J.CREW GROUP, INC.

(Incorporated in Delaware)

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CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Presented with Management Discussion & Analysis

FOR THE PERIODS

March 8, 2011 to April 30, 2011 (Successor), January 30, 2011 to March 7, 2011 (Predecessor), and January 31, 2010 to May 1, 2010 (Predecessor)

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J.CREW GROUP, INC.

Condensed Consolidated Balance Sheets
(unaudited)
(in thousands, except shares)

	April 30, 2011 (Successor)	January 29, 2011 (Predecessor)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 280,473	$ 381,360
Merchandise inventories	265,560	214,431
Prepaid expenses and other current assets	31,860	39,104
Prepaid income taxes	65,702	—
Total current assets	643,595	634,895
Property and equipment, net	237,965	197,210
Favorable lease commitments, net	58,954	—
Deferred financing costs, net	65,930	970
Deferred income taxes, net	—	20,171
Intangible assets, net	997,282	4,343
Goodwill	1,681,996	—
Other assets	3,122	2,577
Total assets	$ 3,688,844	$ 860,166
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 137,292	$ 147,083
Due to dissenting shareholders	209,018	—
Other current liabilities	94,577	117,642
Income taxes payable	—	1,673
Deferred income taxes, net	7,625	4,277
Current portion of long-term debt	12,000	—
Total current liabilities	460,512	270,675
Long-term debt	1,588,000	—
Unfavorable lease commitments and deferred credits, net	40,490	67,665
Deferred income taxes, net	416,429	—
Other liabilities	18,106	10,705
Total liabilities	2,523,537	349,045
Stockholders' equity:		
Common stock (Predecessor) $.01 par value; 200,000,000 shares authorized, 65,262,679 shares issued, and 63,909,780 shares outstanding	—	653
Common stock (Successor) $.001 par value; 1,000 shares authorized, issued and outstanding)	—	—
Additional paid-in capital	1,183,775	630,025
Accumulated other comprehensive loss	(4,674)	—
Accumulated deficit	(13,794)	(112,226)
Treasury stock, at cost (no shares and 1,352,899 shares held)	—	(7,331)
Total stockholders' equity	1,165,307	511,121
Total liabilities and stockholders' equity	$ 3,688,844	$ 860,166

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

Condensed Consolidated Statements of Operations
(unaudited)
(in thousands)

	For the Period March 8, 2011 to April 30,2011	For the Period January 30, 2011 to March 7, 2011	For the Period January 31, 2010 to May 1, 2010
	(Successor)	(Predecessor)	(Predecessor)
Revenues:			
Net sales	$ 271,422	$ 130,116	$ 404,336
Other	4,796	3,122	9,543
Total revenues	276,218	133,238	413,879
Cost of goods sold, including buying and occupancy costs	157,910	70,284	211,281
Gross profit	118,308	62,954	202,598
Selling, general and administrative expenses	125,487	47,550	127,179
Transaction costs	—	32,186	—
Income (loss) from operations	(7,179)	(16,782)	75,419
Interest expense, net	15,526	1,166	627
Income (loss) before income taxes	(22,705)	(17,948)	74,792
Provision (benefit) for income taxes	(8,911)	(1,798)	30,066
Net income (loss)	$ (13,794)	$ (16,150)	$ 44,726

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

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

Predecessor:	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Accumulated deficit	Treasury stock	Total stockholders' equity
Balance as of January 29, 2011	65,262,679	$ 653	$ 630,025	$ (112,226)	$ (7,331)	$ 511,121
Net loss	—	—	—	(16,150)	—	(16,150)
Stock based compensation	—	—	1,080	—	—	1,080
Exercise of stock options	6,025	—	79	—	—	79
Issuance of common stock under ASPP	33,912	—	1,051	—	—	1,051
Excess tax benefit from exercise of stock options	—	—	75,955	—	—	75,955
Net settlement of vested restricted stock	—	—	—	—	(20)	(20)
Other	—	—	—	(12)	—	(12)
Balance as of March 7, 2011	65,302,616	$ 653	$ 708,190	$ (128,388)	$ (7,351)	$ 573,104

Successor:	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance as of March 7, 2011	—	$ —	$ —	$ —	$ —	$ —
Issuance of 1,000 shares of common stock	1,000	—	1,173,993	—	—	1,173,993
Stock based compensation	—	—	9,782	—	—	9,782
Comprehensive income:						
Net loss	—	—	—	(13,794)	—	(13,794)
Unrealized losses on cash flow hedges, net of tax	—	—	—	—	(4,674)	(4,674)
Total comprehensive income	—	—	—	(13,794)	(4,674)	(18,468)
Balance as of April 30, 2011	1,000	$ —	$ 1,183,775	$ (13,794)	$ (4,674)	$ 1,165,307

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

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

	For the Period March 8, 2011 to April 30,2011	For the Period January 30, 2011 to March 7, 2011	For the Period January 31, 2010 to May 1, 2010
	(Successor)	(Predecessor)	(Predecessor)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ (13,794)	$ (16,150)	$ 44,726
Adjustments to reconcile to net cash provided by (used in) operating activities:			
Share-based compensation	44,906	1,080	3,574
Depreciation of property and equipment	10,182	3,929	11,709
Non-cash charge related to step-up in carrying value of inventory	3,092	—	—
Amortization of deferred financing costs	1,600	970	226
Amortization of intangible assets	1,628	—	—
Amortization of favorable lease commitments	2,056	—	—
Excess tax benefits from share-based compensation plans	—	(75,955)	(4,118)
Changes in operating assets and liabilities:			
Merchandise inventories	(1,517)	(20,204)	(2,850)
Prepaid expenses and other current assets	4,066	3,178	1,944
Other assets	272	(825)	(418)
Accounts payable and other liabilities	(23,574)	(2,440)	(39,376)
Federal and state income taxes	(18,821)	3,847	23,284
Net cash provided by (used in) operating activities	10,096	(102,570)	38,701
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of J.Crew Group, Inc.	(2,981,415)	—	—
Acquisition consideration due to dissenting shareholders	209,018	—	—
Capital expenditures	(16,888)	(2,644)	(7,080)
Net cash used in investing activities	(2,789,285)	(2,644)	(7,080)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	1,600,000	—	—
Proceeds from equity contributions, net of costs of $51,930	1,173,981	—	—
Excess tax benefit from share-based compensation plans	—	75,955	4,118
Payment of debt issuance costs	(67,530)	—	—
Proceeds from share-based compensation plans	—	1,130	1,058
Repurchases of common stock	—	(20)	(2,602)
Net cash provided by financing activities	2,706,451	77,065	2,574
Increase (decrease) in cash and cash equivalents	(72,738)	(28,149)	34,195
Beginning balance	353,211	381,360	298,107
Ending balance	$ 280,473	$ 353,211	$ 332,302
Supplemental cash flow information:			
Income taxes paid	$ 3,976	$ —	$ 6,856
Interest paid	$ 145	$ 35	$ 254
Non-cash equity contribution from management shareholders	$ 102,483	$ —	$ —

See notes to unaudited condensed consolidated financial statements.

