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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended August 4, 2007

Or

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

Commission File Number  
333-42427

Registrant, State of Incorporation Address  
and Telephone Number

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

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

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

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒

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.

Outstanding at August 31, 2007:

61,413,133 shares of common stock, par value \$.01 per share

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

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### J.CREW GROUP, INC.

#### Condensed Consolidated Balance Sheets (unaudited)

(in thousands, except for share data)

	August 4, 2007	February 3, 2007
<b>Assets</b>		
Cash and cash equivalents	\$ 119,672	\$ 88,900
Merchandise inventories	158,560	140,670
Prepaid expenses and other current assets	52,633	47,528
Total current assets	330,865	277,098
Property and equipment – at cost	284,182	252,491
Less accumulated depreciation and amortization	(146,151)	(130,677)
	138,031	121,814
Deferred income taxes	17,323	15,600
Other assets	13,925	13,554
Total assets	<u>\$ 500,144</u>	<u>\$ 428,066</u>
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	\$ 92,350	\$ 77,836
Other current liabilities	79,335	82,162
Total current liabilities	171,685	159,998
Deferred credits	67,159	62,448
Long-term debt	175,000	200,000
Other liabilities	6,603	—
Total liabilities	<u>420,447</u>	<u>422,446</u>
Stockholders' equity:		
Common stock (\$.01 par value; 200,000,000 shares authorized; 62,629,581 and 61,114,458 shares issued; 61,394,854 and 59,879,731 shares outstanding)	626	611
Additional paid-in capital	544,757	515,348
Accumulated deficit	(463,000)	(507,653)
Treasury stock, at cost (1,234,727 shares)	(2,686)	(2,686)
Total stockholders' equity	<u>79,697</u>	<u>5,620</u>
Total liabilities and stockholders' equity	<u>\$ 500,144</u>	<u>\$ 428,066</u>

See notes to unaudited condensed consolidated financial statements.

**J.CREW GROUP, INC.**
**Condensed Consolidated Statements of Operations**

(unaudited)

(in thousands, except for share data)

	<b>Thirteen weeks ended</b>	
	<b>August 4, 2007</b>	<b>July 29, 2006</b>
Revenues:		
Net sales	\$ 294,124	\$ 260,233
Other	10,607	8,936
Total revenues	304,731	269,169
Cost of goods sold, including buying and occupancy costs	171,554	155,951
Gross profit	133,177	113,218
Selling, general and administrative expenses	96,054	86,399
Income from operations	37,123	26,819
Interest expense – net	2,858	15,660
Loss on refinancing of debt	—	10,039
Income before income taxes	34,265	1,120
Provision for income taxes	13,630	1,100
Net income	20,635	20
Preferred stock dividends	—	(2,777)
Net income (loss) applicable to common stockholders	<u>\$ 20,635</u>	<u>\$ (2,757)</u>
Income (loss) per share:		
Basic	<u>\$ 0.34</u>	<u>\$ (0.08)</u>
Diluted	<u>\$ 0.32</u>	<u>\$ (0.08)</u>
Weighted average shares outstanding:		
Basic	<u>60,316</u>	<u>36,433</u>
Diluted	<u>63,806</u>	<u>36,433</u>

See notes to unaudited condensed consolidated financial statements.

**J.CREW GROUP, INC.**
**Condensed Consolidated Statements of Operations**

(unaudited)

(in thousands, except for share data)

	<b>Twenty-six weeks ended</b>	
	<b>August 4, 2007</b>	<b>July 29, 2006</b>
Revenues:		
Net sales	\$ 581,703	\$ 493,568
Other	20,340	16,288
Total revenues	602,043	509,856
Cost of goods sold, including buying and occupancy costs	330,303	287,244
Gross profit	271,740	222,612
Selling, general and administrative expenses	190,244	167,498
Income from operations	81,496	55,114
Interest expense – net	6,300	34,856
Loss on refinancing of debt	—	10,039
Income before income taxes	75,196	10,219
Provision for income taxes	29,912	2,400
Net income	45,284	7,819
Preferred stock dividends	—	(6,141)
Net income applicable to common stockholders	<u>\$ 45,284</u>	<u>\$ 1,678</u>
Income per share:		
Basic	<u>\$ 0.75</u>	<u>\$ 0.05</u>
Diluted	<u>\$ 0.71</u>	<u>\$ 0.05</u>
Weighted average shares outstanding:		
Basic	<u>60,024</u>	<u>30,934</u>
Diluted	<u>63,698</u>	<u>34,670</u>

See notes to unaudited condensed consolidated financial statements.

**J.CREW GROUP, INC.**
**Condensed Consolidated Statements of Cash Flows**

(unaudited)

(in thousands)

	<b>Twenty-six weeks ended</b>	
	<b>August 4, 2007</b>	<b>July 29, 2006</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 45,284	\$ 7,819
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	15,455	14,888
Amortization of deferred financing costs	828	617
Non-cash interest expense (including redeemable preferred stock dividends of \$20,800)	—	21,293
Loss on refinancing of debt	—	10,039
Share-based compensation	3,199	1,406
Excess tax benefit from share-based compensation	(18,432)	—
Changes in operating assets and liabilities:		
Merchandise inventories	(17,890)	(18,445)
Prepaid expenses and other current assets	(5,105)	3,269
Other assets	25	765
Accounts payable and other liabilities	39,139	(5,280)
Net cash provided by operating activities	<u>62,503</u>	<u>36,371</u>
<b>Cash flow used in investing activities:</b>		
Capital expenditures	<u>(31,672)</u>	<u>(15,405)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from share-based compensation plans	7,793	2,128
Excess tax benefit from share-based compensation	18,432	—
Costs incurred in connection with amended and restated credit agreement	(1,284)	—
Repayments and redemption of long-term debt	(25,000)	(336,526)
Redemption of preferred stock	—	(358,271)
Proceeds from issuance of long-term debt, net of debt issuance costs	—	276,516
Proceeds from issuance of common stock, net of underwriting discount and offering costs	—	402,750
Net cash used in financing activities	<u>(59)</u>	<u>(13,403)</u>
Increase in cash and cash equivalents	30,772	7,563
Cash and cash equivalents—beginning of period	88,900	61,275
Cash and cash equivalents—end of period	<u>\$119,672</u>	<u>\$ 68,838</u>
<b>Supplemental cash flow information:</b>		
Income taxes paid	<u>\$ 5,081</u>	<u>\$ 1,509</u>
Interest paid	<u>\$ 6,597</u>	<u>\$ 15,786</u>
<b>Non-cash financing activities:</b>		
Dividends on preferred stock (reflected directly in stockholders' equity)	\$ —	\$ 6,141
Conversion of 5% notes payable into shares of common stock	—	23,685
Conversion of liquidation value of Series A preferred stock into shares of common stock	—	73,475

See notes to unaudited condensed consolidated financial statements.

