UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended January 31, 2009

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.
333-42427	**J.CREW GROUP, INC.** (Incorporated in Delaware) 770 Broadway New York, New York 10003 Telephone: (212) 209 2500	22-2894486

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

Title of Class	Name of each exchange on which registered
Common Stock, par value $.01 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

☐ Yes ☒ No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 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 ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

☐ Yes ☒ No

Based upon the closing sale price on the New York Stock Exchange on August 1, 2008, the last business day of the registrant's most recently completed second fiscal quarter, which ended August 3, 2008, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant on such date was approximately $1,495,641,201. For purposes of determining this amount, the registrant has excluded shares of common stock held by directors and officers. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

There were 62,548,892 shares of the registrant's $.01 par value common stock outstanding on March 6, 2009.

DOCUMENTS INCORPORATED BY REFERENCE:

Documents	Form 10-K Reference
Portions of Proxy Statement for the 2009 Annual Meeting of Stockholders	Part III, Items 10-14

DISCLOSURE REGARDING 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 “Business,” “Selected Financial Data” 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.” 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.

PART I

ITEM 1. BUSINESS.

In this section, "we," "us" and "our" refer to J.Crew Group, Inc. ("Group") and our wholly owned subsidiaries, including J.Crew Operating Corp. ("Operating").

General

J.Crew® is a nationally recognized apparel and accessories retailer that we believe embraces a high standard of style, craftsmanship, quality and customer service. We are a fully integrated multi-channel, multi-brand, specialty retailer. We seek to consistently communicate our vision of J.Crew through every aspect of our business, including through the imagery in our catalogs and on our Internet website and the inviting atmosphere of our stores.

We focus on creating product lines featuring the high quality design, fabrics and craftsmanship as well as consistent fits and detailing that our customers expect of J.Crew. We offer complete assortments of women's, men's and children's apparel and accessories, including wedding and special occasion attire, weekend clothes, swimwear, loungewear, outerwear, shoes, bags, belts, hair accessories and jewelry. The J.Crew brand is widely recognized and features high quality designs, fabrics and craftsmanship. We seek to project our brand image through consistent creative messages in our catalog and through our Internet website, our store environments and our superior customer service.

J.Crew products are distributed through our retail and factory stores, our J.Crew catalog and our Internet website located at www.jcrew.com. We introduced Madewell, a casual Women's clothing, footwear and accessories retail concept in fiscal 2006. As of January 31, 2009, we operated 226 retail stores, including five crewcuts®, one Men's store, one Women's Collection store, and 10 Madewell stores; and 74 factory stores, including one crewcuts factory store, throughout the United States. We also operated 42 crewcuts shop in shops in our J.Crew retail stores and 10 crewcuts shop in shops in our factory stores. In fiscal 2008, we distributed 20 catalog editions with a circulation of approximately 44 million copies. Our website logged over 78 million visits in fiscal 2008, as compared to over 70 million in fiscal 2007, representing an 11% increase.

We conduct our business through two primary sales channels: Stores (consisting of our retail, crewcuts, Madewell and factory stores) and Direct (consisting of our catalog and Internet website). The following is a summary of our revenues:

(Dollars in millions)	Fiscal 2006	Fiscal 2007	Fiscal 2008
Stores	$ 808.5	$ 914.8	$ 974.3
Direct	308.6	377.4	408.9
Other	35.0	42.5	44.8
Total	$1,152.1	$1,334.7	$1,428.0

Other revenues consist principally of shipping and handling fees derived from our Direct business.

We were incorporated in the State of New York in 1988 and reincorporated in the State of Delaware in October 2005. Our principal executive offices are located at 770 Broadway, New York, NY 10003, and our telephone number is (212) 209-2500.

Products

We offer complete assortments of women's, men's and children's apparel and accessories, including wedding and special occasion attire, weekend clothes, swimwear, loungewear, outerwear, shoes, bags, belts, hair accessories and jewelry. We focus on creating product lines featuring the high quality design, fabrics and craftsmanship as well as consistent fits and detailing, and are designed internally by our design team to embody our “classic with a twist” branding and styling strategies. We offer a product assortment ranging from casual t-shirts and broken-in chinos, to cashmere items and limited edition “collection” items, such as dresses, hand-beaded skirts and double-faced cashmere jackets.

In recent years we have introduced several new product lines and product line expansions, including our Italian cashmere collection, our wedding and party dresses, our Italian leather accessories and our women’s jewelry. Our J.Crew factory line offers the J.Crew brand with similar styles made at lower costs and sold at lower price points. Crewcuts, an apparel and accessories line for children ages two through 12, which offers a product assortment that reflects the high quality, styled-classic apparel and accessories we offer under the J.Crew brand, such as argyles, embroidered critters and cable knits for the children’s market.

We introduced Madewell, a casual women’s clothing, footwear and accessories retail concept in fiscal 2006. Additionally, we maintain a Madewell website at www.madewell1937.com that provides customers with a toll free number to place orders for Madewell merchandise and intend to add the necessary functionality to enable customers to place orders online.

Design and Merchandising

We believe one of our key strengths is our internal design team, which designs products that reinforce our brand image. Our products are designed to reflect a clean and fashionable aesthetic that incorporates high quality fabrics and construction as well as comfortable, consistent fits and detailing.

Our products are developed in four seasonal collections and are subdivided for monthly product introductions in our monthly catalog mailings and in our retail stores. The design process begins with our designers developing seasonal collections eight to twelve months in advance. Our designers regularly travel domestically and internationally to develop color and design ideas. Once the design team has developed a season’s color palette and design concepts, they order a sample assortment in order to evaluate the details of the assortment, such as how color takes to a particular fabric.

From the sample assortment, our merchandising team selects which items to market in each of our sales channels and edits the assortment as necessary to increase its commerciality. Our teams communicate regularly and work closely with each other in order to leverage market data, ensure the quality of our products and remain true to a unified brand image. Our technical design teams develop construction and fit specifications for every product, ensuring quality workmanship and consistency across product lines. Because our product offerings originate from a single concept assortment, we believe that we are able to efficiently offer an assortment of styles within each season’s line while still maintaining a unified brand image. As a final step that is intended to ensure image consistency, our senior management reviews all of our products from all of our sales channels before they are manufactured. We believe we further maintain our brand image by exercising substantial control over the presentation and pricing of our merchandise by selling all our products ourselves in North America.

Pricing

We offer our customers a mix of select designer-quality products and more casual items at various price points, consistent with our signature styling strategy of pairing luxury items with more casual items. We have introduced limited edition “collection” items such as hand-beaded skirts, which we believe elevates the overall perception of our brand. We believe offering a broad range of price points maintains a more accessible, less intimidating atmosphere.

Sales Channels

We conduct our business through two primary sales channels: Stores, which consists of our retail, crewcuts, Madewell and factory stores; and Direct, which consists of the J.Crew catalog and our Internet website.

Stores

The following is a summary of our net sales from Stores and the percentage relationship to total revenues:

(Dollars in millions)	Fiscal 2006	Fiscal 2007	Fiscal 2008
Stores	$808.5	$914.8	$974.3
Percentage of total revenues	70.2%	68.5%	68.2%

Retail Stores

As of January 31, 2009, we operated 226 retail stores, including five crewcuts, one Men's store, one Women's Collection store, and 10 Madewell stores, throughout the United States. Our retail stores are located in upscale regional malls, lifestyle centers, shopping centers and street locations. We believe situating our stores in desirable locations is critical to the success of our business, and we determine store locations, as well as individual store sizes, based on several factors, including geographic location, demographic information, presence of anchor tenants in mall locations and proximity to other higher-end specialty retail stores. Our retail stores are designed by our in-house design staff and fixtured with the goal of creating a distinctive, sophisticated and inviting atmosphere, with clear displays and information about product quality and fabrication.

Our retail stores averaged approximately 6,500 total square feet at the end of fiscal 2008, but are "sized to the market," which means that we adjust the size of a particular retail store based on the projected revenues from that particular store. For example, at the end of fiscal 2008, our largest retail store, located in New York, was approximately 15,000 square feet, and our smallest retail store, our Men's store, also located in New York, was approximately 900 square feet. The table below highlights certain information regarding our retail stores open during the five years ended January 31, 2009:

Fiscal Year	Retail Stores Open At Beginning of Period	Retail Stores Opened During Period	Retail Stores Closed During Period	Retail Stores Open at End of Period	Total Gross Square Footage (in thousands)	Average Gross Square Footage Per Retail Store
2004	154	5	3	156	1,198	7,682
2005	156	5	2	159	1,209	7,604
2006	159	21	4	176	1,247	7,084
2007	176	27	4	199	1,338	6,723
2008	199	28	1	226	1,460	6,459

In light of the current economic conditions we have slowed the pace of our retail store expansion. We plan to expand our retail store base by 15 to 20 retail stores in fiscal 2009, including approximately four crewcuts and approximately eight Madewell stores.

Factory Stores

As of January 31, 2009, we operated 74 factory stores, including one factory crewcuts store, throughout the United States. We added crewcuts shop-in-shops into 10 of our factory stores in fiscal 2008. Our factory stores are located primarily in large factory-outlet malls. Factory stores are designed with simple, volume-driving visuals to maximize sales of key items and drive faster inventory turns. Our factory stores also use strategic and focused short-term promotional offerings designed to achieve higher margins and faster inventory turns. Sales associates in our factory stores adhere to the same customer-service focus as our retail stores, and are trained to help customers locate styles similar to those they have seen in our retail stores or catalog.

Our factory stores averaged 5,500 total square feet at the end of fiscal 2008, but are "sized to the market," which means that we adjust the size of a particular factory store based on the projected revenues from that particular store. For example, at the end of fiscal 2008, our largest factory store, located in Connecticut, was approximately 9,000 square feet, and our smallest factory store, our factory crewcuts store, located in Florida, was approximately 1,500 square feet. The table below highlights certain information regarding our factory stores open during the five years ended January 31, 2009:

Fiscal Year	Factory Stores Open At Beginning of Period	Factory Stores Opened During Period	Factory Stores Closed During Period	Factory Stores Open at End of Period	Total Gross Square Footage (in thousands)	Average Gross Square Footage Per Factory Store
2004	42	0	1	41	258	6,296
2005	41	6	3	44	269	6,120
2006	44	8	1	51	297	5,827
2007	51	10	0	61	350	5,737
2008	61	14	1	74	404	5,464

In light of the current economic conditions we have slowed the pace of our factory store expansion. We plan to expand our factory store base by approximately five factory stores in fiscal 2009.

Direct

The following is a summary of our Direct business net sales and the percentage relationship to total revenues:

(Dollars in millions)	Fiscal 2006	Fiscal 2007	Fiscal 2008
Internet	$218.6	$293.3	$338.2
Phone	90.0	84.1	70.7
Total Direct	$ 308.6	$ 377.4	$408.9
Direct net sales as a percentage of total revenues	*26.8%*	*28.3%*	*28.6%*

In addition to driving revenues, we use our Direct channel to introduce and test new product offerings, to sell specialty product lines such as crewcuts and Wedding and special occasion, to offer extended sizes and colors on various products and to expand customer files to drive targeted marketing campaigns by collecting customer data to further segment customer groups.

We currently obtain customer information for 100% of our catalog and Internet customers. As of January 31, 2009, our customer database contained approximately 26.0 million individual customer names, of which 3.5 million customers had placed a catalog or Internet order with us or made a store purchase from us within the previous twelve months, and 4.3 million email addresses of customers who had agreed to receive promotional emails from us.

We maintain a database of “customer records,” which include sales patterns, detailed purchasing information, certain demographic information, geographic locations and email addresses of our customers. This database enables us to see how our customers use our various sales channels to shop and facilitates targeted marketing strategies. We segment our customer files based on several variables, and we tailor our catalog offerings and email notifications to address the different product needs of our customer groups. We focus on continually improving the segmentation of customer files and the acquisition of additional customer names from several sources, including our retail stores, our Internet website, list rentals and list exchanges with other catalog companies.

Catalog

The J.Crew catalog is the primary branding and advertising vehicle for the J.Crew brand. We believe our catalog reinforces the J.Crew brand image and drives sales across all of our sales channels. For example, approximately 25% of our Internet customers referenced using a catalog prior to their Internet purchase, which we believe shows that our catalog drives sales on our Internet channel. We believe we have distinguished ourselves from other catalog retailers by utilizing high quality photography and art direction. We further this image by not promoting clearance merchandise in our catalogs, and instead redirect primary liquidation activity to our www.jcrew.com website. In fiscal 2008, we distributed 20 catalog editions with a circulation of approximately 44.4 million copies and approximately 5.2 billion pages circulated.

While we do not have long-term contracts with our suppliers of paper for our catalog, we believe our long-standing relationships with a number of the largest coated paper mills in the United States allow us to purchase paper at favorable prices. Projected paper requirements are communicated on an annual basis to paper mills to ensure the availability of an adequate supply.

Internet Website

Since 1996, our website located at www.jcrew.com has allowed our customers to purchase our merchandise over the Internet. We continue to see an ongoing shift of orders to the Internet from our catalog. Using a consistent standard measure, our website logged over 78 million visits in fiscal 2008, as compared to over 70 million in fiscal 2007, representing an 11% increase. Internet revenues represented 83% of the Direct business in fiscal 2008, compared to 78% of the Direct business in fiscal 2007. We design and operate our websites using an in-house technical staff. Our www.jcrew.com website emphasizes simplicity and ease of customer use while integrating the J.Crew brand's aspirational lifestyle imagery used in the catalog. We update our website periodically throughout the day to accurately reflect product availability and to determine where on the website a particular product generates the best sales. In addition to selling our regular merchandise on our www.jcrew.com website, we also use that website as a means to sell marked-down merchandise.

We have enhanced our online presence by adding category-based "shops" to our www.jcrew.com website, such as J.Crew swimfinder, wedding & party shop and our new accessories shop.

We implemented certain direct channel systems upgrades including a new platform for our website during fiscal 2008. These systems upgrades impaired our ability to capture, process and ship customer orders and resulted in the incurrence of additional costs in fiscal 2008. See "Management Information System" for additional information.

Marketing and Advertising

The J.Crew catalog is the primary branding and advertising vehicle for the J.Crew brand. We believe our catalog reinforces the J.Crew mission and image as well as drives sales in all of our channels. Our direct sales channels enable us to maintain a database of customer sales patterns and we are thus able to target segments of our customer base with specific marketing. Depending on their spending habits, we send certain customers special catalog editions and/or emails.

We also offer a private-label credit card through an agreement with World Financial Network National Bank ("WFNNB"), under which WFNNB owns the credit card accounts and Alliance Data Systems Corporation provides services to our private-label credit card customers. In fiscal 2008, sales on J.Crew credit cards made up 16.3% of our total net sales. We believe that our credit card program encourages frequent store and website visits and catalog sales and promotes multiple-item purchases, thereby cultivating customer loyalty to the J.Crew brand and increasing sales. We also maintain a J.Crew credit card loyalty program by offering rewards for customer spending on J.Crew credit cards.

Sourcing and Distribution

Sourcing

We have no long-term merchandise supply contracts, and we typically transact business on an order-by-order basis. We source our merchandise in two ways: through the use of buying agents, and by purchasing merchandise directly from trading companies and manufacturers. In fiscal 2008, we worked with eight buying agents, who together supported our relationships with vendors that supplied approximately 55% of our merchandise, with one buying agent supporting our relationships with vendors that supplied approximately 44% of our merchandise. In exchange for a commission, our buying agents identify suitable vendors and coordinate our purchasing requirements with the vendors by placing orders for merchandise on our behalf, ensuring the timely delivery of goods to us, obtaining samples of merchandise produced in the factories, inspecting finished merchandise and carrying out other administrative communications on our behalf. In fiscal 2008, we worked with two trading companies, purchasing approximately 26% of our merchandise from these companies. Trading companies control factories which manufacture merchandise and also handle certain other shipping and customs matters related to importing the merchandise into the United States. We sourced the remaining 19% of our merchandise directly with manufacturers both within the United States and overseas with the majority of whom we have long-term, and what we believe to be, stable relationships.

Our sourcing base currently consists of approximately 138 vendors who operate 209 factories in approximately 21 countries. Our top 10 vendors supply 51% of our merchandise.

Each of our top 10 vendors uses multiple factories to produce its merchandise, which we believe gives us a high degree of flexibility in placing production of our merchandise. We believe we have developed strong relationships with our vendors, some of which rely upon us for a significant portion of their business.

In fiscal 2008, approximately 86% of our merchandise was sourced in Asia (with 73% of our products sourced from China, Hong Kong and Macau), 4% was sourced in the United States and 10% was sourced in Europe and other regions. Substantially all of our foreign purchases are negotiated and paid for in U.S. dollars.

Distribution

We operate two distribution facilities and one customer call center. We own a 282,000 square foot facility in Asheville, North Carolina that houses our distribution operations for our retail and factory stores. This facility currently employs approximately 200 full and part-time employees during our non-peak season and approximately 50 additional employees during our peak season. In fiscal 2007, we completed a 120,000 square foot expansion of this facility to support our expected future growth. Merchandise is transported from this distribution center to our retail and factory stores by independent trucking companies, Federal Express or UPS, with a transit time of approximately two to five days.

We also own a 262,000 square foot facility, and lease a 63,700 square foot facility, both located in Lynchburg, Virginia. These facilities contain our customer call center and order fulfillment operations for Direct. During fiscal 2008 we implemented certain Direct channel systems upgrades including a new order management system in our call center and a new warehouse management system. These systems upgrades impaired our ability to capture, process and ship customer orders and resulted in the incurrence of additional costs in fiscal 2008. See “Management Information Systems” for additional information.

These facilities currently employ approximately 1,000 full and part-time employees during our non-peak season and an additional 1,000 employees during our peak season. We outsource a portion of our customer calls to two service providers. Merchandise sold via our Direct channel is sent directly to customers from this distribution center via the United States Postal Service, UPS or Federal Express.

Management Information Systems

Our management information systems are designed to provide, among other things, comprehensive order processing, production, accounting and management information for the marketing, manufacturing, importing and distribution functions of our business. We utilize an SAP Enterprise Resource Planning system along with an IBM mainframe system for our information technology requirements. We have point-of-sale systems in our retail and factory stores that enable us to track inventory from store receipt to final sale on a real-time basis. We have an agreement with Electronic Data Systems Corporation, a third party, to provide hosting services and administrative support for the infrastructure of our enterprise merchandising and financial systems, and our distribution and call center infrastructure. Our websites are hosted by a third party at its data center.

We believe our merchandising and financial systems, coupled with our point-of-sale systems and software programs, allow for item-level stock replenishment, merchandise planning and real-time inventory accounting practices. Our telephone and telemarketing systems, warehouse package sorting systems, automated warehouse locator and inventory bar coding systems use current technology, and are designed with our highest-volume periods, such as the holiday season, in mind, which results in our having substantial flexibility and ample capacity in our lower-volume periods.

We continue to expand and upgrade our information systems, networks and infrastructure to support recent and expected future growth. During fiscal 2008 we implemented certain Direct channel systems upgrades including a new platform for our website, a new order management system in our call center and a new warehouse management system. These systems upgrades impaired our ability to capture, process and ship customer orders, and transfer products between channels during the second, third and fourth quarters. We incurred additional costs associated with these upgrades which adversely impacted our operating results in fiscal 2008. We made progress in stabilizing our Direct channel systems during the second half of fiscal 2008 and are continuing our stabilization efforts in 2009.

Employees and Labor Relations

As of January 31, 2009, we had approximately 10,900 employees, of whom approximately 3,800 were full-time employees and 7,100 were part-time employees. Approximately 1,000 of these employees are employed in our customer call center and Direct order fulfillment operations facility in Lynchburg, Virginia, and approximately 200 of these employees work in our store distribution center in Asheville, North Carolina. In addition, approximately 3,200 employees are hired on a seasonal basis to meet demand during the peak season.

None of our employees are represented by a union. We have had no labor-related work stoppages and we believe our relationship with our employees is good.

Competition

The specialty retail industry is highly competitive. We compete primarily with specialty retailers, higher-end department stores, catalog retailers and Internet businesses that engage in the retail sale of women’s, men’s and children’s apparel, accessories, shoes and similar merchandise. We believe the principal bases upon which we compete are quality, design, customer service and price. We believe that our primary competitive advantages are consumer recognition of our brands and our presence in many major shopping malls in the United States as well as our multiple sale channels which enable our customers to shop in the setting they prefer. We believe that we also differentiate ourselves from competitors on the basis of our signature product design, our ability to offer both designer-quality products at higher price points and more casual items at lower price points, our focus on the quality of our product offerings and our customer-service oriented culture. We believe our success depends in substantial part on our ability to originate and define product and fashion trends as well as to timely anticipate, gauge and react to changing consumer demands. Certain of our competitors are larger and have greater financial, marketing and other resources than us. Accordingly, there can be no assurance that we will be able to compete successfully with them in the future.

Trademarks and Licensing

The J.Crew and Madewell trademarks and variations thereon, such as crewcuts, are registered or are subject to pending trademark applications with the United States Patent and Trademark Office and with the registries of many foreign countries. We believe our trademarks have significant value and we intend to continue to vigorously protect them against infringement.

In addition, we licensed our J.Crew trademark and know-how to Itochu Corporation in Japan for which we received royalty fees based on a percentage of sales. In February 2008, we provided notice that we did not intend to renew the agreement, which expired at the end of January 2009. In fiscal 2006, 2007, and 2008, licensing revenues totaled $2.8 million, $2.6 million, and $1.7 million, respectively.

Government Regulation

We are subject to customs, truth-in-advertising and other laws, including consumer protection regulations and zoning and occupancy ordinances that regulate retailers and/or govern the promotion and sale of merchandise and the operation of retail stores and warehouse facilities. We monitor changes in these laws and believe that we are in material compliance with applicable laws.

A substantial portion of our products are manufactured outside the United States. These products are imported and are subject to U.S. customs laws, which impose tariffs as well as import quota restrictions for textiles and apparel. Some of our imported products are eligible for duty-advantaged programs. While importation of goods from foreign countries from which we buy our products may be subject to embargo by U.S. Customs authorities if shipments exceed quota limits, we closely monitor import quotas and believe we have the sourcing network to efficiently shift production to factories located in countries with available quotas. The existence of import quotas has, therefore, not had a material adverse effect on our business.

Available Information

We make available free of charge on our Internet website, www.jcrew.com, copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after filing such material electronically with, or otherwise furnishing it to, the Securities and Exchange Commission (the "SEC"). The reference to our website address does not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

ITEM 1A. RISK FACTORS.

The following risk factors should be carefully considered when evaluating our business and the forward-looking statements in this report. See "Disclosure Regarding Forward Looking Statements."

The current economic crisis could materially adversely affect our financial condition and results of operations.

The current economic crisis is having a significant negative impact on businesses and consumers around the world. Our results can be impacted by a number of macroeconomic factors, including, but not limited to, consumer confidence and spending levels, unemployment, consumer credit availability, fuel and energy costs, global factory production, commercial real estate market conditions, credit market conditions and the level of customer traffic in malls and shopping centers.

Demand for our merchandise is significantly impacted by negative trends in consumer confidence and other economic factors affecting consumer spending behavior. These factors have recently driven sharp declines in mall traffic and consumer spending. The downturn in the economy may continue to affect consumer purchases of our merchandise for the foreseeable future and adversely impact our results of operations.

We believe that our current cash position, cash flow from operations and availability under the Credit Facility will provide us with sufficient liquidity through the current economic crisis. However, the impact of this crisis on our customers and suppliers cannot be predicted and may be severe. A decrease in liquidity of our customers and suppliers could have a material adverse effect on our results of operations and liquidity.

Failure to achieve sufficient levels of revenue and cash flow at individual store locations could result in impairment charges related to our stores. In fiscal 2008, we recorded non-cash asset impairment charges related to underperforming stores. Various uncertainties, including changes in consumer preferences or continued deterioration in the economic environment could impact the expected cash flows to be generated by our store locations, and may result in an impairment of those assets. Although such an impairment charge would be a non-cash expense, any impairment could materially increase our expenses and reduce our profitability.

We operate in the highly competitive specialty retail industry and the size and resources of some of our competitors may allow them to compete more effectively than we can, which could result in loss of our market share.

We face intense competition in the specialty retail industry. We compete primarily with specialty retailers, high-end department stores, catalog retailers and Internet businesses that engage in the retail sale of women's, men's and children's apparel, accessories, shoes and similar merchandise. We believe that the principal bases upon which we compete are the quality, style and design of merchandise and the quality of customer service. We also believe that price is an important factor in our customers' decision-making process. Many of our competitors are, and many of our potential competitors may be, larger and have greater financial, marketing and other resources and therefore may be able to adapt to changes in customer requirements more quickly, devote greater resources to the marketing and sale of their products, generate greater national brand recognition or adopt more aggressive pricing policies than we can. In addition, increased levels of promotional activity by our competitors, both online and in stores, may negatively impact our revenues and gross profit.

If we are unable to gauge fashion trends and react to changing consumer preferences in a timely manner, our sales will decrease.

We believe our success depends in substantial part on our ability to:

- originate and define product and fashion trends,
- anticipate, gauge and react to changing consumer demands in a timely manner, and
- translate market trends into appropriate, saleable product offerings far in advance of their sale in our stores, our catalog or our Internet website.

Because we enter into agreements for the manufacture and purchase of merchandise well in advance of the season in which merchandise will be sold, we are vulnerable to changes in consumer demand, pricing shifts and suboptimal merchandise selection and timing of merchandise purchases. We attempt to reduce the risks of changing fashion trends and product acceptance in part by devoting a portion of our product line to classic styles that are not significantly modified from year to year. Nevertheless, if we misjudge the market for our products or overall level of consumer demand, we may be faced with significant excess inventories for some products and missed opportunities for others. Our brand image may also suffer if customers believe we are no longer able to offer the latest fashions. The occurrence of these events could hurt our financial results by decreasing sales. We may respond by increasing markdowns or initiating marketing promotions to reduce excess inventory, which would further decrease our gross profits and net income.

The specialty retail industry is cyclical, and a decline in consumer spending on apparel and accessories could reduce our sales and slow our growth.

The industry in which we operate is cyclical. Purchases of apparel and accessories are sensitive to a number of factors that influence the levels of consumer spending, including general economic conditions and the level of disposable consumer income, the availability of consumer credit, interest rates, taxation and consumer confidence in future economic conditions. Because apparel and accessories generally are discretionary purchases, declines in consumer spending patterns may impact us more negatively as a specialty retailer. Therefore, we may not be able to grow revenues if there is a decline in consumer spending patterns, and we may decide to slow or alter our growth plans.

We rely on the experience and skills of key personnel, the loss of whom could damage our brand image and our ability to sell our merchandise.

We believe we have benefited substantially from the leadership and strategic guidance of our chief executive officer, and other key executives and members of our creative team, who are primarily responsible for developing our strategy. The loss, for any reason, of the services of any of these individuals and any negative market or industry perception arising from such loss could damage our brand image. Our executive and creative team has substantial experience and expertise in the specialty retail industry and has made significant contributions to our growth and success. The unexpected loss of one or more of these individuals could delay the development and introduction of, and harm our ability to sell, our merchandise. In addition, products we develop without the guidance and direction of these key personnel may not receive the same level of acceptance.

Our success depends in part on our ability to attract and retain key personnel. Competition for these personnel is intense, and we may not be able to attract and retain a sufficient number of qualified personnel in the future.

Our real estate strategy may not be successful, and new store locations may fail to produce desired results, which could impact our competitive position and profitability.

