SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED, EFFECTIVE OCTOBER 7, 1996].

For the fiscal year ended January 31, 1998

OR

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

For the transition period from __________ to __________

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)	(IRS Employer Identification No.)

770 BROADWAY, NEW YORK, NEW YORK 10003
(Address of principal executive office) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark whether 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 X

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. [_]

The common stock of the registrant is not publicly traded. Therefore, the aggregate market value is not readily determinable.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes _____ No _____

As of April 15, 1998, 60,745 shares of Common Stock, par value $.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

In connection with the Recapitalization (as defined below), J. Crew Group, Inc., a New York corporation ("Holdings"), organized J. Crew Operating Corp., a Delaware corporation ("Operating Corp"), and immediately prior to the consummation of the Recapitalization, Holdings transferred substantially all of its assets and liabilities to Operating Corp. Holdings' current operations are, and future operations are expected to be, limited to owning the stock of the Operating Corp. Holdings and its subsidiaries are collectively referred to herein as the "Company." References herein to fiscal years are to the fiscal years of Holdings, which end on the Saturday closest to January 31 in the following calendar year. Effective January 31, 1998, the Company changed its fiscal year end from the Friday closest to January 31 to the Saturday closest to January 31. Accordingly, fiscal years 1993, 1994, 1995, 1996 and 1997 ended on January 28, 1994, February 3, 1995, February 2, 1996, January 31, 1997 and January 31, 1998. All fiscal years for which financial information is included had 52 weeks, except fiscal 1994 which had 53 weeks.

Certain statements in this Annual Report under the captions "Business", "Selected Financial Data", Management's Discussion and Analysis of Financial Condition and Results of Operations", Financial Statements and Supplementary Data" and elsewhere constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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 any future results, performances or achievements expressed or implied by such forward-looking statements. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

PART I

ITEM 1. BUSINESS

GENERAL

The Company is a leading mail order and store retailer of women's and men's apparel, shoes and accessories operating primarily under the J. Crew(R) brand name. The Company has built a strong and widely recognized brand name known for its timeless styles at price points that the Company believes represent exceptional product value. The J. Crew image has been built and reinforced over its 14-year history through the circulation of more than one-half billion catalogs that use magazine-quality photography to portray a classic American perspective and aspirational lifestyle. Many of the original items introduced by the Company in the early 1980s (such as the rollneck sweater, weathered chino, barn jacket and pocket tee) were instrumental in establishing the J. Crew brand and continue to be core product offerings. The Company has capitalized on the strength of the J. Crew brand to provide customers with clothing to meet more of their lifestyle needs, including casual, career and sport.

The J. Crew merchandising strategy emphasizes timeless styles and a broad assortment of high-quality products designed to provide customers with one-stop shopping opportunities at attractive prices. J. Crew catalogs and retail stores offer a full line of men's and women's basic durables (casual weekend wear), sport, swimwear, accessories and shoes, as well as the more tailored men's sportswear and women's "Classics" lines. Approximately 60% of the Company's J. Crew brand sales are derived from its core offerings of durables and sport clothing, the demand for which the Company believes is stable and resistant to changing fashion trends. The Company believes that the J. Crew image and merchandising strategy appeal to college-educated, professional and affluent customers who, in the Company's experience, have demonstrated strong brand loyalty and a tendency to make repeat purchases.

J. Crew products are distributed exclusively through the Company's catalog and store distribution channels. The Company currently circulates over 76 million J. Crew catalogs per annum and owns and operates 51 J. Crew retail stores and 42 J. Crew factory outlets. In addition, J. Crew products are distributed through 67 free-standing and shop-in-shop stores in Japan under a licensing agreement with Itochu.

In addition to the Company's J. Crew operations, the Company operates Clifford & Wills ("C&W"), a mail order and factory store women's apparel business that targets older, more conservative customers, and Popular Club Plan ("PCP"), a direct selling catalog merchandiser of consumer branded goods through a "club" concept that provides credit sales to lower-income customers.

The Company has five major operating divisions: J. Crew Mail Order, J. Crew Retail, J. Crew Factory Outlets, PCP and C&W. J. Crew Mail Order, J. Crew Retail and J. Crew Factory Outlets each operate under the J. Crew brand name. In 1997, products sold under the J. Crew brand contributed $577.6 million in revenues (including licensing revenues) or 69.3% of the Company's total revenues. J. Crew brand revenues in 1997 were comprised primarily of $264.8 million (45.8%) from J. Crew Mail Order, $209.6 million (36.3%) from J. Crew Retail and $100.3 million (17.4%) from J. Crew Factory Outlets. In fiscal 1997, PCP and C&W contributed revenues of $184.4 million and $72.0 million, respectively, representing approximately 22.1% and 8.6%, respectively, of the Company's total revenues.

J. CREW BRAND

Merchandising and Design Strategy

The J. Crew merchandising strategy focuses on creating and delivering a broad assortment of high-quality products in timeless styles intended to provide customers with one-stop shopping opportunities at attractive prices. Many of the original items introduced by the Company in the early 1980s (such as the rollneck sweater, weathered chino, barn jacket and pocket tee) were instrumental in establishing the J. Crew brand, and continue to be core product offerings. The Company has capitalized on the strength of the J. Crew brand image to provide its customers with clothing to meet more of their lifestyle needs, including casual, career and sport.

Over time, the J. Crew merchandising strategy has evolved from providing unisex products to creating full lines of men's and women's clothing, shoes and accessories. This has had the effect of increasing overall J. Crew brand sales volume, and significantly increasing revenues from sales of women's apparel as a percentage of total J. Crew brand sales. The following table sets forth the J. Crew merchandise mix as a percentage of total J. Crew Mail Order and Retail revenues for the years 1993 through 1997. (J. Crew brand sales statistics throughout this section exclude sales in J. Crew Factory Outlets.)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
Women's........	42%	47%	53%	56%	59%
Men's..........	58	53	47	44	41
	100%	100%	100%	100%	100%

Every J. Crew product is designed by Emily Woods and her in-house design staff of 15 designers to reflect a classic, clean aesthetic that is consistent with the brand's American lifestyle image. Design teams are formed around J. Crew product lines and categories to develop concepts, themes and products for each of the Company's J. Crew businesses. Members of the J. Crew technical design team develop construction and fit specifications for every product to ensure quality workmanship and consistency across product lines. These teams work in close collaboration with the merchandising and production staff in order to gain market and other input. Product merchandisers provide designers with market trend and other information at initial stages of the design process. J. Crew designers and merchants source globally for fabrics, yarns and finishing products to ensure quality and value, while manufacturing teams research and develop key vendors worldwide to identify and maintain the essential characteristics for every style.

J. Crew Mail Order

Since its inception in 1983, J. Crew Mail Order has distinguished itself from other catalog retailers by its award-winning catalog, which utilizes magazine-quality "real moment" pictures to depict an aspirational lifestyle image. During fiscal 1997, J. Crew Mail Order distributed 33 catalog editions with a combined circulation of more than 76 million, generating $264.8 million in revenues or 45.8% of the Company's total J. Crew brand revenues.

Circulation Strategy

J. Crew Mail Order's circulation strategy focuses on continually improving the segmentation of customer files and the acquisition of additional customer names. In 1997, approximately 60% of J. Crew Mail Order revenues were from customers in the 12-month buyer file (buyers who have made a purchase from any J. Crew catalog in the prior 12 months). Between 1993 and 1997 the J. Crew Mail Order 12-month buyer file grew at a compound annual growth rate of 10%.

Customer Segmentation. In 1996, the Company began segmenting its customer file and tailoring its catalog offerings to address the different product needs of its customer segments. To increase core catalog productivity and improve the effectiveness of marginal and prospecting circulation, each customer segment is offered different catalog editions. The Company currently circulates Base, Women's, Prospect and Sale catalogs to targeted customer segments, has recently introduced a College catalog and intends to introduce a Swimwear catalog in 1998.

Descriptions of the Company's current catalogs follow:

- Base Books. These catalogs contain the entire mail order product offering and are sent primarily to 12-month buyers.

- Women's Books. Introduced in the spring of 1996, the Women's books feature women's merchandise and are sent to buyers who purchase primarily women's merchandise. These books represent an additional customer contact potentially generating incremental revenue from women customers.

- Prospect Books. Introduced in late 1995, these editions are abridged versions of the Base Books and are sent to less active and prospective customers in order to cost-effectively reactivate old customers and acquire new customers.

- Sale Books. These catalogs contain overstock merchandise to be sold at reduced prices without adversely affecting the J. Crew brand image.

The following are descriptions of the recently introduced College book and the Swimwear book planned for 1998:

- College Books. College books present a merchandise mix (primarily men's and women's Durables, Sport and Swimwear) that is most often purchased by and for students. These catalogs consist of a new creative presentation involving a lifestyle setting appealing to the youth market. The Company believes that these new catalogs will also be effective as prospecting vehicles: the page counts are relatively low (68 pages) and the product lines offered are of above average productivity.

- Swimwear Books. The Company plans to offer its full swimwear line together with selected casual weekend clothing in a special catalog edition to be mailed to its most productive women customers as well as to prospective customers. The Company's analysis of buyer performance indicates that swimwear is the most productive category for existing buyers and the product classification most frequently purchased by first-time buyers.