**J. CREW GROUP, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Thirteen and twenty-six weeks ended August 4, 2007 and July 29, 2006**

**(Dollars in thousands, unless otherwise indicated)**

**1. Basis of Presentation**

The condensed consolidated financial statements presented herein include the accounts of J. Crew Group, Inc. and its wholly owned subsidiaries (“Group” or the “Company”). All significant intercompany balances and transactions are eliminated in consolidation.

The condensed consolidated balance sheet as of August 4, 2007 and the condensed consolidated statements of operations and cash flows for the thirteen and twenty-six weeks ended August 4, 2007 and July 29, 2006 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments, consisting of only normal recurring adjustments necessary for the fair presentation of the financial position, results of operations and cash flows, have been made.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the consolidated financial statements filed in the Company’s Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

The results of operations for the thirteen and twenty-six weeks ended August 4, 2007 are not necessarily indicative of the operating results for the full fiscal year.

**2. Share-Based Compensation**

Effective January 29, 2006, the Company adopted the provisions of SFAS No. 123R, using the modified prospective transition method. Under this method, share-based compensation recognized in the thirteen and twenty-six weeks ended August 4, 2007 and July 29, 2006 includes compensation cost for all share-based awards: (i) not vested as of January 29, 2006, and (ii) granted subsequent to January 29, 2006, based on the estimated grant date fair value using the Black-Scholes option pricing model. The Company recognizes compensation expense for stock option awards and time-based restricted stock awards on a straight-line basis over the requisite service period of the award. There have been no significant changes subsequent to the end of fiscal 2006 in the methods or assumptions used to measure share-based awards.

A summary of the impact of share-based awards on our financial condition and results of operations is as follows:

	<b>Thirteen Weeks Ended</b>		<b>Twenty-six Weeks Ended</b>	
	<b>August 4, 2007</b>	<b>July 29, 2006</b>	<b>August 4, 2007</b>	<b>July 29, 2006</b>
Share-based compensation <sup>(1)</sup>	\$ 1,938	\$ 718	\$ 3,199	\$ 1,406
Proceeds from stock option exercises	\$ 2,842	\$ 1,134	\$ 6,876	\$ 2,128
Proceeds from issuance of common stock under ASPP	917	—	917	—
Proceeds from share-based compensation plans	\$ 3,759	\$ 1,134	\$ 7,793	\$ 2,128
Excess tax benefit from stock option exercises <sup>(2)</sup>	\$ 8,284	\$ —	\$ 18,432	\$ —

(1) included in selling, general and administrative expenses.

(2) included in stockholders’ equity.

On December 5, 2006, the Company’s Board of Directors adopted the J.Crew 2007 Associate Stock Purchase Plan (the “ASPP”). The ASPP was approved at the Annual Meeting of Stockholders held on June 12, 2007. As adopted, 500,000 shares of common stock are reserved for issuance under the ASPP. Under the ASPP, certain full time employees are permitted to purchase a limited number of common shares of the Company at 85% of market value. The plan is considered compensatory under the provisions SFAS No. 123R, and the fair value of the employee’s purchase rights is amortized over the purchase offering period. Share-based compensation for the thirteen and twenty-six weeks ended August 4, 2007 includes a charge of \$0.2 million and \$0.3 million, respectively, for the ASPP.

**J. CREW GROUP, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Thirteen and twenty-six weeks ended August 4, 2007 and July 29, 2006**

**(Dollars in thousands, unless otherwise indicated)**

### **3. Income Taxes**

On February 4, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*, (“FIN 48”). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements, uncertain tax positions that it has taken or expects to take on a tax return. This interpretation requires that a company recognize in its financial statements the impact of tax positions that meet a “more likely than not” threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As a result of the implementation of FIN 48, the Company recognized a \$0.6 million net increase in unrecognized tax benefits with a corresponding decrease in retained earnings. The total effect of the adoption was a \$1.7 million increase in our non-current deferred tax assets, a \$4.1 million decrease in current income taxes payable to reclassify unrecognized tax benefits to non-current liabilities, a \$6.4 million increase in non-current liabilities representing the liability for unrecognized tax benefits including interest, and the previously mentioned \$0.6 million decrease to retained earnings.

The Company has \$6.6 million in unrecognized tax benefits, reflected in other liabilities, including interest and penalties. The amount, if recognized, that would affect the effective tax rate is \$3.9 million. While the Company expects the amount of unrecognized tax benefits to change in the next twelve months, the change is not expected to have a significant effect on the estimated effective annual tax rate, the results of operations or financial position.

It is the Company’s policy to recognize interest income and expense related to income taxes as a component of interest expense, and penalties as a component of selling, general and administrative expenses. The amount of interest and penalties accrued at August 4, 2007 is \$0.9 million.

Group files a consolidated federal income tax return, which includes all of its wholly owned subsidiaries. Each subsidiary files separate state tax returns in required jurisdictions. Tax years ending February 2, 2002 – February 1, 2003 and January 31, 2004 – January 29, 2005 are currently under audit by the IRS. The results of these audits are not expected to have a significant effect on the results of operations or financial position. Various state and local jurisdiction tax authorities are in the process of examining income tax returns of Group’s subsidiaries for various tax years ranging from 1998 to 2005.

### **4. Debt and Credit Agreement**

#### *Debt*

Long-term debt consists of the following:

	August 4, 2007	February 3, 2007
Term Loan	\$175,000	\$200,000
Less current portion	—	—
Total long-term debt	<u>\$175,000</u>	<u>\$200,000</u>

On May 15, 2006 (the “Closing Date”), J. Crew Operating Corp. (“Operating”), as borrower, Group and certain of Operating’s direct and indirect subsidiaries, as guarantors, entered into a Credit and Guaranty Agreement (the “Credit and Guaranty Agreement”) with certain lenders named therein as lenders, Goldman Sachs Credit Partners L.P. (“GSCP”) and Bear, Stearns & Co. Inc. as joint lead arrangers and joint bookrunners, GSCP as administrative agent and collateral agent, Bear Stearns Corporate Lending Inc. as syndication agent and Wachovia Bank, National Association as documentation agent.



