

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 2, 2019

Or

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

**Commission
File Number
333-175075**

**Registrant, State of Incorporation
Address and Telephone Number**

**I.R.S. Employer
Identification No.
22-2894486**

J.CREW GROUP, INC.

(Incorporated in Delaware)

**225 Liberty Street
New York, New York 10281
Telephone: (212) 209-2500**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock	Outstanding at November 29, 2019
Common Stock, \$.01 par value per share	1,000 shares

* The Registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, but is not required to file such reports under such sections.

J.CREW GROUP, INC.
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PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

J.CREW GROUP, INC.
 Condensed Consolidated Balance Sheets
 (unaudited)
 (in thousands, except share data)

	November 2, 2019	February 2, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,956	\$ 25,738
Restricted cash	—	13,747
Accounts receivable, net	44,158	40,342
Merchandise inventories, net	484,496	390,470
Prepaid expenses and other current assets	59,997	84,942
Refundable income taxes	6,978	7,331
Total current assets	624,585	562,570
Property and equipment, net	231,489	243,620
Right-of-use lease assets	493,073	—
Intangible assets, net	297,536	301,397
Goodwill	107,900	107,900
Other assets	4,172	6,164
Total assets	\$ 1,758,755	\$ 1,221,651
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 274,027	\$ 259,705
Other current liabilities	251,853	244,864
Borrowings under the ABL Facility	217,900	70,800
Current portion of right-of-use lease liabilities	116,338	—
Due to Parent	41,376	37,462
Interest payable	8,368	23,866
Current portion of long-term debt	21,600	32,070
Total current liabilities	931,462	668,767
Long-term debt, net	1,663,806	1,673,282
Long-term right-of-use lease liabilities	468,364	—
Lease-related deferred credits, net	—	105,877
Deferred income taxes, net	17,034	16,872
Other liabilities	31,992	29,096
Total liabilities	3,112,658	2,493,894
Stockholders' deficit:		
Common stock \$0.01 par value; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	733,268	733,229
Accumulated other comprehensive loss	(3,357)	(1,967)
Accumulated deficit	(2,083,814)	(2,003,505)
Total stockholders' deficit	(1,353,903)	(1,272,243)
Total liabilities and stockholders' deficit	\$ 1,758,755	\$ 1,221,651

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

Condensed Consolidated Statements of Operations and Comprehensive Loss
(unaudited)
(in thousands)

	For the Thirteen Weeks Ended November 2, 2019	For the Thirteen Weeks Ended November 3, 2018
Revenues:		
Net sales	\$ 567,458	\$ 564,585
Other	58,179	57,615
Total revenues	<u>625,637</u>	<u>622,200</u>
Cost of goods sold, including buying and occupancy costs	<u>371,095</u>	<u>383,762</u>
Gross profit	254,542	238,438
Selling, general and administrative expenses	235,054	202,828
Impairment losses	<u>8,009</u>	<u>2,947</u>
Income from operations	11,479	32,663
Interest expense, net	<u>37,304</u>	<u>35,141</u>
Loss before income taxes	(25,825)	(2,478)
Provision (benefit) for income taxes	<u>(5,968)</u>	<u>3,218</u>
Net loss	<u>\$ (19,857)</u>	<u>\$ (5,696)</u>
Other comprehensive income (loss):		
Reclassification of losses on cash flow hedges, net of tax, to earnings	1,735	308
Unrealized gain (loss) on cash flow hedges, net of tax	(492)	343
Foreign currency translation adjustments	<u>(325)</u>	<u>(12)</u>
Comprehensive loss	<u>\$ (18,939)</u>	<u>\$ (5,057)</u>

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

Condensed Consolidated Statements of Operations and Comprehensive Loss
(unaudited)
(in thousands)

	For the Thirty-nine Weeks Ended November 2, 2019	For the Thirty-nine Weeks Ended November 3, 2018
Revenues:		
Net sales	\$ 1,615,246	\$ 1,622,832
Other	<u>177,726</u>	<u>127,391</u>
Total revenues	1,792,972	1,750,223
Cost of goods sold, including buying and occupancy costs	<u>1,115,207</u>	<u>1,078,976</u>
Gross profit	677,765	671,247
Selling, general and administrative expenses	632,824	596,323
Impairment losses	<u>12,889</u>	<u>9,813</u>
Income from operations	32,052	65,111
Interest expense, net	<u>111,949</u>	<u>102,524</u>
Loss before income taxes	(79,897)	(37,413)
Provision for income taxes	<u>412</u>	<u>8,302</u>
Net loss	<u>\$ (80,309)</u>	<u>\$ (45,715)</u>
Other comprehensive income (loss):		
Reclassification of losses on cash flow hedges, net of tax, to earnings	2,539	1,669
Unrealized gain (loss) on cash flow hedges, net of tax	(3,790)	2,560
Foreign currency translation adjustments	<u>(139)</u>	<u>(490)</u>
Comprehensive loss	<u>\$ (81,699)</u>	<u>\$ (41,976)</u>

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

Condensed Consolidated Statements of Changes in Stockholders' Deficit
(unaudited)
(in thousands, except shares)

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' deficit
	Shares	Amount				
Balance at February 3, 2018	1,000	\$ —	\$ 733,071	\$ (1,883,426)	\$ (2,603)	\$ (1,152,958)
Net loss	—	—	—	(33,925)	—	(33,925)
Share-based compensation	—	—	46	—	—	46
Reclassification of realized losses on cash flow hedges, net of tax, to earnings	—	—	—	—	996	996
Unrealized gain on cash flow hedges	—	—	—	—	2,418	2,418
Foreign currency translation adjustments	—	—	—	—	(331)	(331)
Balance at May 5, 2018	1,000	—	733,117	(1,917,351)	480	(1,183,754)
Net loss	—	—	—	(6,094)	—	(6,094)
Share-based compensation	—	—	74	—	—	74
Reclassification of realized losses on cash flow hedges, net of tax, to earnings	—	—	—	—	365	365
Unrealized loss on cash flow hedges	—	—	—	—	(201)	(201)
Foreign currency translation adjustments	—	—	—	—	(147)	(147)
Balance at August 4, 2018	1,000	—	733,191	(1,923,445)	497	(1,189,757)
Net loss	—	—	—	(5,696)	—	(5,696)
Share-based compensation	—	—	(43)	—	—	(43)
Reclassification of realized losses on cash flow hedges, net of tax, to earnings	—	—	—	—	308	308
Unrealized gain on cash flow hedges	—	—	—	—	343	343
Foreign currency translation adjustments	—	—	—	—	(12)	(12)
Balance at November 3, 2018	1,000	\$ —	\$ 733,148	\$ (1,929,141)	\$ 1,136	\$ (1,194,857)
Balance at February 2, 2019	1,000	\$ —	\$ 733,229	\$ (2,003,505)	\$ (1,967)	\$ (1,272,243)
Net loss	—	—	—	(16,230)	—	(16,230)
Share-based compensation	—	—	4	—	—	4
Reclassification of realized gains on cash flow hedges, net of tax, to earnings	—	—	—	—	(333)	(333)
Unrealized loss on cash flow hedges	—	—	—	—	(666)	(666)
Foreign currency translation adjustments	—	—	—	—	48	48
Balance at May 4, 2019	1,000	—	733,233	(2,019,735)	(2,918)	(1,289,420)
Net loss	—	—	—	(44,222)	—	(44,222)
Share-based compensation	—	—	17	—	—	17
Reclassification of realized losses on cash flow hedges, net of tax, to earnings	—	—	—	—	1,137	1,137
Unrealized loss on cash flow hedges	—	—	—	—	(2,632)	(2,632)
Foreign currency translation adjustments	—	—	—	—	138	138
Balance at August 3, 2019	1,000	—	733,250	(2,063,957)	(4,275)	(1,334,982)
Net loss	—	—	—	(19,857)	—	(19,857)
Share-based compensation	—	—	18	—	—	18
Reclassification of realized losses on cash flow hedges, net of tax, to earnings	—	—	—	—	1,735	1,735
Unrealized loss on cash flow hedges	—	—	—	—	(492)	(492)
Foreign currency translation adjustments	—	—	—	—	(325)	(325)
Balance at November 2, 2019	1,000	\$ —	\$ 733,268	\$ (2,083,814)	\$ (3,357)	\$ (1,353,903)

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.
Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	For the Thirty-nine Weeks Ended November 2, 2019	For the Thirty-nine Weeks Ended November 3, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (80,309)	\$ (45,715)
Adjustments to reconcile to cash flows from operating activities:		
Depreciation of property and equipment	59,415	67,385
Impairment losses	12,889	9,813
Amortization of deferred financing costs and debt discount	5,387	5,371
Amortization of intangible assets	3,851	5,405
Reclassification of hedging losses to earnings	2,539	2,274
Deferred income taxes	162	3,695
Share-based compensation	39	77
Foreign currency transaction gains	(124)	(230)
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,816)	(35,718)
Merchandise inventories, net	(94,066)	(273,493)
Prepaid expenses and other current assets	9,731	1,086
Other assets	1,522	(1,683)
Accounts payable and other	2,481	82,009
Federal and state income taxes	789	4,069
Net cash used in operating activities	<u>(79,510)</u>	<u>(175,655)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	<u>(52,483)</u>	<u>(35,519)</u>
Net cash used in investing activities	<u>(52,483)</u>	<u>(35,519)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under the ABL Facility	147,100	148,500
Proceeds from Notes	1,003	—
Costs paid in connection with refinancings of debt	—	(74)
Principal repayments of Term Loan Facility	<u>(26,607)</u>	<u>(11,752)</u>
Net cash provided by financing activities	<u>121,496</u>	<u>136,674</u>
Effect of changes in foreign exchange rates on cash, cash equivalents and restricted cash	<u>(32)</u>	<u>(706)</u>
Decrease in cash, cash equivalents and restricted cash	<u>(10,529)</u>	<u>(75,206)</u>
Beginning balance	<u>39,485</u>	<u>107,066</u>
Ending balance	<u>\$ 28,956</u>	<u>\$ 31,860</u>
Supplemental cash flow information:		
Income taxes paid	<u>\$ 837</u>	<u>\$ 977</u>
Interest paid	<u>\$ 121,106</u>	<u>\$ 106,971</u>

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the thirteen and thirty-nine weeks ended November 2, 2019 and November 3, 2018
(Dollars in thousands, unless otherwise indicated)

1. Basis of Presentation

J.Crew Group, Inc. and its wholly owned subsidiaries (the “Company” or “Group”) were acquired (the “Acquisition”) on March 7, 2011 through a merger with a subsidiary of Chinos Holdings, Inc. (the “Parent”). The Parent was formed by investment funds affiliated with TPG Capital, L.P. (“TPG”) and Leonard Green & Partners, L.P. (“LGP”) and, together with TPG, the “Sponsors”). Subsequent to the Acquisition, Group became an indirect, wholly owned subsidiary of Parent, which is owned by affiliates of the Sponsors, investors and members of management. Prior to March 7, 2011, the Company operated as a public company with its common stock traded on the New York Stock Exchange.

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. Therefore, these financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended February 2, 2019.

The Company’s fiscal year ends on the Saturday closest to January 31. All references to “fiscal 2019” represent the 52-week fiscal year that will end on February 1, 2020 and to “fiscal 2018” represent the 52-week fiscal year that ended February 2, 2019.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly in all material respects the Company’s financial position, results of operations and cash flows for the applicable interim periods. Certain prior year amounts have been reclassified to conform to current period presentation. The results of operations for these periods are not necessarily comparable to, or indicative of, results of any other interim period or for the fiscal year as a whole.

Management is required to make estimates and assumptions about future events in preparing financial statements in conformity with generally accepted accounting principles. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses at the date of the unaudited condensed consolidated financial statements. While management believes that past estimates and assumptions have been materially accurate, current estimates are subject to change if different assumptions as to the outcome of future events are made. Management evaluates estimates and judgments on an ongoing basis and predicates those estimates and judgments on historical experience and on reasonable factors. Since future events and their effects cannot be determined with absolute certainty, actual results may differ from the estimates used in preparing the accompanying unaudited condensed consolidated financial statements.

2. Revenue Recognition

Overview

The Company generates revenue from three sources: (i) customers who shop in its brick-and-mortar stores, (ii) customers who shop on its websites and (iii) wholesale customers who buy and resell its merchandise. The Company recognizes revenue at (i) the point-of-sale in brick-and-mortar stores, (ii) the date of receipt by a customer in the e-commerce business and (iii) the time ownership is transferred in the wholesale business.

Disaggregation of Revenue

A summary of disaggregated revenue is as follows:

	For the Thirteen Weeks Ended		For the Thirty-nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
J.Crew	\$ 415,802	\$ 430,857	\$ 1,190,962	\$ 1,251,611
Madewell	151,656	133,728	424,284	371,221
Other revenues:				
Wholesale	47,538	46,798	145,678	95,152
Shipping and handling fees	7,784	8,094	24,633	24,221
Other	2,857	2,723	7,415	8,018
Total revenues	<u>\$ 625,637</u>	<u>\$ 622,200</u>	<u>\$ 1,792,972</u>	<u>\$ 1,750,223</u>

Accounts Receivable

A summary of accounts receivable with respect to the Company's wholesale customers is as follows:

	November 2, 2019	February 2, 2019
Accounts receivable	\$ 44,283	\$ 40,439
Less allowance for doubtful accounts	(125)	(97)
Accounts receivable, net	<u>\$ 44,158</u>	<u>\$ 40,342</u>

Contract Liabilities

The Company recognizes a contract liability when it has received consideration from a customer and has a future performance obligation to transfer merchandise to the customer. The Company's contract liabilities include (i) unredeemed gift cards and (ii) unredeemed loyalty program rewards.

With respect to unredeemed gift cards, the Company is obligated to transfer merchandise in the future when a holder uses a gift card to make a purchase. The contract liability for gift cards is increased when customers purchase cards, and decreased when (i) a customer redeems the card or (ii) the Company estimates the gift card will go unredeemed (referred to as "breakage"). All of the Company's gift cards do not have an expiration date, and are classified as a current liability.

With respect to unredeemed loyalty program rewards, the Company is obligated to transfer merchandise to the customer upon accumulating points to certain thresholds. The contract liability for loyalty program rewards is increased as certain customers make qualifying purchases, and decreased when (i) a reward is redeemed for merchandise or (ii) the Company estimates that points will expire and go unredeemed.