For the Periods Ended March 8, 2011 to April 30, 2011 (Successor), January 30, 2011 to March 7, 2011 (Predecessor), and January 31, 2010 to May 1, 2010 (Predecessor) (Dollars in thousands, unless otherwise indicated)

1. Basis of Presentation

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

Although the Company continued as the same legal entity after the Acquisition, the accompanying condensed consolidated statements of operations and cash flows are presented for two periods: Predecessor and Successor, which relate to the period preceding the Acquisition and the period succeeding the Acquisition. The Acquisition and the preliminary allocation of the purchase price have been recorded as of March 7, 2011.

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP has been condensed or omitted. Therefore, these financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2011.

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

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

In addition to the critical accounting policies included in the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2011, management considers the accounting policy with regard to the preliminary purchase price allocation to assets and liabilities to be critical. This accounting policy, as more fully described in Note 3, encompasses significant judgments and estimates used in the preparation of these financial statements.

2. The Transactions

As discussed in Note 1, the Acquisition was completed on March 7, 2011 and was financed by:

- Borrowings under the Company's senior secured credit facilities (the "Senior Credit Facilities") consisting of: (i) a $250 million, 5-year asset-based revolving credit facility (the "ABL Facility"), which was undrawn at closing and (ii) a $1.2 billion, 7-year term loan credit facility (the "Term Loan");
- Issuance of $400 million 8.125% senior unsecured notes due 2019 (the "Notes"); and
- Equity investments of $1.2 billion from Parent funded by the Sponsors, co-investors and management.

The Acquisition occurred simultaneously with:

- The closing of the financing transactions and equity investments described above; and
- The termination of the Company's previous $200 million asset-based revolving credit facility.

These transactions, the Acquisition and payment of any costs related to these transactions are collectively herein referred to as the "Transactions."

3. Purchase Accounting

The Acquisition was accounted for as a purchase business combination in accordance with ASC 805, *Business Combinations*, whereby the purchase price paid to effect the Acquisition was allocated to recognize the acquired assets and liabilities at fair value. The Acquisition and the preliminary allocation of the purchase price of approximately $3.0 billion have been recorded as of March 7, 2011. The sources and uses of funds in connection with the Transactions are summarized below:

Sources:	
Proceeds from Term Loan	$ 1,200,000
Proceeds from Notes	400,000
Proceeds from equity contributions	1,225,911
Cash on hand	307,150
Total sources	$ 3,133,061
Uses:	
Equity purchase price	$ 2,981,415
Transaction costs	151,646
Total uses	$ 3,133,061

In connection with the preliminary purchase price allocation, estimates of the fair values of long-lived and intangible assets have been determined based upon assumptions related to the future cash flows, discount rates and asset lives utilizing currently available information, and in some cases, preliminary valuation results from independent valuation specialists. As of April 30, 2011, preliminary purchase accounting adjustments have been recorded to: (i) increase the carrying value of property and equipment, and inventory, (ii) establish intangible assets for trade names, loyalty program, customer lists and favorable lease commitments, and (iii) revalue gift card and lease-related liabilities. This allocation of the purchase price is preliminary and subject to finalization of independent appraisals. Further revisions to the purchase price allocation may be made as additional information becomes available and such revisions could be material.

The preliminary allocation of purchase price is as follows:

Purchase price	$ 2,981,415
Less: net assets acquired	(573,104)
Less: after tax cost of post-combination share-based awards	(21,425)
Preliminary excess of purchase price over book value of net assets acquired	$ 2,386,886
Write up of tangible assets:	
Property and equipment	$ 35,334
Merchandise inventories	32,500
Fair market value of favorable leases	61,010
Acquisition-related intangible assets:	
J.Crew brand name (indefinite lived)	885,300
Madewell brand name (20 year life)	88,400
Loyalty program and customer lists (5 year life)	25,210
Less historical intangible assets	(4,351)
Acquisition-related intangibles	994,559

Write down/(up) of liabilities:	
Gift card liability revaluation	7,737
Deferred rent and lease incentive revaluation	67,200
Fair market value of unfavorable leases	(40,920)
Deferred income taxes:	
Long-term deferred tax asset	(20,171)
Short-term deferred tax liability	(7,625)
Long-term deferred tax liability	(424,734)
Residual goodwill(1)	1,681,996
Total allocated excess purchase price	$ 2,386,886

(1) Residual goodwill consists primarily of intangible assets related to the knowhow, design and merchandising of the Company's brands that do not qualify for separate recognition in accordance with ASC 805.

Pro forma financial information

The following unaudited pro forma results of operations gives effect to the Acquisition as if it had occurred on January 31, 2010. This unaudited pro forma financial information should not be relied upon as necessarily being indicative of the historical results that would have been obtained if the Acquisition had actually occurred on that date, nor the results of operations in the future.

(Dollars in millions)	For the Period January 30, 2011 to April 30, 2011		For the Period January 31, 2010 to May 1, 2010	
	As reported	Pro forma	As reported	Pro forma
Total revenues	$ 409,456	$ 409,186	$ 413,879	$ 413,179
Net income (loss)	$ (29,944)	$ 15,337	$ 44,726	$ 25,195

4. Transactions with Sponsors

In connection with the Transactions, the Company entered into a management services agreement with the Sponsors pursuant to which they received on the closing date a transaction fee of $35 million in cash in connection with the Transactions. In addition, pursuant to such agreement, and in exchange for on-going consulting and management advisory services that will be provided to the Company, the Sponsors will receive an aggregate annual monitoring fee prepaid quarterly equal to the greater of (i) 0.40% of consolidated annual revenues or (ii) $8 million. The Sponsors will also receive reimbursement for out-of-pocket expenses incurred in connection with services provided pursuant to the agreement. For the period March 8, 2011 to April 30, 2011, Successor recorded a charge of $1.2 million for monitoring fees, included in selling, general and administrative expenses in the statement of operations.

5. Share-Based Compensation

Acquisition-related share-based compensation

In connection with the Acquisition, all outstanding share-based awards granted prior to the Transactions became fully vested. The acceleration of such awards was determined to be a modification of the original share-based award, and resulted in the calculation of a revised fair value on March 7, 2011. The revised fair value attributable to pre-combination service was recognized in the preliminary allocation of excess purchase price, as described in Note 3. The revised fair value attributable to post-combination service of $44.7 million, consisting of $35.1 million for options settled in cash and $9.6 million for options rolled over by management into vested options of the Parent, was recognized in the statement of operations of the Successor.

Successor share-based compensation

On March 4, 2011, the Parent adopted a new equity incentive plan, which authorizes equity awards to be granted for up to 91,740,627 shares of the common stock of the Parent, of which options for 65,311,119 shares were issued to certain members of management, including (i) 41,600,264 options with an exercise price of $1.00 that become exercisable over the requisite service period and (ii) 23,710,855 options with an exercise price of $1.00 that only become exercisable when certain owners of the Parent receive certain cash proceeds, as defined, from their initial investment. The weighted average grant-date fair value of the time-based awards was $0.47 per share. For the period March 8, 2011 to April 30, 2011, Successor recorded an expense of $179 for the time-based awards, included in selling, general and administrative expenses in the statement of operations. Expense associated with the options exercisable when certain owners of the Parent receive certain cash proceeds, as defined, will not be recognized until such event occurs.