**J. CREW GROUP, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Thirteen and twenty-six weeks ended August 4, 2007 and July 29, 2006**

**(Dollars in thousands, unless otherwise indicated)**

The total amount of the term loan (the “Term Loan”) borrowed by Operating under the Credit and Guaranty Agreement on the Closing Date was \$285.0 million. Borrowings bear interest, at the Company’s option, at the base rate plus a margin of 0.75% or at LIBOR plus a margin of 1.75% per annum, payable quarterly. All borrowings will mature on May 15, 2013.

The Company is required to make the following annual principal payments: (i) 1% of the original principal balance of the Term Loan due quarterly and (ii) an amount equal to 50% of excess cash flow, as defined in the agreement, due within 90 days of the fiscal year-end. In fiscal 2006, the Company made aggregate voluntary prepayments of \$85.0 million. On April 30, 2007, the Company made an additional voluntary prepayment of \$25.0 million. Aggregate voluntary prepayments are in excess of the required principal payments.

*Credit Agreement*

On May 4, 2007, Group and certain of its subsidiaries, as guarantors, and Operating and certain of its subsidiaries, as borrowers, entered into a Second Amended and Restated Credit Agreement (the “Credit Facility”) with Citicorp USA, Inc. (“Citicorp”), as administrative agent, Citicorp, as collateral agent, and Bank of America, N.A. and Wachovia Bank, National Association, as syndication agents.

The Credit Facility provides for revolving loans and letters of credit of up to \$200 million (which amount may be increased up to \$250 million subject to certain conditions) at floating interest rates based on Citibank N.A.’s prime rate plus a margin of up to 0.25% or LIBOR plus a margin ranging from 1.0% to 1.25%. The total amount of availability is limited to the sum of: (a) 100% of qualified cash, (b) 90% of eligible receivables, (c) 92.5% of the net recovery percentage of inventories (as determined by periodic inventory appraisals) for the period August 1 through December 31, or 90% of the net recovery percentage of inventories for the period January 1 through July 31, and (d) 65% of the fair market value of eligible real estate. The Credit Facility expires on May 4, 2013. Excess availability at August 4, 2007 was \$127.4 million.

Borrowings under the Credit Facility are guaranteed by the Company and certain of its subsidiaries, and are secured by a perfected first priority security interest in substantially all of the Company’s assets and those of certain of its subsidiaries. The Credit Facility includes restrictions on the Company’s ability and the ability of certain of its subsidiaries to incur additional indebtedness and liens, pay dividends or make other distributions, make investments, dispose of assets and merge. If excess availability under the Credit Facility is less than \$20 million at any time, then the Company’s fixed charge coverage ratio for the most recently ended period of four consecutive fiscal quarters may not be less than 1.10 to 1.00 for that period.

If an event of default occurs under the Credit Facility, the lenders may declare all amounts outstanding under the Credit Facility immediately due and payable. In such event, the lenders may exercise any rights and remedies they may have by law or agreement, including the ability to cause all or any part of the collateral securing the Credit Facility to be sold.

**5. Initial Public Offering and Related Transactions**

On July 3, 2006, the Company completed an initial public offering (“IPO”) of 21,620,000 shares of common stock at \$20.00 per share. The Company received net proceeds of \$402,750 from the IPO after deducting \$29,650 in underwriting discounts and offering costs. The Company used the net proceeds of the offering to redeem the liquidation value and accreted dividends of all outstanding Series A and Series B Preferred Stock.

Immediately prior to the consummation of the IPO, \$20,000 principal amount (plus accrued and unpaid interest of \$3,700) of 5.0% Convertible Notes Payable was converted into 6,729,186 shares of the Company’s common stock at a conversion price of \$3.52 per share.

On July 13, 2006, \$73,500 of Series A Preferred Stock held by TPG Partners II, L.P. TPG Parallel II, L.P. and TPG Investors, II, L.P. (the “TPG stockholders”) was redeemed for 3,673,729 shares of the Company’s common stock.

On January 25, 2007, the Company completed a secondary offering of 9,392,100 shares of common stock offered by the TPG stockholders as selling stockholders. The Company did not receive any proceeds from the secondary offering.

**J. CREW GROUP, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Thirteen and twenty-six weeks ended August 4, 2007 and July 29, 2006**

**(Dollars in thousands, unless otherwise indicated)**

**6. Income (Loss) Per Share**

The calculation of basic and diluted income (loss) per share is presented as follows:

	<b>Thirteen Weeks Ended</b>		<b>Twenty-six Weeks Ended</b>	
	<b>August 4, 2007</b>	<b>July 29, 2006</b>	<b>August 4, 2007</b>	<b>July 29, 2006</b>
Net income	\$ 20,635	\$ 20	\$ 45,284	\$ 7,819
Preferred stock dividends	—	(2,777)	—	(6,141)
Net income (loss) applicable to common stockholders	<u>\$ 20,635</u>	<u>\$ (2,757)</u>	<u>\$ 45,284</u>	<u>\$ 1,678</u>
Income (loss) per share:				
Basic	\$ 0.34	\$ (0.08)	\$ 0.75	\$ 0.05
Diluted	<u>\$ 0.32</u>	<u>\$ (0.08)</u>	<u>\$ 0.71</u>	<u>\$ 0.05</u>
Weighted average common shares outstanding:				
Basic	60,316	36,433	60,024	30,934
Diluted	<u>63,806</u>	<u>36,433</u>	<u>63,698</u>	<u>34,670</u>

The number of shares of potentially dilutive securities excluded from the calculation of diluted earnings per share are as follows:

	<b>Thirteen Weeks Ended</b>		<b>Twenty-six Weeks Ended</b>	
	<b>August 4, 2007</b>	<b>July 29, 2006</b>	<b>August 4, 2007</b>	<b>July 29, 2006</b>
Stock options	16	8,712	16	72
Unvested restricted stock	—	1,124	—	—
Total	<u>16</u>	<u>9,836</u>	<u>16</u>	<u>72</u>

**7. Stock Split**

Effective June 13, 2006, the Company's Board of Directors approved a 1.935798 for one split of the Company's common stock in the form of a stock dividend. Accordingly, all references to share and per share information in all periods presented have been adjusted to reflect the stock split. The par value per share of the common stock was not changed as a result of the stock split.