The Company believes that it circulates fewer and less-targeted catalog editions than its competitors, and that segmentation will improve the productivity (as measured by initial demand per page circulated) of its circulation by: (i) increasing its offers to its most productive customers and decreasing its offers to its less productive customers, and (ii) reducing both the page count and number of mailings of its Base Books. For example, in 1996, the Company introduced the Women's catalog which to date has achieved 20% higher initial demand per page circulated than that of the Base Book. The overall effect of increased segmentation is expected to be an increase in books circulated (and customer contacts made) and a decrease in pages circulated. In 1997, total circulation increased to approximately 77 million from approximately 76 million in 1996, primarily as a result of the introduction of Prospect and Women's catalogs, while pages circulated were approximately 9.8 billion in 1996 and 1997. From 1997 to 1998, the increased segmentation is expected to result in an approximately 6% decrease in the number of catalogs circulated, and an approximately 14% decrease in total pages circulated. Reductions in total pages circulated should result in a decrease in paper and postage expenses and an increase in productivity or sales per page circulated.

Customer Acquisition and List Management. J. Crew Mail Order's name acquisition programs are designed to attract new customers in a cost-effective manner. The Company acquires new names from various sources, including list rentals, exchanges with other catalog and credit card companies, "friends' name" card inserts and, recently, through J. Crew Retail stores which represent an increasingly significant resource in prospecting for new names. Names and addresses of 25% to 30% of the customers making credit card purchases at J. Crew Retail stores are automatically captured at the point of sale. Customers are also asked to fill out cards at the cash register when they make purchases. In addition, the Company is exploring the feasibility of placing telephones in its J. Crew Retail stores with direct access to the J. Crew Mail Order telemarketing center to allow customers in the stores to order catalog-specific or out-of-stock items.

The Company believes that circulation planning based on more sophisticated statistical circulation models will increase the effectiveness of catalog mailings and maximize the productivity of its buyer file. As a result, the Company is testing increasingly sophisticated statistical circulation planning models to improve its ability to predict customer purchase behavior based on a wide range of variables. The Company plans to use these analyses to enhance its circulation efficiencies.

Catalog Creation and Production

The Company is distinguished from other catalog retailers by its award-winning catalog, which utilizes magazine-quality "real moment" pictures to depict an aspirational lifestyle image. All creative work on the catalogs is coordinated by J. Crew personnel to maintain and reinforce the J. Crew brand image. Photography is executed both on location and in studios, and creative design and copy writing are executed on a desk-top publishing system. Digital images are transmitted directly to outside printers, thereby reducing lead times and improving reproduction quality. The Company believes that appropriate page presentation of its merchandise stimulates demand and therefore places great emphasis on page layout.

J. Crew Mail Order does not have long-term contracts with paper mills and, instead, purchases paper from paper mills at a two and one-half month specified rate. Projected paper requirements are communicated on an annual basis to paper mills to ensure the availability of an adequate supply. Management believes that the Company's long-standing relationships with a number of the largest coated paper mills in the United States allow it to purchase paper at favorable prices commensurate with the Company's size and payment terms.

Telemarketing and Customer Service

J. Crew Mail Order's primary telemarketing and fulfillment facilities are located in Lynchburg, Virginia. Telemarketing operations are open 24 hours a day, seven days a week and handled over 7 million calls in fiscal 1997. Orders for merchandise may be received by telephone, facsimile, mail and the Company's website, although orders through the toll-free telephone service accounted for 90% of orders in fiscal 1997. The telemarketing center is staffed by a total of 900 full-time telemarketing associates, and up to 2,500 associates during peak periods, who are trained to assist customers in determining the customer's correct size and to describe merchandise fabric, texture and function. Each telemarketing associate utilizes a terminal with access to an IBM mainframe computer which houses complete and up-to-date product and order information. The fulfillment operations are designed to process and ship customer orders in a quick and cost-effective manner. Orders placed before 9:00 p.m. are shipped the following day. Same-day shipping is available for orders placed before noon. During non-peak periods, approximately 11,000 packages are shipped daily, and during peak periods, 25,000 daily.

J. Crew Retail

An important aspect of the Company's business strategy is an expansion program designed to reach new and existing customers through the opening of J. Crew Retail stores. In addition to generating sales of J. Crew products, J. Crew Retail stores help set and reinforce the J. Crew brand image. The stores are designed in-house and fixtured to create a distinctive J. Crew environment and store associates are trained to maintain high standards of visual presentation and customer service. The result is a complete statement of J. Crew's timeless American style, classic design and attractive product value. During fiscal 1997, J. Crew Retail generated revenues of $209.6 million, representing 36.3% of the Company's total J. Crew brand revenues.

The Company believes that J. Crew Retail derives significant benefits from the concurrent operation of J. Crew Mail Order. The broad circulation of J. Crew catalogs performs an advertising function, enhancing the visibility and exposure of the brand, aiding the expansion of the retail concept and increasing the profitability of the stores.

J. Crew Retail maintains a uniform appearance throughout its store base, in terms of merchandise display and location on the selling floor. Store managers receive detailed store plans that dictate fixture and merchandise placement to ensure uniform execution of the merchandising strategy at the store level. Standardization of store design and merchandise presentation also maximizes usage and productivity of selling space and lowers the cost of store furnishings allowing J. Crew Retail to cost-effectively open new stores and refurbish existing ones.

Store Economics

The Company believes that its J. Crew Retail stores are among the most productive in its industry segment. All of the Company's J. Crew Retail stores are profitable and have generated positive store contribution within the first 12 months of opening. J. Crew Retail stores that were open during all of fiscal 1997 averaged $4.5 million per store in sales, produced sales per gross square foot of approximately $518 and generated store contribution margins of approximately 23.4%. The Company believes that these results compare favorably to the average among retailers that the Company believes to be its primary competitors. J. Crew Retail stores have an average size of 8,400 gross square feet. The Company's historical average cost for leasehold improvements, furniture and fixtures for new stores was approximately $950,000 per store, after giving effect to construction allowances. The Company anticipates that the cost of these improvements will increase as it targets more urban, high-traffic areas for its stores. Average pre-opening costs per store, which are expensed as incurred, were $87,000. In addition, working capital requirements, consisting almost entirely of inventory purchases, averaged approximately $550,000 per store.

Current Stores

As of January 31, 1998 J. Crew Retail operated 51 retail stores nationwide, having expanded from 18 stores in 1993. The Company intends to open 12 to 15 stores in fiscal 1998. The stores are located in upscale shopping malls and in retail areas within major metropolitan markets that have an established higher-end retail business.

The table below highlights certain information regarding J. Crew Retail stores opened through fiscal 1997.

	STORES OPEN AT BEGINNING OF FISCAL YEAR	STORES OPENED DURING FISCAL YEAR	STORES CLOSED DURING FISCAL YEAR	STORES AT END OF FISCAL YEAR	TOTAL SQUARE FOOTAGE (000'S)	AVERAGE STORE TOTAL SQUARE FOOTAGE AT END OF YEAR
1993	18	10	--	28	226	8,071
1994	28	1	--	29	235	8,103
1995	29	2	--	31	266	8,581
1996	31	8	--	39	338	8,667
1997	39	12	--	51	428	8,392

New Store Expansion

J. Crew Retail plans to increase the number of stores in operation by 12 to 20 stores annually, resulting in approximately 100 stores in operation by the end of fiscal 2000. The retail expansion plan will initially focus on markets in which J. Crew Mail Order has been successful and, more generally, in areas within major metropolitan markets with affluent and well educated populations. The Company will continue to cluster stores in markets which provide the greatest sales potential, such as New York, New Jersey, Massachusetts, California and Florida. Historically, new stores have cost the Company an average of $1.5 million in building and working capital expenditures and have experienced a pay-back period of approximately 20 months. The Company believes, with a base of 51 stores, its markets are underpenetrated relative to its competitors and enough suitable locations exist nationwide to accommodate its expansion plan.

J. Crew Factory Outlets

The Company extends its reach to additional consumer groups through its 42 J. Crew Factory Outlets. Offering J. Crew products at an average of 30% below full retail prices, J. Crew Factory Outlets target value-oriented consumers. The factory outlet stores also serve to liquidate excess, irregular or out-of-season J. Crew products outside of the Company's two primary distribution channels. During fiscal 1997, J. Crew Factory Outlets generated revenues of $100.3 million, representing 17.4% of the Company's total J. Crew brand revenues.

J. Crew Factory Outlets offer selections of J. Crew menswear and womenswear. Ranging in size from 3,800 to 10,000 square feet with an average of 6,500 square feet, the stores are generally located in major outlet centers in 25 states across the United States. The Company believes that the outlet stores, which are designed in-house, maintain fixturing, visual presentation and service standards superior to those typically associated with outlet stores.

POPULAR CLUB PLAN

PCP is a direct selling catalog business offering a broad range of department store merchandise on proprietary, in-house credit plans to the lower and lower-middle income market. PCP markets its catalog products primarily in eleven states in the northeastern United States. PCP offers two distinct product categories: Home Store (53% of 1997 sales) and Ready-to-Wear (47% of 1997 sales). Home Store products include textiles, home furnishings, housewares and electronics. Ready-to-Wear includes men's and women's sportswear, coats, lingerie, juniors, accessories, jewelry, shoes, children's wear, infants, special size and swimwear. During fiscal 1997, Popular Club Plan's annual circulation of 7 million catalogs generated revenues of $184.4 million, representing 22.1% of total Company revenues.

PCP markets products through an extensive network of over 100,000 local independent sales representatives ("Secretaries"), using a unique combination of mail order and direct selling methods. In contrast to a retail store sales associate, a Secretary is a lead shopper who solicits his or her own circle of friends, relatives, and co-workers to shop from the catalog. Secretaries are compensated through commission reward credits which can be redeemed for free merchandise. This provides them with both a sales and collection incentive. All Secretary applicants are screened and scored with proprietary behavior models in conjunction with national credit bureau information. Only 60% of applicants are set up as new accounts.