We expanded our store base by 40 net new stores in fiscal 2008. In light of the current economic conditions, we have slowed the pace of our store base expansion considerably and expect to open approximately half that number in fiscal year 2009. We are also reviewing our existing store base and identifying opportunities, where available, to renegotiate the terms of those leases. The success of our business depends, in part, on our ability to open new stores and renew our existing store leases on terms that meet our financial targets. Our ability to open new stores on schedule or at all, to renew our existing store leases on favorable terms or to operate them on a profitable basis will depend on various factors, including our ability to:

- identify suitable markets for new stores and available store locations,
- negotiate acceptable lease terms for new locations or renewal terms for existing locations,
- hire and train qualified sales associates,
- develop new merchandise and manage inventory effectively to meet the needs of new and existing stores on a timely basis,
- foster current relationships and develop new relationships with vendors that are capable of supplying a greater volume of merchandise, and
- avoid construction delays and cost overruns in connection with the build-out of new stores.

New stores and stores with renewed lease terms may not produce anticipated levels of revenue even though they increase our costs. As a result, our expenses as a percentage of sales would increase and our profitability would be adversely affected.

Our expanded product offerings, new sales channels and new brand concepts may not be successful, and implementation of these strategies may divert our operational, managerial and administrative resources, which could impact our competitive position.

We have grown our business in recent years by expanding our product offerings and sales channels, including by marketing our crewcuts line of children’s apparel and accessories and our Madewell line of women’s apparel, footwear and accessories. We have recently opened a small number of free-standing stores dedicated to men’s wear, crewcuts and “collections” items. These strategies involve various risks discussed elsewhere in these risk factors, including:

- implementation may be delayed or may not be successful,

- if our expanded product offerings and sales channels fail to maintain and enhance our distinctive brand identity, our brand image may be diminished and our sales may decrease,
- if customers do not respond to these product offerings and sales channels as anticipated, these strategies may not be profitable on a larger scale, and
- implementation of these plans may divert management's attention from other aspects of our business and place a strain on our management, operational and financial resources, as well as our information systems.

In addition, our new product offerings and sales channels may be affected by, among other things, economic and competitive conditions, changes in consumer spending patterns and changes in consumer preferences and style trends. Further rollout of these strategies could be delayed or abandoned, could cost more than anticipated and could divert resources from other areas of our business, any of which could impact our competitive position and reduce our revenue and profitability.

If we fail to maintain the value of our brand, our sales are likely to decline.

Our success depends on the value of the J.Crew brand. The J.Crew name is integral to our business as well as to the implementation of our strategies for expanding our business. Maintaining, promoting and positioning our brand will depend largely on the success of our marketing and merchandising efforts and our ability to provide a consistent, high quality customer experience. Our brand could be adversely affected if we fail to achieve these objectives or if our public image or reputation were to be tarnished by negative publicity. Any of these events could result in decreases in sales.

Our declining levels of comparable store sales could cause our earnings to continue to decline.

If our future comparable store sales continue to decline, our earnings could continue to decline. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—How We Assess the Performance of Our Business—Comparable Store Sales." In addition, our results have fluctuated in the past and can be expected to continue to fluctuate in the future. For example, over the past twelve fiscal quarters, our quarterly comparable store sales have declined to a decrease of 13.1% in the fourth quarter of fiscal 2008 from an increase of 18.7% in the third quarter of fiscal 2006. A variety of factors affect comparable store sales, including fashion trends, competition, current economic conditions, pricing, inflation, the timing of the release of new merchandise and promotional events, changes in our merchandise mix, the success of marketing programs, timing and level of markdowns and weather conditions. These factors may cause our comparable store sales results to be materially lower than previous periods, which could cause declines in our quarterly earnings and stock price.

An inability or failure to protect our trademarks could diminish the value of our brand and reduce demand for our merchandise.

The J.Crew and Madewell trademarks and variations thereon, such as crewcuts, are valuable assets that are critical to our success. We intend to continue to vigorously protect our trademarks against infringement, but we may not be successful in doing so. The unauthorized reproduction or other misappropriation of our trademarks would diminish the value of our brand, which could reduce demand for our products or the prices at which we can sell our products.

Ongoing reductions in the volume of mall traffic or closing of shopping malls as a result of the current economic crisis could significantly reduce our sales and leave us with unsold inventory.

Most of our stores are located in shopping malls. Sales at these stores are derived, in part, from the volume of traffic in those malls. Our stores benefit from the ability of the malls' "anchor" tenants, generally large department stores and other area attractions, to generate consumer traffic in the vicinity of our stores and the continuing popularity of the malls as shopping destinations. The current economic crisis, particularly in certain regions, has adversely affected mall traffic and resulted in the closing of certain anchor department stores and has threatened the viability of certain commercial real estate firms which operate major shopping malls. A continuation of this trend, including failure of a large commercial landlord or continued declines in the popularity of mall shopping generally among our customers, would reduce our sales and leave us with excess inventory. We may respond by increasing markdowns or initiating marketing promotions to reduce excess inventory, which would further decrease our gross profits and net income.

Fluctuations in our results of operations for the fourth fiscal quarter would have a disproportionate effect on our overall financial condition and results of operations.

We experience seasonal fluctuations in revenues and operating income, with a disproportionate amount of our revenues being generated in the fourth fiscal quarter holiday season. Our revenues and income are generally weakest during the first and second fiscal quarters. In addition, any factors that harm our fourth fiscal quarter operating results, including adverse weather or unfavorable economic conditions, could have a disproportionate effect on our results of operations for the entire fiscal year.

In order to prepare for our peak shopping season, we must order and keep in stock significantly more merchandise than we would carry at other times of the year. Any unanticipated decrease in demand for our products during our peak shopping season could require us to sell excess inventory at a substantial markdown, which could reduce our net sales and gross profit. We saw this occur in the fourth quarter of fiscal 2008, following a substantial decline in the overall economy and consumer spending beginning in October 2008. As a result, we were forced to take aggressive markdowns to clear our fall and holiday inventory. Additional unplanned decreases in demand for our products could produce further reductions to our net sales and gross profit.

Our quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of new store openings and of catalog mailings, the revenues contributed by new stores, merchandise mix and the timing and level of inventory markdowns. As a result, historical period-to-period comparisons of our revenues and operating results are not necessarily indicative of future period-to-period results. You should not rely on the results of a single fiscal quarter, particularly the fourth fiscal quarter holiday season, as an indication of our annual results or our future performance.

If our manufacturers are unable to produce our goods on time or to our specifications, we could suffer lost sales.

We do not own or operate any manufacturing facilities and therefore depend upon independent third party vendors for the manufacture of all of our products. Our products are manufactured to our specifications primarily by foreign manufacturers. We cannot control all of the various factors, which include inclement weather, natural disasters and acts of terrorism, that might affect a manufacturer's ability to ship orders of our products in a timely manner or to meet our quality standards. Late delivery of products or delivery of products that do not meet our quality standards could cause us to miss the delivery date requirements of our customers or delay timely delivery of merchandise to our stores for those items. These events could cause us to fail to meet customer expectations, cause our customers to cancel orders or cause us to be unable to deliver merchandise in sufficient quantities or of sufficient quality to our stores, which could result in lost sales.

Third party failure to deliver merchandise from our distribution centers to our stores and to customers or a disruption or adverse condition affecting our distribution centers could result in lost sales or reduce demand for our merchandise.

The success of our stores depends on their timely receipt of merchandise from our distribution facilities, and the success of Direct depends on the timely delivery of merchandise to our customers. Independent third party transportation companies deliver our merchandise to our stores and to our customers. Some of these third parties employ personnel represented by a labor union. Disruptions in the delivery of merchandise or work stoppages by employees of these third parties could delay the timely receipt of merchandise, which could result in cancelled sales, a loss of loyalty to our brand and excess inventory. Timely receipt of merchandise by our stores and our customers may also be affected by factors such as inclement weather, natural disasters, accidents, system failures and acts of terrorism. We may respond by increasing markdowns or initiating marketing promotions, which would decrease our gross profits and net income.

Interruption in our foreign sourcing operations could disrupt production, shipment or receipt of our merchandise, which would result in lost sales and could increase our costs.

In fiscal 2008, approximately 96% of our merchandise was sourced from foreign factories. In particular, approximately 73% of our merchandise was sourced from China, Hong Kong and Macau. Any event causing a sudden disruption of manufacturing or imports from Asia or elsewhere, including the imposition of additional import restrictions, could materially harm our operations. We have no long-term merchandise supply contracts, and many of our imports are subject to existing or potential duties, tariffs or quotas that may limit the quantity of certain types of goods that may be imported into the United States from countries in Asia or elsewhere. We compete with other companies for production facilities and import quota capacity. Our business is also subject to a variety of other risks generally associated with doing business abroad, such as political instability, currency and exchange risks, disruption of imports by labor disputes and local business practices.

Our sourcing operations may also be hurt by political and financial instability, strikes, health concerns regarding infectious diseases in countries in which our merchandise is produced, adverse weather conditions or natural disasters that may occur in Asia or elsewhere or acts of war or terrorism in the United States or worldwide, to the extent these acts affect the production, shipment or receipt of merchandise. Our future operations and performance will be subject to these factors, which are beyond our control, and these factors could materially hurt our business, financial condition and results of operations or may require us to modify our current business practices and incur increased costs.

In addition, the raw materials used to manufacture our products are subject to availability constraints and price volatility caused by high demand for fabrics, weather, supply conditions, government regulations, economic climate and other unpredictable factors. Increases in the demand for, or the price of, raw materials could hurt our profitability.

Our ability to source our merchandise profitably or at all could be hurt if new trade restrictions are imposed or existing trade restrictions become more burdensome.

Trade restrictions, including increased tariffs, safeguards or quotas, on apparel and accessories could increase the cost or reduce the supply of merchandise available to us. We source our merchandise through buying agents and by purchasing directly from trading companies and manufacturers, predominately in various foreign countries. There are quotas and trade restrictions on certain categories of goods and apparel from China and countries which are not subject to the World Trade Organization (“WTO”) Agreement which could have a significant impact on our sourcing patterns in the future. New initiatives may be proposed that may have an impact on our sourcing from certain countries and may include retaliatory duties or other trade sanctions that, if enacted, would increase the cost of products we purchase. We cannot predict whether any of the countries in which our merchandise is currently manufactured or may be manufactured in the future will be subject to additional trade restrictions imposed by the U.S. and foreign governments, nor can we predict the likelihood, type or effect of any such restrictions. Trade restrictions, including increased tariffs or quotas, embargoes, safeguards and customs restrictions against apparel items, as well as U.S. or foreign labor strikes, work stoppages or boycotts or enhanced security measures at U.S. ports could increase the cost, delay shipping or reduce the supply of apparel available to us or may require us to modify our current business practices, any of which could hurt our profitability.

Increases in costs of mailing, paper and printing will affect the cost of our catalog and promotional mailings, which will reduce our profitability.

Postal rate increases and paper and printing costs affect the cost of our catalog and promotional mailings. In fiscal 2008, approximately 10% of our selling, general and administrative expenses were attributable to such costs. In May 2008, the U.S. Postal Service implemented a postal rate increase of approximately 3%. We anticipate a similar rate increase in 2009. We receive discounts from the basic postal rate structure, such as discounts for bulk mailings and sorting by zip code and carrier routes. We are not a party to any long-term contracts for the supply of paper. Our cost of paper has fluctuated significantly, and our future paper costs are subject to supply and demand forces that we cannot control. Future additional increases in postal rates or in paper or printing costs would reduce our profitability to the extent that we are unable to pass those increases directly to customers or offset those increases by raising selling prices or by reducing the number and size of certain catalog editions.

If our independent manufacturers do not use ethical business practices or comply with applicable laws and regulations, the J.Crew brand name could be harmed due to negative publicity.

While our internal and vendor operating guidelines, as outlined in our Vendor Code of Conduct, promote ethical business practices and we, along with third parties that we retain for this purpose, monitor compliance with those guidelines, we do not control our independent manufacturers. Accordingly, we cannot guarantee their compliance with our guidelines. Our Vendor Code of Conduct is designed to ensure that each of our suppliers' operations are conducted in a legal, ethical, and responsible manner. Our Vendor Code of Conduct requires that each of our suppliers operates in compliance with applicable wage benefit, working hours and other local laws, and forbids the use of practices such as child labor or forced labor.

Violation of labor or other laws by our independent manufacturers, or the divergence of an independent manufacturer's or our licensing partner's labor practices from those generally accepted as ethical in the United States could diminish the value of the J.Crew brand and reduce demand for our merchandise if, as a result of such violation, we were to attract negative publicity.

Any significant interruption in the operations of our customer call, order fulfillment and distribution facilities could disrupt our ability to process customer orders and to deliver our merchandise in a timely manner.

Our customer call center and Direct's order fulfillment operations are housed together in a single facility, while distribution operations for J.Crew retail and factory stores are housed in another single facility. Although we maintain back-up systems for these facilities, they may not be able to prevent a significant interruption in the operation of these facilities due to natural disasters, accidents, failures of the inventory locator or automated packing and shipping systems we use or other events. In addition, we have recently upgraded certain Direct channel systems, including our web platform, order management system and warehouse management system in order to support recent and expected future growth. We experienced some interruptions during fiscal 2008 in connection with our implementation and while we made progress in stabilizing these systems during fiscal 2008, there can be no assurance that future interruptions will not occur. Any significant interruption in the operation of these facilities, including an interruption caused by our failure to successfully expand or upgrade our systems or manage our transition to utilizing the expansions or upgrades, could reduce our ability to receive and process orders and provide products and services to our stores and customers, which could result in lost sales, cancelled sales and a loss of loyalty to our brand.

We are subject to customs, advertising, consumer protection, privacy, zoning and occupancy and labor and employment laws that could require us to modify our current business practices and incur increased costs.

We are subject to numerous regulations, including customs, truth-in-advertising, consumer protection, privacy and zoning and occupancy laws and ordinances that regulate retailers generally and/or govern the importation, promotion and sale of merchandise and the operation of retail stores and warehouse facilities. If these regulations were to change or were violated by our management, employees, suppliers, buying agents or trading companies, the costs of certain goods could increase, or we could experience delays in shipments of our goods, be subject to fines or penalties, or suffer reputational harm, which could reduce demand for our merchandise and hurt our business and results of operations. In addition, changes in federal and state minimum wage laws and other laws relating to employee benefits could cause us to incur additional wage and benefits costs, which could hurt our profitability.

Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business.

Any material disruption of our information systems could disrupt our business and reduce our sales.

We are increasingly dependent on information systems to operate our website, process transactions, respond to customer inquiries, manage inventory, purchase, sell and ship goods on a timely basis and maintain cost-efficient operations. In fiscal 2008, we upgraded certain of our information systems to support recent and expected future growth. These system upgrades impaired our ability to capture, process and ship customer orders, and transfer product between channels. We incurred additional costs associated with these upgrades which impacted our operating results in fiscal 2008. We made progress in stabilizing these systems during fiscal 2008, but there can be no assurances that future disruptions will not occur. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems, including a disruption or slowdown caused by our failure to successfully upgrade our systems, could cause information, including data related to customer orders, to be lost or delayed which could—especially if the disruption or slowdown occurred during the holiday season—result in delays in the delivery of merchandise to our stores and customers or lost sales, which could reduce demand for our merchandise and cause our sales to decline. Moreover, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our customers and might lack sufficient resources to make the necessary investments in technology to compete with our competitors. Accordingly, if changes in technology cause our information systems to become obsolete, or if our information systems are inadequate to handle our growth, we could lose customers.

Our Internet operations are an increasingly substantial part of our business, representing approximately 24% of our revenues in fiscal 2008. In addition to changing consumer preferences and buying trends relating to Internet usage, we are vulnerable to certain additional risks and uncertainties associated with the Internet, including changes in required technology interfaces, website downtime and other technical failures, security breaches, and consumer privacy concerns. Our failure to successfully respond to these risks and uncertainties could reduce Internet sales and damage our brand's reputation.

We have taken over certain portions of our information systems needs that were previously outsourced to a third party and are making upgrades to our information systems. We may take over other outsourced portions of our information systems in the near future. If we are unable to manage these aspects of our information systems or the planned upgrades, our receipt and delivery of merchandise could be disrupted, which could result in a decline in our sales.

Our debt may limit the cash flow available for our operations, place us at a competitive disadvantage, and limit our ability to pursue our expansion plans.

As of January 31, 2009, we had total debt of approximately $100.0 million. The terms of our indebtedness may:

- require us to use a substantial portion of our cash flow from operations to pay interest and principal on our debt, which would reduce the funds available to use for working capital, capital expenditures and other general corporate purposes,

- limit our ability to pay future dividends,
- limit our ability to obtain additional financing for working capital, capital expenditures, expansion plans and other investments, which may limit our ability to implement our business strategy,
- result in higher interest expense if interest rates increase on our floating rate borrowings,
- heighten our vulnerability to further downturns in our business, the industry or in the general economy and limit our flexibility in planning for or reacting to changes in our business and the retail industry,
- prevent us from taking advantage of business opportunities as they arise or successfully carrying out our plans to expand our store base, product offerings and sales channels, or
- include restrictive covenants that limit management's discretion in operating our business. In particular, these agreements include, or may include, covenants or restrictions relating to limitations on capital expenditures; liens and sale-leaseback transactions; loans and investments; debt and hedging arrangements; mergers, acquisitions and asset sales; transactions with affiliates; and changes in business activities conducted by us and our subsidiaries.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in amounts sufficient to enable us to make payments on our indebtedness or to fund our operations.

In addition, our indebtedness may require us, under certain circumstances, to maintain certain financial ratios. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility" and "MD&A-Term Loan."

Compliance with these covenants and these ratios may prevent us from pursuing opportunities that we believe would benefit our business, including opportunities that we might pursue as part of our plans to expand our store base, our product offerings and sales channels.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We are headquartered in New York City. Our headquarters offices are leased under a lease agreement expiring in 2012, with an option to renew thereafter. We also have entered into a lease for additional corporate office space in New York City which expires in 2012 with an option to terminate early. We own two facilities: a 262,000 square foot customer contact call center, order fulfillment and distribution center in Lynchburg, Virginia and a 282,000 square foot distribution center in Asheville, North Carolina. We also lease a 63,700 square foot facility in Lynchburg, Virginia under a lease agreement expiring in April 2011, with an option to renew thereafter.

As of January 31, 2009, we operated 226 retail stores, including five crewcuts stores, one Men's store, one Women's Collection store, and 10 Madewell stores; and 74 factory stores, including one crewcuts factory store, in 42 states and the District of Columbia. All of the retail and factory stores are leased from third parties and the leases historically have in most cases had terms of 5 to 10 years. A portion of our leases have options to renew for periods typically ranging from 5 to 10 years. Generally, the leases contain standard provisions concerning the payment of rent, events of default and the rights and obligations of each party. Rent due under the leases is generally comprised of annual base rent plus a contingent rent payment based on the store's sales in excess of a specified threshold. Some of the leases also contain early termination options, which can be exercised by us or the landlord under certain conditions. The leases also generally require us to pay real estate taxes, insurance and certain common area costs. Excluding our stores and headquarters offices, all of our properties, whether owned or leased, are subject to liens or security interests under our credit facility.

The table below sets forth the number of retail and factory stores, including crewcuts stores, one Men's store, one Women's Collection store, and Madewell stores, operated by us in the United States as of January 31, 2009.

	Retail Stores	Factory Stores	Total Number of Stores
Alabama	3	1	4
Arizona	4	1	5
California	29	6	35
Colorado	4	3	7
Connecticut	9	2	11
Delaware	—	1	1
Florida	12	9	21
Georgia	7	3	10
Hawaii	1	—	1
Illinois	9	1	10
Indiana	1	2	3
Iowa	1	—	1
Kentucky	2	—	2
Louisiana	2	—	2
Maine	—	2	2
Maryland	6	3	9
Massachusetts	11	2	13
Michigan	7	2	9
Minnesota	5	—	5
Mississippi	1	—	1
Missouri	3	1	4
Nebraska	1	—	1
Nevada	4	2	6
New Hampshire	1	2	3
New Jersey	14	4	18
New Mexico	1	—	1
New York	21	4	25
North Carolina	7	2	9
Ohio	6	1	7
Oklahoma	2	—	2
Oregon	3	—	3
Pennsylvania	10	5	15
Rhode Island	2	—	2
South Carolina	2	3	5
Tennessee	3	1	4
Texas	14	5	19
Utah	2	1	3
Vermont	1	1	2
Virginia	7	2	9
Washington	3	1	4
Wisconsin	3	1	4
District of Columbia	2	—	2
Total	226	74	300

ITEM 3. LEGAL PROCEEDINGS.

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

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

No matters were submitted to a vote of security holders during the quarter ended January 31, 2009.

PART II

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

Our common stock has been traded on the New York Stock Exchange under the symbol "JCG" since June 28, 2006. Prior to that time there was no public market for our stock. The following table sets forth the high and low sale prices of our common stock as reported on the New York Stock Exchange:

Market Information

	Fiscal 2007		Fiscal 2008	
	High	Low	High	Low
First Quarter	$ 43.05	$ 33.50	$ 50.21	$ 39.53
Second Quarter	$ 57.17	$ 38.06	$ 50.35	$ 27.23
Third Quarter	$ 56.43	$ 33.69	$ 38.00	$ 15.13
Fourth Quarter	$ 51.96	$ 34.03	$ 20.59	$ 8.02

Record Holders

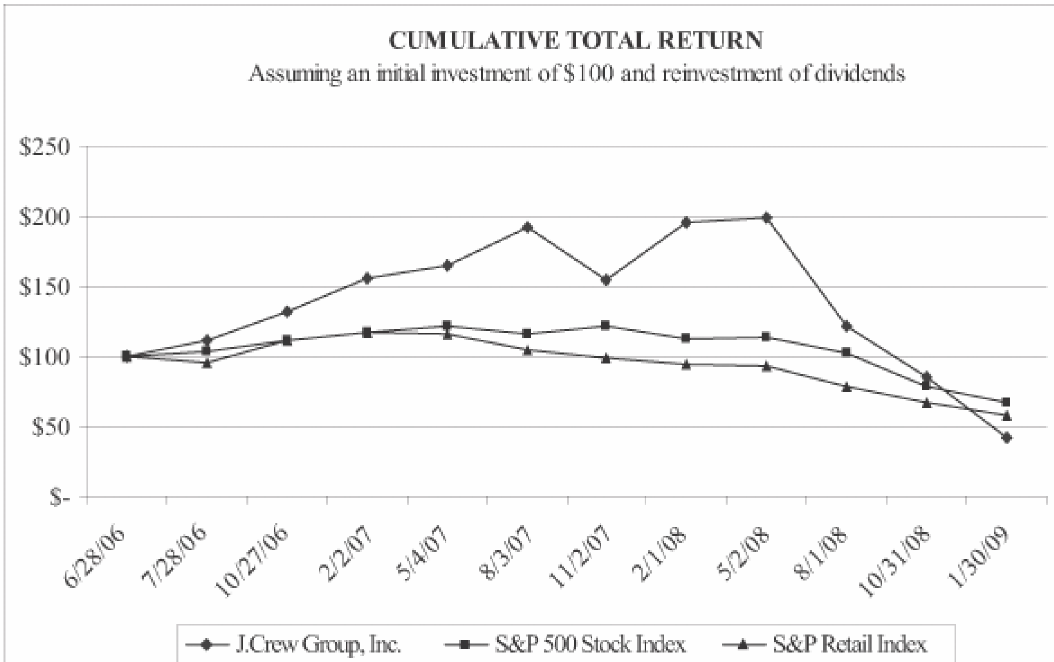
As of March 6, 2009, there were 52 record holders of our common stock.

Dividends

We have never paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business, and we do not anticipate paying any cash dividends in the foreseeable future. In addition, because we are a holding company, our ability to pay dividends depends on our receipt of cash dividends from our subsidiaries. The terms of certain of our and Operating's outstanding indebtedness substantially restrict the ability of either company to pay dividends. For more information about these restrictions, see "MD&A—Credit Facility" and "MD&A—Term Loan". Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in current and future financing instruments and other factors that our board of directors deems relevant.

Performance Graph

The following graph and table shows the cumulative total stockholder return on the Company's Common Stock with the S&P 500 Stock Index and the S&P Retail Index, in each case assuming an initial investment of $100 and reinvestment of dividends, if any.



	1/28/06	2/3/07	2/2/08	1/31/09
J.Crew Group, Inc.	$ 100	$ 156	$ 195	$ 42
S&P 500 Stock Index	$ 100	$ 117	$ 113	$ 67
S&P Retail Index	$ 100	$ 117	$ 95	$ 58

All amounts rounded to the nearest dollar. The stock performance shown in the graph is included in response to the SEC's requirements and is not intended to forecast or be indicative of future performance.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

The selected historical consolidated financial data for each of the years in the three-year period ended January 31, 2009 and as of January 31, 2009 have been derived from our audited consolidated financial statements included elsewhere herein. The selected historical consolidated financial data for each of the years in the two-year period ended January 28, 2006 have been derived from our audited consolidated financial statements which are not included herein. The consolidated financial statements for each of the years in the five-year period ended January 31, 2009 and as of the end of each such year have been audited.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. The information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes included herein.

	Year Ended(1)				
	January 29, 2005	January 28, 2006	February 3, 2007	February 2, 2008	January 31, 2009
	(in thousands, except per share data)				
Income Statement Data					
Revenues	$ 804,216	$ 953,188	$1,152,100	$1,334,723	$1,427,970
Cost of goods sold(2)	478,829	555,192	651,748	746,180	872,547
Gross profit	325,387	397,996	500,352	588,543	555,423
Selling, general and administrative expense	287,745	318,499	374,738	416,064	458,738
Income from operations	37,642	79,497	125,614	172,479	96,685
Interest expense, net	87,571	72,903	43,993	11,224	5,940
Loss on debt refinancing	49,780	—	10,039	—	—
Provision (benefit) for income taxes	600	2,800	(6,200)	64,180	36,628
Net income (loss)	(100,309)	3,794	77,782	97,075	54,117
Preferred stock dividends	(13,456)	(13,456)	(6,141)	—	—
Net income (loss) applicable to common shareholders	$(113,765)	$ (9,662)	$ 71,641	$ 90,075	$ 54,117
Net income (loss) per share					
Basic	$ (4.82)	$ (0.39)	$ 1.61	$ 1.61	$ 0.88
Diluted	$ (4.82)	$ (0.39)	$ 1.49	$ 1.52	$ 0.85
Weighted average shares outstanding					
Basic	23,626	24,472	44,558	60,346	61,687
Diluted	23,626	24,472	48,039	63,748	64,027

	As of				
	January 29, 2005	January 28, 2006	February 3, 2007	February 2, 2008	January 31, 2009
	(in thousands)				
Balance Sheet Data					
Cash and cash equivalents	$ 23,647	$ 61,275	$ 88,900	$ 131,510	$ 146,430
Working capital	12,168	72,657	117,100	138,049	183,059
Total assets	278,194	337,321	428,066	535,596	613,809
Total long-term debt and preferred stock	669,733	724,667	200,000	125,000	99,200
Stockholders' equity (deficit)	(581,712)	(587,843)	5,620	140,322	224,949

(1) J.Crew's fiscal year ends on the Saturday closest to January 31. Fiscal years ended January 29, 2005 (Fiscal 2004), January 28, 2006 (Fiscal 2005), February 2, 2008 (Fiscal 2007) and January 31, 2009 (Fiscal 2008) consisted of 52 weeks, while the fiscal year ended February 3, 2007 (Fiscal 2006) consisted of 53 weeks.

(2) Includes buying and occupancy costs.