Rollforwards of the liabilities for gift cards and loyalty program awards are as follows:

	Unredeemed Gift Cards			
	For the Thirteen Weeks Ended		For the Thirty-nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Balance at beginning of period	\$ 33,243	\$ 27,931	\$ 36,167	\$ 32,665
Issuance of cards	13,921	12,552	40,809	40,046
Redemption of cards	(12,644)	(12,584)	(41,175)	(42,929)
Recognition of estimated breakage	(804)	(840)	(2,421)	(2,628)
Other	13	111	349	16
Balance at end of period	<u>\$ 33,729</u>	<u>\$ 27,170</u>	<u>\$ 33,729</u>	<u>\$ 27,170</u>

	Unredeemed Loyalty Program Rewards			
	For the Thirteen Weeks Ended		For the Thirty-nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Balance at beginning of period	\$ 17,443	\$ 5,376	\$ 13,830	\$ 8,422
Earning of loyalty program points	10,763	14,138	28,256	22,290
Redemptions	(6,173)	(5,443)	(18,238)	(14,954)
Recognition of estimated breakage	(9,644)	(3,727)	(11,428)	(5,629)
Other	(157)	43	(188)	258
Balance at end of period	<u>\$ 12,232</u>	<u>\$ 10,387</u>	<u>\$ 12,232</u>	<u>\$ 10,387</u>

3. Leases

Overview

The Company is party to various long-term operating lease agreements in connection with the leasing of its brick-and-mortar stores and its corporate offices. These operating leases expire on varying dates through 2034, with a portion of these leases containing options to renew for periods of up to 5 years. Generally, these 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 typically comprised of annual base rent plus a contingent rent payment based on the store's sales in excess of a specified threshold. Some of the leases also contain early termination options, which can be exercised by the Company or the landlord under certain conditions. The leases ordinarily require the Company to pay real estate taxes, insurance, certain utilities and common area costs.

Accounting for Leases

Historically, these operating leases were accounted for by expensing rent payments on a straight-line basis after consideration of rent holidays, step rent provisions and escalation clauses. Differences between rental expense, which was recognized from the date of possession, and actual rental payments were recorded as deferred rent and included in deferred credits. No liabilities were recognized on the balance sheet for long-term obligations pursuant to these lease agreements.

During the first quarter of fiscal 2019, however, the Company adopted pronouncements that were issued with respect to the accounting for leases. The pronouncements require lessees to recognize right-of-use lease assets ("ROU assets") and right-of-use lease liabilities ("ROU liabilities") for leases with terms of more than one year. The ROU liabilities are measured as the present value of the lease obligations. The ROU assets reflect the amount of the ROU liabilities less lease-related deferred credits. The Company used the effective date method whereby initial application occurred on the date of adoption with comparative periods unchanged.

Upon adoption of the new standard, the Company recorded a significant gross-up to the balance sheet, including ROU assets of \$533.5 million and ROU liabilities of \$624.6 million. The Company utilized the package of practical expedients permitted by the transition guidance, which allowed for a carryforward of its identification of leases, historical lease classification and initial direct costs for existing leases. The Company elected to use hindsight in determining lease term.

The new pronouncement requires a company to discount its ROU liabilities using implicit rates of return in the underlying leases. To the extent these rates of return cannot be readily determined, a company is permitted to use its incremental borrowing rate, which is required to be a collateralized rate for a period of time that corresponds to the remaining lease term.

A summary of the components of lease expense included in the statement of operations is as follows:

	For the Thirteen Weeks Ended November 2, 2019	For the Thirty-nine Weeks Ended November 2, 2019
Operating lease cost	\$ 38,500	\$ 109,516
Variable lease cost	<u>23,357</u>	<u>77,839</u>
Total lease cost	<u>\$ 61,857</u>	<u>\$ 187,355</u>

A summary of supplemental cash flow information related to operating leases is as follows:

	For the Thirty-nine Weeks Ended November 2, 2019
Cash paid for amounts included in the measurement of ROU liabilities	\$ 122,801
ROU assets obtained in exchange for new ROU liabilities, non-cash	\$ 45,563

As of November 2, 2019, the weighted-average remaining lease term was 7.4 years and the weighted-average discount rate was 9.18%.

A reconciliation of undiscounted cash flows to the ROU liabilities is as follows:

Fiscal year	Amount
Remainder of 2019	\$ 40,328
2020	147,978
2021	130,883
2022	116,124
2023	90,970
Thereafter	318,376
Total lease payments	\$ 844,659
Less: interest	(259,957)
Present value of ROU liabilities	\$ 584,702
	November 2, 2019
Current portion of ROU liabilities	\$ 116,338
Long-term ROU liabilities	468,364
Total ROU liabilities	\$ 584,702

A summary of aggregate minimum rent at February 2, 2019 is as follows:

Fiscal year	Amount
2019	\$ 146,282
2020	132,209
2021	121,330
2022	107,245
2023	78,925
Thereafter	313,800
Total	\$ 899,791

4. Debt Exchange and Refinancing

Transaction Overview

In the second quarter of fiscal 2017, the Parent and certain of its subsidiaries completed the following interrelated liability management transactions:

- a private exchange offer (the “Exchange Offer”) pursuant to which \$565.7 million aggregate principal amount of the outstanding 7.75%/8.50% Senior PIK Toggle Notes due 2019 (the “PIK Notes”) issued by Chinos Intermediate Holdings A, Inc., a direct wholly-owned subsidiary of the Parent (the “PIK Notes Issuer”), were exchanged for aggregate consideration consisting of:
 - \$249,596 aggregate principal amount of 13% Senior Secured Notes due 2021 issued by J.Crew Brand, LLC and J.Crew Brand Corp. (the “Exchange Notes”), which are secured primarily by the U.S. intellectual property assets held by J.Crew Domestic Brand, LLC (“IPCo”);

- 189,688 shares of Parent’s 7% non-convertible perpetual series A preferred stock, no par value per share, with an aggregate initial liquidation preference of \$189,688 (the “Series A Preferred Stock”) (which aggregate liquidation preference was \$202,973 as of November 2, 2019); and
- 15% of Parent’s common equity, or 17,362,719 shares of Parent’s class A common stock, \$0.00001 par value per share (the “Class A Common Stock”);
- certain amendments to the indenture governing the PIK Notes;
- an amendment to the Company’s Amended and Restated Credit Agreement, dated as of March 5, 2014 (the “Term Loan Facility”) to, among other things, facilitate the following related transactions:
 - the repayment of \$150.5 million principal amount of term loans then outstanding under the Term Loan Facility;
 - the transfer of the remaining undivided 27.96% ownership interest in the U.S. intellectual property rights of the J.Crew brand (the “Additional Transferred IP”) to IPCo, which, together with the undivided 72.04% ownership interest transferred in December 2016 (the “Initial Transferred IP”) represent 100% of the U.S. intellectual property rights of the J.Crew brand (the “Transferred IP”), and the execution of related license agreements;
 - the issuance of \$97.0 million aggregate principal amount of an additional series of 13% Senior Secured Notes due 2021 by J.Crew Brand, LLC and J.Crew Brand Corp. (the “New Money Notes” and, together with the Exchange Notes, the “Notes”), subject to the same terms and conditions as the Exchange Notes, for cash at a 3% discount, subject to the terms of the note purchase agreement, dated June 12, 2017, the proceeds of which were loaned on a subordinated basis to the Company and were applied, in part, to finance the repayment of the \$150.5 million principal amount of term loans referenced above; and
 - the raising of additional borrowings under the Term Loan Facility of \$30.0 million (at a 2% discount) provided by the Company’s Sponsors (the “New Term Loan Borrowings”), the net proceeds of which were also applied, in part, to finance the repayment of the \$150.5 million principal amount of term loans referenced above.

5. Management Services Agreement

Pursuant to a management services agreement (as amended and restated, the “Management Services Agreement”) entered into by the Parent, the Sponsors and the Company in connection with the Acquisition, and amended in the second quarter of fiscal 2017 in connection with the debt exchange and refinancing, the Parent provides the Company with certain ongoing consulting and management advisory services (the “Services”) and the Parent receives an aggregate annual monitoring fee prepaid quarterly in an amount equal to the greater of (i) 40 basis points of consolidated annual revenues or (ii) \$8 million (in either case, the “Advisory Fee”). The Parent also receives reimbursement for out-of-pocket expenses incurred in connection with services provided pursuant to the Management Services Agreement.

In addition to the amendment to the Management Services Agreement, in the second quarter of fiscal 2017 the Parent and Sponsors entered into a new management services agreement (the “New Management Services Agreement”), pursuant to which the Sponsors provide the Services to the Parent for an amount equal to the Advisory Fee less the accrued cash dividend in an amount equal to 5% of the liquidation preference on the outstanding Series A Preferred Stock of the Parent. The New Management Services Agreement also provides for reimbursement for out-of-pocket expenses incurred by the Sponsors or their designees.

The Company recorded an expense of \$7.6 million in the first nine months of both fiscal 2019 and fiscal 2018 for monitoring fees and out-of-pocket expenses, included in selling, general and administrative expenses in the statements of operations and comprehensive loss.

6. Goodwill and Intangible Assets

A summary of the components of intangible assets is as follows:

	Favorable Lease <u>Commitments</u>	Madewell <u>Trade Name</u>	Key Money	J.Crew <u>Trade Name</u>	<u>Total</u>
Balance at February 2, 2019	\$ 908	\$ 49,542	\$ 752	\$ 250,195	\$ 301,397
Amortization expense	(227)	(1,025)	(33)	—	(1,285)
Effect of changes in foreign exchange rates	—	—	5	—	5
Balance at May 4, 2019	681	48,517	724	250,195	300,117
Amortization expense	(227)	(1,025)	(32)	—	(1,284)
Effect of changes in foreign exchange rates	—	—	(54)	—	(54)
Balance at August 3, 2019	454	47,492	638	250,195	298,779
Amortization expense	(227)	(1,025)	(30)	—	(1,282)
Effect of changes in foreign exchange rates	—	—	39	—	39
Balance at November 2, 2019	<u>\$ 227</u>	<u>\$ 46,467</u>	<u>\$ 647</u>	<u>\$ 250,195</u>	<u>\$ 297,536</u>
Total accumulated amortization or impairment losses at November 2, 2019	<u>\$ (60,783)</u>	<u>\$ (35,533)</u>	<u>\$ (4,170)</u>	<u>\$ (635,105)</u>	<u>\$ (735,591)</u>

The carrying value of goodwill of \$107.9 million relates to the Madewell reporting unit. There is no remaining goodwill attributable to the J.Crew reporting unit. The carrying value of the J.Crew and Madewell trade names is \$250.2 million and \$46.5 million, respectively, at November 2, 2019. If revenues or operating results decline below the Company's current expectations, additional impairment charges may be recorded in the future.

7. Share-Based Compensation

Chinos Holdings, Inc. 2011 Equity Incentive Plan

The Parent adopted the Chinos Holdings, Inc. 2011 Equity Incentive Plan (the "2011 Plan") in connection with the Acquisition. In the second quarter of fiscal 2017, in connection with a debt exchange and refinancing, the Parent completed a recapitalization of its outstanding equity. The recapitalization resulted in, among other things, a reverse stock split of the shares of common stock underlying the share-based awards issued by the Company. The reverse stock split of 10,000-to-1 resulted in (i) a substantial decrease in the number of authorized awards from 91,740,627 shares to 9,174 shares and (ii) a substantial increase in the exercise price of \$0.10 to \$1,000 per share.

The recapitalization included (i) the issuance of preferred stock of the Parent, including an authorization for equity awards to be granted up to 20,000 shares and (ii) the issuance of additional shares of common stock of the Parent, including an authorization for equity awards to be granted up to 13,003,295 shares. Additionally, on October 3, 2017, the Company authorized additional awards of 5,209,823 shares to be granted to its then-Chief Executive Officer in accordance with an employment agreement. The following disclosures are presented with respect to the newly authorized share-based awards only.

A summary of share-based compensation recorded in the statements of operations and comprehensive loss is as follows:

	<u>For the Thirteen Weeks Ended</u>		<u>For the Thirty-nine Weeks Ended</u>	
	<u>November 2, 2019</u>	<u>November 3, 2018</u>	<u>November 2, 2019</u>	<u>November 3, 2018</u>
Share-based compensation	<u>\$ 18</u>	<u>\$ (43)</u>	<u>\$ 39</u>	<u>\$ 77</u>

A summary of shares available for grant as stock options or other share-based awards, as adjusted for the reverse stock split, is as follows:

	<u>Common Stock Awards</u>	<u>Preferred Stock Awards</u>
Available for grant at February 2, 2019	5,344,394	20,000
Authorized	—	—
Granted	(1,227,665)	—
Forfeited and available for reissuance	1,738,696	—
Available for grant at November 2, 2019	<u>5,855,425</u>	<u>20,000</u>

8. Long-Term Debt and Credit Agreements

A summary of the components of long-term debt is as follows:

	<u>November 2, 2019</u>	<u>February 2, 2019</u>
Term Loan Facility	\$ 1,347,675	\$ 1,373,554
Notes	347,599	346,596
Less: current portion	(21,600)	(32,070)
Less: deferred financing costs	(6,845)	(10,288)
Less: discount	(3,023)	(4,510)
Long-term debt, net	<u>\$ 1,663,806</u>	<u>\$ 1,673,282</u>
Borrowings under the ABL Facility	<u>\$ 217,900</u>	<u>\$ 70,800</u>

ABL Facility

The Company has an asset-based credit facility (the “ABL Facility”), which is governed by an asset-based credit agreement with Bank of America, N.A., as administrative agent, and the other agents and lenders party thereto, that, following the Sixth Amendment described below, provides for a \$375 million senior secured asset-based revolving line of credit (which may be increased by up to \$75 million in certain circumstances), subject to a borrowing base limitation. The Company cannot borrow in excess of \$375 million under the ABL Facility without the consent of holders of at least a majority of the loans outstanding under the Term Loan Facility. The ABL Facility includes borrowing capacity in the form of letters of credit up to \$200 million, and up to \$25 million in U.S. dollars for loans on same-day notice, referred to as swingline loans, and is available in U.S. dollars, Canadian dollars and Euros. Any amounts outstanding under the ABL Facility are due and payable in full on the maturity date of November 17, 2021.

On September 19, 2018, the Company entered into a Sixth Amendment to Credit Agreement (Incremental Amendment) (the “Sixth Amendment”), which amended the ABL Facility to increase the revolving credit commitment from \$350 million to \$375 million, with the additional \$25 million provided by MUFG Union Bank, N.A., which joined the ABL Facility as an additional lender.

On November 2, 2019, standby and documentary letters of credit were \$64.7 million, outstanding borrowings were \$217.9 million, and excess availability, as defined, was \$92.4 million. The weighted average interest rate on the borrowings outstanding under the ABL Facility was 4.12% on November 2, 2019. Average short-term borrowings under the ABL Facility were \$211.5 million and \$59.1 million in the first nine months of fiscal 2019 and fiscal 2018, respectively.

