;

WHEREAS, the Plan provides for the Grant to Participants in the Plan of Non-Qualified Stock Options to purchase shares of Common Stock of the Company.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties hereto hereby agree as follows:

1. Grant of Options. Pursuant to, and subject to, the terms and conditions set forth herein and in the Plan, the Company hereby Grants to the Participant a NON-QUALIFIED STOCK OPTION (the "Option") with respect to [_____] shares of Common Stock of the Company.

2. Grant Date. The Grant Date of the Option hereby granted is [_____].

3. Incorporation of Plan. All terms, conditions and restrictions of the Plan are incorporated herein and made part hereof as if stated herein. If there is any conflict between the terms and conditions of the Plan and this Agreement, the terms and conditions of this Agreement, as interpreted by the Committee, shall govern. All capitalized terms used herein shall have the meanings given to such terms in the Plan.

4. Exercise Price. The exercise price of each share underlying the Option hereby granted is [_____].

5. Vesting Date. The Option shall become exercisable as follows: [vesting schedule]. Notwithstanding the foregoing, if within the one-year period after a Change in Control the Participant's Employment is terminated by the Company or its Affiliate without Cause or by the Participant for Good Reason, all outstanding Options held by such Participant shall become immediately exercisable as of the effective date of the termination of such Participant's Employment.

6. Expiration Date. Subject to the provisions of the Plan, with respect to the Option or any portion thereof which has not become exercisable, the Option shall expire on the date the Participant's Employment is terminated for any reason, and with respect to any Option or any portion thereof which has become exercisable, the Option shall expire on the earlier of (i) 90

days after the Participant's termination of Employment other than for Cause, Retirement, death, or Disability; (ii) one year after termination of the Participant's Employment by reason of death, Retirement or Disability; (iii) the commencement of business on the date the Participant's Employment is, or is deemed to have been, terminated for Cause; or (iv) the tenth anniversary of the Grant Date.

7. Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party hereto upon any breach or default of any party under this Agreement, shall impair any such right, power or remedy of such party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party or any provisions or conditions of this Agreement, shall be in writing and shall be effective only to the extent specifically set forth in such writing.

8. Limitation on Transfer. During the lifetime of the Participant, the Option shall be exercisable only by the Participant. The Option shall not be assignable or transferable otherwise than by will or by the laws of descent and distribution. Notwithstanding the foregoing, the Participant may request authorization from the Committee to assign the Participant's rights with respect to the Option granted herein to a trust or custodianship, the beneficiaries of which may include only the Participant, the Participant's spouse or the Participant's lineal descendants (by blood or adoption), and, if the Committee Grants such authorization, the Participant may assign the Participant's rights accordingly. In the event of any such assignment, such trust or custodianship shall be subject to all the restrictions, obligations, and responsibilities as apply to the Participant under the Plan and this Stock Option Grant Agreement and shall be entitled to all the rights of the Participant under the Plan. All shares of Common Stock obtained pursuant to the Option granted herein shall not be transferred except as provided in the Plan and, where applicable, the Stockholders' Agreement.

9. Integration. This Agreement, the Plan and the Stockholders' Agreement contain the entire understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, representations, warranties, covenants or undertakings with respect to the subject matter hereof other than those expressly set forth herein, the Plan and the Stockholders' Agreement. This Agreement, the Plan and the Stockholders' Agreement supersede all prior agreements and understandings between the parties with respect to its subject matter.

10. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

11. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of NEW YORK, without regard to the provisions governing conflict of laws.

12. Participant Acknowledgment. The Participant hereby acknowledges receipt of a copy of the Plan. The Participant hereby acknowledges that all decisions, determinations and interpretations of the Committee in respect of the Plan, this Agreement and the Option shall be final and conclusive.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by its duly authorized officer and said Participant has hereunto signed this Agreement on the Participant's own behalf, thereby representing that the Participant has carefully read and understands this Agreement and the Plan as of the day and year first written above.

J.CREW GROUP INC.

_____

By: [_____]
Title: [_____]

_____

[Insert Participant's Name]

EXHIBIT C

# STOCKHOLDERS' AGREEMENT

STOCKHOLDERS' AGREEMENT (this "Agreement"), dated as of _____, 200__, between J. Crew Group, Inc. (the "Company"), TPG Partners II, L.P. ("TPG") and _____ (the "Stockholder").

WHEREAS, the Stockholder is an employee of the Company and in such capacity was granted [an option (the "Option") to purchase shares] [an Award of restricted shares] of common stock of the Company, $.01 par value per share ("Common Stock"), pursuant to the Company's 2003 Equity Incentive Plan (the "2003 Plan");

WHEREAS, as a condition to the issuance of [shares of Common Stock pursuant to the exercise of an Option] [restricted shares of Common Stock], the Stockholder is required under the 2003 Plan to execute this Agreement;

[WHEREAS, the Stockholder desires to exercise the Option to purchase _____ shares of Common Stock]; and

WHEREAS, the Stockholder and the Company desire to enter this Agreement and to have this Agreement apply to the shares to be acquired pursuant to the 2003 Plan and to any shares of Common Stock acquired after the date hereof by the Stockholder from whatever source, subject to any future agreement between the Company and the Stockholder to the contrary (in the aggregate, the "Shares").

NOW THEREFORE, in consideration of the premises hereinafter set forth, and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows.

1. Investment. The Stockholder represents that the Shares are being acquired for investment and not with a view toward the distribution thereof.

2. Issuance of Shares. The Stockholder acknowledges and agrees that the certificate for the Shares shall bear the following legends (except that the second paragraph of this legend shall not be required after the Shares have been registered and except that the first paragraph of this legend shall not be required after the termination of this Agreement):

> The shares represented by this certificate are subject to the terms and conditions of a Stockholders' Agreement dated as of _____, 200_ and may not be sold, transferred, hypothecated, assigned or encumbered, except as may be permitted by the aforesaid Agreement. A copy of the Stockholders' Agreement may be obtained from the Secretary of the Company.
>
> The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares have been acquired for investment and may not be sold, transferred, pledged or hypothecated in the absence of an effective

registration statement for the shares under the Securities Act of 1933 or an opinion of counsel for the Company that registration is not required under said Act.

Upon the termination of this Agreement, or upon registration of the Shares under the Securities Act of 1933 (the "Securities Act"), the Stockholder shall have the right to exchange any Shares containing the above legend (i) in the case of the registration of the Shares, for Shares legended only with the first paragraph described above and (ii) in the case of the termination of this Agreement, for Shares legended only with the second paragraph described above.

3. Transfer of Shares; Call Rights.

(a) The Stockholder agrees that he will not cause or permit the Shares or his interest in the Shares to be sold, transferred, hypothecated, assigned or encumbered except as expressly permitted by this Section 3; provided, however, that the Shares or any such interest may be transferred (i) on the Stockholder's death by bequest or inheritance to the Stockholder's executors, administrators, testamentary trustees, legatees or beneficiaries, (ii) to a trust or custodianship the beneficiaries of which may include only the Stockholder, the Stockholder's spouse, or the Stockholder's lineal descendants (by blood or adoption) and (iii) in accordance with Section 4 of this Agreement, subject in any such case to the agreement by each transferee (other than the Company) in writing to be bound by the terms of this Agreement and provided in any such case that no such transfer that would cause the Company to be required to register the Common Stock under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), shall be permitted.

(b) The Company (or its designated assignee) shall have the right commencing on the later of (x) the termination of the Stockholder's employment with the Company for any reason and (y) one-hundred-eighty-one (181) days following the date of the acquisition by the Stockholder of any Shares, to purchase from the Stockholder, and upon the exercise of such right the Stockholder shall sell to the Company (or its designated assignee), all or any portion of the Shares held by the Stockholder as of the date as of which such right, is exercised at a per Share price equal to the Fair Market Value (as defined in the 2003 Plan) of a share of Common Stock determined as of the date as of which such right is exercised. The Company (or its designated assignee) shall exercise such right by delivering to the Stockholder a written notice specifying its intent to purchase Shares held by the Stockholder, the date as of which such right is to be exercised and the number of Shares to be purchased. Such purchase and sale shall occur on such date as the Company (or its designated assignee) shall specify which date shall not be later than ninety (90) days after the fiscal quarter-end immediately following the date as of which the Company's right is exercised.

4. Certain Rights.

(a) Drag Along Rights. If TPG desires to sell all or substantially all of its shares of Common Stock to a good faith independent purchaser (a "Purchaser") (other than any other investment partnership, limited liability company or other entity established for investment purposes and controlled by the principals of TPG or any of its affiliates and other than any employees of TPG or any of its affiliates, hereinafter referred to as a "Permitted Transferee") and said Purchaser desires to acquire all or substantially all of the issued and outstanding shares of Common Stock (or all or substantially all of the assets of the Company) upon such terms and conditions as agreed to with TPG, the Stockholder agrees to sell all of his Shares to said Purchaser (or to vote all of his Shares in favor of any merger or other transaction which would effect a sale of such shares of Common Stock or assets of the Company) at the same price per share of Common Stock and pursuant to the same terms and conditions with respect to payment for the shares of Common Stock as agreed to by TPG. In such case, TPG shall give written notice of such sale to the Stockholder at least 30 days prior to the consummation of such sale, setting forth (i) the consideration to be received by the holders of shares of Common Stock, (ii) the identity of the Purchaser, (iii) any other material items and conditions of the proposed transfer and (iv) the date of the proposed transfer.

(b) Tag Along Rights. (i) Subject to paragraph ( iv) of this Section 4(b), if TPG or its affiliates proposes to transfer any of its shares of Common Stock to a Purchaser (other than a Permitted Transferee), then TPG or such Permitted Transferee (hereinafter referred to as a "Selling Stockholder") shall give written notice of such proposed transfer to the Stockholder (the "Selling Stockholder's Notice") at least 30 days prior to the consummation of such proposed transfer, and shall provide notice to all other stockholders of the Company to whom TPG has granted similar "tag-along" rights (such stockholders together with the Stockholder, referred to herein as the "Other Stockholders") setting forth (A) the number of shares of Common Stock offered, (B) the consideration to be received by such Selling Stockholder, (C) the identity of the Purchaser, (D) any other material items and conditions of the proposed transfer and (E) the date of the proposed transfer.

(ii) Upon delivery of the Selling Stockholder's Notice, the Stockholder may elect to sell up to the sum of (A) the Pro Rata Portion (as hereinafter defined) and (B) the Excess Pro Rata Portion (as hereinafter defined) of his Shares, at the same price per share of Common Stock and pursuant to the same terms and conditions with respect to payment for the shares of Common Stock as agreed to by the Selling Stockholder, by sending written notice to the Selling Stockholder within 15 days of the date of the Selling Stockholder's Notice, indicating his election to sell up to the sum of the Pro Rata Portion plus the Excess Pro Rata Portion of his Shares in the same transaction. Following such 15 day period, the Selling Stockholder and each Other Stockholder shall be permitted to sell to the Purchaser on the terms and conditions set forth in the Selling Stockholder's Notice the sum of (X) the Pro Rata Portion and (Y) the Excess Pro Rata Portion of its Shares.

(iii) For purposes of Section 4(b) hereof, "Pro Rata Portion" shall mean, with respect to shares of Common Stock held by the Stockholder or Selling Stockholder, as the case may be, a number equal to the product of (x) the total number of such shares then owned by the Stockholder or the Selling Stockholder, as the case may be, and (y) a fraction, the numerator of which shall be the total number of such shares proposed to be sold to the Purchaser as set forth in the Selling Stockholder's Notice and the denominator of which shall be the total number of such shares then outstanding (including such shares proposed to be sold by the Selling Stockholder); provided, however, that any fraction of a share resulting from such calculation shall be disregarded for purposes of determining the Pro Rata Portion. For purposes of Section 4(b), "Excess Pro Rata Portion" shall mean, with respect to shares of Common Stock held by the Stockholder or the Selling Stockholder, as the case may be, a number equal to the product of (x) the number of Non-Elected Shares (as defined below) and (y) a fraction, the numerator of which shall be such Stockholder's Pro Rata Portion with respect to such shares, and the denominator of which shall be the sum of (1) the aggregate Pro Rata Portions with respect to the shares of Common Stock of all of the Other Stockholders that have elected to exercise their rights to sell their Pro Rata Portion of shares of Common Stock, and (2) the Selling Stockholder's Pro Rata Portion of shares of Common Stock (the aggregate amount of such denominator is hereinafter referred to as the "Elected Shares"). For purposes of this Agreement, "Non-Elected Shares" shall mean the excess, if any, of the total number of shares of Common Stock, proposed to be sold to a Purchaser as set forth in a Selling Stockholder's Notice less the amount of Elected Shares.

(iv) Notwithstanding anything to the contrary contained herein, the provisions of this Section 4(b) shall not apply to any sale or transfer by TPG of shares of Common Stock unless and until TPG, after giving effect to the proposed sale or transfer, shall have sold or transferred in the aggregate (other than to Permitted Transferees) shares of Common Stock, representing 7.5% of shares of Common Stock owned by TPG on the date hereof.

5. Termination. This Agreement shall terminate immediately following the existence of a Public Market for the Common Stock except that (i) the requirements contained in Section 2 hereof shall survive the termination of this Agreement and (ii) the provisions contained in Section 3 hereof shall continue with respect to each Share during such period of time, if any, as the Stockholder is precluded from selling such Shares pursuant to Rule 144 of the Securities Act. For this purpose, a "Public Market" for the Common Stock shall be deemed to exist if the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act and trading regularly occurs in such Common Stock in, on or through the facilities of securities exchanges and/or inter-dealer quotation systems in the United States (within the meaning of Section 902(j) of the Securities Act) or any designated offshore securities market (within the meaning of Rule 902(b) of the Securities Act).

6. Distributions With Respect To Shares. As used herein, the term "Shares" includes securities of any kind whatsoever distributed with respect to the Common Stock acquired by the Stockholder pursuant to the 2003 Plan or any such securities resulting from a stock split or consolidation involving such Common Stock.

7. Amendment; Assignment. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by authorized representatives of the parties or, in the case of a waiver, by an authorized representative of the party waiving compliance. No such written instrument shall be effective unless it expressly recites that it is intended to amend, supersede, cancel, renew or extend this Agreement or to waive compliance with one or more of the terms hereof, as the case may be. Except for the Stockholder's right to assign his or her rights under Section 3(a) or the Company's right to assign its rights under Section 3(b), no party to this Agreement may assign any of its rights or obligations under this Agreement without the prior written consent of the other parties hereto.

8. Notices. All notices and other communications hereunder shall be in writing, shall be deemed to have been given if delivered in person or by certified mail, return receipt requested, and shall be deemed to have been given when personally delivered or three (3) days after mailing to the following address:

If to the Stockholder:

If to the Company:

If to TPG:

or to such other address as any party may have furnished to the others in writing in accordance herewith, except that notices of change of address shall only be effective upon receipt.

9. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but each of which together shall constitute one and the same document.

10. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of NEW YORK, without reference to its principles of conflicts of law.

11. Binding Effect. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by the heirs, personal representatives, successors and permitted assigns of the parties hereto. Nothing expressed or referred to in this Agreement is intended or shall be construed to give any person other than the parties to this Agreement, or their respective

heirs, personal representatives, successors or assigns, any legal or equitable rights, remedy or claim under or in respect of this Agreement or any provision contained herein.

12. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof.

13. Severability. If any term, provision, covenant or restriction of this Agreement, is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

14. Miscellaneous. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

J. CREW GROUP, INC.

_____
By:
Title:

TPG PARTNERS II, L.P.

_____
By:
Title:

_____
[Stockholder]

Exhibit 10.5(d)

April 29, 2002

Mark Sarvary
7 Fox Run
Purchase, NY 10577

Dear Mark:

This letter will confirm our understanding of the arrangements under which your Employment Agreement ("Employment Agreement"), dated May 3, 1999, with the Company (as modified by your letter agreement ("Letter Agreement"), dated January 15, 2002, with the Company) is terminated. The terms and conditions of the termination of your employment with the Company are set out below.

1. The parties hereby acknowledge and confirm that your employment with the Company is terminated effective as of April 30, 2002 (the "Termination Date") and that such termination shall constitute a Qualifying Termination (as defined in the Letter Agreement). In addition, the parties hereby acknowledge and confirm that your resignation as a Director of J. Crew Group, Inc. ("Parent") is also effective as of the Termination Date.

2. Subject to this Agreement becoming effective (as described in Paragraph 18 hereof), the Company will pay you a lump-sum amount equal to two (2) times your base salary on the Termination Date. You will also be entitled to receive the following benefits. The Company shall continue to provide medical plan coverage substantially similar to the medical plan coverage that it provides its active employees, as it may be amended from time to time, until the earlier of (i) the second anniversary of the Termination Date (i.e. April 30, 2004), (ii) the date that you become employed as a full-time employee with a new employer or (iii) the date that you become eligible to be covered by comparable plan of a subsequent employer, provided that the Company shall provide such coverage by paying your COBRA continuation coverage for the COBRA coverage period and thereafter, the Company shall only provide such coverage to the extent that the monthly cost of such coverage does not exceed the cost of your monthly COBRA premiums as in effect on the last month of your COBRA continuation period. In order to receive the foregoing medical coverage you shall cooperate with the reasonable requests of the Company, including without limitation any request to submit to medical examinations and elect COBRA continuation coverage. The Company shall also provide you with life insurance coverage equivalent to the coverage provided immediately prior to the Termination Date (namely two-times your base salary as of the Termination Date) under the same terms as it provides such coverage to its active employees under its life insurance plan, as it may be amended from time to time, until the earlier of (i) the twenty-four month anniversary of the date of the Letter Agreement (i.e. January

15, 2004), (ii) the date that you become employed as a full-time employee with a new employer or (iii) the date that you become eligible to be covered by comparable plan of a subsequent employer. The foregoing payments shall be reduced by any required tax withholdings and shall not be taken into account as compensation and no service credit shall be given after the Termination Date for purposes of determining the benefits payable under any other plan, program, agreement or arrangement of the Company. You acknowledge that, except for the foregoing payments, you are not entitled to any payment by the Company in the nature of either severance or termination pay.

3. As of the Termination Date, you have vested options to purchase 108,800 shares of Common Stock of Parent ("Common Stock") at $10.00 per share. In addition, the Company hereby agrees that options to purchase an additional 54,400 shares of Common Stock at $10.00 per share shall vest and become exercisable on May 10, 2002 (such additional options together with the options vested as of the Termination Date are collectively referred to as the "Vested Options"). Notwithstanding anything to the contrary, all of the Vested Options shall remain exercisable until the third anniversary of the Termination Date (i.e. April 30, 2005), subject in all other respects to the provisions of your stock option agreement with Parent and the J. Crew Group, Inc. 1997 Stock Option Plan ("Option Plan"). All other unvested options (totaling 108,800 options to purchase Common Stock at $10.00 per share) shall terminate effective as of the Termination Date. All shares of Common Stock acquired by you pursuant to the Vested Options shall be subject to the Stockholders' Agreement attached to the Option Plan as Exhibit B and Section 2(f) of the Employment Agreement relating to your put right.

   In consideration of the extension relating to the Vested Options described above and notwithstanding anything in the Stockholders' Agreement to the contrary, however, you hereby agree that the Company (or its designated assignee) shall have the right, during the 120 day period immediately following the expiration of the six month period after any shares of Common Stock are acquired by you, to purchase from you all or any portion of such shares at a per share price equal to the Fair Market Value (as defined in the Option Plan) of a share of Common Stock determined as of the date as of which such right is exercised.