	Year Ended(1)				
	January 29, 2005	January 28, 2006	February 3, 2007	February 2, 2008	January 31, 2009
	(in thousands except percentages; numbers of stores; catalog pages; and per square foot data)				
Operating Data					
Revenues					
Stores	$579,793	$ 670,447	$ 808,542	$ 914,810	$ 974,284
Direct					
Internet	121,954	159,812	218,659	293,330	338,253
Catalog	76,548	93,870	89,952	84,114	70,663
Other(2)	25,921	29,059	34,947	42,469	44,770
Total revenues	$ 804,216	$953,188	$1,152,100	$1,334,723	$1,427,970
Stores:					
Sales per gross square foot (52 week basis)	$ 400	$ 457	$ 526	$ 573	$ 551
Number of stores open at end of period	197	203	227	260	300
Comparable stores sales change(3)	16.4%	13.4%	13.0%	5.6%	(4.0)%
Direct:					
Number of catalogs circulated	50,000	55,000	50,000	49,000	44,400
Number of pages circulated (in millions)	5,400	6,100	5,400	5,300	5,200
Depreciation and amortization	$ 37,061	$ 33,461	$ 33,525	$ 34,140	$ 44,143
Capital expenditures:					
New store openings	$ 5,910	$ 8,243	$ 21,277	$ 38,313	$ 41,700
Other(4)	7,521	13,695	24,654	42,305	35,826
Total capital expenditures	$ 13,431	$ 21,938	$ 45,931	$ 80,618	$ 77,526

(1) The fiscal year ended February 3, 2007 consisted of 53 weeks. All other fiscal years presented consisted of 52 weeks.

(2) Consists primarily of shipping and handling fees.

(3) Comparable store sales includes net sales at stores open at least twelve months (52 week basis).

(4) Consists primarily of expenditures on store remodels, information technology and warehouse expansion.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This discussion summarizes our consolidated operating results, financial condition and liquidity during the three-year period ended January 31, 2009. Our fiscal year ends on the Saturday closest to January 31. Fiscal years 2008, 2007 and 2006 ended on January 31, 2009, February 2, 2008 and February 3, 2007, respectively. Fiscal year 2008 and 2007 consisted of 52 weeks each, while fiscal 2006 consisted of 53 weeks. The extra week in fiscal 2006 was reflected in the fourth quarter. The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 10-K.

This discussion contains forward-looking statements involving risks, uncertainties and assumptions that could cause our results to differ materially from expectations. Factors that might cause such differences include those described under "Risk Factors," "Disclosure Regarding Forward-Looking Statements" and elsewhere in this annual report on Form 10-K.

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.

On the basis of data collected on our Internet channel customers, we believe our customer base consists primarily of affluent, college-educated and professional and fashion-conscious women and men. As of January 31, 2009, we operated 226 retail stores, including five crewcuts stores, one Men's store, one Women's Collection store, and 10 Madewell stores; and 74 factory stores, including one crewcuts factory store, throughout the United States.

The following is a summary of fiscal 2008 highlights:

- Revenues totaled $1,428.0 million, reflecting a 7% increase over prior year revenues of $1,334.7 million.
- Comparable store sales decreased 4%.
- Direct net sales increased 8.3% to $408.9 million.
- Income from operations decreased 44% to $96.7 million, or 6.8% of revenues.
- We collected $9.3 million of refundable income taxes including interest.
- Voluntary prepayment of $25.0 million was made under the Term Loan.
- We opened 23 and closed one J.Crew retail stores; opened 14 and closed one J.Crew factory stores, including one crewcuts standalone factory store and opened four Madewell stores.
- We implemented certain Direct channel systems upgrades including a new platform for our website, a new order management system in our call center and a new warehouse management system. These systems upgrades impaired our ability to capture, process and ship customer orders, and transfer products between channels during the second, third, and fourth quarters. We incurred additional costs associated with these upgrades which adversely impacted our operating results in fiscal 2008. We made progress in stabilizing our Direct channel systems during the second half of fiscal 2008 and are continuing our stabilization efforts in 2009.

The following is a summary of our cost reduction program announced in February 2009:

- On February 27, 2009, the Company announced that is has initiated a workforce reduction as part of a cost reduction program that is expected to generate approximately $40 million in annualized pre-tax savings. This program is being implemented in response to the challenging economic environment, which is anticipated to continue through fiscal 2009. The workforce reduction impacted approximately 95 positions, including positions that are currently unfilled, primarily in the Company's New York offices and support functions in the field and distribution centers. We expect to incur a pre-tax charge of approximately $1.5 million during the first quarter of fiscal 2009 mainly to reflect anticipated severance and related costs for affected individuals. In addition to the workforce reduction, the Company also suspended its 401(k) Plan Company matching contributions through the balance of 2009, eliminated 2009 merit based wage increases for the entire workforce and initiated other cost reduction initiatives.

We have two primary sales channels: Stores, which consists of our retail, crewcuts, Madewell and factory stores, and Direct, which consists of our catalog and Internet website. The following is a summary of our net sales:

(Dollars in millions)	Fiscal 2006	Fiscal 2007	Fiscal 2008
Stores	$ 808.5	$ 914.8	$ 974.3
Direct	308.6	377.4	408.9
Net sales	$1,117.1	$1,292.2	$1,383.2

Our recent growth has led to increased buying and occupancy costs and increased selling, general and administrative expenses. The most significant components of these increases were occupancy and wage costs, particularly at retail and factory stores due primarily to the opening of new stores, as well as lease renewals. We expect these other costs—particularly our store occupancy costs—to increase as we pursue our strategy of expanding our retail and factory store base.

While we believe our growth strategy offers significant opportunities, it also presents significant risks and challenges, including, among others, the risks that we may not be able to hire and train qualified sales associates, that our new product offerings and expanded sales channels may not maintain or enhance our brand identity and that our order fulfillment and distribution facilities and information systems may not be adequate to support our growth plans. In addition, we must also seek to ensure that implementation of these plans does not divert management's attention from continuing to build on the strengths that we believe have driven our recent success, including, among others, our focus on improving the quality of our products, pursuing a disciplined merchandising strategy and improving our store environments and our customer service. For a more complete discussion of the risks facing our business, see "Risk Factors."

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 for determining how our business is performing is comparable store sales for Stores and net sales for Direct. We also consider gross profit and selling, general and administrative expenses in assessing the performance of our business.

Net Sales

Net sales reflect our revenues from the sale of our merchandise less returns and discounts.

We aggregate our merchandise into four sales categories: women's, men's, and children's apparel, which consist of items of clothing such as shirts, sweaters, pants, dresses, jackets, outerwear and suits; and accessories, which consists of items such as shoes, socks, jewelry, bags, belts and hair accessories.

The approximate percentage of our sales derived from these four categories, based on our internal merchandising systems, is as follows:

	Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
Apparel			
Women's	65%	66%	66%
Men's	21%	20%	19%
Children's	1%	1%	3%
Accessories	13%	13%	12%
	100%	100%	100%

Our crewcuts children's concept was introduced in the first quarter of fiscal 2006 with the opening of 10 shops within our J.Crew retail stores followed by the opening of two stand-alone stores in the third quarter of fiscal 2006. During fiscal 2008 we opened a standalone crewcuts factory store and 10 shop-in-shops within our Factory stores. As of January 31, 2009, we operated 42 crewcuts shop-in-shops in our J.Crew retail stores, five standalone crewcuts retail stores, one standalone crewcuts factory store, and 10 crewcuts shop-in-shops within our factory stores.

Comparable Store Sales

Comparable store sales reflects net sales at stores that have been open for at least twelve months. Therefore, a store is included in comparable store sales on the first day it has comparable prior year sales. In the first quarter of fiscal 2008, we refined our comparable store sales calculation to include the impact of more significant remodelings of our stores. Stores that have changed their square footage by 15% or more and stores that have been closed for 30 consecutive days are considered non-comparable. Non-comparable store sales include net sales from new stores that have not been open for twelve months, stores impacted by remodels as discussed above, and net sales from closed stores and temporary stores. In fiscal 2006, comparable store sales excluded the impact of the 53rd week.

By measuring the change in year-over-year net sales in stores that have been open for twelve months or more, comparable store sales allows us to evaluate how our core store base is performing. Various factors affect comparable store sales, including:

- consumer preferences, buying trends and overall economic trends,
- our ability to anticipate and respond effectively to fashion trends and customer preferences,
- competition,
- changes in our merchandise mix,
- pricing,
- the timing of our releases of new merchandise and promotional events,
- the level of customer service that we provide in our stores,
- changes in sales mix among sales channels,
- our ability to source and distribute products efficiently, and
- the number of stores we open, close (including for temporary renovations) and expand in any period.

As we continue to open new stores, we expect that a greater percentage of our revenues will come from non-comparable store sales.

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 substantially higher in our fourth fiscal quarter, particularly December, as customers make holiday purchases. In fiscal 2008, we realized approximately 27% of our revenues in the fourth fiscal quarter compared to 30% in fiscal 2007. This percentage was lower in 2008 due to the macroeconomic environment which resulted in increased markdowns in the fourth quarter of fiscal 2008.

Gross Profit

Gross profit is equal to our revenues minus our cost of goods sold. Cost of goods sold includes the direct cost of purchased merchandise, freight, design, buying and production costs, occupancy costs related to store operations (such as rent and utilities) and all shipping costs associated with our Direct business. Our cost of goods sold is substantially higher in the holiday season because cost of goods sold generally increases as revenues increase and cost of goods sold includes the cost of purchasing merchandise that we sell to generate revenues. Cost of goods sold also generally changes as we expand or contract our store base and incur higher or lower store occupancy and related costs. The primary drivers of the costs of individual goods are the costs of raw materials and labor in the countries where we source our merchandise. Gross margin measures gross profit as a percentage of our revenues.

Our gross profit may not be comparable to other specialty retailers, as some companies include all of the costs related to their distribution network in cost of goods sold while others, like us, exclude all or a portion of them from cost of goods sold and include them in selling, general and administrative expenses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include all operating expenses not included in cost of goods sold, primarily catalog production and mailing costs, certain warehousing expenses, administrative payroll, store expenses other than occupancy costs, depreciation and amortization and credit card fees. These expenses do not necessarily vary proportionally with net sales.

Results of Operations

The following table presents, for the periods indicated, our operating results as a percentage of revenues as well as selected store data:

	Fiscal Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
Revenues	100.0%	100.0%	100.0%
Cost of goods sold, including buying and occupancy costs(1)	56.6	55.9	61.1
Gross profit(1)	43.4	44.1	38.9
Selling, general and administrative expenses(1)	32.5	31.2	32.1
Income from operations	10.9	12.9	6.8
Interest expense, net	3.8	0.8	0.4
Loss on refinancing of debt	0.9	—	—
Income before income taxes	6.3	12.1	6.4
Provision (benefit) for income taxes	(0.5)	4.8	2.6
Net income	6.8%	7.3%	3.8%

	Fiscal Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
Selected store data:			
Number of stores open at end of period	227	260	300
Sales per gross square foot (52 week basis)	$ 526	$ 573	$ 551
Comparable store sales change (52 week basis)	13.0%	5.6%	(4.0)%

(1) We exclude a portion of our distribution network costs from the cost of goods sold and include them in selling, general and administrative expenses. Our gross profit therefore may not be directly comparable to that of some of our competitors.

Fiscal 2008 Compared to Fiscal 2007

	Fiscal Year Ended					
	January 31, 2009 (Fiscal 2008)		February 2, 2008 (Fiscal 2007)		Variance	
(Dollars in millions)	Amount	Percent of Revenues	Amount	Percent of Revenues	Dollars	Percentages
Revenues	$1,427.9	*100.0%*	$1,334.7	*100.0%*	$ 93.2	*7.0%*
Gross profit	555.4	*38.9%*	588.5	*44.1%*	(33.1)	*(5.6)%*
Selling, general & administrative expenses	458.7	*32.1%*	416.1	*31.2%*	42.6	*10.3%*
Income from operations	96.7	*6.8%*	172.5	*12.9%*	(75.8)	*(43.9)%*
Interest expense, net	5.9	*0.4%*	11.2	*0.8%*	(5.3)	*(47.1)%*
Provision for income taxes	36.6	*2.6%*	64.2	*4.8%*	(27.6)	*(42.9)%*
Net income	$ 54.1	*3.8%*	$ 97.1	*7.3%*	$ (43.0)	*(44.3)%*

Revenues

Revenues in fiscal 2008 increased by $93.2 million, or 7.0%, to $1,427.9 million from $1,334.7 million in fiscal 2007. The increase in revenues for fiscal 2008 resulted from the additional number of store locations compared to the prior year and the increase in Direct sales, partially offset by decreased comparable store sales. We believe the increase in revenues is due to the continuing appeal of our expanded product line in both Stores and Direct and our continuing commitment to customer service. Given the overall macroeconomic environment during the second half of fiscal 2008, we saw a notable softening of the sales trend, especially during the fourth quarter, in both stores and Direct, which contributed to the decreased comparable store sales, and which we expect to continue in fiscal 2009.

Stores sales increased by $59.5 million, or 6.5%, to $974.3 million in fiscal 2008 from $914.8 million in fiscal 2007. Comparable store sales decreased by 4.0% to $850.1 million in fiscal 2008 from $885.5 million in the prior year. Non-comparable store sales were $124.2 million in fiscal 2008.

Direct sales increased by $31.5 million, or 8.3%, to $408.9 million in fiscal 2008 from $377.4 million in fiscal 2007. The Direct sales increase reflects an increase in our Internet revenues of $45.0 million, partially offset by a decrease in our catalog revenues of $13.5 million as compared to fiscal 2007.

The increase in Stores and Direct sales during fiscal 2008 was primarily driven by an increase in sales of women's apparel. This increase was largely driven by sales of sweaters, knits, and pants. Sales of men's apparel and accessories also increased during the year.

Other revenues increased by $2.3 million due primarily to an increase in shipping and handling fees of $1.5 million from $37.9 million in fiscal 2007 to $39.4 million in fiscal 2008 primarily as a result of an increase in orders in the Direct business.

Gross Profit

In fiscal 2008, gross profit decreased by $33.1 million, or 5.6%, to $555.4 million from $588.5 million in fiscal 2007. The change in the components of gross profit were as follows:

(Dollars in millions)	
Increase in revenues	$ 51.5
Decrease in gross margin	(60.1)
Increase in buying and occupancy costs	(24.5)
	$ (33.1)

Gross margin decreased from 44.1% in fiscal 2007 to 38.9% in fiscal 2008. The decrease in gross margin was due primarily to a decrease of 420 basis points in merchandise margin, primarily due to increased markdowns during the fourth quarter, and a 100 basis point increase in buying and occupancy costs. We expect the trend of increased markdowns to continue in the first half of fiscal 2009 and increased buying and occupancy costs to continue in fiscal 2009.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $42.6 million, or 10.3%, to $458.7 million in fiscal 2008 from $416.1 million in fiscal 2007. The increase resulted primarily from:

- an increase in stores operating expenses—primarily payroll and payroll-related expenses associated with our growth in store locations—of $25.4 million;
- an increase in Direct operating expenses—primarily payroll, payroll-related, and consulting expenses—of $15.6 million, which includes $9.6 million related to our Direct channel stabilization efforts;
- an increase in catalog costs of $5.2 million;
- an increase in non-cash asset impairment charges related to underperforming stores of $2.7 million; offset by
- a decrease in share-based and incentive compensation of $12.1 million.

As a percentage of revenues, selling, general and administrative expenses increased to 32.1% in fiscal 2008 from 31.2% in fiscal 2007, resulting primarily from the fact that these expenses increased at a faster rate than revenues during fiscal 2008, which we expect to continue in fiscal 2009. See "Executive Overview" for discussion of our cost reduction program announced in February 2009.

Interest Expense, Net

Interest expense, net decreased $5.3 million to $5.9 million in fiscal 2008 from $11.2 million in fiscal 2007. This decrease primarily reflects our lower average outstanding debt in fiscal 2008 resulting from voluntary prepayments under the Term Loan and declining interest rates.

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

	Year Ended	
	February 2, 2008	January 31, 2009
	(amounts in millions)	
Interest expense related to:		
Term Loan	11.8	5.0
Other	1.1	0.7
Amortization of deferred financing costs	2.3	2.2
Total interest expense	15.2	7.9
Interest income	(4.0)	(2.0)
Interest expense, net	$ 11.2	$ 5.9

Provision for Income Taxes

The effective tax rate was 40.4% in fiscal 2008 compared to 39.8% in fiscal 2007. The increase in the rate is due to certain losses not deductible for state income tax purposes.

Net Income

Net income decreased $43.0 million to $54.1 million in fiscal 2008 from $97.1 million in fiscal 2007. This decrease was due to a $33.1 million decrease in gross profit primarily driven by a lower gross margin rate, partially offset by the 7.0% increase in revenue, and a $42.6 million increase in selling, general and administrative expenses, offset by a $5.3 million decrease in interest expense and a $27.6 million decrease in the provision for income taxes.

Fiscal 2007 Compared to Fiscal 2006

	Fiscal Year Ended					
	February 2, 2008 (Fiscal 2007) (52 weeks)		February 3, 2007 (Fiscal 2006) (53 weeks)		Variance	
(Dollars in millions)	Amount	Percent of Revenues	Amount	Percent of Revenues	Dollars	Percentages
Revenues	$1,334.7	100.0%	$1,152.1	100.0%	$182.6	15.8%
Gross profit	588.5	44.1%	500.4	43.4%	88.1	17.6%
Selling, general & administrative expenses	416.1	31.2%	374.7	32.5%	41.4	11.0%
Income from operations	172.5	12.9%	125.6	10.9%	46.9	37.3%
Interest expense, net	11.2	0.8%	44.0	3.8%	(32.8)	(74.5)%
Loss on refinancing of debt	—	—	10.0	0.9%	(10.0)	(100.0)%
Provision (benefit) for income taxes	64.2	4.8%	(6.2)	(0.5)%	70.4	NM
Net income	$ 97.1	7.3%	$ 77.8	6.8%	$ 19.3	24.8%

Revenues

Revenues in fiscal 2007 increased by $182.6 million, or 15.8%, to $1,334.7 million from $1,152.1 million in fiscal 2006. We believe this increase reflects 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 continuing improvements in our customer service. Fiscal 2007 consisted of 52 weeks, as compared to fiscal 2006. which consisted of 53 weeks. The impact of the 53rd week on fiscal 2006 revenues was $12.6 million.

Stores sales increased by $106.3 million, or 13.1%, to $914.8 million in fiscal 2007 from $808.5 million in fiscal 2006. Comparable store sales increased by 5.6% to $838.5 million in fiscal 2007 from $794.3 million in the prior year. Realigning fiscal 2006's calendar weeks to be consistent with the fiscal 2007 retail calendar weeks would increase comparable store sales in 2006 to $794.4 million, resulting in a comparable store sales increase of 5.5%. Non-comparable store sales were $76.3 million in fiscal 2007. The impact of the 53 rd week on fiscal 2006 stores sales was $8.2 million.

Direct sales increased by $68.8 million, or 22.3%, to $377.4 million in fiscal 2007 from $308.6 million in fiscal 2006. A lower return rate accounted for 3.5 percentage points of the increase. We believe the return rate decreased in part because of improvements in fit and quality as well as an increase in the penetration of categories with lower returns. The Direct sales increase reflects an increase in our Internet revenues of $74.6 million, or 34.1%, partially offset by a decrease in our catalog revenues of $5.8 million, or 6.5% as compared to fiscal 2006. The impact of the 53 rd week on fiscal 2006 direct sales was $3.9 million.

The increase in Stores and Direct sales during fiscal 2007 was primarily driven by an increase in sales of women's apparel. The increase was largely driven by sales of sweaters, knits and jackets. Sales of men's apparel and accessories also increased during the year.

Other revenues increased by $7.5 million due primarily to an increase in shipping and handling fees of $6.6 million from $31.3 million in fiscal 2006 to $37.9 million in fiscal 2007 primarily as a result of an increase in orders in the Direct business. The impact of the 53 rd week on fiscal 2006 other revenues was $0.5 million.

Gross Profit

In fiscal 2007, gross profit increased by $88.1 million, or 17.6%, to $588.5 million from $500.4 million in fiscal 2006. The change in the components of gross profit were as follows:

(Dollars in millions)	
Increase in revenues	$ 99.1
Increase in gross margin	11.9
Increase in buying and occupancy costs	(22.9)
	$ 88.1

Gross margin increased from 43.4% in fiscal 2006 to 44.1% in fiscal 2007. The increase in gross margin was due primarily to an increase of 90 basis points in merchandise margins, offset by a 20 basis point increase in buying and occupancy costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $41.4 million, or 11.0%, to $416.1 million in fiscal 2007 from $374.7 million in fiscal 2006. The increase resulted primarily from:

- an increase in Direct and Stores operating expenses, primarily payroll and payroll related expenses associated with new stores, of $27.5 million,

- an increase in expenses related to the Madewell and crewcuts businesses of $4.0 million,
- an increase in corporate occupancy expenses of $3.4 million attributable to additional office space,
- an increase in share-based compensation expense of $3.2 million, and
- severance costs of $2.3 million recorded in connection with the departure of a senior executive.

As a percentage of revenue, selling, general and administrative expenses decreased to 31.2% in fiscal 2007 from 32.5% in fiscal 2006, resulting primarily from the fact that these expenses increased at a slower rate than revenues during fiscal 2007.

Interest Expense, Net

Interest expense, net decreased by $32.8 million to $11.2 million in fiscal 2007 from $44.0 million in fiscal 2006. This decrease primarily reflects our lower average outstanding debt in fiscal 2007 resulting from voluntary prepayments under the Term Loan. 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 (the "IPO") in July 2006.

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

	Year Ended	
(Dollars in millions)	February 3, 2007	February 2, 2008
Accreted dividends on mandatorily redeemable preferred stock	$ 20.8	$ —
Interest expense related to:		
9 3/4% Senior Subordinated Notes due 2014	7.7	—
Term Loan	14.3	11.8
13 1/8% Senior Discount Debentures due 2008	1.1	—
5.0% Convertible Notes Payable	0.5	—
Amortization of deferred financing costs	1.5	2.3
Other	1.1	1.1
Total interest expense	47.0	15.2
Interest income	(3.0)	(4.0)
Interest expense, net	$ 44.0	$ 11.2

Loss on Refinancing of Debt

The loss on refinancing of debt of $10.0 million in 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 3/4% Notes in May 2006.

Provision (Benefit) for Income Taxes

The provision for income taxes in fiscal 2007 and fiscal 2006 is not comparable. The effective tax rate in fiscal 2006 of (8.7)% was not reflective of a normalized rate 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 reversal at February 3, 2007 of a valuation allowance which fully reserved net deferred income tax assets.

The income tax provision for fiscal 2007 reflects a more normalized effective tax rate of 39.8%.

Net Income

Net income increased $19.3 million to $97.1 million in fiscal 2007 from $77.8 million in fiscal 2006. This increase was due to an $88.1 million increase in gross profit primarily driven by the 15.8% increase in revenues, a $32.8 million decrease in interest expense, offset by a $41.4 million increase in selling, general and administrative expenses, and a $70.4 million increase in the provision for income taxes. In addition, fiscal 2006 included a $10.0 million loss on refinancing of debt.

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 Credit Facility. Our primary cash needs are capital expenditures in connection with opening new stores and remodeling our existing stores, making information technology system enhancements, meeting debt service requirements and funding working capital requirements. The most significant components of our working capital are cash and cash equivalents, merchandise inventories, accounts payable and other current liabilities. See "—Outlook" below.

Operating Activities

	Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
		(in millions)	
Net income	$ 77.8	$ 97.1	$ 54.1
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	33.5	34.1	44.1
Accreted dividends on redeemable preferred stock	20.8	—	—
Amortization of deferred financing costs	2.0	2.3	2.2
Loss on refinancing of debt	10.0	—	—
Deferred income taxes	(10.9)	8.1	13.0
Excess tax benefit from share based compensation	(12.9)	(22.2)	(13.5)
Share based compensation	3.8	7.0	8.4
Changes in inventories	(24.5)	(17.9)	(28.5)
Changes in accounts payable and other current liabilities	14.6	38.2	10.9
Changes in other operating assets and liabilities	6.7	21.5	4.7
Net cash provided by operations	$ 120.9	$ 168.2	$ 95.4

Cash provided by operating activities in fiscal 2008 was $95.4 million and consisted of (i) net income of $54.1 million, (ii) adjustments of $54.2 million, and (iii) changes in operating assets and liabilities of $12.9 million due primarily to increases in inventories and accounts payable resulting primarily from additional stores.

Cash provided by operating activities in fiscal 2007 was $168.2 million and consisted of (i) net income of $97.1 million, (ii) adjustments of $29.3 million and (iii) changes in operating assets and liabilities of $41.8 million due primarily to increases in inventories and accounts payable resulting from anticipated sales increases.

Cash provided by operating activities in fiscal 2006 was $120.9 million and consisted of (i) net income of $77.8 million, (ii) adjustments of $46.3 million and (iii) changes in operating assets and liabilities of $3.2 million due primarily to increases in inventories and accounts payable resulting from anticipated sales increases.

Investing Activities

Capital expenditures were $77.5 million in fiscal 2008, $80.6 million in fiscal 2007, and $45.9 million in fiscal 2006. Capital expenditures for the opening of new stores were $41.7 million in fiscal 2008, $38.3 million in fiscal 2007, and $21.3 million in fiscal 2006. The remaining capital expenditures in each period were for store renovation and refurbishment programs, and investments in information systems and distribution center initiatives as well as general corporate purposes. In light of the current economic conditions, we have slowed the pace of our store base expansion and plan to reduce capital expenditures as compared to recent years. Capital expenditures are planned at approximately $55 million for the 2009 fiscal year, including $20 to $25 million for new stores and $15 to $20 million for information technology enhancements and the remainder for store renovations and refurbishments and general corporate purposes.

Financing Activities

	Year Ended		
	February 3, 2007	February 2, 2008	January 31, 2009
		(in millions)	
Initial public offering of 21.6 million shares of common stock, net of expenses of $29.7 million	$ 402.8	$ —	$ —
Redemption of preferred stock	(358.3)	—	—
Proceeds from issuance of new debt, net of costs incurred	276.5	—	—
Repayment of debt	(386.5)	(75.0)	(25.0)
Proceeds from share based compensation plans	5.2	9.6	9.0
Excess tax benefit from share based compensation	12.9	22.2	13.5
Repurchase of common stock	—	(0.5)	(0.4)
Costs incurred in connection with amended and restated credit agreement	—	(1.3)	—
Net cash provided by (used in) financing activities	$ (47.4)	$ (45.0)	$ (2.9)

Cash used in financing activities was $2.9 million in fiscal 2008 resulting from the voluntary prepayment on the Term Loan, offset primarily by proceeds and tax benefits from share based compensation plans.

Cash used in financing activities was $45.0 million in fiscal 2007 resulting from the voluntary prepayments on the Term Loan, offset primarily by proceeds and tax benefits from share based compensation plans.

Financing activities in fiscal 2006 included the IPO and the Term Loan. The proceeds of these financings and our available cash from operations were used to redeem all of our outstanding indebtedness, including preferred stock, and to prepay $85.0 million of the Term Loan during 2006. In connection with the IPO, the 5.0% Notes Payable were converted into shares of our common stock. Our financing activities also included the recognition of excess tax benefits of $12.9 million from share based compensation. Our total indebtedness (including preferred stock) of $724.7 million at January 28, 2006 was reduced to $200.0 million at February 3, 2007.

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 the base rate, as defined, plus a margin of up to 0.25% or LIBOR plus a margin ranging from 1.0% to 1.25%. The margin is based upon quarterly excess availability levels specified in the Credit Facility. The total amount of availability is limited to the sum of: (a) 100% of qualified cash, (b) 90% of eligible receivables, (c) the lesser of 90% of eligible inventory and 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, (d) 65% of the fair market value of eligible real estate, and (e) less any reserves established by Citicorp. 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 was $192.7 million available in borrowings under the Credit Facility at January 31, 2009 based on the factors described above. There were no borrowings outstanding in fiscal 2008, 2007 or fiscal 2006.

Demand Letter of Credit Facility

On October 31, 2007, Operating entered into an unsecured, demand letter of credit facility with HSBC which provides for the issuance of up to $35 million of documentary letters of credit on a no fee basis. Outstanding letters of credit were $12.2 million and availability was $22.8 million at January 31, 2009 under this facility.