PCP offers customers a 22-week payment plan and a 44-week payment plan for payment of merchandise ordered from PCP. Sales through these proprietary credit products accounted for 96.8% of PCP revenues in 1997. PCP performs ongoing credit analysis on each Secretary and his or her club. Although Secretaries do not guarantee payment of members they recruit, reward credits of club Secretaries may be withheld to offset poor credit performance. PCP monitors collections through its approximately 70-person credit and collection department. While the primary dunning process is done through club Secretaries, if an individual is delinquent more than ten weeks, credit collectors will also take on the responsibility of contacting the customer directly. Over the last five years, PCP's annual credit losses have averaged approximately 4% of net credit sales.

CLIFFORD & WILLS

C&W is a direct mail order and factory store business which offers a broad range of women's updated apparel covering career to casual as well as accessories and shoes. The typical customer is a 36 to 55 year old upper-moderate to better-priced women's apparel customer, parallel to that of a full-price department store.

The brand is positioned to offer bridge level clothing at prices which are 20% to 30% below the prices offered in better departments of department stores, thereby satisfying the target customer's desire for updated apparel at a compelling price advantage. The Company also operates nine C&W outlet stores in Pennsylvania, Florida, Wisconsin, Indiana, Texas, Georgia and Connecticut. During 1997, C&W had revenues of $72.0 million representing 8.6% of total Company revenues.

SOURCING, PRODUCTION AND QUALITY

The Company maintains separate merchandising, design, manufacturing and quality assurance teams for the production of J. Crew and C&W merchandise. The Company's products are designed exclusively by in-house design and product development teams which support each line and class of product. These teams provide individual attention and expertise to every style, ensuring that these styles fit the respective J. Crew and C&W brand images. PCP primarily purchases merchandise from manufacturers and distributors.

The Company's merchandise is produced for the Company by a variety of manufacturers, both domestically and outside the United States. The Company does not own or operate any manufacturing facilities, instead contracting with third party vendors for the production of its products. Manufacturing teams research and develop products and source from vendors across 38 countries to identify and maintain essential quality and value for every product. In 1997, approximately 60% of the Company's J. Crew brand products were sourced in the Far East, 20% were sourced domestically and 20% were from Europe and other regions. PCP and C&W source the majority of their products through domestic vendors. Rarely does the Company represent the majority of any one vendor's business and no one vendor supplies more than 10% of the Company's merchandise.

The Company employs independent buying agents to conduct in-line and final quality inspections at each manufacturing site. Random inspections of all incoming J. Crew and C&W merchandise at the Lynchburg and Asheville distribution facilities further assure that the Company's products are of a consistently high quality. PCP primarily sells consumer goods which have been subjected to the manufacturer's own quality control processes prior to receipt by PCP.

Due to the high concentration of foreign suppliers of J. Crew brand merchandise, the Company estimates 10-month lead times for its products. Currently, the Company must make commitments on its piece goods eight to nine months prior to the issuance of the respective catalog and must decide on SKU color buys within six months of issuance. The Company is working to establish, either through the use of more domestic vendors or through strategic partnerships, a core group of long-term suppliers that provide quicker response times. The Company believes that the implementation of shorter lead times will improve fill rates, reduce the overall complexity in inventory management and improve its ability to more accurately forecast demand, all of which should provide substantial savings to the Company.

DISTRIBUTION

The Company operates three main telemarketing and distribution facilities for its operations. Order fulfillment for J. Crew Mail Order and C&W takes place at the 406,500 square foot telemarketing and distribution center located in Lynchburg, Virginia. The Lynchburg facility processes approximately 3.8 million orders per year and employs approximately 1,800 full- and part-time employees during its peak season.

The 192,500 square foot telemarketing and distribution facility in Asheville, North Carolina was recently converted into the main distribution center to service the retail and outlet store operations and also houses a J. Crew Mail Order telemarketing center. This facility employs approximately 700 full- and part-time employees during its non-peak season and an additional 1,100 employees during the peak holiday season. PCP conducts its fulfillment operations from a 369,000 square foot distribution facility located in Edison, New Jersey. The Edison facility employs approximately 300 and 600 full- and part-time employees during the non-peak and peak seasons, respectively.

Each fulfillment center is designed to process and ship customer orders in a quick and cost-efficient manner. Same-day shipping is available for orders placed before noon; and orders placed before 9:00 p.m. are shipped the following day. The Company ships merchandise via the UPS, the United States Postal Service and FedEx. To enhance efficiency, each facility is fully equipped with a highly advanced telephone system, an automated warehouse locator system and an inventory bar coding system.

MANAGEMENT INFORMATION SYSTEMS

The Company's 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 the Company's business. The Company has installed sophisticated point-of-sale registers in its J. Crew Retail and Factory Outlet stores that enable it to track inventory from store receipt to final sale on a real-time basis. The Company believes its merchandising and financial system, coupled with its point-of-sale registers and software programs, allow for rapid stock replenishment, concise merchandise planning and real-time inventory accounting practices. J. Crew Mail Order and C&W share the same management information system and each of the Company's business units has its own information system that is customized to the needs of that particular business.

The Company's telephone and telemarketing systems, warehouse package sorting systems, automated warehouse locators and inventory bar coding systems utilize advanced technology. These systems have provided the Company with a number of benefits in the form of enhanced customer service, improved operational efficiency and increased management control and reporting. The Company's IBM 3990 system stores data, such as customer list segmentation and analyses of market trends, and rapidly transfers the information throughout the Company. In addition, the Company's real-time inventory computer systems provide inventory management on a per SKU basis and allow for a more efficient fulfillment process. J. Crew's management information systems also produce daily and weekly sales and performance reports.

TRADEMARKS AND INTERNATIONAL LICENSING

J. Crew International, Inc., an indirect subsidiary of Holdings, currently owns all of the trademarks for the J. Crew name that the Company holds in the United States and internationally, as well as its international licensing contracts with third parties. Trademarks related to the J. Crew name are registered in the United States Patent and Trademark Office.

The Company derives revenues from the international licensing of its trademarks in the J. Crew name and the know-how it has developed. The Company has entered into a licensing agreement with Itochu in Japan which gives the Company the right to receive payments of percentage royalty fees in exchange for the exclusive right to use the Company's trademarks in Japan. In 1997, licensee sales at retail stores in Japan were approximately $95 million through 67 free-standing and shop-in-shop stores. Under the license agreement the Company retains a high degree of control over the manufacture, design, marketing and sale of merchandise under the J. Crew trademarks. This agreement expires in January, 2003.

The Company believes there is significant growth potential in international markets as the Company can leverage off its base in Japan into other key Asian markets. The Company is in the process of exploring licensing agreements covering Hong Kong, China, Singapore, Thailand and Malaysia. In 1997, licensing revenues totaled $2.9 million.

EMPLOYEES

The Company focuses significant resources on the selection and training of sales associates in both its mail order, retail and factory operations. Sales associates are required to be familiar with the full range of merchandise of the business in which they are working and have the ability to assist customers with merchandise selection. Both retail and factory store management are compensated in a combination of annual salary plus performance-based bonuses. Retail, telemarketing and factory associates are compensated on an hourly basis and may earn team-based performance incentives.

At January 31, 1998, the Company had approximately 6,200 associates, of whom approximately 4,200 were full-time associates and 2,000 were part-time associates. In addition, approximately 3,000 associates are hired on a seasonal basis to meet demand during the peak holiday buying season. None of the associates employed by J. Crew Mail Order, J. Crew Retail, J. Crew Factory Outlets or C&W are represented by a union. Approximately 240 warehouse employees at PCP are represented by the Teamsters under a collective bargaining agreement which expires in June 1999. The Company believes that its relationship with its associates is good.

COMPETITION

All aspects of the Company's businesses are highly competitive. The Company competes primarily with other catalog operations, specialty brand retailers, department stores, and mass merchandisers engaged in the retail sale of men's and women's apparel, accessories, footwear and general merchandise. The Company believes that the principal bases upon which it competes are quality, design, efficient service, selection and price.

THE RECAPITALIZATION

On October 17, 1997, the recapitalization of Holdings (the "Recapitalization") was consummated pursuant to a Recapitalization Agreement, dated as of July 22, 1997, as amended as of October 17, 1997 (the "Recapitalization Agreement"), among Holdings, its shareholders and TPG Partners II, L.P. ("TPG"). Pursuant to the Recapitalization Agreement, Holdings purchased from its shareholders all outstanding shares of Holdings' capital stock, other than shares having an implied value of $11.1 million, almost all of which continues to be held by Emily Woods, and which represented approximately 14.8% of the outstanding shares of common stock, par value $.01 per share, of Holdings ("Common Stock") immediately following the transaction.

In connection with the Recapitalization, Holdings organized Operating Corp and immediately prior to the consummation of the Recapitalization, Holdings transferred substantially all of its assets and liabilities to Operating Corp. Holdings' current operations are, and future operations are expected to continue to be, limited to owning the stock of Operating Corp. Operating Corp repaid substantially all of the Company's funded debt obligations existing immediately before the consummation of the Recapitalization.

