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 October 29, 2016

Or

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

Commission File Number	Registrant, State of Incorporation Address and Telephone Number	I.R.S. Employer Identification No.
333-175075		22-2894486

J.CREW GROUP, INC.
(Incorporated in Delaware)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-Accelerated Filer	☒	Smaller Reporting Company	☐

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 18, 2016
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.

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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)

	October 29, 2016	January 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,416	$ 87,812
Merchandise inventories	446,320	372,410
Prepaid expenses and other current assets	76,872	65,605
Total current assets	561,608	525,827
Property and equipment, net	371,292	398,244
Intangible assets, net	452,700	460,744
Goodwill	107,900	107,900
Other assets	5,806	7,261
Total assets	$ 1,499,306	$ 1,499,976
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 255,358	$ 248,342
Other current liabilities	177,346	157,765
Interest payable	8,307	5,279
Income taxes-related payable	4,092	7,086
Current portion of long-term debt	15,670	15,670
Total current liabilities	460,773	434,142
Long-term debt, net	1,497,326	1,501,917
Lease-related deferred credits, net	132,755	131,812
Deferred income taxes, net	149,236	148,819
Other liabilities	51,817	52,273
Total liabilities	2,291,907	2,268,963
Stockholders' deficit:		
Common stock $0.01 par value; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	980,151	979,333
Accumulated other comprehensive loss	(16,655)	(16,791)
Accumulated deficit	(1,756,097)	(1,731,529)
Total stockholders' deficit	(792,601)	(768,987)
Total liabilities and stockholders' deficit	$ 1,499,306	$ 1,499,976

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

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

	Thirteen Weeks Ended October 29, 2016	Thirteen Weeks Ended October 31, 2015
Revenues:		
Net sales	$ 575,942	$ 605,658
Other	17,213	13,757
Total revenues	593,155	619,415
Cost of goods sold, including buying and occupancy costs	367,299	380,199
Gross profit	225,856	239,216
Selling, general and administrative expenses	204,547	201,823
Impairment losses	1,333	845,915
Income (loss) from operations	19,976	(808,522)
Interest expense, net of interest income	20,675	17,581
Loss before income taxes	(699)	(826,103)
Provision (benefit) for income taxes	7,201	(66,440)
Net loss	$ (7,900)	$ (759,663)
Other comprehensive income (loss):		
Reclassification of losses on cash flow hedges, net of tax, to earnings	1,935	22
Unrealized gain (loss) on cash flow hedges, net of tax	406	(3,493)
Foreign currency translation adjustments	(1,167)	(41)
Comprehensive loss	$ (6,726)	$ (763,175)

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

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

	Thirty-nine Weeks Ended October 29, 2016	Thirty-nine Weeks Ended October 31, 2015
Revenues:		
Net sales	$ 1,684,158	$ 1,750,716
Other	46,316	44,151
Total revenues	1,730,474	1,794,867
Cost of goods sold, including buying and occupancy costs	1,096,466	1,135,745
Gross profit	634,008	659,122
Selling, general and administrative expenses	593,303	605,336
Impairment losses	6,729	1,380,324
Income (loss) from operations	33,976	(1,326,538)
Interest expense, net of interest income	59,511	52,344
Loss before income taxes	(25,535)	(1,378,882)
Benefit for income taxes	(967)	(143,238)
Net loss	$ (24,568)	$ (1,235,644)
Other comprehensive income (loss):		
Reclassification of losses on cash flow hedges, net of tax, to earnings	4,467	52
Unrealized loss on cash flow hedges, net of tax	(2,471)	(3,890)
Foreign currency translation adjustments	(1,860)	489
Comprehensive loss	$ (24,432)	$ (1,238,993)

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

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

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total stockholders' equity (deficit)
	Shares	Amount				
Balance at January 31, 2015	1,000	$ —	$ 1,014,930	$ (488,853)	$ (10,053)	$ 516,024
Net loss	—	—	—	(1,242,676)	—	(1,242,676)
Share-based compensation	—	—	2,580	—	—	2,580
Dividend and contribution to Parent	—	—	(38,177)	—	—	(38,177)
Reclassification of realized losses on cash flow hedges, net of tax of $47, to earnings	—	—	—	—	74	74
Unrealized loss on cash flow hedges, net of tax of $4,483	—	—	—	—	(7,012)	(7,012)
Foreign currency translation adjustments	—	—	—	—	200	200
Balance at January 30, 2016	1,000	$ —	$ 979,333	$(1,731,529)	$ (16,791)	$ (768,987)
Net loss	—	—	—	(24,568)	—	(24,568)
Share-based compensation	—	—	818	—	—	818
Reclassification of realized losses on cash flow hedges, net of tax of $2,856, to earnings	—	—	—	—	4,467	4,467
Unrealized loss on cash flow hedges, net of tax of $1,580	—	—	—	—	(2,471)	(2,471)
Foreign currency translation adjustments	—	—	—	—	(1,860)	(1,860)
Balance at October 29, 2016	1,000	$ —	$ 980,151	$(1,756,097)	$ (16,655)	$ (792,601)

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Thirty-nine Weeks Ended October 29, 2016	Thirty-nine Weeks Ended October 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (24,568)	$ (1,235,644)
Adjustments to reconcile to cash flows from operating activities:		
Depreciation of property and equipment	80,258	76,919
Amortization of intangible assets	8,044	11,640
Reclassification of hedging losses to earnings	7,323	83
Impairment losses	6,729	1,380,324
Amortization of deferred financing costs and debt discount	3,793	3,768
Share-based compensation	818	2,145
Foreign currency transaction (gains) losses	(1,442)	144
Changes in operating assets and liabilities:		
Merchandise inventories	(74,116)	(115,105)
Prepaid expenses and other current assets	(11,426)	(9,458)
Other assets	643	(1,006)
Accounts payable and other liabilities	22,202	68,130
Federal and state income taxes	289	(136,584)
Net cash provided by operating activities	18,547	45,356
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(59,348)	(78,630)
Net cash used in investing activities	(59,348)	(78,630)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of Term Loan Facility	(7,835)	(11,753)
Dividend and contribution to Parent	—	(38,177)
Net borrowings under the ABL Facility	—	20,000
Net cash used in financing activities	(7,835)	(29,930)
Effect of changes in foreign exchange rates on cash and cash equivalents	(760)	(419)
Decrease in cash and cash equivalents	(49,396)	(63,623)
Beginning balance	87,812	111,097
Ending balance	$ 38,416	$ 47,474
Supplemental cash flow information:		
Income taxes paid	$ 961	$ 957
Interest paid	$ 53,297	$ 55,550

See notes to unaudited condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the thirteen and thirty-nine weeks ended October 29, 2016 and October 31, 2015
(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, co-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 January 30, 2016.

The Company’s fiscal year ends on the Saturday closest to January 31. All references to “fiscal 2016” represent the 52-week fiscal year that will end on January 28, 2017, and to “fiscal 2015” represent the 52-week fiscal year that ended January 30, 2016.

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. Specifically, the Company adopted an accounting standard which requires certain deferred financing costs related to a recognized debt liability to be presented in the balance sheet as a reduction of the carrying amount of that debt liability. The adoption of this pronouncement resulted in the reclassification of $16,301 from long-term assets to long-term liabilities on the Company’s condensed consolidated balance sheet at January 30, 2016. 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 and the disclosure of loss contingencies 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. Management Services Agreement

Pursuant to a management services agreement entered into in connection with the Acquisition, and in exchange for ongoing consulting and management advisory services, the Sponsors receive an aggregate annual monitoring fee prepaid quarterly equal to the greater of (i) 40 basis points of consolidated annual revenues or (ii) $8 million. The Sponsors also receive reimbursement for out-of-pocket expenses incurred in connection with services provided pursuant to the agreement. The Company recorded an expense of $7.5 million and $7.6 million in the first nine months of fiscal 2016 and fiscal 2015, respectively, for monitoring fees and out-of-pocket expenses, included in selling, general and administrative expenses in the statements of operations and comprehensive loss.

3. Goodwill and Intangible Assets

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

	Loyalty Program and Customer Lists	Favorable Lease Commitments	Madewell Trade Name	Key Money	J.Crew Trade Name
Balance at January 30, 2016	$ 433	$ 14,208	$ 61,842	$ 4,266	$ 379,995
Amortization expense	(433)	(1,453)	(1,025)	(113)	—
Balance at April 30, 2016	—	12,755	60,817	4,153	379,995
Amortization expense	—	(1,383)	(1,025)	(112)	—
Balance at July 30, 2016	—	11,372	59,792	4,041	379,995
Amortization expense	—	(1,366)	(1,025)	(109)	—
Balance at October 29, 2016	$ —	$ 10,006	$ 58,767	$ 3,932	$ 379,995
Total accumulated amortization or impairment losses at October 29, 2016	$ (27,010)	$ (51,004)	$ (23,233)	$ (885)	$ (505,305)

The Company recorded non-cash impairment charges of $6.7 million and $1,380.3 million in the first nine months of fiscal 2016 and fiscal 2015, respectively. The impairment losses were the result of the write-down of the following assets:

	For the Thirteen Weeks Ended		For the Thirty-nine Weeks Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Goodwill allocated to the J.Crew reporting unit	$ —	$ 675,915	$ —	$ 1,016,815
Intangible asset related to the J.Crew trade name	—	170,000	—	360,305
Long-lived assets (see note 7)	1,333	—	6,729	3,204
Impairment losses	$ 1,333	$ 845,915	$ 6,729	$ 1,380,324

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, which has previously recorded accumulated impairment losses of $1,579.0 million. The carrying value of the intangible asset for the J.Crew and Madewell trade names was $380.0 million and $58.8 million, respectively, at October 29, 2016. If operating results decline below the Company's expectations, additional impairment charges may be recorded in the future.

4. Share-Based Compensation

Chinos Holdings, Inc. 2011 Equity Incentive Plan

On March 4, 2011, the Parent adopted the Chinos Holdings, Inc. 2011 Equity Incentive Plan (the "2011 Plan"), which authorizes equity awards to be granted for up to 91,740,627 shares of the common stock of the Parent. The types of equity awards issued from the 2011 Plan include: (i) stock options that become exercisable over the requisite service period, (ii) stock options that only become exercisable when certain owners of the Parent receive a specified level of cash proceeds, as defined in the equity incentive plan, from the sale of their initial investment, (iii) restricted stock that vests over the requisite service period, and (iv) restricted stock that vests when certain performance conditions are met.

Accounting for Option Exchange

In the second quarter of fiscal 2016, the Parent completed an option exchange program (the "Option Exchange") which allowed eligible associates of the Company to exchange outstanding options for options with an exercise price of $0.10 per share. The new awards will vest over a four year period. The Option Exchange resulted in no incremental fair value of the options when comparing the value of the options immediately before and immediately after the exchange. Therefore, no additional expense will be recorded in connection with the Option Exchange.

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

	For the Thirteen Weeks Ended		For the Thirty-nine Weeks Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Share-based compensation	$ 211	$ 455	$ 818	$ 2,145

A summary of shares available for grant as stock options or other share-based awards is as follows:

	Shares
Available for grant at January 30, 2016	15,225,070
Granted	(66,476,962)
Cancelled	51,386,962
Forfeited and available for reissuance	4,967,500
Available for grant at October 29, 2016	5,102,570

5. Long-Term Debt and Credit Agreements

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

	October 29, 2016	January 30, 2016
Term Loan Facility	$ 1,531,742	$ 1,539,578
Less current portion	(15,670)	(15,670)
Less deferred financing costs	(13,896)	(16,301)
Less discount	(4,850)	(5,690)
Long-term debt, net	$ 1,497,326	$ 1,501,917
Borrowings under the ABL Facility	$ —	$ —

ABL Facility

The Company has an 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 provides for a $350 million senior secured asset-based revolving line of credit (which may be increased by up to $25 million in certain circumstances), subject to a borrowing base limitation. The ABL Facility includes borrowing capacity in the form of letters of credit up to $300 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 December 10, 2019. In the fourth quarter of fiscal 2016, the ABL Facility was amended to extend the scheduled maturity date from December 10, 2019 to November 17, 2021. For more information related to this subsequent event, see note 12.