Term Loan

On May 15, 2006, Operating, as borrower, we and certain of Operating's direct and indirect subsidiaries, as guarantors, entered into the Term Loan, a $285.0 million senior secured term loan facility 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 as documentation agent.

The Company is required to make the following annual principal payments based upon certain conditions as set forth in the Term Loan: (i) 1% per annum of the original principal balance of the Term Loan due in quarterly installments 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 2007, the Company made aggregate voluntary prepayments of $75.0 million. In fiscal 2008, the Company made an additional voluntary prepayment of $25.0 million.

As of January 31, 2009, the amount outstanding under the Term Loan was $100.0 million, including $0.8 million due within the next year. Borrowings bear interest, at our option, at the base rate plus a margin of 0.75% or at LIBOR plus a margin of 1.75% per annum. All borrowings will mature on May 15, 2013.

The IPO and Related Transactions in Fiscal 2006

On July 3, 2006, we completed the IPO of our common stock, issuing 21,620,000 shares of our common stock at a price of $20.00 per share and realizing net proceeds of $402.8 million.

Since October 1997, when the Company completed a recapitalization as a result of which Texas Pacific Group ("TPG"), a private investment group, obtained a controlling interest in us, we have incurred significant amounts of interest on our debt and dividends on our preferred stock. A substantial portion of our outstanding debt and all of our preferred stock were redeemed, refinanced or converted into shares of our common stock prior to or shortly after the IPO. Specifically:

- on May 15, 2006, Operating repurchased, using $285.0 million in borrowings under the Term Loan and $12.7 million of cash on hand, the total principal amount ($275.0 million) of its 9 3/4% Notes (plus accrued and unpaid interest of $10.6 million) in a tender offer and consent solicitation and paid premiums, tender fees and other expenses of $13.3 million,
- on June 14, 2006, we redeemed all $21.7 million aggregate principal amount of outstanding 13 1/8% Debentures (plus accrued and unpaid interest of $0.5 million),
- on July 3, 2006, TPG-MD Investment, LLC, an entity controlled by TPG, our largest shareholder, and our chief executive officer and chairman of the board, Millard Drexler, converted the $20.0 million principal amount of Operating's 5.0% Notes Payable due 2008 (the "5.0% Notes Payable") (plus accrued and unpaid interest of $3.7 million) into 6,729,186 shares of our common stock at a conversion price of $3.52 per share of common stock immediately prior to the consummation of the IPO,
- on July 12, 2006, we made a $35.0 million voluntary prepayment of the borrowings under the Term Loan,
- on July 13, 2006, TPG purchased from us, at the IPO price of $20.00 per share, 3,673,729 shares of our common stock (the "TPG Subscription"),
- on July 13, 2006, we redeemed all outstanding $92.8 million liquidation value of our 14 1/2% Series A Cumulative Preferred Stock (plus accrued and unpaid dividends of $227.0 million) with a portion of the net proceeds of the IPO and the TPG Subscription, and
- on July 13, 2006, we redeemed all outstanding $32.5 million liquidation value of our 14 1/2% Series B Cumulative Redeemable Preferred Stock (plus accrued and unpaid dividends of $79.5 million) with a portion of the net proceeds of the IPO.

Outlook

Our short-term and long-term liquidity needs arise primarily from principal and interest payments on our indebtedness, capital expenditures associated with our expansion plans and growth strategy and working capital requirements. Management anticipates that capital expenditures in fiscal 2009 will be approximately $55 million, primarily for opening new stores, information technology enhancements, store renovations and refurbishments and general corporate purposes. As of January 31, 2009, we were permitted to borrow $192.7 million under the Credit Facility. Our annual debt service obligations will change by $1 million per year for each 1.0% change in the average interest rate we pay based on the $100.0 million balance of variable interest rate debt outstanding at January 31, 2009. Management believes that our current balances of cash and cash equivalents, 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 a portion of our international purchase of merchandise. We also enter into standby letters of credit as required to secure certain of our obligations, including insurance programs and duties related to import purchases. As of January 31, 2009, we had the following obligations under letters of credit in future periods.

Letters of Credit	Total	Within 1 Year	2-3 Years (in millions)	4-5 Years	After 5 Years
Standby	$ 7.3	$ —	$—	$—	$ 7.3
Documentary	12.2	12.2	—	—	—
	$19.5	$12.2	$—	$—	$ 7.3

Contractual Obligations

The following table summarizes our contractual obligations as of January 31, 2009 and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

	Total	Within 1 Year	2-3 Years (amounts in millions)	4-5 Years	After 5 Years
Term Loan(1)	$ 100.0	$ 0.8	$ 2.0	$ 97.2	$ —
Interest on long term debt(2)					
Operating lease obligations(3)	604.7	88.3	164.1	125.6	226.7
Unrecognized tax benefits(4)					
Purchase obligations:					
Inventory commitments	298.3	298.3	—	—	—
Employment agreements	7.1	2.2	3.5	1.4	—
Other	9.2	1.5	3.1	3.2	1.4
Total purchase obligations	314.6	302.0	6.6	4.6	1.4
Total	$1,019.3	$391.1	$172.7	$ 227.4	$ 228.1

(1) Mandatory principal payment requirements are based on, among other things, 1% of original principal balance and annual excess cash flows as defined and subject to certain conditions.

(2) The Term Loan bears interest at a floating rate of LIBOR + 1.75% or the base rate + 0.75%. As of January 31, 2009, annual interest expense related to the Term Loan is expected to be approximately $2.5 million.

(3) Operating lease obligations represent obligations under various long-term operating leases entered in the normal course of business for retail and factory stores, warehouses, office space and equipment requiring minimum annual rentals. Operating lease expense is a significant component of our operating expenses. The lease terms range for various periods of time in various rental markets and are entered into at different times, which mitigates exposure to market changes that could have a material effect on our results of operations within any given year. Operating lease obligations do not include common area maintenance, insurance, taxes and other occupancy costs, which constitute approximately an additional 50% of the minimum lease obligations.

(4) As of January 31, 2009, the Company has $7.4 million in unrecognized tax benefits, which are included in other liabilities on the consolidated balance sheet. While these tax liabilities may result in future cash outflows, management cannot make reliable estimates of the cash flows by period due to the inherent uncertainty surrounding the effective settlement of these positions.

Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have not been significant.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("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 1, 2009. The adoption of SFAS No. 157 will not have a significant impact on the financial condition or results of operations of the Company.

Critical Accounting Policies

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

The following critical accounting policies reflect the significant estimates and judgments used in the preparation of our consolidated financial statements. With respect to critical accounting policies, even a relatively minor variance between actual and expected experience can potentially have a materially favorable or unfavorable impact on subsequent consolidated results of operations. For more information on J.Crew's accounting policies, please refer to the Notes to Consolidated Financial Statements in this annual report on Form 10-K.

Revenue Recognition

- We recognize Store sales at the time of sale, and Direct sales at the time merchandise is shipped to customers. Amounts billed to customers for shipping and handling of catalog and Internet sales are classified as other revenues and recognized at the time of shipment. We must make estimates of future sales returns related to current period sales. Management analyzes historical returns, current economic trends and changes in customer acceptance of our products when evaluating the adequacy of the reserve for sales returns.
- We licensed our trademark and know-how to Itochu Corporation in Japan through January 31, 2009, for which we received percentage royalty fees. We defer recognition of advance royalty payments and recognize royalty revenue when sales entitling us to royalty revenue occur.
- Employee discounts are classified as a reduction of revenue.
- We account for gift cards by recognizing a liability at the time a gift card is sold and recognizing revenue at the time the gift card is redeemed for merchandise. We review our gift card liability on an ongoing basis and recognize our estimate of the unredeemed gift card liability on a ratable basis over the estimated period of redemption. We defer revenue and recognize a liability for gift cards issued in connection with our customer loyalty program. Any unredeemed loyalty gift cards are recognized as income in the period in which they expire.

Inventory Valuation

Merchandise inventories are carried at the lower of average cost or market value. We capitalize certain design, purchasing and warehousing costs in inventory. We evaluate all of our inventories to determine excess inventories based on estimated future sales. Excess inventories may be disposed of through our factory stores, Internet clearance sales and other liquidations. Based on historical results experienced through various methods of disposition, we write down the carrying value of inventories that are not expected to be sold at or above costs. Additionally, we reduce the cost of inventories based on an estimate of lost or stolen items each period.

Deferred Catalog Costs

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

Asset Impairment

We are exposed to potential impairment if the book value of our assets exceeds their expected future cash flows. The major components of our long-lived assets are store fixtures, equipment and leasehold improvements. The impairment of unamortized costs is measured at the store level and the unamortized cost is reduced to fair value if it is determined that the sum of expected discounted future net cash flows is less than net book value.

Income Taxes

Income taxes are calculated in accordance with SFAS No. 109, *"Accounting for Income Taxes,"* which requires the use of the asset and liability method. Deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using current enacted tax rates in effect in the years in which those temporary differences are expected to reverse. Inherent in the measurement of deferred balances are certain judgments and interpretations of enacted tax law and published guidance.

Management believes it is more likely than not that forecasted income, together with the tax effects of the deferred tax liabilities, will be sufficient to fully recover the remaining deferred tax assets. In the event that all or part of the net deferred tax assets are determined not to be realizable in the future, a valuation allowance would be charged to earnings in the period such determination is made. Similarly, if the Company subsequently realizes deferred tax assets that were previously determined unrealizable, any valuation allowance would be reversed into income in the period such determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectation could have a material impact on the Company's results of operations and financial position.

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.

Share-Based Compensation

On January 29, 2006, we adopted SFAS No. 123(R), *"Share-Based Payment"* requiring the recognition of compensation expense in the consolidated statements of operations related to the fair value of employee share-based awards including stock options. Determining the fair value of options at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the expected dividends. Prior to adopting SFAS No. 123(R), we applied Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* and related interpretations, in accounting for share-based compensation plans. All employee stock options were granted at or above the grant date market price. Accordingly, no compensation cost was recognized for stock option grants in prior periods. In accordance with SFAS No. 123(R), judgment is required in estimating the amount of share-based awards to be forfeited prior to vesting. If actual forfeitures differ significantly from the estimates, share-based compensation expense could be materially impacted.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 Credit Facility and Term Loan carry floating rates of interest that are a function of prime 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 $1.0 million for the $100.0 million of borrowings under the Term Loan.

We also enter into letters of credit primarily to facilitate a portion of our international purchase of merchandise. The letters of credit are primarily denominated in U.S. dollars. Outstanding letters of credit at January 31, 2009 were $19.5 million, including $7.3 million of standby letters of credit.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See "Index to Financial Statements", which is located on page F-1 of this report.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Executive Vice President and 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 Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and our Executive Vice President and 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.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. Management evaluated the effectiveness of the Company's internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway

Commission in *Internal Control-Integrated Framework*. Management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of January 31, 2009 and concluded that it is effective. The Company's independent auditors have issued an audit report on the effectiveness of the Company's internal control over financial reporting. That report appears herein on page F-3.

Changes in Internal Control over Financial Reporting

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

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANT.

The information set forth in the Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

In 2008, we submitted to the New York Stock Exchange the Annual CEO Certification required pursuant to Section 303A.12(A) of the New York Stock Exchange's Listed Company Manual.

ITEM 11. EXECUTIVE COMPENSATION.

The information set forth in the Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Security ownership of management as set forth in the Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information set forth in the Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item is incorporated herein by reference to the section entitled "Independent Registered Public Accounting Firm Fees and Services" in the Proxy Statement for the 2009 Annual Meeting of Stockholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements and Financial Statement Schedules. See “Index to Financial Statements” which is located on page F-1 of this report.

(b) Exhibits. See the exhibit index which is included herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 23, 2009

By: /s/ MILLARD DREXLER
Millard Drexler
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on March 23, 2009.

Signature	Title
/s/ MILLARD DREXLER **Millard Drexler**	Chairman of the Board, Chief Executive Officer and a Director (Principal Executive Officer)
/s/ JAMES SCULLY **James Scully**	Chief Administrative Officer and Chief Financial Officer (Principal Financial and Accounting Officer)
* **Mary Ann Casati**	Director
* **Jonathan Coslet**	Director
* **James Coulter**	Director
* **David House**	Director
* **Steven Grand-Jean**	Director
* **Heather Reisman**	Director
* **Stuart Sloan**	Director
* **Josh Weston**	Director

*By: /s/ JAMES SCULLY
James Scully,
Attorney-in-Fact

J.Crew Group, Inc.

INDEX TO FINANCIAL STATEMENTS

Audited Consolidated Financial Statements

Financial Statement Schedules

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of J.Crew Group, Inc. and subsidiaries ("Group") as of February 2, 2008 and January 31, 2009, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended January 31, 2009. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule II. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Group as of February 2, 2008 and January 31, 2009 and the results of its operations and its cash flows for each of the years in the three-year period ended January 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Group's internal control over financial reporting as of January 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 23, 2009 expressed an unqualified opinion on the effectiveness of Group's internal control over financial reporting.

As discussed in Note 2 to the consolidated financial statements, Group has changed its method of accounting for share-based payments in the year ended February 3, 2007 due to the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), *"Share-Based Payment."* Also, as discussed in Note 15 to the consolidated financial statements, Group has changed its method of accounting for uncertainty in income taxes in the year ended February 2, 2008 due to the adoption of FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109."*

/s/ KPMG LLP

New York, New York
March 23, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited J.Crew Group, Inc. and subsidiaries' ("Group") internal control over financial reporting as of January 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Group's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Group maintained, in all material respects, effective internal control over financial reporting as of January 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Group as of February 2, 2008 and January 31, 2009, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended January 31, 2009, and our report dated March 23, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York
March 23, 2009

J.CREW GROUP, INC.

Consolidated Balance Sheets

(in thousands, except shares)

	February 2, 2008	January 31, 2009
Assets		
Cash and cash equivalents	$ 131,510	$ 146,430
Merchandise inventories	158,525	187,044
Prepaid expenses and other current assets	33,293	34,926
Income taxes receivable	9,794	23,116
Total current assets	333,122	391,516
Property and equipment—at cost	305,014	344,952
Less accumulated depreciation and amortization	(136,722)	(143,277)
	168,292	201,675
Deferred income taxes, net	20,188	8,862
Other assets	13,994	11,756
Total assets	$535,596	$ 613,809
Liabilities and Stockholders' Equity		
Accounts payable	$ 101,277	$ 119,719
Other current liabilities	91,414	83,889
Current portion of long-term debt	—	800
Deferred income taxes, net	2,382	4,049
Total current liabilities	195,073	208,457
Deferred credits	67,600	73,815
Long-term debt	125,000	99,200
Other liabilities	7,601	7,388
Stockholders' equity:		
Common stock $.01 par value; authorized 200,000,000 shares; issued 62,823,940 and 63,791,590 shares; outstanding 61,574,862 and 62,529,563 shares	628	637
Additional paid-in capital	554,127	585,003
Accumulated deficit	(411,208)	(357,091)
Treasury stock, at cost (1,249,078 and 1,262,027 shares)	(3,225)	(3,600)
Total stockholders' equity	140,322	224,949
Total liabilities and stockholders' equity	$535,596	$ 613,809

The accompanying notes are an integral part of these consolidated financial statements.

J.CREW GROUP, INC.

Consolidated Statements of Operations

(in thousands, except share data)

	Years Ended(1) February 3, 2007	February 2, 2008	January 31, 2009
Revenues:			
Net sales	$1,117,153	$1,292,254	$ 1,383,200
Other	34,947	42,469	44,770
	1,152,100	1,334,723	1,427,970
Cost of goods sold, including buying and occupancy costs	651,748	746,180	872,547
Gross profit	500,352	588,543	555,423
Selling, general and administrative expenses	374,738	416,064	458,738
Income from operations	125,614	172,479	96,685
Interest expense-net of interest income of $3,000, $4,043 and $2,037 in 2006, 2007 and 2008, respectively	43,993	11,224	5,940
Loss on refinancing of debt	10,039	—	—
Income before income taxes	71,582	161,255	90,745
Provision (benefit) for income taxes	(6,200)	64,180	36,628
Net income	77,782	97,075	54,117
Preferred dividends	(6,141)	—	—
Net income applicable to common shareholders	$ 71,641	$ 97,075	$ 54,117
Net income per share:			
Basic	$ 1.61	$ 1.61	$ 0.88
Diluted	$ 1.49	$ 1.52	$ 0.85
Weighted average shares outstanding:			
Basic	44,558	60,346	61,687
Diluted	48,039	63,748	64,027

(1) Year ended February 3, 2007 consisted of 53 weeks. Years ended February 2, 2008 and January 31, 2009 consisted of 52 weeks.

The accompanying notes are an integral part of these consolidated financial statements.

J.CREW GROUP, INC.

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

	Common Stock		Additional paid-in capital	Accumulated deficit	Treasury stock	Deferred compensation	Total stockholders' equity (deficit)
	Shares	Amount					
January 28, 2006	27,757,289	$ 278	$ —	$ (582,780)	$(2,686)	$ (2,655)	$(587,843)
Reclassification of deferred compensation	—	—	—	(2,655)	—	2,655	—
Net income	—	—	—	77,782	—	—	77,782
Issuance of 21,620,000 shares of common stock, net of costs incurred	21,620,000	216	402,558	—	—	—	402,774
Conversion of 5% convertible notes payable	6,729,186	67	23,619	—	—	—	23,686
Redemption of preferred stock	3,673,729	37	73,438	—	—	—	73,475
Issuance of restricted stock	15,000	—	—	—	—	—	—
Stock based compensation	—	—	3,801	—	—	—	3,801
Exercise of stock options	1,319,254	13	5,173	—	—	—	5,186
Preferred stock dividends	—	—	(6,141)	—	—	—	(6,141)
Excess tax benefit from exercise of stock options	—	—	12,900	—	—	—	12,900
February 3, 2007	61,114,458	611	515,348	(507,653)	(2,686)	—	5,620
Adoption of FIN 48	—	—	—	(630)	—	—	(630)
Net income	—	—	—	97,075	—	—	97,075
Issuance of restricted stock	325,000	3	(3)	—	—	—	—
Net settlement of vested restricted stock	—	—	—	—	(539)	—	(539)
Forfeiture of restricted stock	(90,734)	(1)	1	—	—	—	—
Stock based compensation	—	—	6,975	—	—	—	6,975
Issuance of common stock under ASPP	53,893	1	1,819	—	—	—	1,820
Exercise of stock options	1,421,323	14	7,810	—	—	—	7,824
Excess tax benefit from exercise of stock options	—	—	22,177	—	—	—	22,177
February 2, 2008	62,823,940	628	554,127	(411,208)	(3,225)	—	140,322
Net income	—	—	—	54,117	—	—	54,117
Issuance of restricted stock	14,994	—	—	—	—	—	—
Net settlement of vested restricted stock	—	—	—	—	(375)	—	(375)
Forfeiture of restricted stock	(56,131)	(1)	1	—	—	—	—
Stock based compensation	—	—	8,405	—	—	—	8,405
Issuance of common stock under ASPP	111,215	1	1,539	—	—	—	1,540
Exercise of stock options	897,572	9	7,430	—	—	—	7,439
Excess tax benefit from exercise of stock options	—	—	13,501	—	—	—	13,501
January 31, 2009	63,791,590	$ 637	$ 585,003	$ (357,091)	$ (3,600)	$ —	$ 224,949

The accompanying notes are an integral part of these consolidated financial statements.

J.CREW GROUP, INC.

Consolidated Statements of Cash Flows

(in thousands, except shares)

	Years Ended February 3, 2007	Years Ended February 2, 2008	Years Ended January 31, 2009
Cash flows from operating activities:			
Net income	$ 77,782	$ 97,075	$ 54,117
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	33,525	34,140	44,143
Amortization of deferred financing costs	1,460	2,319	2,150
Deferred income taxes	(10,900)	8,066	12,993
Non-cash interest expense (including redeemable preferred stock dividends $20,800 in 2006)	21,292	—	—
Share based compensation	3,801	6,975	8,405
Loss on refinancing of debt	10,039	—	—
Excess tax benefit from share based compensation	(12,900)	(22,177)	(13,501)
Changes in operating assets and liabilities:			
Merchandise inventories	(24,479)	(17,855)	(28,519)
Prepaid expenses and other current assets	(1,596)	(2,565)	(1,633)
Other assets	1,004	(1,475)	88
Accounts payable and other liabilities	19,130	43,341	17,132
Federal and state income taxes	2,819	20,386	(15)
Net cash provided by operating activities	120,977	168,230	95,360
Cash flow from investing activities:			
Capital expenditures	(45,931)	(80,618)	(77,526)
Cash flow from financing activities:			
Proceeds from share-based compensation plans	5,186	9,644	8,960
Excess tax benefit from share-based compensation	12,900	22,177	13,501
Costs incurred in connection with amended and restated credit agreement	—	(1,284)	—
Repayments and redemption of long-term debt	(386,526)	(75,000)	(25,000)
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	402,774	—	—
Repurchase of common stock	—	(539)	(375)
Net cash provided by (used in) financing activities	(47,421)	(45,002)	(2,914)
Increase in cash and cash equivalents:	27,625	42,610	14,920
Cash and cash equivalents at beginning of year	61,275	88,900	131,510
Cash and cash equivalents at end of year	$ 88,900	$131,510	$ 146,430
Supplemental cash flow information:			
Income taxes paid	$ 1,848	$ 35,789	$ 32,492
Interest paid	$ 26,609	$ 11,600	$ 5,199
Non-cash financing activities:			
Dividends on preferred stock charged directly to stockholders' equity (deficit)	$ 6,141	$ —	$ —
Conversion of principal amount plus accrued and unpaid interest of 5% notes payable into 6,729,186 shares of common stock	23,686	—	—
Liquidation value of Series A preferred stock converted into 3,673,729 shares of common stock	73,475	—	—

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Business and Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements presented herein are J.Crew Group, Inc. and its wholly-owned subsidiaries (collectively, the Company or Group), which consist of the accounts of J.Crew Group, Inc. and its wholly owned subsidiaries, including J.Crew Intermediate LLC (Intermediate) and J.Crew Operating Corp. (Operating). Intermediate was formed in March 2003 as a limited liability company. Effective May 2003, Group transferred its investment in Operating to Intermediate. On October 11, 2005, Intermediate was merged into J.Crew Group, Inc., and J.Crew Group, Inc. became the direct parent of Operating.

All significant intercompany balances and transactions are eliminated in consolidation.

(b) Business

The Company designs, contracts for the manufacture of, markets and distributes women's, men's and children's apparel, shoes and accessories under the J.Crew brand name. The Company's products are marketed primarily in the United States through various channels of distribution, including retail and factory stores, catalogs, and the Internet. The Company was also party to a licensing agreement which granted the licensee exclusive rights to use the Company's trademarks in connection with the manufacture and sale of products in Japan. The license agreement provided for payments based on a specified percentage of net sales. The license agreement expired at the end of January 2009.

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

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

(c) Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31. The fiscal years 2006, 2007 and 2008 ended on February 3, 2007, February 2, 2008 and January 31, 2009, respectively. Fiscal years 2007 and 2008 consisted of 52 weeks and fiscal year 2006 consisted of 53 weeks.

(d) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates in amounts that may be material to the financial statements.

(e) Revenue Recognition

Revenue is recognized for catalog and Internet sales when merchandise is shipped to customers and at the time of sale for store sales. Shipping terms for catalog and Internet sales are FOB shipping point, and title passes to the customer at the time and place of shipment. Prices for all merchandise are listed in the Company's catalogs and website and are confirmed with the customer upon order. The customer has no cancellation privileges other than customary rights of return that are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 48, *"Revenue Recognition When Right of Return Exists."* The Company accrues a sales return allowance for estimated returns of merchandise subsequent to the balance sheet date that relate to sales prior to the balance sheet date. The Company presents taxes collected from customers and remitted to governmental authorities on a net basis in the Consolidated Statements of Operations.

A liability is recognized at the time a gift card is sold, and revenue is recognized at the time the gift card is redeemed for merchandise. Revenue is deferred and a liability is recognized for gift cards issued in connection with our customer loyalty program. Any unredeemed loyalty gift cards are recognized as income in the period in which they expire.

Other revenues include the estimated amount of unredeemed gift card liability based on Company specific historical trends, which amounted to $725, $1,922 and $2,954 in fiscal years 2006, 2007 and 2008, respectively.

Amounts billed to customers for shipping and handling fees related to catalog and Internet sales are included in other revenues at the time of shipment.

Royalty or licensing revenue is recognized as it is earned based on contractually specified percentages applied to reported sales. Advance royalty payments are deferred and recorded as revenue when the related sales occur.

(f) Merchandise Inventories

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

(g) Advertising and Catalog Costs

Direct response advertising, which consists primarily of catalog production and mailing costs, are capitalized and amortized over the expected future revenue stream. The Company accounts for catalog costs in accordance with the AICPA Statement of Position, *"Reporting on Advertising Costs"* ("SOP 93-7"). SOP 93-7 requires that the amortization of capitalized advertising costs be the amount computed using the ratio that current period revenues for the catalog cost pool bear to the total of current and estimated future period revenues for that catalog cost pool. The capitalized costs of direct response advertising are amortized, commencing with the date catalogs are mailed, over the duration of the expected revenue stream, which was approximately three months for the fiscal years 2006, 2007 and 2008. Deferred catalog costs, included in prepaid expenses and other current assets, as of February 2, 2008 and January 31, 2009 were $7,607 and $7,996 respectively. Catalog costs, which are reflected in selling, general and administrative expenses, for the fiscal years 2006, 2007 and 2008, were $43,666, $45,652 and $51,746 respectively.

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

(h) Deferred Rent and Lease Incentives

Rental payments under operating leases are charged to expense on a straight-line basis after consideration of rent holidays, step rent provisions and escalation clauses. Differences between rental expense and actual rental payments are recorded as deferred rent and included in deferred credits. Rent is expensed from the date of possession. The Company adopted FAS 13-1, *"Accounting for Rental Costs Incurred During a Construction Period,"* in the fourth quarter of fiscal 2005. Accordingly, rental costs incurred during the construction period will be recognized as rental expense and no longer capitalized. The unamortized balance of capitalized rent upon adoption of FAS 13-1 is amortized over the remaining lease terms (without consideration of option renewal periods).

The Company receives construction allowances upon entering into certain store leases. These construction allowances are recorded as deferred credits and are amortized as a reduction of rent expense over the term of the related lease. Deferred construction allowances were $45,310 and $49,168 at February 2, 2008 and January 31, 2009, respectively.

(i) Stock Based Compensation

The Company accounts for stock-based compensation in accordance with SFAS No. 123 (revised 2004), *"Share Based Payment"* ("SFAS 123R") effective January 29, 2006. Thus the Company measures the cost of employee services received in exchange for equity instruments awards issued based on the grant-date fair value of the awards. The Company recognizes compensation expense for share-based awards such as stock options and time or performance based restricted stock awards on a straight line basis over the requisite service period of the award. Prior to January 29, 2006, the Company accounted for stock based compensation under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* ("APB No. 25"). No share based employee compensation cost related to stock options was recognized prior to January 29, 2006.

(j) Property and Equipment

Property and equipment are stated at cost and are depreciated over the estimated useful lives by the straight-line method. Buildings and improvements are depreciated over estimated useful lives of twenty years. Furniture, fixtures and equipment are depreciated over estimated useful lives, ranging from three to ten years. Leasehold improvements (including rent formerly capitalized during the construction period) are amortized over the shorter of their useful lives or related lease terms (without consideration of optional renewal periods).

The Company capitalizes certain costs (included in fixtures and equipment) related to the acquisition and development of software and amortizes these costs using the straight line method over the estimated useful life of the software, which is three to five years. Certain development costs not meeting the criteria for capitalization are expensed as incurred.