Cash funding requirements for the Recapitalization (which was consummated on October 17, 1997) totalled $559.7 million (including $99.0 million in seasonal borrowings) and were satisfied through the purchase by TPG, certain of its affiliates and other investors of an aggregate $188.9 million in Holdings' equity securities together with an aggregate $330.9 million in borrowings and $40.0 million in proceeds from the securitization of certain of the Company's accounts receivable, as follows: (i) the purchase by TPG, certain of its affiliates and other investors of shares of Common Stock (representing 85.2% of the outstanding shares) for $63.9 million; (ii) the purchase by TPG, certain of its affiliates and other investors of $125.0 million in liquidation value of preferred stock issued by Holdings (the "Preferred Stock"); (iii) gross proceeds of $75.3 million from the issuance and sale by Holdings of the 13-1/8% senior discount debentures due 2008 (the "Senior Discount Debentures"); (iv) $150.0 million from the gross proceeds of the offering by Operating Corp of the 10 3/8% Senior Subordinated Notes due 2007 (the "Senior Subordinated Notes"); (v) $40.0 million in proceeds from the securitization of certain of the Company's accounts receivable (the "Securitization"); (vi) $70.0 million of borrowings under a senior secured term loan facility among Operating Corp, Holdings and the financial institutions parties thereto (the "Term Loan Facility"); and (vii) $35.6 million of borrowings under a senior secured revolving credit facility among Operating Corp, Holdings and the financial institutions parties thereto (the "Revolving Credit Facility" and, together with the Term Loan Facility, the "Bank Facilities"). See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

ITEM 2. PROPERTIES

The Company is headquartered in New York City, although PCP maintains a separate main office in Garfield, New Jersey. Both the New York City headquarters offices and PCP's Garfield office are leased from third parties. The Company owns two telemarketing and distribution facilities: a 406,500-square-foot telemarketing and distribution center for J. Crew and C&W mail order operations in Lynchburg, Virginia and a 192,500-square-foot distribution center in Asheville, North Carolina servicing the J. Crew Retail and J. Crew and C&W outlet store operations. The Company also leases from a third party a 369,000-square-foot distribution facility located in Edison, New Jersey dedicated to PCP's fulfillment operations.

As of January 31, 1998, the Company operated 102 retail and factory outlet stores. All of the retail and factory outlet stores are leased from third parties, and the leases in most cases have terms of 10 to 12 years, not including renewal options. As a general matter, 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 comprised of annual base rent plus a contingent rent payment based on the store's sales in excess of a specified threshold. Substantially all the leases are guaranteed by Holdings.

The table below sets forth the number of stores by state operated by the Company in the United States as of January 31, 1998:

	RETAIL STORES	OUTLET STORES(1)	TOTAL NUMBER OF STORES
Alabama	--	1	1
Arizona	1	--	1
California	8	3	11
Colorado	1	2	3
Connecticut	3	2	5
Delaware	--	1	1
Florida	3	5	8
Georgia	1	3	4
Illinois	4	--	4
Indiana	1	3	4
Kansas	--	1	1
Maine	--	2	2
Maryland	1	--	1
Massachusetts	5	1	6
Michigan	1	1	2
Minnesota	1	--	1

Missouri..........................	1	1	2
New Hampshire.....................	--	2	2
New Jersey........................	2	1	3
New Mexico........................	1	--	1
New York..........................	4	4	8
North Carolina....................	2	--	2
Ohio..............................	2	--	2
Oregon............................	1	--	1
Pennsylvania......................	2	5	7
South Carolina....................	--	1	1
Tennessee.........................	--	1	1
Texas.............................	3	5	8
Utah..............................	--	1	1
Vermont...........................	--	1	1
Virginia..........................	1	1	2
Washington........................	1	1	2
Wisconsin.........................	--	2	2
District of Columbia..............	1	--	1
Total........................	51	51	102

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(1) Includes nine C&W outlet stores.

ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant in several lawsuits arising in the ordinary course of business. Although the amount of any liability that could arise with respect to any such lawsuit cannot be accurately predicted, in the opinion of management, the resolution of these matters is not expected to have a material adverse effect on the financial position or results of operations of the Company.

A 1992 Supreme Court decision confirmed that the Commerce Clause of the United States Constitution prevents a state from requiring the collection of its use tax by a mail order company unless the company has a physical presence in the state. However, there continues to be some uncertainty in this area due to inconsistent application of the Supreme Court decision by state and federal courts. The Company attempts to conduct its operations in compliance with its interpretation of the applicable legal standard, but there can be no assurance that this compliance will not be challenged. From time to time, various states have sought to require companies to begin collection of use taxes and/or pay taxes from previous sales. The Company has not received assessments from any state in which it is not currently collecting sales taxes since the 1992 Supreme Court decision.

The Supreme Court decision also established that Congress has the power to enact legislation that would permit states to require collection of use taxes by mail order companies. Congress has from time to time considered proposals for such legislation. The Company anticipates that any legislative change, if adopted, would be applied only on a prospective basis.

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

On December 29, 1997, a Special Meeting of Shareholders of Holdings (the "Special Meeting") was held to consider (i) the approval and adoption of the J. Crew Group, Inc. 1997 Stock Option Plan (the "Stock Option Plan") and (ii) the approval and ratification of the grant under the Stock Option Plan to Emily Woods of options to purchase, in the aggregate, 2,461 shares of Common Stock. Of the 37,003,717 shares of Common Stock represented at the Special Meeting, all of such shares were voted in favor of each of the matters submitted to the shareholders. No shares of Common Stock were voted against, were withheld or abstained as to either of such matters.

PART II

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

There is no established public market for any class of Holdings capital stock. As of April 15, 1998, there were 32 shareholders of record of the Common Stock. See "Item 12. Security Ownership of Certain Beneficial Owners and Management" for a discussion of the ownership of Holdings.

Holdings has not paid cash dividends on its Common Stock and does not anticipate paying any such dividends in the foreseeable future.

Each of the Bank Facilities and the indenture relating to the Senior Discount Debentures (the "Holdings Indenture") prohibits the payment of dividends by Holdings on shares of Common Stock (other than dividends payable solely in shares of capital stock of Holdings). Additionally, because Holdings is a holding company, its ability to pay dividends is dependent upon the receipt of dividends from its direct and indirect subsidiaries. Each of the Bank Facilities, the Holdings Indenture and the indenture relating to the Senior Subordinated Notes contains covenants which impose substantial restrictions on Operating Corp's ability to make dividends or distributions to Holdings.

In connection with the Recapitalization, on October 17, 1997, Holdings sold to TPG, certain of its affiliates and other investors (i) approximately 47,000 shares of Common Stock (representing 85.2% of the then outstanding shares) for $63.9 million, (ii) 92,500 shares of Series A Preferred Stock, par value $0.01 per share, of Holdings ("Series A Preferred Stock") for $92.5 million and (iii) 32,500 shares of Series B Preferred Stock, par value $0.01 per share, of Holdings ("Series B Preferred Stock") for $32.5 million. Holdings sold the Common Stock, the Series A Preferred Stock and the Series B Preferred Stock described in the foregoing sentence in transactions which did not involve any public offering in reliance upon Section 4(2) of the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated historical financial, operating, other and balance sheet data of Holdings. The selected income statement data and balance sheet data for each of the four fiscal years ended January 31, 1997 are derived from the Consolidated Financial Statements of Holdings, which have been audited by Deloitte & Touche LLP, independent auditors. The selected income statement data and balance sheet data for the fiscal year ended January 31, 1998 are derived from the Consolidated Financial Statements of Holdings, which have been audited by KPMG Peat Marwick LLP, independent auditors. The data presented below should be read in conjunction with the Consolidated Financial Statements, including the related Notes thereto, included herein, the other financial information included herein, and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	FISCAL YEAR ENDED				
	JANUARY 28, 1994	FEBRUARY 3, 1995	FEBRUARY 2, 1996	JANUARY 31, 1997	JANUARY 31, 1998
	(dollars in thousands, except per square foot data)				
INCOME STATEMENT DATA:					
Revenues	$646,972	$737,725	$745,909	$808,843	$ 834,031
Cost of goods sold(a)	354,889	394,073	399,668	428,719	465,168
Gross profit	292,083	343,652	346,241	380,124	368,863
Selling, general and administrative expenses	265,857	311,468	327,672	348,305	359,811
Income from operations	26,226	32,184	18,569	31,819	9,052
Interest expense-net	6,107	6,965	9,350	10,470	20,494
Expenses incurred-Recapitalization	--	--	--	--	20,707
Provision (benefit) for income taxes	8,100	10,300	3,700	8,800	(5,262)
Extraordinary items and cumulative effect of accounting changes	--	--	931	--	(4,500)
Net income (loss)	$ 12,019	$ 14,919	$ 6,450	$ 12,549	$ (31,387)
BALANCE SHEET DATA (AT PERIOD END):					
Cash and cash equivalents	$ 23,185	$ 18,255	$ 13,529	$ 7,132	$ 12,166
Working capital	91,339	104,455	132,256	132,222	142,677
Total assets	287,233	324,795	355,249	410,821	421,878
Total debt and redeemable preferred stock	61,803	69,566	87,329	87,092	428,457
Stockholders' equity (deficit)	66,221	82,041	89,633	102,006	(201,642)
OPERATING DATA:					
Revenues:					
J. Crew mail order	$199,954	$247,272	$274,653	$289,772	$ 264,853
J. Crew retail	108,650	135,726	134,959	167,957	209,559
J. Crew factory	49,253	62,626	79,203	94,579	100,285
J. Crew licensing	1,900	3,269	3,975	3,817	2,897
Total J. Crew brand	359,757	448,893	492,790	556,125	577,594
Other divisions(b)	287,215	288,832	253,119	252,718	256,437
Total	$646,972	$737,725	$745,909	$808,843	$ 834,031
J. Crew Mail Order:					
Number of catalogs circulated (in thousands)	62,547	61,187	67,519	76,087	76,994
Number of pages circulated (in millions)	6,965	8,277	10,198	9,827	9,830
J. Crew Retail:					
Sales per gross square foot	$ 559	$ 594	$ 533	$ 551	$ 518
Store contribution margin	18.7%	22.7%	25.5%	25.4%	23.4%
Number of stores open at end of period	28	29	31	39	51
Comparable store sales change(c)	(8.0)%	6.9%	(6.0)%	4.5%	(6.6)%