Term Loan Facility

2017 Amendment. In the second quarter of fiscal 2017, concurrently with the settlement of the Exchange Offer, the Company amended its Term Loan Facility to, among other things, (i) increase the interest rate applicable to the loans held by consenting lenders, which represented 88% of lenders, (the “Consenting Lenders”; and the loans held by the Consenting Lenders, the “Amended Loans”) by 22 basis points, (ii) increase the amount of amortization payable to Consenting Lenders, (iii) provide for the New Term Loan Borrowings of \$30.0 million, (iv) amend certain covenants and events of default and (v) direct Wilmington Savings Fund Society, FSB, as administrative agent under the Term Loan Facility, to dismiss, with prejudice, certain litigation regarding the Initial Transferred IP (and the related actions). Additionally, the Company repaid \$150.5 million of principal amount of term loans outstanding under the Term Loan Facility, which was financed with (i) the net proceeds from the New Money Notes of \$94.1 million, (ii) the net proceeds from the New Term Loan Borrowings of \$29.4 million and (iii) cash on hand of \$27.0 million.

Interest Rate. Initial borrowings under the Term Loan Facility bear interest at a rate per annum equal to an applicable margin (which, in the case of the Amended Loans, was increased by 22 basis points) plus, at Group's option, either (a) a LIBOR determined by reference to the costs of funds for U.S. dollar deposits for the relevant interest period adjusted for certain additional costs (subject to a floor) or (b) a base rate determined by reference to the highest of (1) the prime rate of Bank of America, N.A., (2) the federal funds effective rate plus 0.50% and (3) a LIBOR determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month, plus 1.00%. New Term Loan Borrowings bear interest at LIBOR plus 9% per annum payable in cash plus 3% per annum payable in kind.

The weighted average interest rate on the borrowings outstanding under the Term Loan Facility was 5.29% on November 2, 2019. The applicable margin (i) in effect for base rate borrowings was, (x) in the case of term loans, other than the New Term Loan Borrowings and the Amended Loans, 2.00%, (y) in the case of the Amended Loans, 2.22% and (z) in the case of the New Term Loan Borrowings, 12.00% (of which 3.00% is payable in kind) and (ii) with respect to LIBOR borrowings was, (x) in the case of term loans, other than the New Term Loan Borrowings and the Amended Loans, 3.00% and the LIBOR Floor, (y) in the case of the Amended Loans, 3.22% and the LIBOR Floor and (z) in the case of the New Term Loan Borrowings, 12.00% (of which 3.00% is payable in kind), respectively, at November 2, 2019.

Principal Repayments. The Company is required to make principal repayments equal to 0.25% of the original principal amount of the Term Loan Facility (excluding the New Term Loan Borrowings), or \$3.9 million, on the last business day of January, April, July, and October. The Company is also required (i) to repay the term loan based on an annual calculation of excess cash flow, as defined in the agreement and (ii) beginning on July 31, 2019, on the last business day of January, April, July and October, to make additional principal repayments of \$1.5 million equal to 0.125% of the aggregate principal amount of Amended Loans outstanding on July 13, 2017. In the second quarter of fiscal 2019, the Company made an additional one-time principal repayment of \$11.9 million which is equal to 1.00% of the aggregate principal amount of Amended Loans outstanding on July 13, 2017. The maturity date of the Term Loan Facility is March 5, 2021.

Notes

General. In the second quarter of fiscal 2017, in connection with settlement of the Exchange Offer and the issuance of the Notes, J.Crew Brand, LLC and J.Crew Brand Corp. (together, the "Notes Co-Issuers") and the Guarantors (as defined below) entered into (i) an indenture with U.S. Bank National Association, as Trustee and collateral agent, governing the terms of the Exchange Notes (the "Exchange Notes Indenture") and (ii) an indenture with the Trustee and U.S. Bank, as collateral agent, governing the terms of the New Money Notes (the "New Money Notes Indenture"), which is in substantially the same form as the Exchange Notes Indenture.

Interest Rate. The Notes bear interest at a rate of 13% per annum, and interest is payable semi-annually on March 15 and September 15 of each year. The Notes mature on September 15, 2021.

Notes Guarantee. The Notes are guaranteed by J.Crew Brand Intermediate, LLC, IPCo and J.Crew International Brand, LLC, each of which is a Delaware limited liability company and a wholly-owned indirect subsidiary of the Company (collectively, the "Guarantors," and each, a "Guarantor"). The PIK Notes Issuer also unconditionally guarantees the payment obligations of the Notes Co-Issuers and the Guarantors.

Exchange Notes Collateral. The Exchange Notes and the guarantees thereof are general senior secured obligations of the Notes Co-Issuers and the Guarantors, secured on a first priority lien basis by the Initial Transferred IP and certain other assets of the Notes Co-Issuers and Guarantors, and on a second priority lien basis by the Additional Transferred IP, subject, in each case, to permitted liens under the Exchange Notes Indenture and that certain intercreditor agreement, entered into between the collateral agents on July 13, 2017.

New Money Notes Collateral. The New Money Notes and the guarantees thereof are general senior secured obligations of the Notes Co-Issuers and the Guarantors, secured on a first priority lien basis by the Additional Transferred IP and certain other assets, and on a second priority lien basis by the Initial Transferred IP, subject, in each case, to permitted liens under the New Money Notes Indenture and the intercreditor agreement.

Redemption. The Notes are redeemable at the option of the Notes Co-Issuers, in whole or in part, at any time, at a price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but not including, the redemption date, plus a "make whole" premium. The Notes are not subject to any mandatory redemption obligation, and there is no sinking fund provided for the Notes.

Change in Control. Upon the occurrence of a Change of Control (as defined in each of the indentures, as applicable), the Notes Co-Issuers will be required to offer to repay all of the Notes at 100% of the aggregate principal amount repaid plus accrued and unpaid interest, if any, to, but not including, the date of purchase.

Covenants. Each of the indentures contains covenants covering (i) the payment of principal and interest, (ii) maintenance of an office or agency for the payment of the Notes, (iii) reports to the applicable Trustee and holders of the Notes, (iv) stay, extension and usury laws, (v) payment of taxes, (vi) existence, (vii) maintenance of properties and (viii) maintenance of insurance. Each of the indentures relating to the Notes also includes covenants that (i) limit the ability to transfer the collateral and (ii) limit liens that may be imposed on the assets of the Guarantors, which covenants are, in each case, subject to certain exceptions set forth in each of the indentures.

Interest Expense

A summary of the components of interest expense is as follows:

	For the Thirteen Weeks Ended		For the Thirty-nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Term Loan Facility	\$ 19,019	\$ 19,740	\$ 60,403	\$ 57,624
Notes	11,722	11,264	34,236	33,793
ABL Facility	2,564	1,159	7,492	2,034
Amortization of deferred financing costs and debt discount	1,796	1,792	5,387	5,371
Realized hedging losses	1,735	420	2,539	2,274
Other interest, net	468	766	1,892	1,428
Interest expense, net	\$ 37,304	\$ 35,141	\$ 111,949	\$ 102,524

9. Derivative Financial Instruments

October 2018 Interest Rate Swap

In October 2018, the Company entered into a floating-to-fixed interest rate swap agreement effective in March 2019 for a notional amount of \$750 million. This instrument limits exposure to interest rate increases on a portion of the Company's floating rate indebtedness through the expiration of the agreement in March 2020. Under the terms of this agreement, the Company's effective fixed interest rate on the notional amount of indebtedness is 3.03% plus the applicable margin.

August 2014 Interest Rate Swaps

In August 2014, the Company entered into interest rate swap agreements that limited exposure to interest rate increases on a portion of the Company's floating rate indebtedness. The interest rate swap agreements covered an aggregate notional amount of \$800 million from March 2016 to March 2019 and carried a fixed rate of 2.56% plus the applicable margin.

The Company designated the interest rate swap agreements as cash flow hedges. As cash flow hedges, unrealized gains are recognized as assets while unrealized losses are recognized as liabilities. The effective portion of such gains or losses is recorded as a component of accumulated other comprehensive loss, while the ineffective portion of such gains or losses is recorded as a component of interest expense. Realized gains and losses in connection with each required interest payment are reclassified from accumulated other comprehensive loss to interest expense.

The fair values of the interest rate swap agreements are estimated using industry standard valuation models using market-based observable inputs, including interest rate curves (level 2 inputs). A summary of the recorded assets (liabilities) included in the condensed consolidated balance sheet is as follows:

	November 2, 2019	February 2, 2019
Interest rate swaps (included in other assets)	\$ —	\$ 480
Interest rate swaps (included in other liabilities)	\$ (4,224)	\$ (3,663)

10. Fair Value Measurements

The Company uses a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs, other than quoted prices included in Level 1, such as quoted prices for markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Financial assets and liabilities

The fair value of the Company's long-term debt was estimated to be \$1,601 million and \$1,401 million at November 2, 2019 and February 2, 2019, respectively, based on quoted market prices of the debt (level 1 inputs).

The Company's interest rate swap agreements are measured in the financial statements at fair value on a recurring basis. See note 9 for more information regarding the fair value of this financial asset (liability).

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, accounts payable and other current liabilities approximate fair value because of their short-term nature.

Non-financial assets and liabilities

Certain non-financial assets, including goodwill, the intangible asset for the J.Crew trade name, and certain long-lived assets, have been written down and measured in the financial statements at fair value. The Company did not have any other non-financial assets or liabilities as of November 2, 2019 or February 2, 2019 that are measured on a recurring basis in the financial statements at fair value.

The Company assesses the recoverability of goodwill and intangibles whenever there are indicators of impairment, or at least annually in the fourth quarter. If the recorded carrying value of an intangible asset exceeds its fair value, the Company records a charge to write-down the intangible asset to its fair value. Impairment charges of goodwill are based on fair value measurements derived using a combination of an income approach, specifically the discounted cash flow, a market approach, and a transaction approach. Impairment charges of intangible assets are based on fair value measurements derived using an income approach, specifically the relief from royalty method, which is a revenue and royalty rate approach. The valuation methodologies incorporate unobservable inputs reflecting significant estimates and assumptions made by management (level 3 inputs). For more information related to goodwill and intangible asset impairment charges, see note 6.

The Company performs impairment tests of certain long-lived assets, including ROU assets, whenever there are indicators of impairment. These tests typically contemplate assets at a store level (for example, leasehold improvements) or at the corporate level (for example, software). The Company recognizes an impairment loss when the carrying value of a long-lived asset is not recoverable in light of the undiscounted future cash flows and measures an impairment loss as the difference between the carrying amount and fair value of the asset based on discounted future cash flows. The Company has determined that the future cash flow approach (level 3 inputs) provides the most relevant and reliable means by which to determine fair value in this circumstance.

A summary of the impact of the impairment of certain long-lived assets on financial condition and results of operations is as follows:

	For the Thirteen Weeks Ended		For the Thirty-nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Carrying value of long-term assets written down to fair value	<u>\$ 8,009</u>	<u>\$ 2,947</u>	<u>\$ 12,889</u>	<u>\$ 9,813</u>
Impairment charge	<u>\$ 8,009</u>	<u>\$ 2,947</u>	<u>\$ 12,889</u>	<u>\$ 9,813</u>

11. Income Taxes

The Parent files a consolidated federal income tax return and state combined income tax returns, which include Group and all of its wholly owned subsidiaries. The income tax provision is calculated as if Group were a stand-alone taxpayer.

In the first nine months of fiscal 2019, the Company recorded a provision for income taxes of \$0.4 million on a pre-tax loss of \$79.9 million. The provision for income taxes reflects a charge for current federal and state tax liabilities, offset by a discrete tax benefit of \$1.2 million relating to the reversal of uncertain tax position liabilities in connection with the settlement of various tax examinations and state tax law changes. The Company's effective tax rate of (0.5)% differs from the U.S. federal statutory rate of 21% primarily related to current year losses for which no tax benefit was recognized as the Company did not conclude that all of its deferred tax assets were realizable on a more-likely-than-not basis. Other items impacting the provision for income taxes include the U.S. taxation of foreign earnings under the Global Intangible Low Tax Income ("GILTI") regime, the recognition of valuation allowances with respect to the carryforward of unutilized interest deductions, the recognition of international valuation allowances and lower rates in foreign tax jurisdictions.

In the first nine months of fiscal 2018, the Company recorded a provision for income taxes of \$8.3 million, which reflects a charge for the valuation allowance with respect to the deferred tax asset related to the carry forward of unutilized interest deductions. Other items impacting the provision for income taxes include the recognition of international valuation allowances, lower rates in foreign jurisdictions and reserves for uncertain tax positions. These items primarily drove the difference between the federal statutory rate of 21% and the effective rate of (22.2)%.

The Company regularly assesses the need for a valuation allowance related to its deferred tax assets. In making that assessment, the Company considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets to determine, based on a weighing process of available evidence, whether it is more-likely-than-not that its deferred tax assets will not be realized. As of November 2, 2019, the Company maintained a full valuation allowance against its deferred tax assets.

The federal tax returns for the periods ended January 2014 through January 2016 are currently under examination. Various state and local jurisdiction tax authorities are in the process of examining income tax returns for certain tax years ranging from 2014 to 2016. The results of these audits and appeals are not expected to have a significant effect on the results of operations or financial position.

12. Legal Proceedings

The Company is subject to various legal proceedings and claims arising in the ordinary course of business. Management does not expect that the results of any of these legal proceedings, either individually or in the aggregate, would have a material effect on the Company's financial position, results of operations or cash flows. As of November 2, 2019, the Company has recorded a reserve for certain legal contingencies in connection with ongoing claims and litigation. The reserve is not material to its results of operations. In addition, there are certain other claims and legal proceedings pending against the Company for which accruals have not been established.

Eaton Vance Management, et al. v. Wilmington Savings Fund Society, FSB, as Administrative Agent and Collateral Agent, et al., Index No. 654397/2017, (Sup. Ct. N.Y. C'ty.).

On June 22, 2017, Eaton Vance Management and certain affiliated funds as well as Highland Capital Management and certain affiliated funds (collectively, the "Plaintiffs"), filed a complaint in the New York State Supreme Court, Commercial Division, against the Company and WSFS, seeking, among other things, declarations that the July 13, 2017 Amendment to the Term Loan Facility was ineffective absent unanimous consent of all lenders under the facility, that certain of the Company's actions with respect to certain of its intellectual property assets were taken in violation of the terms of the Term Loan Facility, and that those actions also constituted fraudulent conveyances.

On August 7, 2017, WSFS and the Company filed separate motions to dismiss certain of Plaintiffs' claims for failure to state a claim and lack of standing, among other reasons. On September 7, 2017, Plaintiffs filed an amended complaint in the New York State Supreme Court, Commercial Division, against the Company and WSFS. The amended complaint continued to assert claims for breach of the terms of the Term Loan Facility, and for fraudulent conveyance and added an additional claim for fraudulent inducement against the Company.