On October 29, 2016, standby letters of credit were $21.0 million, excess availability, as defined, was $329.0 million, and there were no borrowings outstanding. Average short-term borrowings under the ABL Facility were $11.3 million and $18.1 million in the first nine months of fiscal 2016 and fiscal 2015, respectively.

Demand Letter of Credit Facility

The Company has unsecured, demand letter of credit facilities with HSBC and Bank of America which provide for the issuance of up to $50 million and $20 million, respectively, of documentary letters of credit on a no fee basis. On October 29, 2016, outstanding documentary letters of credit were $16.8 million, and aggregate availability under these facilities was $53.2 million.

Term Loan Facility

Borrowings under the Term Loan Facility bear interest at a rate per annum equal to an applicable margin plus, at Group's option, either (a) LIBOR determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month 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 adjusted for certain additional costs, plus 1.00%.

The Company is required to make principal repayments equal to 0.25% of the original principal amount of the Term Loan Facility, or $3.9 million, on the last business day of January, April, July, and October. The Company is also required to repay the term loan based on an annual calculation of excess cash flow, as defined in the agreement. The maturity date of the Term Loan Facility is March 5, 2021.

The interest rate on the borrowings outstanding under the Term Loan Facility was 4.00% on October 29, 2016. The applicable margin in effect for base rate borrowings was 2.00% and the LIBOR Floor and applicable margin with respect to LIBOR borrowings were 1.00% and 3.00%, respectively, at October 29, 2016.

Interest expense

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

	For the Thirteen Weeks Ended		For the Thirty-nine Weeks Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Term Loan Facility	$ 15,488	$ 15,645	$ 46,580	$ 47,054
Realized hedging losses	3,172	48	7,325	179
Amortization of deferred financing costs and debt discount	1,265	1,256	3,793	3,768
Other interest, net of interest income	750	632	1,813	1,343
Interest expense, net	$ 20,675	$ 17,581	$ 59,511	$ 52,344

6. Derivative Financial Instruments

In August 2014, the Company entered into interest rate cap and swap agreements that limit exposure to interest rate increases on a portion of the Company's floating rate indebtedness. The interest rate cap agreements covered notional amounts of $400 million and capped LIBOR at 2.00% from March 2015 to March 2016. The interest rate swap agreements cover a notional amount of $800 million from March 2016 to March 2019 and carry a fixed rate of 2.56% plus the applicable margin.

The Company designated the interest rate cap and 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 income or loss, while the ineffective portion of such gains or losses is recorded as a component of interest expense. Future realized gains and losses in connection with each required interest payment will be reclassified from accumulated other comprehensive income or loss to interest expense.

The fair values of the interest rate cap and swap agreements are estimated using industry standard valuation models using market-based observable inputs, including interest rate curves (level 2 inputs). Liabilities for interest rate swaps, included in other liabilities, were $26.5 million and $31.1 million at October 29, 2016 and January 30, 2016, respectively

7. 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 debt was $1,176 million and $1,051 million at October 29, 2016 and January 30, 2016 based on quoted market prices of the debt (level 1 inputs).

The Company's interest rate cap and swap agreements are measured in the financial statements at fair value on a recurring basis. See note 6 for more information regarding the fair value of this financial liability.

The carrying amounts reported in the 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 does not have any other non-financial assets or liabilities as of October 29, 2016 or January 30, 2016 that are measured in the financial statements at fair value.

The Company assesses the recoverability of goodwill and intangible assets 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 a relief from royalty method, which considers projected revenue and an estimated royalty rate. 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 3.

The Company performs impairment tests of long-lived assets whenever there are indicators of impairment. These tests typically contemplate assets at a store level (e.g. leasehold improvements). 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	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Carrying value of long-term assets written down to fair value	$ —	$ —	$ —	$ 1,349
Impairment charge	$ 1,333	$ —	$ 6,729	$ 3,204

8. Income Taxes

The Parent files a consolidated federal income tax return, which includes Group and all of its wholly owned subsidiaries. Each subsidiary files separate, or combined where required, state or local tax returns in required jurisdictions.

The financial statements of the Company reflect a provision (benefit) for income taxes at the Group level. The federal tax return, however, is filed at the Parent level. The difference between the entity at which the provision is calculated and the entity which files the tax return gives rise to intercompany balances. A summary of the components of the income taxes-related payable is as follows:

	October 29, 2016	January 30, 2016
Refundable income taxes of Parent	$ 31,340	$ 10,196
Due to Parent	(35,432)	(17,282)
Income taxes-related payable	$ (4,092)	$ (7,086)

In the third quarter of fiscal 2016, the Parent filed its federal income tax return for the tax year ended January 2016, which reflected a taxable loss of $66 million. The loss was carried back to the tax year ended January 2014 and gave rise to refundable income taxes of $23 million, which the Company expects to collect by the first quarter of fiscal 2017.

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. In that weighing process, the Company assigns significant weight to the negative evidence of its cumulative losses in recent years. As a result, in the third quarter of fiscal 2016, the Company determined that the negative evidence outweighed the positive evidence as of October 29, 2016, and recorded a non-cash charge to income tax expense of $6.8 million to record a valuation allowance related to its deferred tax assets balance. This accounting treatment has no effect on the Company's ability to utilize deferred tax assets to reduce future cash tax payments. The Company will continue to assess the likelihood that the deferred tax assets will be realizable at the end of each reporting period and the valuation allowance will be adjusted accordingly.

The federal tax returns for the periods ended January 2012 and January 2013 are currently under examination. Various state and local jurisdiction tax authorities are in the process of examining income tax returns or hearing appeals for certain tax years ranging from 2009 to 2013. The results of these audits and appeals are not expected to have a significant effect on the results of operations or financial position.

The effective tax rate for the first nine months of fiscal 2016 was 4%. Items driving differences between the U.S. federal statutory rate of 35% and the effective rate include (i) the recognition of domestic and foreign valuation allowances, (ii) lower rates in certain foreign jurisdictions, and (iii) reserves for uncertain tax positions.

The effective tax rate for the first nine months of fiscal 2015 was 10%. The difference between the U.S. federal statutory rate of 35% and the effective rate was driven primarily by the non-cash impairment charge related to the write off of goodwill, which is not tax deductible, and therefore has no tax benefit. Other items impacting the effective rate include state and local income taxes and the recognition of certain foreign valuation allowances.

While the Company expects the amount of unrecognized tax benefits to change in the next 12 months, the change is not expected to have a significant effect on the results of operations or financial position. However, the outcome of tax matters is uncertain and unforeseen results can occur.

9. 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 October 29, 2016, the Company has accrued an immaterial amount of charges for certain legal contingencies in connection with ongoing claims and litigation. In addition, there are certain other claims and legal proceedings pending against the Company for which accruals have not been established.

10. Related Party Transaction

On November 4, 2013, Chinos Intermediate Holdings A, Inc. (the "Issuer"), an indirect parent holding company of Group, issued $500 million aggregate principal of 7.75/8.50% Senior PIK Toggle Notes due May 1, 2019 (the "PIK Notes").

The PIK Notes are (i) senior unsecured obligations of the Issuer, (ii) structurally subordinated to all of the liabilities of the Issuer's subsidiaries, and (iii) not guaranteed by any of the Issuer's subsidiaries, and therefore are not recorded in the financial statements of the Company.

On October 28, 2016, the Issuer delivered notice to U.S. Bank N.A., as trustee, under the indenture governing the PIK Notes, that with respect to the interest that will be due on such notes on the May 1, 2017 interest payment date, the Issuer will make such interest payment by paying in kind at the PIK interest rate of 8.50% instead of paying in cash. The PIK election will increase the outstanding principal balance of the PIK Notes by $23.1 million to $566.5 million. Therefore, the Company will not pay a dividend to the Issuer in the first quarter of fiscal 2017 to fund a semi-annual interest payment. Pursuant to the terms of the indenture governing the PIK Notes, the Issuer intends to evaluate this option prior to the beginning of each interest period based on relevant factors at that time.

11. Recent Accounting Pronouncements

In May 2014, a pronouncement was issued that clarified the principles of revenue recognition, which standardizes a comprehensive model for recognizing revenue arising from contracts with customers. The pronouncement is effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact of the new pronouncement on its condensed consolidated financial statements.

In July 2015, a pronouncement was issued that more closely aligns the measurement of inventory in U.S. GAAP with International Financial Reporting Standards by requiring companies using the first-in, first-out and average costs methods to measure inventory using the lower of cost and net realizable value. The pronouncement is effective for fiscal years beginning after December 15, 2016. The adoption of the new pronouncement is not expected to have a significant impact on the Company's condensed consolidated financial statements.

In February 2016, a pronouncement was issued that requires lessees to recognize assets and liabilities on the balance sheet for leases with accounting lease terms of more than 12 months. The pronouncement is effective for fiscal years beginning after December 15, 2018. While the Company is currently evaluating the impact of the new pronouncement on its consolidated financial statements, the adoption is expected to have a significant impact on its condensed consolidated balance sheet.

12. Subsequent Event

On November 17, 2016, the Company, Chinos Intermediate Holdings B, Inc., Bank of America, N.A., as administrative agent and as collateral agent, and each lender party thereto entered into the Fifth Amendment to Credit Agreement and Consent to release of Mortgages (the “Fifth Amendment”), which modifies the Company’s ABL Facility. The Fifth Amendment amends the ABL Facility to, among other things, extend the scheduled maturity date from December 10, 2019 to November 17, 2021, subject to a springing maturity construct relating to the Company’s term loans more fully described in the Fifth Amendment.

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 substantial indebtedness and the indebtedness of our indirect Parent, the retirement, repurchase or exchange of our indebtedness or the indebtedness of our indirect Parent, our substantial lease obligations, the strength of the global economy, declines in consumer spending or changes in seasonal consumer spending patterns, competitive market conditions, our ability to anticipate and timely respond to changes in trends and consumer preferences, our ability to successfully develop, launch and grow our newer concepts and execute on strategic initiatives, product offerings, sales channels and businesses, adverse or unseasonable weather, material disruption to our information systems, our ability to implement our real estate strategy, our ability to implement our international expansion strategy, our ability to attract and retain key personnel, interruptions in our foreign sourcing operations, 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 January 30, 2016 filed with 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 January 30, 2016 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 design, market and sell our products, including those under the J.Crew® and Madewell® brands, offering complete assortments of women's, men's and children's apparel and accessories. We believe our customer base consists primarily of affluent, college-educated, professional and fashion-conscious women and men.

We sell our J.Crew and Madewell merchandise through our retail and factory stores, our websites and our catalogs. As of October 29, 2016, we operated 286 J.Crew retail stores, 175 J.Crew factory stores (including 32 J.Crew Mercantile stores), and 110 Madewell stores throughout the United States, Canada, the United Kingdom, Hong Kong, and France; compared to 286 J.Crew retail stores, 153 J.Crew factory stores (including four J.Crew Mercantile stores), and 97 Madewell stores as of October 31, 2015.

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

(Dollars in millions)	For the Thirteen Weeks Ended October 29, 2016	For the Thirteen Weeks Ended October 31, 2015
J.Crew	$ 488.0	$ 526.9
Madewell	88.0	78.7
Other(a)	17.2	13.8
Total revenues	$ 593.2	$ 619.4

(a) Consists primarily of shipping and handling fees and revenues from third-party resellers.