(k) Impairment of Long-Lived Assets

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company assesses the recoverability of such assets based upon estimated cash flow forecasts. Charges for impairment for the fiscal years 2006, 2007 and 2008 were $550, $0, and $2,652 respectively.

(l) Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *"Accounting for Income Taxes."* This statement requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred taxes are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The provision for income taxes includes taxes currently payable and deferred taxes resulting from the tax effects of temporary differences between the financial statement and tax bases of assets and liabilities. The Company maintains valuation allowances where it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in the valuation allowances are included in our tax provision in the period of change. In determining whether a valuation allowance is warranted, the Company evaluates factors such as prior earnings history, expected future earnings, carry-back and carry-forward periods and tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset.

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.

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.

(m) Segment Information

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

(n) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments, with maturities of 90 days or less when purchased, to be cash equivalents. Cash equivalents, which were $113,637 and $132,402 at February 2, 2008 and January 31, 2009, respectively, are stated at cost, which approximates market value.

(o) Operating Expenses

Cost of goods sold (including buying and occupancy costs) includes the direct cost of purchased merchandise, freight, design, buying and production costs, occupancy costs related to store operations and all shipping and handling and delivery costs associated with our Direct business.

Selling, general and administrative expenses include all operating expenses not included in cost of goods sold, primarily catalog production and mailing costs, administrative payroll, store expenses other than occupancy costs, depreciation and amortization, credit card fees, and certain warehousing expenses —which aggregated to $19,468, $22,078, and $30,343 for fiscal years 2006, 2007, and 2008, respectively.

(p) Debt Issuance Costs

Debt issuance costs (included in other assets) are amortized over the term of the related debt agreements and are included in interest expense-net.

(q) Store Pre-opening Costs

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

(r) Income (Loss) per Share

Basic net income (loss) per share is calculated by dividing net income applicable to common shareholders by the weighted average number of common shares outstanding. Common shares outstanding included common stock and restricted stock shares for which no future service is required as a condition to the delivery of the underlying common stock. Diluted net income (loss) per share includes the determinants of basic income per share and, in addition, reflects the dilutive effect of the common stock deliverable pursuant to stock options and to restricted stock shares for which future service is required as a condition to the delivery of the underlying common stock.

(s) Reclassification

Certain prior year amounts have been reclassified to conform with current year's presentation.

2. Share Based Compensation

At January 31, 2009, the Company had five share-based compensation plans, which are described below:

Amended and Restated 1997 Stock Option Plan

Under the terms of the Amended and Restated 1997 Stock Option Plan (the "1997 Plan"), an aggregate of 3,697,374 shares of Group common stock were allotted for grant to key employees and consultants in the form of non-qualified stock options. The options have terms of seven to ten years and become exercisable over a period of four to five years. Options granted under the 1997 Plan are subject to various conditions, including under some circumstances, the achievement of certain performance objectives.

2003 Equity Incentive Plan

In January 2003, the Board of Directors of Group approved the adoption of the 2003 Equity Incentive Plan (the "2003 Plan"). Under the terms of the 2003 Plan, an aggregate of 9,288,270 shares of Group common stock were allotted for award to key employees and consultants in the form of non-qualified stock options and restricted shares, as follows:

- 2,159,987 shares at an exercise price of $3.52 or fair market value, whichever is greater,
- 2,159,987 shares at an exercise price of $12.91 or fair market value, whichever is greater,
- 2,159,987 shares at an exercise price of $18.08 or fair market value, whichever is greater, and
- 2,808,309 shares for the issuance of restricted shares.

The options have terms of ten years and become exercisable over the period provided in each grant agreement. Under the 2003 Plan, the Compensation Committee of the Board of Directors of Group has the discretion to modify the exercise price and the number of shares reserved for the issuance of stock options and restricted shares.

2005 Equity Incentive Plan

In June 2006, the Board of Directors of Group approved the adoption of the 2005 Equity Incentive Plan (the "2005 Plan"). Under the terms of the 2005 Plan, an aggregate of 1,900,000 shares of Group common stock were allotted for the issuance of options or other stock based awards to employees, independent contractors, and eligible non-employee directors. Awards may be subject to performance based and/or service based conditions. Stock options are available for issuance at an exercise price representing the fair market value on the date of grant. The options have terms of up to ten years and become exercisable over a period up to five years.

2007 Associate Stock Purchase Plan

On December 5, 2006, the Company's Board of Directors adopted the J.Crew 2007 Associate Stock Purchase Plan (the "ASPP"), which was subsequently approved by shareholders. As adopted, 500,000 shares of common stock are reserved for issuance under the ASPP. Under the ASPP, full time employees are permitted to purchase a limited number of J.Crew common shares at 85% of market value as outlined in the ASPP plan document.

2008 Equity Incentive Plan

In June 2008, the Stockholders of Group approved the adoption of the 2008 Equity Incentive Plan (the "2008 Plan"). Under the terms of the 2008 Plan, an aggregate of 3,000,000 shares of Group common stock were allotted for the issuance of options or other stock based awards to employees, independent contractors, and eligible non-employee directors. Awards may be subject to performance based and/or service based conditions. Stock options are available for issuance at an exercise price representing the fair market value on the date of grant. The options have terms of up to ten years and become exercisable over a period up to five years.

The adoption of the 2008 Plan replaced the 1997 Plan, the 2003 Plan, and the 2005 Plan and as a result, the 2008 Plan is the only plan for issuing all new equity-based incentive awards. While the 1997 Plan, the 2003 Plan, and the 2005 Plan remain in place to govern existing awards, they are frozen as to future awards.

Accounting for Share-Based Payments

Effective January 29, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R. In fiscal 2007 and 2008, share-based compensation cost includes: (i) compensation cost for all share-based payments granted prior to, but not yet vested as of January 29, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (ii) compensation cost for all share-based payments granted subsequent to January 29, 2006, based on the grant date fair value estimated using the Black-Scholes option pricing model. The Company recognizes compensation expense for stock option awards, and time and performance based restricted stock awards on a straight-line basis over the requisite service period of the award.

Total share based compensation expense was $3.8 million, $7.0 million and $8.4 million for fiscal 2006, 2007, and 2008, respectively.

The fair value of stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Black-Scholes Option Valuation Assumptions	2006	2007	2008
Risk-free interest rates(1)	4.8%	4.6%	3.1%
Dividend yield	—	—	—
Expected volatility(2)	40.0%	40.0%	44.7%
Weighted-average expected term(3) (*in years*)	5.63	5.42	5.11

(1) Based on the U.S. Treasury yield curve in effect at the time of grant.

(2) In 2006, volatility was based on average volatility of stock prices of companies in a peer group analysis. Beginning in July 2007, the first anniversary of the Company's initial public offering, volatility has been based on the historical volatility of the Company's stock price, implied volatility of publicly traded options on the Company's stock and the average volatility of the stock prices of a peer group.

(3) Represents the period of time options are expected to be outstanding. The weighted average expected option term was determined using the "simplified method" as allowed by Staff Accounting Bulletin No. 110, *"Share-Based Payment."* The "simplified method" calculates the expected term as the average of the vesting term and original contractual term of the options.

As of January 31, 2009, there was $23.4 million of total unrecognized compensation cost related to non-vested options that is expected to be recognized over the remaining weighted-average vesting period of 3.3 years.

The weighted-average grant-date fair value of options granted was $12.49, $17.94 and $12.18 for fiscal 2006, 2007 and 2008, respectively. The aggregate intrinsic value of stock options exercised was $30.4 million, $52.5 million and $30.4 million for fiscal 2006, 2007 and 2008, respectively.

The following table summarizes stock option activity for fiscal 2008:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at February 2, 2008	7,493	$ 13.32		
Granted	1,219	$ 28.18		
Exercised	(898)	$ 8.28		
Forfeited	(274)	$ 24.79		
Outstanding at January 31, 2009	7,540	$ 15.91	5.5	$ 12.2
Exercisable at January 31, 2009	4,899	$ 9.71	5.2	$ 11.0
Expected to vest at January 31, 2009	2,402	$ 27.40	6.0	$ 1.1

The following table summarizes information about unvested options for fiscal 2008:

	Shares (in thousands)	Weighted Average Grant Date Fair Value
Unvested at February 2, 2008	2,576	$ 8.83
Granted	1,219	$ 12.18
Vested	(892)	$ 3.59
Forfeited	(263)	$ 10.82
Unvested at January 31, 2009	2,640	$ 11.87

The following table summarizes information about stock options outstanding as of January 31, 2009:

	Outstanding		Weighted Average Remaining Contractual Term	Exercisable	
Range	Number of options	Weighted Average Exercise price	(in years)	Number of options	Weighted Average Exercise price
$3.53-$4.41	914	$ 3.54	4.6	900	$ 3.54
$5.17-$10.76	2,486	$ 7.47	5.5	2,102	$ 7.56
$11.80-$18.09	1,868	$ 12.90	5.3	1,717	$ 12.92
$20.00-$55.72	2,272	$ 32.58	5.9	180	$ 35.11
$3.53-$55.72	7,540	$ 15.91	5.5	4,899	$ 9.71

The Company issues new shares upon the exercise of stock options. Cash received from share based compensation plans was $5.2 million, $9.6 million and $9.0 million for fiscal 2006, 2007, and 2008, respectively.

Certain employees and directors have been awarded restricted stock under the 2003 Plan, 2005 Plan, and the 2008 Plan. The restricted stock vests primarily over a period of four to five years. Compensation expense is recognized on a straight-line basis over the vesting period. Compensation expense associated with restricted stock was $0.8 million, $1.3 million, and $1.9 million for fiscal 2006, 2007, and 2008 respectively. As of January 31, 2009, there was $4.6 million of unrecognized compensation cost related to non-vested restricted stock that is expected to be recognized over the remaining weighted-average vesting period of 2.2 years. The total intrinsic value of restricted shares vested during fiscal 2006, 2007, and 2008 was $21.3 million, $6.6 million, and $7.0 million, respectively.

In 2007, the Company granted market based restricted stock that vests if a certain predefined shareholder return threshold is met within a set performance period from the grant date. The fair value of market based awards was estimated at the date of grant using a Monte Carlo Simulation valuation model with the following weighted average assumptions:

	2007
Risk-free interest rates(1)	4.4%
Dividend yield	—
Expected volatility(2)	41.2%
Weighted-average performance period (*in years*)	3

The following table summarizes restricted share activity for fiscal 2008:

	Shares (in thousands)	Weighted Average Grant-Date Fair Value
Outstanding at February 2, 2008	707	$ 12.91
Granted	15	$ 33.96
Vested	(237)	$ 4.16
Forfeited	(56)	$ 18.95
Outstanding at January 31, 2009	429	$ 17.69

Shares available for the issuance of stock options or other stock based awards under our share-based compensation plans were 1,853,600 at January 31, 2009.

3. Initial and Secondary 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 $402,774 from the IPO after deducting $29,650 in underwriting discounts and offering expenses. The Company used the net proceeds to redeem the liquidation value and accreted dividends of all outstanding Series A and Series B Preferred Stock.

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., was redeemed with 3,673,729 shares of the Company's common 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 January 25, 2007, the Company completed a secondary offering of 9,392,100 shares of common stock offered by TPG and its affiliates as selling stockholders. The Company did not receive any proceeds from the secondary offering.

4. Property and Equipment

Property and equipment, net consists of:

	February 2, 2008	January 31, 2009
Land	$ 1,710	$ 1,710
Buildings and improvements	15,445	15,465
Fixtures and equipment	64,137	104,242
Leasehold improvements	190,944	206,362
Construction in progress	32,778	17,173
	305,014	344,952
Less accumulated depreciation and amortization	(136,722)	(143,277)
	$ 168,292	$201,675

5. Other Current Liabilities

Other current liabilities consist of:

	February 2, 2008	January 31, 2009
Customer liabilities	$ 28,463	$ 28,214
Taxes, other than income taxes	4,926	9,137
Accrued occupancy	3,030	2,648
Reserve for sales returns	7,140	5,942
Accrued compensation	19,804	5,877
Other	28,051	32,071
	$ 91,414	$ 83,889

6. Credit Agreements

Credit Facility

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 the base rate, as defined, plus a margin of up to 0.25% or LIBOR plus a margin ranging from 1.0% to 1.25%. The margin is based upon quarterly excess availability levels specified in the Credit Facility. The total amount of availability is limited to the sum of: (a) 100% of qualified cash, (b) 90% of eligible receivables, (c) the lesser of 90% of eligible inventory and 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, (d) 65% of the fair market value of eligible real estate, and (e) less any reserves established by Citicorp. 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.

Operating has at all times been in compliance with all financial covenants.

There was $192.7 million available for borrowings under the Credit Facility at January 31, 2009. There were no borrowings outstanding in fiscal 2008, 2007 or 2006.

Demand Letter of Credit Facility

On October 31, 2007, Operating entered into an unsecured, demand letter of credit facility with HSBC which provides for the issuance of up to $35 million of documentary letters of credit on a no fee basis. Availability under this facility was $22.8 million at January 31, 2009.

Outstanding letters of credit under our facilities established primarily to facilitate international merchandise purchases at February 2, 2008 and January 31, 2009 amounted to $43,300 and $19,500 respectively. The decrease in outstanding letters of credit reflects the transition of certain vendors to open account terms.

7. Long-Term Debt

Long-term debt consists of the following:

	February 2, 2008	January 31, 2009
Term Loan	$ 125,000	$ 100,000
Less current portion	—	(800)
Long-term debt	$ 125,000	$ 99,200

On May 15, 2006 (the "Closing Date"), 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.

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 based upon certain conditions as set forth in the Term Loan: (i) 1% per annum of the original principal balance of the Term Loan due in quarterly installments 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. The Company made aggregate voluntary prepayments of $75.0 and $25.0 million in fiscal 2007 and 2008, respectively.

8. Loss on Refinancing of Debt

During the second quarter of 2006, the Company redeemed in full the outstanding 9 3/4% Senior Subordinated Notes and 13 1/8% Senior Subordinated Notes. Funds used for the redemption were generated from the proceeds of the Term Loan and internally available funds. In connection with the redemption of these notes the Company recorded a loss on refinancing of debt of $10.0 million in fiscal 2006 which included $4.8 million of tender fees and other expenses and $5.2 million related to the write-off of unamortized deferred financing costs.

9. Income per Share

The calculation of basic net income per share and diluted net income per share is presented below:

	2006	2007	2008
		($ in thousands, except per share amounts)	
Net income	$77,782	$97,075	$ 54,117
Preferred stock dividends	(6,141)	—	—
Net income applicable to common shareholders	$71,641	$97,075	$ 54,117
Income per Share:			
Basic	$ 1.61	$ 1.61	$ 0.88
Diluted	$ 1.49	$ 1.52	$ 0.85
Weighted average common shares outstanding:			
Basic	44,558	60,346	61,687
Diluted	48,039	63,748	64,027

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

	2006	2007	2008
	(amounts in thousands)		
Stock options	78	87	2,225
Unvested shares of restricted stock	—	—	18
	78	87	2,243

10. Commitments and Contingencies

(a) Operating Leases

As of January 31, 2009, the Company was obligated under various long-term operating leases for retail and factory stores, warehouses, office space and equipment requiring minimum annual rentals.

These operating leases expire on varying dates through 2023. At January 31, 2009 aggregate minimum rentals are as follows:

Fiscal year	Amount
2009	$ 88,282
2010	$ 85,852
2011	$ 78,199
2012	$ 68,246
2013	$ 57,351
Thereafter	$226,689

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

Rent expense for fiscal 2006, 2007 and 2008 was $54,694, $62,662 and $74,922 respectively, including contingent rent, based on store sales, of $4,406, $4,186 and $4,070, respectively.

(b) Employment Agreements

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

(c) Litigation

The Company is subject to various legal proceedings and claims that arise in the ordinary conduct of its business. Although the outcome of these claims cannot be predicted with certainty, management does not believe that it is reasonably possible that resolution of these legal proceedings will result in unaccrued losses that would be material.

11. Employee Benefit Plan

The Company has a 401(K) Savings Plan pursuant to Section 401 of the Internal Revenue Code whereby all eligible employees may contribute up to 15% of their annual base salaries subject to certain limitations. The Company's contribution is based on a percentage formula set forth in the plan agreement. Company contributions to the 401(K) Savings Plan were $1,894, $2,520 and $3,019 for fiscal 2006, 2007 and 2008, respectively. The Company suspended its 401(k) Savings Plan matching contribution in 2009. See Note 19 for additional information.

12. License Agreement

The Company had a licensing agreement through January 2009 with Itochu Corporation, a Japanese trading company. The agreement permitted Itochu to distribute J.Crew merchandise in Japan. In February 2008, the Company provided notice that it did not intend to renew this agreement, which expired at the end of January 2009.

The Company earns royalty payments under the agreement based on the sales of its merchandise. Royalty income, which is included in other revenues, for fiscal 2006, 2007, and 2008, was $2,776, $2,589, and $1,656, respectively.

13. Other Revenues

Other revenues consist of the following:

	2006	2007	2008
Shipping and handling fees	$31,319	$37,958	$39,368
Royalties	2,776	2,589	1,656
Other	852	1,922	3,746
	$ 34,947	$ 42,469	$ 44,770

14. Financial Instruments

The fair value of the Company's long-term debt is estimated to be approximately $116,250 and $83,000 at February 2, 2008 and January 31, 2009, respectively, and is based on current rates offered to the Company for debt of similar maturities or quoted market prices of the same or similar instruments. The carrying amounts of long-term debt were $125,000 and $100,000 at February 2, 2008 and January 31, 2009, respectively. 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 the short-term maturity of those financial instruments. The estimates presented herein are not necessarily indicative of amounts the Company could realize in a current market exchange.

15. Income Taxes

Group files a consolidated federal income tax return, which includes all of its wholly owned subsidiaries. Each subsidiary files separate, or combined where required, state tax returns in required jurisdictions. Group and its subsidiaries have entered into a tax sharing agreement providing (among other things) that each of the subsidiaries will reimburse Group for its share of income taxes based on the proportion of such subsidiaries' tax liability on a separate return basis to the total tax liability of Group.

The following table summarizes the components of the income tax provision (benefit):

(Dollars in millions)	Years Ended February 3, 2007	Years Ended February 2, 2008	Years Ended January 31, 2009
Current:			
Federal	$ (0.2)	$ 45.6	$ 19.0
State and local	4.6	10.2	4.6
Foreign	0.3	0.3	—
	4.7	56.1	23.6
Deferred:			
Federal	(10.2)	8.0	12.9
State and local	(0.7)	0.1	0.1
	(10.9)	8.1	13.0
Total	$ (6.2)	$ 64.2	$ 36.6

The following table summarizes the principal reasons for the difference between the effective tax (benefit) and the U.S. federal statutory income tax (benefit) rate:

	Years Ended February 3, 2007	Years Ended February 2, 2008	Years Ended January 31, 2009
Federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	10.1	4.1	5.9
Valuation allowance	(64.5)	—	—
Non-deductible expenses, primarily preferred dividends	10.2	—	—
Other	0.5	0.7	(0.5)
Effective tax rate	(8.7)%	39.8%	40.4%

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

(Dollars in millions)	February 2, 2008	January 31, 2009
Deferred tax assets:		
Rent	$ 19.2	$ 19.8
Reserve for sales returns	2.8	2.4
Credit carryovers	1.3	0.7
Share-based payments	4.3	7.2
State taxes and interest	2.7	2.5
Other	1.5	2.5
	31.8	35.1
Deferred tax liabilities:		
Prepaid catalog and other prepaid expenses	(8.0)	(9.2)
Difference in book and tax basis for property and equipment	(6.0)	(21.1)
	(14.0)	(30.3)
Net deferred income tax assets	$ 17.8	$ 4.8
Amounts included in consolidated balance sheets:		
Non-current assets	$ 20.2	$ 8.9
Current liabilities	(2.4)	(4.1)
	$ 17.8	$ 4.8

In fiscal 2004, the Company established a valuation allowance against its net deferred tax assets. In accordance with SFAS No. 109, *"Accounting for Income Taxes,"* management continued to reevaluate the necessity of this valuation allowance on an ongoing basis. Due to several factors, including significant improvement in results of operations in fiscal 2005 and 2006 and changes in the Company's debt and equity structure resulting from its initial public offering in July 2006, management determined that the valuation allowance was not necessary at February 3, 2007. As a result of this revaluation, a deferred tax benefit of $10.9 million was recognized for the year ended February 3, 2007 and stockholders' equity was increased by $12.9 million relating to the excess tax benefit from share based compensation. Management believes that the net deferred tax asset balance of $4.8 million as of January 31, 2009 is more likely than not to be realized.

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"). 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.

As of January 31, 2009, the Company has $7.4 million in unrecognized tax benefits (including interest and penalties of $1.2 million) reflected in other liabilities. The amount, if recognized, that would affect the effective tax rate is $4.0 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.

A reconciliation of unrecognized tax benefits is as follows *:*

(Dollars in millions)	Fiscal 2007	Fiscal 2008
Balance at beginning of fiscal year	$ 5.7	$ 6.6
Additions for tax positions taken during current year	2.4	1.2
Reductions for tax positions taken during prior years	(0.6)	(0.2)
Settlements	(0.1)	(0.1)
Expirations of statues of limitations	(0.8)	(1.3)
Balance at end of fiscal year	$ 6.6	$ 6.2

In fiscal 2008, audits of tax years ended January 2002 through January 2003 were closed by the IRS, and the Company collected $9.3 million of refundable income taxes including interest. Tax years ended January 2004 through January 2006 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 2001 to 2006.

16. Related Party Transaction

On October 20, 2005, the Company, Millard Drexler, Chairman of the Board and Chief Executive Officer and Millard S. Drexler, Inc. entered into a Trademark License Agreement whereby Mr. Drexler granted the Company a thirty-year exclusive, worldwide license to use the Madewell trademark and associated intellectual property rights owned by him (the "Properties"). In consideration for the license, the Company reimbursed Mr. Drexler's actual costs expended in acquiring and developing the Properties (which amounted to $242,300) and agreed to pay royalties of $1 per year during the term of the license. In January 2007, the Company provided notice to Mr. Drexler that the Company had met certain conditions outlined in the agreement, and Mr. Drexler assigned to the Company all of his residual rights in the Properties. The Company also agreed that it would not assign or spin off ownership of the Properties during the term of Mr. Drexler's employment without his consent other than as part of a sale of the entire company (except that the Company may pledge or hypothecate its interest in the Properties as part of a bank or other financings).

17. 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 the consolidated financial statements and the accompanying notes to the consolidated financial statements have been adjusted to reflect the stock split for all periods presented. The par value per share of the common stock did not change as a result of the stock split.

18. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("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 1, 2009. The adoption of SFAS No. 157 will not have a significant impact on the financial condition or results of operations of the Company.

19. Subsequent Event

On February 27, 2009, the Company announced that is has initiated a workforce reduction as part of a cost reduction program. The workforce reduction impacted approximately 95 positions, including positions that are currently unfilled, primarily in the Company's New York offices and support functions in the field and distribution centers. In addition, the program includes the suspension of the 401(k) Plan Company matching contributions at least through the balance of 2009, elimination of 2009 merit based wage increases for the entire workforce, and other cost reductions. The Company expects to incur a pre-tax charge of approximately $1.5 million during the first quarter of fiscal 2009 mainly to reflect anticipated severance and related costs for affected individuals.

20. Quarterly Financial Information (Unaudited)

Summarized quarterly financial results for fiscal 2008 and fiscal 2007 follow:

(in thousands, except share related amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter(1)
Fiscal 2008				
Total revenues	$ 340,579	$336,275	$ 363,080	$ 388,036
Gross profit	159,887	137,732	150,868	106,936
Net income (loss)	$ 30,501	$ 18,123	$ 19,041	$ (13,548)
Income (loss) per share:				
Basic	$ 0.50	$ 0.29	$ 0.31	$ (0.22)
Diluted	$ 0.48	$ 0.28	$ 0.30	$ (0.22)
Weighted average common shares outstanding:				
Basic	61,192	61,693	61,878	61,991
Diluted	64,076	64,346	64,078	61,991

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2007				
Total revenues	$ 297,312	$ 304,731	$ 332,744	$399,936
Gross profit	138,538	133,177	151,835	164,993
Net income	24,649	20,635	26,837	24,954
Income per share:				
Basic	$ 0.41	$ 0.34	$ 0.44	$ 0.41
Diluted	$ 0.39	$ 0.32	$ 0.42	$ 0.39
Weighted average common shares outstanding:				
Basic	59,731	60,316	60,725	60,752
Diluted	63,248	63,806	64,195	64,003

(1) The fourth quarter of fiscal 2008 includes a reduction in gross profit primarily due to increased markdowns and promotional selling activities.

The sum of the quarterly income (loss) per share may not equal the full year amount as the computations of the weighted average common shares outstanding for basic and diluted shares outstanding for each quarter and the full year are performed independently.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

	Beginning Balance	Charged to Cost and Expenses(a)	Charged to other Accounts	Deductions(a)	Ending Balance
			(in thousands)		
Inventory reserve					
(deducted from merchandise inventories)					
Year ended:					
February 3, 2007	$ 8,020	$ —	$ —	$ 322	$ 7,698
February 2, 2008	7,698	268	—	—	7,966
January 31, 2009	7,966	947	—	—	8,913
Allowance for sales returns					
(included in other current liabilities)					
Year ended:					
February 3, 2007	$ 6,216	$ 5	$ —	$ —	$ 6,221
February 2, 2008	6,221	919	—	—	7,140
January 31, 2009	7,140	—	—	1,198	5,942

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

EXHIBIT INDEX

Exhibit No.	Document
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	By-laws of J.Crew Group, Inc. Incorporated by reference to Exhibit 3.2 to the Form 8-K/A filed on October 17, 2005.
	Instruments Defining the Rights of Security Holders, Including Indentures
4.1	Form of Specimen Common Stock Certificate of J.Crew Group, Inc. Incorporated by reference to Exhibit 4.1 to the S-1/A Registration Statement filed on June 22, 2006.
4.2	Stockholders' Agreement, dated as of January 24, 2003, among J.Crew Group, Inc., TPG Partners II, L.P. and Millard Drexler. Incorporated by reference to Exhibit 4.1 to the Form 8-K filed on February 3, 2003.
4.3	Form of Amendment No. 1 to Stockholders Agreement, by and among J.Crew Group, Inc., Millard S. Drexler and each of TPG Partners II, L.P., TPG Parallel II, L.P., TPG Investors II, L.P. and TPG 1999 Equity II, L.P. Incorporated by reference to Exhibit 4.5(b) to the S-1/A Registration Statement filed on June 22, 2006.
	Material Contracts
10.1	Amended and Restated Loan and Security Agreement, dated as of December 23, 2004, by and among J.Crew Operating Corp., J.Crew Inc., Grace Holmes, Inc. d/b/a J.Crew Retail, H.F.D. No. 55, Inc. d/b/a J.Crew Factory as Borrowers, J.Crew Group, Inc., J.Crew International, Inc., J.Crew Intermediate LLC as Guarantors, Wachovia Capital Markets LLC as Arranger and Bookrunner, Wachovia Bank, National Association as Administrative Agent, Bank of America, N.A. as Syndication Agent, Congress Financial Corporation as Collateral Agent, and the Lenders (the "Credit Facility"). Incorporated by reference to Exhibit 4.6 to the Form 8-K filed on December 28, 2004.
10.2	Amendment No. 1, dated as of October 10, 2005, to the Credit Facility. Incorporated by reference to Exhibit 4.1 to the Form 8-K/A filed on October 17, 2005.
10.3	Joinder Agreement between the Company and Wachovia Bank, National Association, as Agent under the Credit Facility, dated October 12, 2005. Incorporated by reference to Exhibit 4.1 to the Form 8-K filed on October 18, 2005.
10.4	Amendment No. 2, dated as of May 15, 2006, to the Credit Facility by and among Operating, J.Crew Inc., Grace Holmes, Inc., H.F.D. No. 55, Inc., as borrowers, Group, J.Crew International, Inc. and Madewell Inc., as guarantors, the lenders named therein and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation, a national banking association, in its capacity as administrative agent and collateral agent for lenders (the "Agent"), and Amendment No. 1 to Guarantee, dated as of May 15, 2006, by the borrowers and guarantors in favor of the Agent. Incorporated by reference to Exhibit 10.1(c) to the S-1/A Registration Statement filed on May 16, 2006.
10.5	Amendment No. 3, dated as of May 15, 2006, to the Credit Facility by and among Operating, J.Crew Inc., Grace Holmes, Inc., H.F.D. No. 55, Inc., as borrowers, Group, J.Crew International, Inc. and Madewell Inc., as guarantors, the lenders named therein and the Agent. Incorporated by reference to Exhibit 10.1(d) to the S-1/A Registration Statement filed on May 16, 2006.
10.6	Amendment No. 4, dated as of June 26, 2006, to the Credit Facility by and among Operating, J.Crew Inc., Grace Holmes, Inc., H.F.D. No. 55, Inc., as borrowers, Group, J.Crew International, Inc. and Madewell Inc., as guarantors, the lenders named therein and the Agent. Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on June 30, 2006.