Predecessor share-based compensation

Share-based compensation of Predecessor reflects the fair value of employee share-based awards, including stock options, time and performance based restricted stock, and associate stock purchase plans, recognized as compensation expense on a straight line basis over the requisite service period of the award. All outstanding share-based awards granted as of immediately prior to the Transactions became fully vested.

A summary of share-based compensation recorded in the statements of operations is a follows:

	For the Period March 8, 2011 to April 30,2011 (Successor)	For the Period January 30, 2011 to March 7, 2011 (Predecessor)	For the Period January 31, 2010 to May 1, 2010 (Predecessor)
Share-based compensation	$ 44,906	$ 1,080	$ 3,574

6. Long-Term Debt and Credit Agreements

Long-term debt consisted of the following:

	April 30, 2011 (Successor)	January 29, 2011 (Predecessor)
Term Loan	$ 1,200,000	$ —
Notes	400,000	—
Less current portion of Term Loan	(12,000)	—
Long-term debt	$ 1,588,000	$ —

ABL Facility

In connection with the Acquisition, on March 7, 2011, the Company entered into the ABL Facility, governed by an asset-based credit agreement with Bank of America, N.A., as administrative agent and the other agents and lenders party thereto, that provides senior secured financing of $250 million (which may be increased by up to $75 million in certain circumstances), subject to a borrowing base limitation. The borrowing base will equal the sum of: 90% of the eligible credit card receivables; plus, 85% of eligible accounts; plus, 90% (or 92.5% for the period of August 1 through December 31 of any fiscal year) of the net recovery percentage of eligible inventory multiplied by the cost of eligible inventory; plus, 85% of the net recovery percentage of eligible letters of credit inventory, multiplied by the cost of eligible letter of credit inventory; plus, 85% of the net recovery percentage of eligible in-transit inventory, multiplied by the cost of eligible in-transit inventory; plus, 100% of qualified cash; minus, all availability and inventory reserves. The ABL Facility includes borrowing capacity in the form of letters of credit up to the entire amount of the facility, and up to $25 million in U.S. dollars for borrowings on same-day notice, referred to as swingline loans, and is available in U.S. dollars, Canadian dollars and Euros. The Company did not incur loans under the ABL Facility at the closing of the Acquisition. The amounts outstanding under the ABL Facility is due and payable in full on the fifth anniversary of the closing date.

Borrowings under the ABL Facility bear interest at a rate per annum equal to, at Group's option, any of the following, plus, in each case, an applicable margin: (a) in the case of borrowings in U.S. dollars, a base rate determined by reference to the highest of (1) the prime rate of Bank of America, N.A., (2) the federal funds effective rate plus 0.50% and (3) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs, plus 1.00%; (b) in the case of borrowings in U.S. dollars or in Euros a LIBOR rate determined by reference to the costs of funds for deposits in the relevant currency for the interest period relevant to such borrowing adjusted for certain additional costs; (c) in the case of borrowings in Canadian dollars, the average offered rate for Canadian dollar bankers' acceptances having an identical term of the applicable borrowing; and (d) in the case of borrowings in Canadian dollars, a fluctuating rate determined by reference to the higher of (1) the average offered rate for 30 day Canadian dollar bankers' acceptances plus 0.50% and (2) the prime rate of Bank of America, N.A. for loans in Canadian dollars. The applicable margin for borrowings under the ABL Facility varies based on Group's average historical excess availability from 1.25% to 1.75% with respect to base rate borrowings and borrowings in Canadian dollars bearing interest at the rate described in the immediately preceding clause (d), and from 2.25% to 2.75% with respect to LIBOR borrowings and borrowings in Canadian dollars bearing interest at the rate described in the immediately preceding clause (c).

All obligations under the ABL Facility are unconditionally guaranteed by Group's immediate parent and certain of Group's existing and future wholly owned domestic subsidiaries and are secured, subject to certain exceptions, by substantially all of Group's assets and the assets of Group's immediate parent and Group's subsidiaries that have guaranteed the ABL Facility (referred to herein as the subsidiary guarantors), including, in each case subject to customary exceptions and exclusions:

- a first-priority security interest in personal property consisting of accounts receivable, inventory, cash, deposit accounts (other than any designated deposit accounts containing solely the proceeds of collateral with respect to which the obligations under the ABL Facility have only a second-priority security interest), securities accounts, commodities accounts and certain assets related to the foregoing and, in each case, proceeds thereof (such property, the "Current Asset Collateral");
- a second-priority pledge of all of Group's capital stock directly held by Group's immediate parent and a second priority pledge of all of the capital stock directly held by Group and any subsidiary guarantors (which pledge, in the case of the capital stock of each (a) domestic subsidiary that is directly owned by Group or by any subsidiary guarantor and that is a disregarded entity for United States Federal income tax purposes substantially all of the assets of which consist of equity interests in one or more foreign subsidiaries or (b) foreign subsidiary, is limited to 65% of the stock of such subsidiary); and
- a second-priority security interest in substantially all other tangible and intangible assets, including substantially all of the Company's owned real property and intellectual property.

The ABL Facility includes restrictions on Group's ability and the ability of certain of its subsidiaries to, among other things, incur or guarantee additional indebtedness, pay dividends (including to the Parent) on, or redeem or repurchase, capital stock, make certain acquisitions or investments, materially change our business, incur or permit to exist certain liens, enter into transactions with affiliates or sell our assets to, or merge or consolidate with or into, another company. In addition, from the time when excess availability under the ABL Facility is less than the greater of (a) 12.5% of the lesser of (1) the commitment amount and (2) the borrowing base and (b) $25 million, until the time when Group has excess availability under the ABL Facility equal to or greater than the greater of (a) 12.5% of the lesser of (1) the commitment amount and (2) the borrowing base and (b) $25 million for 30 consecutive days, the credit agreement governing the ABL Facility requires Group to maintain a Fixed Charge Coverage Ratio (as defined in the ABL Facility) tested as of the last day of each fiscal quarter that shall not be less than 1.0.

Although Group's immediate parent is not generally subject to the negative covenants under the ABL Facility, such parent is subject to a holding company covenant that will limit its ability to engage in certain activities.

The credit agreement governing the ABL Facility additionally contains certain customary representations and warranties, affirmative covenants and provisions relating to events of default, including without limitation, a cross-default according to the terms of any indebtedness with an aggregate principal amount of $35 million or more. If an event of default occurs under the ABL Facility, the lenders may declare all amounts outstanding under the ABL 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 ABL Facility to be sold.

Demand Letter of Credit Facility

On October 31, 2007, the Company, 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 $7.1 million and availability was $27.9 million at April 30, 2011 under this facility.

