FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended May 5, 2001

Commission file number 333-42427

J. CREW GROUP, INC.
(Exact name of registrant as specified in its charter)

New York	22-2894486
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

770 Broadway, New York, New York 10003
(Address of principal executive offices)
(Zip code)

(212) 209-2500
(Registrant's telephone number, including area code)

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 x No

As of May 25, 2001 there were outstanding 11,743,265 shares of Common Stock, par value $.01 per share.

Part I - Financial Information

Item I. Financial Statements

J. CREW GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

Assets	May 5, 2001 (unaudited)	February 3, 2001
	(in thousands)	
Current assets:		
Cash and cash equivalents	$ 15,390	$ 32,930
Merchandise inventories	148,078	140,667
Prepaid expenses and other current assets	20,398	23,740
Total current assets	183,866	197,337
Property and equipment - at cost	266,341	251,322
Less accumulated depreciation and amortization	(93,970)	(85,746)
	172,371	165,576
Deferred income tax assets	14,362	14,362
Other assets	13,036	12,586
Total assets	$ 383,635	$ 389,861
Liabilities and Stockholders' Deficit		
Current liabilities:		
Notes payable - bank	$ 37,000	$ --
Accounts payable and other current liabilities	96,891	124,873
Federal and state income taxes	4,838	17,581
Deferred income tax liabilities	5,401	5,401
Total current liabilities	144,130	147,855
Long-term debt	267,931	264,292
Deferred credits and other long-term liabilities	59,078	56,043
Redeemable preferred stock	207,252	200,018
Stockholders' deficit	(294,756)	(278,347)
Total liabilities and stockholders' deficit	$ 383,635	$ 389,861

See accompanying notes to unaudited condensed consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

	Thirteen Weeks Ended May 5, 2001	Thirteen Weeks Ended April 29, 2000
	(unaudited) (in thousands)	
Revenues:		
Net sales	$ 158,963	$ 158,032
Other	8,883	8,909
	167,846	166,941
Cost of goods sold, including buying and occupancy costs	99,590	93,611
Selling, general and administrative expenses	75,485	73,162
Income/(loss) from operations	(7,229)	168
Interest expense - net	(8,451)	(8,838)
Loss before income taxes	(15,680)	(8,670)
Income tax benefit	6,340	3,470
Net loss	$ (9,340)	$ (5,200)

See accompanying notes to unaudited condensed consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Thirteen Weeks Ended	
	May 5, 2001	April 29, 2000
	(unaudited) (in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (9,340)	$ (5,200)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,651	4,850
Amortization of deferred financing costs	500	552
Noncash compensation expense	728	165
Noncash interest expense	3,639	3,206
Changes in operating assets and liabilities:		
Merchandise inventories	(7,411)	(5,527)
Prepaid expenses and other current assets	3,342	7,958
Other assets	(1,002)	(173)
Net assets held for disposal	-	3,871
Accounts payable and other liabilities	(28,200)	(24,127)
Federal and state income taxes	(12,743)	(7,704)
Net cash used in operating activities	(43,836)	(22,129)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(15,019)	(9,710)
Proceeds from construction allowances	4,315	1,516
Net cash used in investing activities	(10,704)	(8,194)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in notes payable, bank	37,000	14,000
Repayment of long-term debt	-	(4,000)
Net cash provided by financing activities	37,000	10,000
DECREASE IN CASH AND CASH EQUIVALENTS	(17,540)	(20,323)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	32,930	38,693
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 15,390	$ 18,370
NON-CASH FINANCING ACTIVITIES:		
Dividends on preferred stock	$ 7,234	$ 6,275

See accompanying notes to unaudited condensed consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Thirteen Weeks Ended May 5, 2001 and April 29, 2000

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of J. Crew Group, Inc. and its wholly-owned subsidiaries (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of May 5, 2001 and the condensed consolidated statements of operations and cash flows for the thirteen week periods ended May 5, 2001 and April 29, 2000 have been prepared by the Company and have not been audited. In the opinion of management all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the financial position of the Company, the results of its operations and cash flows have been made.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's consolidated financial statements for the fiscal year ended February 3, 2001.

The results of operations for the thirteen week period ended May 5, 2001 are not necessarily indicative of the operating results for the full fiscal year.

2. Reclassification

Prior year amounts, as previously reported in the statement of operations, have been restated for the reclassification of shipping and handling fees and related handling costs. Shipping and handling fees were reclassified from cost of goods sold to other revenues and handling costs were reclassified from general and administrative expenses to cost of goods sold.

3. Recent Accounting Pronouncements

Statements of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" and No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities", were effective at the beginning of fiscal year 2001. There was no material effect on the consolidated financial statements from the adoption of these accounting standards.

Forward-looking statements

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

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

RESULTS OF OPERATIONS

Revenues for the three months ended May 5, 2001 increased to $167.8 million from $166.9 million in the three months ended April 29, 2000.