**8. Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for the Company beginning February 3, 2008. The Company has not yet determined the impact, if any, from the adoption of this new accounting standard.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company beginning February 3, 2008. The Company has not yet determined the impact, if any, from the adoption of this new accounting standard.

## 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. Many of these statements appear, in particular, under the headings “Condensed Consolidated Financial Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” 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 historical 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 materially from those expressed as forward-looking statements are set forth in this report, including but not limited to those under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended February 3, 2007 filed with the Securities and Exchange Commission. There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.

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

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

This document should be read in conjunction with the Management’s Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended February 3, 2007 filed with the Securities and Exchange Commission. When used herein, the terms “Group,” “Company,” “we,” “us” and “our” refer to J. Crew Group, Inc., including consolidated subsidiaries.

### Executive Overview

J.Crew is a nationally recognized apparel and accessories brand that we believe embraces a high standard of style, craftsmanship, quality and customer service, while projecting an aspirational American lifestyle.

On the basis of data collected on our Internet channel customers, we believe our customer base consists primarily of affluent, college-educated, professional and fashion-conscious women and men. During the second quarter of fiscal 2007, we opened five, and closed two, J.Crew retail stores and opened two Madewell® stores. At August 4, 2007, we operated 185 retail stores (including three crewcuts® and five Madewell stores) and 53 factory stores, compared to 167 retail stores (including two crewcuts stores) and 49 factory stores at July 29, 2006.

We have two primary sales channels: Stores, which consists of our retail and factory stores, and Direct, which consists of our catalog and Internet website at [www.jcrew.com](http://www.jcrew.com). The following is a summary of our revenues for the thirteen and twenty-six week periods ended August 4, 2007 and July 29, 2006:

(Dollars in millions)	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Stores	\$ 219.6	\$ 197.5	\$ 420.6	\$ 364.6
Direct	74.5	62.8	161.1	129.0
Net sales	294.1	260.3	581.7	493.6
Other	10.6	8.9	20.3	16.3
Total revenues	<u>\$ 304.7</u>	<u>\$ 269.2</u>	<u>\$ 602.0</u>	<u>\$ 509.9</u>

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The following is a brief summary of second quarter fiscal 2007 highlights:

- Revenues totaled \$304.7 million, reflecting a 13% increase over prior year revenue of \$269.2 million.
- Comparable store sales increased 4%. When realigning last year's retail calendar to be consistent with this year's thirteen week fiscal period, comparable store sales increased 6%.
- Direct net sales increased 19% to \$74.5 million.
- Income from operations increased 38% to \$37.1 million.

The following is a brief summary of first half fiscal 2007 highlights:

- Revenues totaled \$602.0 million, reflecting an 18% increase over prior year revenue of \$509.9 million.
- Comparable store sales increased 8%. When realigning last year's retail calendar to be consistent with this year's twenty-six week fiscal period, comparable store sales increased 7%.
- Direct net sales increased 25% to \$161.1 million.
- Income from operations increased 48% to \$81.5 million.
- A voluntary prepayment of \$25.0 million was made under the Term Loan.

## Results of Operations – Second Quarter of Fiscal 2007 Compared to Second Quarter of Fiscal 2006

(Dollars in millions)	Thirteen Weeks Ended August 4, 2007		Thirteen Weeks Ended July 29, 2006		Variance	
	Amount	Percent of Revenues	Amount	Percent of Revenues	Dollars	Percentage
Revenues	\$ 304.7	100.0%	\$ 269.2	100.0%	\$ 35.5	13.2%
Gross profit	133.2	43.7%	113.2	42.1%	20.0	17.7%
Selling, general and administrative expenses	96.1	31.5%	86.4	32.1%	9.7	11.2%
Income from operations	37.1	12.2%	26.8	10.0%	10.3	38.4%
Interest expense, net	2.9	0.9%	15.7	5.8%	(12.8)	(81.5)%
Loss on refinancing of debt	—	—	10.0	3.7%	(10.0)	(100.0)%
Income taxes	13.6	4.5%	1.1	0.4%	12.5	NM
Net income	\$ 20.6	6.8%	\$ —	—	\$ 20.6	NM

### Revenues

Revenues for the second quarter of fiscal 2007 (the thirteen weeks ended August 4, 2007) increased by \$35.5 million, or 13.2%, to \$304.7 million from \$269.2 million in the second quarter of fiscal 2006 (the thirteen weeks ended July 29, 2006). We believe the increase in revenues for the second quarter of fiscal 2007 resulted from the continuing appeal of our expanded product line in both Stores and Direct, the additional number of store locations compared to the prior year and our continuing commitment to customer service.

Stores sales increased by \$22.1 million, or 11.2%, to \$219.6 million in the second quarter of fiscal 2007 from \$197.5 million in the second quarter of fiscal 2006. Comparable store sales increased \$7.0 million, or 3.6%, to \$203.4 million in the second quarter of fiscal 2007 from \$196.4 million in the comparable period last year. Realigning last year's calendar weeks to be consistent with the current year retail calendar weeks would decrease comparable store sales last year to \$192.8 million, resulting in a comparable store sales increase of 5.5% in the second quarter of fiscal 2007. Non-comparable store sales were \$16.2 million in the second quarter of fiscal 2007.