Term Loan

In connection with the Acquisition, on March 7, 2011, the Company entered into the Term Loan Facility, governed by a term loan credit agreement with Bank of America, N.A., as administrative agent and the other agents and lenders party thereto, that provides senior secured financing of $1,200 million. Beginning July 29, 2011, the Company is required to make scheduled quarterly payments each equal to 0.25% of the original principal amount of the term loans outstanding on the closing date, with the balance due on the seventh anniversary of the closing date. The Company is also required to repay the term loan based on excess cash flows as defined in the agreement.

Borrowings under the Term Loan Facility bear interest at a rate per annum equal to an applicable margin plus, at Group's option, either (a) a base rate determined by reference to the highest of (1) the prime rate of Bank of America, N.A., (2) the federal funds effective rate plus 0.50% and (3) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs, plus 1.00% or (b) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, which shall be no less than 1.25%. The applicable margin for borrowings under the Term Loan Facility varies based upon Group's senior secured net leverage ratio from 2.25% to 2.50% with respect to base rate borrowings and from 3.25% to 3.50% with respect to LIBOR borrowings.

All obligations under the Term Loan Facility are unconditionally guaranteed by Group's immediate parent and certain of Group's existing and future wholly owned domestic subsidiaries and are secured, subject to certain exceptions, by substantially all of Group's assets and the assets of Group's immediate parent and Group's subsidiary guarantors, including, in each case subject to customary exceptions and exclusions:

- a first-priority pledge of all of Group's capital stock directly held by Group's immediate parent and a first-priority pledge of all of the capital stock directly held by Group and Group's subsidiary guarantors (which pledge, in the case of the capital stock of each (a) domestic subsidiary that is directly owned by Group or by any subsidiary guarantor and that is a disregarded entity for United States Federal income tax purposes substantially all of the assets of which consist of equity interests in one or more foreign subsidiaries or (b) foreign subsidiary, is limited to 65% of the stock of such subsidiary);
- a first-priority security interest in substantially all of Group's immediate parent's, Group's and the subsidiary guarantor's other tangible and intangible assets (other than the assets described in the following bullet point), including substantially all of the Company's real property and intellectual property, and designated deposit accounts containing solely the proceeds of collateral with respect to which the obligations under the Term Loan Facility have a first-priority security interest; and
- a second-priority security interest in Current Asset Collateral.

The Term Loan Facility includes restrictions on Group's ability and the ability of Group's immediate parent and certain of Group's subsidiaries to, among other things, incur or guarantee additional indebtedness, pay dividends (including to the Parent) on, or redeem or repurchase, capital stock, make certain acquisitions or investments, materially change our business, incur or permit to exist certain liens, enter into transactions with affiliates or sell our assets to, or merge or consolidate with or into, another company.

The credit agreement governing the Term Loan Facility does not require Company to comply with any financial maintenance covenants, but contains certain customary representations and warranties, affirmative covenants and provisions relating to events of default, including without limitation, a cross-default according to the terms of any indebtedness with an aggregate principal amount of $35 million or more. If an event of default occurs under the Term Loan Facility, the lenders may declare all amounts outstanding under the Term Loan 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 Term Loan Facility to be sold.

8.125% Senior Notes due 2019

On March 7, 2011, Group (as successor by merger to Merger Sub) issued $400 million in principal amount of Notes. The Notes bear interest at a rate of 8.125% per annum, and interest is payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 2011. The Notes mature on March 1, 2019.

Subject to certain exceptions, the Notes are guaranteed on a senior unsecured basis by each of Group's current and future wholly owned domestic restricted subsidiaries (and non-wholly owned restricted subsidiaries if such non-wholly owned restricted subsidiaries guarantee Group's or another guarantor's other capital market debt securities) that is a guarantor of Group's or another guarantor's debt, including the Senior Credit Facilities. The Notes are Group's senior unsecured obligations and rank equally in right of payment with all of its existing and future indebtedness that is not expressly subordinated in right of payment thereto. The Notes will be senior in right of payment to any future indebtedness that is expressly subordinated in right of payment thereto and effectively junior to (a) Group's existing and future secured indebtedness, including the ABL Facility and Term Loan Facility described above, to the extent of the value of the collateral securing such indebtedness and (b) all existing and future liabilities of Group's non-guarantor subsidiaries.

The indenture governing the Notes contains certain customary representations and warranties, provisions relating to events of default and covenants, including, without limitation, a cross-payment default provision and cross-acceleration provision in the case of a payment default or acceleration according to the terms of any indebtedness with an aggregate principal amount of $50 million or more, restrictions on Group's and certain of its subsidiaries' ability to, among other things incur or guarantee indebtedness; pay dividends on, redeem or repurchase capital stock; make investments; issue certain preferred equity; create liens; enter into transactions with the Company's affiliates; designate Group's subsidiaries as Unrestricted Subsidiaries (as defined in the indenture); and consolidate, merge, or transfer all or substantially all of the Company's assets. The covenants are subject to a number of exceptions and qualifications. Certain of these covenants, excluding without limitation those relating to transactions with the Company's affiliates and consolidation, merger, or transfer of all or substantially all of the Company's assets, will be suspended during any period of time that (1) the Notes have Investment Grade Ratings (as defined in the indenture) from both Moody's Investors Service, Inc. and Standard & Poor's and (2) no default has occurred and is continuing under the indenture. In the event that the Notes are downgraded to below an Investment Grade Rating, Group and certain subsidiaries will again be subject to the suspended covenants with respect to future events.

Interest expense

The significant components of interest expense are as follows:

	For the Period March 8, 2011 to April 30, 2011 (Successor)	For the Period January 30, 2011 to March 7, 2011 (Predecessor)	For the Period January 31, 2010 to May 1, 2010 (Predecessor)
Term Loan	$ 8,708	$ —	$ —
Notes	4,966	—	—
Former term loan (extinguished in August 2010)	—	—	257
Amortization of deferred financing costs	1,600	970	226
Other, net of interest income	252	196	144
Interest expense, net	$ 15,526	$ 1,166	$ 627

7. Derivative Financial Instruments

Interest Rate Caps

In April 2011, the Company entered into interest rate cap agreements for an aggregate notional amount of $600 million in order to hedge the variability of cash flows related to a portion of the Company's floating rate indebtedness. These cap agreements, effective in March 2012, hedge a portion of contractual floating rate interest commitments through the expiration of the agreements in March 2013. Pursuant to the agreements, the Company has capped LIBOR at 3.5% with respect to the aggregate notional amount of $600 million. In the event LIBOR exceeds 3.5% the Company will pay interest at the capped rate. In the event LIBOR is less than 3.5%, the Company will pay interest at the prevailing LIBOR rate.

Interest Rate Swaps

In April 2011, the Company entered into floating-to-fixed interest rate swap agreements for an aggregate notional amount of $600 million to limit exposure to interest rate increases related to a portion of the Company's floating rate indebtedness once the Company's interest rate cap agreements expire. These swap agreements, effective March 2013, hedge a portion of contractual floating rate interest commitments through the expiration of the agreements in March 2016. As a result of the agreements, the Company's effective fixed interest rate on the notional amount of floating rate indebtedness will be 3.56%.