4. The parties acknowledge and agree that you shall repay in full the principal amount of the Company Loan (as defined in the Letter Agreement) (currently $850,000 principal balance still outstanding) on the earliest of (i) June 1, 2005, (ii) the date that you sell or otherwise dispose of your primary residence located at 7 Fox Run, Purchase, New York, and (iii) the one year anniversary of the date that you commence full time continuous employment with any subsequent employer. Notwithstanding the foregoing, you agree that any and all proceeds generated from the sale or disposition of all or any portion of your shares of Common Stock (less the amount you paid to the Company for such shares) shall be immediately applied to the payment of the outstanding principal amount of the Company Loan. In the event of a repurchase of Common Stock by the Company, you authorize the Company to withhold any payments for such Common Stock and apply such proceeds to the repayment of the Company Loan.

5. By signing this Agreement, you agree that in exchange for the additional consideration set forth herein, you hereby voluntarily, fully and unconditionally release and forever discharge the Company, Parent, their present and former parent corporation(s), subsidiaries, divisions, affiliates and otherwise related entities and their respective incumbent and former employees, directors, plan administrators, officers and agents, individually and in their official capacities (collectively, the "Releasees"), from any and all charges, actions, causes of action, demands, debts, dues, bonds, accounts, covenants, contracts, liabilities, or damages of any nature whatsoever, whether now known or claimed, to whomever made, which you have or may have against any or all of the Releasees for or by reason of any cause, nature or thing whatsoever, up to the present time, arising out of or related to your employment with the Company or the termination of such employment, including, by way of examples and without limiting the broadest application of the foregoing, any actions, causes of action, or claims under any contract or federal, state or local decisional law, statues, regulations or constitutions, any claims for notice, pay in lieu of notice, wrongful dismissal, breach of contract, defamation or other tortious conduct, discrimination on the basis of actual or perceived disability, age, sex, race or any other factor (including, without limitation, any claim pursuant to Title VII of the Civil Rights Act of 1964, Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, as amended, the Family and Medical Act of 1993, the Equal Pay Act of 1963, the Fair Labor Standards Act, the State, City and local laws of New York, and the equal employment law or laws of the state and/or city in which you work), any claim pursuant to any other applicable employment standards or human rights legislation or for severance pay, salary, bonus, incentive or additional compensation, vacation pay, insurance, other benefits, interest, and/or attorney's fees. You acknowledge that this general release is not made in connection with an exit incentive or other employment termination program offered to a group or class of employees.

If you have made or should hereafter make any complaint, charge, claim, allegation or demand, or commence or threaten to commence any action, complaint, charge, claim or proceeding, against any or all of the Releasees for or by reason of any cause, matter or thing whatsoever existing up to the present time, this Agreement may be raised as and shall constitute a complete bar to any such action, complaint, charge, claim, allegation or proceeding, and, subject to a favorable ruling by a tribunal of final jurisdiction, the Releasees shall recover from you, and you shall pay to the Releasees, all costs incurred by them, including their attorneys' fees, as a consequence of any such action, complaint charge, claim, allegation or proceeding; provided, however, that this is not intended to interfere with your right to file a charge with the Equal Employment Opportunity Commission ("EEOC") in connection with any claim you believe you may have against any Releasee. However, by signing this Agreement, you agree to waive any right to recover in any proceeding you may bring before the EEOC (or any state human rights commission) or in any proceeding brought by the EEOC (or any state human rights commission) on your behalf.

You specifically release all claims under the Age Discrimination in Employment Act ("ADEA") relating to your employment and its termination.

This release shall not apply to any claims you may have relating to the Company's performance of its obligations under this Agreement or under the Ancillary Documents (as defined in Section 13). In the event any action is commenced to enforce your rights under this Agreement or under any Ancillary Document, each party shall bear its own legal fees and expenses.

6. You acknowledge that the payments and other considerations described in Sections 2, 3 and 4 above that you are receiving in connection with the foregoing release is in addition to anything of value to which you already are entitled from the Company.

7. You hereby agree and acknowledge that you shall be bound by and comply with the restrictive covenants provided in Sections 7, 8 (as modified by clause (e) of the Letter Agreement), 9 and 10 of the Employment Agreement (the "Restrictive Covenants"), and that such Restrictive Covenants are hereby made part of this Agreement as if specifically restated herein and that the payments and other considerations described in Sections 2, 3 and 4 above that you are receiving are subject to and contingent upon your compliance with Restrictive Covenants. You also acknowledge that your receipt of certain benefits hereunder are affected by you obtaining subsequent employment and therefore you agree to notify the Executive Vice President of Human Resources in writing prior to the effective date of any full-time employment with a new employer or, if earlier, the effective date you become eligible to be covered by a comparable plans of a subsequent employer, as described in Section 2.

8. You acknowledge and agree that, notwithstanding any other provision of this Agreement, if you breach any of your obligations under this Agreement or a Restrictive Covenant, (a) you will forfeit your right to receive the payment and other considerations described in Sections 2, 3 and 4 above (to the extent the payment was not theretofore paid) and the Company shall be entitled to recover any payments made to you or on your behalf, (b) the Vested Options shall expire as of the date of such breach to the extent not theretofore exercised and, if exercised as of the date of such breach, you shall immediately reimburse the Company for the profit upon exercise (such profit calculated as the difference between the (i) greater of either the Fair Market Value (as defined in the Option Plan) of a share of Common Stock on the date of exercise or the amount paid by the Company to you per share of Common Stock for the purchase of the shares acquired upon exercise, and (ii) exercise price, times the number of options exercised).

9. You hereby agree that the breach of a Restrictive Covenant may cause the Company to suffer irreparable harm for which money damages would not be an adequate remedy and therefore, if you breach a Restrictive Covenant, the Company would be entitled to temporary and permanent injunctive relief in any court of competent jurisdiction (without the need to post any bond) without prejudice to any other remedies under this Agreement or otherwise.

10. The Company affirms its obligation to indemnify, defend and hold you harmless, to the extent permitted by law, from and against all claims made by third parties against you arising out of actions taken by you in your capacity as an officer and director of the Company. You also agree to cooperate fully with the Company and the Releasees in connection with any existing or future litigation or proceedings involving the Company or any Releasee to the extent necessary and to notify the Company promptly upon receipt of any legal process or other request requiring you to testify, plead, respond, defend and/or produce documents relating to the Company or any Releasee.

    The Company represents that, as of the date of this Agreement, the Board of Directors is not aware of any claims that it has against you arising out of your employment with the Company; provided, however, that this shall not bar the Company from making any claims, charges or demands against you at any time in the future based on facts, circumstances or matters of which it may hereafter become aware regardless of when they occurred or to what time period they relate.

11. This Agreement does not constitute an admission of liability or wrongdoing of any kind by you or the Company or its affiliates.

12. The terms of this Agreement shall be binding on the parties hereto and their respective successors, assigns, heirs and representatives.

13. This Agreement, together with the documents relating to the Vested Options and the Company Loan (collectively referred to as the "Ancillary Documents"), constitute the entire understanding of the Company and you with respect to the subject matter hereof and supersedes all prior understandings, written or oral. The terms of this Agreement may be changed, modified or discharged only by an instrument in writing signed by the parties hereto. A failure of the Company or you to insist on strict compliance with any provision of this Agreement shall not be deemed a waiver of such provision or any other provision hereof. If any provision of this Agreement is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

14. This Agreement shall be construed, enforced and interpreted in accordance with and governed by the laws of the State of New York.

15. The parties hereto acknowledge and agree that each party has reviewed and negotiated the terms and provisions of this Agreement and has contributed to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed fairly as to both parties hereto and not in favor or against either party.

16. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which counterpart, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement.

17. You acknowledge that, by your free and voluntary act of signing below, you agree to all of the terms of this Agreement and intend to be legally bound thereby.

18. You acknowledge that you have received this Agreement on or before April 30, 2002. You understand that you may consider whether to agree to the terms contained herein for a period of twenty-one (21) days after the date hereof. However, the operation of the provisions of Sections 2 through 5 above may be delayed until you execute this Agreement and return it to the Company and it becomes effective as provided below. You acknowledge that you have consulted with an attorney prior to your execution of this Agreement or have determined by your own free will not to consult with an attorney.

19. This Agreement will become effective, enforceable and irrevocable seven days after the date on which it is executed by you (the "Effective Date"). During the seven-day period prior to the Effective Date, you may revoke your agreement to accept the terms hereof by indicating in writing to the Executive Vice President of Human Resources your intention to revoke. If you exercise your right to revoke hereunder, you shall forfeit your right to receive any of the payments and other considerations provided for herein, and to the extent such payments have already been made, you agree that you will immediately reimburse the Company for the amounts of such payments.

If the foregoing correctly reflects our understanding, please sign the enclosed copy of this letter agreement, whereupon it will become a binding agreement between us.

J. CREW OPERATING CORP.

By: _____
Name:
Title:

Agreed to and accepted:

By:_____
Mark Sarvary

Dated: _____, 2002

Acknowledgment

STATE OF _____)

ss:

COUNTY OF _____)

On the __ day of _____, 2002, before me personally came Mark Savary who, being by me duly sworn, did depose and say that he resides at 7 Fox Run, Purchase, New York, and did acknowledge and represent that he has had an opportunity to consult with attorneys and other advisers of his choosing regarding the Agreement set forth above, that he has reviewed all of the terms of the Agreement and that he fully understands all of its provisions, including without limitation, the general release and waiver set forth therein.

_____
Notary Public

Date:_____

Exhibit 10.6(b)

October 17, 2002

Mr. Michael Scandiffio
3 Smith Ridge Lane
New Canaan, CT 06840

Dear Michael:

This letter will confirm our understanding of the arrangements under which your Employment Agreement, dated May 17, 2001, with the Company ("Employment Agreement") is terminated. The terms and conditions of the termination of your employment with the Company are set out below.

1. The parties hereby acknowledge and confirm that your employment with the Company is terminated effective as of October 17, 2002 (the "Termination Date").

2. Subject to this Agreement becoming effective (as described in Paragraph 18 hereof), the Company will continue to pay you your base salary of $480,000 per annum for the twelve (12) month period beginning on the day immediately following the Termination Date ("Severance Period"), payable in accordance with the Company's regular payroll practices for its employees. You will also continue to have medical coverage during the Severance Period on the same terms and conditions as medical coverage is then made available to the employees of the Company. The foregoing payments shall be reduced by any required tax withholdings and shall not be taken into account as compensation and no service credit shall be given after the Termination Date for purposes of determining the benefits payable under any other plan, program, agreement or arrangement of the Company. You acknowledge that, except for the foregoing payments, you are not entitled to any payment by the Company in the nature of either severance or termination pay or other compensation of any kind.

3. As of the Termination Date, you have vested options to purchase 8,000 shares of Common Stock ("Common Stock") of J. Crew Group, Inc. ("Parent") at $19.18 per share (collectively, the "Vested Options"). You acknowledge that (i) your right to exercise the Vested Options shall expire 90 days immediately following the Termination Date (i.e. January 15, 2003) and (ii) all of your other options which have not yet vested (totaling 32,000 options to purchase Common Stock at $19.18 per share) terminate effective immediately, in accordance with the provisions of your stock option agreements with Parent and the J. Crew Group, Inc. 1997 Stock Option Plan, as amended (the "Option Plan").

4. By signing this Agreement, you agree that in exchange for the consideration set forth herein, you hereby voluntarily, fully and unconditionally release and forever discharge the Company, Parent, their present and former parent corporation(s), subsidiaries, divisions, affiliates and otherwise related entities and their respective incumbent and former employees, directors, plan administrators, officers and agents, individually and in their official capacities (collectively, the "Releasees"), from any and all charges, actions, causes of action, demands, debts, dues, bonds, accounts, covenants, contracts, liabilities, or damages of any nature whatsoever, whether now known or claimed, to whomever made, which you have or may have against any or all of the Releasees for or by reason of any cause, nature or thing whatsoever, up to the present time, arising out of or related to your employment with the Company or the termination of such employment, including, by way of examples and without limiting the broadest application of the foregoing, any actions, causes of action, or claims under any contract or federal, state or local decisional law, statues, regulations or constitutions, any claims for notice, pay in lieu of notice, wrongful dismissal, breach of contract, defamation or other tortious conduct, discrimination on the basis of actual or perceived disability, age, sex, race or any other factor (including, without limitation, any claim pursuant to Title VII of the Civil Rights Act of 1964, Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, as amended, the Family and Medical Act of 1993, the Equal Pay Act of 1963, the Fair Labor Standards Act, the State, City and local laws of New York, and the equal employment law or laws of the state and/or city in which you work), any claim pursuant to any other applicable employment standards or human rights legislation or for severance pay, salary, bonus, incentive or additional compensation, vacation pay, insurance, other benefits, interest, and/or attorney's fees. You acknowledge that this general release is not made in connection with an exit incentive or other employment termination program offered to a group or class of employees.

If you have made or should hereafter make any complaint, charge, claim, allegation or demand, or commence or threaten to commence any action, complaint, charge, claim or proceeding, against any or all of the Releasees for or by reason of any cause, matter or thing whatsoever existing up to the present time, this Agreement may be raised as and shall constitute a complete bar to any such action, complaint, charge, claim, allegation or proceeding, and, subject to a favorable ruling by a tribunal of final jurisdiction, the Releasees shall recover from you, and you shall pay to the Releasees, all costs incurred by them, including their attorneys' fees, as a consequence of any such action, complaint charge, claim, allegation or proceeding; provided, however, that this shall not limit you from enforcing your rights under this Agreement, your rights under your stock option agreement with Parent and the Option Plan or any rights to indemnification you may have under the Company's or Parent's certificates of incorporation and by-laws (including without limitation pursuant to their directors' and officers' liability insurance) with respect to claims relating to or arising out of your employment with the Company, and in the event any action is commenced to enforce your rights under this Agreement, each party shall bear its own legal fees and expenses; and provided further, however, that this is not intended to interfere with your right to file a charge with the Equal Employment Opportunity Commission ("EEOC") in connection with any claim you believe you may have

against any Releasee. However, by signing this Agreement, you agree to waive any right to recover in any proceeding you may bring before the EEOC (or any state human rights commission) or in any proceeding brought by the EEOC (or any state human rights commission) on your behalf.

You specifically release all claims under the Age Discrimination in Employment Act ("ADEA") relating to your employment and its termination.

5. You acknowledge that the payments described in Section 2 above that you are receiving in connection with the foregoing release are in accordance with your Employment Agreement.

6. You hereby agree and acknowledge that you shall be bound by and comply with the restrictive covenants provided in Section 4 of the Employment Agreement (the "Restrictive Covenants"), and that such Restrictive Covenants are hereby made part of this Agreement as if specifically restated herein and that the payments described in Section 2 above that you are receiving are subject to and contingent upon your compliance with Restrictive Covenants.

7. You acknowledge and agree that, notwithstanding any other provision of this Agreement, if you breach any of your obligations under this Agreement or any Restrictive Covenant, (a) you will forfeit your right to receive the payments and benefits described in Section 2 above (to the extent the payments were not theretofore paid) and the Company shall be entitled to recover any payments already made to you or on your behalf, (b) the Vested Options shall expire as of the date of such breach to the extent not theretofore exercised and, if exercised as of the date of such breach, you shall immediately reimburse the Company for the profit upon exercise (such profit calculated as the difference between the (i) greater of either the Fair Market Value (as defined in the Option Plan) of a share of Common Stock on the date of exercise or the amount paid by the Company to you per share of Common Stock for the purchase of the shares acquired upon exercise, and (ii) exercise price, times the number of options exercised).

8. You hereby agree that the breach of any Restrictive Covenant may cause the Company to suffer irreparable harm for which money damages would not be an adequate remedy and therefore, if you breach a Restrictive Covenant, the Company would be entitled to temporary and permanent injunctive relief in any court of competent jurisdiction (without the need to post any bond) without prejudice to any other remedies under this Agreement or otherwise.

9. You agree that you will hold in strict confidence proprietary or Confidential Information (as defined in the Employment Agreement). It shall not be a violation of this Agreement if you are compelled to disclose such information pursuant to a subpoena, court order or similar process; provided that you agree that, in the event that you are served with legal process or other request purporting to require you to testify, plead, respond or defend and/or produce documents at a legal proceeding, threatened proceeding, investigation or inquiry involving the Releasees, you will: (1) refuse to provide testimony or documents absent a subpoena, court order or similar process from a regulatory agency: (2) within three (3) business days or as soon thereafter as practical, provide oral notification to the Company's Executive Vice-President of Human Resources of

your receipt of such process or request to testify or produce documents; and (3) provide to the Company's Executive Vice-President of Human Resources by overnight delivery service a copy of all legal papers and documents served upon you. You further agree that in the event you are served with such process, you will meet and confer with the Company's designee(s) in advance of giving such testimony or information. You also agree to cooperate, taking into account your own schedule, fully with the Releasees in connection with any existing or future litigation against the Releasees, whether administrative, civil or criminal in nature, in which and to the extent the Releasees deem your cooperation necessary. The Company agrees to reimburse you for your reasonable out-of-pocket expenses incurred in connection with the performance of your obligations under this Section 9.

10. This Agreement does not constitute an admission of liability or wrongdoing of any kind by you or the Company or its affiliates.

11. The terms of this Agreement shall be binding on the parties hereto and their respective successors, assigns, heirs and representatives.

12. This Agreement, together with your stock option agreements with Parent and the Option Plan, constitute the entire understanding of the Company and you with respect to the subject matter hereof and supersedes all prior understandings, written or oral. The terms of this Agreement may be changed, modified or discharged only by an instrument in writing signed by the parties hereto. A failure of the Company or you to insist on strict compliance with any provision of this Agreement shall not be deemed a waiver of such provision or any other provision hereof. If any provision of this Agreement is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

13. This Agreement shall be construed, enforced and interpreted in accordance with and governed by the laws of the State of New York.

14. The parties hereto acknowledge and agree that each party has reviewed and negotiated the terms and provisions of this Agreement and has contributed to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed fairly as to both parties hereto and not in favor or against either party.

15. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which counterpart, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement.

16. You acknowledge that, by your free and voluntary act of signing below, you agree to all of the terms of this Agreement and intend to be legally bound thereby.

17. You acknowledge that you have received this Agreement on or before October 17, 2002. You understand that you may consider whether to agree to the terms

contained herein for a period of twenty-one (21) days after the date hereof. However, the operation of the provisions of Sections 2 through 4 above may be delayed until you execute this Agreement and return it to the Company and it becomes effective as provided below. You acknowledge that you have consulted with an attorney prior to your execution of this Agreement or have determined by your own free will not to consult with an attorney.

18. This Agreement will become effective, enforceable and irrevocable seven days after the date on which it is executed by you (the "Effective Date"). During the seven-day period prior to the Effective Date, you may revoke your agreement to accept the terms hereof by indicating in writing to the Executive Vice-President of Human Resources your intention to revoke. If you exercise your right to revoke hereunder, you shall forfeit your right to receive any of the payments and other benefits provided for herein, and to the extent such payments or benefits have already been made, you agree that you will immediately reimburse the Company for the value of such payments and benefits.

If the foregoing correctly reflects our understanding, please sign the enclosed copy of this letter agreement, whereupon it will become a binding agreement between us.