Direct sales increased by \$11.7 million, or 18.6%, to \$74.5 million in the second quarter of fiscal 2007 from \$62.8 million in the second quarter of fiscal 2006. A lower return rate accounted for 4.7 percentage points of the increase. The number of catalog pages circulated in the second quarter of fiscal 2007 remained flat when compared to pages circulated in the comparable period last year. We continue to see a shift of Direct customers from catalog to the Internet. We evaluate the efficiency of our circulation strategies on a continuing basis and make adjustments as we deem appropriate. The following table summarizes net sales of the Direct channel:

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(Dollars in millions)	Thirteen Weeks Ended	
	August 4, 2007	July 29, 2006
Catalog	\$ 17.2	\$ 18.5
Internet	57.3	44.3
Total Direct net sales	<u>\$ 74.5</u>	<u>\$ 62.8</u>

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

	Thirteen Weeks Ended	
	August 4, 2007	July 29, 2006
Apparel		
Women's	65%	65%
Men's	20%	20%
Children's	2%	1%
Accessories	13%	14%
	<u>100%</u>	<u>100%</u>

The increase in Stores and Direct sales in the second quarter of fiscal 2007 was primarily driven by an increase in sales of women's apparel. This increase was largely driven by sales of knits, sweaters and shorts. Sales of men's apparel and accessories also increased during the period. Our crewcuts children's concept was introduced in the first quarter of fiscal 2006 with the opening of 10 shops within our retail stores followed by the opening of two stand-alone stores in the second quarter of fiscal 2006. As of August 4, 2007, we operated 26 crewcuts shop-in-shops and three stand-alone stores.

Other revenues, which consist primarily of shipping and handling fees and royalties, increased to \$10.6 million in the second quarter of fiscal 2007 from \$8.9 million in the comparable period last year. The increase resulted from an increase in shipping and handling fees attributable primarily to the increase in Direct sales.

### Gross Profit

Gross profit increased by \$20.0 million to \$133.2 million in the second quarter of fiscal 2007 from \$113.2 million in the second quarter of fiscal 2006. This increase resulted from the following factors (amounts in millions):

(a) increase in revenues	\$18.9
(b) increase in merchandise margin	7.4
(c) increase in buying and occupancy costs	(6.3)
	<u>\$20.0</u>

Gross margin increased to 43.7% in the second quarter of fiscal 2007 from 42.1% in the second quarter of fiscal 2006. The increase in gross margin was due to an increase of 240 basis points in merchandise margin resulting primarily from an increase in initial mark-up and full price sell through, offset by an 80 basis point increase in buying and occupancy costs as a percentage of revenues due primarily to buying costs associated with the Madewell and crewcuts concepts.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$9.7 million, or 11.2%, to \$96.1 million in the second quarter of fiscal 2007 from \$86.4 million in the second quarter of fiscal 2006. This increase primarily resulted from:

- an increase in Stores operating expenses, primarily payroll and payroll related expenses of \$4.6 million,
- an increase in expenses related to the Madewell and crewcuts concepts of \$1.9 million,
- an increase in share-based and incentive compensation of \$1.9 million, and
- an increase in expenses due to occupying additional corporate office space of \$1.2 million.

As a percentage of revenues, selling, general and administrative expenses decreased to 31.5% in the second quarter of fiscal 2007 from 32.1% in the comparable period last year, resulting primarily from the fact that these expenses increased at a slower rate than revenues during fiscal 2007.

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### Interest Expense, Net

Interest expense, net decreased by \$12.8 million to \$2.9 million in the second quarter of fiscal 2007 from \$15.7 million in the second quarter of fiscal 2006. All debt and preferred stock outstanding at the beginning of fiscal 2006 was redeemed during the second quarter of 2006 with the proceeds of the \$285.0 million Term Loan entered into in May 2006 and the issuance of 21.6 million shares of common stock at \$20.00 per share in our initial public offering in July 2006.

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

	Thirteen Weeks Ended	
	August 4, 2007	July 29, 2006
	(amounts in millions)	
Accreted dividends on mandatorily redeemable preferred stock	\$ —	\$ 9.5
Interest expense related to:		
9 <sup>3</sup> / <sub>4</sub> % Senior Subordinated Notes due 2014	—	1.0
Term Loan	3.1	5.0
13 <sup>1</sup> / <sub>8</sub> % Senior Discount Debentures due 2008	—	0.4
5% Convertible Notes Payable	—	0.2
Other	0.6	0.3
Amortization of deferred financing costs	0.4	0.4
Total interest expense	4.1	16.8
Interest income	(1.2)	(1.1)
Interest expense, net	<u>\$ 2.9</u>	<u>\$ 15.7</u>

### Loss on Refinancing of Debt

The loss on refinancing of debt of \$10.0 million in the second quarter of fiscal 2006 reflects \$4.8 million of tender fees and other expenses and \$5.2 million related to the write-off of unamortized deferred financing costs incurred in connection with the redemption of the 9 <sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes due 2014 in May 2006.

### Income Taxes

The provision for income taxes in the second quarter of fiscal 2007 and fiscal 2006 is not comparable. The estimated effective annual tax rate in the second quarter of 2006 was not normal due to several factors, including (a) preferred stock dividends included in interest expense for financial statement purposes but not deductible for income tax purposes, and (b) the existence of a valuation allowance to fully reserve net deferred income tax assets, which resulted in significant net operating loss carryovers not recognized for financial statement purposes until they were utilized in our tax returns.

At February 3, 2007, management determined that the valuation allowance was not necessary and reinstated its net deferred tax assets. Accordingly, the income tax provision for the second quarter of fiscal 2007 represents our estimated effective annual tax rate of 39.8%.

### Net Income

Net income increased to \$20.6 million in the second quarter of fiscal 2007 from \$20 thousand in the second quarter of fiscal 2006. This increase was due to a \$20.0 million increase in gross profit primarily driven by the 13.2% increase in revenues, a \$12.8 million decrease in interest expense, a \$10.0 million loss on refinancing of debt incurred in the second quarter of fiscal 2006, offset by a \$9.7 million increase in selling, general and administrative expenses, and a \$12.5 million increase in the provision for income taxes.