Revenues of J.Crew Retail increased from $78.7 million in the first quarter of 2000 to $84.8 million in the first quarter of 2001. This increase was due to the sales from stores opened for less than a full fiscal year . Comparable store sales in the first quarter of 2001 decreased by 11.0%. The number of stores open at May 5, 2001 increased to 112 from 83 at April 29, 2000.

Revenues of J.Crew Direct decreased from $60.2 million in the first quarter of 2000 to $55.7 million in the first quarter of 2001. Revenues from jcrew.com (which are included in J.Crew Direct revenues) increased to $25.3 million in the first quarter of 2001 from $19.4 million in first quarter of 2000. Catalog revenues in the first quarter of 2001 decreased to $30.4 million from $40.8 million in the first quarter of 2000, as the Company continues to migrate customers to the Internet

Revenues of J.Crew Factory decreased from $19.1 million in the first quarter of 2000 to $18.4 million in the first quarter of 2001. There were 41 stores open during the first quarter of 2001 compared to 42 stores during the first quarter of 2000.

Other revenues, which consist of shipping and handling fees and royalties were $8.9 million in the first quarter of 2001 and 2000.

Cost of goods sold, including buying and occupancy costs, increased as a percentage of revenues from 56.1% in the first quarter of 2000 to 59.3% in the first quarter of 2001. This increase is attributable primarily to additional markdowns and an increase in buying and occupancy costs as a percentage of revenues in the first quarter of 2001 compared to the first quarter of 2000.

Selling, general and administrative expenses increased to $75.5 million in the three months ended May 5, 2001 from $73.2 million in the three months ended April 29, 2000. This increase resulted from an increase in selling expense due primarily to a shift in the mailings of catalog editions between the first and second quarters. An increase in general and administrative expenses from the additional retail stores in operation during the first quarter of 2001 was offset by a decrease in the bonus provision and cost reduction initiatives. As a percentage of revenues, selling, general and administrative expenses increased to 45.0% of revenues in the first quarter of 2001 from 43.8% of revenues in the first quarter of 2000.

The decrease in interest expense from $8.8 million in the first quarter of 2000 to $8.5 million in the first quarter of 2001 resulted primarily from the repayment of $30 million of the term loan in the fourth quarter of fiscal year 2000 offset by an increase in non-cash interest. Average borrowings under revolving credit arrangements were $10.5 million in the first quarter of 2001 compared to $1.7 million in the first quarter of 2000. Non-cash interest expense increased to $4.1 million in the first quarter of 2001 from $3.8 million in the first quarter of 2000.

The increase in the loss before income taxes from $8.7 million in the three months ended April 29, 2000 to $15.7 million in the three months ended May 5, 2001 resulted primarily from increases in cost of goods sold and selling expenses.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows used in operations increased from $22.1 million in the first quarter of 2000 to $43.8 million in the first quarter of 2001. This increase in cash used in operations resulted primarily from an increase in working capital requirements in the first quarter of 2001 compared to the first quarter of 2000.

Capital expenditures, net of construction allowances, were $10.7 million for the first quarter of 2001 compared to $8.2 million in the first quarter of 2000. These expenditures were incurred primarily in connection with the construction of new stores and systems enhancements.

Borrowings under the revolving credit line were $37.0 million at May 5, 2001 compared to $14.0 million at April 29, 2000. The $30.0 million outstanding balance of the term loan was repaid in the fourth quarter of fiscal year 2000.

Management believes that cash flow from operations and availability under the revolving credit facility will provide adequate funds for the Company's foreseeable working capital needs, planned capital expenditures and debt service obligations. The Company's ability to fund its operations and make planned capital expenditures, to make scheduled debt payments, to refinance indebtedness and to remain in compliance with all of the financial covenants under its debt agreements depends on its future operating performance and cash flow, which in turn, are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond its control.

SEASONALITY

The Company experiences two distinct selling seasons, spring and fall. The spring season is comprised of the first and second quarters and the fall season is comprised of the third and fourth quarters. Net sales are usually substantially higher in the fall season and selling, general and administrative expenses as a percentage of net sales are usually higher in the spring season. Approximately 35% of annual net sales in fiscal year 2000 occurred in the fourth quarter. The Company's working capital requirements also fluctuate throughout the year, increasing substantially in September and October in anticipation of the holiday season inventory requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company has a licensing agreement in Japan which provides for royalty payments based on sales of J.Crew merchandise as denominated in yen. The Company has from time to time entered into forward foreign exchange contracts to minimize this risk. At May 5, 2001 there were no forward foreign exchange contracts outstanding.

The Company enters into letters of credit to facilitate the international purchase of merchandise. The letters of credit are primarily denominated in U.S. dollars. Outstanding letters of credit at May 5, 2001 were approximately $39.7 million.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

None

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the period covered by this Report.

SIGNATURES

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

J. CREW GROUP, INC.
(Registrant)

Date: June 11, 2001

By: /s/ Mark Sarvary

Mark Sarvary
Chief Executive Officer

Date: June 11, 2001

By: /s/ Scott M. Rosen

Scott M. Rosen
Chief Financial Officer