J. CREW OPERATING CORP.

By: _____
David F. Kozel
Executive Vice-President,
Human Resources

AGREED TO AND ACCEPTED:

By:_____
Michael Scandiffio

Dated: _____, 2002

Acknowledgment

STATE OF _____)

ss:

COUNTY OF _____)

On the __ day of _____, 2002, before me personally came Michael Scandiffio who, being by me duly sworn, did depose and say that he resides at 3 Smith Ridge Lane, New Canaan, CT 06840, and did acknowledge and represent that he has had an opportunity to consult with attorneys and other advisers of his choosing regarding the Agreement set forth above, that he has reviewed all of the terms of the Agreement and that he fully understands all of its provisions, including without limitation, the general release and waiver set forth therein.

_____
Notary Public

Date:_____

Exhibit 10.7(b)

January 30, 2003

Mr. Blair Gordon
359 West 20/th/ Street, #4
New York, NY 10011

Dear Blair:

This letter will confirm our understanding of the arrangements under which your Employment Agreement, dated December 12, 2001, with the Company ("Employment Agreement") is terminated. The terms and conditions of the termination of your employment with the Company are set out below.

1. The parties hereby acknowledge and confirm that your employment with the Company is terminated effective as of January 30, 2003 (the "Termination Date").

2. Subject to this Agreement becoming effective (as described in Paragraph 18 hereof), the Company will continue to pay you your base salary of $400,000 per annum for the twelve (12) month period beginning on the day immediately following the Termination Date ("Severance Period"), payable in accordance with the Company's regular payroll practices for its employees. You will also continue to have medical coverage during the Severance Period on the same terms and conditions as medical coverage is then made available to the employees of the Company. The foregoing payments shall be reduced by any required tax withholdings and shall not be taken into account as compensation and no service credit shall be given after the Termination Date for purposes of determining the benefits payable under any other plan, program, agreement or arrangement of the Company. You acknowledge that, except for the foregoing payments, you are not entitled to any payment by the Company in the nature of either severance or termination pay or other compensation of any kind.

3. As of the Termination Date, you have no vested options to purchase shares of Common Stock ("Common Stock") of J. Crew Group, Inc. ("Parent") and 30,000 unvested options to purchase Common Stock at $10.00 per share. You acknowledge that all of your unvested options terminate effective immediately, in accordance with the provisions of your stock option agreements with Parent and the J. Crew Group, Inc. 1997 Stock Option Plan, as amended (the "Option Plan").

4. By signing this Agreement, you agree that in exchange for the consideration set forth herein, you hereby voluntarily, fully and unconditionally release and forever discharge the Company, Parent, their present and former parent corporation(s), subsidiaries, divisions, affiliates and otherwise related entities and their respective incumbent and former employees, directors, plan administrators, officers and agents, individually and in their official capacities (collectively, the "Releasees"), from any and all charges, actions, causes of action, demands, debts, dues, bonds, accounts, covenants, contracts, liabilities, or damages of any

nature whatsoever, whether now known or claimed, to whomever made, which you have or may have against any or all of the Releasees for or by reason of any cause, nature or thing whatsoever, up to the present time, arising out of or related to your employment with the Company or the termination of such employment, including, by way of examples and without limiting the broadest application of the foregoing, any actions, causes of action, or claims under any contract or federal, state or local decisional law, statues, regulations or constitutions, any claims for notice, pay in lieu of notice, wrongful dismissal, breach of contract, defamation or other tortious conduct, discrimination on the basis of actual or perceived disability, age, sex, race or any other factor (including, without limitation, any claim pursuant to Title VII of the Civil Rights Act of 1964, Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, as amended, the Family and Medical Act of 1993, the Equal Pay Act of 1963, the Fair Labor Standards Act, the State, City and local laws of New York, and the equal employment law or laws of the state and/or city in which you work), any claim pursuant to any other applicable employment standards or human rights legislation or for severance pay, salary, bonus, incentive or additional compensation, vacation pay, insurance, other benefits, interest, and/or attorney's fees. You acknowledge that this general release is not made in connection with an exit incentive or other employment termination program offered to a group or class of employees.

If you have made or should hereafter make any complaint, charge, claim, allegation or demand, or commence or threaten to commence any action, complaint, charge, claim or proceeding, against any or all of the Releasees for or by reason of any cause, matter or thing whatsoever existing up to the present time, this Agreement may be raised as and shall constitute a complete bar to any such action, complaint, charge, claim, allegation or proceeding, and, subject to a favorable ruling by a tribunal of final jurisdiction, the Releasees shall recover from you, and you shall pay to the Releasees, all costs incurred by them, including their attorneys' fees, as a consequence of any such action, complaint charge, claim, allegation or proceeding; provided, however, that this shall not limit you from enforcing your rights under this Agreement, and in the event any action is commenced to enforce your rights under this Agreement, each party shall bear its own legal fees and expenses; and provided further, however, that this is not intended to interfere with your right to file a charge with the Equal Employment Opportunity Commission ("EEOC") in connection with any claim you believe you may have against any Releasee. However, by signing this Agreement, you agree to waive any right to recover in any proceeding you may bring before the EEOC (or any state human rights commission) or in any proceeding brought by the EEOC (or any state human rights commission) on your behalf.

You specifically release all claims under the Age Discrimination in Employment Act ("ADEA") relating to your employment and its termination.

5. You acknowledge that the payments described in Section 2 above that you are receiving in connection with the foregoing release are in accordance with your Employment Agreement.

6. You hereby agree and acknowledge that you shall be bound by and comply with the restrictive covenants provided in Section 4 of the Employment Agreement (the "Restrictive Covenants"), and that such Restrictive Covenants are hereby made part of this Agreement as if specifically restated herein and that the payments described in Section 2 above that you are receiving are subject to and contingent upon your compliance with Restrictive Covenants.

7. You acknowledge and agree that, notwithstanding any other provision of this Agreement, if you breach any of your obligations under this Agreement or any Restrictive Covenant, (a) you will forfeit your right to receive the payments and benefits described in Section 2 above (to the extent the payments were not theretofore paid) and the Company shall be entitled to recover any payments already made to you or on your behalf, (b) the Vested Options shall expire as of the date of such breach to the extent not theretofore exercised and, if exercised as of the date of such breach, you shall immediately reimburse the Company for the profit upon exercise (such profit calculated as the difference between the (i) greater of either the Fair Market Value (as defined in the Option Plan) of a share of Common Stock on the date of exercise or the amount paid by the Company to you per share of Common Stock for the purchase of the shares acquired upon exercise, and (ii) exercise price, times the number of options exercised).

8. You hereby agree that the breach of any Restrictive Covenant may cause the Company to suffer irreparable harm for which money damages would not be an adequate remedy and therefore, if you breach a Restrictive Covenant, the Company would be entitled to temporary and permanent injunctive relief in any court of competent jurisdiction (without the need to post any bond) without prejudice to any other remedies under this Agreement or otherwise.

9. You agree that, in the event that you are served with legal process or other request purporting to require you to testify, plead, respond or defend and/or produce documents at a legal proceeding, threatened proceeding, investigation or inquiry involving the Releasees, you will: (1) refuse to provide testimony or documents absent a subpoena, court order or similar process from a regulatory agency: (2) within three (3) business days or as soon thereafter as practical, provide oral notification to the Company's Executive Vice-President of Human Resources of your receipt of such process or request to testify or produce documents; and (3) provide to the Company's Executive Vice-President of Human Resources by overnight delivery service a copy of all legal papers and documents served upon you. You further agree that in the event you are served with such process, you will meet and confer with the Company's designee(s) in advance of giving such testimony or information. You also agree to cooperate fully with the Releasees in connection with any existing or future litigation against the Releasees, whether administrative, civil or criminal in nature, in which and to the extent the Releasees deem your cooperation necessary. The Company agrees to reimburse you for your reasonable out-of-pocket expenses incurred in connection with the performance of your obligations under this Section 9.

10. This Agreement does not constitute an admission of liability or wrongdoing of any kind by you or the Company or its affiliates.

11. The terms of this Agreement shall be binding on the parties hereto and their respective successors, assigns, heirs and representatives.

12. This Agreement constitutes the entire understanding of the Company and you with respect to the subject matter hereof and supersedes all prior understandings, written or oral. The terms of this Agreement may be changed, modified or discharged only by an instrument in writing signed by the parties hereto. A failure of the Company or you to insist on strict compliance with any provision of this Agreement shall not be deemed a waiver of such provision or any other provision hereof. If any provision of this Agreement is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

13. This Agreement shall be construed, enforced and interpreted in accordance with and governed by the laws of the State of New York.

14. The parties hereto acknowledge and agree that each party has reviewed and negotiated the terms and provisions of this Agreement and has contributed to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed fairly as to both parties hereto and not in favor or against either party.

15. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which counterpart, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement.

16. You acknowledge that, by your free and voluntary act of signing below, you agree to all of the terms of this Agreement and intend to be legally bound thereby.

17. You acknowledge that you have received this Agreement on or before January 30, 2003. You understand that you may consider whether to agree to the terms contained herein for a period of twenty-one (21) days after the date hereof. However, the operation of the provisions of Sections 2 through 4 above may be delayed until you execute this Agreement and return it to the Company and it becomes effective as provided below. You acknowledge that you have consulted with an attorney prior to your execution of this Agreement or have determined by your own free will not to consult with an attorney.

18. This Agreement will become effective, enforceable and irrevocable seven days after the date on which it is executed by you (the "Effective Date"). During the seven-day period prior to the Effective Date, you may revoke your agreement to accept the terms hereof by indicating in writing to the Executive Vice-President of Human Resources your intention to revoke. If you exercise your right to revoke hereunder, you shall forfeit your right to receive any of the payments and other benefits provided for herein, and to the extent such payments or benefits have already been made, you agree that you will immediately reimburse the Company for the value of such payments and benefits.

If the foregoing correctly reflects our understanding, please sign the enclosed copy of this letter agreement, whereupon it will become a binding agreement between us.

J. CREW OPERATING CORP.

By: _____
David F. Kozel
Executive Vice-President,
Human Resources

Agreed to and accepted:

By:_____
Blair Gordon

Dated: _____, 2003

Acknowledgment

STATE OF _____)

ss:

COUNTY OF _____)

On the __ day of _____, 2003, before me personally came Blair Gordon who, being by me duly sworn, did depose and say that he resides at _____, and did acknowledge and represent that he has had an opportunity to consult with attorneys and other advisers of his choosing regarding the Agreement set forth above, that he has reviewed all of the terms of the Agreement and that he fully understands all of its provisions, including without limitation, the general release and waiver set forth therein.

_____
Notary Public

Date:_____

Exhibit 10.8(b)

Execution Copy

SEPARATION AGREEMENT AND GENERAL RELEASE AND WAIVER

This Separation Agreement and General Release and Waiver (this "Agreement") is made as of January 29, 2003, among J. Crew Group, Inc., a New York corporation (the "Parent") and its operating subsidiary J. Crew Operating Corp. (the "Employer," and together with the Parent, "Crew"), with offices at 770 Broadway, New York, NY, and Kenneth S. Pilot (the "Employee").

WHEREAS, Crew engaged the Employee to be the Chief Executive Officer of the Employer and the Parent;

WHEREAS, the Employee, the Parent and the Employer are parties to an Employment Agreement dated August 26, 2002 (the "Employment Agreement");

WHEREAS, Section 5(a) of the Employment Agreement provides that, as a condition to the receipt of certain benefits described therein, the Employee shall be required to execute a general release of claims in the form appended to the Employment Agreement;

WHEREAS, the parties wish to confirm the termination of the Employee's employment with Crew and set forth their agreement as to the manner in which the Employee's employment with Crew will be closed out;

NOW, THEREFORE, in consideration of the mutual covenants set forth herein and for other good and valuable consideration, receipt of which is hereby acknowledged, Crew and the Employee agree as follows:

1. Termination of Employment. The parties hereto hereby agree that the Employee's employment with Crew terminated as of January 29, 2003 (the "Date of Termination"). The Employee hereby resigns, effective as of the Date of Termination, all positions, titles, duties, authorities and responsibilities with, arising out of or relating to his employment with Crew and its affiliates and agrees to execute all additional documents and takes such further steps as may be required to effectuate such resignation.

2. Certain Payments and Benefits.

(a) Pursuant to Section 5(a) of the Employment Agreement, Crew shall pay the Employee the lump-sum amount of $2,494,500, which represents the sum of (i) $1,400,000 (two times the Employee's current base salary of $700,000), (ii) $546,000 (the Employee's guaranteed 2002 and 2003 Bonus), (iii) $530,000 (transition services and relocation reimbursement), (iv) $13,500 (1 week of accrued vacation), and (v) $5,000 (tax adviser fees). In addition to the foregoing, (x) the Employee shall become fully vested in the Restricted Shares granted to him in accordance with Sections 2(f)(ii) of the Employment Agreement, (y) the Company agrees not to exercise the call rights provided under Section 3(b) of the Stockholders' Agreement, dated September 9, 2002, between the Parent, the Employee and TPG Partners II, L.P., with respect to the Granted Shares and Restricted Shares granted pursuant to Sections 2(f)(i) and (ii) of the Employment Agreement and waives the right of it and its designated assignee to do so, and (z) the Company shall pay the premiums in connection with providing COBRA coverage for the Employee until the earlier of (A) eighteen months from the Date of

Termination, or (B) such time as the Employee shall become entitled to coverage under any welfare benefit plan of another employer. The payments and benefits provided in this Section 2(a) shall be referred to herein as the "Termination Payment."

(b) In addition to the Termination Payment, Crew shall (i) pay for the Employee's reasonable legal fees incurred in connection with this Agreement in an amount not to exceed $7,500, (ii) provide a lump-sum payment to the Employee for executive outplacement services for the Employee and miscellaneous publications in an amount not to exceed $15,000 (iii) reimburse the Employee's reasonable business expenses upon presentation to Crew by the Employee of statements of such expenses no later than thirty days after the Date of Termination, (iv) permit the Employee to keep for his personal use the laptop computer and fax machine issued to the Employee by Crew, and (v) continue to pay the Employee's current Base Salary and provide benefits as if the Employee remained employed through January 31, 2003.

(c) The Termination Payment shall be reduced by any required tax withholding. The Termination Payment shall not be taken into account as compensation and no service credit shall be given after the Date of Termination for purposes of determining the benefits payable to the Employee or the Employee's family under any plan, program, agreement or arrangement of Crew. The Employee acknowledges that, except for the Termination Payment, he is not entitled to any payment in the nature of severance or termination pay from Crew.

(d) The Employee shall be entitled to any benefit to which the Employee may be entitled under any tax qualified pension plan of Crew or its affiliates, continuation of health insurance benefits, as provided above, to the extent provided in Section 4980B of the Internal Revenue Code of 1986 and Section 601 of the Employee Retirement Income Security Act of 1974, as amended (which provisions are commonly known as "COBRA") and any other similar benefits required to be provided by law.

3. General Release and Waiver

(a) The Employee hereby releases, remises and acquits the Employer, the Parent and all of their respective affiliates, and their respective officers, directors, shareholders, members, agents, employees, consultants, independent contractors, attorneys, advisers, successors and assigns, jointly and severally, from any and all claims, known or unknown, which the Employee or the Employee's heirs, successors or assigns have or may have against any of such parties arising on or prior to the date this Agreement is executed by the Employee and any and all liability which any of such parties may have to the Employee, whether denominated claims, demands, causes of action, obligations, damages or liabilities arising from any and all bases, however, denominated, including but not limited to, the Age Discrimination in Employment Act, the Americans with Disabilities Act of 1990, the Family and Medical Leave Act of 1993, Title VII of the United States Civil Rights Act of 1964, 42 U.S.C. ss. 1981, the New York Human Rights Law, N.Y. Exec. Law Article 15 et seq., New York Executive Law ss. 296, ss. 8-107 of the Administrative Code and Charter of New York City, or any other federal, state or local law and any workers' compensation or disability claims under any such laws or claims under any contract (including without limitation the Employment Agreement). This release relates to any and all claims, including without limitation claims arising from and during the

Employee's employment relationship with the Employer, the Parent and their respective affiliates or as a result of the termination of such relationship. The Employee further agrees that the Employee will not file or permit to be filed on the Employee's behalf any such claim. Notwithstanding the preceding sentence or any other provision of this Agreement, this release is not intended to interfere with the Employee's right to file a charge with the Equal Employment Opportunity Commission (the "EEOC") in connection with any claim he believes he may have against the Employer, the Parent or their respective affiliates. However, by executing this Agreement, the Employee hereby waives the right to recover in any proceeding the Employee may bring before the EEOC or any state human rights commission or in any proceeding brought by the EEOC or any state human rights commission on the Employee's behalf. This release is for any relief, no matter how denominated, including, but not limited to, injunctive relief, wages, back pay, front pay, compensatory damages, or punitive damages. This release shall not apply to any obligation of the Employer, the Parent or their respective affiliates pursuant to this Agreement or any rights in the nature of indemnification (including without limitation pursuant to Crew's directors' and officer's liability insurance policy) which the Employee may have with respect to claims against the Employee relating to or arising out of his employment with the Employer, the Parent or their respective affiliates.

(b) The Employee acknowledges that the Termination Payment constitutes good and valuable consideration for the release contained in this Section 3.

4. Confidentiality of Agreement. The Employee and Crew shall keep the terms of this Agreement confidential and shall not directly or indirectly disseminate any information (in any form) regarding this Agreement to any person or entity except as may be agreed to in writing by the other party. Notwithstanding the foregoing, either party may disclose the information described herein, to the extent compelled to do so by lawful service of process, subpoena, court order, or as otherwise compelled to do by law, including full and complete disclosure in response thereto, in which event such party agrees to provide the other party with a copy of the document(s) seeking disclosures of such information promptly upon receipt of such document(s) and prior to disclosure of any such information, so that the other party may, upon notice to the first party, take such action as it deems to be necessary or appropriate in relation to such subpoena or request. The obligations under this Section 4 shall cease for both parties at such time that this document (once executed by both parties) is filed publicly with the Securities and Exchange Commission.

5. Incorporation by Reference. The following sections of the Employment Agreement are hereby incorporated by reference as if repeated herein: Section 2(n) (relating to indemnification); Section 6 ("Non-Solicitation"), as agreed by the parties; Section 8 ("Confidentiality; Non-Disclosure; Non-Disparagement"); Section 9 ("Injunctive Relief"); and Section 11(j) (relating to arbitration). Crew hereby expressly waives the Non-Compete provisions contained in Section 7 of the Employment Agreement.

6. Certain Forfeitures in Event of Breach. The Employee acknowledges and agrees that, notwithstanding any other provision of this Agreement, in the event the Employee materially breaches any of his obligations under Section 3 of this Agreement, the Employee will forfeit his right to receive the Termination Payment to the extent not theretofore paid to him as of

the date of such breach and, if already made as of the time of breach, the Employee agrees that he will reimburse Crew, immediately, for the amount of such payment.

7. No Admission. This Agreement does not constitute an admission of liability or wrongdoing of any kind by Crew or its affiliates.

8. Heirs and Assigns. The terms of this Agreement shall be binding on the parties hereto and their respective successors and assigns.

9. General Provisions

(a) Integration. This Agreement constitutes the entire understanding of Crew and the Employee with respect to the subject matter hereof and supersedes all prior understandings, written or oral, including without limitation the Employment Agreement. The terms of this Agreement may be changed, modified or discharged only by an instrument in writing signed by the parties hereto. A failure of Crew or the Employee to insist on strict compliance with any provision of this Agreement shall not be deemed a waiver of such provision or any other provision hereof. In the event that any provision of this Agreement is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

(b) Choice of Law. This Agreement shall be construed, enforced and interpreted in accordance with and governed by the laws of the State of New York, without regard to its choice of law provisions.