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**Results of Operations – First Half of Fiscal 2007 Compared to First Half of Fiscal 2006**

(Dollars in millions)	Twenty-six Weeks Ended August 4, 2007		Twenty-six Weeks Ended July 29, 2006		Variance	
	Amount	Percent of Revenues	Amount	Percent of Revenues	Dollars	Percentage
Revenues	\$ 602.0	100.0%	\$ 509.9	100.0%	\$ 92.1	18.1%
Gross profit	271.7	45.1%	222.6	43.7%	49.1	22.1%
Selling, general and administrative expenses	190.2	31.6%	167.5	32.9%	22.7	13.6%
Income from operations	81.5	13.5%	55.1	10.8%	26.4	47.9%
Interest expense, net	6.3	1.0%	34.9	6.8%	(28.6)	(81.9)%
Loss on refinancing of debt	—	—	10.0	2.0%	(10.0)	(100.0)%
Income taxes	29.9	5.0%	2.4	0.5%	27.5	NM
Net income	\$ 45.3	7.5%	\$ 7.8	1.5%	\$ 37.5	NM

**Revenues**

Revenues for the first half of fiscal 2007 (the twenty-six weeks ended August 4, 2007) increased by \$92.1 million, or 18.1%, to \$602.0 million from \$509.9 million in the first half of fiscal 2006 (the twenty-six weeks ended July 29, 2006). We believe the increase in revenues for the first half of fiscal 2007 resulted from the continuing appeal of our expanded product line in both Stores and Direct, the additional number of store locations compared to the prior year and our continuing commitment to customer service.

Stores sales increased by \$56.0 million, or 15.4%, to \$420.6 million in the first half of fiscal 2007 from \$364.6 million in the first half of fiscal 2006. Comparable store sales increased \$28.3 million, or 7.8%, to \$390.1 million in the first half of fiscal 2007 from \$361.8 million in the comparable period last year. Realigning last year's calendar weeks to be consistent with the current year retail calendar weeks would increase comparable store sales last year to \$365.7 million, resulting in a comparable store sales increase of 6.7% in the first half of fiscal 2007. Non-comparable store sales were \$30.5 million in the first half of fiscal 2007.

Direct sales increased by \$32.1 million, or 24.9%, to \$161.1 million in the first half of fiscal 2007 from \$129.0 million in the first half of fiscal 2006. A lower return rate accounted for 5.7 percentage points of the increase. The number of catalog pages circulated in the first half of fiscal 2007 increased by 4% from the comparable period last year. We continue to see a shift of Direct customers from catalog to the Internet. We evaluate the efficiency of our circulation strategies on a continuing basis and make adjustments as we deem appropriate. The following table summarizes net sales of the Direct channel:

(Dollars in millions)	Twenty-six Weeks Ended	
	August 4, 2007	July 29, 2006
Catalog	\$ 38.1	\$ 40.9
Internet	123.0	88.1
Total Direct net sales	<u>\$ 161.1</u>	<u>\$ 129.0</u>

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

	Twenty-six Weeks Ended	
	August 4, 2007	July 29, 2006
Apparel		
Women's	66%	66%
Men's	19%	19%
Children's	2%	1%
Accessories	13%	14%
	<u>100%</u>	<u>100%</u>

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The increase in Stores and Direct sales in the first half of fiscal 2007 was primarily driven by an increase in sales of women's apparel. This increase was largely driven by sales of knits, sweaters and shorts. Sales of men's apparel and accessories also increased during the period. Our crewcuts children's concept was introduced in the first quarter of fiscal 2006 with the opening of 10 shops within our retail stores followed by the opening of two stand-alone stores in the second quarter of fiscal 2006. As of August 4, 2007, we operated 26 crewcuts shop-in-shops and three stand-alone stores.

Other revenues, which consist primarily of shipping and handling fees and royalties, increased to \$20.3 million in the first half of fiscal 2007 from \$16.3 million in the comparable period last year. The increase resulted from an increase in shipping and handling fees attributable primarily to the increase in Direct sales.

### **Gross Profit**

Gross profit increased by \$49.1 million to \$271.7 million in the first half of fiscal 2007 from \$222.6 million in the first half of fiscal 2006. This increase resulted from the following factors (amounts in millions):

(a) increase in revenues	\$ 50.8
(b) increase in merchandise margin	10.4
(c) increase in buying and occupancy costs	(12.1)
	<u>\$ 49.1</u>

Gross margin increased to 45.1% in the first half of fiscal 2007 from 43.7% in the first half of fiscal 2006. The increase in gross margin was due to an increase of 170 basis points in merchandise margin resulting primarily from an increase in initial mark-up and full price sell through, offset by a 30 basis point increase in buying and occupancy costs as a percentage of revenues due primarily to buying costs associated with the Madewell and crewcuts concepts.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by \$22.7 million, or 13.6%, to \$190.2 million in the first half of fiscal 2007 from \$167.5 million in the first half of fiscal 2006. This increase primarily resulted from:

- an increase in Stores operating expenses, primarily payroll and payroll related expenses, of \$11.7 million,
- an increase in share-based and incentive compensation of \$3.8 million,
- an increase in expenses related to the Madewell and crewcuts concepts of \$2.9 million, and
- an increase in expenses due to occupying additional corporate office space of \$1.7 million.

As a percentage of revenues, selling, general and administrative expenses decreased to 31.6% in the first half of fiscal 2007 from 32.9% in the comparable period last year, resulting primarily from the fact that these expenses increased at a slower rate than revenues during fiscal 2007.



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### Interest Expense, Net

Interest expense, net decreased by \$28.6 million to \$6.3 million in the first half of fiscal 2007 from \$34.9 million in the first half of fiscal 2006. All debt and preferred stock outstanding at the beginning of fiscal 2006 was redeemed during the second quarter of 2006 with the proceeds of the \$285.0 million Term Loan entered into in May 2006 and the issuance of 21.6 million shares of common stock at \$20.00 per share in our initial public offering in July 2006.

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

	<b>Twenty-six Weeks Ended</b>	
	<b>August 4, 2007</b>	<b>July 29, 2006</b>
	<b>(amounts in millions)</b>	
Accreted dividends on mandatorily redeemable preferred stock	\$ —	\$ 20.8
Interest expense related to:		
9 <sup>3</sup> / <sub>4</sub> % Senior Subordinated Notes due 2014	—	7.7
Term Loan	6.9	5.0
13 <sup>1</sup> / <sub>8</sub> % Senior Discount Debentures due 2008	—	1.1
5% Convertible Notes Payable	—	0.5
Other	0.9	0.6
Amortization of deferred financing costs	0.8	0.6
Total interest expense	8.6	36.3
Interest income	(2.3)	(1.4)
Interest expense, net	<u>\$ 6.3</u>	<u>\$ 34.9</u>

### Loss on Refinancing of Debt

The loss on refinancing of debt of \$10.0 million in the first half of fiscal 2006 reflects \$4.8 million of tender fees and other expenses and \$5.2 million related to the write-off of unamortized deferred financing costs incurred in connection with the redemption of the 9 <sup>3</sup>/<sub>4</sub>% Senior Subordinated Notes due 2014 in May 2006.