Fair Value

As of the effective date, the Company designated the interest rate cap and interest rate swap agreements as cash flow hedges. As cash flow hedges, unrealized gains are recognized as assets while unrealized losses are recognized as liabilities. The interest rate cap and interest rate swap agreements are highly correlated to the changes in interest rates to which the Company is exposed. Unrealized gains and losses on these swaps are designated as effective or ineffective. The effective portion of such gains or losses is recorded as a component of accumulated other comprehensive income or loss, while the ineffective portion of such gains or losses will be recorded as a component of interest expense. Future realized gains and losses in connection with each required interest payment will be reclassified from accumulated other comprehensive income or loss to interest expense.

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

	April 30, 2011 (Successor)	January 29, 2011 (Predecessor)
Interest rate caps (included in other assets)	$ 302	$ —
Interest rate swaps (included in other liabilities)	$ (7,255)	$ —
Accumulated other comprehensive loss, net of tax	$ 4,674	$ —

8. Fair Value Measurements

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

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

Financial assets and liabilities

The fair value of the Company's debt is estimated to be $1,593 million at April 30, 2011 based on quoted market prices of the debt (level 1 inputs).

In April 2011, the Company entered into interest rate cap and swap agreements in order to hedge the variability of cash flows related to a portion of the Company's floating rate indebtedness, which are measured in the financial statements at fair value on a recurring basis. See Note 7 for more information regarding the fair value of these financial assets and liabilities.

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

Non-financial assets and liabilities

Except for certain leasehold improvements, the Company does not have any non-financial assets or liabilities as of April 30, 2011 or January 29, 2011 that are measured in the financial statements at fair value.

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

No impairment charges were recorded in any periods presented in the condensed consolidated statements of operations.

9. 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. Effective for the tax year ended January 2012, the Company will file as a member of the consolidated group of Parent.

Tax years ended January 2008 through January 2010 are subject to examinations by the Internal Revenue Service. Various state and local jurisdiction tax authorities are in the process of examining income tax returns or hearing appeals for certain tax years ranging from 2002 to 2008. The results of these audits and appeals are not expected to have a significant effect on the results of operations or financial position.

The difference between the U.S. statutory income tax rate of 35% and the effective tax rate of 39.2% of the Successor is primarily driven by state and local income taxes, net of federal benefit. The difference between the U.S. statutory income tax rate of 35% and the effective tax rate of 10.0% of the Predecessor is primarily driven by (i) non-deductible Transaction costs and (ii) state and local income taxes, net of federal benefit

As of April 30, 2011, the Company has $10.9 million in liabilities associated with uncertain tax positions (including interest and penalties of $1.3 million) reflected in other liabilities. The amount, if recognized, that would affect the effective tax rate is $7.5 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. However, the outcome of tax matters is uncertain and unforeseen results can occur.

10. Legal Proceedings

In connection with the Acquisition, between November 24, 2010 and December 16, 2010, sixteen purported class action complaints were filed against some or all of the following: the Company, certain officers of the Company, members of the Company's Board of Directors, Parent, J.Crew Group, Inc., TPG, TPG Fund VI and LGP. The plaintiffs in each of these complaints alleged, among other things, (1) that certain officers of the Company and members of the Company's Board breached their fiduciary duties to the Company's public stockholders by authorizing the Acquisition for inadequate consideration and pursuant to an inadequate process, and (2) that the Company, TPG and LGP aided and abetted the other defendants' alleged breaches of fiduciary duty. The purported class action complaints sought, among other things, an order enjoining the consummation of the Acquisition, an order rescinding the Acquisition to the extent it is consummated and an award of compensatory damages.

Between November 24, 2010 and December 8, 2010, seven of the purported class action complaints concerning the Acquisition were filed in the Delaware Court of Chancery. On December 14, 2010, these cases were consolidated into the Delaware Action. On January 16, 2011, the Company entered into a binding MOU with the other parties in the Delaware Action. The MOU provided for the settlement of all claims asserted in the Delaware Action against the Company and the other defendants. The Company and the other defendants agreed to the MOU pending the execution of a more formal settlement agreement. The MOU provides for, among other things, a one-time settlement payment of $10 million by J.Crew or its insurers to be distributed pro rata among the members of the class of Company shareholders on whose behalf the plaintiffs in the Delaware Action purport to act. Once the MOU was signed, the parties removed from the Court's docket a preliminary injunction hearing that had been scheduled for February 24, 2011. By letter dated January 31, 2011, the plaintiffs in the Delaware Action attempted to repudiate the MOU and informed the Court that they were no longer in a position to support or pursue the settlement and indicated that they intended to seek monetary damages following the closing of the Acquisition. By letter dated February 1, 2011, the defendants informed the Court that they believe they have honored their obligations under the MOU and that they intended to seek specific performance of the MOU. The court held a conference on February 11, 2011, during which it stated that it would not entertain any applications in the litigation until after the shareholder vote. Following the shareholders' approval of the Acquisition, the plaintiffs filed a Status Report and Motion to Resume Litigation. In that motion, the plaintiffs requested leave to recommence discovery concerning the merits of the Delaware Action. The Defendants opposed that motion, and at a March 15, 2011 hearing the Court ruled that discovery concerning the merits of the Delaware Action would be stayed until after the parties concluded litigation concerning the enforceability of the MOU.

On May 12, 2011, the Company, TPG, LGP and Parent filed the MOU Enforcement Action in the Delaware Court of Chancery. The MOU Enforcement Action asks the Court to order the plaintiffs in the Delaware Action to perform their legal commitment in the MOU to provide a "full and appropriate release of all claims that were asserted or could have been asserted" in the Delaware Action. If such specific performance is unavailable, the MOU Enforcement Action seeks money damages from the plaintiffs in the Delaware Action. Also on May 12, 2011, the parties to the Delaware Action jointly submitted a proposed scheduling order for the Court's approval that provides for a trial on the MOU Enforcement Action in October 2011. If the MOU is not enforced, the Company intends to defend against the allegations asserted in the Delaware Action vigorously.

Between November 24, 2010 and December 16, 2010, seven of the purported class action complaints concerning the Acquisition were filed in the Supreme Court of the State of New York. Those complaints are captioned respectively as *Church v. J.Crew Group, Inc., et al.*, No. 652101-2010; *Taki v. J.Crew Group, Inc., et al.*, No. 65125-2010; *Weisenberg v. J.Crew Group, Inc., et al.*, No. 10115564-2010; *Hekstra v. J.Crew Group, Inc., et al.*, No. 652175-2010; *St. Louis v. J.Crew Group, Inc., et al.*, No. 652201-2010; *Peoria Police Pension Fund v. Drexler, et al.*, No. 652239-2010; *KBC Asset Management NV v. J.Crew Group, Inc., et al.*, No. 6522870-2010 (collectively, the "New York Actions"). At a hearing on February 24, 2011, the New York court denied a request from plaintiffs to enjoin the shareholder vote, and denied the plaintiffs' request to lift the stay of proceedings, except to order the seven cases consolidated and to appoint the plaintiffs' agreed-upon lead plaintiff structure. The cases otherwise remain stayed.