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

- Revenues decreased 4.2% to $593.2 million, with comparable company sales down 7.5%.
- J.Crew revenues decreased 7.4% to $488.0 million, with comparable J.Crew sales down 9.2%.
- Madewell revenues increased 11.8% to $88.0 million, with comparable Madewell sales up 4.1%.
- Income from operations increased to $20.0 million.
- We opened one J.Crew retail store, five J.Crew Mercantile stores and three Madewell stores. We closed two J.Crew retail stores.

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

(Dollars in millions)	For the Thirty-nine Weeks Ended October 29, 2016	For the Thirty-nine Weeks Ended October 31, 2015
J.Crew	$ 1,445.5	$ 1,542.2
Madewell	238.7	208.5
Other(a)	46.3	44.2
Total revenues	$ 1,730.5	$ 1,794.9

(a) Consists primarily of shipping and handling fees and revenues from third-party resellers.

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

- Revenues decreased 3.6% to $1,730.5 million, with comparable company sales down 7.2%.
- J.Crew revenues decreased 6.3% to $1,445.5 million, with comparable J.Crew sales down 8.8%.
- Madewell revenues increased 14.5% to $238.7 million, with comparable Madewell sales up 4.2%.
- Income from operations increased to $34.0 million.
- We opened two J.Crew retail stores, one J.Crew factory store, 12 J.Crew Mercantile stores and seven Madewell stores. We closed two J.Crew retail stores.

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.

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 January 30, 2016 filed with the SEC.

Results of Operations – Third Quarter of Fiscal 2016 compared to Third Quarter of Fiscal 2015

	For the Thirteen Weeks Ended October 29, 2016		For the Thirteen Weeks Ended October 31, 2015		Variance Increase /(Decrease)	
(Dollars in millions)	**Amount**	**Percent of Revenues**	**Amount**	**Percent of Revenues**	**Dollars**	**Percentage**
Revenues	$ 593.2	100.0%	$ 619.4	100.0%	$ (26.2)	(4.2)%
Gross profit	225.9	38.1	239.2	38.6	(13.3)	(5.6)
Selling, general and administrative expenses	204.5	34.5	201.8	32.6	2.7	1.3
Impairment losses	1.3	0.2	845.9	NM	(844.6)	(99.8)
Income (loss) from operations	20.0	3.4	(808.5)	NM	828.5	NM
Interest expense, net	20.7	3.5	17.6	2.8	3.1	17.6
Provision (benefit) for income taxes	7.2	1.2	(66.4)	(10.7)	73.6	NM
Net loss	$ (7.9)	(1.3)%	$ (759.7)	NM%	$ 751.8	99.0%

Revenues

Total revenues decreased $26.2 million, or 4.2%, to $593.2 million in the third quarter of fiscal 2016 from $619.4 million in the third quarter last year, driven primarily by a decrease in sales of women's apparel, specifically knits, pants and sweaters. Comparable company sales decreased 7.5% following a decrease of 10.6% in the third quarter last year.

J.Crew sales decreased $38.9 million, or 7.4%, to $488.0 million in the third quarter of fiscal 2016 from $526.9 million in the third quarter last year. J.Crew comparable sales decreased 9.2% following a decrease of 12.0% in the third quarter last year.

Madewell sales increased $9.3 million, or 11.8%, to $88.0 million in the third quarter of fiscal 2016 from $78.7 million in the third quarter last year. Madewell comparable sales increased 4.1% following an increase of 1.0% 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 October 29, 2016	For the Thirteen Weeks Ended October 31, 2015
Apparel:		
Women’s	55%	55%
Men’s	22	22
Children’s	8	8
Accessories	15	15
	100%	100%

Other revenues increased $3.4 million to $17.2 million in third quarter of fiscal 2016 from $13.8 million in the third quarter last year, primarily a result of revenue from third party resellers.

Gross Profit

Gross profit decreased $13.3 million to $225.9 million in the third quarter of fiscal 2016 from $239.2 million in the third quarter last year. This decrease resulted from the following factors:

(Dollars in millions)	Increase/ (decrease)
Decrease in revenues	$ (13.7)
Increase in merchandise margin	2.0
Increase in buying and occupancy costs	(1.6)
Decrease in gross profit	$ (13.3)

Gross margin decreased to 38.1% in the third quarter of fiscal 2016 from 38.6% in the third quarter last year. The decrease in gross margin was driven by: (i) an 80 basis point increase in buying and occupancy costs as a percentage of revenues, reduced by (ii) a 30 basis point increase in merchandise margin due to favorable product costs offset by increased markdowns.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $2.7 million to $204.5 million in the third quarter of fiscal 2016 from $201.8 million in the third quarter last year. This increase primarily resulted from the following:

(Dollars in millions)	Increase/ (decrease)
Increase in consulting fees	$ 4.4
Decrease in insurance recoveries and settlements	3.3
Increase in share-based and incentive compensation	1.6
Decrease in advertising and catalog costs	(2.5)
Corporate occupancy actions	(4.1)
Total increase in selling, general and administrative expenses	$ 2.7

As a percentage of revenues, selling, general and administrative expenses increased to 34.5% in the third quarter of fiscal 2016 from 32.6% in the third quarter last year.

Impairment Losses

Impairment losses were $1.3 million in the third quarter of fiscal 2016 compared to $845.9 million in the third quarter last year. The impairment losses were the result of the write-down of the following assets:

(Dollars in millions)	For the Thirteen Weeks Ended October 29, 2016	For the Thirteen Weeks Ended October 31, 2015
Goodwill allocated to the J.Crew reporting unit	$ —	$ 675.9
Intangible asset related to the J.Crew trade name	—	170.0
Long-lived assets	1.3	—
Impairment losses	$ 1.3	$ 845.9

Interest Expense, Net

Interest expense, net of interest income, increased $3.1 million to $20.7 million in the third quarter of fiscal 2016 from $17.6 million in the third quarter last year. A summary of interest expense is as follows:

(Dollars in millions)	For the Thirteen Weeks Ended October 29, 2016	For the Thirteen Weeks Ended October 31, 2015
Term Loan Facility	$ 15.5	$ 15.6
Realized hedging losses	3.2	—
Amortization of deferred financing costs and debt discount	1.3	1.3
Other, net of interest income	0.7	0.7
Interest expense, net	$ 20.7	$ 17.6

Provision (Benefit) for Income Taxes

The effective tax rate for the third quarter of fiscal 2016 was not meaningful due to a break-even loss before income taxes. Items driving differences between the U.S. federal statutory rate of 35% and the effective rate include (i) the recognition of domestic and foreign valuation allowances, (ii) lower rates in certain foreign jurisdictions, and (iii) reserves for uncertain tax positions.

In the third quarter of fiscal 2016, we recorded a charge of $6.8 million for a valuation allowance related to our net deferred tax assets. We will continue to assess the likelihood that the deferred tax assets will be realizable at the end of each reporting period and the valuation allowance will be adjusted accordingly.

The effective tax rate for the third quarter of fiscal 2015 was 8%. The difference between the U.S. federal statutory rate of 35% and the effective rate was driven primarily by the non-cash impairment charge related to the write off of goodwill, which is not tax deductible, and therefore has no tax benefit. Other items impacting the effective rate include state and local income taxes and the recognition of certain foreign valuation allowances.

Net Loss

Net loss decreased $751.8 million to $7.9 million in the third quarter of fiscal 2016 from $759.7 million in the third quarter last year. This decrease was due to: (i) lower impairment losses of $844.6 million, offset by (ii) an increase in the provision for income taxes of $73.6 million, (iii) a decrease in gross profit of $13.3 million, (iv) an increase in interest expense of $3.1 million and (v) an increase in selling, general and administrative expenses of $2.7 million.

Results of Operations – First Nine months of Fiscal 2016 compared to First Nine months of Fiscal 2015

(Dollars in millions)	For the Thirty-nine Weeks Ended October 29, 2016 Amount	Percent of Revenues	For the Thirty-nine Weeks Ended October 31, 2015 Amount	Percent of Revenues	Variance Increase /(Decrease) Dollars	Percentage
Revenues	$ 1,730.5	100.0%	$ 1,794.9	100.0%	$ (64.4)	(3.6)%
Gross profit	634.0	36.6	659.1	36.7	(25.1)	(3.8)
Selling, general and administrative expenses	593.3	34.3	605.3	33.7	(12.0)	(2.0)
Impairment losses	6.7	0.4	1,380.3	76.9	(1,373.6)	(99.5)
Income (loss) from operations	34.0	2.0	(1,326.5)	(73.9)	1,360.5	NM
Interest expense, net	59.5	3.4	52.3	2.9	7.2	13.7
Benefit for income taxes	(1.0)	(0.1)	(143.2)	(8.0)	142.2	99.3
Net loss	$ (24.6)	(1.4)%	$ (1,235.6)	(68.8)%	$ 1,211.0	98.0%

Revenues

Total revenues decreased $64.4 million, or 3.6%, to $1,730.5 million in the first nine months of fiscal 2016 from $1,794.9 million in the first nine months last year, driven primarily by a decrease in sales of (i) women's apparel, specifically knits, shorts and pants and (ii) accessories, specifically jewelry. Comparable company sales decreased 7.2% following a decrease of 10.0% in the first nine months last year.

J.Crew sales decreased $96.7 million, or 6.3%, to $1,445.5 million in the first nine months of fiscal 2016 from $1,542.2 million in the first nine months last year. J.Crew comparable sales decreased 8.8% following a decrease of 11.7% in the first nine months last year.

Madewell sales increased $30.2 million, or 14.5%, to $238.7 million in the first nine months of fiscal 2016 from $208.5 million in the first nine months last year. Madewell comparable sales increased 4.2% following an increase of 6.2% 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 October 29, 2016	For the Thirty-nine Weeks Ended October 31, 2015
Apparel:		
Women's	55%	55%
Men's	23	23
Children's	8	7
Accessories	14	15
	100%	100%

Other revenues increased $2.1 million to $46.3 million in first nine months of fiscal 2016 from $44.2 million in the first nine months last year.

Gross Profit

Gross profit decreased $25.1 million to $634.0 million in the first nine months of fiscal 2016 from $659.1 million in the first nine months last year. This decrease resulted from the following factors:

(Dollars in millions)	Increase/ (decrease)
Decrease in revenues	$ (32.4)
Increase in merchandise margin	16.7
Increase in buying and occupancy costs	(9.4)
Decrease in gross profit	$ (25.1)

Gross margin decreased to 36.6% in the first nine months of fiscal 2016 from 36.7% in the first nine months last year. The decrease in gross margin was driven by: (i) a 110 basis point increase in buying and occupancy costs as a percentage of revenues, reduced by (ii) a 100 basis point increase in merchandise margin due to favorable product costs offset by increased markdowns.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $12.0 million to $593.3 million in the first nine months of fiscal 2016 from $605.3 million in the first nine months last year. This decrease primarily resulted from the following:

(Dollars in millions)	Increase/ (decrease)
Corporate occupancy actions	$ (11.7)
Decrease in advertising and catalog costs	(9.2)
Charges related to a workforce reduction last year	(4.8)
Decrease in operating and corporate expenses	(2.6)
Foreign currency transaction gains	(1.6)
Increase in severance costs	2.1
Increase in share-based and incentive compensation	3.5
Decrease in insurance recoveries and settlements	3.7
Increase in legal expense and settlement costs	4.1
Increase in consulting fees	4.5
Total decrease in selling, general and administrative expenses	$ (12.0)

As a percentage of revenues, selling, general and administrative expenses increased to 34.3% in the first nine months of fiscal 2016 from 33.7% in the first nine months last year.