(c) Construction of Agreement. The parties hereto acknowledge and agree that each party has reviewed and negotiated the terms and provisions of this Agreement and has had the opportunity to contribute to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed fairly as to both parties hereto and not in favor or against either party.

(d) Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which counterpart, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement.

(e) Notice. Any notice or other communication required or permitted under this Agreement shall be effective only if it is in writing and shall be deemed to be given when delivered personally or four days after it is mailed by registered or certified mail, postage prepaid, return receipt requested or one day after it is sent by a reputable overnight courier service and, in each case, addressed as follows (or if it is sent through any other method agreed upon by the parties):

If to Crew:

J. Crew Group, Inc.
770 Broadway, Twelfth Floor

New York, New York 10003

Attention: Board of Directors and Secretary

with a copy to:

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

If to the Employee, to the address on record with Crew; or, for either party, to such other address as any party hereto may designate by notice to the others, and shall be deemed to have been given upon receipt.

10. Knowing and Voluntary Waiver. The Employee acknowledges that, by the Employee's free and voluntary act of signing below, the Employee agrees to all of the terms of this Agreement and intends to be legally bound thereby.

The Employee understands that he may consider whether to agree to the terms contained herein for a period of twenty-one days after the date hereof. Accordingly, the Employee may execute this Agreement by February 19, 2003, to acknowledge his understanding of and agreement with the foregoing. However, the Termination Payment provided herein will be delayed until this Agreement is executed and returned to Crew. The Employee acknowledges that he has been advised to consult with an attorney prior to executing this Agreement.

This Agreement will become effective, enforceable and irrevocable on the eighth day after the date on which it is executed by the Employee (the "Effective Date"). During the seven-day period prior to the Effective Date, the Employee may revoke his agreement to accept the terms hereof by indicating in writing to Crew his intention to revoke. If the Employee exercises his right to revoke hereunder, he shall forfeit his right to receive any of the benefits provided for herein, and to the extent such payments have already been made, the Employee agrees that he will immediately reimburse Crew for the amounts of such payment.

The Employee acknowledges that, by his free and voluntary act of signing below, he agrees to all of the terms of this Release and intends to be legally bound thereby.

IN WITNESS WHEREOF, the Employer and the Parent have caused this Agreement to be signed by their duly authorized representatives and the Employee has signed this Agreement has of the day and year first above written.

J. CREW GROUP, INC.

_____

Name: Scott M. Rosen
Title: Executive Vice President and Chief Financial Officer

J. CREW OPERATING CORP.

_____

Name: Scott M. Rosen
Title: Executive Vice President and Chief Financial Officer

_____

Kenneth S. Pilot

Acknowledgment

STATE OF _____)
ss:
COUNTY OF_____)

On the ____ day of _____, ____, before me personally came _____ who, being by me duly sworn, did depose and say that he resides at _____; and did acknowledge and represent that he has had an opportunity to consult with attorneys and other advisers of his choosing regarding the Separation Agreement and General Release and Waiver attached hereto, that he has reviewed all of the terms of the Separation Agreement and General Release and Waiver and that he fully understands all of its provisions, including, without limitation, the general release and waiver set forth therein.

_____
Notary Public

Date: _____

Exhibit 10.9

SERVICES AGREEMENT

AGREEMENT, dated this 24/th/ day of January, 2003 (this "Agreement"), among J. Crew Group, Inc., a New York Corporation (the "Parent") and its operating subsidiary J. Crew Operating Corp. (collectively with the Parent, the "Company"), with offices at 770 Broadway, New York, New York, 10003 Millard S. Drexler, Inc. (the "Service Company") and Millard S. Drexler (the "Principal").

l. Term; Position and Responsibilities; Company Headquarters and Principal Work Location.

(a) Term. Unless the Service Period (as defined below) is terminated earlier pursuant to Section 4 hereof, the Company shall engage the Service Company and the Principal on the terms and subject to the conditions of this Agreement for a five year term commencing on January 27, 2003 (the "Commencement Date") and ending on the day immediately preceding the fifth anniversary of the Commencement Date (the "Service Period").

(b) Position and Responsibilities. During the Service Period, the Company hereby agrees to cause the Principal to be elected as Chairman of the Board of Directors of the Company (the "Board") and to employ the Principal, both directly and through the Service Company, as the Company's Chief Executive Officer and such other position or positions with the Company as the Board and the Principal may agree from time to time, provided that following the third anniversary of the Commencement Date, the Principal may step down as Chief Executive Officer, serve as the Company's Executive Chairman and delegate his duties and responsibilities to the appropriate executive officers of the Company, including to any newly-appointed or, if appropriate to hire such officer, newly-hired Chief Executive Officer. During the Service Period, the Principal, on behalf of the Service Company, shall perform the duties and responsibilities that are customarily assigned to individuals serving in such position or positions and such other duties and responsibilities commensurate with such positions as the Board may reasonably specify from time to time, including but not limited to recruitment and retention of key personnel of the Company, hiring and terminating senior executives of the Company, establishment and execution of brand vision, and direct responsibility for assembling and guiding product, merchandising and marketing functions, and oversight of and accountability for the financial and strategic performance of the Company (the "Services"). The Principal shall report to the Board.

(c) During the Service Period, excluding any periods of vacation and sick leave to which the Principal is entitled, (i) the Principal shall devote substantially all of his working time and attention to the performance of his duties and responsibilities hereunder, provided that following the third anniversary of the Commencement Date if the Principal elects to step down as Chief Executive Officer and serve as the Executive Chairman of the Company, he shall no longer be required to devote substantially all of his working time to the performance of his duties hereunder. Following the Principal's resignation as Chief Executive Officer, he shall provide such oversight, direction and assistance as he deems appropriate and, in either case, he shall faithfully and diligently endeavor to promote the business and best interests of the

Company, and (ii) the Principal may not, without the prior written consent of the Company, operate, participate in the management, operations or control of, or act as an employee, officer, consultant, agent or representative of, any type of business or service (other than as an Chairman and Chief Executive Officer of the Company), provided that it shall not be a violation of the foregoing for the Principal to (A) act or serve as a director, trustee, committee member or principal of any type of business or civic or charitable organization, (B) manage his personal, financial and legal affairs, and (C) pursue a very limited number of small retail and other consumer brand building ventures without TPG and TPG Ventures (provided that the activities described in clauses (A), (B) and (C) do not interfere with the performance of his duties and responsibilities to the Company as provided hereunder). Notwithstanding anything to the contrary in this Section 1(c), the Principal may pursue emerging retail and other consumer brand building opportunities with TPG and TPG Ventures and their affiliates.

(d) Company Headquarters; Principal Work Location. Unless otherwise mutually agreed upon, the Company's headquarters shall be the New York metropolitan area. The Company intends to establish a West Coast merchandising office at the Principal's reasonable direction, which will be the Principal's principal work location,. The Principal shall travel as reasonably required to carry out his duties and obligations hereunder, including to New York.

2. Compensation; Expenses; Benefits and Perquisites. During the Service Period, as compensation for the performance of the Services, the Service Company and the Principal, as applicable shall be entitled to the following compensation from the Company, which subsections (a), (b) and (c) below shall not exceed an aggregate of $700,000 per annum:

(a) Base Salary. The Company shall pay the Principal, not less than once a month pursuant to the Company's normal and customary payroll procedures, a base salary at the rate of $200,000 per annum (the "Base Salary"). The Board shall annually reevaluate the Principal's salary and bonus opportunities for increase based on the Company's performance and the Principal's contributions to the Company for the preceding fiscal year.

(b) Annual Bonus. In addition to the Base Salary, the Service Company shall have an opportunity to earn an annual bonus (the "Bonus") in respect of each fiscal year in accordance with the terms of the J. Crew Operating Corp. Performance Incentive Plan then existing for such fiscal year based on the achievement of performance objectives as may be established from time to time by the Board or a committee thereof; provided, however, that the Bonus for any fiscal year shall be payable to the Service Company only if the Principal, through the Service Company, is employed by the Company on the date on which such Bonus is paid. The actual Bonus that may become payable shall be determined by the Board, in its sole discretion.

(c) Business Expenses. The Company shall promptly reimburse the Service Company for all reasonable business expenses incurred by the Service Company in connection with the performance of the Services, including without limitation airfare, upon the presentation of statements of such expenses in accordance with the Company's policies and procedures now

in force or as such policies and procedures may be modified with respect to all senior executive officers of the Company.

(d) Employee Benefits. During the Service Period, the Principal shall be eligible to participate in the employee benefit plans and programs maintained by the Company from time to time and generally available to senior executives of the Company, including, to the extent maintained by the Company, medical, dental, accidental and disability insurance plans and profit sharing, pension, retirement, deferred compensation and savings plans, to the extent permitted by and in accordance with the terms and conditions of the applicable plan and applicable law in effect from time to time.

(e) Vacation. During the Service Period, the Principal shall be entitled to twenty-five days of paid time off per annum pursuant to the Company's Paid Time Off Policy, without carryover accumulation, which may be taken at the Principal's sole discretion.

3. Grant of Stock Options and Restricted Stock.

(a) Initial Stock Options. As soon as reasonably practicable after the Commencement Date, the Company shall cause the Board or a committee thereof to grant to the Principal a non-qualified option to purchase 557,926 shares of common stock of the Parent (the "Common Stock") at an exercise price per share equal to $6.82 per share (the "Initial Option") in exchange for consideration paid by the Principal to the Company, within three business days after shareholder approval of such grant, in the amount of $200,000. The terms and conditions of the Initial Option shall be evidenced by a separate stock option agreement executed by the Company and the Principal (the "Initial Option Agreement") which shall contain terms consistent with the Company's 2003 Equity Incentive Plan as it may be amended from time to time (the "Equity Plan"), this Section 3(a) and other customary terms. The Initial Option Agreement shall provide, among other things, for the following:

(i) The Initial Option shall vest in equal installments on the second, third, fourth and fifth anniversaries of the Commencement Date; provided that the Service Period is not terminated prior to any such applicable anniversary date;

(ii) Notwithstanding the foregoing, (A) in the event that the Company terminates the Service Period without Cause (as defined below) or the Principal terminates the Service Period for Good Reason (as defined below) prior to the consummation of a Change in Control (as defined in the Equity Plan), that portion of the Initial Option that would have become vested and exercisable on the anniversary of the Commencement Date immediately following the Date of Termination (as defined below) shall vest and become immediately exercisable and any remaining portion of the Initial Option that has not become vested and exercisable shall immediately expire and be forfeited, (B) in the event that, within the two-year period following the consummation of a Change in Control, the Company terminates the Service Period without Cause or the Principal terminates the Service Period for Good Reason, all or any portion of the Initial Option that has not yet become

exercisable shall vest and become immediately exercisable, or (C) if the Service Period terminates for any other reason, any portion of the Initial Option which has not become exercisable on such Date of Termination shall immediately expire and be forfeited; and

(iii) Any portion of the Initial Option which has become vested and exercisable shall expire on the earlier of (A) the tenth anniversary of the date of grant, (B) the commencement of business on the date the Service Period is terminated for Cause, (C) ninety days after the Service Period is terminated by the Principal without Good Reason, or (D) the second anniversary of the date the Service Period is terminated (x) on account of the Principal's death or Disability, (as defined below), (y) by the Company without Cause, or (z) by the Principal for Good Reason.

(b) Premium Stock Options. As soon as reasonably practicable after the Commencement Date, the Company shall cause the Board or a committee thereof to grant to the Principal a non-qualified option to purchase 836,889 shares of Common Stock at an exercise price per share equal to $25.00 per share (the "Premium Option Tranche 1") and an additional non-qualified option to purchase 836,889 shares of Common Stock at an exercise price per share equal to $35.00 per share (the "Premium Option Tranche 2" and, collectively with Premium Option Tranche 1, the "Premium Options") . The terms and conditions of the Premium Options shall be evidenced by a separate stock option agreement executed by the Company and the Principal (the "Premium Option Agreement") which shall contain terms consistent with the Equity Plan, this Section 3(b) and other customary terms. The Premium Option Agreement shall provide, among other things, for the following:

(i) The Premium Options shall vest in equal installments on the second, third, fourth and fifth anniversaries of the Commencement Date; provided that the Service Period is not terminated prior to any such applicable anniversary date;

(ii) Notwithstanding the foregoing, (A) in the event that the Company terminates the Service Period without Cause or the Principal terminates the Service Period for Good Reason prior to the consummation of a Change in Control, that portion of the Premium Option that would have become vested and exercisable on the anniversary of the Commencement Date immediately following the Date of Termination shall vest and become immediately exercisable and any remaining portion of the Premium Option that has not become vested and exercisable shall immediately expire and be forfeited, (B) in the event that, within the two-year period following the consummation of a Change in Control, the Company terminates the Service Period without Cause or the Principal terminates the Service Period for Good Reason, all or any portion of the Premium Option that has not yet become exercisable shall vest and become immediately exercisable, or (C) if the Service Period terminates for any other reason, any portion of the Premium Option which has not become exercisable on such Date of Termination shall immediately expire and be forfeited; and

(iii) Any portion of the Premium Option which has become vested and exercisable shall expire on the earlier of (A) the tenth anniversary of the date of grant, (B) the commencement of business on the date the Service Period is terminated for Cause, (C) ninety days after the Service Period is terminated by the Principal without Good Reason, or (D) the second anniversary of the date the Service Period is terminated (x) on account of the Principal's death or Disability, (y) by the Company without Cause, or (z) by the Principal for Good Reason.

(c) Restricted Stock. As soon as reasonably practicable following the Commencement Date, the Principal shall purchase from the Company 725,303 restricted shares (the "Restricted Shares") of Common Stock under the Equity Plan in exchange for consideration paid by the Principal to the Company, within three business days after shareholder approval of such grant, in the amount of $800,000. The terms and conditions of the Restricted Shares shall be evidenced by a separate restricted stock agreement executed by the Company, the Service Company and the Principal (the "Restricted Stock Agreement") which shall contain terms consistent with this Section 3(c) and other customary terms. The Restricted Stock Agreement shall provide, among other things, that the Restricted Shares shall vest in equal installments on the first, second, third and fourth anniversaries of the Commencement Date; provided that (i) in the event that the Company terminates the Service Period without Cause or the Principal terminates the Service Period for Good Reason, all or any portion of the Restricted Shares not previously forfeited shall vest, or (ii) in the event that the Service Period terminates for any other reason, the Restricted Shares which have not vested on such Date of Termination shall be immediately forfeited by the Principal (or Service Company in the event of their assignment) and returned to the Company. The Company shall use its reasonable efforts to cooperate with the Principal, provide the necessary information and make or assist in making the necessary filings for the Principal or the Service Company, as applicable, to make an election to include an amount equal to the difference, if any, between the value of the Restricted Shares and the purchase price in current income under Section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code").

In addition to the Restricted Shares described above, as soon as reasonably practicable after the date hereof, the Company shall grant the Service Company 55,793 restricted shares (the "Additional Restricted Shares") of Common Stock under the Equity Plan. The terms and conditions of the Restricted Shares shall be evidenced by a separate restricted stock agreement executed by the Company, the Service Company and the Principal which shall contain terms consistent with this Section 3(c) and other customary terms and shall be immediately vested upon grant.

(d) Special Shareholders' Meeting. As soon as reasonably practicable after the date hereof (but no later than thirty days after approval of this Agreement by the Board) and prior to the grant of the foregoing equity awards, the Company shall hold a special shareholders' meeting for the purpose of approving the Equity Plan and shall use its reasonable efforts to provide disclosure to the shareholders that would satisfy the provisions of Section 280G of the Code and obtain shareholder approval of the equity awards provided in Sections 3(a), (b) and (c) herein.

(e) Stockholders' Agreement. Unless otherwise specified, all shares of Common Stock and all other securities issued in connection with this Agreement or acquired by the Service Company and/or the Principal under this Agreement or otherwise on or after the date hereof shall be subject to the Stockholders' Agreement attached hereto as Exhibit A.

4. Termination of Services.

The Service Period may be terminated prior to the fifth anniversary of the Commencement Date (the "Scheduled Termination Date") upon the earliest to occur of the following events (at which time the Services provided hereunder shall be terminated):

(a) Death. The Services hereunder shall terminate upon the Principal's death.

(b) Disability. The Company shall be entitled to terminate the Services hereunder by reason of the Principal's "Disability" if, as a result of the Principal's incapacity due to physical or mental illness, the Principal shall have been unable to perform his duties hereunder for a period of six (6) consecutive months or for 180 days within any 365-day period, and within 30 days after written Notice of Termination (as defined below) for Disability is given following such 6-month or 180-day period, as the case may be, the Principal shall not have returned to the performance of his duties in accordance with this Agreement.

(c) Cause. The Company may terminate the Services hereunder for Cause. For purposes of this Agreement, the term "Cause" shall mean: (1) the willful and continued failure of the Principal substantially to perform the Principal's duties under this Agreement (other than as a result of physical or mental illness or injury), after the Board delivers to the Principal a written demand for substantial performance that specifically identifies the manner in which the Board believes that the Principal has not substantially performed the Principal's duties; (2) the willful engaging by the Principal in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company; and (3) a breach of any of the obligations under Sections 9, 10 and 11 or any of the representations and covenants contained in Section 13 hereof. Any act or failure to act that is based upon authority given pursuant to a resolution duly adopted by the Board, or the advice of counsel for the Company, shall not constitute Cause. Cause shall not exist unless and until the Company has delivered to the Principal a copy of a resolution duly adopted by a majority of the Board at a meeting of the Board called and held for such purpose (after reasonable but in no event less than thirty (30) days' notice to the Principal and an opportunity for the Principal, together with his counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Principal was guilty of the conduct set forth above and specifying the particulars thereof in detail. This Section 4(c) shall not prevent the Principal from challenging in any court of competent jurisdiction the Board's determination that Cause exists or that the Principal has failed to cure any act (or failure to act) that purportedly formed the basis for the Board's determination.

(d) Good Reason. The Principal may cause the Service Company to terminate the Services hereunder for "Good Reason," for any of the following reasons enumerated in this Section 4(d): (i) the diminution of, or appointment of anyone other than the Principal to serve in

or handle, the Principal's positions, authority, duties or responsibilities from the positions, authority, duties or responsibilities set forth in Section 1 of this Agreement without the Principal's consent, provided that any diminution or delegation of the Principal's duties in connection with the Principal ceasing to act as the Chief Executive Officer of the Company in accordance with Section 1(b) shall not constitute Good Reason; (ii) any purported termination of the Service Period by the Company for a reason or in a manner not expressly permitted by this Agreement; (iii) relocation of the Principal's principal work location to more than fifty (50) miles from the Principal's principal work location, (iv) any failure by the Company to comply with Sections 2 or 3 of this Agreement, including any failure to obtain the shareholder approval described in Section 3(d) above, or any other material breach of this Agreement, including without limitation Section 14(e)(ii), or (v) the removal of the Principal or any of the Principal's nominees as directors under Section 4(d) of the Stockholders' Agreement. Termination of the Services by the Principal, on behalf of himself and the Service Company, pursuant to this Section 4(d) shall not be effective until the Principal delivers to the Board a written notice specifically identifying the conduct of the Company which he believes constitutes a reason enumerated in this Section 4(d) and the Principal provides the Board at least thirty (30) days to remedy such conduct and then provides an additional Notice of Termination in the event the Company does not cure such conduct.

(e) Without Cause. The Company may terminate the Services hereunder without Cause.