On December 1, 2010, a purported class action complaint, captioned *Brazin v. J.Crew Group, Inc.*, No. 10 Civ. 8988, was filed in the United States District Court for the Southern District of New York. On December 14, 2010, another purported class action complaint, captioned *Caywood v. Drexler*, No. 10 Civ. 9328, was also filed in the United States District Court for the Southern District of New York (together with the *Brazin* Action, the "Federal Actions"). The plaintiffs in the Federal Actions assert claims that are largely duplicative of the claims asserted in the Delaware and New York Actions, but also allege that the defendants violated multiple federal securities statutes in connection with the filing of the Preliminary Proxy Statement on Schedule 14A. On March 16, 2011, the parties to the Federal Actions entered into a stipulation that stayed the Federal Actions until a final resolution or settlement of the Delaware Action.

The Company has notified its insurers of each of the Delaware Action, the New York Actions, and the Federal Actions. By letter dated January 26, 2011, the Company's primary directors and officers liability insurer, St. Paul Mercury Insurance Company ("Travelers"), stated that the claims asserted in the Delaware Action, the New York Actions, and the Federal Actions appeared to be claims against insured persons that would be covered by the applicable insurance policy, but identified potential defenses, exclusions, and limitations to coverage that it believed might apply, subject to reviewing additional information. The Company believes that any and all costs, expenses and/or losses associated with the Delaware Action, the New York Actions, and the Federal Actions are covered by its applicable insurance policies, and will pursue all available remedies and rights with respect to insurance coverage.

The Company is also subject to various other legal proceedings and claims arising in the ordinary course of business. Management does not expect that the results of any of these other legal proceedings, either individually or in the aggregate, would have a material adverse effect on the Company’s financial position, results of operations or cash flows.

11. Subsequent Event

In connection with the Transactions, certain stockholders, including funds affiliated with Mason Capital Management LLC (“Mason”), asserted appraisal rights under Delaware law with respect to approximately 4.8 million shares of Company common stock. Mason Capital withdrew its request for appraisal rights and on May 18, 2011, the Company wire transferred $209 million in full settlement of Mason’s shares. This amount was included in cash and cash equivalents and current liabilities as of April 30, 2011. The Company has evaluated subsequent events through June 8, 2011, which is the date these financial statements are issued.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This document should be read in conjunction with the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended January 29, 2011 filed with the SEC. When used herein, the terms "Group," "Company," "we," "us" and "our" refer to J. Crew Group, Inc., including wholly owned consolidated subsidiaries.

This document contains forward-looking statements. The words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "may," "intends," "believes," "estimate," "project" or similar expressions are intended to identify forward-looking statements. Such statements are neither promises nor guarantees but rather are subject to risks and uncertainties described herein, which could cause actual results to differ materially from those described in the forward-looking statements. Important factors that could cause actual results to differ include, but are not limited to, our substantial indebtedness and lease obligations, the strength of the economy, declines in consumer spending or changes in seasonal consumer spending patterns, competitive market conditions, our ability to anticipate and timely respond to changes in trends and consumer preferences, our ability to successfully develop, launch and grown our newer concepts, products offerings, sales channels and businesses, material disruption to our information systems, our ability to implement our real estate strategy, our ability to attract and retain key personnel, interruptions in our foreign sourcing operations, impact of costs of mailing, paper and printing, and other factors which are set forth in the Company's Annual Report on Form 10-K. We disclaim any obligation to revise or update this information in order to reflect future events or developments, whether or not anticipated.

Executive Overview

J.Crew is a nationally recognized apparel and accessories retailer that differentiates itself through high standards of quality, style, design and fabrics with consistent fits and authentic details. We are an integrated multi-channel, multi-brand specialty retailer that operates stores and websites to consistently communicate with our customers. We design, market and sell our products, including those under the J.Crew®, crewcuts® and Madewell® brands, offering complete assortments of women's, men's and children's apparel and accessories. We believe our customer base consists primarily of affluent, college-educated, professional and fashion-conscious women and men.

We conduct our business through two primary sales channels: (1) *Stores*, which consists of our retail, factory and Madewell stores, and (2) *Direct*, which consists of our websites and catalogs. As of April 30, 2011, we operated 251 retail stores (including 10 crewcuts and 22 Madewell stores), 86 factory stores (including two crewcuts factory stores), and three clearance stores, throughout the United States; compared to 245 retail stores (including nine crewcuts and 17 Madewell stores), 80 factory stores (including one crewcuts factory store), and three clearance stores as of May 1, 2010.

The Company was acquired on March 7, 2011 through a merger transaction with Chinos Acquisition Corporation, a wholly-owned subsidiary of Chinos Holdings, Inc. (the "Parent"). The Parent was formed by investment funds affiliated with TPG Capital, L.P. ("TPG") and Leonard Green & Partners, L.P. ("LGP" and together with TPG, the "Sponsors"). The acquisition was accomplished through a reverse subsidiary merger of Chinos Acquisition Corporation with and into J.Crew Group, Inc., with J.Crew Group, Inc. being the surviving company (the "Acquisition"). Subsequent to the Acquisition, Group became an indirectly wholly owned subsidiary of Parent, which is controlled by affiliates of the Sponsors, co-investors and members of our management. Although the Company continued as the same legal entity after the Acquisition, our financial statements were prepared for two periods: Predecessor and Successor, which relate to the period preceding the Acquisition and the period succeeding the Acquisition.

We have prepared our discussion and analysis of the results of operations and cash flows by comparing the mathematical combination of the Successor and Predecessor periods in the thirteen weeks ended April 30, 2011 ("Combined") to the thirteen weeks ended May 1, 2010. All references to the first quarter of fiscal 2011 relate to the combined period of: (i) March 8, 2011 to April 30, 2011 of the Successor and (ii) January 30, 2011 to March 7, 2011 of the Predecessor. Although this presentation does not comply with generally accepted accounting principles, we believe that it provides a meaningful method of comparison. Combined operating results (i) have not been prepared on a pro forma basis as if the Acquisition occurred on the first day of the period, (ii) may not reflect the actual results we would have achieved absent the Acquisition, and (iii) may not be predictive of future results of operations.

In connection with the Acquisition, the Company incurred significant indebtedness and became more levered. In addition, the purchase price paid in connection with the Acquisition has been allocated to recognize the acquired assets and liabilities at fair value. The preliminary purchase accounting adjustments have been recorded to: (i) increase the carrying value of our property and equipment, and inventory, (ii) establish intangible assets for our trade names, loyalty program, customer lists and favorable lease commitments, and (iii) revalue gift card and lease-related liabilities. Subsequent to the Acquisition, interest expense and non-cash depreciation and amortization charges have significantly increased. As a result, our Successor financial statements subsequent to the Acquisition are not comparable to our Predecessor financial statements.