In response to the amended complaint, WSFS and the Company withdrew their prior motions to dismiss and, on October 20, 2017, filed renewed motions seeking dismissal in whole or part. Among other things, the Company sought dismissal of the amended complaint for failure to state a claim, lack of standing, and because its fraud claims are duplicative of Plaintiffs' claims under the documents governing the Term Loan Facility. Plaintiffs filed an omnibus brief on December 1, 2017 opposing the motions to dismiss. The Company and WSFS each filed reply briefs on December 22, 2017 reiterating that the majority of Plaintiffs' claims should be dismissed as a matter of law.

Oral argument on the motions to dismiss occurred on March 8, 2018. On April 25, 2018, the judge issued a Memorandum Decision and Order, which granted the Company's partial motion to dismiss in its entirety and dismissed as a matter of law the majority of Plaintiffs' claims with prejudice. Plaintiffs' sole remaining claim is for breach of contract based on the theory that the July 13, 2017 Amendment to the Term Loan Facility required unanimous consent of all lenders under the facility.

On October 25, 2018, Highland Capital Management and certain affiliated funds were dismissed from the action with prejudice.

On November 21, 2018, the remaining Plaintiffs filed a limited appeal of the judge's April 25, 2018 Memorandum Decision and Order with the First Department of the New York Appellate Division in an attempt to resuscitate their fraudulent conveyance claim. The Company filed an opposition brief on February 14, 2019, arguing that the trial court properly dismissed the fraudulent conveyance claim. On March 8, 2019, the remaining Plaintiffs filed a reply brief in support of their appeal. Oral argument on the appeal occurred on April 2, 2019. On April 25, 2019, the First Department unanimously affirmed the trial court's decision to dismiss the fraudulent conveyance claim with prejudice.

Discovery in the action is ongoing. The Company believes that the remaining claim is wholly without merit, and intends to vigorously oppose the claim.

13. Workforce Reductions

A rollforward of the reserve for severance and related costs is as follows:

	For the Thirteen Weeks Ended		For the Thirty-nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Balance at beginning of period	\$ 7,014	\$ 527	\$ 7,965	\$ 3,543
Provisions charged to expense	493	8	6,022	3,302
Reversals(1)	(328)	(73)	(797)	(929)
Payments	(2,235)	(365)	(8,246)	(5,819)
Balance at end of period	<u>\$ 4,944</u>	<u>\$ 97</u>	<u>\$ 4,944</u>	<u>\$ 97</u>

(1) Due primarily to associates who obtained employment subsequent to termination and, therefore, are no longer eligible to receive severance payments.

The Company expects the unpaid severance at November 2, 2019 to be paid through the first quarter of fiscal 2021.

14. Corporate Headquarters Relocation

In the second quarter of fiscal 2018, the Company entered into a lease amendment and surrender agreement (the "Surrender Agreement") with Vornado Office Management, LLC ("Vornado"). The terms of the Surrender Agreement provide for, among other things, the early termination and surrender of the space previously occupied by the Company at 770 Broadway in New York City. In exchange for the surrender, Vornado agreed to pay the Company a termination payment of \$35 million. The Company fully vacated its former corporate headquarters in June 2019. The Company recognized the benefit of \$35 million, as a reduction of selling, general and administrative expense, over the period starting May 10, 2018 until June 30, 2019.

Additionally, concurrent with the entry into the Surrender Agreement, the Company entered into a sublease of new corporate office space at 225 Liberty Street in New York City. The sublease provides for, among other things, a 16-year occupancy of 325,000 square feet of office space in lower Manhattan with aggregate base rent of \$277 million, net of free rent. The Company completed its relocation to the new corporate office space in June 2019. The Company reinvested a significant portion of the termination payment of \$35 million into the new corporate office space.

15. Related Party Transactions

Intellectual property license agreements

In December 2016, J.Crew International, Inc. (“JCI”) transferred an undivided 72.04% ownership interest in the U.S. intellectual property rights of the J.Crew brand to IPCo, and entered into a related intellectual property license agreement with IPCo. In July 2017, JCI transferred the remaining undivided 27.96% ownership interest in the U.S. intellectual property rights of the J.Crew brand to IPCo, which, together with the initial intellectual property contributed in December 2016, represent 100% of the U.S. intellectual property rights of the J.Crew brand, entered into a license agreement amending and restating the December 2016 license agreement with IPCo and entered into an additional intellectual property license agreement with IPCo (collectively, the “IP License Agreements”).

Under the IP License Agreements, J.Crew Operating Corp. (“OpCo”), a direct wholly-owned subsidiary of the Company, pays a fixed license fee of \$59 million per annum to IPCo, which owns the U.S. intellectual property rights of the J.Crew brand. The license fees are payable on March 1 and September 1 of each fiscal year. These royalty payments have no impact on the Company’s condensed consolidated results of operations and are not subject to the covenants under the Company’s credit facilities or the PIK Notes.

The proceeds from the license fees to IPCo are used by IPCo and J.Crew Brand, LLC, wholly-owned subsidiaries of the Company (collectively, “J.Crew BrandCo”), to meet debt service requirements on the Notes. Any license fees in excess of the debt service requirements are loaned back to OpCo on a subordinated basis. As of November 2, 2019, J.Crew BrandCo had total assets of \$408.6 million, consisting of intangible assets of \$250.2 million, receivable due from OpCo of \$148.5 million, license fee receivable of \$9.8 million and cash and cash equivalents of \$0.1 million, and total liabilities of \$349.8 million related to the Notes. IPCo earned royalty revenue of \$14.8 million and \$44.3 million in the third quarter and first nine months of fiscal 2019, respectively. The Notes are guaranteed by the intangible assets of J.Crew BrandCo.

Chinos Intermediate Holdings A, Inc. Senior PIK Toggle Note

In the fourth quarter of fiscal 2013, the PIK Notes Issuer, which is an indirect parent holding company of Group, issued \$500 million of PIK Notes. As part of the debt exchange and refinancing in July 2017, \$565.7 million in aggregate principal amount of the PIK Notes were exchanged for \$249.6 million of Exchange Notes and shares of preferred and common stock of the Parent. As of February 2, 2019, there were \$1.0 million in aggregate principal amount of PIK Notes outstanding, and in the first quarter of fiscal 2019 the Parent redeemed all remaining outstanding PIK Notes. The PIK Notes were: (i) senior unsecured obligations of the PIK Notes Issuer, (ii) structurally subordinated to all of the liabilities of the PIK Notes Issuer’s subsidiaries, and (iii) not guaranteed by any of the PIK Notes Issuer’s subsidiaries, and therefore are not recorded in the Company’s financial statements.

The PIK Notes were not guaranteed by any of the PIK Notes Issuer’s subsidiaries, and therefore were not recorded in the Company’s financial statements. The Exchange Notes, however, are guaranteed by the Company’s subsidiaries, and therefore are recorded in its financial statements. In connection with recognizing the Exchange Notes, the Company recorded a non-cash contribution to its Parent as a reduction of additional paid-in capital. For more information on the long-term debt of the Company, see note 8.

Due to Sponsors

As part of the debt exchange and refinancing, the Sponsors purchased \$30.0 million principal amount of new term loans under the Term Loan Facility. As of November 2, 2019, the principal amount outstanding was \$32.2 million. For more information on the New Term Loan Borrowings, see note 8.

Due to Parent

Certain transactions, primarily related to income taxes, between Group and its Parent give rise to intercompany receivables and payables. A summary of the components of Due to Parent is as follows:

	<u>November 2, 2019</u>	<u>February 2, 2019</u>
Income taxes payable to Parent	\$ (48,648)	\$ (48,648)
Monitoring fees payable	(6,885)	(1,938)
Transaction-related payments on behalf of Parent	14,157	13,124
Due to Parent	<u>\$ (41,376)</u>	<u>\$ (37,462)</u>

16. Recent Accounting Pronouncements

In June 2016, a pronouncement was issued that replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The pronouncement is effective for annual and interim periods in fiscal years beginning after December 15, 2019. The Company does not expect there to be a significant impact on its condensed consolidated financial statements.

In January 2017, a pronouncement was issued that simplifies the measurement of goodwill impairment by no longer requiring an entity to perform a hypothetical purchase price allocation. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. The pronouncement is effective for annual and interim periods in fiscal years beginning after December 15, 2019. The Company does not expect there to be a significant impact on its condensed consolidated financial statements.

In August 2018, a pronouncement was issued that modifies the disclosure requirements on fair value measurements. The pronouncement is effective for annual and interim periods in fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of the new pronouncement on its condensed consolidated financial statements.

17. Subsequent Event

On December 2, 2019, the Parent and certain of the Parent's subsidiaries and affiliates (collectively, the "J.Crew Parties") entered into a transaction support agreement (the "TSA") relating to a series of transactions (together, the "Transactions") with an ad hoc group of the Company's existing creditors (the "Ad Hoc Group"). In connection with the Transactions, the Company will separate its J.Crew and Madewell businesses into two standalone, independently managed companies, enabling a potential initial public offering ("IPO") of the Madewell business. The TSA also contemplates the formation of a special purpose vehicle limited liability company ("Chinos SPV") that, following the Transactions, will be the ultimate parent company of the Company and will hold any common stock of Madewell not sold to the public in the potential IPO.

As part of the Transactions, among other things, the Company expects to exchange a portion of its outstanding term loans (the "Term Loan Exchange") for: (i) new A-1 senior secured notes issued by Chinos SPV (the "New SPV A-1 Senior Secured Notes") and (ii) with respect to exchanged term loans for which consents in respect of the Term Loan Exchange have been delivered to the Company by an early consent deadline, common units of Chinos SPV (the "New SPV Common Units"). Certain affiliates of the J.Crew Parties are also expected to purchase (i) New SPV A-1 Senior Secured Notes and new A-2 senior secured notes issued by Chinos SPV and (ii) New SPV Common Units. The J.Crew Parties and the Ad Hoc Group will undertake a number of additional transactions and enter into additional agreements pursuant to the TSA.

The closing of each of the Transactions, including the IPO, is conditioned upon the closing of the other Transactions and will be deemed to occur contemporaneously. The TSA contains certain representations, warranties and other agreements by the J.Crew Parties and the Ad Hoc Group. The parties' obligations thereunder are subject to various conditions and termination provisions as set forth therein. The TSA terminates if the Transactions, including the Madewell IPO, have not closed by March 18, 2020. Accordingly, there can be no assurance if or when the J.Crew Parties will consummate the transactions contemplated by the TSA.

Forward-Looking Statements

This report contains “forward-looking statements,” which include information concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. When used in this report, the words “estimate,” “expect,” “anticipate,” “project,” “plan,” “intend,” “believe” and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, our examination of operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but there can be no assurance that we will realize our expectations or that our beliefs will prove correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Important factors that could cause our actual results to differ include, but are not limited to, our announced agreement on the terms of a transaction, including risks that the transaction may not be consummated on the terms set forth in the transaction support agreement or in the time frame anticipated or at all, or, if the transaction is consummated, risks that the anticipated benefits of the transaction may not be achieved, our substantial indebtedness, our substantial lease obligations, our ability to anticipate and timely respond to changes in trends and consumer preferences, the strength of the global economy, competitive market conditions, our ability to attract and retain key personnel, our ability to successfully develop, launch and grow our newer concepts and execute on strategic initiatives, product offerings, sales channels and businesses, our ability to implement our growth strategy, material disruption to our information systems, compromises to our data security, our ability to maintain the value of our brands and protect our trademarks, our ability to implement our real estate strategy, changes in demographic patterns, adverse or unseasonable weather or other interruptions in our foreign sourcing, customer call, order fulfillment or distribution operations, increases in the demand for or prices of raw materials used to manufacture our products, trade restrictions or disruptions, our exploration of strategic alternatives to maximize the value of the Company and the risk that such exploration may not lead to a successful transaction and other factors which are set forth in the section entitled “Risk Factors” and elsewhere in our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 filed with the Securities and Exchange Commission (the “SEC”). There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date they are made and are expressly qualified in their entirety by the cautionary statements included in this report. Except as may be required by law, we undertake no obligation to publicly update or revise any forward-looking statement to reflect events or circumstances occurring after the date they were made or to reflect the occurrence of unanticipated events.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This document should be read in conjunction with the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 filed with the SEC. When used herein, the terms "J.Crew," "Group," "Company," "we," "us" and "our" refer to J.Crew Group, Inc., including its wholly-owned subsidiaries.

Executive Overview

J.Crew is an internationally recognized multi-brand apparel and accessories retailer that differentiates itself through high standards of quality, style, design and fabrics. We are a vertically-integrated, omni-channel specialty retailer that operates stores and websites both domestically and internationally. We generate approximately half of our net sales through our e-commerce business. We design our products, including those under the J.Crew® and Madewell® brands, to offer complete assortments of women's, men's and children's apparel and accessories.

We sell our J.Crew and Madewell merchandise through our retail and factory stores, our websites and select partners. As of November 2, 2019, we operated 190 J.Crew retail stores, 172 J.Crew factory stores and 138 Madewell stores throughout the United States, Canada, the United Kingdom and Hong Kong; compared to 228 J.Crew retail stores, 175 J.Crew factory stores and 125 Madewell stores as of November 3, 2018. During fiscal 2019, we expect to open 10 Madewell stores and one J.Crew retail store and close approximately 20 stores.

A summary of revenues by brand for the third quarter is as follows:

<i>(Dollars in millions)</i>	For the Thirteen Weeks Ended	For the Thirteen Weeks Ended
	November 2, 2019	November 3, 2018
J.Crew	\$ 415.8	\$ 430.9
Madewell	151.6	133.7
Other(1)	58.2	57.6
Total revenues	<u>\$ 625.6</u>	<u>\$ 622.2</u>

(1) Consists primarily of revenues from wholesale customers and shipping and handling fees.

A summary of highlights for the third quarter is as follows:

- Revenues increased 0.6% to \$625.6 million, with comparable company sales up 2.5%.
- J.Crew revenues decreased 3.5% to \$415.8 million, with flat comparable sales.
- Madewell revenues increased 13.4% to \$151.6 million, with comparable sales up 10.3%.
- Gross margin increased to 40.7% from 38.3% last year.
- We opened six Madewell stores. We closed three J.Crew retail stores.

A summary of revenues by brand for the first nine months is as follows:

<i>(Dollars in millions)</i>	For the Thirty-nine Weeks Ended	For the Thirty-nine Weeks Ended
	November 2, 2019	November 3, 2018
J.Crew	\$ 1,191.0	\$ 1,251.6
Madewell	424.3	371.2
Other(1)	177.7	127.4
Total revenues	<u>\$ 1,793.0</u>	<u>\$ 1,750.2</u>

(1) Consists primarily of revenues from wholesale customers and shipping and handling fees.