Exhibit No.	Document
10.7	Amendment No. 5, dated as of July 10, 2006, to the Credit Facility by and among Operating, J.Crew Inc., Grace Holmes, Inc., H.F.D. No. 55, Inc., as borrowers, Group, J.Crew International, Inc., and Madewell Inc., as guarantors, the lenders named therein and the Agent. Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on July 13, 2006.
10.8	Amendment No. 6, dated as of November 7, 2006, to the Credit Facility by and among Operating, J.Crew Inc., Grace Holmes, Inc., H.F.D. No. 55, Inc., as borrowers, Group, J.Crew International, Inc., and Madewell Inc., as guarantors, the lenders named therein and the Agent. Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on November 9, 2006.
10.9	Second Amended and Restated Credit Agreement, dated as of May 4, 2007, among J.Crew Group, Inc. and certain subsidiaries of J.Crew Group, Inc., as borrowers and guarantors, the lenders and issuers party thereto and Citicorp USA, Inc., as administrative agent (the "Credit Agreement"). Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on May 9, 2007.
10.10	Amended and Restated Guaranty, dated as of May 4, 2007, by J.Crew Group, Inc. and certain subsidiaries of J.Crew Group, Inc., as guarantors, in favor of Citicorp USA, Inc., as administrative agent, each lender and each issuer under the Credit Agreement and certain other parties. Incorporated by reference to Exhibit 10.2 to the Form 8-K filed on May 9, 2007.
10.11	Amended and Restated Pledge and Security Agreement, dated as of May 4, 2007, by J.Crew Group, Inc. and certain subsidiaries of J.Crew Group, Inc., as grantors, in favor of Citicorp USA, Inc., as administrative agent. Incorporated by reference to Exhibit 10.3 to the Form 8-K filed on May 9, 2007.
10.12	Amended and Restated J.Crew Group, Inc. 1997 Stock Option Plan. Incorporated by reference to Exhibit 10.1 to the Form 10-Q for the period ended August 3, 2002.
10.13	J.Crew Group, Inc. 2003 Equity Incentive Plan (the "2003 Plan"). Incorporated by reference to Exhibit 10.4 to the Form 10-K for the fiscal year ended February 1, 2003.
10.14	Amendment No. 1 to the 2003 Plan. Incorporated by reference to Exhibit 10.4(b) to the Form 10-K for the fiscal year ended January 31, 2004.
10.15	Services Agreement, dated January 24, 2003, between the Company, Millard S. Drexler, Inc. and Millard S. Drexler. Incorporated by reference to Exhibit 10.9 to the Form 10-K for the fiscal year ended February 1, 2003.
10.16	Option Surrender Agreement, dated September 25, 2003, between the Company and Millard S. Drexler. Incorporated by reference to Exhibit 10.9(b) to the Form 10-K for the fiscal year ended January 31, 2004.
10.17	Trademark License Agreement by and among the Company, Millard S. Drexler and Millard S. Drexler, Inc. dated as of October 20, 2005. Incorporated by reference to Exhibit 10.2 to the Form 8-K filed on October 21, 2005.
10.18	Registration Rights Agreement dated July 3, 2006 among TPG Partners II, L.P., TPG Parallel II, L.P., TPG Investors II, L.P., TPG 1999 Equity II, L.P. and J.Crew Group Inc. Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on July 3, 2006.
10.19	Credit and Guaranty Agreement, dated as of May 15, 2006, by and among J.Crew Operating Corp., J.Crew Group, Inc. and certain subsidiaries of J.Crew Operating Corp. named as guarantors therein, the lenders party thereto from time to time, Goldman Sachs Credit Partners L.P. and Bear, Stearns & Co. Inc., as joint lead arrangers and joint bookrunners, Goldman Sachs Credit Partners L.P., as administrative agent and collateral agent, Bear Stearns Corporate Lending Inc., as syndication agent, and Wachovia Bank, National Association, as documentation agent (the "Credit and Guaranty Agreement"). Incorporated by reference to Exhibit 10.17 to the S-1/A Registration Statement filed on May 16, 2006.

Exhibit No.	Document
10.20	Pledge and Security Agreement Term Loan Collateral, dated as of May 15, 2006, by and among J.Crew Operating Corp., J.Crew Group, Inc. and certain subsidiaries of J.Crew Operating Corp. named as grantors therein and Goldman Sachs Credit Partners L.P., as collateral agent. Incorporated by reference to Exhibit 10.18 to the S-1/A Registration Statement filed on May 16, 2006.
10.21	Trademark Security Agreement, dated as of May 15, 2006, by and among J.Crew Inc. and J.Crew International, as grantors, and Goldman Sachs Credit Partners L.P., as collateral agent. Incorporated by reference to Exhibit 10.19 to the S-1/A Registration Statement filed on May 16, 2006.
10.22	Copyright Security Agreement, dated as of May 15, 2006, by and between J.Crew International, as grantor, and Goldman Sachs Credit Partners L.P., as collateral agent. Incorporated by reference to Exhibit 10.20 to the S-1/A Registration Statement filed on May 16, 2006.
10.23	Intercreditor Agreement, dated as of May 15, 2006, by and among J.Crew Operating Corp., J.Crew Group, Inc. and certain subsidiaries of J.Crew Operating Corp. named as guarantors in the Credit and Guaranty Agreement, Goldman Sachs Credit Partners L.P., in its capacity as administrative agent and collateral agent under the Credit and Guaranty Agreement, and Wachovia Bank, National Association, in its capacity as administrative agent and collateral agent under the Credit Facility. Incorporated by reference to Exhibit 10.21 to the S-1/A Registration Statement filed on May 16, 2006.
10.24	J.Crew Group, Inc. 2005 Equity Incentive Plan. Incorporated by reference to Exhibit 10.4 to the S-8 Registration Statement filed on June 28, 2006.
10.25	Amendment No. 1, dated December 5, 2006, to the J.Crew Group, Inc. 2005 Equity Incentive Plan. Incorporated by reference to Exhibit 10.27 to the Form 10-Q for the period ended October 28, 2006.
10.26	Stock option grant agreement, dated as of November 15, 2006, between J.Crew Group, Inc. and Tracy Gardner. Incorporated by reference to Exhibit 10.2 to the Form 8-K filed on November 17, 2006.
10.27	Stock option grant agreement, dated as of November 15, 2006, between J.Crew Group, Inc. and James Scully. Incorporated by reference to Exhibit 10.3 to the Form 8-K filed on November 17, 2006.
10.28	Standard form of Restricted Stock Grant Agreement (Time-Based Vesting). Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on November 29, 2006.
10.29	Standard form of Restricted Stock Grant Agreement (Performance-Based Vesting). Incorporated by reference to Exhibit 10.2 to the Form 8-K filed on November 29, 2006.
10.30	Standard form of Stock Option Grant Agreement. Incorporated by reference to Exhibit 10.3 to the Form 8-K filed on November 29, 2006.
10.31	J.Crew Group, Inc. 2007 Associate Stock Purchase Plan. Incorporated by reference to Exhibit 10.4 to the S-8 Registration Statement filed on December 13, 2006.
10.32	J.Crew Group, Inc. Amended and Restated 2008 Equity Incentive Plan (As of September 10, 2008). Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on December 23, 2008.
10.33	Standard Form of Restricted Stock Grant Agreement (Time-Based Vesting). Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on July 17, 2008.
10.34	Standard Form of Restricted Stock Grant Agreement (Performance-Based Vesting). Incorporated by reference to Exhibit 10.2 to the Form 8-K filed on July 17, 2008.
10.35	Standard Form of Stock Option Grant Agreement. Incorporated by reference to Exhibit 10.3 to the Form 8-K filed on July 17, 2008.
10.36	Second Amended and Restated Employment Agreement by and among the Company, Operating and Millard S. Drexler dated as of October 20, 2005 and executed as of December 29, 2008.†

Exhibit No.	Document
10.37	Amended and Restated Employment Agreement, dated March 14, 2008, between the Company and Tracy Gardner. Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on March 19, 2008.
10.38	Amended and Restated Employment Agreement, dated September 10, 1008, between the Company and James Scully. Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on September 11, 2008.
10.39	Amended and Restated Non-Disclosure, Non-Solicitation and Non-Competition Agreement, dated December 29, 2008, between the Company and Libby Wadle.†
10.40	Amended and Restated Employment Agreement, dated December 17, 2008, between the Company and Jenna Lyons Mazeau.†
10.41	Long term incentive agreement, dated April 24, 2006, between the Company and Jenna Lyons. †
	Other Exhibits
21.1	Subsidiaries of J.Crew Group, Inc.†
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm.†
24.1	Power of Attorney†
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.
* Furnished herewith.

Exhibit 10.36

EXECUTION COPY

SECOND AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

SECOND AMENDED AND RESTATED EMPLOYMENT AGREEMENT, dated as of the 20th day of October, 2005 (this "*Agreement*"), among J.Crew Group, Inc., a Delaware Corporation (the "*Parent*") and its operating subsidiary J.Crew Operating Corp. (collectively with the Parent, the "*Company*"), with offices at 770 Broadway, New York, New York 10003 and Millard S. Drexler (the "*Executive*").

1. *Purpose and Effective Date; Term; Position and Responsibilities; Company Headquarters and Executive Work Location* .

(a) *Purpose and Effective Date* . This Agreement is being entered into for the limited purpose of documenting compliance with Section 409A of the Internal Revenue Code of 1986, as amended (the "*Code*"), as more fully set forth in Section 15(m) hereof. This Agreement shall amend and restate the Amended and Restated Employment Agreement entered into on October 20, 2005, and, except as otherwise specifically provided in Section 15(m), shall be effective as of the same date (the "*Effective Date*").

(b) *Term.* Except as specifically provided herein, this Agreement shall amend and replace the Service Agreement, dated January 24, 2003. As of the Effective Date, the Company and the Executive extended the original term of this Agreement that commenced on January 27, 2003 (as provided in the prior Services Agreement), so that it ends on August 31, 2008, unless terminated earlier pursuant to Section 4 hereof. The Agreement shall thereafter be deemed to be automatically extended, upon the same terms and conditions, for successive periods of one year each, unless either party, at least ninety (90) days prior to the expiration of the term or any extended term, gives written notice to the other of its intention not to renew such term (the term of this Agreement, as extended, being the "Term of Employment"). The parties agree that any references in any Stock Option Grant Agreements, Restricted Stock Grant Agreements or other agreements between the Company and the Executive to the "Services Agreement" or "Services" or the "Principal" shall hereafter be deemed to refer to this Agreement, the Term of Employment and the Executive, respectively.

(c) *Position and Responsibilities* . During the Term of Employment, the Company shall continue to engage the Executive on the terms, and subject to the conditions of this Agreement, and agrees to cause the Executive to be elected as Chairman of Board of Directors of the Company (the "*Board*") and to employ the Executive as the Company's Chief Executive Officer and in such other position or positions with the Company as the Board and the Executive may agree from time to time. During the Term of Employment, the Executive shall perform the duties and responsibilities that are customarily assigned to individuals serving in such position or positions and such other duties and responsibilities commensurate with such positions as the Board may reasonably specify from time to time, including but not limited to recruitment and retention of key personnel of the Company, hiring and terminating senior executives of the Company, establishment and execution of brand vision, and direct responsibility for assembling and guiding product, merchandising and marketing functions, and oversight of and accountability for the financial and strategic performance of the Company and all of its subsidiaries, affiliates and business units. The Executive shall report solely to the Board.

(d) During the Term of Employment, excluding any periods of vacation to which the Executive is entitled and periods of illness or disability, (i) the Executive shall devote substantially all of his working time and attention to the performance of his duties and responsibilities hereunder, and (ii) the Executive may not, without the prior written consent of the Company, operate, participate in the management, operations or control of, or act as an employee, officer, consultant, agent or representative of, any type of business or service (other than as Chairman and Chief Executive Officer of the Company), provided that it shall not be a violation of the foregoing for the Executive to (A) act or serve as a director, trustee, committee member or principal of any type of business or civic or charitable organization, and (B) manage his personal, financial and legal affairs, (provided that the activities described in clauses (A) and (B) do not interfere with the performance of the Executive's duties and responsibilities to the Company as provided hereunder).

(e) *Company Headquarters; Principal Work Location*. Unless otherwise mutually agreed upon, the Company's headquarters shall be the New York metropolitan area. The Executive shall travel as reasonably required to carry out his duties and obligations hereunder.

2. *Compensation; Expenses; Benefits and Perquisites*. As compensation for the performance of duties and responsibilities hereunder, during the Term of Employment and until February 1, 2006, the Executive shall continue to be entitled to the compensation, benefits and perquisites provided in Section 2 of the Services Agreement (except as provided in Section 3 below) instead of the provisions of this Section 2, provided that in the event an initial public offering (the "*IPO*") of Parent's common stock registered under the Securities Act of 1933, as amended, becomes effective (the " *IPO Date*") on or prior to April 15, 2006, then the provisions of this Section 2 shall apply effective as of February 1, 2005. Commencing on February 1, 2006 (or earlier as provided in the immediately preceding sentence) and thereafter during the Term of Employment, as compensation for the performance of the duties and responsibilities hereunder, the Executive shall be entitled to the following compensation from the Company:

(a) *Base Salary*. The Company shall pay the Executive, not less than once a month pursuant to the Company's normal and customary payroll procedures, a base salary at the rate of $200,000 per annum (the " *Base Salary*"). The Board or a committee thereof shall annually reevaluate the Executive's Base Salary and bonus opportunities for increase based on the Company's performance and the Executive's contributions to the Company for the preceding fiscal year.

(b) *Annual Bonus*. In addition to the Base Salary, the Executive shall have an opportunity to earn an annual bonus (the " *Bonus*") in respect of each fiscal year in accordance with the terms of the J.Crew Operating Corp. Performance Incentive Plan then existing for such fiscal year based on the achievement of performance objectives as may be established from time to time by the Board or a committee thereof; provided, however, that, except as otherwise provided herein, the Bonus for any fiscal year shall be payable to the Executive only if the Executive is employed by the Company on the date on which such Bonus is paid and in no event later than the 15th day of the third month following the close of the fiscal year to which the Bonus relates. The Executive's target annual bonus opportunity shall be $800,000 ("*Target Bonus*"), based on the achievement of performance objectives (i) if this provision becomes effective February 1, 2005, currently in place for the other senior executives at the Company as determined by the Board or a committee thereof and (ii) for fiscal year 2006 and thereafter, as determined by the Board or a committee thereof. The actual Bonus payable may be greater or lesser than the Target Bonus and shall be determined by the Board or a committee thereof, in its sole discretion, based on such factors as it shall determine.

(c) *Business Expenses*. The Company shall promptly reimburse the Executive for all reasonable business expenses incurred by the Executive in connection with the performance of the Executive's employment hereunder, including without limitation airfare, upon the presentation of statements of such expenses in accordance with the Company's policies and procedures now in force or as such policies and procedures may be modified with respect to all senior executive officers of the Company; provided that such reimbursement shall occur no later than the last day of the calendar year following the calendar year in which Executive incurred the reimbursable expense.

(d) *Employee Benefits*. The Executive shall be eligible to participate in the employee benefit plans and programs maintained by the Company from time to time and generally available to senior executives of the Company, including, to the extent maintained by the Company, medical, dental, accidental and disability insurance plans and profit sharing, pension, retirement, deferred compensation and savings plans, to the extent permitted by and in accordance with the terms and conditions of the applicable plan and applicable law in effect from time to time.

(e) *Vacation*. The Executive shall be entitled to twenty-five days of paid time off per annum pursuant to the Company's Paid Time Off Policy, without carryover accumulation, which may be taken at the Executive's sole discretion.

3. *Relocation*. The Company shall reimburse the Executive for up to $250,000 (inclusive of relocation expenses already reimbursed by the Company) of moving expenses in connection with his relocation from California to New York. The reimbursement of such relocation expenses shall be excluded from the $700,000 cap provided in Section 2 of the Services Agreement.

4. *Grant of Stock Options and Restricted Stock*.

(a) *Equity Grants*. During the Term of Employment, the Executive shall continue to be eligible to receive grants of options, restricted stock and other equity securities of the Company at such times and in such amounts as the Compensation Committee of the Board shall determine, in its sole discretion. Prior grants shall continue to be governed by the terms and conditions of the plans and grant agreements pursuant to which they were made. All future grants shall be governed by the terms and conditions of the plans and grant agreements pursuant to which they are made. All equity grants made in connection with or since the commencement of the original Term of Employment shall be subject to equitable adjustment on the same basis and shall be appropriately adjusted in the event of extraordinary cash dividends.

(b) *Stockholders' Agreement*. Unless otherwise specified in such Stockholders' Agreement, all shares of Common Stock and all other securities issued in connection with this Agreement or the original Agreement or acquired by the Executive or any entity controlled by the Executive under this or the original Agreement or otherwise shall be subject to the Stockholders' Agreement, dated January 24, 2003.

5. *Termination of Employment*.

The Term of Employment may be terminated prior to August 31, 2008, or any extension of the term established pursuant to Section 1(b) hereof (the "*Scheduled Termination Date*"), upon the earliest to occur of the following events (at which time the Executive's employment provided hereunder shall be terminated):

(a) *Death*. The Executive's employment hereunder shall terminate upon the Executive's death.

(b) *Disability*. The Company shall be entitled to terminate the Executive's employment hereunder by reason of the Executive's " *Disability*" if, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been unable to perform his duties hereunder for a period of six (6) consecutive months or for 180 days within any 365-day period, and within 30 days after written Notice of Termination (as defined below) for Disability is given following such 6-month or 180-day period, as the case may be, the Executive shall not have returned to the performance of his duties in accordance with this Agreement.

(c) *Cause*. The Company may terminate the Executive's employment hereunder for Cause. For purposes of this Agreement, the term " *Cause*" shall mean: (1) the willful and continued failure of the Executive substantially to perform the Executive's duties under this Agreement (other than as a result of physical or mental illness or injury), after the Board delivers to the Executive a written demand for substantial performance that specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties; (2) the willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company; and (3) a breach of any of the obligations under Sections 9, 10 and 11 or any of the representations and covenants contained in Section 13 hereof. Any act or failure to act that is based upon authority given pursuant to a resolution duly adopted by the Board, or the advice of counsel for the Company, shall not constitute Cause. Cause shall not exist unless and until the Company has delivered to the Executive a copy of a resolution duly adopted by a majority of the Board at a meeting of the Board called and held for such purpose (after reasonable but in no event less than thirty (30) days' notice to the Executive and an opportunity for the Executive, together with his counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive was guilty of the conduct set forth above and specifying the particulars thereof in detail. This Section 5(c) shall not prevent the Executive from challenging in any court of competent jurisdiction the Board's determination that Cause exists or that the Executive has failed to cure any act (or failure to act) that purportedly formed the basis for the Board's determination.

(d) *Good Reason.* The Executive may terminate his employment hereunder for "*Good Reason*," for any of the following reasons enumerated in this Section 5(d): (i) the diminution of, or appointment of anyone other than the Executive to serve in or handle, the Executive's positions, authority, duties or responsibilities from the positions, authority, duties or responsibilities set forth in Section 1 of this Agreement without the Executive's consent; (ii) any purported termination of the Term of Employment by the Company for a reason or in a manner not expressly permitted by this Agreement; (iii) relocation of the Executive's principal work location to more than fifty (50) miles from the Executive's principal work location, (iv) any failure by the Company to comply with Sections 2, 3 or 4 of this Agreement, or any other material breach of this Agreement, including *without* limitation Section 15(e)(ii), or (v) the removal of the Executive or any of the Executive's nominees as directors under Section 4(d) of the Stockholders' Agreement prior to the date such provision expires pursuant to the terms of the Stockholders' Agreement. Termination pursuant to this Section 5(d) shall not be effective until the Executive delivers to the Board a written notice specifically identifying the conduct of the Company which he believes constitutes a reason enumerated in this Section 4(d) and the Executive provides the Board at least thirty (30) days to remedy such conduct and then provides an additional Notice of Termination in the event the Company does not cure such conduct.

(e) *Without Cause*. The Company may terminate the Executive's employment hereunder without Cause.

(f) *Without Good Reason*. The Executive may terminate his employment hereunder without Good Reason, provided that the Executive provides the Company with notice of intent to terminate without Good Reason at least three months in advance of the Date of Termination. The Executive and the Company shall mutually agree on the time, method and content of any public announcement regarding the termination of Executive's employment hereunder and neither the Executive nor the Company shall make any public statements which are inconsistent with the information mutually agreed upon by the Company and the Executive and the parties hereto shall cooperate with each other in refuting any public statements made by other persons, which are inconsistent with the information mutually agreed upon between the Executive and Company as described above.

6. *Termination Procedure.*

(a) *Notice of Termination*. Any termination of the Executive's employment hereunder by the Company or by the Executive during the Term of Employment (other than termination pursuant to Section 5(a)) shall be communicated by written notice of termination ("*Notice of Termination*") to the other party hereto in accordance with Section 15(a).

(b) *Date of Termination*. "*Date of Termination*" shall mean (i) if the Executive's employment is terminated by reason of the Executive's death, the date of his death, (ii) if the Executive's employment is terminated pursuant to Section 5(b), thirty (30) days after Notice of Termination (provided that the Executive shall not have returned to the substantial performance of his duties in accordance with this Agreement during such thirty (30) day period), (iii) if the Executive's employment is terminated pursuant to Section 5(f), a date specified in the Notice of Termination which is at least three months from the date of such notice as specified in such Section 5(f); and (iv) if the Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given or any later date (within thirty (30) days (or any alternative time period agreed upon by the parties) after the giving of such notice) set forth in such Notice of Termination.

7. *Termination Payments*.

(a) *Without Cause or for Good Reason*. In the event of the termination of the Executive's employment during the Term of Employment by the Company without Cause or by the Executive, for Good Reason, the Executive shall be entitled to (i) a payment, within ten (10) days following the Date of Termination, of Base

Salary through the Date of Termination (to the extent not theretofore paid), for any accrued vacation pay, and any unreimbursed expenses under Sections 2(c), (d) and (f) hereof, (collectively, the "*Accrued Obligations*") and (ii) subject to the effectiveness, within 60 days following the Date of Termination, of the Executive's execution of a general release and waiver of all claims against the Company, its affiliates and their respective officers and directors related to the Executive's employment, in the form annexed as Exhibit A (but excluding (1) his rights to receive the benefits provided under this Agreement or under any and all equity agreements entered into in connection herewith or in connection with the predecessor of this Agreement and, to the extent then in effect, the Stockholders' Agreement, (2) his rights with respect to related investments in the Company and (3) his rights to be indemnified in accordance with the provisions of the Company's charter and bylaws and to receive any benefits to which he is entitled under the Company's directors' and officers' liability insurance policies, all in accordance with Section 8 hereof (collectively, the "*Excluded Obligations*")), and subject to the Executive's compliance with the terms and conditions contained in this Agreement, (A) a payment equal to one year's Base Salary and Target Bonus, one-half of such payment will be paid on the first business day that is six months and one day following the Date of Termination and the remaining one-half of such payment will be paid in six equal monthly installments commencing on the first business day of the seventh calendar month following the Date of Termination; (B) a payment equal to the product of (x) the last Bonus the Executive received prior to the date of termination, and (y) a fraction, the numerator of which is the number of days from the beginning of such year through the Date of Termination, and the denominator of which is 365, which will be paid on the first business day that is six months and one day following the Date of Termination; (C) the immediate vesting of such portion of the Company restricted stock granted to the Executive as provided in and pursuant to the terms of the Restricted Stock Agreements between the Parent and the Executive under the Company's 2003 Equity Incentive Plan as it may be amended from time to time (the "*Equity Plan*") and (D) the immediate vesting of such portion of the options granted to the Executive as provided in and pursuant to the terms of the Stock Option Grant Agreements between the Parent and the Executive under the Equity Plan. The Company shall have no additional obligations under this Agreement, but the Executive shall retain all rights with respect to the Excluded Obligations in accordance with the terms of the agreements under which such obligations are provided.

In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced, regardless of whether the Executive obtains other employment or is engaged to perform other services.

(b) *Cause, Death, Disability, Without Good Reason, Failure to Renew*. If the Executive's Employment is terminated during the Term of Employment by the Company for Cause, by the Executive without Good Reason, by either party serving a notice not to renew pursuant to Section 1(b) herein (such notice, a "*Failure to Renew*"), or as a result of the Executive's death or Disability, the Company shall pay the Accrued Obligations to the Executive within thirty (30) days following the Date of Termination. The Company shall have no additional obligations under this Agreement, but the Executive shall retain all rights with respect to the Excluded Obligations in accordance with the terms of the agreements under which such obligations are provided.

(c) *Other Rights and Benefits*. In the event of the termination of the Term of Employment for any reason, the Executive shall retain his rights under all employee benefit plans, including the Equity Plan, in accordance with the terms and conditions of such plans, provided that in no event will the Executive be entitled to any payments in the nature of severance or termination payments except as specifically provided herein.

8. *Indemnification*.

The Company agrees that if the Executive is made a party or threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "*Proceeding*"), other than any Proceeding initiated by the Executive or the Company related to any contest or dispute between the Executive and the Company or any of its affiliates with respect to this Agreement or the employment of the Executive hereunder, by reason of the fact that the Executive is or was a director or officer of the Company, or any subsidiary of the Company or is or was serving at the request of the Company, as a director, officer, member, employee or agent of another corporation or a partnership, joint venture, trust or other enterprise, the Executive shall be indemnified and held harmless by the Company to the fullest extent authorized by applicable law from and against any and all liabilities, costs, claims and expenses, including all costs and expenses incurred in defense of any Proceeding (including attorneys' fees). Costs and expenses incurred by the Executive in defense of such Proceeding (including attorneys' fees) shall be paid by the Company in advance of the final disposition of such litigation upon receipt by the Company of (a) a written request for payment, (b) appropriate documentation evidencing the incurrence, amount and nature of the costs and expenses for which payment is being sought, and (c) an undertaking adequate under applicable law made by or on behalf of the Executive to repay the amounts so paid if it shall ultimately be determined that the Executive is not entitled to be indemnified by the Company under this Agreement. The Company and the Executive will consult in good faith with respect to the conduct of any Proceeding. If the Company or any of its successors or assigns consolidates with or merges into any other entity or transfers all or substantially all of its properties or assets, then in each such case, proper provisions shall be made so that the successors or assigns of the Company shall assume all of the obligations set forth in this Section 8.

During the Term of Employment and for a term of six years thereafter, the Company, or any successor to the Company shall purchase and maintain, at its own expense, directors and officers liability insurance providing coverage for Executive in the same amount as the other executive officers and directors of the Company.