Impairment Losses

Impairment losses were $6.7 million in the first nine months of fiscal 2016 compared to $1,380.3 million in the first nine months last year. The impairment losses were the result of the write-down of the following assets:

(Dollars in millions)	For the Thirty-nine Weeks Ended October 29, 2016	For the Thirty-nine Weeks Ended October 31, 2015
Goodwill allocated to the J.Crew reporting unit	$ —	$ 1,016.8
Intangible asset related to the J.Crew trade name	—	360.3
Long-lived assets	6.7	3.2
Impairment losses	$ 6.7	$ 1,380.3

Interest Expense, Net

Interest expense, net of interest income, increased $7.2 million to $59.5 million in the first nine months of fiscal 2016 from $52.3 million in the first nine months last year. A summary of interest expense is as follows:

(Dollars in millions)	For the Thirty-nine Weeks Ended October 29, 2016	For the Thirty-nine Weeks Ended October 31, 2015
Term Loan Facility	$ 46.6	$ 47.0
Realized hedging losses	7.3	0.2
Amortization of deferred financing costs and debt discount	3.8	3.8
Other, net of interest income	1.8	1.3
Interest expense, net	$ 59.5	$ 52.3

Benefit for Income Taxes

The effective tax rate for the first nine months of fiscal 2016 was 4%. Items driving differences between the U.S. federal statutory rate of 35% and the effective rate include (i) the recognition of domestic and foreign valuation allowances, (ii) lower rates in certain foreign jurisdictions, and (iii) reserves for uncertain tax positions.

In the third quarter of fiscal 2016, we recorded a charge of $6.8 million for a valuation allowance related to our net deferred tax assets. We will continue to assess the likelihood that the deferred tax assets will be realizable at the end of each reporting period and the valuation allowance will be adjusted accordingly.

The effective tax rate for the first nine months of fiscal 2015 was 10%. The difference between the U.S. federal statutory rate of 35% and the effective rate was driven primarily by the non-cash impairment charge related to the write off of goodwill, which is not tax deductible, and therefore has no tax benefit. Other items impacting the effective rate include state and local income taxes and the recognition of certain foreign valuation allowances.

Net Loss

Net loss decreased $1,211.0 million to $24.6 million in the first nine months of fiscal 2016 from $1,235.6 million in the first nine months last year. This decrease was due to: (i) lower impairment losses of $1,373.6 million and (ii) a decrease in selling, general and administrative expenses of $12.0 million, offset by (iii) lower benefit for income taxes of $142.2 million, (iv) a decrease in gross profit of $25.1 million and (v) an increase in interest expense of $7.2 million.

Liquidity and Capital Resources

Our primary sources of liquidity are our current balances of cash and cash equivalents, cash flows from operations and borrowings available under the ABL Facility. Our primary cash needs are (i) capital expenditures in connection with opening new stores and remodeling our existing stores, investments in our distribution network and making information technology system enhancements, (ii) meeting debt service requirements (including paying dividends to an indirect parent company, when required, for the purposes of servicing debt) and (iii) funding working capital requirements. The most significant components of our working capital are cash and cash equivalents, merchandise inventories and accounts payable and other current liabilities. See "—Outlook" below.

Operating Activities

(Dollars in millions)	For the Thirty-nine Weeks Ended October 29, 2016	For the Thirty-nine Weeks Ended October 31, 2015
Net loss	$ (24.6)	$ (1,235.6)
Adjustments to reconcile to cash flows from operating activities:		
Depreciation of property and equipment	80.3	76.9
Amortization of intangible assets	8.0	11.6
Reclassification of hedging losses to earnings	7.3	0.1
Impairment losses	6.7	1,380.3
Amortization of deferred financing costs and debt discount	3.8	3.8
Share-based compensation	0.8	2.1
Foreign currency transaction (gains) losses	(1.4)	0.1
Changes in operating assets and liabilities	(62.4)	(194.0)
Net cash provided by operating activities	$ 18.5	$ 45.3

Cash provided by operating activities of $18.5 million in the first nine months of fiscal 2016 resulted from: (i) non-cash adjustments of $105.5 million, partially offset by (ii) net loss of $24.6 million and (iii) changes in operating assets and liabilities of $62.4 million primarily due to seasonal working capital fluctuations, primarily increased merchandise inventories.

Cash provided by operating activities of $45.3 million in the first nine months of fiscal 2015 resulted from: (i) non-cash adjustments of $1,474.9 million, partially offset by (ii) net loss of $1,235.6 million and (iii) changes in operating assets and liabilities of $194.0 million due to the tax effect of the write off of an intangible asset and seasonal working capital fluctuations.

Investing Activities

(Dollars in millions)		For the Thirty-nine Weeks Ended October 29, 2016		For the Thirty-nine Weeks Ended October 31, 2015
Capital expenditures:				
New stores	$	23.8	$	36.8
Information technology		22.6		29.3
Other(1)		12.9		12.5
Net cash used in investing activities	$	59.3	$	78.6

(1) Includes capital expenditures for warehouse and corporate office improvements, store renovations and general corporate purposes.

Capital expenditures are planned at approximately $85 to $90 million for fiscal year 2016, including $30 to $35 million for new stores, $30 to $35 million for information technology enhancements, $10 to $15 million for warehouse and corporate office improvements, and the remainder for store renovations and general corporate purposes.

Financing Activities

(Dollars in millions)		For the Thirty-nine Weeks Ended October 29, 2016		For the Thirty-nine Weeks Ended October 31, 2015
Principal repayments of Term Loan Facility	$	(7.8)	$	(11.7)
Dividend and contribution to Parent		—		(38.2)
Net borrowings under the ABL Facility		—		20.0
Net cash used in financing activities	$	(7.8)	$	(29.9)

Cash used in financing activities of $7.8 million in the first nine months of fiscal 2016 resulted from the principal repayments of the Term Loan Facility.

Cash used in financing activities of $29.9 million in the first nine months of fiscal 2015 resulted from: (i) the payment of dividends to an indirect parent company to fund debt service obligations and (ii) principal repayments of the Term Loan Facility, partially offset by (iii) net borrowings under the ABL Facility.

Financing Arrangements

ABL Facility

We have an ABL Facility, which is governed by a credit agreement with Bank of America, N.A., as administrative agent and the other agents and lenders, which provides for a $350 million senior secured asset-based revolving line of credit (which may be increased by up to $25 million in certain circumstances), subject to a borrowing base limitation. 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 $300 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 December 10, 2019. On November 17, 2016, the ABL Facility was amended to extend the scheduled maturity date from December 10, 2019 to November 17, 2021.

On October 29, 2016, standby letters of credit were $21.0 million, excess availability, as defined, was $329.0 million, and there were no borrowings outstanding. Average short-term borrowings under the ABL Facility were $11.3 million and $18.1 million in the first nine months of fiscal 2016 and fiscal 2015, respectively.

As of the date of this report, there were outstanding borrowings of $10 million under the ABL Facility with excess availability of approximately $320 million.

Demand Letter of Credit Facility

The Company has unsecured, demand letter of credit facilities with HSBC and Bank of America which provide for the issuance of up to $50 million and $20 million, respectively, of documentary letters of credit on a no fee basis. On October 29, 2016, outstanding documentary letters of credit were $16.8 million, and aggregate availability under these facilities was $53.2 million.

Term Loan Facility

Borrowings under the Term Loan Facility bear interest at a rate per annum equal to an applicable margin plus, at Group's option, either (a) LIBOR determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month 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 adjusted for certain additional costs, plus 1.00%. The applicable margin with respect to base rate borrowings is 2.00% and the LIBOR floor and applicable margin with respect to LIBOR borrowings are 1.00% and 3.00%, respectively.

We are required to make principal repayments equal to 0.25% of the original principal amount of the Term Loan Facility, or $3.9 million, on the last business day of January, April, July, and October, which commenced in July 2014. We are also required to repay the term loan based on annual excess cash flow, as defined in the agreement beginning in fiscal 2014. The maturity date of the Term Loan Facility is March 5, 2021.

The interest rate on the borrowings outstanding amounts under the Term Loan Facility was 4.00% on October 29, 2016.

PIK Notes

On November 4, 2013, Chinos Intermediate Holdings A, Inc. (the "Issuer"), an indirect parent holding company of Group, issued $500 million aggregate principal of 7.75/8.50% Senior PIK Toggle Notes due May 1, 2019 (the "PIK Notes"). The PIK Notes are (i) senior unsecured obligations of the Issuer, (ii) structurally subordinated to all of the liabilities of the Issuer's subsidiaries, and (iii) not guaranteed by any of the Issuer's subsidiaries, and therefore are not recorded in our financial statements.

On October 28, 2016, the Issuer delivered notice to U.S. Bank N.A., as trustee, under the indenture governing the PIK Notes, that with respect to the interest that will be due on such notes on the May 1, 2017 interest payment date, the Issuer will make such interest payment by paying in kind at the PIK interest rate of 8.50% instead of paying in cash. The PIK election will increase the outstanding principal balance of the PIK Notes by $23.1 million to $566.5 million. Therefore, we will not pay a dividend to the Issuer in the first quarter of fiscal 2017 to fund a semi-annual interest payment. Pursuant to the terms of the indenture governing the PIK Notes, the Issuer intends to evaluate this option prior to the beginning of each interest period based on relevant factors at that time.

Outlook

Our short-term and long-term liquidity needs arise primarily from (i) capital expenditures, (ii) debt service requirements, including required (a) quarterly principal repayments, (b) repayments, if any, based on annual excess cash flows, if any, as defined and (c) dividends to the Issuer, when required, for the purposes of servicing debt, and (iii) working capital. Management anticipates that capital expenditures in fiscal 2016 will be approximately $85 to $90 million, including $30 to $35 million for new stores, $30 to $35 million for information technology enhancements, $10 to $15 million for warehouse and corporate office improvements, and the remainder for store renovations and general corporate purposes. In the fourth quarter of fiscal 2016, we expect to close 13 stores.

Management believes that our current balances of cash and cash equivalents, projected cash flow from operations and amounts available under the ABL Facility will be adequate to fund our 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.

We may from time to time seek to retire or purchase, directly or indirectly, our outstanding indebtedness, including the PIK Notes, through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions, by tender offer or otherwise. Such purchases and/or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material, which could impact our capital structure, the market for our debt securities, the price of the indebtedness being purchased and/or exchanged and affect our liquidity.

Off Balance Sheet Arrangements

We enter into documentary letters of credit to facilitate the 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 October 29, 2016, we had the following obligations under letters of credit in future periods:

	Total	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
	(amounts in millions)				
Letters of Credit					
Standby	$ 21.0	$ 20.1	$ 0.9	$ —	$ —
Documentary	16.8	16.8	—	—	—
	$ 37.8	$ 36.9	$ 0.9	$ —	$ —

Cyclicality and Seasonality

The industry in which we operate is cyclical, and consequently 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 and consumer confidence.

Our business is seasonal. 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 December, as 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 January 30, 2016 filed with the SEC.

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 and cash flow.

In August 2014, we entered into interest rate cap and swap agreements that limit exposure to interest rate increases on a portion of the Company's floating rate indebtedness. The interest rate cap agreements covered a notional amount of $400 million and capped LIBOR at 2.00% from March 2015 to March 2016. The interest rate swap agreements cover 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 is 2.56% plus the applicable margin.

As a result of the floor rate described above, we estimate that a 1% increase in LIBOR would not impact our interest expense in the current fiscal year.

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 October 29, 2016, we have accrued an immaterial amount of charges for certain legal contingencies in connection with ongoing claims and litigation. In addition, there are certain other claims and legal proceedings pending against us for which accruals have not been established.

ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 includes a detailed discussion of certain risks that could materially adversely affect our business, our operating results, or our financial condition. There have been no material changes to the risk factors previously disclosed.

ITEM 5. OTHER INFORMATION

On November 17, 2016, the Company, Chinos Intermediate Holdings B, Inc., Bank of America, N.A., as administrative agent and as collateral agent, and each lender party thereto entered into the Fifth Amendment to Credit Agreement and Consent to release of Mortgages (the “Fifth Amendment”), which modifies the Company’s ABL Facility. The Fifth Amendment amends the ABL Facility to, among other things, extend the scheduled maturity date from December 10, 2019 to November 17, 2021, subject to a springing maturity construct relating to the Company’s term loans more fully described in the Fifth Amendment.

The foregoing description of the Fifth Amendment does not purport to be complete and is qualified in its entirety by reference to the full text of the Fifth Amendment, which is filed as Exhibit 10.1 to this quarterly report on Form 10-Q and is incorporated by reference herein.

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	Fifth Amendment to Credit Agreement and Consent to release of Mortgages, dated as of November 17, 2016, by and among J. Crew Group, Inc., Chinos Intermediate Holdings B, Inc., Bank of America, N.A., as administrative agent and as collateral agent, and each lender party thereto.*

Certifications

Exhibit No.	Document
31.1	Certification of 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 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 October 29, 2016 and January 30, 2016, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the thirteen weeks ended October 29, 2016 and October 31, 2015, (iii) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the thirty-nine weeks ended October 29, 2016 and October 31, 2015, (iv) the Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the thirty-nine weeks ended October 29, 2016 and the fifty-two weeks ended January 30, 2016, (v) the Condensed Consolidated Statements of Cash Flows for the thirty-nine weeks ended October 29, 2016 and October 31, 2015, 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: November 22, 2016	By:	/s/ MILLARD DREXLER **Millard Drexler** **Chairman of the Board and Chief Executive Officer** **(Principal Executive Officer)**
Date: November 22, 2016	By:	/s/ MICHAEL J. NICHOLSON **Michael J. Nicholson** **President, Chief Operating Officer and** **Chief Financial Officer** **(Principal Financial Officer)**
Date: November 22, 2016	By:	/s/ JEREMY BROOKS **Jeremy Brooks** **Chief Accounting Officer** **(Principal Accounting Officer)**

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* Filed herewith.
** Furnished herewith.

Exhibit 10.1
Execution Version

FIFTH AMENDMENT TO CREDIT AGREEMENT AND CONSENT TO RELEASE OF MORTGAGES

FIFTH AMENDMENT TO CREDIT AGREEMENT AND CONSENT TO RELEASE OF MORTGAGES , dated as of November 17, 2016 (this "Amendment"), by and among J. CREW GROUP, INC., a Delaware corporation (the "Borrower"), CHINOS INTERMEDIATE HOLDINGS B, INC., a Delaware corporation ("Holdings"), BANK OF AMERICA, N.A., as administrative agent (in such capacity, including any successor thereto, the "Administrative Agent") and as collateral agent (in such capacity, including any successor thereto, the "Collateral Agent") under the Loan Documents, and each lender party hereto (collectively, the "Lenders" and individually, each a "Lender").

WHEREAS:

A. The Borrower, Holdings, the Administrative Agent, the Collateral Agent and the Lenders are parties to that certain Credit Agreement, dated as of March 7, 2011 (as amended by that certain First Amendment to Credit Agreement, dated as of October 11, 2012, that certain Second Amendment to Credit Agreement, dated as of March 5, 2014, that certain Third Amendment to Credit Agreement, dated as of December 10, 2014, that certain Fourth Amendment to Credit Agreement (Incremental Amendment), dated as of December 17, 2015, as amended hereby, and as may be further amended, restated, supplemented or otherwise modified, renewed or replaced from time to time, the "Credit Agreement"), pursuant to which the Lenders agreed, subject to the terms and conditions thereof, to extend credit and make certain other financial accommodations available to the Borrower; and

B. The Borrower and Holdings have requested that the Lenders agree to amend the Credit Agreement as set forth herein, and the Lenders have agreed to such amendments, subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties signatory hereto agree as follows:

1. Definitions. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings given such terms in the Credit Agreement.

2. Release of Mortgages. The Lenders hereby consent to the Collateral Agent's release of its Lien on all Mortgaged Properties (as defined in the Credit Agreement before giving effect to this Amendment) and any other property subject to a Mortgage as of the Fifth Amendment Effective Date, including without limitation those properties set forth on Schedule 1.1D attached to the Credit Agreement (as in effect immediately prior to this Amendment), and the release and discharge of the related Mortgages. The Collateral Agent does hereby discharge and release such Mortgages and agrees to deliver, promptly following the Fifth Amendment Effective Date, instruments in recordable form and otherwise in form and substance reasonably satisfactory to the Collateral Agent memorializing the foregoing discharge and release. The provisions of this Section 2 shall not, and shall not be construed to, (i) release or discharge the Obligations secured by such Mortgages or (ii) release or discharge any other Collateral Document or the Liens of the Collateral Agent pursuant to such other Collateral Documents, all of which are reaffirmed and remain in full force and effect in accordance with Section 7 below.

3. Amendments to Credit Agreement. Subject to the satisfaction of the conditions precedent specified in Section 6 below:

(a) Additional Definitions. Section 1.1 of the Credit Agreement is hereby amended to include, in addition and not in limitation, the following definitions in proper alphabetical order:

(i)"*Bail-In Action*" means the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

(ii)"*Bail-In Legislation*" means, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

(iii)"*Designated Jurisdiction*" means any country or territory to the extent that such country or territory is the subject of any Sanction (as of the Fifth Amendment Effective Date, without limitation of any country or territory that becomes the subject of any Sanction on or after the Fifth Amendment Effective Date, Crimea, Cuba, Iran, North Korea, Sudan and Syria).

(iv)"*EEA Financial Institution*" means (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

(v)"*EEA Member Country*" means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

(vi)"*EEA Resolution Authority*" means any public administrative authority or any person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

(vii)"*EU Bail-In Legislation Schedule*" means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor person), as in effect from time to time.

(viii)"*Fifth Amendment*" means the Fifth Amendment to Credit Agreement and Consent to Release of Mortgages, dated and effective as of the Fifth Amendment Effective Date, by and among the Borrower, Holdings, the Administrative Agent, the Collateral Agent and the Lenders party thereto.

(ix)"*Fifth Amendment Effective Date*" means November 17, 2016.

(x)"*Sanction(s)*" means any sanction administered or enforced by any Governmental Authority of the United States or Canada (including, without limitation, OFAC, the United States Department of State, Foreign Affairs and International Trade Canada or the Department of Public Safety Canada), the European Union or Her Majesty's Treasury ("HMT").

(xi)"*Write-Down and Conversion Powers*" means, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

(b) Deleted Definitions. Section 1.1 of the Credit Agreement is hereby further amended by deleting the following definitions: "Material Real Property", "Mortgage Policies" and "Mortgaged Properties".

(c) Amended Definitions. Section 1.1 of the Credit Agreement is hereby further amended as follows:

(i)The definition of "Availability Reserve" is hereby deleted in its entirety and the following is substituted in its stead:

"*Availability Reserves*" means, without duplication of any other reserves or items that are otherwise addressed or excluded through eligibility criteria, such reserves as the Administrative Agent from time to time determines in its Permitted Discretion as being appropriate (a) to reflect the impediments to the Agents' ability to realize upon the Collateral, (b) to reflect claims and liabilities that the Administrative Agent determines will need to be satisfied in connection with the realization upon the Collateral or (c) to reflect criteria, events, conditions, contingencies or risks which adversely affect any component of the Borrowing Base, the Collateral or the validity or enforceability of this Agreement or the other Loan Documents or any material remedies of the Secured Parties hereunder or thereunder; provided that circumstances, conditions, events or contingencies existing or arising prior to the Effective Date and, in each case, disclosed in writing in any field examination or appraisal delivered to the Administrative Agent in connection herewith prior to the Effective Date shall not be the basis for any establishment of any reserves after the Effective Date, unless such circumstances, conditions, events or contingencies shall have changed in a material respect since the Effective Date. Without limiting the generality of the foregoing, Availability Reserves may include reserves based on: (i) rent; provided that such Availability Reserves shall be limited to an amount not to exceed the sum of (x) past due rent for all of the Borrower and the Subsidiary Guarantors' leased locations plus (y) one (1) month's rent for all of the Borrower and the Subsidiary Guarantors' leased locations (A) located in the states of Washington, Virginia, Pennsylvania and all other Landlord Lien States or (B) that are distribution centers or warehouses, other than, in each case, such locations, distribution centers or warehouses with respect to which the Administrative Agent has received a Collateral Access Agreement in form and substance reasonably satisfactory to the Administrative Agent; (ii) customs duties, and other costs to release Inventory which is being imported into the United States; (iii) outstanding Taxes and other governmental charges, including, ad valorem, real estate, personal property, sales, and other Taxes which have priority over the interests of the Collateral Agent in the Current Asset Collateral; (iv) salaries, wages and benefits due to employees of the Borrower which have priority over the interests of the Collateral Agent in the Current Asset Collateral, (v) Customer Credit Liabilities; (vi) warehousemen's or bailee's charges and other Liens permitted under Section 9.1 which might have priority over the interests of the Collateral Agent in the Current Asset Collateral; (vii) reserves in respect of Cash Management Obligations, provided that reserves of the type described in this clause (vii) in respect of such Cash Management Obligations shall require the consent of the Borrower; (viii) reserves in respect of Obligations in respect of Secured Hedge Agreements, provided that, if such Obligations in respect of Secured Hedge Agreements shall constitute Specified Secured Hedge Obligations, then reserves of the type described in this clause (viii) shall require the consent of the Borrower; (ix) at any time on or after December 4, 2020, the amount by which the aggregate outstanding principal amount of the loans under the Term Facility or any Permitted Refinancing thereof with a maturity date that is earlier than the date that is 91 days after the Latest Maturity Date exceeds $50,000,000 (the amount of which reserve under this *clause (ix)* shall for avoidance of doubt be reduced on a dollar for dollar basis by any reduction on or after December 4, 2020, in the outstanding principal amount of such loans) and (x) additional reserves in the Administrative Agent's Permitted Discretion.

(ii)The definition of "Cash Dominion Period" is hereby deleted in its entirety and the following is substituted in its stead:

"*Cash Dominion Period*" means (a) each period beginning on the date that Excess Availability shall have been less than the greater of (x) 12.5% of the Maximum Credit and (y) $35,000,000, in either case, for five (5) consecutive Business Days, and ending on the date Excess Availability shall have been equal to or greater than the greater of (x) 12.5% of the Maximum Credit and (y) $35,000,000, in each case, for thirty (30) consecutive calendar days or (b) upon the occurrence of a Specified Event of Default, the period that such Specified Event of Default shall be continuing; *provided* that a Cash Dominion Period may not deemed to have ended under this definition on more than three (3) occasions in any period of 365 consecutive days.

(iii)The definition of "Collateral" is hereby deleted in its entirety and the following is substituted in its stead:

"*Collateral*" means all the "*Collateral*" (or equivalent term) as defined in any Collateral Document.

(iv)(A) Clause (e) of the definition of "Collateral and Guarantee Requirement" is hereby deleted in its entirety, (B) the semicolon at the end of clause (d) of such definition is hereby replaced with a period, and (C) the word "and" is hereby added to the end of clause (c) of such definition.