(f) Without Good Reason. The Principal may cause the Service Company to terminate the Services hereunder without Good Reason, provided that the Principal provides the Company with notice of intent to terminate without Good Reason at least three months in advance of the Date of Termination. The Principal and the Company shall mutually agree on the time, method and content of any public announcement regarding the termination of the Services hereunder and neither the Principal nor the Company shall make any public statements which are inconsistent with the information mutually agreed upon by the Company and the Principal and the parties hereto shall cooperate with each other in refuting any public statements made by other persons, which are inconsistent with the information mutually agreed upon between the Principal and Company as described above.

5. Termination Procedure.

(a) Notice of Termination. Any termination of the Services hereunder by the Company or by the Principal, on behalf of himself and the Service Company, during the Service Period (other than termination pursuant to Section 4(a)) shall be communicated by written notice of termination ("Notice of Termination") to the other party hereto in accordance with Section 14(a).

(b) Date of Termination. "Date of Termination" shall mean (i) if the Services are terminated by reason of the Principal's death, the date of his death, (ii) if the Services are terminated pursuant to Section 4(b), thirty (30) days after Notice of Termination (provided that the Principal shall not have returned to the substantial performance of his duties in accordance with this Agreement during such thirty (30) day period), (iii) if the Services are terminated

pursuant to Section 4(f), a date specified in the Notice of Termination which is at least three months from the date of such notice as specified in such Section 4(f); and (iv) if the Services are terminated for any other reason, the date on which a Notice of Termination is given or any later date (within thirty (30) days (or any alternative time period agreed upon by the parties) after the giving of such notice) set forth in such Notice of Termination.

6. Termination Payments.

(a) Without Cause or for Good Reason. In the event of the termination of the Services during the Service Period by the Company without Cause or by the Principal, on behalf of himself and the Service Company, for Good Reason, the Service Company and the Principal, as applicable, shall be entitled to (i) a payment, within ten (10) days following the Date of Termination, of Base Salary through the Date of Termination (to the extent not theretofore paid), any accrued vacation pay, and any unreimbursed expenses under Sections 2(c) and (d) (the "Accrued Obligations") and (ii) subject to the effectiveness of the Service Company's and the Principal's execution of a general release and waiver of all claims against the Company, its affiliates and their respective officers and directors related to the Services and the related arrangements including without limitation, certain related investments in the Company, but excluding his rights to receive the benefits provided under this Agreement or under any agreement entered into in connection herewith and to be indemnified in accordance with the provisions of the Company's charter and bylaws and Section 8 hereof, in a form reasonably satisfactory to the Company and subject to the Service Company's and the Principal's compliance with the terms and conditions contained in this Agreement, (A) the continued payment of Base Salary for the one year period following the Date of Termination; (B) the immediate vesting of any portion of the Restricted Shares that have not yet become vested as of the Date of Termination and (C) that portion of the Initial Option and the Premium Options that would have become vested and exercisable on the anniversary of the date of grant immediately following the Date of Termination shall vest and become immediately exercisable and any remaining portion of the Initial Option and Premium Options that has not become vested and exercisable shall immediately expire and be forfeited, provided that if such termination occurs after the consummation of a Change in Control, any portion of the Initial Option and Premium Option that has not become exercisable shall become immediately exercisable on such Date of Termination. The Company shall have no additional obligations under this Agreement.

In no event shall the Principal be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Principal under any of the provisions of this Agreement, and such amounts shall not be reduced, regardless of whether the Principal obtains other employment.

(b) Cause, Death, Disability or Without Good Reason. If the Services are terminated during the Service Period by the Company for Cause, by the Principal, on behalf of himself and the Service Company, without Good Reason, or as a result of the Principal's death or Disability, the Company shall pay the Accrued Obligations to the Service Company within thirty (30) days following the Date of Termination. The Company shall have no additional obligations under this Agreement.

(c) Other Rights and Benefits. In the event of the termination of the Service Period for any reason, the Principal shall retain his rights under all employee benefit plans, including the Equity Plan, in accordance with the terms and conditions of such plans, provided that in no event will the Principal be entitled to any payments in the nature of severance or termination payments except as specifically provided herein.

8. Indemnification.

The Company agrees that if the Principal is made a party or threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), other than any Proceeding related to any contest or dispute between the Principal and the Company or any of its affiliates with respect to this Agreement or the Services of the Principal hereunder, by reason of the fact that the Principal is or was a director or officer of the Company, or any subsidiary of the Company or is or was serving at the request of the Company, as a director, officer, member, employee or agent of another corporation or a partnership, joint venture, trust or other enterprise, the Principal shall be indemnified and held harmless by the Company to the fullest extent authorized by applicable law. In addition, the Principal has represented that he has no applicable non-solicit, non-compete, or other restriction that could adversely affect his ability to perform the Services contemplated by this Agreement. Based on this representation, the Company agrees to pay, promptly and contemporaneously, all losses, including without limitation, reasonable legal fees and legal expenses, incurred by the Principal in connection with any action brought by his former employer related to his commencement of employment with or the performance of services for the Company.

9. Non-Solicitation.

During the Service Period and for a period of two years following the Date of Termination, the Principal hereby agrees not to, directly or indirectly, for his own account or for the account of any other person or entity, (i) solicit or hire or assist any other person or entity in soliciting or hiring any employee of the Company or any of its subsidiaries or affiliates to perform any services for any entity (other than the Company or their respective subsidiaries or affiliates), attempt to induce any such employee to leave the employ of the Company or any affiliates of the Company, or otherwise interfere with or adversely modify such employee's relationship with the Company or any of its subsidiaries or affiliates, or (ii) induce any employee of the Company who is a member of management to engage in any activity which the Principal is prohibited from engaging in under any of Sections 9, 10 or 11 of this Agreement. For purposes of this Agreement, "employee" shall mean any natural person anywhere in the world who is employed by or otherwise engaged to perform services for the Company or any of its affiliates on the Date of Termination or during the one-year period preceding the Date of Termination.

10. Non-Compete.

In connection with the Services of the Principal performed under this Agreement and in recognition that the Principal shall be a significant stockholder in the Company, and except as specifically provided in Section 1(c) above, the Principal hereby agrees that, during the

Service Period and for the one year period following any termination of the Services of the Principal (other than a termination without Cause or for Good Reason as described in Sections 4(d) and 4(e) above), the Principal shall not become associated with any entity, whether as a principal, partner, employee, consultant or shareholder (other than as a holder of a passive investment of not in excess of 5% of the outstanding voting shares of any publicly traded company), that is actively engaged in retail apparel business in any geographic area in which the Company or any of its subsidiaries or affiliates are engaged in such business.

11. Confidentiality; Non-Disclosure.

(a) The Principal hereby agrees that, during the Service Period and thereafter, he will hold in strict confidence any proprietary or Confidential Information related to the Company and its affiliates. For purposes of this Agreement, the term "Confidential Information" shall mean all information of the Company or any of its affiliates (in whatever form) which is not generally known to the public, including without limitation any inventions, processes, methods of distribution or customers' or trade secrets.

(b) The Principal hereby agrees that, upon the termination of the Service Period, he shall not take, without the prior written consent of the Company, any drawing, blueprint, specification or other document (in whatever form) of the Company or its affiliates, which is of a confidential nature relating to the Company or its affiliates, or, without limitation, relating to its or their methods of distribution, or any description of any formulas or secret processes and will return any such information (in whatever form) then in his possession.

12. Injunctive Relief.

It is impossible to measure in money the damages that will accrue to the Company in the event that the Principal breaches any of the restrictive covenants provided in Sections 9, 10 or 11 hereof. In the event that the Principal breaches any such restrictive covenant, the Company shall be entitled to an injunction restraining the Principal from violating such restrictive covenant. If the Company shall institute any action or proceeding to enforce any such restrictive covenant, the Principal hereby waives the claim or defense that the Company has an adequate remedy at law and agrees not to assert in any such action or proceeding the claim or defense that the Company has an adequate remedy at law. The foregoing shall not prejudice the Company's right to require the Principal to account for and pay over to the Company, and the Principal hereby agrees to account for and pay over, the compensation, profits, monies, accruals or other benefits derived or received by the Principal, directly or indirectly, as a result of any transaction constituting a breach of any of the restrictive covenants provided in Sections 9, 10 or 11 of this Agreement.

13. Representations and Covenants; Certain Reimbursements.

(a) The Principal and the Company hereby represent to each other that they have full power and authority to enter into this Agreement on behalf of themselves and with respect to the Principal, the Service Company, and that the execution of, and performance of duties or obligations under, this Agreement shall not constitute a breach of or otherwise violate

any other agreement to which the Principal or the Company, as applicable, is a party. Notwithstanding the foregoing, the parties hereto understand that the Company intends and is required to have the Equity Plan approved by the shareholders of the Company and that such grants are subject to such shareholder approval.

(b) The Principal hereby represents to the Company that he will not utilize or disclose any confidential information obtained by the Principal in connection with his former employment with respect to his duties and responsibilities hereunder, and the Company covenants that it will not ask the Principal to do so.

(c) The Principal represents and warrants that all of the capital stock of the Service Company are and will be throughout the Service Period owned by him, his immediate family members and no more than ten percent (10%) by employees of or service providers to the Service Company.

(d) The Principal agrees that he will not cause any person other than the Principal to perform the Services or any other obligations of the Service Company under this Agreement.

(e) The Principal agrees that he shall not sell, transfer, hypothecate, assign, transfer or otherwise dispose of his interest in the Service Company (other than to his immediate family members, upon his death to his heirs, and up to 10% of the Service Company to employees of or service providers to the Service Company) during the Service Period.

(f) The Company represents to the Principal that the Company is in material compliance with all financial reporting requirements under the securities laws and is not aware of any material misstatement, or of any other issue that may potentially result in an accounting restatement, in any financial document that has been publicly issued or filed with the U.S. Securities and Exchange Commission prior to the Commencement Date.

14. Miscellaneous.

(a) Any notice or other communication required or permitted under this Agreement shall be effective only if it is in writing and delivered personally or sent by registered or certified mail, postage prepaid, addressed as follows (or if it is sent through any other method agreed upon by the parties):

If to the Company:

J. Crew Group, Inc.
770 Broadway
New York, NY 10003
Attention: Board of Directors and Secretary

with a copy to:

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

If to the Service Company:

To the Principal,

with a copy to:

Stephen T. Lindo, Esq.
Willkie Farr & Gallagher
787 Seventh Avenue
New York, NY 10019-6099

If to the Principal:

To the address on file with the Company,

with a copy to:

Stephen T. Lindo, Esq.
Willkie Farr & Gallagher
787 Seventh Avenue
New York, NY 10019-6099

or to such other address as any party hereto may designate by notice to the others, and shall be deemed to have been given upon receipt.

(b) The Company shall reimburse the Service Company and the Principal for reasonable legal fees incurred by the Service Company and/or the Principal in connection with the negotiation of this Agreement and the related agreements.

(c) This Agreement constitutes the entire agreement among the parties hereto with respect to the employment of the Principal, directly and through the Service Company, and supersedes and is in full substitution for any and all prior understandings or agreements with respect to such employment.

(d) This Agreement may be amended only by an instrument in writing signed by the parties hereto, and any provision hereof may be waived only by an instrument in writing signed by the party or parties against whom or which enforcement of such waiver is sought. The failure of any party hereto at any time to require the performance by any other party hereto of any provision hereof shall in no way affect the full right to require such performance at any time

thereafter, nor shall the waiver by any party hereto of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or a waiver of the provision itself or a waiver of any other provision of this Agreement.

(e) (i) This Agreement is binding on and is for the benefit of the parties hereto and their respective successors, heirs, executors, administrators and other legal representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Company, the Service Company or the Principal.

(ii) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in the Agreement, the "Company" shall mean both the Company as defined above and any such successor that assumes and agrees to perform this Agreement, by operation of law or otherwise.

(f) If any provision of this Agreement or portion thereof is so broad, in scope or duration, so as to be unenforceable, such provision or portion thereof shall be interpreted to be only so broad as is enforceable.

(g) The Company may withhold from any amounts payable to the Service Company and/or the Principal hereunder all federal, state, city or other taxes that the Company may reasonably determine are required to be withheld pursuant to any applicable law or regulation.

(h) This Agreement shall be governed by and construed in accordance with the laws of the State of NEW YORK, without reference to its principles of conflicts of law.

(i) Any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or the interpretation hereof or any agreements relating hereto or contemplated herein or the interpretation, breach, termination, validity or invalidity hereof shall be settled exclusively and finally by arbitration; provided that the Company shall not be required to submit claims for injunctive relief to enforce the covenants contained in Sections 9, 10 or 11 of this Agreement to arbitration. The arbitration shall be conducted in accordance with the Commercial Arbitration Rules (the "Rules") of the American Arbitration Association (the "AAA"), except as amplified or otherwise varied hereby. The Company and the Principal jointly shall appoint one individual to act as arbitrator within thirty (30) days of initiation of the arbitration. If the parties shall fail to appoint such arbitrator as provided above, such arbitrator shall be appointed by the President of the Association of the Bar of the City of New York and shall be a person who maintains his or her principal place of business in the New York metropolitan area and shall be an attorney, accountant or other professional licensed to practice by the State of New York who has substantial experience in employment and executive compensation matters. All fees and expenses of such arbitrator shall be shared equally by the Company and the Principal. The situs of the arbitration shall be New York City. Any decision or

award of the arbitral tribunal shall be final and binding upon the parties to the arbitration proceeding. The parties hereto hereby waive to the extent permitted by law any rights to appeal or to seek review of such award by any court or tribunal. The arbitration award shall be paid within thirty (30) days after the award has been made. Judgment upon the award may be entered in any federal or state court having jurisdiction over the parties and shall be final and binding. Each party shall be required to keep all proceedings related to any such arbitration and the final award and judgment strictly confidential; provided that either party may disclose such award as necessary to enter the award in a court of competent jurisdiction or to enforce the award, and to the extent required by law, court order, regulation or similar order.

(j) This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

(k) The headings in this Agreement are inserted for convenience of reference only and shall not be a part of or control or affect the meaning of any provision hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

J. CREW GROUP, INC.

_____
Name:
Title:

J. CREW OPERATING CORP.

_____
Name:
Title:

MILLARD S. DREXLER, INC.

_____
Name: Millard S. Drexler
Title: Principal

_____
Millard S. Drexler

Exhibit 10.10

# EMPLOYMENT AGREEMENT

AGREEMENT, dated this 24th day of January, 2003 (this "Agreement"), among J. Crew Group, Inc., a New York Corporation (the "Parent") and its operating subsidiary J. Crew Operating Corp. (collectively with the Parent, the "Company"), with offices at 770 Broadway, New York, New York, 10003 and Jeffrey A. Pfeifle (the "Executive").

l. Term; Position and Responsibilities; Principal Work Location.

(a) Term. Unless the Employment Period (as defined below) is terminated earlier pursuant to Section 4 hereof, the Company shall engage the Executive on the terms and subject to the conditions of this Agreement for a five year term commencing on the earliest date mutually agreeable between the parties hereto (the "Commencement Date") and ending on the day immediately preceding the fifth anniversary of the Commencement Date (the "Initial Term"). Effective upon the expiration of the Initial Term and of each Additional Term (as defined below), the Employment Period hereunder shall be deemed to be automatically extended, upon the same terms and conditions for an additional period of one year (each, an "Additional Term"), in each such case, commencing upon the expiration of the Initial Term or the then current Additional Term, as the case may be, unless the Company or the Executive, at least three months prior to the expiration of the Initial Term or such Additional Term, shall give written notice to the other party of its intention not to extend the Employment Period (as defined below) hereunder. The period during which the Executive is employed by the Company pursuant to this Agreement, including any extension thereof in accordance with the preceding sentence, shall be referred to as the "Employment Period."

(b) Position and Responsibilities. During the Employment Period, the Company hereby agrees to employ the Executive as the President and in such other position or positions with the Company as the Chairman and Chief Executive Officer of the Company (the "Chairman & CEO") may specify from time to time that are consistent with the Executive's title and position. During the Employment Period, the Executive shall perform the duties and responsibilities that are customarily assigned to individuals serving in such position or positions and such other duties and responsibilities as the Board may reasonably specify from time to time that are consistent with the Executive's title and position. The Executive shall report to the Chairman & CEO while the Chairman and CEO are the same person and thereafter to the CEO.

(c) During the Employment Period, excluding any periods of vacation and sick leave to which the Executive is entitled, (i) the Executive shall devote all of his working time and attention to the performance of his duties and responsibilities hereunder and shall faithfully and diligently endeavor to promote the business and best interests of the Company, and (ii) the Executive may not, without the prior written consent of the Company, operate, participate in the management, operations or control of, or act as an employee, officer, consultant, agent or representative of, any type of business or service (other than as the President of the Company), provided that it shall not be a violation of the foregoing for the Executive to (A) act or serve as a director, trustee, committee member or principal of any type of business or civic or charitable organization, or (B) manage his personal, financial and legal affairs (provided that the activities described in clauses (A) and (B) do not interfere with the performance of his duties and responsibilities to the Company as provided hereunder).

(d) Principal Place of Employment. Unless otherwise mutually agreed upon, the Executive's principal place of employment shall be the New York metropolitan area and the Executive shall also travel as reasonably required to carry out his duties and obligations hereunder.

2. Compensation; Expenses; Benefits and Perquisites. During the Employment Period, as compensation for the performance of the services by the Executive, the Executive shall be entitled to the following compensation from the Company:

(a) Transition Bonus. Within a reasonable time after the date this Agreement is executed, in order to assist the Executive in transitioning into his new position and in partial consideration for lost compensation from his former employer, the Company shall pay to the Executive a one-time transition bonus of $1,000,000.

(b) Base Salary. The Company shall pay the Executive, not less than once a month pursuant to the Company's normal and customary payroll procedures, a base salary at the rate of $760,000 per annum (the "Base Salary"). The Company shall review the Executive's Base Salary annually.

(c) Annual Bonus. In addition to the Base Salary, in respect of each fiscal year during the Employment Period, the Executive shall have an opportunity to earn an annual bonus (the "Bonus"), which shall be paid no later than April 30 of the next succeeding fiscal year and which shall equal 25% of Base Salary if "threshold performance objectives" are achieved, 50% of Base Salary if the "target performance objectives" are achieved, and 100% of Base Salary if "stretch performance objectives" are achieved, in accordance with the terms of the J. Crew Operating Corp. Performance Incentive Plan then existing for such fiscal year based on the achievement of performance objectives as may be established from time to time by the Board of Directors of the Company (the "Board") or a committee thereof; provided that, the Bonus for any fiscal year shall be payable to the Executive only if the Executive is employed by the Company on the date on which such Bonus is paid. Notwithstanding the foregoing, in respect of fiscal year beginning in 2003, the Executive's Bonus shall equal at least $400,000 (the "2003 Bonus"), which shall be payable as soon as reasonably practicable following the Commencement Date; provided that, in the event that the Executive's employment with the Company is terminated by the Company for Cause or by the Executive without Good Reason prior to February 1, 2004, the Executive shall immediately pay the Company an amount equal to the 2003 Bonus; and further provided that, to the extent that the Executive fails to pay back any portion of the 2003 Bonus as provided herein, the Company shall have the right to offset any other payment(s) provided under this Agreement or otherwise owed to the Executive. The actual Bonus that may become payable shall be determined by the Board in accordance with the performance objectives established by the Board.