	FISCAL YEAR ENDED				
	JANUARY 28, 1994	FEBRUARY 3, 1995	FEBRUARY 2, 1996	JANUARY 31, 1997	JANUARY 31, 1998
	(dollars in thousands, except per square foot data)				
Depreciation and amortization	$ 6,786	$ 8,110	$10,272	$10,541	$15,255
Net capital expenditures(d)					
New store openings	2,789	2,804	6,009	10,894	19,802
Other	8,297	10,663	8,631	11,587	11,565
Total net capital expenditures	11,086	13,467	14,640	22,481	31,367

(a) Includes buying and occupancy costs.
(b) Includes revenues from the Company's PCP and C&W divisions and finance charge income from PCP installment sales.
(c) Comparable store sales includes stores that have been opened for a full twelve month period.
(d) Capital expenditures are net of proceeds from construction allowances.

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

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity of the Company during the three-year period ended January 31, 1998. This discussion should be read in conjunction with the audited consolidated financial statements of the Company for the three-year period ended January 31, 1998 and notes thereto included elsewhere in this Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Consolidated statements of operations presented as a percentage of revenues are as follows:

	FISCAL YEAR ENDED		
	JANUARY 31 1998	January 31 1997	FEBRUARY 2 1996
Revenues	100.0%	100.0%	100.0%
Cost of goods sold, including buying and occupancy costs	55.8	53.0	53.6
Gross profit	44.2	47.0	46.4
Selling, general and administrative expenses	43.1	43.1	43.9
Income from operations	1.1	3.9	2.5
Interest expense, net	(2.5)	(1.3)	(1.3)
Expenses incurred-recapitalization	(2.5)	--	--
(Loss)/income before income taxes, extraordinary items and cumulative effect of accounting changes	(3.9)	2.6	1.2
Benefit/(provision) for income taxes	0.6	(1.0)	(.5)
(Loss)/income before extraordinary items and cumulative effect of accounting changes	(3.3)%	1.6%	0.7%

Fiscal 1997 Compared to Fiscal 1996

Revenues

Revenues increased 3.1% to $834.0 million in the fiscal year ended January 31, 1998 from $808.8 million in the fiscal year ended January 31, 1997, as a result of increased revenues of J. Crew Retail stores. The increased revenues of J. Crew Retail stores were offset by a decrease in J. Crew Mail Order revenues. J. Crew Retail revenues increased by 24.8% to $209.6 million in the fiscal year ended January 31, 1998 from $168.0 million in the fiscal year ended January 31, 1997. The increase in J. Crew Retail store revenues was the result of the opening of 12 new stores in fiscal 1997, which offset a decline of 6.6% in comparable store sales.

J. Crew Mail Order revenues decreased by 8.6% to $264.8 million in the fiscal year ended January 31, 1998 from $289.8 million in the fiscal year ended January 31, 1997. The percentage of the Company's total revenues derived from J. Crew Mail Order decreased to 31.8% in the fiscal year ended January 31, 1998 from 35.8% in the fiscal year ended January 31, 1997. The decrease in J. Crew Mail Order revenues was primarily due to weak performance in menswear sales and unseasonably warm weather on the east coast during the fall season. The UPS strike also contributed to the decrease in J. Crew Mail Order revenues. Gross sales were down 19% from July 18, 1997 to the end of the UPS strike on August 23, 1997 compared to the same period in the prior year. The number of catalogs mailed was approximately 77 million in fiscal 1997 compared to 76 million in fiscal 1996.

J. Crew Retail revenues increased by 24.8% to $209.6 million in the fiscal year ended January 31, 1998 from $168.0 million in the fiscal year ended January 31, 1997. The percentage of the Company's total revenue derived from its J. Crew Retail stores increased to 25.1% in the fiscal year ended January 31, 1998 from 20.8% in the fiscal year ended January 31, 1997. The increase in J. Crew Retail revenues is the result of opening 12 new stores in the fiscal year ended January 31, 1998. Comparable stores sales decreased 6.6% as the result of the opening of new stores in proximity to existing store locations, weak performance in menswear sales and unseasonably warm weather in the second half of the year which contributed to a decrease in the sales of fall and winter clothing.

J. Crew Factory Outlet revenues increased by 6.1% to $100.3 million in the fiscal year ended January 31, 1998 from $94.5 million in the fiscal year ended January 31, 1997. The percentage of the Company's total revenue derived from J. Crew Factory Outlet remained at approximately 12%. J. Crew Factory stores comparable store sales increased by 2.0% in the fiscal year ended January 31, 1998. The comparable store sales increase was principally due to the overall improvement in store merchandising under the direction of a new factory outlet merchandising vice president. J. Crew Factory Outlet opened three new stores and closed one store in fiscal 1997.

PCP revenues increased by 3.8% to $184.4 million in the fiscal year ended January 31, 1998 compared to $177.7 million in the fiscal year ended January 31, 1997. The percentage of the Company's total revenues derived from PCP remained at approximately 22.0%. The number of catalogs mailed remained at the same approximate level of 7 million and the number of selling agents remained unchanged at approximately 106,000 during fiscal 1997 and 1996. The increase in sales in fiscal 1997 over fiscal 1996 was attributable to better performance in ready-to-wear apparel and specifically in new branded merchandise.

C&W revenues decreased 4.0% to $72.0 million in the fiscal year ended January 31, 1998 from $75.0 million in the fiscal year ended January 31, 1997. The percentage of the Company's revenue derived from C&W decreased to 8.6% in the fiscal year ended January 31, 1998 from 9.3% in the fiscal year ended January 31, 1997. The number of catalogs mailed increased to approximately 40 million in the fiscal year ended January 31, 1998 from approximately 38 million in the fiscal year ended January 31, 1997. The decrease in sales was the result of the effect of the UPS strike, the unseasonably warm weather in the second half of the fiscal year effecting the sales of fall and winter clothing and a lower response from the Company's sale catalogs compared to the prior year.

Gross Profit

Gross profit as a percentage of revenues was 44.2% for the fiscal year ended January 31, 1998 compared to 47.0% in the fiscal year ended January 31, 1997. Half of the decrease in gross profit was primarily the result of significant promotional discounting in the November and December Holiday catalogs in J. Crew Mail Order and the other half of the decrease was the result of an increase in J. Crew Retail buying and occupancy costs, reflecting the higher costs associated with opening new stores in urban areas such as New York City.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of revenues was 43.1% in the fiscal year ended January 31, 1998 and the fiscal year ended January 31, 1997. As a percentage of revenues general and administrative expenses increased by 1.2%, primarily as a result of a higher expense ratio due to the decrease in J. Crew Mail Order revenues and the decline in comparable store sales in J. Crew Retail. Catalog circulation costs (consisting primarily of paper, postage and printing) expenses decreased by 1.2% primarily as a result of decreased paper costs. Absolute dollar amounts of selling, general and administrative expenses increased to $359.8 million in fiscal 1997 from $348.3 million in fiscal 1996, primarily reflecting volume related costs.

Interest Expense

Interest expense increased to $20.5 million or 2.5% of revenues in the fiscal year ended January 31, 1998 from $10.5 million or 1.3% of revenues in the fiscal year ended January 31, 1997. This increase in interest expense was due to the issuance by Holdings of the Senior Discount Debentures of $75.3 million which contributed approximately $2.9 million in increased interest, the issuance by Operating Corp of the Senior Subordinated Notes of $150 million which contributed approximately $4.6 million in increased interest and the Term Loan Facility of $70 million which contributed approximately $1.8 million in increased interest. These borrowings were required to fund the Recapitalization. The increase was partially offset by a decrease in the interest expense related to the $85.0 million of senior indebtedness which was retired in October 1997. Borrowings under the Revolving Credit Facility required to fund inventories and capital expenditures contributed $1.9 million in increased interest.

Recapitalization Expenses

The recapitalization expenses of $20.7 million consisted of management bonuses of $12.2 million, a financial advisory fee paid to TPG of $5.6 million, legal and accounting fees of $1.4 million, a consulting fee of $1.0 million and other expenses of $0.5 million. The Company's results of operations were negatively impacted by these recapitalization expenses. The loss before income taxes and extraordinary item of $32.1 million for the fiscal year ended January 31, 1998 includes the $20.7 million of non-recurring recapitalization expenses, the majority of which were paid before January 31, 1998.

Fiscal 1996 Compared to Fiscal 1995

Revenues

Revenues increased 8.4% to $808.8 million in fiscal 1996 from $745.9 million in fiscal 1995, as the result of increased sales of J. Crew brand merchandise. J. Crew brand revenues increased 12.8% to $556.1 million in fiscal 1996 from $492.8 million in fiscal 1995. Other divisions contributed $252.7 million in revenues in fiscal 1996 as compared to $253.1 million in fiscal 1995.