(v)The definition of "Covenant Trigger Event" is hereby deleted in its entirety and the following is substituted in its stead:

"*Covenant Trigger Event*" means that Excess Availability on any day is less than the greater of (i) $27,500,000 and (ii) 10% of the Maximum Credit. For purposes hereof, the occurrence of a Covenant Trigger Event shall be deemed to be continuing until Excess Availability is equal to or greater than the greater of (i) $27,500,000 and (ii) 10% of the Maximum Credit, in each case, for thirty (30) consecutive days, in which case a Covenant Trigger Event shall no longer be deemed to be continuing for purposes of this Agreement.

(vi)Clause (d) of the definition of "Defaulting Lender" is hereby deleted in its entirety and the following is substituted in its stead:

"(d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, (ii) had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or a custodian appointed for it, (iii) taken any action in furtherance of, or indicated its consent to, approval of or acquiescence in any such proceeding or appointment, or (iv) become the subject of a Bail-In Action; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender."

(vii)The definition of "Eurocurrency Rate" is hereby amended by (A) deleting the word "and" at the end of clause (a) thereof, (B) replacing the period at the end of clause (b) thereof with the phrase "; and", and (C) adding the following clause (c) thereto:

"(c) in any event (notwithstanding the foregoing clauses (a) and (b)), a rate per annum not less than zero."

(viii)The definition of "Fixed Charges" is hereby deleted in its entirety and the following is substituted in its stead:

"*Fixed Charges*" means, with respect to any Person for any Test Period, the sum, determined on a Consolidated basis, of (a) the Consolidated Net Cash Interest Expense of such Person and its Restricted Subsidiaries for such period plus (b) scheduled payments of principal on Indebtedness for borrowed money of such Person and its Restricted Subsidiaries due and payable during such period.

(ix)The definition of "Letter of Credit Sublimit" is hereby deleted in its entirety and the following is substituted in its stead:

"*Letter of Credit Sublimit*" means an amount equal to $200,000,000, as such amount may be increased or reduced in accordance with the provisions of this Agreement; *provided*, *however*, that HSBC Bank USA, N.A. (in its capacity as an Issuer) shall not be required to Issue Letters of Credit having a maximum aggregate face amount exceeding $50,000,000 at any time outstanding. The Letter of Credit Sublimit is part of, and not in addition to, the Revolving Credit Commitments. A permanent reduction of the Aggregate Commitments shall not require a corresponding pro rata reduction in the Letter of Credit Sublimit;

provided, *however*, that if the Aggregate Commitments are reduced to an amount less than the Letter of Credit Sublimit, then the Letter of Credit Sublimit shall be reduced to an amount equal to (or, at the Borrower's option, less than) the Aggregate Commitments.

(x)The definition of "Loan Documents" is hereby deleted in its entirety and the following is substituted in its stead:

"*Loan Documents*" means, collectively, (a) this Agreement, (b) the Revolving Credit Notes, (c) any Incremental Amendment and any Extension Amendment, (d) the Guaranty, (e) the Fee Letter and any other fee letter entered into between the Borrower and the Administrative Agent in connection with this Agreement, (f) each Letter of Credit Reimbursement Agreement, (g) the Collateral Documents, (h) the Issuer Documents, (i) the First Amendment, (j) the Second Amendment, (k) the Third Amendment, (l) the Fourth Amendment, and (m) the Fifth Amendment.

(xi)The definition of "Mortgages" is hereby deleted in its entirety and the following is substituted in its stead:

"*Mortgages*" means, collectively, any deeds of trust, trust deeds, hypothecs and mortgages made after the Fifth Amendment Effective Date by the Loan Parties in favor or for the benefit of the Collateral Agent on behalf of the Lenders in form and substance reasonably satisfactory to the Collateral Agent.

(xii)The definition of "OFAC" is hereby deleted in its entirety and the following is substituted in its stead:

"*OFAC*" means the Office of Foreign Assets Control of the United States Department of the Treasury.

(xiii)The definition of "Payment Conditions" is hereby deleted in its entirety and the following is substituted in its stead:

"*Payment Conditions*" means, at any time of determination, that (a) no Event of Default exists or would arise as a result of the making of the subject Specified Payment, (b) after giving Pro Forma Effect to such Specified Payment and projected for the succeeding six (6) months following such Specified Payment, Excess Availability shall be greater than or equal to the greater of (i) 15% of the Maximum Credit and (ii) $40,000,000 and (c) either (i) after giving Pro Forma Effect to such Specified Payment and projected for the succeeding six (6) months following such Specified Payment, Excess Availability shall be greater than 25% of the Maximum Credit or (ii) the Fixed Charge Coverage Ratio as of the end of the most recently ended Test Period for which financial statements have been or are required to have been delivered pursuant to *Section 7.1(a)* or *(b)* shall be greater than or equal to 1.0 to 1.0 after giving Pro Forma Effect to such Specified Payment as if such Specified Payment (if applicable to such calculation) had been made as of the first day of such period, and, in each case, the Borrower shall have delivered, in accordance with *Section 7.2(f)* hereof, to the Administrative Agent evidence reasonably satisfactory to the

Administrative Agent that the conditions contained in the foregoing *clauses (a), (b)* and *(c)* have been satisfied.

(xiv)The last sentence of the definition of "Revolving Credit Commitment" is hereby deleted in its entirety and the following is substituted in its stead:

"As of the Fifth Amendment Effective Date, the aggregate amount of the Revolving Credit Commitments is $350,000,000."

(xv)The definition of "Revolving Credit Termination Date" is hereby deleted in its entirety and the following is substituted in its stead:

"*Revolving Credit Termination Date*" means the earliest of (a) the Scheduled Termination Date, (b) the date of termination of all of the Revolving Credit Commitments pursuant to *Section 2.5*, (c) the date on which the Obligations become due and payable pursuant to *Section 10.2*, and (d) December 4, 2020, unless (in the case of this *clause (d)*), by such date, the maturity date of the loans under the Term Facility or any Permitted Refinancing thereof (other than a portion of such loans in an aggregate outstanding principal amount not to exceed $100,000,000, provided that an Availability Reserve in the maximum amount contemplated under *clause (ix)* of the definition thereof has been implemented and is thereafter maintained (subject to reduction in accordance with the terms thereof)) has been extended to a date that is at least ninety-one (91) days after the Latest Maturity Date.

(xvi)The definition of "RP Conditions" is hereby deleted in its entirety and the following is substituted in its stead:

"*RP Conditions*" means, at any time of determination, that (a) no Event of Default exists or would arise as a result of the subject Specified Payment, (b) after giving Pro Forma Effect to such Specified Payment and projected for the succeeding six (6) months following such Specified Payment, Excess Availability shall be greater than or equal to the greater of (i) 15% of the Maximum Credit and (ii) $40,000,000 and (c) either (i) after giving Pro Forma Effect to such Specified Payment and projected for the succeeding six (6) months following such Specified Payment, Excess Availability shall be greater than 25% of the Maximum Credit or (ii) the Fixed Charge Coverage Ratio as of the end of the most recently ended Test Period for which financial statements have been or are required to have been delivered pursuant to *Section 7.1(a)* or *(b)* shall be greater than or equal to 1.1 to 1.0 after giving Pro Forma Effect to such Specified Payment as if such Specified Payment (if applicable to such calculation) had been made as of the first day of such period, and, in each case, the Borrower shall have delivered, in accordance with *Section 7.2(f)* hereof, to the Administrative Agent evidence reasonably satisfactory to the Administrative Agent that the conditions contained in the foregoing *clauses (a), (b)* and *(c)* have been satisfied.

(xvii)The definition of "Scheduled Termination Date" is hereby deleted in its entirety and the following is substituted in its stead:

"*Scheduled Termination Date*" means the date that is five (5) years after the Fifth Amendment Effective Date, as may be extended pursuant to *Section 12.1* or *Section 2.17*; *provided*, *however*, that if such date is not a Business Day, the Scheduled Termination Date shall be the Business Day immediately preceding such date.

(xviii)The definition of "Weekly Monitoring Event" is hereby deleted in its entirety and the following is substituted in its stead:

"*Weekly Monitoring Event*" means (a) a Specified Event of Default has occurred and is continuing or (b) the Borrower has failed to maintain, for five (5) consecutive Business Days, Excess Availability of the greater of (i) $35,000,000 and (ii) 12.5% of the Maximum Credit; *provided* that a Weekly Monitoring Event shall be deemed continuing until the date on which, as applicable, in the case of the foregoing *clause (a)*, such Specified Event of Default is cured or waived in accordance with *Section 12.1*, or, in the case of the foregoing *clause (b)*, Excess Availability has been greater than or equal to the greater of (i) $35,000,000 and (ii) 12.5% of the Maximum Credit, in each case under *clauses (i)* and *(ii)*, for at least thirty (30) consecutive days.

(d) Amendment to Section 1.3. Section 1.3 of the Credit Agreement is hereby deleted in its entirety and the following is substituted in its stead:

"All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP, except as otherwise specifically prescribed herein. Notwithstanding the foregoing or anything to the contrary contained herein (including in the definitions of "Capitalized Lease" and/or "Capitalized Lease Obligation"), in the event of an accounting change requiring all leases to be capitalized, only those leases (assuming for purposes hereof that such leases were in existence on the date hereof) that would constitute Capitalized Leases in conformity with GAAP on the Fifth Amendment Effective Date shall be considered Capitalized Leases, and all calculations and determinations under this Agreement or any other Loan Document shall be made or delivered, as applicable, in accordance therewith."

(e) Amendment to Section 2.15 (Revolving Commitment Increase). The third sentence of Section 2.15(a) of the Credit Agreement is hereby deleted in its entirety and the following is substituted in its stead:

"Notwithstanding anything to the contrary herein, the aggregate amount of the Revolving Commitment Increases on and after the Fifth Amendment Effective Date shall not exceed $100,000,000 (the "*Incremental Availability*")."

(f) Amendment to Section 5.18 (USA PATRIOT Act). Section 5.18 of the Credit Agreement is hereby deleted in its entirety and the following is substituted in its stead:

"Section 5.18 Sanctions Concerns; Anti-Corruption Laws; Anti-Money Laundering Laws.

(a) Sanction Concerns. No Loan Party, nor any Subsidiary, nor, to the knowledge of the Loan Parties and their Subsidiaries, any director, officer, employee, agent, affiliate or representative thereof, is an individual or entity that is, or is owned or controlled by any individual or entity that is (i) currently the subject or target of any Sanctions, (ii) included on OFAC's List of Specially Designated Nationals, HMT's Consolidated List of Financial Sanctions Targets and the Investment Ban List or any similar list enforced by any Sanctions authority, or (iii) located, organized or resident in a Designated Jurisdiction, in each case unless otherwise authorized or approved by the relevant Sanctions authority.

(b) Anti-Corruption Laws; Anti-Money Laundering Laws. The Loan Parties and their Subsidiaries have (i) conducted their business in compliance in all material respects with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010, the USA PATRIOT Act and the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), and (ii) instituted and maintained policies and procedures designed to promote and achieve compliance in all material respects with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010 and the USA PATRIOT Act, to the extent such laws apply to the Loan Parties and their Subsidiaries."