The following is a summary of our revenues for first quarter of fiscal 2011 and 2010:

(Dollars in millions)	For the Period March 8, 2011 to April 30,2011 (Successor)	For the Period January 30, 2011 to March 7, 2011 (Predecessor)	For the Thirteen Weeks Ended April 30, 2011 (Combined)	For the Thirteen Weeks Ended May 1, 2010 (Predecessor)
Stores	$ 194.7	$ 86.5	$ 281.2	$ 290.0
Direct	76.7	43.6	120.3	114.3
Net sales	271.4	130.1	401.5	404.3
Other, primarily shipping and handling fees	4.8	3.1	7.9	9.6
Total revenues	$ 276.2	$ 133.2	$ 409.4	$ 413.9

The following is a summary of first quarter of fiscal 2011 highlights:

- Revenues decreased 1.1% to $409.4 million.
- Comparable store sales decreased 5.8%.
- Direct net sales increased 5.3% to $120.3 million.
- Comparable company sales, including shipping and handling fees, decreased 2.8%.
- Income from operations decreased $99.4 million to an operating loss of $24.0 million, which includes Acquisition-related expenses of $85.2 million consisting of (i) $44.7 million of accelerated share-based compensation, (ii) $32.2 million of transaction costs, (iii) $7.1 million of amortization of purchase accounting adjustments, and (iv) $1.2 million of Sponsor monitoring fees.
- Pre-tax losses of Madewell, adjusted for purchase accounting adjustments, decreased to $2.8 million in the first quarter of fiscal 2011 from $2.9 million last year.
- We opened one J.Crew retail store, one J.Crew factory store, one crewcuts store and two Madewell stores. We closed one J.Crew retail store.
- The Company was acquired on March 7, 2011 for $3.0 billion financed with (i) borrowings under our senior secured credit facility of $1.2 billion, (ii) issuance of 8.125% senior notes of $400 million, and (iii) equity contributions from investment funds affiliated with TPG and LGP, co-investors and management.

Results of Operations – First Quarter of Fiscal 2011 compared to First Quarter of Fiscal 2010

(Dollars in millions)	For the Period March 8, 2011 to April 30,2011	For the Period January 30, 2011 to March 7, 2011	For the Thirteen Weeks Ended April 30, 2011
	(Successor)	(Predecessor)	(Combined)
Revenues	$ 276.2	$ 133.2	$ 409.4
Gross profit	118.3	63.0	181.3
Selling, general and administrative expenses(1)	125.5	79.7	205.2
Income (loss) from operations	(7.2)	(16.8)	(24.0)
Interest expense, net	15.5	1.2	16.7
Provision (benefit) for income taxes	(8.9)	(1.8)	(10.7)
Net income (loss)	$ (13.8)	$ (16.1)	$ (29.9)

	Thirteen Weeks Ended April 30, 2011 (Combined)		Thirteen Weeks Ended May 1, 2010 (Predecessor)		Variance Increase / (Decrease)	
(Dollars in millions)	Amount	Percent of Revenues	Amount	Percent of Revenues	Dollars	Percentage
Revenues	$ 409.4	100.0%	$ 413.9	100.0%	$ (4.5)	(1.1)%
Gross profit	181.3	44.3	202.6	49.0	(21.3)	(10.5)
Selling, general and administrative expenses(1)	205.2	50.1	127.2	30.7	78.0	61.4
Income (loss) from operations	(24.0)	(5.9)	75.4	18.2	(99.4)	(131.8)
Interest expense, net	16.7	4.1	0.6	0.2	16.1	NM
Provision (benefit) for income taxes	(10.7)	(2.6)	30.1	7.3	(40.8)	(135.6)
Net income (loss)	$ (29.9)	(7.3)%	$ 44.7	10.8%	$ (74.6)	(166.9)%

(1) including transaction costs of $32.2 million recorded in the Predecessor period.

Revenues

Revenues decreased $4.5 million, or 1.1%, to $409.4 million in the first quarter of fiscal 2011 from $413.9 million in the first quarter last year. This decrease resulted from (i) a decrease in comparable store sales, partially offset by (ii) an increase in Direct sales and (iii) non-comparable store sales. We continue to see a softening of the sales trend in both Stores and Direct, primarily in women's apparel, which we expect to continue at least through the first half of fiscal 2011.

Stores sales decreased $8.8 million, or 3.0%, to $281.2 million in the first quarter of fiscal 2011 from $290.0 million in the first quarter last year. Comparable store sales decreased 5.8% to $261.1 million in the first quarter of fiscal 2011 from $277.1 million last year. Comparable store sales increased 15.1% in the first quarter of fiscal 2010. Non-comparable store sales were $20.1 million in the first quarter of fiscal 2011.

Direct sales increased $6.0 million, or 5.3%, to $120.3 million in the first quarter of fiscal 2011 from $114.3 million in the first quarter last year. Direct sales increased $18.9 million, or 19.9%, in the first quarter of fiscal 2010.

Comparable company sales, including shipping and handling fees, decreased 2.8%, which was driven by a decrease in sales of women's apparel, specifically knits, sweaters and shirts; partially offset by an increase in sales of men's apparel, specifically woven shirts, pants and knits. Sales of children's apparel and accessories also increased during the first quarter of fiscal 2011.

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

	Thirteen Weeks Ended April 30, 2011	Thirteen Weeks Ended May 1, 2010
	(Combined)	(Predecessor)
Apparel:		
Women's	62%	66%
Men's	21	18
Children's	6	5
Accessories	11	11
	100%	100%

Other revenues, which consist primarily of shipping and handling fees, decreased $1.6 million, or 17.0%, to $7.9 million in the first quarter of fiscal 2011 from $9.5 million in the first quarter last year. This decrease resulted from (i) shipping and handling promotions offset by the impact of shipping and handling fees from increased Direct sales and (ii) a reduction in income from unredeemed gift cards as a result of a purchase accounting adjustment, which will decrease other revenues approximately $0.7 million in each quarter in the balance of fiscal 2011. Other revenues decline as we increase the frequency of shipping and handling promotions.

Gross Profit

Gross profit decreased $21.3 million to $181.3 million in the first quarter of fiscal 2011 from $202.6 million in the first quarter last year. This decrease resulted from the following factors:

(Dollars in millions)	Before Purchase Accounting Impact(1)	Purchase Accounting Impact(1)	As Reported (Combined)
Decrease in revenues	$ (2.7)	$ —	$ (2.7)
Decrease in merchandise margin	(10.0)	(3.1)	(13.1)
Increase in buying and occupancy costs	(4.9)	(0.6)	(5.5)
Decrease in gross profit	$ (17.6)	$ (3.7)	$ (21.3)

(1) Reflects non-cash charges recorded in the Successor period related to step-up in carrying value of acquired inventories and amortization of favorable and unfavorable store lease commitments.