J. Crew Mail Order revenues increased 5.5% to $289.8 million in fiscal 1996 from $274.6 million in fiscal 1995. The percentage of the Company's total revenues derived from J. Crew Mail Order decreased to 35.8% in fiscal 1996 from 36.8% in fiscal 1995. The increase in J. Crew Mail Order revenues principally resulted from the introduction of the Women's Book and the related increase in overall J. Crew catalog circulation to approximately 76 million in 1996 from approximately 68 million in 1995.

J. Crew Retail revenues increased by 24.4% to $168.0 million in fiscal 1996 from $135.0 million in fiscal 1995. The percentage of the Company's total revenues derived from its J. Crew Retail stores increased to 20.8% in 1996 from 18.1% in 1995. The increase in revenues was principally the result of the opening of eight new stores and a 4.5% increase in comparable store sales in fiscal 1996. The increase in comparable store sales was principally due to strong performance in the J. Crew womenswear lines, including Durables, Classics and Collection.

J. Crew Factory Outlet revenues increased by 19.3% to $94.5 million in fiscal 1996 from $79.2 million in fiscal 1995. The percentage of the Company's total revenues derived from its J. Crew Factory Outlet stores increased to 11.7% in fiscal 1996 from 10.6% in fiscal 1995. The increase in J. Crew Factory Outlet revenues was the result of a 7.0% increase in comparable store sales and sales of the 12 new stores opened in fiscal 1995 that were opened for a full fiscal year in 1996. During fiscal 1996, J. Crew Factory Outlets opened three stores and closed four stores. Similar to J. Crew Retail, the increase in comparable store sales for J. Crew Factory Outlets was principally due to strong performance in the J. Crew womenswear lines.

PCP revenues decreased by 2.4% to $177.7 million in fiscal 1996 from $182.1 million in fiscal 1995. The percentage of the Company's total revenues derived from PCP decreased to 22.0% in fiscal 1996 from 24.4% in fiscal 1995. The decrease in revenues primarily resulted from competitive discounting in the northeastern market which was partially offset by revenues from the introduction of brand-name apparel. During fiscal 1996, the number of catalogs mailed remained flat at approximately seven million and the number of selling agents remained unchanged at approximately 106,000.

C&W revenues increased by 5.6% to $75.0 million in fiscal 1996 from $71.0 million in fiscal 1995. The percentage of the Company's revenues derived from C&W decreased slightly to 9.3% in fiscal 1996 from 9.5% in fiscal 1995. The increase in C&W revenues during fiscal 1996 reflected: (i) the return to its original merchandising strategy of providing conservative career-oriented clothing, and (ii) the introduction of a value pricing strategy. In addition, the Company reduced the catalog circulation of C&W in fiscal 1996 to 38 million from 40 million in fiscal 1995.

Gross Profit

Gross profit increased to 47.0% of revenues in 1996 as compared to 46.4% of revenues in 1995. This increase primarily resulted from an increase in merchandise margins in J. Crew Mail Order.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to 43.1% of revenues in fiscal 1996 from 43.9% of revenues in 1995. The decline in selling, general and administrative expenses as a percentage of revenues principally reflects a decrease in catalog circulation costs (consisting primarily of paper, postage and printing). These costs declined to 15.9% of revenues in fiscal 1996 from 16.9% of revenues in fiscal 1995, principally as a result of a decrease in paper costs to 3.2% of revenues in fiscal 1996 from 3.9% of revenues in fiscal 1995, and a decrease in number of pages circulated by J. Crew Mail Order from 10.2 billion in fiscal 1995 to 9.8 billion in fiscal 1996 as a result of the J. Crew Mail Order customer segmentation strategy. Circulation at C&W also decreased. This decrease was partially offset by an increase in general and administrative expenses related to payroll for new J. Crew retail stores opened during the period. Absolute dollar amounts of selling, general and administrative expenses increased to $348.3 million in fiscal 1996 from $327.7 million in fiscal 1995, primarily reflecting volume related costs.

Interest Expense

Interest expense increased to $10.5 million or 1.3% of revenues in fiscal 1996 from $9.4 million or 1.3% of revenues in fiscal 1995. This increase was due primarily to higher average borrowings under the revolving credit agreement then in effect.

LIQUIDITY AND CAPITAL RESOURCES

Historical

The Company's primary cash needs have been for opening new stores, warehouse expansion and working capital. The Company's sources of liquidity have been cash flow from operations, proceeds from the private placement of long-term debt and borrowings under a revolving credit facility.

In April 1997, the Company entered into a bank credit facility (the "Retired Bank Credit Facility") with a group of twelve banks with Morgan Guaranty Trust Company of New York as agent. The Retired Bank Credit Facility provided for commitments in an aggregate amount of up to $200.0 million of which up to $120.0 million was available for direct borrowings. The Retired Bank Credit Facility replaced the Company's previous revolving credit agreement which provided for commitments in an aggregate amount of up to $125.0 million, of which up to $75.0 million was available for direct borrowings. Borrowings under the Retired Bank Credit Facility were unsecured and bore interest, at the Company's option, at the base rate (defined as the higher of the bank's prime rate or the Federal Funds rate plus 0.5%) or the London Interbank Offering Rate ("LIBOR") plus 0.625%. The Retired Bank Credit Facility was to expire on April 17, 2000. There were no borrowings outstanding under the Company's revolving credit agreements at January 31, 1997 and February 2, 1996. Average borrowings under the Company's revolving credit agreements were $25.5 million and $31.2 million for the years ended on February 2, 1996 and

January 31, 1997, respectively. Outstanding letters of credit issued to facilitate international merchandise purchases were $25.9 million and $37.8 million on February 2, 1996 and January 31, 1997, respectively.

Borrowings under the Retired Bank Credit Facility on October 17, 1997, prior to the Recapitalization, were $99.0 million. Average borrowings under the credit agreement were $68.8 million for the period ended on October 17, 1997.

In June 1995, the Company issued $85.0 million of the senior notes (the "Retired Senior Notes") to institutional investors in a private placement. At October 17, 1997, the Retired Senior Notes were retired by the Company at a cost of $93.1 million that included accrued interest on the Retired Senior Notes and a make-whole premium.

Net cash provided by (used in) operating activities was $16.5 million and ($7.8) million for fiscal years 1996 and 1995. The improvement in cash flow from operations in 1996 was primarily attributable to the increase in net income and the timing of income tax payments/refunds for fiscal years 1996 and 1995.

Net capital expenditures totaled $22.5 million and $14.6 million in fiscal years 1996 and 1995. Capital expenditures included the opening of eight J. Crew Retail stores and three J. Crew Factory Outlet stores in fiscal 1996, two J. Crew Retail stores and 12 J. Crew Factory Outlet stores in fiscal 1995.

Net cash provided by (used in) financing activities totaled ($0.4) million and $17.8 million in fiscal years 1996 and 1995. In fiscal 1995, the Company borrowed $85.0 million in private placement debt of which $67.0 million was used to repay then outstanding long-term debt.

After the Recapitalization

Since consummating the Recapitalization, the Company's primary sources of liquidity have been cash flow from operations and borrowings under the Revolving Credit Facility. The Company's primary uses of cash have been debt service requirements, capital expenditures and working capital. The Company expects that ongoing requirements for debt service, capital expenditures and working capital will be funded from operating cash flow and borrowings under the Revolving Credit Facility.

The Company has incurred substantial indebtedness in connection with the Recapitalization. After giving effect to the Recapitalization and application of the proceeds of the Senior Discount Debentures, the issuance by Holdings of shares of the Preferred Stock, the issuance by Holdings of shares of Common Stock and the distribution by Operating Corp to Holdings of the net proceeds of the issuance of the Senior Subordinated Notes, the Securitization of certain receivables and borrowings under the Bank Facilities (less the repayment of the Retired Bank Credit Facility, the Retired Senior Notes and other indebtedness and transaction expenses), the Company had $298.2 million of indebtedness outstanding and $201.7 million of stockholders' deficit, in each case as of January 31, 1998. The Company's significant debt service obligations following the Recapitalization could, under certain circumstances, have material consequences to security holders of the Company.

Concurrent with the Recapitalization, Operating Corp issued the Senior Subordinated Notes for $150.0 million in gross proceeds, entered into the Term Loan Facility and the Revolving Credit Facility and consummated the Securitization. The Term Loan Facility is a single tranche term loan in the aggregate principal amount of $70.0 million. The Revolving Credit Facility provides revolving loans in an aggregate amount of up to $200.0 million. Upon closing of the Recapitalization, Operating Corp borrowed the full amount available under the Term Loan Facility and approximately $35.6 million under the Revolving Credit Facility. Borrowings under the Revolving Credit Facility were used to partially refinance seasonal borrowings outstanding under the Retired Bank Credit Facility. The amount remaining available under the Revolving Credit Facility is available to fund the working capital requirements of Operating Corp. The Securitization generated approximately $40 million in proceeds. Proceeds to Operating Corp from the issuance of the Senior Subordinated Notes, the Securitization and from initial borrowings under the Bank Facilities, less the repayment of the Retired Bank Credit Facility, the Retired Senior Notes and other indebtedness and transaction expenses, were distributed to Holdings to finance the Recapitalization and the fees and expenses in connection therewith (the "Operating Corp Distribution"). To provide additional financing to fund the Recapitalization, Holdings raised $264.2 million through (i) the sale to TPG Partners, its affiliates and other investors of 46,853 shares of Common Stock (representing 85.2% of the outstanding shares) for $63.9 million, (ii) gross proceeds of $75.3 million from the issuance of the Senior Discount Debentures and (iii) the issuance of $125.0 million in liquidation value of the Preferred Stock.