(d) Long-Term Cash Incentive. The Executive shall be eligible to receive a long-term cash incentive (the "Long-Term Incentive"), in an amount between $800,000 and $1,200,000, with a target amount of $1,000,000, based on the achievement of performance objectives established for the Company by the Board, in its sole discretion. The Long-Term Incentive, if any, will be payable as follows: (i) $400,000 on the last day of fiscal year beginning in 2003 (the

"2003 Long-Term Incentive"), and (ii) an amount between $400,000 and $800,000, $400,000 of which shall be paid on the last day of the fiscal year beginning in 2004 provided that the Executive remains continuously employed by the Company through the applicable payment date (the "2004 Long-Term Incentive") and the remaining amount, if any, shall be paid at the same time annual bonuses are paid, but in no event later than April 30, 2005, provided the Executive remains continuously employed through the applicable payment date.

(e) Special Bonus. Within a reasonable time after the date this Agreement is executed, as a special inducement to execute this Agreement and in partial consideration for lost compensation from the Executive's former employer, the Company shall pay to the Executive a one-time special bonus of $1,000,000.

(e) Business Expenses. The Company shall promptly reimburse the Executive for all reasonable business expenses incurred by the Executive in connection with the performance of the services for the Company (including, without limitation, first class airfare) upon the presentation of statements of such expenses in accordance with the Company's policies and procedures now in force or as such policies and procedures may be modified with respect to all senior executive officers of the Company provided that such policies and practices shall not affect the Executive's ability to fly first class on business trips and the Company shall also provide the Executive with reasonable car service as appropriate.

(f) Employee Benefits. During the Employment Period, the Executive shall be eligible to participate in the employee benefit plans and programs maintained by the Company from time to time and generally available to senior executives of the Company, including, to the extent maintained by the Company, medical, dental, accidental and disability insurance plans and profit sharing, pension, retirement, deferred compensation and savings plans, in accordance with the terms and conditions thereof in effect from time to time.

3. Grant of Stock Options and Restricted Stock.

(a) Initial Stock Options. Subject to shareholder approval, as soon as reasonably practicable after the date of the Commencement Date, the Company shall cause the Board or a committee thereof to grant to the Executive a non-qualified option to purchase 167,378 shares of Common Stock, which represents 0.75% of the total outstanding shares of Common Stock of the Company as of the date hereof, at an exercise price per share equal to $6.82 per share (the "Initial Option"). The terms and conditions of the Initial Option shall be evidenced by a stock option agreement executed by the Company and the Executive (the "Initial Option Agreement") which shall contain terms consistent with the Equity Plan, this Section 3(a) and other customary terms. The Initial Option Agreement shall provide, among other things, for the following:

(i) The Initial Option shall vest in equal installments on the second, third, fourth and fifth anniversaries of the Commencement Date; provided that the Executive is continuously employed by the Company through each such applicable anniversary date;

(ii) Notwithstanding the foregoing, (A) in the event that (x) the Company terminates the Executive's employment without Cause (as defined below) or the Executive terminates his employment for Good Reason (as defined below) prior to the consummation of a Change in Control (as defined in the Equity Plan) or (y) the Executive's

employment is terminated on account of the Executive's death or Disability (as defined below) at any time during the Employment Period, that portion of the Initial Option that would have become vested and exercisable on the anniversary of the Commencement Date immediately following the Date of Termination (as defined below) shall vest and become immediately exercisable and any remaining portion of the Initial Option that has not become vested and exercisable shall immediately expire and be forfeited, (B) in the event that, within the two year period following the consummation of a Change in Control or within six months prior to a Change in Control if such termination is in contemplation of the Change in Control, the Company terminates the Executive's employment without Cause or the Executive terminates his employment for Good Reason, all shares of Common Stock underlying the Initial Option shall become immediately vested and exercisable; or (C) if the Executive's employment terminates for any other reason, any portion of the Initial Option which has not become exercisable on such Date of Termination shall immediately expire and be forfeited; and

(iii) Any portion of the Initial Option which has become vested and exercisable shall expire on the earlier of (A) the tenth anniversary of the date of grant, (B) the commencement of business on the date the Executive's employment is terminated by the Company for Cause, (C) ninety days after the date the Executive's employment is terminated by the Executive without Good Reason, or (D) the second anniversary of the date the Executive's employment is terminated (x) on account of the Executive's death or Disability, (y) by the Company without Cause, or (z) by the Executive for Good Reason.

(b) Premium Stock Options. Subject to shareholder approval, as soon as reasonably practicable after the Commencement Date, the Company shall cause the Board or a committee thereof to grant to the Executive a non-qualified option to purchase 111,585 shares of Common Stock, which represents 0.5% of the total outstanding shares of Common Stock of the Company as of the date hereof, at an exercise price per share equal to $25.00 per share (the "Premium Option Tranche 1") and an additional non-qualified option to purchase 111,585 shares of Common Stock, which represents 0.5% of the total outstanding shares of Common Stock of the Company as of the date hereof, at an exercise price per share equal to $35.00 per share (the "Premium Option Tranche 2" and, collectively with Premium Option Tranche 1, the "Premium Options") . The terms and conditions of the Premium Options shall be evidenced by a stock option agreement executed by the Company and the Executive (the "Premium Option Agreement" and, collectively with the Initial Option Agreement, the "Option Agreements") which shall contain terms consistent with the Equity Plan, this Section 3(b) and other customary terms. The Premium Option Agreement shall provide, among other things, for the following:

(i) The Premium Options shall vest in equal installments on the second, third, fourth and fifth anniversaries of the Commencement Date; provided that the Executive is continuously employed by the Company through each such applicable anniversary date;

(ii) Notwithstanding the foregoing, (A) in the event that (x) the Company terminates the Executive's employment without Cause or the Executive

terminates his employment for Good Reason prior to the consummation of a Change in Control or (y) the Executive's employment is terminated on account of the Executive's death or Disability at any time during the Employment Period, that portion of the Premium Options that would have become vested and exercisable on the anniversary of the Commencement Date immediately following the Date of Termination shall vest and become immediately exercisable and any remaining portion of the Premium Options that have not become vested and exercisable shall immediately expire and be forfeited, (B) in the event that, within the two year period following the consummation of a Change in Control or within six months prior to a Change in Control if such termination is in contemplation of the Change in Control, the Company terminates the Executive's employment without Cause or the Executive terminates his employment for Good Reason, all shares of Common Stock underlying the Premium Options shall become immediately vested and exercisable; or (C) if the Executive's employment terminates for any other reason, any portion of the Premium Options which have not become exercisable on such Date of Termination shall immediately expire and be forfeited; and

(iii) Any portion of the Premium Options which has become vested and exercisable shall expire on the earlier of (A) the tenth anniversary of the date of grant, (B) the commencement of business on the date the Executive's employment is terminated by the Company for Cause, (C) ninety days after the date the Executive's employment is terminated by the Executive without Good Reason, or (D) the second anniversary of the date the Executive's employment is terminated (x) on account of the Executive's death or Disability, (y) by the Company without Cause, or (z) by the Executive for Good Reason.

(c) Restricted Stock. Subject to shareholder approval, as soon as reasonably practicable following the Commencement Date, the Company shall grant the Executive 111,585 restricted shares (the "Restricted Shares") of Common Stock, which represents 0.5% of the total outstanding shares of Common Stock of the Company as of the date hereof. The terms and conditions of the Restricted Shares shall be evidenced by a separate restricted stock agreement executed by the Company and the Executive (the "Restricted Stock Agreement") which shall contain terms consistent with the Equity Plan and this Section 3(c) and other customary terms. The Restricted Stock Agreement shall provide, among other things, that the Restricted Shares shall vest in equal installments on the first, second, third and fourth anniversaries of the Commencement Date; provided that the Executive is continuously employed by the Company through each such applicable anniversary date; and further provided that, (i) in the event that (x) the Company terminates the Executive's employment without Cause or the Executive terminates his employment for Good Reason prior to the consummation of a Change in Control or (y) the Executive's employment is terminated on account of the Executive's death or Disability at any time during the Employment Period, that portion of the Restricted Shares that would have become vested on the anniversary of the Commencement Date immediately following the Date of Termination shall vest, (ii) in the event that, within the two year period following the consummation of a Change in Control or within six months prior to a Change in Control if such termination is in contemplation of the Change in Control, the Company terminates the Executive's employment without Cause or if the Executive terminates his

employment for Good Reason, all or any portion of the Restricted Shares not previously forfeited shall vest, or (iii) if the Employment Period terminates for any other reason, the Restricted Shares which have not vested on such Date of Termination shall be forfeited immediately by the Executive and returned to the Company.

(d) Future Grants. During the Employment Period, the Executive will be eligible to receive future grants of restricted shares of Common Stock or options to purchase shares of Common Stock pursuant to the Equity Plan from time to time in accordance with the terms and conditions of the Equity Plan.

(e) Stockholders' Agreement. All shares of Common Stock and all other securities issued in connection with this Agreement or acquired by the Executive under this Agreement or otherwise shall be subject to the Stockholders' Agreement attached hereto as Exhibit A.

4. Termination of the Employment Period.

The Executive's employment with the Company hereunder may be terminated during the Employment Period prior to the fifth anniversary of the Commencement Date upon the earliest to occur of the following events (at which time the Employment Period shall be terminated):

(a) Death. The Executive's employment hereunder shall terminate upon the Executive's death.

(b) Disability. The Company shall be entitled to terminate the Executive's employment hereunder by reason of the Executive's "Disability" if, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been unable to perform his duties hereunder for a period of six (6) consecutive months or for 180 days within any 365-day period, and within 30 days after written Notice of Termination (as defined below) for Disability is given following such 6-month or 180-day period, as the case may be, the Executive shall not have returned to the performance of his duties in accordance with this Agreement.

(c) Cause. The Company may terminate the Executive's employment hereunder for Cause. For purposes of this Agreement, the term "Cause" shall mean: (i) the failure of the Executive to substantially perform his duties hereunder (other than any such failure due to the Executive's Disability); (ii) the Executive's dishonesty, gross negligence in the performance of his duties hereunder or engaging in willful misconduct, which in the case of any such gross negligence, has caused or is reasonably expected to result in direct or indirect material injury (monetarily or otherwise) to the Company or any of its affiliates; (iii) a material breach by the Executive of any provision of this Agreement or of any other written agreement with the Company or any of its affiliates or material violation of any Company policy applicable to the Executive; or (iv) the Executive's indictment for a crime that constitutes a felony or other crime of moral turpitude or fraud, provided that in the case of clauses (i) and (iii) above, the Company shall provide written notice to the Executive specifically identifying the conduct of the Executive which the Company believes constitutes a reason enumerated in clause (i) or (iii) of this Section 4(c) and, to the extent reasonably susceptible, provide the Executive a reasonable opportunity

(not to exceed thirty days) to remedy such violation. If, subsequent to the Executive's termination of employment hereunder for other than Cause, it is determined in good faith by the Company that the Executive's employment could have been terminated for Cause hereunder, the Executive's employment shall, at the election of the Company, be deemed to have been terminated for Cause retroactively to the date the events giving rise to Cause occurred.

(d) Good Reason. The Executive may terminate his employment hereunder for "Good Reason," for any of the following reasons enumerated in this Section 4(d): (i) the assignment to the Executive of any duties materially inconsistent with Section 1 hereof, or any other action by the Company that results in a material diminution in the Executive's position, authority, duties or responsibilities; (ii) any purported termination of the Executive's employment by the Company for a reason or in a manner not expressly permitted by this Agreement; (iii) relocation of the Executive's principal place of employment to more than thirty-five (35) miles from the Executive's principal place of employment, (iv) a material reduction in the Executive's total compensation opportunity unless such reduction is part of a reduction applicable to a broad class of management employees, or any other material breach of this Agreement; or (v) while Millard Drexler is serving as the Company's Chairman and Chief Executive Officer, requiring the executive to report to someone other than Mr. Drexler and in the event Mr. Drexler is no longer serving as the Company's Chairman and CEO, requiring the Executive to report to someone other than the Company's Chief Executive Officer. Termination of the Executive's employment by the Executive pursuant to this Section 4(d) shall not be effective until the Executive delivers to the Board a written notice specifically identifying the conduct of the Company which he believes constitutes a reason enumerated in this Section 4(d) and, to the extent reasonably susceptible to cure the Executive, provides the Board at least thirty (30) days to remedy such conduct.

(e) Without Cause. The Company may terminate the Executive's employment hereunder without Cause.

(f) Without Good Reason. The Executive may terminate his employment hereunder without Good Reason, provided that the Executive provides the Company with notice of intent to terminate without Good Reason at least thirty (30) days in advance of the Date of Termination. The Executive and the Company shall mutually agree on the time, method and content of any public announcement regarding the termination of the Executive's employment hereunder and neither the Executive nor the Company shall make any public statements which are inconsistent with the information mutually agreed upon by the Company and the Executive and the parties hereto shall cooperate with each other in refuting any public statements made by other persons, which are inconsistent with the information mutually agreed upon between the Executive and Company as described above.

5. Termination Procedure.

(a) Notice of Termination. Any termination of the Executive's employment hereunder by the Company or by the Executive during the Employment Period (other than termination pursuant to Section 4(a)) shall be communicated by written notice of termination ("Notice of Termination") to the other party hereto in accordance with Section 12(a).

(b) Date of Termination. "Date of Termination" shall mean (i) if the Executive's employment is terminated by reason of the Executive's death, the date of his death, (ii) if the Executive's employment is terminated pursuant to Section 4(b), thirty (30) days after Notice of Termination (provided that the Executive shall not have returned to the substantial performance of his duties in accordance with this Agreement during such thirty (30) day period), (iii) if the Executive's employment is terminated pursuant to Section 4(f), a date specified in the Notice of Termination which is at thirty (30) days from the date of such notice as specified in such Section 4(f); and (iv) if the Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given or any later date (within thirty (30) days (or any alternative time period agreed upon by the parties) after the giving of such notice) set forth in such Notice of Termination.

6. Termination Payments.

(a) Without Cause; for Good Reason or Company's Failure to Renew. In the event of the termination of the Executive's employment during the Employment Period by the Company without Cause, as a result of the Company's providing notice to the Executive of its intent not to renew the Employment Period (as described in Section 1(a) herein) or by the Executive for Good Reason, the Executive shall be entitled to (i) a payment, within ten (10) days following the Date of Termination, of Base Salary through the Date of Termination (to the extent not theretofore paid), any accrued vacation pay, any unreimbursed business expenses, any Annual Bonus and/or Long-Term Incentive payment earned in the fiscal year ending on or prior to the Date of Termination but not yet paid (provided that such Annual Bonus and/or Long-Term Incentive payment shall be paid on the date specified in Section 2(c) or Section 2(d), as applicable, if such date is later than the tenth day following the Date of Termination) (together, the "Accrued Obligations") and (ii) subject to the effectiveness of the Executive's execution of a general release and waiver of all claims against the Company, its affiliates and their respective officers and directors in a form reasonably satisfactory to the Company and subject to the Executive's compliance with the terms and conditions contained in this Agreement, (A) the continued payment of Base Salary for the two year period following the Date of Termination, (B) a lump sum amount equal to the product of (x) the Bonus, if any, that he would have earned based on the performance objectives described in, and in accordance with, Section 2(c) herein in the fiscal year which includes the Date of Termination had his employment not been terminated and (y) a fraction, the numerator of which is the number of days in the calendar year that includes the Date of Termination through the Date of Termination and the denominator of which is 365, and (C) the immediate vesting of that portion of the Restricted Shares, Initial Options and Premium Options that would have become vested on the anniversary of the Commencement Date immediately following the Date of Termination, provided that if such termination occurs after the consummation of a Change in Control or within six months prior to a Change in Control if such termination is in contemplation of the Change in Control, all Restricted Shares, Initial Options and Premium Options not previously vested shall become immediately vested; provided that, for any such termination of the Executive's employment prior to third anniversary of the Commencement Date, in no event will the Executive receive less than $2,000,000 in cash severance. The Company shall have no additional obligations under this Agreement.

(b) Cause, Death, Disability or Without Good Reason. If the Executive's employment with the Company is terminated during the Employment Period by the Company for Cause, by the Executive without Good Reason, or as a result of the Executive's death or Disability, the Company shall pay the Accrued Obligations to the Executive (or his estate in the event of his death) within thirty (30) days following the Date of Termination and in the case of

(i) a termination on account of death or Disability, the Executive or the Executive's estate, as applicable, shall be entitled to the additional vesting of Options and Restricted Shares as provided in Sections 3(a), (b) and (c) herein or (ii) a termination by the Executive without Good Reason after the fifth anniversary of the Commencement Date, the Executive shall be entitled to any Bonus earned in the fiscal year ended immediately prior to the Date of Termination. The Company shall have no additional obligations under this Agreement.

7. Indemnification.

The Company agrees that if the Executive is made a party or threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), other than any Proceeding related to any contest or dispute between the Executive and the Company or any of its affiliates with respect to this Agreement or the employment of the Executive hereunder, by reason of the fact that the Executive is or was a director or officer of the Company, or any subsidiary of the Company or is or was serving at the request of the Company, as a director, officer, member, employee or agent of another corporation or a partnership, joint venture, trust or other enterprise, the Executive shall be indemnified and held harmless by the Company to the fullest extent authorized by applicable law.

8. Non-Solicitation.

During the Employment Period and for a period of one year following the Date of Termination, the Executive hereby agrees not to, directly or indirectly, for his own account or for the account of any other person or entity, (i) solicit or hire or assist any other person or entity in soliciting or hiring any employee of the Company or any of its subsidiaries or affiliates to perform any services for any entity (other than the Company or its subsidiaries or affiliates), attempt to induce any such employee to leave the employ of the Company or any affiliates of the Company, or otherwise interfere with or adversely modify such employee's relationship with the Company or any of its subsidiaries or affiliates, (ii) induce any employee of the Company who is a member of management to engage in any activity which the Executive is prohibited from engaging in under any of Sections 8, 9 or 10 of this Agreement, or (iii) solicit or assist any other person or entity in soliciting or attempting to solicit any suppliers of the Company or any of its subsidiaries or affiliates to terminate or otherwise adversely modify their relationship with the Company or any of its subsidiaries or affiliates, provided that nothing herein shall prohibit the Executive from recruiting his personal administrative assistant. For purposes of this Agreement, "employee" shall mean any natural person any where in the world who is employed by or otherwise engaged to perform services for the Company or any of its subsidiaries or affiliates on the Date of Termination or during the one-year period preceding the Date of Termination.

9. Non-Compete.

In connection with the services of the Executive performed under this Agreement, the Executive hereby agrees that, during the Employment Period and for the six-month period following any termination of the employment of the Executive (other than a termination by the Company without Cause, by the Executive for Good Reason or by the Executive for any reason following a Change in Control), the Executive shall not become associated with any entity, whether as a principal, partner, employee, consultant or shareholder (other than as a holder of a

passive investment of not in excess of 5% of the outstanding voting shares of any publicly traded company), that is actively engaged in the retail apparel business in any geographic area in which the Company or its affiliates are engaged in such business.

10. Confidentiality; Non-Disclosure.

(a) The Executive hereby agrees that, during the Employment Period and thereafter, he will hold in strict confidence any proprietary or Confidential Information related to the Company and its affiliates. For purposes of this Agreement, the term "Confidential Information" shall mean all information of the Company or any of its affiliates (in whatever form) which is not generally known to the public, including without limitation any inventions, processes, methods of distribution or customers' or trade secrets.