Gross margin decreased to 44.3% in the first quarter of fiscal 2011 from 49.0% in the first quarter last year. The decrease in gross margin was driven by: (i) a 250 basis point deterioration in merchandise margin due to increased markdowns, (ii) a 130 basis point increase in buying and occupancy costs as a percentage of revenues, and (iii) a 90 basis point decrease from the purchase accounting adjustments described in the table above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (including transaction costs of $32.2 million) increased $78.0 million, or 61.4%, to $205.2 million in the first quarter of fiscal 2011 from $127.2 million in the first quarter last year. This increase primarily resulted from the following:

(Dollars in millions)	Before Purchase Accounting Impact(1)	Purchase Accounting Impact(1)	As Reported (Combined)
Increase in operating expenses, primarily payroll and consulting	$ 3.2	$ —	$ 3.2
Decrease in share-based and incentive compensation	(8.8)	—	(8.8)
Transaction costs	—	32.2	32.2
Transaction-related share based compensation	—	44.7	44.7
Sponsor monitoring fees	—	1.2	1.2
Amortization related to acquisition-related intangible assets	—	1.6	1.6
Depreciation related to increase in carrying value of fixed assets	—	1.4	1.4
Amortization of favorable corporate lease commitments	—	0.4	0.4
Other selling, general and administrative expenses, net	2.1	—	2.1
Increase (decrease) in selling, general and administrative expenses	$ (3.5)	$ 81.5	$ 78.0

(1) Reflects charges recorded in the Successor period related to: (i) step-up in carrying value of our property and equipment, (ii) amortizable intangible assets for our Madewell tradename, loyalty program and customer lists, (iii) favorable lease commitments of our corporate office, and (iv) Sponsor monitoring fees.

As a percentage of revenues, selling, general and administrative expenses increased to 50.1% in the first quarter of fiscal 2011 from 30.7% in the first quarter last year, primarily due to the above mentioned items. As a percentage of revenues, selling, general and administrative expenses, adjusted for purchase accounting, decreased to 30.2% in the first quarter of fiscal 2011 from 30.7% in the first quarter last year.

Interest Expense, Net

Interest expense, net of interest income, increased $16.1 million to $16.7 million in the first quarter of fiscal 2011 from $0.6 million in first quarter last year due to borrowings to finance the acquisition of the Company on March 7, 2011. A summary of interest expense is as follows:

(Dollars in millions)	For the Period March 8, 2011 to April 30,2011 (Successor)	For the Period January 30, 2011 to March 7, 2011 (Predecessor)	For the Thirteen Weeks Ended April 30, 2011 (Combined)	For the Thirteen Weeks Ended May 1, 2010 (Predecessor)
Term Loan	$ 8.7	$ —	$ 8.7	$ —
Notes	4.9	—	4.9	—
Former term loan (extinguished in August 2010)	—	—	—	0.3
Amortization of deferred financing costs	1.6	1.0	2.6	0.2
Other, net of interest income	0.3	0.2	0.5	0.1
Interest expense, net	$ 15.5	$ 1.2	$ 16.7	$ 0.6

Income Taxes

The effective tax rate of 26.3% for the first quarter of fiscal 2011 reflects our expected annual effective tax rate of 39% coupled with the discrete impact of permanent differences related to certain transaction costs.

Net Income

Net income decreased $74.6 million to a net loss of $29.9 million in the first quarter of fiscal 2011 compared with a net income of $44.7 million in the first quarter of fiscal 2010. This decrease was due to a: (i) $21.3 million decrease in gross profit, (ii) $78.0 million increase in selling, general and administrative expenses (primarily a result of transaction costs and purchase accounting adjustments), and (iii) $16.1 million increase in interest expense, partially offset by (iv) $40.8 million decrease in the provision for income taxes.

Liquidity and Capital Resources

Our primary sources of liquidity are current balances of cash and cash equivalents and borrowings available under our senior secured credit facilities. Currently, our primary cash needs include (i) debt service requirements, (ii) capital expenditures in connection with opening new stores, remodeling existing stores and information technology system enhancements and (iii) working capital requirements. The most significant components of our working capital are merchandise inventories, accounts payable and other current liabilities.

Operating Activities

(Dollars in millions)	For the Period March 8, 2011 to April 30,2011 (Successor)	For the Period January 30, 2011 to March 7, 2011 (Predecessor)	For the Thirteen Weeks Ended April 30, 2011 (Combined)	For the Thirteen Weeks Ended May 1, 2010 (Predecessor)
Net income (loss)	$ (13.8)	$ (16.1)	$ (29.9)	$ 44.7
Adjustments to reconcile to net cash provided by operating activities:				
Share-based compensation	44.9	1.1	46.0	3.6
Depreciation of property and equipment	10.2	3.9	14.1	11.7
Non-cash charge related to inventory step-up	3.1	—	3.1	—
Amortization of deferred financing costs	1.6	1.0	2.6	0.2
Amortization of intangible assets	1.6	—	1.6	—
Amortization of favorable lease commitments	2.0	—	2.0	—
Excess tax benefit from share-based compensation plans	—	(76.0)	(76.0)	(4.1)
Changes in operating assets and liabilities	(39.5)	(16.5)	(56.0)	(17.4)
Net cash provided by (used in) operating activities	$ 10.1	$ (102.6)	$ (92.5)	$ 38.7

Cash used in operating activities of $92.5 million in the first quarter of fiscal 2011 was driven by (i) a net loss of $29.9 million, (ii) changes in operating assets and liabilities (including the impact of excess tax benefits from share-based compensation plans) of $132.0 million due primarily to an increase in prepaid income taxes and net increases in inventories and related accounts payable, offset by (iii) non-cash expenses of $69.4 million.

Cash provided by operating activities of $38.7 million in the first quarter of fiscal 2010 consisted of (i) net income of $44.7 million, (ii) non-cash expenses of $15.5 million, offset by (iii) changes in operating assets and liabilities (including the impact of excess tax benefits from share-based compensation plans) of $21.5 million due primarily to normal business fluctuations.

Investing Activities

Cash used in investing activities of $2,791.9 million in the first quarter of fiscal 2011 was driven by (i) $2,772.4 million cash paid to acquire the Company, net of cash reserved of $209.0 million for dissenting shareholders, which was paid May 18, 2011, and (ii) $19.5 million for capital expenditures, of which $4.7 million related to the opening of new stores. Capital expenditures are planned at approximately $95 to $100 million for fiscal 2011, including approximately $30 million for new stores, approximately $25 million for information technology enhancements, approximately $20 million for warehouse and call center expansions, and the remainder for store renovations and corporate facilities.

Financing Activities

Cash provided by financing activities of $2,783.5 million in the first quarter of fiscal 2011 primarily reflect proceeds which were used to acquire the Company, including (i) borrowings under our senior secured credit facility of $1.2 billion, (ii) issuance of 8.125% senior notes of $400 million, and (iii) equity contributions from investment funds affiliated with TPG and LGP, co-investors and management of $1.2 billion. The Company recorded excess tax benefits of $76.0 million in connection with the cash settlement of outstanding share-based awards at the time of the Acquisition.