During the Term of Employment and for a term of six years thereafter, the Company shall provide Executive with copies of all binders and policies issued in connection with any directors and officers liability insurance affording coverage to Executive, within 30 days following the Executive's request for such documents.

9. *Non-Solicitation*.

During the Term of Employment and for a period of two years following the Date of Termination, the Executive hereby agrees not to, directly or indirectly, for his own account or for the account of any other person or entity, (i) solicit or hire or assist any other person or entity in soliciting or hiring any employee of the Company or any of its subsidiaries or affiliates to perform any services for any entity (other than the Company or their respective subsidiaries or affiliates), attempt to induce any such employee to leave the employ of the Company or any affiliates of the Company, or otherwise interfere with or adversely modify such employee's relationship with the Company or any of its subsidiaries or affiliates, or (ii) induce any employee of the Company who is a member of management to engage in any activity which the Executive is prohibited from engaging in under any of Sections 9, 10 or 11 of this Agreement. For purposes of this Agreement, "employee" shall mean any natural person anywhere in the world who is employed by or otherwise engaged to perform services for the Company or any of its affiliates on the Date of Termination or during the one-year period preceding the Date of Termination.

10. *Non-Compete*.

In connection with the employment of the Executive under this Agreement and in recognition that the Executive shall be a significant stockholder in the Company, and except as specifically provided in Section 1(d) above, the Executive hereby agrees that, during the Term of Employment and for the one year period following any termination of the Executive's employment (other than a termination without Cause, for Good Reason or Failure to Renew as described in Sections 5(d), 5(e) and 7(b) above), the Executive shall not become associated with any entity, whether as a principal, partner, employee, consultant or shareholder (other than as a holder of a passive investment of not in excess of 5% of the outstanding voting shares of any publicly traded company), that is actively engaged in retail apparel business in any geographic area in which the Company or any of its subsidiaries or affiliates are engaged in such business.

11. *Confidentiality; Non-Disclosure*.

(a) The Executive hereby agrees that, during the Term of Employment and thereafter, he will hold in strict confidence any proprietary or Confidential Information related to the Company and its affiliates. For purposes of this Agreement, the term "*Confidential Information*" shall mean all information of the Company or any of its affiliates (in whatever form) which is not generally known to the public, including without limitation any inventions, processes, methods of distribution or customers' or trade secrets.

(b) The Executive hereby agrees that, upon the termination of the Term of Employment, he shall not take, without the prior written consent of the Company, any drawing, blueprint, specification or other document (in whatever form) of the Company or its affiliates, which is of a confidential nature relating to the Company or its affiliates, or, without limitation, relating to its or their methods of distribution, or any description of any formulas or secret processes and will return any such information (in whatever form) then in his possession.

12. *Injunctive Relief*.

It is impossible to measure in money the damages that will accrue to the Company in the event that the Executive breaches any of the restrictive covenants provided in Sections 9, 10 or 11 hereof. In the event that the Executive breaches any such restrictive covenant, the Company shall be entitled to an injunction restraining the Executive from violating such restrictive covenant. If the Company shall institute any action or proceeding to enforce any such restrictive covenant, the Executive hereby waives the claim or defense that the Company has an adequate remedy at law and agrees not to assert in any such action or proceeding the claim or defense that the Company has an adequate remedy at law. The foregoing shall not prejudice the Company's right to require the Executive to account for and pay over to the Company, and the Executive hereby agrees to account for and pay over, the compensation, profits, monies, accruals or other benefits derived or received by the Executive, directly or indirectly, as a result of any transaction constituting a breach of any of the restrictive covenants provided in Sections 9, 10 or 11 of this Agreement.

13. *Representations and Covenants; Certain Reimbursements*.

(a) The Executive and the Company hereby represent to each other that they have full power and authority to enter into this Agreement on behalf of themselves and that the execution of, and performance of duties or obligations under, this Agreement shall not constitute a breach of or otherwise violate any other agreement to which the Executive or the Company, as applicable, is a party.

(b) The Executive hereby represents and covenants to the Company that he will not utilize or disclose any confidential information obtained by the Executive in connection with his former employment with respect to his duties and responsibilities hereunder and the Company, and the Company covenants that it will not ask the Executive to do so.

14. *Additional Payments*.

In the event that, following a Change in Control IPO (as defined below), any payment, right or benefit made or provided to the Executive under this Agreement and under any other plan, program or agreement of the Company or any of its affiliates (collectively, the "*Aggregate Payment*") become subject to any tax (the "*Excise Tax*") imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "*Code*"), the Company shall pay to the Executive an additional amount (the "*Excise Tax Payment*") such that the net amount retained by the Executive with respect to the Aggregate Payment, after deduction of any Excise Tax on the Aggregate Payment and any Federal, state and local income and employment tax and Excise Tax on the Excise Tax Payment (and any interest and penalties thereon), but before deduction for any Federal, state or local income or employment tax withholding on such Aggregate Payment, shall be equal to the amount of the Aggregate Payment. The Company shall pay the Excise Tax Payment to the Executive no later than the end of Executive's taxable year next following Executive's taxable year in which the Excise Tax (and any income or other related taxes or interest or penalties thereon) on the Aggregate Payment are remitted to the Internal Revenue Service or any other applicable taxing authority.

The determination of whether the Aggregate Payment will be subject to the Excise Tax and, if so, the amount to be paid to the Executive and the time of payment pursuant to this Section 14 shall be made by the Auditor (as defined below), subject to a different determination by the Internal Revenue Service. All fees and expenses of the Auditor shall be borne solely by the Company.

For purposes of determining the amount of any additional payments hereunder, the Executive shall be deemed to pay: (i) Federal income taxes at the highest applicable marginal rate of Federal income taxation for the calendar year in which such payments are to be made, and, (ii) any applicable state and local income taxes at the highest applicable marginal rate of taxation for the calendar year in which such payments are to be made, net of the maximum reduction in Federal incomes taxes that could be obtained from the deduction of such state or local taxes if paid in such year.

For purposes of this Agreement, the following definitions shall have the following meanings:

(a) "*Auditor*" shall mean a nationally recognized United States public accounting firm, jointly selected by the Company and the Executive, which has not, during the two years preceding the date of its selection, acted in any way on behalf of the Company. If the Executive and the Company cannot agree on the firm to serve as the Auditor, then the Executive and the Company shall each select one accounting firm and those two firms shall jointly select the accounting firm to serve as the Auditor.

(b) "*Change in Control IPO*" shall mean the Company has equity securities that are readily tradable on an established securities market or otherwise within the meaning of Q&A 6 of Treasury Regulation 1.280G-1.

In the event that, prior to a Change in Control IPO, any Aggregate Payment becomes subject to the Excise Tax, the Executive will have the option (to be exercised in his sole discretion) to waive any portion of any payments or benefits due hereunder or under any other plan, program or agreement of the Company or any of its affiliates in order to avoid any such Excise Tax. The Company shall, in conformity with the requirements set forth at Q&A 7 of Treas. Reg. Section 1.280G-1, use its best efforts to seek approval from the stockholders of the Company of payment of such payments or benefits.

15. *Miscellaneous*.

(a) Any notice or other communication required or permitted under this Agreement shall be effective only if it is in writing and delivered personally or sent by registered or certified mail, postage prepaid, addressed as follows (or if it is sent through any other method agreed upon by the parties):

If to the Company:

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

with a copy to:

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

If to the Executive:

To the address on file with the Company,

with a copy to:

Stephen T. Lindo, Esq.
Willkie Farr & Gallagher LLP
787 Seventh Avenue
New York, NY 10019-6099

or to such other address as any party hereto may designate by notice to the others, and shall be deemed to have been given upon receipt.

(b) The Company shall reimburse the Executive for reasonable legal fees incurred by the Executive in connection with the negotiation of this Agreement and any related agreements.

(c) This Agreement and the prior grant agreements and plans referenced herein constitute the entire agreement among the parties hereto with respect to the employment of the Executive.

(d) This Agreement may be amended only by an instrument in writing signed by the parties hereto, and any provision hereof may be waived only by an instrument in writing signed by the party or parties against whom or which enforcement of such waiver is sought. The failure of any party hereto at any time to require the performance by any other party hereto of any provision hereof shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by any party hereto of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or a waiver of the provision itself or a waiver of any other provision of this Agreement.

(e) (i) This Agreement is binding on and is for the benefit of the parties hereto and their respective successors, heirs, executors, administrators and other legal representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by the Company or the Executive.

(ii) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in the Agreement, the " *Company*" shall mean both the Company as defined above and any such successor that assumes and agrees to perform this Agreement, by operation of law or otherwise.

(f) If any provision of this Agreement or portion thereof is so broad, in scope or duration, so as to be unenforceable, such provision or portion thereof shall be interpreted to be only as broad as is enforceable.

(g) The Company may withhold from any amounts payable to the Executive hereunder all federal, state, city or other taxes that the Company may reasonably determine are required to be withheld pursuant to any applicable law or regulation.

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

(i) Any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or the interpretation hereof or any agreements relating hereto or contemplated herein or the interpretation, breach, termination, validity or invalidity hereof shall be settled exclusively and finally by arbitration; *provided* that the Company shall not be required to submit claims for injunctive relief to enforce the covenants contained in Sections 8, 9 or 10 of this Agreement to arbitration. The arbitration shall be conducted in accordance with the Commercial Arbitration Rules (the " *Rules*") of the American Arbitration Association (the "AAA"), except as amplified or otherwise varied hereby. The Company and the Executive jointly shall appoint one individual to act as arbitrator within thirty (30) days of initiation of the arbitration. If the parties shall fail to appoint such arbitrator as provided above, such arbitrator shall be appointed by the President of the Association of the Bar of the City of New York and shall be a person who maintains his or her Executive place of business in the New York metropolitan area and shall be an attorney, accountant or other professional licensed to practice by the State of New York who has substantial experience in employment and executive compensation matters. All fees and expenses of such arbitrator shall be shared equally by the Company and the Executive. The situs of the arbitration shall be New York City. Any decision or award of the arbitral tribunal shall be final and binding upon the parties to the arbitration proceeding. The parties hereto hereby waive to the extent permitted by law any rights to appeal or to seek review of such award by any court or tribunal. The arbitration award shall be paid within thirty (30) days after the award has been made. Judgment upon the award may be entered in any federal or state court having jurisdiction over the parties and shall be final and binding. Each party shall be required to keep all proceedings related to any such arbitration and the final award and judgment strictly confidential; *provided* that either party may disclose such award as necessary to enter the award in a court of competent jurisdiction or to enforce the award, and to the extent required by law, court order, regulation or similar order.

(j) This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

(k) The headings in this Agreement are inserted for convenience of reference only and shall not be a part of or control or affect the meaning of any provision hereof.

(l) Notwithstanding anything in this Agreement to the contrary, (i) all reimbursement and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A of the Code to the extent that such reimbursements or in-kind benefits are subject to Section 409A of the Code; (ii) all expenses or other reimbursements paid pursuant to this Agreement that are taxable income to the Executive shall in no event be paid later than the end of the calendar year next following the calendar year in which the Executive incurs such expense or pays such related tax; and (iii) with regard to any provision in this Agreement that provides for reimbursement of costs and expenses or provision of in-kind benefits, except as permitted by Section 409A of the Code, (A) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit and (B) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year.

(m) This Agreement is intended to comply with Section 409A of the Code. In determining the time for payment of any amounts which are treated as nonqualified deferred compensation, the Agreement shall be interpreted so that all references therein to a “termination”, or a “termination of employment”, or like terms are treated as instead referring to a “separation from service”, as such term is defined in Section 409A of the Code. All provisions of the Agreement are meant to be exempt from compliance with Section 409A of the Code, to the maximum extent permitted, and otherwise to comply with Section 409A of the Code. Accordingly, all provisions of the Agreement shall be construed in a manner consistent with avoiding taxes or penalties under Section 409A of the Code. The amendments made by this Agreement to Sections 2(b), 2(c), 7(a), 14, 15(l) and 15(m) hereof shall be effective as of December 31, 2008.

IN WITNESS WHEREOF, J.Crew Group, Inc. and J.Crew Operating Corp. have each caused their respective names to be ascribed to this Second Amended and Restated Employment Agreement by a duly authorized representative and the undersigned, Millard S. Drexler, has executed this Amendment, on or before this 29th day of December, 2008.

J.CREW GROUP, INC.

/s/ JAMES S. SCULLY

Name: **James S. Scully**
Title: **Executive Vice-President and Chief Financial Officer**

J.CREW OPERATING CORP.

/s/ JAMES S. SCULLY

Name: **James S. Scully**
Title: **Executive Vice-President and Chief Financial Officer**

/s/ MILLARD S. DREXLER

Millard S. Drexler

Exhibit A

FORM OF GENERAL RELEASE

GENERAL RELEASE OF CLAIMS

1. Millard S. Drexler (the "*Executive*"), for himself and his family, heirs, executors, administrators, legal representatives and their respective successors and assigns, in exchange for the consideration contained in Section 6(a)(ii) of the Amended and Restated Employment Agreement to which this release is attached as Exhibit A (the "*Employment Agreement*"), which the Executive acknowledges is in addition to any amounts to which he would have otherwise been entitled but for the Employment Agreement and execution of this General Release of Claims, does hereby release and forever discharge J.Crew Group, Inc. ("*Parent*") and its operating subsidiary J.Crew Operating Corp. (together with Parent, the " *Company*") and their respective subsidiaries or affiliated companies, and their respective current or former directors, officers, employees, shareholders or agents in such capacities (collectively with the Company, the "*Released Parties*") from any and all actions, causes of action, suits, controversies, claims and demands whatsoever, for or by reason of any matter, cause or thing whatsoever, whether known or unknown, arising under or in connection with the Principal's employment or the termination of such employment with the Company, whether for tort, breach of express or implied employment contract, wrongful discharge, intentional infliction of emotional distress, or defamation or injuries incurred on the job or incurred as a result of the termination of the employment. The Executive acknowledges that the Company encouraged him to consult with an attorney of his choosing, and through this General Release of Claims encourages him to consult with his attorney with respect to possible claims under the Age Discrimination in Employment Act ("*ADEA*") and that he understands that the ADEA is a Federal statute that, among other things, prohibits discrimination on the basis of age in employment and employee benefits and benefit plans. Without limiting the generality of the release provided above, the Executive expressly waives any and all claims under ADEA that he may have as of the date hereof. The Executive further understand that by signing this General Release of Claims he is in fact waiving, releasing and forever giving up any claim under the ADEA as well as all other laws within the scope of this paragraph 1 that may have existed on or prior to the date hereof. Notwithstanding anything in this paragraph 1 to the contrary, this General Release of Claims shall not apply to (i) any actions to enforce rights arising under, or any claim for benefits that may be due the Executive pursuant to any vested benefits under any employee benefit plan, or vested rights under any and all equity agreements entered into in connection with the Employment Agreement or the predecessor of the Employment Agreement and, to the extent in effect, the Stockholders' Agreement, (ii) any actions to enforce the Executive's rights with respect to his related investments in the Company, and (iii) any indemnification rights the Executive may have as a former officer or director of the Company or its subsidiaries or affiliated companies in accordance with the Company's charter and bylaws and any claims to receive any benefits to which he is entitled under the Company's directors' and officers' liability policies, all in accordance with Section 8 of the Employment Agreement.

2. The Executive represents that he has not filed against the Released Parties any complaints, charges, or lawsuits arising out of his employment, or any other matter arising on or prior to the date of this General Release of Claims, and covenants and agrees that he will never individually or with any person to file, or commence the filing of, any charges, lawsuits, complaints or proceedings with any governmental agency, or against the Released Parties with respect to any of the matters released by the Executive pursuant to paragraph 1 hereof.

3. The Executive hereby acknowledges that the Company has informed him that he has up to twenty-one (21) days to sign this General Release of Claims and he may knowingly and voluntarily waive that twenty-one (21) day period by signing this General Release of Claims earlier. The Executive also understands that he shall have seven (7) days following the date on which he signs this General Release of Claims within which to revoke it by providing a written notice of his revocation to the Company.

4. The Executive acknowledges that this General Release of Claims will be governed by and construed and enforced in accordance with the internal laws of the State of NEW YORK applicable to contracts made and to be performed entirely within such State.

5. The Executive acknowledges that he has read this General Release of Claims, that he has been advised that he should consult with an attorney before he executes this general release of claims, and that he understands all of its terms and executes it voluntarily and with full knowledge of its significance and the consequences thereof.

6. This General Release of Claims shall take effect on the eighth day following the Executive's execution of this General Release of Claims unless the Executive's written revocation is delivered to the Company within seven (7) days after such execution.

____

Millard S. Drexler

__________, 20__

The parties understand and agree that the release of claims provided in this form of general release shall be entered into by the parties to the Employment Agreement in connection with termination of the Executive's employment pursuant to a separation agreement or arrangement, which shall state, among other things, the consideration the Executive is entitled to receive in connection with such termination.

J.CREW

AMENDED AND RESTATED
NON-DISCLOSURE, NON-SOLICITATION AND NON-COMPETITION

In consideration of your employment (or continued employment) with or provision of services to J.Crew Group, Inc. and its affiliates (collectively, the "Company") and for other good and valuable consideration, receipt of which is hereby acknowledged, you agree as follows:

1. **Agreement Not to Disclose Confidential Information**. In the course of your employment with or provision of services to the Company, you have and will have acquired and have had access to confidential or proprietary information about the Company, including but not limited to, trade secrets, methods, models, passwords, access to computer files, financial information and records, computer software programs, agreements and/or contracts between the Company and its vendors and suppliers, the Company's merchandising, marketing and/or creative policies, practices, concepts, strategies, and methods of operations, inventory, pricing and price change strategies, possible new product lines, future merchandise designs, patterns, fabrication or fit information, internal policies, pricing policies and procedures, cost estimates, employee lists, training manuals, financial or business projections, unannounced financial data such as sales, earnings or capital requirements, possible mergers, acquisitions or joint ventures and information about or received from vendors and other companies with which the Company does business. The foregoing shall be collectively referred to as "Confidential Information." You are aware that the Confidential Information is not readily available to the public. You agree that during your employment or provision of services and for a period of three (3) years thereafter, you will keep confidential and not disclose the Confidential Information to anyone or use it for your own benefit or for the benefit of others, except in performing your duties as our employee or agent. You agree that this restriction shall apply whether or not any such information is marked "confidential."

All memoranda, disks, files, notes, records or other documents, whether in electronic form or hard copy (collectively, the "material") compiled by you or made available to you during your employment (whether or not the material contains confidential information) are the property of the Company and shall be delivered to the Company on the termination of your employment or at any other time upon request. Except in connection with your employment, you agree that you will not make or retain copies or excerpts of the material.

2. **Agreement Not to Engage in Unfair Competition**. You agree that your position with the Company requires and will continue to require the performance of services which are special, unique, extraordinary and of an intellectual and/or artistic character and places you in a position of confidence and trust with the Company. You further acknowledge that the rendering of services to the Company necessarily requires the disclosure of confidential information and trade secrets of the Company. You agree that in the course of your employment with or rendering of services to the Company, you will develop a personal acquaintanceship and relationship with the vendors and other business associates of the Company and knowledge of their affairs and requirements. Consequently, you agree that it is reasonable and necessary for the protection of the goodwill and business of the Company that you make the covenants contained herein. Accordingly, you agree that while you are in the Company's employ and for the period of twelve months after the termination of your employment, for any reason whatsoever (including "Good Reason," as defined below), you shall not directly or indirectly, except on behalf of the Company:

(a) render services to or accept employment, either directly as an employee or owner, or indirectly, as a paid or unpaid consultant or independent contractor of any entity identified on *Schedule A* hereto (as may be updated by the Company and communicated to you from time to time); or

(b) employ as an employee or retain as a consultant any person who is then or at any time during the preceding twelve months was an employee of or consultant to the Company, or persuade or attempt to persuade any employee of or consultant to the Company to leave the employ of the Company or to become employed as an employee or retained as a consultant by anyone other than the Company.

3. **Termination Without Cause or For Good Reason**. Should your employment be (a) terminated by the Company without "Cause," as defined below, or terminated by you for "Good Reason," as defined below; and (b) the Company does not consent to waive any of the post-employment restrictions contained in paragraph 2(a) above, and (c) you execute and deliver to Company an irrevocable Separation Agreement and Release, within 60 days after your termination of employment (and any payment that constitutes non-qualified deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended and any regulations thereunder (the "Code") that otherwise would be made within such 60-day period pursuant to this paragraph shall be paid at the expiration of such 60-day period), in a form acceptable to the Company, the Company will pay you a severance payment equal to (i) a lump sum amount equal to the product of (x) the annual bonus, if any, that you would have earned based on the actual achievement of the applicable performance objectives in the fiscal year which includes the date of your termination of employment had your employment not been terminated and (y) a fraction, the numerator of which is the number of days in the fiscal year that includes the date of your termination through the date of such termination and the denominator of which is 365, payable when bonuses are generally paid to employees of the Company, but in no event later than the 15 th day of the third month following the end of the year with respect to which such bonus was earned; (ii) twelve (12) months of your then-current base salary, to be paid, less all applicable deductions, according to the Company's normal payroll practices for a period coextensive with the restricted period (twelve months); and (iii) during the restricted period, reimbursement for out-of-pocket COBRA payments paid by you to continue your group health benefits, provided you submit relevant supporting documentation to the Company evidencing such payments. Notwithstanding anything herein to the contrary, however, your right to receive the foregoing payments shall terminate effective immediately upon the date that you become employed by another entity as an employee, consultant or otherwise, and you agree to notify the Senior Vice-President of Human Resources in writing prior to the effective date of any such employment. If you fail to so notify the Senior Vice-President of Human Resources, (a) you will forfeit your right to receive the payments described above (to the extent the payments were not theretofore paid) and (b) the Company shall be entitled to recover any payments already made to you or on your behalf.

Notwithstanding the foregoing paragraph, in the event your employment is terminated by the Company without Cause or by you for Good Reason, and you are a "specified employee" within the meaning of Section 409A of Code (as determined in accordance with the methodology established by the Company as in effect on the date of your termination), any amounts that are considered "nonqualified deferred compensation" (within the meaning of Section 409A of the Code) payable to you on account of your "separation from service" (within the meaning of Section 409A of the Code) during the six month period immediately following the date of such "separation from service" (not including any accrued but unpaid base salary as of the date of your termination of employment) shall be deferred and accumulated for a period of six months from the date of separation from service and paid in a lump sum on the first day of the seventh month following such separation from service (or, if earlier, the date of your death).

For purposes of this agreement, "Cause" shall mean gross incompetence; failure to comply with the Company's policies including those contained in the Company's Code of Ethics and Business Practices; indictment, conviction or admission of any crime involving dishonesty or moral turpitude; participation in any act of misconduct, insubordination or fraud against the Company; use of alcohol or drugs which interferes with your performance of your duties or compromises the integrity or reputation of the Company; and excessive absence from work other than as a result of disability. For purposes of this agreement, "Good Reason" shall mean either of the following: (i) any requirement by the Company that you report directly to an individual other than an Executive Vice-President or functional equivalent or (ii) any action by the Company that results in a material and continuing diminution in your duties or responsibilities, in each case without your consent and provided that the Company will have at least 30 days to remedy such situation. No payment will be required if the Company consents in its sole discretion to request by you to waive the post-termination restrictions on your employment contained in paragraph 2(a) herein or if the conditions set forth in this Section 3 are otherwise not met.

4. **Termination With Cause or Resignation of Employment Without Good Reason**. If the Company terminates your employment and such termination is for "Cause," as defined above, or if you resign your employment for any reason other than for "Good Reason," as defined above, then the Company shall pay you all wages due through the termination date. In the event of termination for Cause or your resignation other than for Good Reason, the Company will not pay any severance, and the restrictions contained in paragraph 2(a) above will remain in full force and effect unless waived by the Company.

5. **Term**. The term of this agreement shall be three (3) years, beginning on the date signed by you, as set forth below, and terminating on the third anniversary of such date. At the Company's request upon or in advance of the termination of this agreement, you will enter into discussions to extend the terms of this agreement or negotiate in good faith an agreement of similar effect.

Notwithstanding the foregoing, in the event that your employment terminates prior to the third anniversary, you shall remain subject to the post-termination restrictions contained in Sections 1 and 2 hereof and shall be entitled to the severance payment contained in Section 3 hereof provided that the terms and conditions applicable thereto have been satisfied.

6. **Injunctive Relief**. You agree that any actual or threatened breach by you of the covenants set forth in paragraphs 1 and 2 of this agreement would result in irreparable harm to the Company for which monetary damages alone would be an insufficient remedy. Thus, although nothing in this paragraph will prohibit the Company from pursuing any remedies available to it against you under applicable law (which shall be cumulative with those remedies set forth herein), you specifically agree that, in the event of any threatened or actual breach of this agreement by you, the Company shall be entitled to a temporary restraining order and, thereafter, a preliminary and permanent injunction and other equitable relief including, without limitation, an equitable accounting of earnings, profits, and other benefits, from a court of competent jurisdiction, as well as reimbursement from you for any attorneys' fees and other costs incurred by the Company in obtaining such relief. No specification in this agreement of any legal or equitable remedy shall be construed as a waiver or prohibition against pursuing any other legal or equitable remedies in the event of a threatened or actual breach of this agreement by you.

7. **Severability**. If any provision of this agreement, or any part thereof, is found to be invalid or unenforceable, the same shall not affect the remaining provisions, which shall be given full effect, without regard to the invalid portions. Moreover, if any one or more of the provisions contained in this agreement shall be held to be excessively broad as to duration, scope, activity or subject, such provisions shall be construed by limiting and reducing them so as to be enforceable to the maximum extent with applicable law.

8. **At-Will Employment**. This agreement is limited to the foregoing terms and shall not be construed to create any relationship between you and the Company other than at-will employment for all purposes. This agreement supersedes all agreements concerning the subject matter hereof including the Non-Disclosure, Non-Solicitation and Non-Competition Agreement, dated August 8, 2006.

9. **Governing Law**. The terms of this agreement and all rights and obligations of the parties thereto including its enforcement shall be interpreted and governed by the laws of the state of New York.

10. **Section 409A of the Code**. If any provision of this agreement (or any award of compensation or benefits provided under this agreement) would cause you to incur any additional tax or interest under Section 409A of the Code, the Company and you shall reasonably cooperate to reform such provision to comply with 409A and the Company agrees to maintain, to the maximum extent practicable without violating 409A of the Code, the original

intent and economic benefit to you of the applicable provision; provided that nothing herein shall require the Company to provide you with any gross-up for any tax, interest or penalty incurred by you under Section 409A of the Code.

AGREED TO AND ACCEPTED:

Signature: /s/ LIBBY WADLE Print Name: Libby Wadle

Libby Wadle

Date: 12-29-2008

SCHEDULE A TO NON-DISCLOSURE, NON-SOLICITATION AND NON-COMPETITION AGREEMENT

Unless waived in writing by the Company, the post-termination restrictions on employment contained in paragraph 2(a) above shall apply to employment with the following entities, as well as their parent and subsidiary companies:

A&F Brands
Ann Taylor
American Eagle Outfitters Brands
Armani Exchange
Barney's
Brooks Brothers
Calvin Klein
Children's Place
Coach
Cole Haan
Eddie Bauer
Gap Brands
Gymboree Brands
Limited Brands
Lucky Brand
LVMH
Ralph Lauren brands
Theory
Tommy Hilfiger
Urban Outfitters
Any retail apparel start-up operated by one of the above companies

J.CREW

December 17, 2008

Ms. Jenna Lyons Mazeau

Dear Jenna:

Reference is made herein to the letter agreement between you and J.Crew Group, Inc. (the " *Parent*") and its operating subsidiaries (collectively with the Parent, the "*Company*"), dated December 10, 2007 (the "*Original Agreement*"), which sets forth certain terms and conditions of your employment with the Company. You hereby acknowledge and agree, by your signature below, that it is the intent of the parties hereto to amend the terms and conditions of your employment, as reflected in the Original Agreement, to the extent necessary to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "*Code*") and the regulations promulgated thereunder. In connection therewith, this letter agreement (the " *Agreement*") amends and restates the terms and conditions of your employment with the Company, and thus supersedes the Original Agreement, effective as of the date hereof.