(b) The Executive hereby agrees that, upon the termination of the Employment Period, he shall not take, without the prior written consent of the Company, any drawing, blueprint, specification or other document (in whatever form) of the Company or its affiliates, which is of a confidential nature relating to the Company or its affiliates, or, without limitation, relating to its or their methods of distribution, or any description of any formulas or secret processes and will return any such information (in whatever form) then in him possession.

11. Injunctive Relief.

It is impossible to measure in money the damages that will accrue to the Company in the event that the Executive breaches any of the restrictive covenants provided in Sections 8, 9 or 10 hereof. In the event that the Executive breaches any such restrictive covenant, the Company shall be entitled to an injunction restraining the Executive from violating such restrictive covenant. If the Company shall institute any action or proceeding to enforce any such restrictive covenant, the Executive hereby waives the claim or defense that the Company has an adequate remedy at law and agrees not to assert in any such action or proceeding the claim or defense that the Company has an adequate remedy at law. The foregoing shall not prejudice the Company's right to require the Executive to account for and pay over to the Company, and the Executive hereby agrees to account for and pay over, the compensation, profits, monies, accruals or other benefits derived or received by the Executive, directly or indirectly, as a result of any transaction constituting a breach of any of the restrictive covenants provided in Sections 8, 9 or 10 hereof.

12. Miscellaneous.

(a) Any notice or other communication required or permitted under this Agreement shall be effective only if it is in writing and delivered personally or sent by registered or certified mail, postage prepaid, addressed as follows (or if it is sent through any other method agreed upon by the parties):

If to the Company:

J. Crew Group, Inc.
770 Broadway

New York, NY 10003
Attention: Board of Directors and Secretary

with a copy to:

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

If to the Executive:

To the address on file at the Company

with a copy to:

Lanny A. Oppenheim, Esq.
Salans
620 Fifth Avenue
New York, NY 10020

or to such other address as any party hereto may designate by notice to the others, and shall be deemed to have been given upon receipt.

(b) This Agreement constitutes the entire agreement among the parties hereto with respect to the employment of the Executive and supersedes and is in full substitution for any and all prior understandings or agreements with respect to such employment.

(c) This Agreement may be amended only by an instrument in writing signed by the parties hereto, and any provision hereof may be waived only by an instrument in writing signed by the party or parties against whom or which enforcement of such waiver is sought. The failure of any party hereto at any time to require the performance by any other party hereto of any provision hereof shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by any party hereto of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or a waiver of the provision itself or a waiver of any other provision of this Agreement.

(d) (i) This Agreement is binding on and is for the benefit of the parties hereto and their respective successors, heirs, executors, administrators and other legal representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Company or the Executive.

(ii) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no

such succession had taken place. As used in the Agreement, the "Company" shall mean both the Company as defined above and any such successor that assumes and agrees to perform this Agreement, by operation of law or otherwise.

(e) If any provision of this Agreement or portion thereof is so broad, in scope or duration, so as to be unenforceable, such provision or portion thereof shall be interpreted to be only so broad as is enforceable.

(f) The Company may withhold from any amounts payable to the Executive hereunder all federal, state, city or other taxes that the Company may reasonably determine are required to be withheld pursuant to any applicable law or regulation.

(g) This Agreement shall be governed by and construed in accordance with the laws of the State of NEW YORK, without reference to its principles of conflicts of law.

(h) The Executive hereby represents to the Company that he has full power and authority to enter into this Agreement that the execution of, and performance of duties under, this Agreement shall not constitute a breach of or otherwise violate any other agreement to which the Executive is a party.

(i) The Executive hereby represents to the Company that he will not utilize or disclose any confidential information obtained by the Executive in connection with his former employment with respect to his duties and responsibilities hereunder, and the Company will not ask the Executive to do so.

(j) This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

(k) The headings in this Agreement are inserted for convenience of reference only and shall not be a part of or control or affect the meaning of any provision hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

J. CREW GROUP, INC.

_____
Name:
Title:

J. CREW OPERATING CORP.

_____
Name:
Title:

_____
JEFFREY A. PFEIFLE

Exhibit 10.11

Execution Copy

# EMPLOYMENT AGREEMENT

AGREEMENT, dated this 27th day of January, 2003 (this "Agreement"), among J. Crew Group, Inc., a New York Corporation (the "Parent") and its operating subsidiary J. Crew Operating Corp. (collectively with the Parent, the "Company"), with offices at 770 Broadway, New York, New York, and Scott Gilbertson (the "Executive").

l. Term; Position and Responsibilities; Principal Work Location.

(a) Term. Unless the Employment Period (as defined below) is terminated earlier pursuant to Section 4 hereof, the Company shall engage the Executive on the terms and subject to the conditions of this Agreement for a five-year term commencing on January 27, 2003 (the "Commencement Date") and ending on the day immediately preceding the fifth anniversary of the Commencement Date (the "Initial Term"). Effective upon the expiration of the Initial Term and of each Additional Term (as defined below), the Employment Period hereunder shall be deemed to be automatically extended, upon the same terms and conditions for an additional period of one year (each, an "Additional Term"), in each such case, commencing upon the expiration of the Initial Term or the then-current Additional Term, as the case may be, unless the Company or the Executive, at least three months prior to the expiration of the Initial Term or such Additional Term, shall give written notice to the other party of its intention not to extend the Employment Period (as defined below) hereunder. The period during which the Executive is employed by the Company pursuant to this Agreement, including any extension thereof in accordance with the preceding sentence, shall be referred to as the "Employment Period."

(b) Position and Responsibilities. During the Employment Period, the Company hereby agrees to employ the Executive as the Chief Operating Officer and in such other position or positions with the Company as the Chairman and Chief Executive Officer of the Company (the "Chairman & CEO") may specify from time to time. During the Employment Period, the Executive shall perform the duties and responsibilities that are customarily assigned to individuals serving in such position or positions and such other duties and responsibilities as the Chairman & CEO may reasonably specify from time to time.

(c) During the Employment Period, excluding any periods of vacation and sick leave to which the Executive is entitled, (i) the Executive shall devote all of his working time and attention to the performance of his duties and responsibilities hereunder and shall faithfully and diligently endeavor to promote the business and best interests of the Company, and (ii) the Executive may not, without the prior written consent of the Company, operate, participate in the management, operations or control of, or act as an employee, officer, consultant, agent or representative of, any type of business or service (other than as the Chief Operating Officer of the Company), provided that it shall not be a violation of the foregoing for the Executive to (A) act or serve as a director, trustee, committee member or principal of any type of business or civic or charitable organization, or (B) manage his personal, financial and legal affairs (provided that the activities described in clauses (A) and (B) do not interfere with the performance of his duties and responsibilities to the Company as provided hereunder).

(d) Principal Place of Employment. Unless otherwise mutually agreed upon, the Executive's principal place of employment shall be the New York metropolitan area and the Executive shall also travel as reasonably required to carry out his duties and obligations hereunder.

2. Compensation; Expenses; Benefits and Perquisites. During the Employment Period, as compensation for the performance of the services by the Executive, the Executive shall be entitled to the following compensation from the Company:

(a) Base Salary. The Company shall pay the Executive, not less than once a month pursuant to the Company's normal and customary payroll procedures, a base salary at the rate of $450,000 per annum (the "Base Salary").

(b) Annual Bonus. In addition to the Base Salary, in respect of each fiscal year during the Employment Period, the Executive shall have an opportunity to earn an annual bonus (the "Bonus"), which shall equal 35% of Base Salary if "threshold performance objectives" are achieved, 70% of Base Salary if "target performance objectives" are achieved, and 140% of Base Salary if "stretch performance objectives" are achieved, in accordance with the terms of the J. Crew Operating Corp. Performance Incentive Plan then existing for such fiscal year based on the achievement of performance objectives as may be established from time to time by the Board or a committee thereof; provided that the Bonus paid with respect to services provided by the Executive during calendar year 2003 shall not be less than $250,000, of which $75,000 shall be paid to the Executive as soon as practicable after the Commencement Date; and provided further that the Bonus for any fiscal year shall be payable to the Executive only if the Executive is employed by the Company on the date on which such Bonus is paid. The actual Bonus that may become payable shall be determined by the Board, in its sole discretion.

(c) Business Expenses. The Company shall promptly reimburse the Executive for all reasonable business expenses incurred by the Executive in connection with the performance of the services for the Company upon the presentation of statements of such expenses in accordance with the Company's policies and procedures now in force or as such policies and procedures may be modified with respect to all senior executive officers of the Company.

(d) Employee Benefits. During the Employment Period, the Executive shall be eligible to participate in the employee benefit plans and programs maintained by the Company from time to time and generally available to senior executives of the Company, including, to the extent maintained by the Company, medical, dental, accidental and disability insurance plans and profit sharing, pension, retirement, deferred compensation and savings plans, in accordance with the terms and conditions thereof in effect from time to time.

(e) Relocation Expenses. The Executive shall be entitled to the Company's standard relocation package pursuant to the Company's Relocation Policy.

3. Grant of Stock Options and Restricted Stock.

(a) Initial Stock Options. As soon as reasonably practicable after the date of the Commencement Date, the Company shall cause the Board or a committee thereof to grant to

the Executive a non-qualified option to purchase 111,585 shares of Common Stock at an exercise price per share equal to $6.82 per share (the "Initial Option"). The terms and conditions of the Initial Option shall be evidenced by a separate stock option agreement executed by the Company and the Executive (the "Initial Option Agreement") which shall contain terms consistent with the 2003 Equity Incentive Plan, as may be amended from time to time (the "Equity Plan"), this Section 3(a) and other customary terms. The Initial Option Agreement shall provide, among other things, for the following:

(i) The Initial Option shall vest in equal installments on the second, third, fourth and fifth anniversaries of the Commencement Date; provided that the Executive is continuously employed by the Company through each such applicable anniversary date;

(ii) Notwithstanding the foregoing, (A) in the event that the Company terminates the Executive's employment without Cause or the Executive terminates his employment for Good Reason prior to the consummation of a Change in Control (as defined in the Equity Plan), that portion of the Initial Option that would have become vested and exercisable on the next applicable anniversary of the Commencement Date following the Date of Termination (as defined below) shall vest and become immediately exercisable and any remaining portion of the Initial Option that has not become vested and exercisable shall immediately expire and be forfeited, (B) in the event that, within the two year period following the consummation of a Change in Control, the Company terminates the Executive's employment without Cause or the Executive terminates his employment for Good Reason, all shares of Common Stock underlying the Initial Option shall become immediately vested and exercisable; or (C) if the Executive's employment terminates for any other reason, any portion of the Initial Option which has not become exercisable on such Date of Termination shall immediately expire and be forfeited; and

(iii) Any portion of the Initial Option which has become vested and exercisable shall expire on the earlier of (A) the tenth anniversary of the date of grant, (B) the commencement of business on the date the Executive's employment is terminated by the Company for Cause, (C) ninety days after the date the Executive's employment is terminated by the Executive without Good Reason, or (D) the second anniversary of the date the Executive's employment is terminated (x) on account of the Executive's death or Disability, (y) by the Company without Cause, or (z) by the Executive for Good Reason.

(b) Premium Stock Options. As soon as reasonably practicable after the Commencement Date, the Company shall cause the Board or a committee thereof to grant to the Executive a non-qualified option to purchase 66,951 shares of Common Stock at an exercise price per share equal to $25.00 per share (the "Premium Option Tranche 1") and an additional non-qualified option to purchase 66,951 shares of Common Stock at an exercise price per share equal to $35.00 per share (the "Premium Option Tranche 2" and, collectively with Premium Option Tranche 1, the "Premium Options") . The terms and conditions of the Premium Options shall be evidenced by a separate stock option agreement executed by the Company and the

Executive (the "Premium Option Agreement" and, collectively with the Initial Option Agreement, the "Option Agreements") which shall contain terms consistent with the Equity Plan, this Section 3(b) and other customary terms. The Premium Option Agreement shall provide, among other things, for the following:

(i) The Premium Options shall vest in equal installments on the second, third, fourth and fifth anniversaries of the Commencement Date; provided that the Executive is continuously employed by the Company through each such applicable anniversary date;

(ii) Notwithstanding the foregoing, (A) in the event that the Company terminates the Executive's employment without Cause or the Executive terminates his employment for Good Reason prior to the consummation of a Change in Control (as defined in the Equity Plan), that portion of the Premium Options that would have become vested and exercisable on the next applicable anniversary of the Commencement Date following the Date of Termination (as defined below) shall vest and become immediately exercisable and any remaining portion of the Premium Options that have not become vested and exercisable shall immediately expire and be forfeited, (B) in the event that, within the two year period following the consummation of a Change in Control, the Company terminates the Executive's employment without Cause or the Executive terminates his employment for Good Reason, all shares of Common Stock underlying the Premium Options shall become immediately vested and exercisable; or (C) if the Executive's employment terminates for any other reason, any portion of the Premium Options which have not become exercisable on such Date of Termination shall immediately expire and be forfeited; and

(iii) Any portion of the Premium Options which has become vested and exercisable shall expire on the earlier of (A) the tenth anniversary of the date of grant, (B) the commencement of business on the date the Executive's employment is terminated by the Company for Cause, (C) ninety days after the date the Executive's employment is terminated by the Executive without Good Reason, or (D) the second anniversary of the date the Executive's employment is terminated (x) on account of the Executive's death or Disability, (y) by the Company without Cause, or (z) by the Executive for Good Reason.

(c) Restricted Stock. As soon as reasonably practicable following the Commencement Date, the Company shall grant the Executive 111,585 restricted shares (the "Restricted Shares") of Common Stock. The terms and conditions of the Restricted Shares shall be evidenced by a separate restricted stock agreement executed by the Company and the Executive (the "Restricted Stock Agreement") which shall contain terms consistent with the Equity Plan and this Section 3(c) and other customary terms. The Restricted Stock Agreement shall provide, among other things, that the Restricted Shares shall vest in equal installments on the first, second, third and fourth anniversaries of the date of grant; provided that the Executive is continuously employed by the Company through each such applicable anniversary date; and further provided that, (i) in the event that the Company terminates the Executive's employment without Cause or the Executive terminates his employment for Good Reason prior to the

consummation of a Change in Control, that portion of the Restricted Shares that would have become vested on the next applicable anniversary date following the Date of Termination shall vest, (ii) in the event that, within the two year period following the consummation of a Change in Control, the Company terminates the Executive's employment without Cause or the Executive terminates his employment for Good Reason, all or any portion of the Restricted Shares not previously forfeited shall vest, or (iii) if the Employment Period terminates for any other reason, the Restricted Shares which have not vested on such Date of Termination shall be forfeited immediately by the Executive and returned to the Company.

(d) Stockholders' Agreement. All shares of Common Stock and all other securities issued in connection with this Agreement or acquired by the Executive under this Agreement or otherwise shall be subject to the Stockholders' Agreement attached hereto as Exhibit A.

4. Termination of the Employment Period.

The Executive's employment with the Company hereunder may be terminated during the Employment Period prior to the fifth anniversary of the Commencement Date upon the earliest to occur of the following events (at which time the Employment Period shall be terminated):

(a) Death. The Executive's employment hereunder shall terminate upon the Executive's death.

(b) Disability. The Company shall be entitled to terminate the Executive's employment hereunder by reason of the Executive's "Disability" if, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been unable to perform his duties hereunder for a period of 6 consecutive months or for 180 days within any 365-day period, and within 30 days after written Notice of Termination (as defined below) for Disability is given following such 6-month or 180-day period, as the case may be, the Executive shall not have returned to the performance of his duties in accordance with this Agreement.

(c) Cause. The Company may terminate the Executive's employment hereunder for Cause. For purposes of this Agreement, the term "Cause" shall mean: (i) the failure of the Executive to substantially perform his duties hereunder (other than any such failure due to the Executive's Disability); (ii) the Executive's dishonesty, gross negligence in the performance of his duties hereunder or engaging in willful misconduct, which in the case of any such gross negligence, has caused or is reasonably expected to result in direct or indirect material injury (monetarily or otherwise) to the Company or any of its affiliates; (iii) a material breach by the Executive of any provision of this Agreement or of any other written agreement with the Company or any of its affiliates or a material violation of any Company policy applicable to the Executive; or (iv) the Executive's commission of a crime that constitutes a felony or other crime of moral turpitude or fraud. If, subsequent to the Executive's termination of employment hereunder for other than Cause, it is determined in good faith by the Company that the Executive's employment could have been terminated for Cause hereunder, the Executive's employment shall, at the election of the Company, be deemed to have been terminated for Cause retroactively to the date the events giving rise to Cause occurred.

(d) Good Reason. The Executive may terminate his employment hereunder for "Good Reason," for any of the following reasons enumerated in this Section 4(d): (1) the assignment to the Executive of any duties materially inconsistent with Section 1 hereof, or any other action by the Company that results in a material diminution in the Executive's position, authority, duties or responsibilities; (2) any purported termination of the Executive's employment by the Company for a reason or in a manner not expressly permitted by this Agreement; (3) relocation of the Executive's principal place of employment to more than fifty (50) miles from the Executive's principal place of employment, (4) a material reduction in the Executive's total compensation opportunity unless such reduction is part of a reduction applicable to a broad class of management employees, or any other material breach of this Agreement. Termination of the Executive's employment by the Executive pursuant to this Section 4(d) shall not be effective until the Executive delivers to the Board a written notice specifically identifying the conduct of the Company which he believes constitutes a reason enumerated in this Section 4(d) and the Executive provides the Board at least thirty (30) days to remedy such conduct.

(e) Without Cause. The Company may terminate the Executive's employment hereunder without Cause.

(f) Without Good Reason. The Executive may terminate his employment hereunder without Good Reason, provided that the Executive provides the Company with notice of intent to terminate without Good Reason at least three months in advance of the Date of Termination. The Executive and the Company shall mutually agree on the time, method and content of any public announcement regarding the termination of the Executive's employment hereunder and neither the Executive nor the Company shall make any public statements which are inconsistent with the information mutually agreed upon by the Company and the Executive, and the parties hereto shall cooperate with each other in refuting any public statements made by other persons which are inconsistent with the information mutually agreed upon between the Executive and Company as described above.

5. Termination Procedure.

(a) Notice of Termination. Any termination of the Executive's employment hereunder by the Company or by the Executive during the Employment Period (other than termination pursuant to Section 4(a)) shall be communicated by written notice of termination ("Notice of Termination") to the other party hereto in accordance with Section 12(a).

(b) Date of Termination. "Date of Termination" shall mean (i) if the Executive's employment is terminated by reason of the Executive's death, the date of his death, (ii) if the Executive's employment is terminated pursuant to Section 4(b), thirty (30) days after Notice of Termination (provided that the Executive shall not have returned to the substantial performance of his duties in accordance with this Agreement during such thirty (30) day period), (iii) if the Executive's employment is terminated pursuant to Section 4(f), a date specified in the Notice of Termination which is at least three (3) months from the date of such notice as specified in such Section 4(f); and (iv) if the Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given or any later date (within thirty (30) days (or

any alternative time period agreed upon by the parties) after the giving of such notice) set forth in such Notice of Termination.