### Income Taxes

The provision for income taxes in the first half of fiscal 2007 and fiscal 2006 is not comparable. The estimated effective annual tax rate in the first half of 2006 was not normal due to several factors, including (a) preferred stock dividends included in interest expense for financial statement purposes but not deductible for income tax purposes, and (b) the existence of a valuation allowance to fully reserve net deferred income tax assets, which resulted in significant net operating loss carryovers not recognized for financial statement purposes until they were utilized in our tax returns.

At February 3, 2007, management determined that the valuation allowance was not necessary and reinstated its net deferred tax assets. Accordingly, the income tax provision for the first half of fiscal 2007 represents our estimated effective annual tax rate of 39.8%.

### Net Income

Net income increased \$37.5 million to \$45.3 million in the first half of fiscal 2007 from \$7.8 million in the first half of fiscal 2006. This increase was due to a \$49.1 million increase in gross profit primarily driven by the 18.1% increase in revenues, a \$28.6 million decrease in interest expense, a \$10.0 million loss on refinancing of debt incurred in the first half of fiscal 2006, offset by a \$22.7 million increase in selling, general and administrative expenses, and a \$27.5 million increase in the provision for income taxes.

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### Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations and borrowings under the Credit Facility (as defined below). Our primary cash needs are (a) capital expenditures in connection with opening new stores, enhancing information technology systems and expanding our distribution centers, (b) meeting debt services requirements and (c) funding working capital requirements. The most significant components of our working capital are cash and cash equivalents, merchandise inventories, accounts payable and other current liabilities.

### Operating Activities

	Twenty-six Weeks Ended	
	August 4, 2007	July 29, 2006
	(amounts in millions)	
Net income	\$ 45.3	\$ 7.8
Adjustments to reconcile to net cash provided by operations:		
Depreciation and amortization of property and equipment	15.4	14.9
Amortization of deferred financing costs	0.8	0.6
Non-cash interest expense (including redeemable preferred stock dividends of \$20.8)	—	21.3
Loss on refinancing	—	10.0
Share-based compensation	3.2	1.4
Excess tax benefit from share-based compensation	(18.4)	—
Changes in operating assets and liabilities	16.2	(19.6)
Net cash provided by operations	<u>\$ 62.5</u>	<u>\$ 36.4</u>

Cash provided by operating activities in the first half of fiscal 2007 was \$62.5 million and consisted of (i) net income of \$45.3 million, (ii) adjustments to net income of \$1.0 million, and (iii) cash provided by changes in operating assets and liabilities of \$16.2 million due to normal business fluctuations.

Cash provided by operating activities in the first half of fiscal 2006 was \$36.4 million and consisted of (i) net income of \$7.8 million, (ii) adjustments to net income of \$48.2 million, offset by (iii) cash used in changes in operating assets and liabilities of \$19.6 million due to normal business fluctuations.

### Investing Activities

Capital expenditures were \$31.7 million in the first half of fiscal 2007 compared to \$15.4 million in the first half of fiscal 2006. Capital expenditures for the opening of new stores were \$13.2 million and \$9.2 million in the first half of fiscal 2007 and fiscal 2006, respectively. Capital expenditures are planned at \$60 to \$70 million for fiscal 2007, including approximately \$36 million for 35 to 40 new stores, \$15 to \$20 million for information technology enhancements, expansion of our distribution centers, and the remainder for store renovations and general corporate purposes.

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### Financing Activities

	Twenty-six Weeks Ended	
	August 4, 2007	July 29, 2006
	(amounts in millions)	
Proceeds from share-based compensation plans	\$ 7.8	\$ 2.1
Excess tax benefit from share-based compensation	18.4	—
Costs incurred in connection with amended and restated credit agreement	(1.3)	
Repayments of long-term debt	(25.0)	(336.5)
Redemption of preferred stock	—	(358.3)
Proceeds from issuance of long-term debt, net of debt issuance costs	—	276.5
Proceeds from issuance of common stock, net of underwriting discount and offering costs	—	402.8
Net cash used in financing activities	<u>\$ (0.1)</u>	<u>\$ (13.4)</u>

Cash used in financing activities in the first half of fiscal 2007 was \$0.1 million, due to a voluntary principal payment under the Term Loan and costs incurred in connection with the amended and restated credit agreement, offset by proceeds from share-based compensation plans and excess tax benefits from share-based compensation.

Cash used in financing activities in the first half of fiscal 2006 was \$13.4 million, reflecting an initial public offering of 21.6 million shares of common stock at a price of \$20.00 per share and the issuance of \$285.0 million Term Loan due 2013. The proceeds of these financings were used to redeem all of our outstanding indebtedness including preferred stock and to make a voluntary principal prepayment of \$35.0 million on the Term Loan. Financing activities in the first half of 2006 also included proceeds from share-based compensation plans.

### Amended and Restated Credit Agreement

On May 4, 2007, J. Crew Group, Inc. and certain of its subsidiaries, as guarantors, and Operating and certain of its subsidiaries, as borrowers, entered into a Second Amended and Restated Credit Agreement (the “Credit Facility”) with Citicorp USA, Inc. (“Citicorp”), as administrative agent, Citicorp, as collateral agent, and Bank of America, N.A. and Wachovia Bank, National Association, as syndication agents.

The Credit Facility provides for revolving loans and letters of credit of up to \$200 million (which amount may be increased to up to \$250 million subject to certain conditions) at floating interest rates based on Citibank N.A.’s prime rate plus a margin of up to 0.25% or LIBOR plus a margin ranging from 1.0% to 1.25%. The total amount of availability is limited to the sum of: (a) 100% of qualified cash, (b) 90% of eligible receivables, (c) 92.5% of the net recovery percentage of inventories (as determined by periodic inventory appraisals) for the period August 1 through December 31, or 90% of the net recovery percentage of inventories for the period January 1 through July 31, and (d) 65% of the fair market value of eligible real estate. The Credit Facility expires on May 4, 2013.