The proceeds of the Senior Subordinated Notes, the Securitization, the Senior Discount Debentures, the Preferred Stock, the purchase of Common Stock by TPG, its affiliates and other investors and the initial borrowings under the Bank Facilities were used to repurchase from the former shareholders of Holdings of all outstanding shares of Holdings' capital stock (other than shares of Common Stock having an implied value of $11.1 million, almost all of which continues to be held by Emily Woods, and which represented approximately 14.8% of the shares of Common Stock immediately following the transaction), to refinance outstanding indebtedness of Holdings and to pay fees and expenses incurred in connection with the Recapitalization.

Borrowings under the Bank Facilities bear interest at a rate per annum equal (at Operating Corp's option) to a margin over either a base rate or LIBOR. The Bank Facilities will mature on October 17, 2003. Operating Corp's obligations under the Bank Facilities are guaranteed by each of Operating Corp's direct and indirect subsidiaries. The Bank Facilities and the guarantees thereof are secured by substantially all assets of Holdings and its direct and indirect subsidiaries (other than any receivables subsidiary) and a pledge of the capital stock of Operating Corp and all direct and indirect subsidiaries of Holdings, subject to certain limitations with respect to foreign subsidiaries. The Bank Facilities contain customary covenants and events of default, including substantial restrictions on Operating Corp's ability to make dividends or distributions to Holdings.

Simultaneously with the consummation of the Recapitalization, the Company entered into an agreement with certain financial institutions to establish a revolving securitization facility in which the initial transaction was the securitization of approximately $40 million of PCP consumer loan installment receivables. The Securitization involved the transfer of receivables to a trust in exchange for cash and subordinated interests in the pool of receivables, and the subsequent sale by the trust of certificates of beneficial interest to third party investors. Although the Company remains obligated to repurchase receivables in the event of return of the related merchandise and under certain other limited circumstances, the Company has no obligation to reimburse the trust or the purchasers of beneficial interests for credit losses. The trust is held by PCP Receivables Corp. ("Receivables Sub"), a special-purpose, bankruptcy remote subsidiary ("SPV") established by PCP. At January 31, 1998, the SPV had net assets of approximately $16.8 million. The SPV is not a guarantor of the Senior Subordinated Notes or the Bank Facilities. The initial securitization and subsequent sales of accounts receivable were accounted for as a sale of receivables, and resulted in a gain of approximately $1.5 million for the period ended January 31, 1998.

The Senior Subordinated Notes are guaranteed by each subsidiary of Operating Corp (other than Receivables Sub) but are not guaranteed by Holdings. The Senior Subordinated Notes mature in 2007. Interest on the Senior Subordinated Notes is payable semi-annually in cash. The Senior Subordinated Notes contain customary covenants and events of default, including covenants that limit the ability of Operating Corp and its subsidiaries to incur debt, pay dividends and make certain investments.

The Preferred Stock bears cumulative dividends at the rate of 14.50% per annum (payable quarterly) for all periods ending on or prior to October 17, 2009 and 16.50% per annum thereafter. Dividends compound to the extent not paid in cash. Subject to restrictions imposed by the Senior Subordinated Notes, the Bank Facilities, the Senior Discount Debentures and other documents relating to the Company's indebtedness, Holdings may redeem the Preferred Stock at any time, at the then-applicable redemption price and, in certain circumstances (including the occurrence of a change of control of Holdings), may be required to repurchase shares of Preferred Stock at liquidation value plus accumulated and unpaid dividends to the date of repurchase.

The Senior Discount Debentures mature on October 15, 2008. Cash interest does not accrue on the Senior Discount Debentures prior to October 15, 2002. Thereafter, interest on the Senior Discount Debentures will be payable semiannually in cash.

There were no borrowings outstanding under the Revolving Credit Facility at January 31, 1998. Average borrowings under the Revolving Credit Facility were $19.5 million from October 17, 1997 through January 31, 1998 and letters of credit outstanding as of January 31, 1998 were $20.1 million.

In the fiscal year ended January 31, 1998, net cash used in operating activities was $7.4 million compared to $16.5 million net cash provided in the fiscal year ended January 31, 1997. This increase in the net cash used resulted primarily from the net loss of $31.4 million and a decrease in accounts payable of $37.7 million, which were partially offset by proceeds from the sale of accounts receivable of $46.0 million.

The capital expenditures, net of construction allowances, during fiscal 1997 were $31.4 million, primarily to fund the opening of 12 retail stores and the relocation of the Company's headquarters office in New York City. Capital expenditures are expected to be $40 million in fiscal 1998, primarily for 15 J. Crew Retail stores, and will be funded from internally generated cash flows and by borrowing from available financing sources.

Management believes that cash flow from operations and availability under the Revolving Credit Facility will provide adequate funds for the Company's working capital needs, planned capital expenditures and debt service obligations through fiscal 1998. 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.

THE YEAR 2000 ISSUE

The effect of Year 2000 issues on the Company's operations are being addressed by the Company's Information Technology Department. A plan has been developed which identifies the systems and related programs which must be upgraded and a timetable has been established for the completion of these upgrades.

This plan contemplates the use of internal programming resources, outside consulting services, system upgrades from existing vendors and the replacement of existing packages with packages that are Year 2000 compliant. The designed plan estimates that the Company will be in compliance with Year 2000 issues by the Fall of 1999.

The estimated cost of the Year 2000 upgrade is not expected to be material to the Company.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, which will be effective for financial statements beginning after December 15, 1997. SFAS No. 131 redefines how operating segments are determined and requires expanded quantitative and qualitative disclosures relating to a company's operating segments.

IMPACT OF INFLATION

The Company's results of operations and financial condition are presented based upon historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, the Company believes that the effects of inflation, if any, on its results of operations and financial condition have been minor. However, there can be no assurance that during a period of significant inflation, the Company's results of operations would not be adversely affected.

SEASONALITY

The Company's retail and mail order businesses experience 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. J. Crew Retail stores, J. Crew Factory Outlet stores, C&W Factory stores and PCP are stronger in the third and fourth quarters and the J. Crew and C&W Mail Order businesses are strongest in the fourth quarter. In addition, the Company's working capital requirements fluctuate throughout the year, increasing substantially in September and October in anticipation of the holiday season inventory requirements. The Company funds its working capital requirements primarily through a revolving credit facility, which historically has been paid down in full at the end of the Company's fiscal year.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's principal market risk relates to interest rate sensitivity which is the risk that future changes in interest rates will reduce net income or the net assets of the Company. The Company's variable rate debt consists of borrowings under the Revolving Credit Facility and the $70 million Term Loan Facility. In order to manage this interest rate risk, the Company entered into an interest rate swap agreement in October 1997 for $70 million notional principal amount. This agreement which has a term of three years, converts the interest rate on $70 million of debt to a fixed rate of 6.23%. If this interest rate swap agreement was settled on January 31, 1998, the Company would be required to pay an additioinal $935,000.

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 January 31, 1998 were approximately $20.1 million.

Furthermore, the Company has a licensing agreement in Japan which provides for a royalty payment 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 January 31, 1998, there were no forward foreign exchange contracts outstanding. A 10% change in the dollar-yen exchange rate would have an effect on net income of approximately $200,000, which amount is not material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements are set forth herein commencing on page F-1 of this Report.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the name, age and position of individuals who are serving as directors of Holdings and executive officers of the Company. Each director of Holdings will hold office until the next annual meeting of shareholders or until his or her successor has been elected and qualified. Officers of Holdings are elected by the Boards of Directors and serve at the discretion of such Board.

NAME	Age	Position
Emily Woods..................	37	Director; Chairman of the Board--J. Crew Group, Inc. and J. Crew Operating Corp; President--J. Crew Inc.
Howard Socol.................	52	Chief Executive Officer--J. Crew Group, Inc. and J. Crew Operating Corp.
Barry Erdos..................	54	Chief Operating Officer--J. Crew Operating Corp.
David Bonderman..............	54	Director--J. Crew Group, Inc.
Richard W. Boyce.............	43	Director--J. Crew Group, Inc.
James G. Coulter.............	38	Director--J. Crew Group, Inc.
Matthew E. Rubel.............	39	President--Popular Club Plan, Inc.
Trudy Sullivan...............	46	President--C&W Outlet, Inc. and Clifford & Wills, Inc.
Nicholas Lamberti............	55	Vice President--Corporate Controller--J. Crew Operating Corp. and J. Crew Group, Inc.

EMILY WOODS
CHAIRMAN--J. CREW GROUP, INC. AND J. CREW OPERATING CORP.; PRESIDENT--J. CREW INC.

Ms. Woods became Chairman of the Board of Directors of Holdings upon consummation of the Recapitalization. Ms. Woods is also a director and Chairman of the Board of Operating Corp and the President of J. Crew Inc., a wholly owned subsidiary of Operating Corp. Ms. Woods co-founded the J. Crew brand in 1983 and is currently its designer. Ms. Woods has also served as Chief Executive Officer and Vice-Chairman of Holdings and as Chief Executive Officer of Operating Corp.

HOWARD SOCOL
CHIEF EXECUTIVE OFFICER--J. CREW GROUP, INC. AND J. CREW OPERATING CORP.

Mr. Socol became Chief Executive Officer of Holdings on February 24, 1998. Mr. Socol is also currently the Chief Executive Officer of Operating Corp. From 1969 to 1997 Mr. Socol served in various management positions at Burdine's, a division of Federated Department Stores, Inc., becoming President in 1981 and Chairman and Chief Executive Officer in 1984, a position he held until his retirement in 1997.