6. Termination Payments.

(a) Without Cause or for Good Reason. In the event of the termination of the Executive's employment during the Employment Period by the Company without Cause or by the Executive for Good Reason prior to the consummation of a Change in Control, the Executive shall be entitled to (i) a payment, within ten (10) days following the Date of Termination, of Base Salary through the Date of Termination (to the extent not theretofore paid), any accrued vacation pay, and any unreimbursed expenses under Sections 2(c) and (d) (the "Accrued Obligations") and (ii) subject to the effectiveness of the Executive's execution of a general release and waiver of all claims against the Company, its affiliates and their respective officers and directors in a form reasonably satisfactory to the Company and subject to the Executive's compliance with the terms and conditions contained in this Agreement, (A) the continued payment of Base Salary for the eighteen-month period following the Date of Termination, (B) a lump sum amount equal to the product of (x) the Bonus, if any, that he would have earned in the calendar year which includes the Date of Termination had his employment not been terminated and (y) a fraction, the numerator of which is the number of days in the calendar year that includes the Date of Termination through the Date of Termination and the denominator of which is 365, and (C) the immediate vesting of that portion of the Restricted Shares, Initial Options and Premium Options that would have become vested on the next applicable anniversary of the Commencement Date following the Date of Termination on which the next tranche of Initial Options, Premium Options and Restricted Shares would have vested, provided that if such termination occurs after the consummation of a Change in Control, all Restricted Shares, Initial Options and Premium Options not previously vested shall become immediately vested. The Company shall have no additional obligations under this Agreement.

(b) Cause, Death, Disability or Without Good Reason. If the Executive's employment with the Company is terminated during the Employment Period by the Company for Cause, by the Executive without Good Reason, or as a result of the Executive's death or Disability, the Company shall pay the Accrued Obligations to the Executive (or his estate in the event of his death) within thirty (30) days following the Date of Termination. The Company shall have no additional obligations under this Agreement.

7. Indemnification.

The Company agrees that if the Executive is made a party or threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), other than any Proceeding related to any contest or dispute between the Executive and the Company or any of its affiliates with respect to this Agreement or the employment of the Executive hereunder, by reason of the fact that the Executive is or was a director or officer of the Company, or any subsidiary of the Company or is or was serving at the request of the Company, as a director, officer, member, employee or agent of another corporation or a partnership, joint venture, trust or other enterprise, the Executive shall be indemnified and held harmless by the Company to the fullest extent authorized by applicable law.

8. Non-Solicitation.

During the Employment Period and for a period of two years following the Date of Termination, the Executive hereby agrees not to, directly or indirectly, for his own account or for the account of any other person or entity, (i) solicit or hire or assist any other person or entity in soliciting or hiring any employee of the Company or any of its subsidiaries or affiliates to perform any services for any entity (other than the Company or its subsidiaries or affiliates), attempt to induce any such employee to leave the employ of the Company or any affiliates of the Company, or otherwise interfere with or adversely modify such employee's relationship with the Company or any of its subsidiaries or affiliates, (ii) induce any employee of the Company who is a member of management to engage in any activity in which the Executive is prohibited from engaging under any of Sections 8, 9 or 10, or (iii) solicit or assist any other person or entity in soliciting or attempting to solicit any customers or suppliers of the Company or any of its subsidiaries or affiliates to terminate or otherwise adversely modify their relationship with the Company or any of its subsidiaries or affiliates. For purposes of this Agreement, "employee" shall mean any natural person anywhere in the world who is employed by or otherwise engaged to perform services for the Company or any of its subsidiaries or affiliates on the Date of Termination or during the one-year period preceding the Date of Termination.

9. Non-Compete.

In connection with the services of the Executive performed under this Agreement, the Executive hereby agrees that, during the Employment Period and for the one year period following any termination of the employment of the Executive (other than a termination by the Company without Cause or by the Executive for Good Reason), the Executive shall not become associated with any entity, whether as a principal, partner, employee, consultant or shareholder (other than as a holder of a passive investment not in excess of 5% of the outstanding voting shares of any publicly traded company), that is actively engaged in the retail apparel business in any geographic area in which the Company or its affiliates are engaged in such business.

10. Confidentiality; Non-Disclosure.

(a) The Executive hereby agrees that, during the Employment Period and thereafter, he will hold in strict confidence any proprietary or Confidential Information related to the Company and its affiliates. For purposes of this Agreement, the term "Confidential Information" shall mean all information of the Company or any of its affiliates (in whatever form) which is not generally known to the public, including without limitation any inventions, processes, methods of distribution or customers' secrets or trade secrets.

(b) The Executive hereby agrees that, upon the termination of the Employment Period, he shall not take, without the prior written consent of the Company, any drawing, blueprint, specification or other document (in whatever form) of the Company or its affiliates, which is of a confidential nature relating to the Company or its affiliates, or, without limitation, relating to its or their methods of distribution, or any description of any formulas or secret processes and will return any such information (in whatever form) then in his possession.

11. Injunctive Relief.

It is impossible to measure in money the damages that will accrue to the Company in the event that the Executive breaches any of the restrictive covenants provided in Sections 8, 9 or 10 hereof. In the event that the Executive breaches any such restrictive covenant, the Company shall be entitled to an injunction restraining the Executive from violating such restrictive covenant. If the Company shall institute any action or proceeding to enforce any such restrictive covenant, the Executive hereby waives the claim or defense that the Company has an adequate remedy at law and agrees not to assert in any such action or proceeding the claim or defense that the Company has an adequate remedy at law. The foregoing shall not prejudice the Company's right to require the Executive to account for and pay over to the Company, and the Executive hereby agrees to account for and pay over, the compensation, profits, monies, accruals or other benefits derived or received by the Executive, directly or indirectly, as a result of any transaction constituting a breach of any of the restrictive covenants provided in Sections 8, 9 or 10.

12. Miscellaneous.

(a) Any notice or other communication required or permitted under this Agreement shall be effective only if it is in writing and delivered personally or sent by registered or certified mail, postage prepaid, addressed as follows (or if it is sent through any other method agreed upon by the parties):

If to the Company:

J. Crew Group, Inc.
770 Broadway
New York, NY 10003
Attention: Board of Directors and Secretary

with a copy to:

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

If to the Executive:

At the address on file in the Company's files.

or to such other address as any party hereto may designate by notice to the others, and shall be deemed to have been given upon receipt.

(b) This Agreement constitutes the entire agreement among the parties hereto with respect to the employment of the Executive and supersedes and is in full substitution for any and all prior understandings or agreements with respect to such employment.

(c) This Agreement may be amended only by an instrument in writing signed by the parties hereto, and any provision hereof may be waived only by an instrument in writing signed by the party or parties against whom or which enforcement of such waiver is sought. The failure of any party hereto at any time to require the performance by any other party hereto of any provision hereof shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by any party hereto of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or a waiver of the provision itself or a waiver of any other provision of this Agreement.

(d) (i) This Agreement is binding on and is for the benefit of the parties hereto and their respective successors, heirs, executors, administrators and other legal representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Company or the Executive.

(ii) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in the Agreement, the "Company" shall mean both the Company as defined above and any such successor that assumes and agrees to perform this Agreement, by operation of law or otherwise.

(e) If any provision of this Agreement or portion thereof is so broad, in scope or duration, so as to be unenforceable, such provision or portion thereof shall be interpreted to be only so broad as is enforceable.

(f) The Company may withhold from any amounts payable to the Executive hereunder all federal, state, city or other taxes that the Company may reasonably determine are required to be withheld pursuant to any applicable law or regulation.

(g) This Agreement shall be governed by and construed in accordance with the laws of the State of NEW YORK, without reference to its principles of conflicts of law.

(h) This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

(i) The headings in this Agreement are inserted for convenience of reference only and shall not be a part of or control or affect the meaning of any provision hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

J. CREW GROUP, INC.

_____
Name:
Title:

J. CREW OPERATING CORP.

_____
Name:
Title:

_____
SCOTT GILBERTSON

Exhibit 10.12

March 7, 2003

Walter Killough
6 Garden Court
Mahwah, NJ 07430

Dear Walter:

This letter will confirm our understanding of the arrangements under which your employment with J.Crew is terminated as set forth below:

1. The parties hereby acknowledge and confirm that your employment with the Company is terminated effective as of March 14, 2003 (the "Termination Date").

2. Subject to this Agreement becoming effective (as described in Paragraph 17 hereof), the Company will continue to pay you your base salary of $390,000 per annum for the twelve (12) month period beginning on the day immediately following the Termination Date ("Severance Period"), payable in accordance with the Company's regular payroll practices for its employees. At your election, the Company will also reimburse you for Cobra premiums paid by you during the Severance Period. The foregoing payments shall be reduced by any required tax withholdings and shall not be taken into account as compensation and no service credit shall be given after the Termination Date for purposes of determining the benefits payable under any other plan, program, agreement or arrangement of the Company. Notwithstanding anything herein to the contrary, your right to receive the foregoing payments shall terminate effective immediately upon the date that you become employed as a full-time employee with a new employer; provided that if the base salary you receive pursuant to such new employment ("New Salary") is less than $390,000 per annum, the Company will continue to pay you an incremental amount during the remaining Severance Period such that the New Salary payments you receive together with such incremental amount will equal $390,000 on an annualized basis. In addition, upon request, outplacement services will be provided in accordance with the Company's policy. You acknowledge that, except for the foregoing payments, you are not entitled to any payment by the Company in the nature of either severance or termination pay or other compensation of any kind.

3. As of the Termination Date, you have vested options to purchase (i) 31,400 shares of Common Stock ("Common Stock") of J. Crew Group, Inc. ("Parent") at $6.82 exercise price per share, (ii) 11,160 shares of Common Stock at a $10.00 exercise price per share, and (iii) 5,000 shares of Common Stock at a $10.65 exercise price per share (collectively, the "Vested Options"). You acknowledge that (i) your right to exercise the Vested Options shall expire 90 days immediately following the Termination Date (i.e. June 12, 2003) and (ii) all of your other options which have not yet vested (totaling options to purchase 27,400 shares of Common Stock) terminate effective immediately, in accordance with the

provisions of your stock option agreements with Parent and the J. Crew Group, Inc. 1997 Stock Option Plan, as amended (the "Option Plan").

4. By signing this Agreement, you agree that in exchange for the consideration set forth herein, you hereby voluntarily, fully and unconditionally release and forever discharge the Company, Parent, their present and former parent corporation(s), subsidiaries, divisions, affiliates and otherwise related entities and their respective incumbent and former employees, directors, plan administrators, officers and agents, individually and in their official capacities (collectively, the "Releasees"), from any and all charges, actions, causes of action, demands, debts, dues, bonds, accounts, covenants, contracts, liabilities, or damages of any nature whatsoever, whether now known or claimed, to whomever made, which you have or may have against any or all of the Releasees for or by reason of any cause, nature or thing whatsoever, up to the present time, arising out of or related to your employment with the Company or the termination of such employment, including, by way of examples and without limiting the broadest application of the foregoing, any actions, causes of action, or claims under any contract or federal, state or local decisional law, statues, regulations or constitutions, any claims for notice, pay in lieu of notice, wrongful dismissal, breach of contract, defamation or other tortious conduct, discrimination on the basis of actual or perceived disability, age, sex, race or any other factor (including, without limitation, any claim pursuant to Title VII of the Civil Rights Act of 1964, Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, as amended, the Family and Medical Act of 1993, the Equal Pay Act of 1963, the Fair Labor Standards Act, the State, City and local laws of New York, and the equal employment law or laws of the state and/or city in which you work), any claim pursuant to any other applicable employment standards or human rights legislation or for severance pay, salary, bonus, incentive or additional compensation, vacation pay, insurance, other benefits, interest, and/or attorney's fees.

   If you have made or should hereafter make any complaint, charge, claim, allegation or demand, or commence or threaten to commence any action, complaint, charge, claim or proceeding, against any or all of the Releasees for or by reason of any cause, matter or thing whatsoever existing up to the present time, this Agreement may be raised as and shall constitute a complete bar to any such action, complaint, charge, claim, allegation or proceeding, and, subject to a favorable ruling by a tribunal of final jurisdiction, the Releasees shall recover from you, and you shall pay to the Releasees, all costs incurred by them, including their attorneys' fees, as a consequence of any such action, complaint charge, claim, allegation or proceeding; provided, however, that this shall not limit you from enforcing your rights under this Agreement and in the event any action is commenced to enforce your rights under this Agreement, each party shall bear its own legal fees and expenses; and provided further, however, that this is not intended to interfere with your right to file a charge with the Equal Employment Opportunity Commission ("EEOC") in connection with any claim you believe you may have against any Releasee. However, by signing this Agreement, you agree to waive any right to recover in any proceeding you may bring before the EEOC (or any state human rights commission) or in any proceeding brought by the EEOC (or any state human rights commission) on your behalf.

You specifically release all claims under the Age Discrimination in Employment Act ("ADEA") relating to your employment and its termination.

5. You acknowledge that the payments and benefits described in Section 2 above that you are receiving in connection with the foregoing release is in accordance with the provisions of your letter agreement, dated March 14, 2000 ("Letter Agreement").

6. You hereby agree and acknowledge that you shall be bound by and comply with the restrictive covenants provided in the Letter Agreement (the "Restrictive Covenants"), and that such Restrictive Covenants are hereby made part of this Agreement as if specifically restated herein and that the payments described in Section 2 above that you are receiving are subject to and contingent upon your compliance with Restrictive Covenants.

7. You acknowledge and agree that, notwithstanding any other provision of this Agreement, if you breach any of your obligations under this Agreement or any Restrictive Covenant, (a) you will forfeit your right to receive the payments and benefits described in Section 2 above (to the extent the payments were not theretofore paid) and the Company shall be entitled to recover any payments already made to you or on your behalf, (b) the Vested Options shall expire as of the date of such breach to the extent not theretofore exercised and, if exercised as of the date of such breach, you shall immediately reimburse the Company for the profit upon exercise (such profit calculated as the difference between the (i) greater of either the Fair Market Value (as defined in the Option Plan) of a share of Common Stock on the date of exercise or the amount paid by the Company to you per share of Common Stock for the purchase of the shares acquired upon exercise, and (ii) exercise price, times the number of options exercised).

8. You agree that, in the event that you are served with legal process or other request purporting to require you to testify, plead, respond or defend and/or produce documents at a legal proceeding, threatened proceeding, investigation or inquiry involving the Releasees, you will: (1) refuse to provide testimony or documents absent a subpoena, court order or similar process from a regulatory agency: (2) within three (3) business days or as soon thereafter as practical, provide oral notification to the Company's Executive Vice-President of Human Resources of your receipt of such process or request to testify or produce documents; and (3) provide to the Company's Executive Vice-President of Human Resources by overnight delivery service a copy of all legal papers and documents served upon you. You further agree that in the event you are served with such process, you will meet and confer with the Company's designee(s) in advance of giving such testimony or information. You also agree to cooperate fully with the Releasees in connection with any existing or future litigation against the Releasees, whether administrative, civil or criminal in nature, in which and to the extent the Releasees deem your cooperation necessary. The Company agrees to reimburse you for your reasonable out-of-pocket expenses incurred in connection with the performance of your obligations under this Section 8.

9. This Agreement does not constitute an admission of liability or wrongdoing of any kind by you or the Company or its affiliates.

10. The terms of this Agreement shall be binding on the parties hereto and their respective successors, assigns, heirs and representatives.

11. This Agreement, together with your stock option agreements with Parent and the Option Plan, constitute the entire understanding of the Company and you with respect to the subject matter hereof and supersedes all prior understandings, written or oral. The terms of this Agreement may be changed, modified or discharged only by an instrument in writing signed by the parties hereto. A failure of the Company or you to insist on strict compliance with any provision of this Agreement shall not be deemed a waiver of such provision or any other provision hereof. If any provision of this Agreement is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

12. This Agreement shall be construed, enforced and interpreted in accordance with and governed by the laws of the State of New York.

13. The parties hereto acknowledge and agree that each party has reviewed and negotiated the terms and provisions of this Agreement and has contributed to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed fairly as to both parties hereto and not in favor or against either party.

14. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which counterpart, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement.

15. You acknowledge that, by your free and voluntary act of signing below, you agree to all of the terms of this Agreement and intend to be legally bound thereby.

16. You acknowledge that you have received this Agreement on or before March 7, 2003. You understand that you may consider whether to agree to the terms contained herein for a period of forty-five (45) days after the date hereof. However, the operation of the provisions of Sections 2 through 4 above may be delayed until you execute this Agreement and return it to the Company and it becomes effective as provided below. You acknowledge that you have consulted with an attorney prior to your execution of this Agreement or have determined by your own free will not to consult with an attorney.

17. This Agreement will become effective, enforceable and irrevocable seven days after the date on which it is executed by you (the "Effective Date"). During the seven-day period prior to the Effective Date, you may revoke your agreement to accept the terms hereof by indicating in writing to the Executive Vice-President of Human Resources your intention to revoke. If you exercise your right to revoke hereunder, you shall forfeit your right to receive any of the payments and other benefits provided for herein, and to the extent such payments or benefits have already been made, you agree that you will immediately reimburse the Company for the value of such payments and benefits.

If the foregoing correctly reflects our understanding, please sign the enclosed copy of this letter agreement, whereupon it will become a binding agreement between us.

J. CREW OPERATING CORP.

By: _____
Name: David F. Kozel
Title: Executive Vice-President,
Human Resources

Agreed to and accepted:

By:_____
Walter Killough

Dated: _____, 2003

Acknowledgment

STATE OF _____)

ss:

COUNTY OF _____)

On the __ day of _____, 2003, before me personally came Walter Killough who, being by me duly sworn, did depose and say that he resides at 6 Garden Court, Mahwah, New Jersey 07430, and did acknowledge and represent that he has had an opportunity to consult with attorneys and other advisers of his choosing regarding the Agreement set forth above, that he has reviewed all of the terms of the Agreement and that he fully understands all of its provisions, including without limitation, the general release and waiver set forth therein.

_____
Notary Public

Date:_____

Exhibit 21.1

Subsidiaries of 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. |
| Grace Holmes, Inc. | Delaware | J. Crew Retail Stores |
| H.F.D. No. 55, Inc. | Delaware | J. Crew Factory Stores |
| J. Crew Virginia, Inc. | Virginia | J. Crew Virginia, Inc. |
| J. Crew International, Inc. | Delaware | J. Crew International, Inc. |
| J. Crew Intermediate LLC | Delaware | J. Crew Intermediate LLC |
| C & W Outlet, Inc.* | New York | C & W Outlet, Inc. |
| J. Crew Services, Inc.* | Delaware | J. Crew Services, Inc. |
| ERL, Inc.* | New Jersey | ERL, Inc. |

* Inactive subsidiary

Exhibit 23.1

The Board of Directors
J. Crew Group, Inc.:

We consent to incorporation by reference in the previously filed registration statement on Form S-8 of J. Crew, Group Inc. 1997 Stock Option Plan of our report dated March 25, 2003, except as to the note 18, which is dated April 4, 2003, relating to the consolidated balance sheets of J. Crew Group, Inc and subsidiaries as of February 1, 2003 and February 2, 2002, and the related consolidated statements of operations, cash flows, and changes in stockholders' deficit for each of the years in the three-year period ended February 1, 2003, and the related schedule, which report appears in the February 1, 2003 annual report on Form 10-K of J. Crew Group, Inc.

/s/ KPMG LLP

New York, New York
April 15, 2003

Exhibit 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of J. Crew Group, Inc. and J. Crew Operating Corp. (collectively, the "Company") on Form 10-K for the period ending February 1, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Millard S. Drexler, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Millard S. Drexler
---
Millard S. Drexler
Chief Executive Officer
April 21, 2003

Exhibit 99.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of J. Crew Group, Inc. and J. Crew Operating Corp. (collectively, the "Company") on Form 10-K for the period ending February 1, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott M. Rosen, Executive Vice-President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Scott M. Rosen
---
Scott M. Rosen
Executive Vice-President and
Chief Financial Officer
April 21, 2003