A summary of highlights for the first nine months is as follows:

- Revenues increased 2.4% to \$1,793.0 million, with comparable company sales up 1.1%.
- J.Crew revenues decreased 4.8% to \$1,191.0 million, with comparable sales down 1.7%.
- Madewell revenues increased 14.3% to \$424.3 million, with comparable sales up 10.0%.
- Gross margin decreased to 37.8% from 38.4% last year.
- We opened nine Madewell stores. We closed 13 J.Crew retail stores and two J.Crew factory stores.
- During the second quarter of fiscal 2019, we completed a comprehensive review of our J.Crew business and launched a multi-year cost-optimization program, which is expected to generate savings of approximately \$50 million over the next three years with at least \$10 million expected to be realized in fiscal 2019.

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of performance and financial measures. A key measure used in our evaluation is comparable company sales, which includes (i) net sales from stores that have been open for at least 12 months, (ii) e-commerce net sales and (iii) shipping and handling fees. Due to the 53rd week in fiscal 2017, when calculating comparable company sales for fiscal 2018, we have realigned the weeks of fiscal 2017 to be consistent with the fiscal 2018 retail calendar.

A complete description of the measures we use to assess the performance of our business appears in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 filed with the SEC.

Results of Operations – Third Quarter of Fiscal 2019 compared to Third Quarter of Fiscal 2018

<i>(Dollars in millions)</i>	For the Thirteen Weeks Ended November 2, 2019		For the Thirteen Weeks Ended November 3, 2018		Variance Increase/(Decrease)	
	Amount	Percent of Revenues	Amount	Percent of Revenues	Dollars	Percentage
	Revenues	\$ 625.6	100.0%	\$ 622.2	100.0%	\$ 3.4
Gross profit	254.5	40.7	238.4	38.3	16.1	6.8
Selling, general and administrative expenses	235.1	37.6	202.8	32.6	32.3	15.9
Impairment losses	8.0	1.3	2.9	0.5	5.1	NM
Income from operations	11.5	1.8	32.7	5.2	(21.2)	(64.9)
Interest expense, net	37.3	6.0	35.1	5.6	2.2	6.2
Provision (benefit) for income taxes	(6.0)	(1.0)	3.2	0.5	(9.2)	NM
Net loss	\$ (19.9)	(3.2)%	\$ (5.7)	(0.9)%	\$ (14.2)	NM%

Revenues

Total revenues increased \$3.4 million, or 0.6%, to \$625.6 million in the third quarter of fiscal 2019 from \$622.2 million in the third quarter last year, driven primarily by (i) an increase in revenue of the Madewell business, resulting from an increase in sales of women's apparel, specifically pants, jackets and dresses, offset by (ii) a decrease in revenue of the J.Crew business, resulting from a decrease in sales of women's apparel, specifically pants, dresses and shirts. Comparable company sales increased 2.5% following an increase of 7.8% in the third quarter last year.

J.Crew sales decreased \$15.1 million, or 3.5%, to \$415.8 million in the third quarter of fiscal 2019 from \$430.9 million in the third quarter last year. J.Crew comparable sales were flat following an increase of 4.1% in the third quarter last year.

Madewell sales increased \$17.9 million, or 13.4%, to \$151.6 million in the third quarter of fiscal 2019 from \$133.7 million in the third quarter last year. Madewell comparable sales increased 10.3% following an increase of 22.0% in the third quarter last year.

The approximate percentage of our sales by product category, based on our internal merchandising system, is as follows:

	For the Thirteen Weeks Ended November 2, 2019	For the Thirteen Weeks Ended November 3, 2018
Apparel:		
Women's	60%	59%
Men's	19	20
Children's	6	7
Accessories	15	14
	<u>100%</u>	<u>100%</u>

Other revenues increased \$0.6 million to \$58.2 million in the third quarter of fiscal 2019 from \$57.6 million in the third quarter last year.

Gross Profit

Gross profit increased \$16.1 million to \$254.5 million in the third quarter of fiscal 2019 from \$238.4 million in the third quarter last year. This increase resulted from the following factors:

<i>(Dollars in millions)</i>	Increase/ (decrease)
Increase in revenues	\$ 1.8
Increase in rate	12.8
Decrease in buying and occupancy costs	1.5
Increase in gross profit	<u>\$ 16.1</u>

Gross margin increased to 40.7% in the third quarter of fiscal 2019 from 38.3% in the third quarter last year. The increase in gross margin was driven by: (i) a 210 basis point margin expansion and (ii) a 30 basis point decrease in buying and occupancy costs as a percentage of revenues. The margin expansion was driven by an increase in the J.Crew brand, partially offset by a decrease in the Madewell brand.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$32.3 million to \$235.1 million in the third quarter of fiscal 2019 from \$202.8 million in the third quarter last year. This increase resulted from the following:

<i>(Dollars in millions)</i>	Increase/ (decrease)
Increase in transaction costs(1)	\$ 35.4
Increase in share-based and incentive compensation	15.6
Corporate occupancy actions last year	9.1
Decrease in depreciation	(3.1)
Decrease in operating and corporate expenses	(3.4)
Decrease in payroll and related expenses	(9.7)
Decrease in marketing costs	(11.6)
Total increase in selling, general and administrative expenses	<u>\$ 32.3</u>

(1) Represents costs related to our exploration of strategic alternatives to maximize the value of the Company.

As a percentage of revenues, selling, general and administrative expenses increased to 37.6% in the third quarter of fiscal 2019 from 32.6% in the third quarter last year.

Interest Expense, Net

Interest expense, net, increased \$2.2 million to \$37.3 million in the third quarter of fiscal 2019 from \$35.1 million in the third quarter last year. A summary of interest expense is as follows:

<i>(Dollars in millions)</i>	For the Thirteen Weeks Ended November 2, 2019	For the Thirteen Weeks Ended November 3, 2018
Term Loan Facility	\$ 19.0	\$ 19.7
Notes	11.7	11.3
ABL Facility	2.6	1.2
Amortization of deferred financing costs and debt discount	1.8	1.8
Realized hedging losses	1.7	0.4
Other, net	0.5	0.7
Interest expense, net	<u>\$ 37.3</u>	<u>\$ 35.1</u>

Provision (Benefit) for Income Taxes

In the third quarter of fiscal 2019, we recorded a benefit for income taxes of \$6.0 million on a pre-tax loss of \$25.8 million. The benefit for income taxes reflects a benefit for current federal and state tax liabilities and a discrete tax benefit of \$1.2 million relating to the reversal of uncertain tax position liabilities in connection with the settlement of various tax examinations and state tax law changes. Our effective tax rate of 23.1% differs from the U.S. federal statutory rate of 21% primarily related to current year losses for which no tax benefit was recognized as we did not conclude that all of our deferred tax assets were realizable on a more-likely-than-not basis. Other items impacting the provision for income taxes include the U.S. taxation of foreign earnings under the Global Intangible Low Tax Income (“GILTI”) regime, the recognition of valuation allowances with respect to the carryforward of unutilized interest deductions, the recognition of international valuation allowances and lower rates in foreign tax jurisdictions.

In the third quarter of fiscal 2018, we recorded a provision for income taxes of \$3.2 million, which reflects a charge for the valuation allowance with respect to the deferred tax asset related to the carry forward of unutilized interest deductions. Other items impacting the provision for income taxes include the recognition of international valuation allowances, lower rates in certain foreign jurisdictions, and reserves for uncertain tax positions.

Net Loss

Net loss increased \$14.2 million to \$19.9 million in the third quarter of fiscal 2019 from \$5.7 million in the third quarter last year. This increase was due to: (i) an increase in selling, general and administrative expenses of \$32.3 million, (ii) an increase in impairment losses of \$5.1 million and (iii) an increase in interest expense of \$2.2 million, offset by (iv) an increase in gross profit of \$16.1 million and (v) an increase in the benefit for income taxes of \$9.2 million.

Results of Operations – First Nine Months of Fiscal 2019 compared to First Nine Months of Fiscal 2018

<i>(Dollars in millions)</i>	For the Thirty-nine Weeks Ended November 2, 2019		For the Thirty-nine Weeks Ended November 3, 2018		Variance Increase/(Decrease)	
	Amount	Percent of Revenues	Amount	Percent of Revenues	Dollars	Percentage
Revenues	\$ 1,793.0	100.0%	\$ 1,750.2	100.0%	\$ 42.8	2.4%
Gross profit	677.8	37.8	671.2	38.4	6.6	1.0
Selling, general and administrative expenses	632.8	35.3	596.3	34.1	36.5	6.1
Impairment losses	12.9	0.7	9.8	0.6	3.1	31.3
Income from operations	32.1	1.8	65.1	3.7	(33.0)	(50.8)
Interest expense, net	111.9	6.2	102.5	5.9	9.4	9.2
Provision for income taxes	0.4	—	8.3	0.5	(7.9)	(95.0)
Net loss	<u>\$ (80.3)</u>	<u>(4.5)%</u>	<u>\$ (45.7)</u>	<u>(2.6)%</u>	<u>\$ (34.6)</u>	<u>(75.7)%</u>

Revenues

Total revenues increased \$42.8 million, or 2.4%, to \$1,793.0 million in the first nine months of fiscal 2019 from \$1,750.2 million in the first nine months last year, driven primarily by (i) an increase in revenue of the Madewell business, resulting from an increase in sales of women's apparel, specifically pants, dresses and jackets, offset by (ii) a decrease in revenue of the J.Crew business, resulting from a decrease in sales of women's apparel, specifically shirts, knits and shorts. Comparable company sales increased 1.1% following an increase of 4.7% in the first nine months last year.

J.Crew sales decreased \$60.6 million, or 4.8%, to \$1,191.0 million in the first nine months of fiscal 2019 from \$1,251.6 million in the first nine months last year. J.Crew comparable sales decreased 1.7% following a decrease of 0.3% in the first nine months last year.

Madewell sales increased \$53.1 million, or 14.3%, to \$424.3 million in the first nine months of fiscal 2019 from \$371.2 million in the first nine months last year. Madewell comparable sales increased 10.0% following an increase of 26.5% in the first nine months last year.

The approximate percentage of our sales by product category, based on our internal merchandising system, is as follows:

	For the Thirty-nine Weeks Ended November 2, 2019	For the Thirty-nine Weeks Ended November 3, 2018
Apparel:		
Women's	60%	59%
Men's	19	20
Children's	6	7
Accessories	15	14
	<u>100%</u>	<u>100%</u>

Other revenues increased \$50.3 million to \$177.7 million in the first nine months of fiscal 2019 from \$127.4 million in the first nine months last year, primarily a result of increased wholesale revenues from Nordstrom.

Gross Profit

Gross profit increased \$6.6 million to \$677.8 million in the first nine months of fiscal 2019 from \$671.2 million in the first nine months last year. This increase resulted from the following factors:

<i>(Dollars in millions)</i>	Increase/ (decrease)
Increase in revenues	\$ 22.3
Decrease in rate	(27.2)
Decrease in buying and occupancy costs	11.5
Increase in gross profit	<u>\$ 6.6</u>

Gross margin decreased to 37.8% in the first nine months of fiscal 2019 from 38.4% in the first nine months last year. The decrease in gross margin was driven by: (i) a 150 basis point deterioration in margin primarily due to the dilutive effect of the planned inventory liquidation and increased penetration of our wholesale business, offset by (ii) a 90 basis point decrease in buying and occupancy costs as a percentage of revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$36.5 million to \$632.8 million in the first nine months of fiscal 2019 from \$596.3 million in the first nine months last year. This increase resulted from the following:

<i>(Dollars in millions)</i>	Increase/ (decrease)
Increase in transaction costs(1)	\$ 52.7
Increase in share-based and incentive compensation	13.4
Corporate occupancy actions last year	10.0
Decrease in operating and corporate expenses	(1.9)
Decrease in depreciation	(7.9)
Decrease in marketing costs	(13.5)
Decrease in payroll and related expenses	(16.3)
Total increase in selling, general and administrative expenses	<u>\$ 36.5</u>

(1) Represents costs related to our exploration of strategic alternatives to maximize the value of the Company.

As a percentage of revenues, selling, general and administrative expenses increased to 35.3% in the first nine months of fiscal 2019 from 34.1% in the first nine months last year.

Interest Expense, Net

Interest expense, net, increased \$9.4 million to \$111.9 million in the first nine months of fiscal 2019 from \$102.5 million in the first nine months last year. A summary of interest expense is as follows:

<i>(Dollars in millions)</i>	For the Thirty-nine Weeks Ended November 2, 2019	For the Thirty-nine Weeks Ended November 3, 2018
Term Loan Facility	\$ 60.4	\$ 57.6
Notes	34.2	33.8
ABL Facility	7.5	2.0
Amortization of deferred financing costs and debt discount	5.4	5.4
Realized hedging losses	2.5	2.3
Other, net	1.9	1.4
Interest expense, net	<u>\$ 111.9</u>	<u>\$ 102.5</u>

Provision for Income Taxes

In the first nine months of fiscal 2019, we recorded a provision for income taxes of \$0.4 million on a pre-tax loss of \$79.9 million. The provision for income taxes reflects a charge for current federal and state tax liabilities offset by a discrete tax benefit of \$1.2 million relating to the reversal of uncertain tax position liabilities in connection with the settlement of various tax examinations and state tax law changes. Our effective tax rate of (0.5)% differs from the U.S. federal statutory rate of 21% primarily related to current year losses for which no tax benefit was recognized as we did not conclude that all of our deferred tax assets were realizable on a more-likely-than-not basis. Other items impacting the provision for income taxes include the U.S. taxation of foreign earnings under the GILTI regime, the recognition of valuation allowances with respect to the carryforward of unutilized interest deductions, the recognition of international valuation allowances and lower rates in foreign tax jurisdictions.

In the first nine months of fiscal 2018, we recorded a provision for income taxes of \$8.3 million, which reflects a charge for the valuation allowance with respect to the deferred tax asset related to the carry forward of unutilized interest deductions. Other items impacting the provision for income taxes include the recognition of international valuation allowances, lower rates in foreign jurisdictions, and reserves for uncertain tax positions. These items primarily drove the difference between the federal statutory rate of 21% and the effective rate of (22.2)%.

Net Loss

Net loss increased \$34.6 million to \$80.3 million in the first nine months of fiscal 2019 from \$45.7 million in the first nine months last year. This increase was due to: (i) an increase in selling, general and administrative expenses of \$36.5 million, (ii) an increase in interest expense of \$9.4 million and (iii) an increase in impairment losses of \$3.1 million, offset by (iv) a decrease in the provision for income taxes of \$7.9 million and (v) an increase in gross profit of \$6.6 million.