(g) Amendment to Section 7.4 (Inventory Appraisals and Field Examinations). Sections 7.4(c) and (d) of the Credit Agreement are hereby deleted in their entirety and the following is substituted in their stead:

"(c) The Borrower shall also cooperate with (and cause its Subsidiaries to cooperate with) the Administrative Agent, in connection with updates to the Initial Inventory Appraisal that shall be in form and detail and from third-party appraisers reasonably acceptable to the Administrative Agent (the "*Updated Inventory Appraisal*") for the purpose of determining the amount of the Borrowing Base attributable to Inventory and the Administrative Agent may carry out, at the Borrower's expense, one (1) Updated Inventory Appraisal in any period of 12 consecutive months; *provided*, *however*, that notwithstanding the foregoing limitations (x)(i) at any time on or after the date on which Excess Availability has been less than the greater of (A) \$50,000,000 and (B) 25% of the Maximum Credit, in each case, for five (5) consecutive Business Days, the Administrative Agent may carry out, at the Borrower's expense, two (2) Updated Inventory Appraisals in any period of 12 consecutive months, and (ii) at any time during the continuation of a Specified Event of Default, the Administrative Agent may carry out, at the Borrower's expense, Updated Inventory Appraisals as frequently as determined by the Administrative Agent in its reasonable discretion and (y) in addition to the foregoing *clause (x)*, the Administrative Agent may carry out, at the Lenders' expense, one (1) additional Updated Inventory Appraisal in any period of 12 consecutive months. The Borrower shall furnish to the Administrative Agent any information that the Administrative Agent may reasonably request regarding the determination and calculation of the Borrowing Base including correct and complete copies of any invoices, underlying agreements, instruments or other documents and the identity of all Account Debtors in respect of Accounts referred to therein.

(d) The Administrative Agent may carry out investigations and reviews of each Loan Party's property at the reasonable expense of the Borrower (including field audits conducted by the Administrative Agent) ("*Field Examination*") and the Administrative Agent may carry out, at the Borrower's expense, one (1) Field Examination in any period of 12 consecutive months; *provided, however*, that notwithstanding the foregoing limitations, (x)(i) at any time on or after the date on which Excess Availability has been less than the greater of (A) $ 50,000,000 and (B) 25% of the Maximum Credit, in each case, for five (5) consecutive Business Days, the Administrative Agent may carry out, at the Borrower's expense, two (2) Field Examinations in any period of 12 consecutive months, and (ii) at any time during the continuation of a Specified Event of Default, the Administrative Agent may carry out, at the Borrower's expense, Field Examinations as frequently as determined by the Administrative Agent in its reasonable discretion and (y) in addition to the foregoing *clause (x)*, the Administrative Agent may carry out, at the Lenders' expense, one (1) additional Field Examination in any period of 12 consecutive months. The Borrower shall furnish to the Administrative Agent any information that the Administrative Agent may reasonably request regarding the determination and calculation of the Borrowing Base including correct and complete copies of any invoices, underlying agreements, instruments or other documents and the identity of all Account Debtors in respect of Accounts referred to therein."

(h) Amendment to Section 8.11 (Covenant to Guarantee Obligations and Give Security). Section 8.11 of the Credit Agreement is hereby deleted in its entirety and the following is substituted in its stead:

"Section 8.11 Covenant to Guarantee Obligations and Give Security.

At the Borrower's expense, subject to the provisions of the Collateral and Guarantee Requirement and any applicable limitation in any Collateral Document, take all action necessary or reasonably requested by the Administrative Agent or the Collateral Agent to ensure that the Collateral and Guarantee Requirement continues to be satisfied, including:

(a) (x) upon the formation or acquisition of any new direct or indirect Wholly-Owned Subsidiary that is a Material Domestic Subsidiary (in each case, other than an Unrestricted Subsidiary or an Excluded Subsidiary) by any Loan Party, the designation in accordance with *Section 8.3* of any existing direct or indirect Wholly-Owned Subsidiary that is a Material Domestic Subsidiary as a Restricted Subsidiary or any Subsidiary becoming a Wholly-Owned Subsidiary that is a Material Domestic Subsidiary, (y) upon the acquisition of any material assets by the Borrower or any other Loan Party or (z) with respect to any Subsidiary at the time it becomes a Loan Party, for any material assets held by such Subsidiary (in each case, other than assets constituting Collateral under a Collateral Document that becomes subject to the Lien created by such Collateral Document upon acquisition thereof (without limitation of the obligations to perfect such Lien)):

(i) within forty-five (45) days after such formation, acquisition or designation or, in each case, such longer period as the Administrative Agent may agree in its reasonable discretion:

(A) [reserved]

(B) cause each such Material Domestic Subsidiary that is required to become a Guarantor pursuant to the Collateral and Guarantee Requirement to duly execute and deliver to the Collateral Agent Security Agreement Supplements, Intellectual Property Security Agreements and other security agreements and documents, as reasonably requested by and in form and substance reasonably satisfactory to the Collateral Agent (consistent with the Security Agreement, Intellectual Property Security Agreements and other Collateral Documents in effect on the Effective Date), in each case granting Liens required by the Collateral and Guarantee Requirement;

(C) cause each such Material Domestic Subsidiary that is required to become a Guarantor pursuant to the Collateral and Guarantee Requirement to deliver any and all certificates representing Equity Interests (to the extent certificated) that are required to be pledged pursuant to the Collateral and Guarantee Requirement, accompanied by undated stock powers or other appropriate instruments of transfer executed in blank (or any other documents customary under local law) and instruments evidencing the intercompany Indebtedness held by such Material Domestic Subsidiary and required to be pledged pursuant to the Collateral Documents, indorsed in blank to the Collateral Agent;

(D) (1) take and cause the applicable Material Domestic Subsidiary and each direct or indirect parent of the applicable Material Domestic Subsidiary that is required to become a Guarantor pursuant to the Collateral and Guarantee Requirement to take whatever action (including the filing of UCC financing statements and delivery of stock and membership interest certificates to the extent certificated) may be necessary in the reasonable opinion of the Administrative Agent to vest in the Collateral Agent (or in any representative of the Collateral Agent designated by it) valid Liens required by the Collateral and Guarantee Requirement, enforceable against all third parties in accordance with their terms, except as such enforceability may be limited by Debtor Relief Laws and by general principles of equity (regardless of whether enforcement is sought in equity or at law) and (2) comply with the requirements of *Section 8.12* with respect to all Deposit Accounts; and

(ii) within forty-five (45) days after the request therefor by the Administrative Agent (or such longer period as the Administrative Agent may agree in its reasonable discretion), deliver to the

Administrative Agent a signed copy of an opinion, addressed to the Administrative Agent and the other Secured Parties, of counsel for the Loan Parties reasonably acceptable to the Administrative Agent as to such matters set forth in this *Section 8.11(a)* as the Administrative Agent may reasonably request; and

(iii) [reserved]

(b) (i) the Borrower shall obtain the security interests and Guarantees set forth on *Schedule 1.1A* on or prior to the dates corresponding to such security interests and Guarantees set forth on *Schedule 1.1A*; and (ii) [reserved]."

(i) Amendment to Section 8.13 (Further Assurances and Post-Closing Covenants). Section 8.13(b) of the Credit Agreement is hereby deleted in its entirety and the phrase "[reserved]" is substituted in its stead.

(j) Amendment to Section 9.1 (Liens). Clause (g) of Section 9.1 of the Credit Agreement is hereby deleted in its entirety and the following is substituted in its stead:

"(g) easements, rights-of-way, restrictions (including zoning restrictions), encroachments, protrusions and other similar encumbrances and title defects affecting real property that, in the aggregate, do not in any case materially interfere with the ordinary conduct of the business of the Borrower and its Subsidiaries taken as a whole, or the use of the property for its intended purpose;"

(k) Amendment to Section 9.4 (Fundamental Changes). Clause (d)(ii)(E) of Section 9.4 of the Credit Agreement is hereby deleted in its entirety and the following is substituted in its stead:

"(E) [Reserved], and"

(l) Amendment to Section 9.5 (Dispositions).

(i)Section 9.5(j) of the Credit Agreement is amended by (A) deleting clause (iv) thereof (including the proviso thereto), (B) replacing "; and" immediately following clause (iii) thereof with a period and (C) inserting the word "and" at the end of clause (ii) thereof.

(ii)The last paragraph of Section 9.5 of the Credit Agreement is hereby deleted in its entirety and the following is substituted in its stead:

"*provided* that (x) any Disposition of any property pursuant to this *Section 9.5* (except pursuant to *Sections 9.5(a), (e), (i), (k), (m)*, *(n)*, *(o)* and *(q)* and except for Dispositions from the Borrower or a Restricted Subsidiary that is a Loan Party to the Borrower or a Restricted Subsidiary that is a Loan Party), shall be for no less than the fair market value of such property at the time of such Disposition as determined by the Borrower in good faith, and (y) in the event of any Disposition (including, without limitation, by way of Investment) of Intellectual Property used or useful in connection with the Current Asset

Collateral, the purchaser, assignee or other transferee thereof agrees in writing to be bound by a non-exclusive royalty-free worldwide license of such Intellectual Property in favor of the Collateral Agent for use in connection with the exercise of the rights and remedies of the Secured Parties, which license shall be in form and substance identical to the license described in the first paragraph of Section 4.01 of the Security Agreement, *mutatis mutandis*, or, at the election of the Borrower, otherwise reasonably satisfactory to the Collateral Agent, *provided further* that in the case of a Disposition of Intellectual Property licensed by the Borrower or one of its Restricted Subsidiaries from a third party, the transferee thereof shall be required to provide such a license only to the extent to which the applicable license gives it a right to do so. To the extent any Collateral is Disposed of as expressly permitted by this *Section 9.5* to any Person other than a Loan Party, such Collateral shall be sold free and clear of the Liens created by the Loan Documents, and, if requested by the Administrative Agent, upon the certification by the Borrower that such Disposition is permitted by this Agreement, the Administrative Agent shall be authorized to take any actions deemed appropriate in order to effect the foregoing."

(m) New Section 9.16 (Use of Proceeds). The following new provision is hereby added to the Credit Agreement as Section 9.16:

"Section 9.16 Use of Proceeds. Directly or, to its knowledge, indirectly use any Credit Extension or the proceeds of any Credit Extension for any purpose which would breach the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010, the USA PATRIOT Act or the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)."

(n) New Section 9.17 (Sanctions). The following new provision is hereby added to the Credit Agreement as Section 9.17:

"Section 9.17 Sanctions. Directly or, to its knowledge, indirectly use the proceeds of any Credit Extension, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity, to fund any activities of or business with any individual or entity, or in any Designated Jurisdiction, that, at the time of such funding, is the subject of Sanctions, in each case except to the extent licensed or otherwise approved by the relevant Sanctions authority."

(o) New Section 12.28 (Bail-In Provisions). The following new provision is hereby added to the Credit Agreement as Section 12.28:

"Section 12.28 Acknowledgement and Consent to Bail-In of EEA Financial Institutions.

Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any Lender that is an EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the write-down and conversion powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any Lender that is an EEA Financial Institution; and

(b) the effects of any Bail-in Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent entity, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

(iii) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of any EEA Resolution Authority."

(p) Deleted Schedules. *Schedule 1.1D* to the Credit Agreement (Mortgaged Properties) is hereby deleted.

4. Revolving Credit Commitments; Reallocation of Revolving Loans and Participations in Letter of Credit Obligations. *Schedule I* to the Credit Agreement (Revolving Credit Commitments) shall be amended by deleting such schedule and replacing it with the corresponding schedule set forth on *Annex I* attached hereto. All outstanding Revolving Loans and all participations in Letter of Credit Obligations shall, immediately upon the effectiveness of this Amendment, to the extent necessary to ensure the Revolving Credit Lenders hold such Revolving Loans and participations ratably, be reallocated among the Revolving Credit Lenders in accordance with their respective Applicable Percentages. Each applicable Revolving Credit Lender to whom Revolving Loans are so reallocated on the Fifth Amendment Effective Date shall make full cash settlement on the Fifth Amendment Effective Date, through the Administrative Agent, as the Administrative Agent may direct with respect to such reallocation, in the aggregate amount of the Revolving Loans so reallocated to such Revolving Credit Lender. Each applicable Lender hereby waives any breakage fees in respect of such reallocation of Eurocurrency Rate Loans on the Fifth Amendment Effective Date.