Borrowings under the Credit Facility are guaranteed by the Company and certain of its subsidiaries, and are secured by a perfected first priority security interest in substantially all of the Company’s assets and those of certain of its subsidiaries. The Credit Facility includes restrictions on the Company’s ability and the ability of certain of its subsidiaries to incur additional indebtedness and liens, pay dividends or make other distributions, make investments, dispose of assets and merge. If excess availability under the Credit Facility is less than \$20 million at any time, then the Company’s fixed charge coverage ratio for the most recently ended period of four consecutive fiscal quarters may not be less than 1.10 to 1.00 for that period.

If an event of default occurs under the Credit Facility, the lenders may declare all amounts outstanding under the Credit Facility immediately due and payable. In such event, the lenders may exercise any rights and remedies they may have by law or agreement, including the ability to cause all or any part of the collateral securing the Credit Facility to be sold.

There were no short-term borrowings during the first half of fiscal 2007 or fiscal 2006. There was \$127.4 million of excess availability under the Credit Facility at August 4, 2007.

### Outlook

Management anticipates that capital expenditures in fiscal 2007 will be approximately \$60 million to \$70 million, primarily for opening 35 to 40 new stores, information technology enhancements, the expansion of our Asheville, North Carolina distribution facility, store renovations and general corporate purposes. Management believes that the Company’s

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current cash position, cash flow from operations and availability under the Credit Facility will be adequate to finance working capital needs, planned capital expenditures and debt service obligations for the next twelve months. Our ability to fund our operations and make planned capital expenditures, to make scheduled debt payments, to refinance indebtedness and to remain in compliance with the financial covenants under our debt agreements depends on our future financing activities, our future operating performance and our future cash flow, which in turn, are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond our control.

### 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 certain of our obligations, including insurance programs and duties related to import purchases. As of August 4, 2007, we had the following obligations under letters of credit in future periods:

	<u>Total</u>	<u>Within 1 Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>After 5 Years</u>
	(amounts in millions)				
Letters of Credit					
Standby	\$ 7.0	\$ —	\$ —	\$ —	\$ 7.0
Documentary	65.6	65.6	—	—	—
	<u>\$72.6</u>	<u>\$65.6</u>	<u>\$—</u>	<u>\$—</u>	<u>\$ 7.0</u>

### Seasonality

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 substantially higher in our fourth fiscal quarter, particularly December, as customers make holiday purchases. Approximately 32% of our revenues in fiscal year 2006 occurred in the fourth quarter. Our working capital requirements also fluctuate throughout the year increasing substantially in September and October in anticipation of holiday season inventory requirements.

### Critical Accounting Policies

A summary of our critical accounting policies is included in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended February 3, 2007 filed with the Securities and Exchange Commission.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce our net income or net assets. Our variable rate debt consists of borrowings under the Credit Facility and the Term Loan. The interest rates under the Credit Facility are a function of Citigroup's prime rate or LIBOR, and the interest rates under the Term Loan are a function of a base rate or LIBOR. A one percentage point increase in the interest rate on our variable rate debt would result in a change in income before taxes of approximately \$100,000 for each \$10.0 million of borrowings under the Credit Facility and approximately \$1.75 million for the \$175.0 million of borrowings under the Term Loan.

We have a licensing agreement in Japan that provides for royalty payments in yen based on sales of J.Crew merchandise. We have entered into forward foreign exchange contracts from time to time in order to minimize this risk. At August 4, 2007, there were no forward foreign exchange contracts outstanding.

We also enter into letters of credit to facilitate the international purchase of merchandise. The letters of credit are primarily denominated in U.S. dollars. Outstanding letters of credit at August 4, 2007 were \$72.6 million, including \$7.0 million of standby letters of credit.

## ITEM 4. CONTROLS AND PROCEDURES

At the end of the last fiscal quarter, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the last fiscal quarter our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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There were no changes in our 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**

The Company is a party to routine litigation arising in the ordinary course of its business. Although the amount of any liability that could arise with respect to these actions cannot be accurately predicted, in the Company's opinion, any such liability will not have a material adverse effect on its consolidated financial position, consolidated results of operations or liquidity.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<u>Exhibit No.</u>	<u>Document</u>
<b>Articles of Incorporation and Bylaws</b>	
3.1	Certificate of Incorporation of J. Crew Group, Inc. Incorporated by reference to Exhibit 3.1 to the S-1/A Registration Statement filed on October 11, 2005.
3.2	Bylaws of J. Crew Group, Inc. Incorporated by reference to Exhibit 3.2 to the Form 8-K/A filed on October 17, 2005.
<b>Certifications</b>	
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.

\* Filed 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: September 13, 2007

By: /s/ Millard S. Drexler  
Millard S. Drexler  
Chairman of the Board and Chief Executive Officer

Date: September 13, 2007

By: /s/ James S. Scully  
James S. Scully  
Executive Vice President and Chief Financial Officer

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Document</b>
<b>Articles of Incorporation and Bylaws</b>	
3.1	Certificate of Incorporation of J. Crew Group, Inc. Incorporated by reference to Exhibit 3.1 to the S-1/A Registration Statement filed on October 11, 2005.
3.2	Bylaws of J. Crew Group, Inc. Incorporated by reference to Exhibit 3.2 to the Form 8-K/A filed on October 17, 2005.
<b>Certifications</b>	
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.

\* Filed herewith.



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

I, Millard S. 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)) for such 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 such 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) Evaluated the effectiveness of such 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
  - c) Disclosed in this report any change in such 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, such 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 such registrant's auditors and the audit committee of such 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 such 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 such registrant's internal control over financial reporting.

Dated: September 13, 2007

/s/ Millard S. Drexler

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Millard S. Drexler

Chairman of the Board and Chief Executive Officer

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

I, James S. Scully, 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)) for such 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 such 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) Evaluated the effectiveness of such 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
  - c) Disclosed in this report any change in such 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, such 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 such registrant's auditors and the audit committee of such 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 such 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 such registrant's internal control over financial reporting.

Dated: September 13, 2007

/s/ James S. Scully

James S. Scully

Executive Vice President and Chief Financial Officer

**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 August 4, 2007 (the "Report"), we, Millard S. Drexler, Chief Executive Officer of the Company, and James S. Scully, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of each of our knowledge:

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

Dated: September 13, 2007

/s/ Millard S. Drexler

Millard S. Drexler  
Chairman of the Board and Chief Executive Officer

/s/ James S. Scully

James S. Scully  
Executive Vice President and 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.*