Liquidity and Capital Resources

Our primary sources of liquidity are our current balances of cash and cash equivalents and borrowings available under the ABL Facility. Our primary cash needs are (i) meeting debt service requirements, (ii) capital expenditures in connection with making information technology enhancements, opening new stores and improving our existing stores and making investments in our distribution network and corporate headquarters and (iii) funding working capital requirements. The most significant components of our working capital are cash and cash equivalents, merchandise inventories, accounts payable and other current liabilities. See “— Outlook” below.

Operating Activities

<i>(Dollars in millions)</i>	For the Thirty-nine Weeks Ended November 2, 2019	For the Thirty-nine Weeks Ended November 3, 2018
Net loss	\$ (80.3)	\$ (45.7)
Adjustments to reconcile to cash flows from operating activities:		
Depreciation of property and equipment	59.4	67.4
Impairment losses	12.9	9.8
Amortization of deferred financing costs and debt discount	5.4	5.4
Amortization of intangible assets	3.9	5.4
Reclassification of hedging losses to earnings	2.5	3.7
Deferred income taxes	0.2	2.3
Share-based compensation	—	0.1
Foreign currency transaction gains	(0.1)	(0.2)
Changes in operating assets and liabilities	(83.4)	(223.9)
Net cash used in operating activities	<u>\$ (79.5)</u>	<u>\$ (175.7)</u>

Cash used in operating activities of \$79.5 million in the first nine months of fiscal 2019 resulted from: (i) changes in operating assets and liabilities of \$83.4 million, primarily due to working capital fluctuations, and (ii) a net loss of \$80.3 million, partially offset by (iii) non-cash adjustments of \$84.2 million.

Cash used in operating activities of \$175.7 million in the first nine months of fiscal 2018 resulted from: (i) changes in operating assets and liabilities of \$223.9 million, primarily due to an increase in merchandise inventories as a result of an anticipated increase in revenues and an increase in wholesale accounts receivable, and (ii) a net loss of \$45.7 million, partially offset by (iii) non-cash adjustments of \$93.9 million.

Investing Activities

<i>(Dollars in millions)</i>	For the Thirty-nine Weeks Ended November 2, 2019	For the Thirty-nine Weeks Ended November 3, 2018
Capital expenditures:		
Corporate headquarters relocation	\$ (24.8)	\$ (4.6)
New stores and store improvements	(16.3)	(9.5)
Information technology	(8.6)	(17.4)
Other(1)	(2.8)	(4.0)
Net cash used in investing activities	<u>\$ (52.5)</u>	<u>\$ (35.5)</u>

(1) Includes capital expenditures for warehouse improvements and general corporate purposes.

Capital expenditures are planned at approximately \$65 million for fiscal year 2019, including approximately \$25 million for our corporate headquarters relocation, approximately \$25 million for new stores and store improvements, approximately \$10 million for information technology enhancements, and the remainder for warehouse improvements and general corporate purposes.

Financing Activities

<i>(Dollars in millions)</i>	For the Thirty-nine Weeks Ended November 2, 2019	For the Thirty-nine Weeks Ended November 3, 2018
Net borrowings under the ABL Facility	\$ 147.1	\$ 148.5
Proceeds from Notes	1.0	—
Costs paid in connection with refinancings of debt	—	(0.1)
Principal repayments of Term Loan Facility	(26.6)	(11.7)
Net cash provided by financing activities	<u>\$ 121.5</u>	<u>\$ 136.7</u>

Cash provided by financing activities of \$121.5 million in the first nine months of fiscal 2019 resulted primarily from: (i) net borrowings under the ABL Facility, offset by (ii) principal repayments of the Term Loan Facility.

Cash provided by financing activities of \$136.7 million in the first nine months of fiscal 2018 resulted from: (i) net borrowings under the ABL Facility, offset by (ii) quarterly principal repayments of the Term Loan Facility.

Debt Exchange and Refinancing

In the second quarter of fiscal 2017, the Parent and certain of its subsidiaries completed the following interrelated liability management transactions:

- a private exchange offer (the “Exchange Offer”) pursuant to which \$565.7 million aggregate principal amount of the outstanding 7.75%/8.50% Senior PIK Toggle Notes due 2019 (the “PIK Notes”) issued by Chinos Intermediate Holdings A, Inc., a direct wholly-owned subsidiary of the Parent (the “PIK Notes Issuer”), were exchanged for aggregate consideration consisting of:
 - \$249,596 aggregate principal amount of 13% Senior Secured Notes due 2021 issued by J.Crew Brand, LLC and J.Crew Brand Corp. (the “Exchange Notes”), which are secured primarily by the U.S. intellectual property assets held by J.Crew Domestic Brand, LLC (“IPCo”);
 - 189,688 shares of Parent’s 7% non-convertible perpetual series A preferred stock, no par value per share, with an aggregate initial liquidation preference of \$189,688 (which aggregate liquidation preference was \$202,973 as of November 2, 2019); and
 - 15% of Parent’s common equity, or 17,362,719 shares of Parent’s class A common stock, \$0.00001 par value per share;
- certain amendments to the indenture governing the PIK Notes;
- an amendment to our Amended and Restated Credit Agreement, dated as of March 5, 2014 (the “Term Loan Facility”) to, among other things, facilitate the following related transactions:
 - the repayment of \$150.5 million principal amount of term loans then outstanding under the Term Loan Facility;
 - the transfer of the remaining undivided 27.96% ownership interest in the U.S. intellectual property rights of the J.Crew brand (the “Additional Transferred IP”) to IPCo, which, together with the undivided 72.04% ownership interest transferred in December 2016 (the “Initial Transferred IP”) represent 100% of the U.S. intellectual property rights of the J.Crew brand (the “Transferred IP”), and the execution of related license agreements;
 - the issuance of \$97.0 million aggregate principal amount of an additional series of 13% Senior Secured Notes due 2021 by J.Crew Brand, LLC and J.Crew Brand Corp. (the “New Money Notes” and, together with the Exchange Notes, the “Notes”), subject to the same terms and conditions as the Exchange Notes, for cash at a 3% discount, subject to the terms of the note purchase agreement, dated June 12, 2017, the proceeds of which were loaned on a subordinated basis to us and were applied, in part, to finance the repayment of the \$150.5 million principal amount of term loans referenced above; and

- the raising of additional borrowings under the Term Loan Facility of \$30.0 million (at a 2% discount) provided by our Sponsors (the “New Term Loan Borrowings”), the net proceeds of which were also applied, in part, to finance the repayment of the \$150.5 million principal amount of term loans referenced above.

Financing Arrangements

ABL Facility

We have an asset-based credit facility (the “ABL Facility”), which is governed by an asset-based credit agreement with Bank of America, N.A., as administrative agent, and the other agents and lenders party thereto, that, following the Sixth Amendment described below, provides for a \$375 million senior secured asset-based revolving line of credit (which may be increased by up to \$75 million in certain circumstances), subject to a borrowing base limitation. We cannot borrow in excess of \$375 million under the ABL Facility without the consent of holders of at least a majority of the loans outstanding under our Term Loan Facility. The borrowing base under the ABL Facility equals the sum of: 90% of the eligible credit card receivables; plus, 85% of eligible accounts; plus, 90% (or 92.5% for the period of August 1 through December 31 of any fiscal year) of the net recovery percentage of eligible inventory multiplied by the cost of eligible inventory; plus 85% of the net recovery percentage of eligible letters of credit inventory, multiplied by the cost of eligible letter of credit inventory; plus, 85% of the net recovery percentage of eligible in-transit inventory, multiplied by the cost of eligible in-transit inventory; plus, 100% of qualified cash; minus, all availability and inventory reserves. The ABL Facility includes borrowing capacity in the form of letters of credit up to \$200 million, and up to \$25 million in U.S. dollars for loans on same-day notice, referred to as swingline loans, and is available in U.S. dollars, Canadian dollars and Euros. Any amounts outstanding under the ABL Facility are due and payable in full on the maturity date of November 17, 2021.

On September 19, 2018, we entered into a Sixth Amendment to Credit Agreement (Incremental Amendment) (the “Sixth Amendment”), which amended the ABL Facility to increase the revolving credit commitment from \$350 million to \$375 million, with the additional \$25 million provided by MUFG Union Bank, N.A., which joined the ABL Facility as an additional lender.

On November 2, 2019, standby and documentary letters of credit were \$64.7 million, outstanding borrowings were \$217.9 million, and excess availability, as defined, was \$92.4 million. The weighted average interest rate on the borrowings outstanding under the ABL Facility was 4.12% on November 2, 2019. Average short-term borrowings under the ABL Facility were \$211.5 million and \$59.1 million in the first nine months of fiscal 2019 and fiscal 2018, respectively.

As of the date of this report, there were outstanding borrowings of approximately \$170 million under the ABL Facility with excess availability of approximately \$138 million.

Term Loan Facility

2017 Amendment. In the second quarter of fiscal 2017, concurrently with the settlement of the Exchange Offer, we amended our Term Loan Facility to, among other things, (i) increase the interest rate applicable to the loans held by consenting lenders, which represented 88% of lenders, (the “Consenting Lenders”; and the loans held by the Consenting Lenders, the “Amended Loans”) by 22 basis points, (ii) increase the amount of amortization payable to Consenting Lenders, (iii) provide for the New Term Loan Borrowings of \$30.0 million, (iv) amend certain covenants and events of default and (v) direct Wilmington Savings Fund Society, FSB, as administrative agent under the Term Loan Facility, to dismiss, with prejudice, certain litigation regarding the Initial Transferred IP (and the related actions). Additionally, we repaid \$150.5 million of principal amount of term loans outstanding under the Term Loan Facility, which was financed with (i) the net proceeds from the New Money Notes of \$94.1 million, (ii) the net proceeds from the New Term Loan Borrowings of \$29.4 million and (iii) cash on hand of \$27.0 million.

Interest Rate. Initial borrowings under the Term Loan Facility bear interest at a rate per annum equal to an applicable margin (which, in the case of the Amended Loans, was increased by 22 basis points) plus, at our option, either (a) a LIBOR determined by reference to the costs of funds for U.S. dollar deposits for the relevant interest period adjusted for certain additional costs (subject to a floor) or (b) a base rate determined by reference to the highest of (1) the prime rate of Bank of America, N.A., (2) the federal funds effective rate plus 0.50% and (3) a LIBOR determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month, plus 1.00%. New Term Loan Borrowings bear interest at LIBOR plus 9% per annum payable in cash plus 3% per annum payable in kind.

The weighted average interest rate on the borrowings outstanding under the Term Loan Facility was 5.29% on November 2, 2019. The applicable margin (i) in effect for base rate borrowings was, (x) in the case of term loans, other than the New Term Loan Borrowings and the Amended Loans, 2.00%, (y) in the case of the Amended Loans, 2.22% and (z) in the case of the New Term Loan Borrowings, 12.00% (of which 3.00% is payable in kind) and (ii) with respect to LIBOR borrowings was, (x) in the case of term loans, other than the New Term Loan Borrowings and the Amended Loans, 3.00% and the LIBOR Floor, (y) in the case of the Amended Loans, 3.22% and the LIBOR Floor and (z) in the case of the New Term Loan Borrowings, 12.00% (of which 3.00% is payable in kind), respectively, at November 2, 2019.

Principal Repayments. We are required to make principal repayments equal to 0.25% of the original principal amount of the Term Loan Facility (excluding the New Term Loan Borrowings), or \$3.9 million, on the last business day of January, April, July, and October. We are also required (i) to repay the term loan based on an annual calculation of excess cash flow, as defined in the agreement and (ii) beginning on July 31, 2019, on the last business day of January, April, July and October, to make additional principal repayments of \$1.5 million equal to 0.125% of the aggregate principal amount of Amended Loans outstanding on July 13, 2017. In the second quarter of fiscal 2019, we made an additional one-time principal repayment of \$11.9 million which is equal to 1.00% of the aggregate principal amount of Amended Loans outstanding on July 13, 2017. The maturity date of the Term Loan Facility is March 5, 2021.

Notes

General. In the second quarter of fiscal 2017, in connection with settlement of the Exchange Offer and the issuance of the Notes, J.Crew Brand, LLC and J.Crew Brand Corp. (together, the “Notes Co-Issuers”) and the Guarantors (as defined below) entered into (i) an indenture with U.S. Bank National Association, as Trustee and collateral agent, governing the terms of the Exchange Notes (the “Exchange Notes Indenture”) and (ii) an indenture with the Trustee and U.S. Bank, as collateral agent, governing the terms of the New Money Notes (the “New Money Notes Indenture”), which is in substantially the same form as the Exchange Notes Indenture.

Interest Rate. The Notes bear interest at a rate of 13% per annum, and interest is payable semi-annually on March 15 and September 15 of each year. The Notes mature on September 15, 2021.

Notes Guarantee. The Notes are guaranteed by J.Crew Brand Intermediate, LLC, IPCo and J.Crew International Brand, LLC, each of which is a Delaware limited liability company and a wholly-owned indirect subsidiary of the Company (collectively, the “Guarantors,” and each, a “Guarantor”). The PIK Notes Issuer also unconditionally guarantees the payment obligations of the Notes Co-Issuers and the Guarantors.

Exchange Notes Collateral. The Exchange Notes and the guarantees thereof are general senior secured obligations of the Notes Co-Issuers and the Guarantors, secured on a first priority lien basis by the Initial Transferred IP and certain other assets of the Notes Co-Issuers and Guarantors, and on a second priority lien basis by the Additional Transferred IP, subject, in each case, to permitted liens under the Exchange Notes Indenture and that certain intercreditor agreement, entered into between the collateral agents on July 13, 2017.

New Money Notes Collateral. The New Money Notes and the guarantees thereof are general senior secured obligations of the Notes Co-Issuers and the Guarantors, secured on a first priority lien basis by the Additional Transferred IP and certain other assets, and on a second priority lien basis by the Initial Transferred IP, subject, in each case, to permitted liens under the New Money Notes Indenture and the intercreditor agreement.

Redemption. The Notes are redeemable at the option of the Notes Co-Issuers, in whole or in part, at any time, at a price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but not including, the redemption date, plus a “make whole” premium. The Notes are not subject to any mandatory redemption obligation, and there is no sinking fund provided for the Notes.

Change in Control. Upon the occurrence of a Change of Control (as defined in each of the indentures, as applicable), the Notes Co-Issuers will be required to offer to repay all of the Notes at 100% of the aggregate principal amount repaid plus accrued and unpaid interest, if any, to, but not including, the date of purchase.