5. Representations and Warranties. Each of Holdings and the Borrower represents and warrants to the Administrative Agent, the Collateral Agent and the Lenders that:

(a)the representations and warranties set forth in the Credit Agreement and in each of the other Loan Documents are true and correct in all material respects on the Fifth Amendment Effective Date, as if made on and as of the Fifth Amendment Effective Date and as if each reference therein to "this Agreement" or the "Credit Agreement" or the like includes reference to this Amendment and the Credit Agreement as amended hereby (except to the extent that such representations and warranties expressly relate to an earlier date, in which case they are true and correct in all material respects as of such earlier date); *provided*, that any representation and warranty that is qualified as to “materiality”, “Material Adverse Effect” or similar language shall be true and correct (after giving effect to any qualification therein) in all respects on such respective dates; and

(b) after giving effect to this Amendment, no Default or Event of Default exists as of the Fifth Amendment Effective Date.

6. Conditions Precedent. The amendments set forth in this Amendment shall not be effective until each of the following conditions precedent are satisfied:

(a)receipt by the Administrative Agent of copies of (i) this Amendment, duly authorized and executed by the Borrower, Holdings and the Lenders, (ii) the Guarantor Consent and Reaffirmation, in substantially the form of *Annex II* attached hereto, duly authorized and executed by Holdings and each Subsidiary Guarantor (the “Guarantor Consent and Reaffirmation”), and (iii) that certain Fifth Amendment Fee Letter, duly executed by the Borrower;

(b)receipt by the Administrative Agent of an amended and restated Revolving Credit Note executed by the Borrower in favor of each Lender whose Revolving Credit Commitment is changing on the Fifth Amendment Effective Date and that has requested a Note at least two (2) Business Days in advance of the Fifth Amendment Effective Date;

(c)receipt by the Administrative Agent of reimbursement or payment of all reasonable out-of-pocket expenses (including, without limitation, reasonable fees and expenses of Choate, Hall & Stewart LLP, counsel to the Administrative Agent and the Collateral Agent) required to be reimbursed or paid by the Loan Parties pursuant to the terms of Section 12.3 of the Credit Agreement, to the extent invoiced at least one (1) Business Day prior to the Fifth Amendment Effective Date;

(d)receipt by the Administrative Agent of a Secretary’s Certificate from each of the Loan Parties certifying (i) the recent passage and continued effectiveness of resolutions, in the case of the Borrower, approving the transactions contemplated by this Amendment and, in the case of the Guarantors, approving the Guarantor Consent and Reaffirmation, and (ii) the incumbency of the officers executing this Amendment and the documents delivered in connection therewith to which such Loan Party is a party, in each case in form and substance reasonably satisfactory to the Administrative Agent; and

(e)receipt by the Administrative Agent of a certificate of a Responsible Officer of the Borrower stating that after giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing, nor shall any Default or Event of Default result from the consummation of the transactions contemplated herein.

7. Effect on Loan Documents. As amended hereby, the Credit Agreement and the other Loan Documents (other than the Mortgages) shall be and remain in full force and effect in accordance with their terms and hereby are ratified and confirmed by the Borrower in all respects. The execution, delivery, and performance of this Amendment shall not operate as a waiver of any right, power, or remedy of the Administrative Agent, the Collateral Agent or the Lenders under the Credit Agreement or the other Loan Documents. The Borrower hereby acknowledges and agrees that, after giving effect to the Amendment, all of its respective obligations and liabilities under the Loan Documents to which it is a party, as such obligations and liabilities have been amended by the Amendment, are reaffirmed and remain in full force and effect. After giving effect to the Amendment and the release and discharge of the Mortgages pursuant to Section 2 hereof, the Borrower reaffirms each Lien granted by it to the Collateral

Agent for the benefit of the Secured Parties under each of the Loan Documents to which it is a party, which Liens shall continue in full force and effect during the term of the Credit Agreement, and shall continue to secure the Obligations (after giving effect to the Amendment), in each case, on and subject to the terms and conditions set forth in the Credit Agreement and the other Loan Documents.

8. No Novation; Entire Agreement. This Amendment is not a novation or discharge of the terms and provisions of the obligations of the Borrower under the Credit Agreement and the other Loan Documents. There are no other understandings, express or implied, among the Borrower, the Administrative Agent, the Collateral Agent and the Lenders regarding the subject matter hereof or thereof.

9. Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

10. Counterparts; Electronic Execution. This Amendment may be executed in any number of counterparts and by different parties and separate counterparts, each of which when so executed and delivered shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile or other electronic transmission shall be as effective as delivery of a manually executed counterpart of this Amendment. Any party delivering an executed counterpart of this Amendment by facsimile or other electronic transmission also shall deliver a manually executed counterpart of this Amendment but the failure to deliver a manually executed counterpart shall not affect the validity, enforceability, and binding effect of this Amendment.

11. Construction. This Amendment and the Credit Agreement shall be construed collectively and in the event that any term, provision or condition of any of such documents is inconsistent with or contradictory to any term, provision or condition of any other such document, the terms, provisions and conditions of this Amendment shall supersede and control the terms, provisions and conditions of the Credit Agreement. Upon and after the effectiveness of this Amendment, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “herein”, “hereof” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to “the Credit Agreement”, “thereunder”, “therein”, “thereof” or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified hereby.

[Remainder of page intentionally left blank; signature pages follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the date first above written.

J. CREW GROUP, INC., as the Borrower

By: /s/ VINCENT ZANNA
Name: Vincent Zanna
Title: Vice President and Treasurer

CHINOS INTERMEDIATE HOLDINGS B, INC., as Holdings

By: /s/ VINCENT ZANNA
Name: Vincent Zanna
Title: Vice President and Treasurer

BANK OF AMERICA, N.A.,
as Administrative Agent and Collateral Agent

By: /s/ MATTHEW POTTER
Name: Matthew Potter
Title: Vice President

BANK OF AMERICA, N.A.,
as Swing Loan Lender, Issuer and a Lender

By: /s/ MATTHEW POTTER
Name: Matthew Potter
Title: Vice President

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as a Lender

By:/s/ Y. SONIA ANANDRAJ
Name: Y. Sonia Anandraj
Title: Authorized Signer

[Signature Page to Fifth Amendment to Credit Agreement and Consent to Release of Mortgages]

HSBC BANK USA, NATIONAL ASSOCIATION,
as a Lender

By: /s/ BRIAN GINGUE
Name: Brian Gingue
Title: Senior Vice President

[Signature Page to Fifth Amendment to Credit Agreement and Consent to Release of Mortgages]

TD BANK, N.A.,
as a Lender

By: /s/ JENNIFER VISCONTI
Name: Jennifer Visconti
Title: Vice President

[Signature Page to Fifth Amendment to Credit Agreement and Consent to Release of Mortgages]

U.S. BANK NATIONAL ASSOCIATION,
as a Lender

By: /s/ CAROL ANDERSON
Name: Carol Anderson
Title: Vice President

[Signature Page to Fifth Amendment to Credit Agreement and Consent to Release of Mortgages]

GOLDMAN SACHS BANK USA,
as a Lender

By: /s/ ANNIE CARR
Name: Annie Carr
Title: Authorized Signatory

[Signature Page to Fifth Amendment to Credit Agreement and Consent to Release of Mortgages]

Annex I

SCHEDULE I TO
CREDIT AGREEMENT

Revolving Credit Commitments

Lender	Revolving Credit Commitment	Applicable Percentage
Bank of America, N.A.	$110,000,000.00	31.428571429%
Wells Fargo Bank, National Association	$92,500,000.00	26.428571429%
HSBC Bank USA, National Association	$52,500,000.00	15.000000000%
TD Bank, N.A.	$35,000,000.00	10.000000000%
Goldman Sachs Bank USA	$30,000,000.00	8.571428571%
U.S. Bank National Association	$30,000,000.00	8.571428571%
Total	**$350,000,000.00**	**100%**

<u>Annex II</u>

GUARANTOR CONSENT AND REAFFIRMATION

November 17, 2016

Reference is made to (i) the Fifth Amendment to Credit Agreement and Consent to Release of Mortgages, dated as of November 17, 2016, attached as <u>Exhibit A</u> hereto (the "**Amendment**"), among J. Crew Group, Inc., a Delaware corporation (the "<u>Borrower</u>"), Chinos Intermediate Holdings B, Inc., a Delaware corporation ("<u>Holdings</u>"), Bank of America, N.A., as administrative agent (in such capacity, including any successor thereto, the "<u>Administrative Agent</u>") and as collateral agent (in such capacity, including any successor thereto, the "<u>Collateral Agent</u>") under the Loan Documents, and each Lender party thereto, and (ii) the Credit Agreement dated as of March 7, 2011 (as amended, amended and restated, supplemented or otherwise modified through the date hereof, including pursuant to the Amendment, the "**Credit Agreement**"), among the Borrower, Holdings, the Administrative Agent, the Collateral Agent and each Lender from time to time party thereto. Capitalized terms used but not otherwise defined in this Guarantor Consent and Reaffirmation (this "**Consent**") are used with the meanings attributed thereto in the Credit Agreement.

Each Guarantor hereby consents to the execution, delivery and performance of the Amendment and agrees that each reference to the Credit Agreement in the Loan Documents shall, on and after the Fifth Amendment Effective Date, be deemed to be a reference to the Credit Agreement in accordance with the terms of the Amendment.

Each Guarantor hereby acknowledges and agrees that, after giving effect to the Amendment, all of its respective obligations and liabilities under the Loan Documents to which it is a party, as such obligations and liabilities have been amended by the Amendment, are reaffirmed and remain in full force and effect.

After giving effect to the Amendment, each Guarantor reaffirms each Lien granted by it to the Collateral Agent for the benefit of the Secured Parties under each of the Loan Documents to which it is a party, which Liens shall continue in full force and effect during the term of the Credit Agreement, and shall continue to secure the Obligations (after giving effect to the Amendment), in each case, on and subject to the terms and conditions set forth in the Credit Agreement and the other Loan Documents.

Nothing in this Consent shall create or otherwise give rise to any right to consent on the part of the Guarantors to the extent not required by the express terms of the Loan Documents.

This Consent is a Loan Document and shall be governed by, and construed in accordance with, the law of the State of New York.

[*The remainder of this page is intentionally left blank*]

IN WITNESS WHEREOF, the undersigned have caused this Consent to be executed as of the date first above written.

CHINOS INTERMEDIATE HOLDINGS B, INC.
J. CREW OPERATING CORP.
J. CREW INC.
J. CREW INTERNATIONAL, INC.
GRACE HOLMES, INC.
H. F. D. NO. 55, INC.
MADEWELL INC.
J. CREW VIRGINIA, INC.

By: ______________________________
Name:
Title:

[Guarantor Consent and Reaffirmation Signature Page]

Exhibit A

Fifth Amendment to Credit Agreement and
Consent to Release of Mortgages

See Attached.

Exhibit 31.1

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

I, Millard Drexler, 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: November 22, 2016

/S/ MILLARD DREXLER

Millard Drexler
Chief Executive Officer

Exhibit 31.2

**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: November 22, 2016

/S/ MICHAEL J. NICHOLSON

Michael J. Nicholson
President, Chief Operating Officer and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of J.Crew Group, Inc. (the "Company") on Form 10-Q for the period ended October 29, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Millard Drexler, Chief Executive Officer of the Company, and Michael J. Nicholson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 22, 2016

/S/ MILLARD DREXLER

Millard Drexler
Chief Executive Officer

/S/ MICHAEL J. NICHOLSON

Michael J. Nicholson
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.