1. Employment.

(a) The Company hereby agrees to continue to employ you during the " *Employment Period*" (as defined below) in the position of Creative Director, and you hereby agree to continue to serve the Company in such capacity. As Creative Director, in addition to your responsibilities as former Senior Vice President of Womens' Design, you will also be responsible for creative direction of catalog and e-commerce. You shall continue to report to the Chief Executive Officer.

(b) During the Employment Period, you shall devote your full business time and energy, attention, skills and ability to the performance of your duties and responsibilities hereunder and shall faithfully and diligently endeavor to promote the business and best interests of the Company. Accordingly, you may not, directly or indirectly, without the prior written consent of the Company, operate, participate in the management, operations or control of, or act as an employee, officer, consultant, agent or representative of, any type of business or service (other than as an employee of the Company), provided that it shall not be a violation of the foregoing for you to (i) act or serve as a director, trustee or committee member of any civic or charitable organization, and (ii) manage your personal, financial and legal affairs, so long as such activities (described in clauses (i) or (ii)) do not interfere with the performance of your duties and responsibilities to the Company as provided hereunder.

2. Employment Period.

(a) The "*Employment Period*" commenced effective as of the date you executed the Original Agreement (the " *Effective Date*") and shall terminate ("*Termination Date*") upon the earliest to occur of (i) the fifth anniversary of the Effective Date (the " *Scheduled Termination Date*"), (ii) your death or Disability (as defined below), (iii) voluntary termination of employment by you without Good Reason (as defined below) on at least two months prior notice, unless waived by the Company, (iv) voluntary termination of employment by you for Good Reason in accordance with the procedure outlined in Section 2(e) below, (v) termination of employment by the Company without Cause (as defined below) or (vi) termination of employment by the Company for Cause. The Scheduled Termination Date shall be extended for successive one year periods beginning on the fifth anniversary of the Effective Date and on each anniversary thereafter, unless either the Company or you notifies the other in writing at least four months prior to the applicable Scheduled Termination Date of its intention not to extend the Scheduled Termination Date further in which case the Employment Period shall terminate on such Scheduled Termination Date.

(b) Upon termination of the Employment Period for any reason, you shall be entitled to any earned but unpaid Base Salary (as defined below) as of the Termination Date. If the Company terminates the Employment Period without Cause or you terminate the Employment Period for Good Reason, you will be entitled to the following severance benefits (the "*Severance Benefits*"): (i) continuation of your Base Salary as in effect immediately prior to such termination (your "*Ending Base Salary*", and such continuation of your Ending Base Salary being referred to herein as the "*Continuation Severance Payment*") and medical benefits which may be provided by the Company reimbursing payment of COBRA premiums if any ("*Continuation Medical Benefit*") for a period of one (1) year (the "*Severance Period*") after the Termination Date and (ii) on the date that is six months and one day after the Termination Date, a lump sum amount equal to the Annual Bonus, if any, that you received for the fiscal year ended prior to the fiscal year which includes the Termination Date ("*Severance Period Bonus*"). In addition, in the event the Company terminates the Employment Period without Cause or you terminate the Employment Period for Good Reason prior to the second anniversary of the Effective Date and subject to the approval of the Compensation Committee of the Board of Directors of the Company, you will also receive as part of the Severance Benefits immediate vesting as of the Termination Date of the unvested portion of all stock option and restricted stock awards that were granted to you prior to the Company's initial public offering in June 2006. Your right to receive the Severance Benefits outlined above are subject to and conditioned upon your execution of a valid general release and waiver within 60 days after your termination of employment (and any payment that constitutes non-qualified deferred compensation under Section 409A of the Code and any regulations thereunder that otherwise would be made within such 60-day period pursuant to this paragraph shall be paid at the expiration of such 60-day period) in a form reasonably satisfactory to the Company waiving all claims that you may have against the Company, its successors, assigns, affiliates, employees, officers and directors and your compliance with the provisions set forth in Section 4 hereof. Notwithstanding anything herein to the contrary, your right to receive the Continuation Severance Payment during the Severance Period shall terminate effective immediately upon the date that you become employed by a new employer or otherwise begin providing services for an entity as a consultant or otherwise ("*New Employment*"); provided that if the base salary you receive pursuant to such New Employment and any guaranteed bonus or other forms of cash compensation payments relating to the Severance Period whether or not paid during the Severance Period, ("*New Compensation*") is less than your Ending Base Salary, the Company will continue to pay you an incremental amount during the remaining Severance Period such that the New Compensation payments you receive together with such incremental amount will equal your Ending Base Salary on an annualized basis and your right to receive the Continuation Medical Benefit shall cease immediately upon your being eligible for coverage under another group health plan. You shall immediately notify the Company upon obtaining New Employment and provide all information regarding medical benefits coverage reasonably requested by the Company. The Company shall have no additional obligations under this Agreement, including under any severance or termination pay plan, and your rights under any benefit plan of the Company to vested benefits or welfare benefits will be determined pursuant to the terms of the applicable plan.

Notwithstanding the foregoing paragraph, in the event the Company terminates the Employment Period without Cause or you terminate the Employment Period for Good Reason, and you are a "specified employee" within the meaning of Section 409A of Code (as determined in accordance with the methodology established by the Company as in effect on the Termination Date), any amounts that are considered "nonqualified deferred compensation" (within the meaning of Section 409A of the Code) payable to you on account of your termination of employment during the six month period immediately following the date of your "separation from service" within the meaning of Section 409A of the Code (not including any accrued but unpaid Base Salary as of your Termination Date) shall be deferred and accumulated for a period of six months from the date of separation from service and paid in a lump sum on the first day of the seventh month following such separation from service (or, if earlier, the date of your death).

(c) For purposes of this Agreement, the term "*Cause*" shall mean (i) the indictment for a felony or any crime involving moral turpitude or being charged or sanctioned by a federal or state government or governmental authority or agency with violations of federal or state securities laws in any judicial or administrative process or proceeding, or having been found by any court or governmental authority or agency to have committed any such violation, (ii) willful misconduct or gross negligence in connection with the performance of your duties as an employee of the Company, (iii) a willful and material breach of this Agreement, including without limitation, your failure to perform your duties and responsibilities hereunder, after you have been given written notice specifying such breach and at least thirty (30) days to cure such breach, to the extent reasonably susceptible to cure, (iv) a fraudulent act or omission by you adverse to the reputation of the Company or any affiliate, (v) the willful disclosure by you of any Confidential Information (as defined below) to persons not authorized to know same, and (vi) your violation of or failure to comply with (A) any Company policy, including, without limitation, the Code of Ethics and Business Practices, or (B) any legal or regulatory obligations or requirements, *provided* that with respect to this Section 2(c)(vi), you shall be given thirty (30) days to cure such violation to the extent such violation is reasonably susceptible to cure. If subsequent to the termination of your employment, it is discovered that your employment could have been terminated for Cause pursuant to sections (i) or (iv) of this Section 2(c), your employment shall, at the election of the Company, in its sole discretion, be deemed to have been terminated for Cause in which event the Company shall be entitled to immediately cease providing any Severance Benefits to you or on your behalf and recover any payments previously made to you or on your behalf in the form of Severance Benefits. For purposes of this provision, no act or omission on your part shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors of the Parent (the "*Board*") shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company.

(d) For purposes of this Agreement, the term "*Disability*" shall mean your incapacity due to physical or mental illness or injury, which results in your being unable to perform your duties hereunder for a period of ninety (90) consecutive working days, and within thirty (30) days after the Company notifies you that your employment is being terminated for Disability, you shall not have returned to the performance of your duties on a full-time basis.

(e) For purposes of this Agreement, the term "*Good Reason*" shall mean (i) any action by the Company that results in a material and continuing diminution in your position, authority, duties or responsibilities, including without limitation an adverse change in your title from Creative Director or a change such that you no longer report directly to the Chief Executive Officer in accordance with Section 1(a) above; (ii) a material reduction by the Company in your Base Salary or Annual Bonus opportunity as in effect on the Effective Date or as the same may be increased from time to time; or (iii) a relocation of your principal place of employment to more than fifty (50) miles from your principal place of employment, in each case without your written consent. Termination of your employment for "Good Reason" shall not be effective until you deliver to the Board a written notice specifically identifying the conduct of the Company which you believe constitutes "Good Reason" in accordance with this Section 2(e) and you provide the Board at least thirty (30) days to remedy such conduct.

3. Compensation and Benefits.

(a) *Base Salary*. During the Employment Period, your annual base salary shall be $675,000 ("*Base Salary*") and shall be paid pursuant to regular Company payroll practices. Your Base Salary may be increased (but not decreased) from time to time by the Company in its sole discretion.

(b) *Annual Bonus*. In addition to the Base Salary, in each fiscal year during the Employment Period, you will continue to have the opportunity to earn an annual bonus ("*Annual Bonus*") at the following increased percentage of your Base Salary if both the Company achieves certain performance objectives (which will be determined by the Company for each such fiscal year in accordance with the Company's bonus plan) and you achieve your performance goals established by the Company: target bonus of 50% up to a maximum bonus of 100% of Base Salary. Any Annual Bonus will be paid only if you are actively employed with the Company and not in breach of this Agreement on the date of actual payment, except for any Severance Period Bonus payable pursuant to Section 2(b) hereof, and in no event will such Annual Bonus be paid later than the 15 th day of the third month following the close of the fiscal year to which the Annual Bonus relates.

(c) *Contract Supplement*. The Company shall pay you a one-time cash contract supplement of $2,000,000, which will be paid to you within thirty (30) days after the Effective Date; *provided*, that if the Employment Period is terminated prior to the second anniversary of the Effective Date for any reason other than by the Company without Cause or by you for Good Reason, you shall immediately reimburse the Company for the full $2,000,000 amount of the contract supplement; *provided further*, that if the Employment Period is terminated following the second anniversary but prior to the fourth anniversary of the Effective Date for any reason other than by the Company without Cause or by you for Good Reason, you shall immediately reimburse the Company for $1,000,000 of the contract supplement. In the event that you fail to fully reimburse the Company for the applicable amount described in the preceding sentence, the Company shall be entitled to offset, in accordance with (and to the extent permitted by) Section 409A of the Code, against any amounts otherwise payable to you.

(d) *Equity*. As soon as reasonably practicable after the Effective Date and subject to the approval of the Compensation Committee of the Board of Directors of the Company, the Company will cause the Parent to grant you 50,000 restricted shares of Common Stock (the " *Restricted Stock Grant*"). Fifty percent (50%) of the shares underlying the Restricted Stock Grant shall become vested, if at all, on each of the fourth and fifth anniversaries of the grant date, based on achievement of an increase in total shareholder return (TSR) (as defined in the restricted stock grant agreement) over a three year period commencing on the grant date equal to or exceeding 30%. The Restricted Stock Grant shall be subject to and governed by the Company's 2005 Equity Incentive Plan and shall be evidenced by a separate restricted stock grant agreement.

(e) *Employee Benefits*. During the Employment Period, you will continue to be entitled to participate in the Company's benefit package made generally available to associates of the Company. The Company reserves the right to change these benefits at any time in its sole discretion.

4. Additional Agreements; Confidentiality.

(a) As additional consideration for the Company entering into this Agreement, you agree that for a period of twelve months following the Termination Date, you shall not, directly or indirectly, (i) engage (either as owner, investor, partner, employer, employee, consultant or director) in or otherwise perform services for any Competitive Business (as defined below) which operates within a 100 mile radius of the location of any store of the Company or its affiliates or in the same area as the Company directs its mail order operations, provided that the foregoing restriction shall not prohibit you from owning a passive investment of not more than 5% of the total outstanding securities of any publicly-traded company, or (ii) solicit or cause another to solicit any customers or suppliers of the Company or any of its subsidiaries to terminate or otherwise adversely modify their relationship with the Company or any such subsidiary. The term "*Competitive Business*" means the retail, mail order and internet specialty apparel and accessories business and any other business the Company or its affiliates is engaged in on the Termination Date. Notwithstanding anything herein to the contrary, the provisions of this Section 4(a) shall not apply in any of the following circumstances: (i) the Company terminates the Employment Period without Cause, (ii) you terminate the Employment Period for Good Reason, or (iii) the Company elects not to extend the Scheduled Termination Date pursuant to Section 2(a) above.

(b) During the Employment Period and for a period of twelve months following the Termination Date, you shall not, directly or indirectly, solicit, hire, or seek to influence the employment decisions of, any employee of the Company or any of its subsidiaries on behalf of any person or entity other than the Company.

(c) You shall, in perpetuity, maintain in confidence and shall not directly, indirectly or otherwise, use, disseminate, disclose or publish, or use for your benefit or the benefit of any person, firm, corporation or other entity any confidential or proprietary information or trade secrets of or relating to the Company, including, without limitation, information with respect to the Company’s operations, processes, products, inventions, business practices, finances, principals, vendors, suppliers, customers, potential customers, marketing methods, costs, prices, contractual relationships, regulatory status, business plans, designs, marketing or other business strategies, compensation paid to employees or other terms of employment, or deliver to any person, firm, corporation or other entity any document, record, notebook, computer program or similar repository of or containing any such confidential or proprietary information or trade secrets (collectively, the “ *Confidential Information*”). You and the Company hereby stipulate and agree that as between the parties the foregoing matters are important, material and confidential proprietary information and trade secrets and affect the successful conduct of the businesses of the Company (and any successor or assignee of the Company). Upon termination of your employment with the Company for any reason, you will promptly deliver to the Company all correspondence, drawings, manuals, letters, notes, notebooks, reports, programs, plans, proposals, financial documents, or any other documents concerning the Company’s customers, business plans, designs, marketing or other business strategies, products or processes. Notwithstanding the foregoing, this Section 4(c) shall not apply with respect to any information that is currently or becomes (i) publicly known or available in the absence of any improper or unlawful action on your part, or (ii) known or available to you other than through or on behalf of the Company. Further, during the Employment Period and thereafter, you agree not to directly or indirectly disparage or defame the Company, its affiliates or any of their directors, officers or employees.

(d) You also agree that breach of the provisions provided in this Section 4 would cause the Company to suffer irreparable harm for which money damages would not be an adequate remedy and therefore, if you breach any of the provisions in this Section 4, the Company will be entitled to an injunction restraining you from violating such provision without the posting of any bond. If the Company shall institute any action or proceeding to enforce the terms of any such provision, you hereby waive the claim or defense that the Company has an adequate remedy at law and you agree not to assert in any such action or proceeding the claim or defense that the Company has an adequate remedy at law. The foregoing shall not prejudice the Company’s right to require you to account for and pay over to the Company, and you hereby agree to account for and pay over, the compensation, profits, monies, accruals and other benefits derived or received by you as a result of any transaction constituting a breach of any of the provisions set forth in this Section 4.

5. Work Product. You agree that all sketches, drawings, samples, design samples, designs, patterns, methods, processes, techniques, themes, layouts, mechanicals, trade secrets, copyrights, trademarks, patents, ideas, specifications and other material or work product (“ *Intellectual Property*”) that you create, develop or assemble in connection with your employment with the Company shall become the permanent and exclusive property of the Company to be used in any manner it sees fit, in its sole discretion. You shall not communicate to the Company any ideas, concepts, or information of any kind (i) which were earlier communicated to you in confidence by any third party, or (ii) which you know or have reason to know is the proprietary information of any third party, or (iii) which is subject to any claim of proprietary interest by any third party. Further, you shall adhere to and comply with the Company’s Code of Ethics and Business Practices. All Intellectual Property created or assembled in connection with your employment with the Company shall be the permanent and exclusive property of the Company. You and the Company mutually agree that all Intellectual Property and work product created in connection with this agreement, which is subject to copyright, shall be deemed to be “work made for hire,” and that all rights to copyrights shall be vested in the Company. If for any reason the Company cannot be deemed to have commissioned “work made for hire,” and its rights to copyright are thereby in doubt, then you agree not to claim to be the proprietor of the work prepared for the Company, and to irrevocably assign to the Company, at the Company’s expense, all rights in the copyright of the work prepared for the Company. The Company shall have the right to use your name and likeness in connection with the sale, display and advertising of any product designed by you during your employment with the Company; *provided that*, at any time after the Termination Date, such use is limited to use in conjunction with the trademark “J.Crew” or any other trademark of the Company under which such product was originally sold, displayed or advertised. Subject to Section 4(a) hereof, you shall have the right to use your own name and likeness in connection with the sale, display and advertising of any product designed by you to which the Company does not have proprietary or exclusive rights; *provided* that nothing herein shall give you any right to use any trademark owned by the Company for any purpose without the prior written consent of the Company.

6. Purchases and Sales of Company Securities. You agree to use your reasonable best efforts to comply in all respects with the Company's applicable written policies, including the J.Crew Group, Inc. Trading Manual, regarding the purchase and sale of the Company's securities by employees, as such written policies may be amended from time to time and disclosed to you. In particular, and without limitation, you agree that you shall not purchase or sell Company securities (i) at any time that you possesses material non-public information about the Company or any of its businesses; and (ii) while an employee during any "trading blackout period" as may be determined by the Company and set forth in the Company's applicable written policies from time to time.

7. Miscellaneous.

(a) Any notice or other communication required or permitted under this Agreement shall be effective only if it is in writing and shall be deemed to be given when delivered personally or four days after it is mailed by registered or certified mail, postage prepaid, return receipt requested or one day after it is sent by a reputable overnight courier service and, in each case, addressed as follows:

If to the Company:

J.Crew Group, Inc.
2 Penn Plaza
26th Floor
New York, NY 10121
Attention: General Counsel

If to you:

To the address on file with the Company

or to such other address as any party may designate by notice to the other.

(b) This Agreement constitutes the entire agreement between you and the Company with respect to your employment by the Company, and supersedes and is in full substitution for any and all prior understandings or agreements with respect to your employment (including, without limitation, the Original Agreement).

(c) This Agreement shall inure to the benefit of and be an obligation of the Company's assigns and successors; however you may not assign any of your rights or duties hereunder to any other party.

(d) No provision of this Agreement may be amended or waived, unless such amendment or waiver is specifically agreed to in writing and signed by you and an officer of the Company duly authorized to execute such amendment. The failure by either you or the Company at any time to require the performance by the other of any provision hereof shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by you or the Company of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or a waiver of the provision itself or a waiver of any other provision of this Agreement.

(e) You and the Company acknowledge and agree that each of you has reviewed and negotiated the terms and provisions of this Agreement and has had the opportunity to contribute to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed fairly as to both parties and not in favor or against either party.

(f) Any provision of this Agreement (or portion thereof) which is deemed invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction and subject to this Section, be ineffective to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions thereof in such jurisdiction or rendering that or any other provisions of this Agreement invalid, illegal, or unenforceable in any other jurisdiction. If any covenant should be deemed invalid, illegal or unenforceable because its scope is considered excessive, such covenant shall be modified so that the scope of the covenant is reduced only to the minimum extent necessary to render the modified covenant valid, legal and enforceable.

(g) The Company may withhold from any amounts payable to you hereunder all federal, state, city or other taxes that the Company may reasonably determine are required to be withheld pursuant to any applicable law or regulation (it being understood, that you shall be responsible for payment of all taxes in respect of the payments and benefits provided herein).

(h) This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

(i) The headings in this Agreement are inserted for convenience of reference only and shall not be a part of or control or affect the meaning of any provision hereof.

(j) This Agreement and all amendments thereof shall, in all respects, be governed by and construed and enforced in accordance with the internal laws (without regard to principles of conflicts of law) of the State of New York. Each party hereto hereby agrees to and accepts the exclusive jurisdiction of any court in New York County or the U.S. District Court for the Southern District of New York in respect of any action or proceeding relating to the subject matter hereof, expressly waiving any defense relating to jurisdiction or *forum non conveniens*, and consents to service of process by U.S. certified or registered mail in any action or proceeding with respect to this Agreement.

(k) If any provision of this agreement (or any award of compensation or benefits provided under this agreement) would cause you to incur any additional tax or interest under Section 409A of the Code, the Company and you shall reasonably cooperate to reform such provision to comply with 409A and the Company agrees to maintain, to the maximum extent practicable without violating 409A of the Code, the original intent and economic benefit to you of the applicable provision; provided that nothing herein shall require the Company to provide you with any gross-up for any tax, interest or penalty incurred by you under Section 409A of the Code.

(signatures on following page)

If the terms of this Agreement meet with your approval, please sign and return one copy to me.

Sincerely,

/s/ MILLARD DREXLER

Millard S. Drexler
Chief Executive Officer

AGREED TO AND ACCEPTED:

/s/ JENNA LYONS

Jenna Lyons Mazeau

Date: December 23, 2008

Exhibit 10.41

J.CREW

April 24, 2006

Dear Jenna,

In connection with your continued employment by J.Crew (the “Company”) and in recognition of your key contributions to the Company as its Senior Vice-President of Women’s Design, we are pleased to provide you the long-term incentive arrangement set forth in this letter.

Provided that you remain continuously and actively employed by the Company and in good standing with the Company through each applicable payment, grant and vesting date set forth below, and provided further that your individual performance continues to remain satisfactory to the Company as determined by it in its sole discretion through each such date, you will be eligible to receive a long-term cash incentive and a restricted stock grant upon the terms described below.

1. *Cash Incentive*. Subject to the terms and conditions of this letter, you will be entitled to receive up to Three Hundred Fifty Thousand Dollars ($350,000) (the “Cash Incentive”), payable in two equal installments as follows: (i) $175,000 on or about August 28, 2009, and (ii) $175,000 on or about August 27, 2010 (each, a “Payment Date”).

2. *Restricted Stock Grant*. Subject to the approval of the Compensation Committee of the Board of Directors and subject to the terms and conditions of this letter, the Company will also grant to you fifteen thousand (15,000) restricted shares of J.Crew Group, Inc. common stock (the “Restricted Stock Grant”) as soon as practicable following the consummation of the proposed initial public offering of the Company (the “Grant Date”). The Restricted Stock Grant will vest in full and become exercisable on August 1, 2010 (the “Vesting Date”). The terms and conditions of the Restricted Stock Grant will be evidenced by a separate restricted stock grant agreement to be signed by you and the Company and shall be subject to and consistent with the terms and conditions of the Company’s equity incentive plan in effect on the Grant Date.

If your employment by the Company terminates for any reason prior to either or both Payment Dates or prior to the Grant Date, you will no longer be entitled to receive the portion of the Cash Incentive that would have otherwise become payable on such Payment Date(s) or to receive the Restricted Stock Grant. If your employment by the Company terminates for any reason after the Grant Date and prior to the Vesting Date, your Restricted Stock Grant will automatically be forfeited upon such termination.

Notwithstanding anything to the contrary contained in this letter, the terms of the Cash Incentive and the Restricted Stock Grant set forth herein are subject to modification in the Company’s sole discretion if and to the extent necessary or appropriate to comply with any applicable deferred compensation laws which may become effective after the date hereof.

By reviewing and signing this letter, you understand that your employment by the Company remains “at will” and may be terminated by you or the Company at any time and for any reason, and that this letter does not constitute an employment contract in any respect.

If you agree with the terms of this letter, please sign and date the enclosed copy and return it to the undersigned. You may keep the other copy for your records.

We are truly excited about you continuing to contribute to the Company's success as a valued associate!

Very truly yours,

/s/ LYNDA MARKOE

Lynda Markoe
SVP, Human Resources

AGREED TO AND ACCEPTED:

/s/ JENNA LYONS

Jenna Lyons

EXHIBIT 21.1

Subsidiaries of J.Crew Group, Inc.

Name of Subsidiary	State of Incorporation	Name under which Subsidiary Does Business
J.Crew Operating Corp.	Delaware	J.Crew Operating Corp.
J.Crew Inc.	New Jersey	J.Crew Inc.
Grace Holmes, Inc.	Delaware	J.Crew Retail Stores
H.F.D. No. 55, Inc.	Delaware	J.Crew Factory Stores
Madewell, Inc.	Delaware	Madewell Retail Stores
J.Crew Virginia, Inc.	Virginia	J.Crew Virginia, Inc.
J.Crew International, Inc.	Delaware	J.Crew International, Inc.
C&W Outlet, Inc.*	New York	C&W Outlet, Inc.
ERL, Inc.*	New Jersey	ERL, Inc.

* Inactive subsidiary

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
J.Crew Group, Inc.:

We consent to the incorporation by reference in the registration statements (File No. 333-60658, File No. 333-126142, File No. 333-135390, File No. 333-139313, and File No. 333-151623) on Forms S-8 of J.Crew Group, Inc. of our reports dated March 23, 2009, with respect to the consolidated balance sheets of J.Crew Group, Inc. and subsidiaries as of February 2, 2008 and January 31, 2009, and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended January 31, 2009, and the related financial statement schedule and the effectiveness of internal control over financial reporting as of January 31, 2009, which reports appear in the January 31, 2009 annual report on Form 10-K of J.Crew Group, Inc.

Our report refers to the Company's adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), *"Share-Based Payment"* and FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109."*

/s/ KPMG LLP

New York, New York
March 23, 2009

Exhibit 24.1

POWER OF ATTORNEY

I hereby appoint Millard Drexler, James Scully and Arlene Hong my true and lawful attorneys-in-fact, each with full power to act without the other and each with full power of substitution, to sign on my behalf, as an individual and in the capacity stated below, and to file the Annual Report on Form 10-K of J.Crew Group, Inc. for its fiscal year ended January 31, 2009 and any amendment that such attorney-in-fact may deem appropriate or necessary. I further grant unto such attorneys and each of them full power and authority to perform each and every act necessary to be done in order to accomplish the foregoing as fully as I might do.

IN WITNESS WHEREOF, I have executed this power of attorney as of the 12th day of March, 2009.

Signature:	/s/ MILLARD DREXLER
Print Name:	**Millard Drexler**
Title:	**Director**
Signature:	/s/ MARY ANN CASATI
Print Name:	**Mary Ann Casati**
Title:	**Director**
Signature:	/s/ JONATHAN COSLET
Print Name:	**Jonathan Coslet**
Title:	**Director**
Signature:	/s/ JAMES COULTER
Print Name:	**James Coulter**
Title:	**Director**
Signature:	/s/ DAVID HOUSE
Print Name:	**David House**
Title:	**Director**
Signature:	/s/ STEVEN GRAND-JEAN
Print Name:	**Steven Grand-Jean**
Title:	**Director**
Signature:	/s/ HEATHER REISMAN
Print Name:	**Heather Reisman**
Title:	**Director**
Signature:	/s/ STUART SLOAN
Print Name:	**Stuart Sloan**
Title:	**Director**
Signature:	/s/ JOSH WESTON
Print Name:	**Josh Weston**
Title:	**Director**

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 Annual Report on Form 10-K 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(s) 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(s) 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: March 23, 2009

/s/ MILLARD DREXLER

Millard Drexler
Chief Executive Officer

EXHIBIT 31.2

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

I, James Scully, certify that:

1. I have reviewed this Annual Report on Form 10-K 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(s) 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(s) 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: March 23, 2009

/s/ JAMES SCULLY

James Scully
Chief Administrative Officer and Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Annual Report of J.Crew Group, Inc. (the "Company") on Form 10-K for the period ended January 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Millard S. Drexler, Chief Executive Officer of the Company, and James S. Scully, Chief Administrative Officer 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.

Date: March 23, 2009

/s/ MILLARD DREXLER

Millard Drexler
Chief Executive Officer

/s/ JAMES SCULLY

James Scully
Chief Administrative Officer 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.