Covenants. Each of the indentures contains covenants covering (i) the payment of principal and interest, (ii) maintenance of an office or agency for the payment of the Notes, (iii) reports to the applicable Trustee and holders of the Notes, (iv) stay, extension and usury laws, (v) payment of taxes, (vi) existence, (vii) maintenance of properties and (viii) maintenance of insurance. Each of the indentures relating to the Notes also includes covenants that (i) limit the ability to transfer the collateral and (ii) limit liens that may be imposed on the assets of the Guarantors, which covenants are, in each case, subject to certain exceptions set forth in each of the indentures.

PIK Notes

In the fourth quarter of fiscal 2013, the PIK Notes Issuer, an indirect parent holding company of Group, issued \$500 million of PIK Notes. As part of the debt exchange and refinancing in July 2017, \$565.7 million in aggregate principal amount of the PIK Notes were exchanged for \$249.6 million of Exchange Notes and shares of preferred and common stock of the Parent. As of February 2, 2019, there were \$1.0 million in aggregate principal amount of PIK Notes outstanding, and in the first quarter of fiscal 2019 the Parent redeemed all remaining outstanding PIK Notes. The PIK Notes were: (i) senior unsecured obligations of the PIK Notes Issuer, (ii) structurally subordinated to all of the liabilities of the PIK Notes Issuer's subsidiaries, and (iii) not guaranteed by any of the PIK Notes Issuer's subsidiaries, and therefore are not recorded in our financial statements.

IP License Agreements

In December 2016, J.Crew International, Inc. ("JCI") transferred an undivided 72.04% ownership interest in the U.S. intellectual property rights of the J.Crew brand to IPCo, and entered into a related intellectual property license agreement with IPCo. In July 2017, JCI transferred the remaining undivided 27.96% ownership interest in the U.S. intellectual property rights of the J.Crew brand to IPCo, which, together with the initial intellectual property contributed in December 2016, represent 100% of the U.S. intellectual property rights of the J.Crew brand, entered into a license agreement amending and restating the December 2016 license agreement with IPCo and entered into an additional intellectual property license agreement with IPCo (collectively, the "IP License Agreements").

Under the IP License Agreements, J.Crew Operating Corp. ("OpCo"), our direct wholly-owned subsidiary, pays a fixed license fee of \$59 million per annum to IPCo, which owns the U.S. intellectual property rights of the J.Crew brand. The license fees are payable on March 1 and September 1 of each fiscal year. The terms of the 2017 IP License Agreements are no less favorable than could be obtained in an arm's length transaction with an unaffiliated third party. These royalty payments have no impact on our condensed consolidated results of operations and are not subject to the covenants under our credit facilities or the PIK Notes.

The proceeds from the license fees to IPCo are used by IPCo and J.Crew Brand, LLC, wholly-owned subsidiaries of the Company (collectively, "J.Crew BrandCo"), to meet debt service requirements on the Notes. Any license fees in excess of the debt service requirements are loaned back to OpCo on a subordinated basis. As of November 2, 2019, J.Crew BrandCo had total assets of \$408.6 million, consisting of intangible assets of \$250.2 million, receivable due from OpCo of \$148.5 million, license fee receivable of \$9.8 million and cash and cash equivalents of \$0.1 million, and total liabilities of \$349.8 million related to the Notes. IPCo earned royalty revenue of \$14.8 million and \$44.3 million in the third quarter and first nine months of fiscal 2019, respectively. The Notes are guaranteed by the intangible assets of J.Crew BrandCo.

Below is consolidating balance sheet information reflecting the elimination of the accounts of J.Crew BrandCo from our condensed consolidated balance sheet as of November 2, 2019.

	As of November 2, 2019 (unaudited)		
	Consolidated balance sheet	Eliminations of J.Crew BrandCo	Consolidated balance sheet of subsidiaries excluding J.Crew BrandCo
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 28,956	\$ (92)	\$ 28,864
Restricted cash	—	—	—
Accounts receivable, net	44,158	—	44,158
Merchandise inventories, net	484,496	—	484,496
Prepaid expenses and other current assets	59,997	—	59,997
Refundable income taxes	6,978	373	7,351
Total current assets	<u>624,585</u>	<u>281</u>	<u>624,866</u>
Property and equipment, net	231,489	—	231,489
Right-of-use lease assets	493,073	—	493,073
Intangible assets, net	297,536	(250,195)	47,341
Investment in subsidiary	—	231,097	231,097
Goodwill	107,900	—	107,900
Other assets	4,172	—	4,172
Total assets	<u>\$ 1,758,755</u>	<u>\$ (18,817)</u>	<u>\$ 1,739,938</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Accounts payable	\$ 274,027	\$ —	\$ 274,027
Other current liabilities	251,853	9,833	261,686
Borrowings under the ABL Facility	217,900	—	217,900
Current portion of right-of-use lease liabilities	116,338	—	116,338
Due to Parent	41,376	—	41,376
Interest payable	8,368	(6,025)	2,343
Current portion of long-term debt	21,600	—	21,600
Total current liabilities	<u>931,462</u>	<u>3,808</u>	<u>935,270</u>
Long-term debt, net	1,663,806	(343,782)	1,320,024
Due to J.Crew BrandCo	—	148,528	148,528
Long-term right-of-use lease liabilities	468,364	—	468,364
Deferred income taxes, net	17,034	(17,034)	—
Other liabilities	31,992	—	31,992
Total liabilities	<u>3,112,658</u>	<u>(208,480)</u>	<u>2,904,178</u>
Stockholders' deficit:			
Common stock \$0.01 par value; 1,000 shares authorized, issued and outstanding	—	—	—
Additional paid-in capital	733,268	249,596	982,864
Accumulated other comprehensive loss	(3,357)	—	(3,357)
Accumulated deficit	(2,083,814)	(59,933)	(2,143,747)
Total stockholders' deficit	<u>(1,353,903)</u>	<u>189,663</u>	<u>(1,164,240)</u>
Total liabilities and stockholders' deficit	<u>\$ 1,758,755</u>	<u>\$ (18,817)</u>	<u>\$ 1,739,938</u>

Below is consolidating statement of operations and comprehensive loss information reflecting the elimination of the accounts of J.Crew BrandCo from our condensed consolidated statement of operations and comprehensive loss for the thirteen and thirty-nine weeks ended November 2, 2019.

	For the Thirteen Weeks Ended November 2, 2019		
	(unaudited)		
Condensed Consolidated Statements of Operations and Comprehensive Loss	Consolidated	Eliminations of J.Crew BrandCo	Consolidated subsidiaries excluding J.Crew BrandCo
Revenues:			
Net sales	\$ 567,458	\$ —	\$ 567,458
Other	58,179	—	58,179
Total revenues	<u>625,637</u>	<u>—</u>	<u>625,637</u>
Cost of goods sold, including buying and occupancy costs	371,095	—	371,095
Royalty expense	—	14,750	14,750
Gross profit	<u>254,542</u>	<u>(14,750)</u>	<u>239,792</u>
Selling, general and administrative expenses	235,054	(1)	235,053
Impairment losses	<u>8,009</u>	<u>—</u>	<u>8,009</u>
Income (loss) from operations	11,479	(14,749)	(3,270)
Interest expense, net	<u>37,304</u>	<u>(11,550)</u>	<u>25,754</u>
Loss before income taxes	(25,825)	(3,199)	(29,024)
Benefit for income taxes	<u>(5,968)</u>	<u>3,725</u>	<u>(2,243)</u>
Net loss	<u>\$ (19,857)</u>	<u>\$ (6,924)</u>	<u>\$ (26,781)</u>
Other comprehensive income (loss):			
Reclassification of losses on cash flow hedges, net of tax, to earnings	1,735	—	1,735
Unrealized loss on cash flow hedges, net of tax	(492)	—	(492)
Foreign currency translation adjustments	<u>(325)</u>	<u>—</u>	<u>(325)</u>
Comprehensive loss	<u>\$ (18,939)</u>	<u>\$ (6,924)</u>	<u>\$ (25,863)</u>

	For the Thirty-nine Weeks Ended November 2, 2019		
	(unaudited)		
	Consolidated	Eliminations of J.Crew BrandCo	Consolidated subsidiaries excluding J.Crew BrandCo
Condensed Consolidated Statements of Operations and Comprehensive Loss			
Revenues:			
Net sales	\$ 1,615,246	\$ —	\$ 1,615,246
Other	177,726	—	177,726
Total revenues	1,792,972	—	1,792,972
Cost of goods sold, including buying and occupancy costs	1,115,207	—	1,115,207
Royalty expense	—	44,250	44,250
Gross profit	677,765	(44,250)	633,515
Selling, general and administrative expenses	632,824	(62)	632,762
Impairment losses	12,889	—	12,889
Income (loss) from operations	32,052	(44,188)	(12,136)
Interest expense, net	111,949	(30,257)	81,692
Loss before income taxes	(79,897)	(13,931)	(93,828)
Provision (benefit) for income taxes	412	(522)	(110)
Net loss	<u>\$ (80,309)</u>	<u>\$ (13,409)</u>	<u>\$ (93,718)</u>
Other comprehensive income (loss):			
Reclassification of losses on cash flow hedges, net of tax, to earnings	2,539	—	2,539
Unrealized loss on cash flow hedges, net of tax	(3,790)	—	(3,790)
Foreign currency translation adjustments	(139)	—	(139)
Comprehensive loss	<u>\$ (81,699)</u>	<u>\$ (13,409)</u>	<u>\$ (95,108)</u>

Outlook

Our short-term and long-term liquidity needs arise primarily from (i) debt service requirements, including required (a) quarterly principal repayments and (b) repayments, if any, based on annual excess cash flows, if any, as defined, (ii) capital expenditures and (iii) working capital. Management anticipates that capital expenditures in fiscal 2019 will be approximately \$65 million, including approximately \$25 million for our corporate headquarters relocation, approximately \$25 million for new stores and store improvements, approximately \$10 million for information technology enhancements, and the remainder for warehouse improvements and general corporate purposes. Management expects to pay interest of approximately \$145 million in fiscal 2019 to fund debt service obligations. During fiscal 2019, we expect to open 10 Madewell stores and one J.Crew retail store and close approximately 20 stores.

Management believes that our current balances of cash and cash equivalents, projected cash flows from operating, investing and financing activities and amounts available under the ABL Facility will be adequate to fund primary short-term and long-term liquidity needs. Our ability to satisfy these obligations and to remain in compliance with the financial covenants under our financing arrangements depends on our future operating performance, which in turn, may be impacted by prevailing economic conditions and other financial and business factors, some of which are beyond our control. During the first quarter of fiscal 2019, we, in consultation with our legal and financial advisors, announced that we are actively exploring strategic alternatives to maximize the value of the Company.

Off Balance Sheet Arrangements

We enter into documentary letters of credit to facilitate a portion of our international purchase of merchandise. We also enter into standby letters of credit to secure reimbursement obligations under certain insurance and import programs and lease obligations. As of November 2, 2019, we had the following obligations under letters of credit in future periods:

<u>Letters of Credit</u>	<u>Total</u>	<u>Within 1 Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>After 5 Years</u>
			<i>(Dollars in millions)</i>		
Standby	\$ 64.0	\$ 63.9	\$ 0.1	\$ —	\$ —
Documentary	0.7	0.7	—	—	—
	<u>\$ 64.7</u>	<u>\$ 64.6</u>	<u>\$ 0.1</u>	<u>\$ —</u>	<u>\$ —</u>

Cyclical and Seasonality

Our industry is cyclical and our revenues are affected by general economic conditions. Purchases of apparel and accessories are sensitive to a number of factors that influence the levels of consumer spending, including economic conditions and the level of disposable consumer income, consumer debt, interest rates, foreign currency exchange rates and consumer confidence.

Our business is seasonal, and as a result our revenues fluctuate from quarter to quarter. We have four distinct selling seasons that align with our four fiscal quarters. Revenues are usually higher in our fourth fiscal quarter, particularly in December when customers make holiday purchases. Our working capital requirements also fluctuate throughout the year, increasing substantially in September and October in anticipation of holiday season inventory requirements.

Critical Accounting Policies

A summary of our critical accounting policies is included in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 filed with the SEC.

During the first quarter of fiscal 2019, we adopted pronouncements that were issued with respect to the accounting for leases. The pronouncements require lessees to recognize right-of-use lease assets ("ROU assets") and right-of-use lease liabilities ("ROU liabilities") for leases with terms of more than one year. The ROU liabilities are measured as the present value of the lease obligations. The ROU assets reflect the amount of the ROU liabilities less lease-related deferred credits. We used the effective date method whereby initial application occurred on the date of adoption with comparative periods unchanged. Additionally, we utilized the package of practical expedients permitted by the transition guidance, which allowed for a carryforward of our identification of leases, historical lease classification and initial direct costs for existing leases. See note 3 to our unaudited condensed consolidated financial statements included in this report for more information regarding our accounting for leases.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rates

We are exposed to interest rate risk arising from changes in interest rates on the floating rate indebtedness under our Senior Credit Facilities. Borrowings pursuant to our Term Loan Facility bear interest at floating rates based on LIBOR, but in no event less than the floor rate of 1.00%, plus the applicable margin. Borrowings pursuant to our ABL Facility bear interest at floating rates based on LIBOR and the prime rate, plus the applicable margin. Accordingly, fluctuations in market interest rates may increase or decrease our interest expense which will, in turn, increase or decrease our net income or net loss and cash flow.

We manage a portion of our interest rate risk related to floating rate indebtedness by entering into interest rate swaps whereby we receive floating rate payments based on the greater of LIBOR and the floor rate and make payments based on a fixed rate. In October 2018, we entered into an interest rate swap agreement which covers a notional amount of \$750 million from March 2019 to March 2020. Under the terms of this agreement, our effective fixed interest rate on the notional amount of indebtedness is 3.03% plus the applicable margin.

In August 2014, we entered into interest rate swap agreements that covered a notional amount of \$800 million from March 2016 to March 2019. Under the terms of these agreements, our effective fixed interest rate on the notional amount of indebtedness was 2.56% plus the applicable margin.

As a result of the floor rate described above, we estimate that a 1% increase in LIBOR would increase our annual interest expense by approximately \$6 million.

Foreign Currency

Foreign currency exposures arise from transactions denominated in a currency other than the entity's functional currency. Although our inventory is primarily purchased from foreign vendors, such purchases are denominated in U.S. dollars, and are therefore not subject to foreign currency exchange risk. However, we operate in foreign countries, which exposes the Company to market risk associated with exchange rate fluctuations. The Company is exposed to foreign currency exchange risk resulting from its foreign operating subsidiaries' U.S. dollar denominated transactions.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

There were no changes in internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims arising in the ordinary course of business. Management does not expect that the results of any of these legal proceedings, either individually or in the aggregate, would have a material effect on our financial position, results of operations or cash flows. As of November 2, 2019, we have recorded a reserve for certain legal contingencies in connection with ongoing claims and litigation. The reserve is not material to our results of operations. In addition, there are certain other claims and legal proceedings pending against us for which accruals have not been established.

Eaton Vance Management, et al. v. Wilmington Savings Fund Society, FSB, as Administrative Agent and Collateral Agent, et al., Index No. 654397/2017, (Sup. Ct. N.Y. C'ty.).

On June 22, 2017, Eaton Vance Management and certain affiliated funds as well as Highland Capital Management and certain affiliated funds (collectively, the "Plaintiffs"), filed a complaint in the New York State Supreme Court, Commercial Division, against the Company and WSFS, seeking, among other things, declarations that the July 13, 2017 Amendment to the Term Loan Facility was ineffective absent unanimous consent of all lenders under the facility, that certain of our actions with respect to certain of its intellectual property assets were taken in violation of the terms of the Term Loan Facility, and that those actions also constituted fraudulent conveyances.

On August 7, 2017, WSFS and the Company filed separate motions to dismiss certain of Plaintiffs' claims for failure to state a claim and lack of standing, among other reasons. On September 7, 2017, Plaintiffs filed an amended complaint in the New York State Supreme Court, Commercial Division, against the Company and WSFS. The amended complaint continued to assert claims for breach of the terms of the Term Loan Facility, and for fraudulent conveyance and added an additional claim for fraudulent inducement against the Company.

In response to the amended complaint, WSFS and the Company withdrew their prior motions to dismiss and, on October 20, 2017, filed renewed motions seeking dismissal in whole or part. Among other things, we sought dismissal of the amended complaint for failure to state a claim, lack of standing, and because its fraud claims are duplicative of Plaintiffs' claims under the documents governing the Term Loan Facility. Plaintiffs filed an omnibus brief on December 1, 2017 opposing the motions to dismiss. The Company and WSFS each filed reply briefs on December 22, 2017 reiterating that the majority of Plaintiffs' claims should be dismissed as a matter of law.

Oral argument on the motions to dismiss occurred on March 8, 2018. On April 25, 2018, the judge issued a Memorandum Decision and Order, which granted our partial motion to dismiss in its entirety and dismissed as a matter of law the majority of Plaintiffs' claims with prejudice. Plaintiffs' sole remaining claim is for breach of contract based on the theory that the July 13, 2017 Amendment to the Term Loan Facility required unanimous consent of all lenders under the facility.

On October 25, 2018, Highland Capital Management and certain affiliated funds were dismissed from the action with prejudice.

On November 21, 2018, the remaining Plaintiffs filed a limited appeal of the judge's April 25, 2018 Memorandum Decision and Order with the First Department of the New York Appellate Division in an attempt to resuscitate their fraudulent conveyance claim. We filed an opposition brief on February 14, 2019, arguing that the trial court properly dismissed the fraudulent conveyance claim. On March 8, 2019, the remaining Plaintiffs filed a reply brief in support of their appeal. Oral argument on the appeal occurred on April 2, 2019. On April 25, 2019, the First Department unanimously affirmed the trial court's decision to dismiss the fraudulent conveyance claim with prejudice.

Discovery in the action is ongoing. We believe that the remaining claim is wholly without merit, and intend to vigorously oppose the claim.

ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 includes a detailed discussion of certain risks that could materially adversely affect our business, our operating results or our financial condition. In addition, you should carefully consider the additional factor described below.

The transaction support agreement we entered into with certain of our stakeholders is subject to a number of risks and the recapitalization transactions contemplated thereby may not be consummated on the terms anticipated, in the time frame anticipated, or at all, and even if such transactions are consummated, we may not achieve their anticipated benefits.

On December 2, 2019, in connection with our previously announced exploration of strategic alternatives, the Parent and certain of its subsidiaries and affiliates (collectively, the “J.Crew Parties”) entered into an agreement (the “Transaction Support Agreement”) relating to a series of transactions (together, the “Transactions”) with certain holders (such holders, the “Ad Hoc Creditors”) of (i) over a majority of term loans (the “Term Loans”) under that certain Amended and Restated Credit Agreement, dated March 5, 2014, among certain J.Crew Parties, the lenders party thereto, and Wilmington Savings Fund Society, FSB as successor administrative agent and (ii) TPG Chinos, L.P., TPG Chinos Co-Invest, L.P., Green Equity Investors V, L.P., Green Equity Investors Side V, L.P. and LGP Chino Coinvest LLC. For additional information, see our Current Report on Form 8-K filed with the SEC on December 2, 2019.

There are numerous risks related to the proposed Transactions, including the following:

- the proposed Transactions are subject to a number of conditions outside of our control and there is no guarantee that the Transactions will be completed on the terms set forth in the Transaction Support Agreement, in the time frame anticipated, or at all;
- the implementation of the proposed Transactions involves significant time and expense and may disrupt our current plans and operations;
- the Transactions may subject us to operational, tax or other risks that we may not have identified or may fail to identify;
- pursuit of the proposed Transactions may impact our ability to pursue potential alternative strategic transactions;
- the amount of the costs, fees, expenses and other charges related to the Transactions, which may be material;
- the implementation of the proposed Transactions will require significant time and attention from our senior management and employees, which could disrupt our ongoing business and adversely affect our results of operations;
- legal claims relating to the Transactions could be brought against us following the consummation of the Transactions; and
- if we are unsuccessful in completing the Transactions, we will need to explore alternative strategic alternatives, which will be time-consuming and involve significant costs and expenses, which may be significantly higher than what we currently anticipate and may not yield a benefit whether or not any such transaction is completed.

Even if we are successful in completing the proposed Transactions or any other strategic transactions we may pursue, we may not realize some or all of the anticipated strategic, financial, operational or other benefits from such transactions. We have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the proposed Transactions, and these fees and costs are payable by us regardless of whether the Transactions are consummated. Any of these factors could have a material adverse effect on our business, financial condition or results of operations.

ITEM 5. OTHER INFORMATION

The Company entered into an Amendment to Employment Agreement with Libby Wadle, dated November 26, 2019 (the “Wadle Amendment”), which amended the employment agreement by and between the Company and Ms. Wadle, dated November 28, 2011 (the “Wadle Agreement”).

Pursuant to the Wadle Amendment, effective as of November 26, 2019, Ms. Wadle is entitled to receive, as part of Ms. Wadle’s severance payable in the event of her termination of employment (i) by us without cause (ii) by Ms. Wadle for good reason or (iii) by us as a result of non-renewal of the Wadle Agreement, an additional payment equal to Ms. Wadle’s target annual incentive bonus, as in effect immediately prior to her termination date, subject to the same terms and conditions set forth in the Wadle Agreement relating to Ms. Wadle’s entitlement to severance.

The Company also entered into an Amendment to Letter Agreement with Vincent Zanna, dated November 26, 2019 (the “Zanna Amendment”), which amended the letter agreement by and between the Company and Mr. Zanna, dated March 23, 2018 (the “Zanna Agreement”).

Pursuant to the Zanna Amendment, effective as of November 26, 2019, Mr. Zanna is entitled to receive enhanced severance in the event of his termination of employment (i) by us without cause or (ii) by Mr. Zanna for good reason in either case occurring prior to the earlier of (x) the closing date of the Madewell IPO and (y) June 30, 2020, such that the “severance period” under the Zanna Agreement will be for a period of eighteen months following his termination of employment rather than twelve months following his termination of employment. In addition, the Zanna Amendment eliminates the severance forfeiture and mitigation provisions under the Zanna Agreement and provides for the reimbursement of legal fees reasonably incurred in connection with the Zanna Amendment and entering into any new employment agreement with Madewell Group in connection with the proposed Madewell IPO, up to a maximum amount of \$10,000 (inclusive of any tax reimbursement).

ITEM 6. EXHIBITS

Articles of Incorporation and Bylaws

Exhibit No.	Document
3.1	Amended and Restated Certificate of Incorporation of J.Crew Group, Inc., adopted March 7, 2011. Incorporated by reference to Exhibit 3.1 to the Form 8-K filed on March 10, 2011.
3.2	Amended and Restated By-laws of J.Crew Group, Inc., adopted March 7, 2011. Incorporated by reference to Exhibit 3.2 to the Form 8-K filed on March 10, 2011.

Material Contracts

Exhibit No.	Document
10.1	Amendment to Employment Agreement, dated November 26, 2019, between J.Crew Group, Inc. and Libby Wadle.*
10.2	Amendment to Letter Agreement, dated November 26, 2019, between J.Crew Group, Inc. and Vincent Zanna.*

Certifications

Exhibit No.	Document
31.1	Certification of Interim Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Interim Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

Interactive Data Files

Exhibit No.	Document
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets at November 2, 2019 and February 2, 2019, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the thirteen weeks ended November 2, 2019 and November 3, 2018, (iii) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, (iv) the Condensed Consolidated Statements of Changes in Stockholders’ Deficit for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, (v) the Condensed Consolidated Statements of Cash Flows for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements.*

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

J.CREW GROUP, INC.
(Registrant)

Date: December 2, 2019

By: /s/ MICHAEL J. NICHOLSON
Michael J. Nicholson
President, Chief Operating Officer and
Interim Chief Executive Officer
(Principal Executive Officer)

Date: December 2, 2019

By: /s/ VINCENT ZANNA
Vincent Zanna
Chief Financial Officer and Treasurer
(Principal Financial Officer)

Date: December 2, 2019

By: /s/ JEREMY BROOKS
Jeremy Brooks
Chief Accounting Officer
(Principal Accounting Officer)

**AMENDMENT TO
EMPLOYMENT AGREEMENT**

This Amendment to the Employment Agreement (the “Amendment”), is entered into as of November 26, 2019 (the “Effective Date”), by and between J. Crew Group, Inc. (the “Company”) and Libby Wadle (“Executive”).

WHEREAS, Executive currently serves as President and Chief Executive Officer, Madewell Brand of J. Crew Group, Inc. (“J. Crew”) pursuant to the terms of an employment agreement between J. Crew and Executive dated as of November 28, 2011 (the “Employment Agreement”);

WHEREAS, the Company and Executive desire to enter into this Amendment to amend certain terms of the Employment Agreement; and

WHEREAS, capitalized terms that are not defined herein shall have the same meaning as set forth in the Employment Agreement, unless specified to the contrary.

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

1. Section 2(c) of the Employment Agreement is hereby amended by adding the following sentence to the end of the first paragraph thereof:

Notwithstanding anything herein to the contrary, if the Company terminates the Employment Period without Cause, you terminate the Employment Period for Good Reason, or your employment terminates through a Company Non-Renewal Termination, the “Severance Benefits” under clause (i) above shall include an additional amount equal to one (1) times your target Annual Bonus, as in effect immediately prior to such termination, payable in substantially equal installments in accordance with the regular payroll practices of the Company during the Severance Period.

2. Amendment Effective Date. This Amendment shall be effective as of the Effective Date.

3. Remaining Provisions. Except as expressly modified by this Amendment, the Employment Agreement shall remain in full force and effect. This Amendment embodies the entire agreement and understanding of the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements and understandings, oral or written, relative thereto.

4. Governing Law. This Amendment is to be interpreted, construed and governed according to the laws of the State of New York without regard to conflicts of laws.

5. Counterparts. This Amendment may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

* * *

IN WITNESS WHEREOF, the parties have executed this Amendment as of the Effective Date.

J. CREW GROUP, INC.

By: /s/LYNDA MARKOE
Name: Lynda Markoe
Title: Chief Administrative Officer and
Global Head of Human Resources

EXECUTIVE

By: /s/LIBBY WADLE
Name: Libby Wadle

**AMENDMENT TO
LETTER AGREEMENT**

This Amendment to the Letter Agreement (the “Amendment”), is entered into as of November 26, 2019 (the “Effective Date”), by and between J. Crew Group, Inc. (the “Company”) and Vincent Zanna (“Executive”).

WHEREAS, the Company and Executive are currently party to that certain Letter Agreement dated as of March 23, 2018 (the “Letter Agreement”), pursuant to which Executive serves as the Chief Financial Officer and Treasurer of the Company;

WHEREAS, the Company and Executive desire to enter into this Amendment to amend certain terms of the Letter Agreement;
and

WHEREAS, capitalized terms that are not defined herein shall have the same meaning as set forth in the Letter Agreement, unless specified to the contrary.

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

1. The last five sentences of the first paragraph of Section 2(c) of the Letter Agreement are hereby deleted in their entirety and replaced with the following:

In addition, in the event you become eligible for coverage under another group health plan during the Severance Period, your right to receive the Continuation Medical Benefit shall immediately cease, and you agree to immediately notify the Company of such event and provide all information regarding medical coverage reasonably requested by the Company. Notwithstanding anything herein to the contrary, if the Company terminates the Employment Period without Cause on or after the Effective Date and prior to the earlier of (x) the closing date of the initial public offering of Madewell Group, Inc.’s common stock (as described in Madewell Group, Inc.’s (“Madewell”) Form S-1 originally filed with the Securities Exchange Commission on September 13, 2019 (the “Madewell IPO”)) and (y) June 30, 2020, the “Severance Period” under clause (i) above shall be for a period of eighteen (18) months after the Termination Date, rather than twelve (12) months after the Termination Date. Except as set forth herein, the Company shall have no additional obligations to pay you any severance, termination pay or other similar compensation or benefits.

2. Section 3(d) of the Letter Agreement is hereby amended by adding the following sentence to the end thereof:

In addition, the Company shall reimburse you up to a maximum amount of \$10,000 (inclusive of any tax reimbursement) for the legal fees reasonably incurred in connection with amending this Agreement and entering into any new employment agreement with Madewell in connection with the proposed Madewell IPO.

3. Amendment Effective Date. This Amendment shall be effective as of the Effective Date.

4. Remaining Provisions. Except as expressly modified by this Amendment, the Letter Agreement shall remain in full force and effect. This Amendment embodies the entire agreement

and understanding of the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements and understandings, oral or written, relative thereto.

5. Governing Law. This Amendment is to be interpreted, construed and governed according to the laws of the State of New York without regard to conflicts of laws.

6. Counterparts. This Amendment may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the Effective Date.

J. CREW GROUP, INC.

By: /s/LYNDA MARKOE
Name: Lynda Markoe
Title: Chief Administrative Officer and
Global Head of Human Resources

EXECUTIVE

By: /s/VINCENT ZANNA
Name: Vincent Zanna

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. Nicholson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of J.Crew Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 2, 2019

/s/ Michael J. Nicholson

Michael J. Nicholson
President, Chief Operating Officer and
Interim Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Vincent Zanna, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of J.Crew Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 2, 2019

/s/ Vincent Zanna

Vincent Zanna
Chief Financial Officer and Treasurer
(Principal Financial Officer)