BARRY ERDOS
CHIEF OPERATING OFFICER--J. CREW OPERATING CORP.

Mr. Erdos became Chief Operating Officer of Operating Corp on April 17, 1998. From 1997 to 1998 Mr. Erdos was Executive Vice President - Chief Financial Officer of Express, a division of The Limited, Inc., and from 1988 to 1997 Mr. Erdos was employed in various executive positions at The Limited, Inc., including Executive Vice President, Henri Bendel, from 1988-1993, Vice President, Corporate Controller, The Limited, Inc., from 1993-1995, and Executive Vice President and Chief Financial Officer, Lane Bryant, from 1995-1997.

DAVID BONDERMAN
DIRECTOR--J. CREW GROUP, INC.

Mr. Bonderman became a director of Holdings upon consummation of the Recapitalization. Mr. Bonderman is also currently serving as a director of Operating Corp. Mr. Bonderman is a principal and founding partner of TPG. Prior to forming TPG, Mr. Bonderman was Chief Operating Officer and Chief Investment Officer of Keystone Inc. ("Keystone"), the private investment firm, from 1983 to August 1992. Mr. Bonderman serves on the Boards of Directors of Continental Airlines, Inc., Bell & Howell Company, Virgin Entertainment, Beringer Wine Estates, Inc., Denbury Resources, Inc., Ducati Motor Holdings, S.p.A., Washington Mutual, Inc., Ryanair, Ltd., and Credicom Asia, N.V. Mr. Bonderman also serves in general partner advisory board roles for Acadia Partners, L.P., Newbridge Investment Partners, L.P., Newbridge Latin America, L.P. and Aqua International, L.P.

JAMES G. COULTER
DIRECTOR--J. CREW GROUP, INC.

Mr. Coulter became a director of Holdings upon consummation of the Recapitalization. Mr. Coulter is also currently serving as a director of Operating Corp. Mr. Coulter is a principal and founding partner of TPG. Prior to forming TPG, Mr. Coulter was a Vice President of Keystone from 1986 to 1992. Mr. Coulter serves on the Boards of Directors of America West Airlines, Inc., Virgin Entertainment, Beringer Wine Estates, Inc. and Paradyne Partners, L.P. and was formerly on the Board of Directors of Allied Waste Industries Inc. and Continental Airlines, Inc.

RICHARD W. BOYCE
DIRECTOR--J. CREW GROUP, INC.

Mr. Boyce became a director of Holdings upon consummation of the Recapitalization. Mr. Boyce is also currently serving as a director of Operating Corp, C&W Outlet, Inc., Clifford & Wills, Inc., J. Crew Retail, J. Crew Factory Outlet, J. Crew, Inc., J. Crew International, Inc., J. Crew Services, Inc. and Popular Club Plan, Inc., each of which is a wholly owned subsidiary of Operating Corp. Mr. Boyce is the President of CAF, Inc., a management consulting firm which advises various companies controlled by TPG. Prior to founding CAF, Inc. in 1997, Mr. Boyce served as Senior Vice President of Operations for Pepsi-Cola North America ("PCNA") from 1996 to 1997, and Chief Financial Officer of PCNA from 1994 to 1996. From 1992 to 1994, Mr. Boyce served as Senior Vice President-Strategic Planning for PepsiCo. Prior to joining PepsiCo., Mr. Boyce was a Director at the management consulting firm of Bain & Company where he was employed from 1980 to 1992.

MATTHEW E. RUBEL
PRESIDENT--POPULAR CLUB PLAN, INC.

Mr. Rubel joined the Company in September 1994 as the President of PCP. Prior to joining the Company, Mr. Rubel served as the President, CEO, and a member of the Board of Directors at Pepe Jeans USA in 1994, and from 1987 to 1993, he was the President of Specialty Division at Revlon, Inc. From 1984 to 1987, Mr. Rubel served as an Executive Vice President of Murjani International and from 1980 to 1984, he was employed by Bonwit Teller.

NICHOLAS LAMBERTI
VICE PRESIDENT - CORPORATE CONTROLLER--J. CREW OPERATING CORP.

Mr. Lamberti joined the Company in January 1991 as Vice President - Corporate Controller. Prior to joining the Company, Mr. Lamberti was with Deloitte & Touche from 1966 to 1991.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth compensation paid by the Company for fiscal years 1995, 1996 and 1997 to each individual serving as its chief executive officer during fiscal 1997 and to each of the four other most highly compensated executive officers of the Company as of the end of fiscal 1997.

				LONG-TERM COMPENSATION		
NAME AND PRINCIPAL POSITIONS	FISCAL YEAR	SALARY ($)	BONUS ($)	OTHER ANNUAL COMP. ($)	RESTRICTED STOCK AWARD(S)	ALL OTHER COMP. ($)
Arthur Cinader (1)........................	1997	480,668	--	--	--	--
Chief Executive Officer	1996	307,692	--	--	--	--
	1995	700,000	107,800	--	--	--
Emily Woods (2)...........................	1997	700,000	--	--	--	10,000,000(3)
Chief Executive Officer	1996	700,000	--	--	--	--
	1995	700,000	188,700	1,079,713(4)	$1,139,000	--
David DeMattei(5).........................	1997	521,623	200,000	397,000		
President, J. Crew Retail	1996	475,771	100,000	--	--	--
	1995	352,661	100,000	--	--	--
Matthew Rubel.............................	1997	465,787	130,800	--	--	300,000(3)
President, Popular Club Plan	1996	422,418	150,000	--	--	--
	1995	391,346	50,000	--	--	--
Michael P. McHugh(6)......................	1997	290,587	50,000	--	--	300,000(3)
VP, Finance	1996	252,555	100,000	--	--	--
	1995	203,846	30,000	--	--	--
Trudy Sullivan............................	1997	300,000	207,000	--	--	50,000(3)
President, Clifford & Wills	1996	300,000	10,000	--	--	--
	1995	28,846	50,000	--	--	--

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(1) Mr. Cinader was replaced as Chief Executive Officer on October 17, 1997.
(2) Ms. Woods became Chief Executive Officer on October 17, 1997.
(3) This amount was paid as a bonus in connection with the consummation of the Recapitalization.
(4) This amount was paid as reimbursement for income taxes incurred as a result of the grant of Common Stock.
(5) Mr. DeMattei resigned from the Company as of April 14, 1998.
(6) Mr. McHugh resigned from the Company as of April 7, 1998.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

Individual Grants

Name (a)	Number Of Securities Underlying Option/SARs Granted (#) (b)	Percent Of Total Options/SARs Granted To Employees In Fiscal Year (c)	Exercise Of Base Price ($/Sh) (d)	Expiration Date (e)
Arthur Cinader	--	--	--	--
Emily Woods	1,641	41.7%	1,363.64	10/17/08
Emily Woods	164	4.2%	1,704.55	10/17/08
Emily Woods	164	4.2%	2,130.69	10/17/08
Emily Woods	164	4.2%	2,663.33	10/17/08
Emily Woods	164	4.2%	3,329.19	10/17/08
Emily Woods	164	4.2%	4,161.56	10/17/08
David DeMattei	626	15.9%	1,363.64	1/31/09
Matthew Rubel	188	4.8%	1,363.64	1/31/09
Michael P. McHugh	--	--	--	--
Trudy Sullivan	63	1.6%	1,363.64	1/31/09

Name (a)	Potential Realizable Value At Assumed Annual Rates Of Stock Price Appreciation For Option Term	
	5% ($) (f)	10% ($) (g)
Arthur Cinader	--	--
Emily Woods	857.59	2,173.29
Emily Woods	516.68	1,832.38
Emily Woods	90.54	1,406.24
Emily Woods	0	873.60
Emily Woods	0	207.74
Emily Woods	0	0
David DeMattei	190.33	1,110.79
Matthew Rubel	190.33	1,110.79
Michael P. McHugh	--	--
Trudy Sullivan	190.33	1,110.79

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION VALUES

Name	Number of Securities Underlying Unexercised Options At Fiscal Year End(1) (#) Exercisable/Unexercisable
Arthur Cinader	--
Emily Woods	0/2,461
David DeMattei	62.6/563.4
Matthew Rubel	18.8/169.2
Michael McHugh	--
Trudy Sullivan	6.3/56.7

(1) Represents options granted pursuant to the J. Crew Group, Inc. Stock Option Plan with respect to shares of Common Stock. Although there is no established public market for shares of the Common Stock, the Company's management believes that all options granted under such plan were out-of-money as of the end of fiscal year 1997.

EMPLOYMENT AGREEMENTS AND OTHER COMPENSATION ARRANGEMENTS

On October 17, 1997, Holdings and Operating Corp (the "Employers") and Ms. Woods entered into an employment agreement, which provides that, for a period of five years commencing on the closing of the Recapitalization, she will serve as Chairman of the Board of Directors of Holdings. The employment agreement provides for an annual base salary of $1.0 million, and provides an annual target bonus of up to $1.0 million based on achievement of earnings objectives to be determined each year. The employment agreement also provided for the grant of 3,308 shares of Common Stock (the "Woods Restricted Shares"), of which 393 vested immediately upon the grant thereof, which occurred as of April 1, 1998. Of the remaining Woods Restricted Shares, 972 shares will vest on each of the third and fourth anniversaries of the Recapitalization and 971 shares will vest on the fifth anniversary of the Recapitalization. In connection with the grant of the Woods Restricted Shares, the Employers agreed to pay Ms. Woods an amount equal to the federal, state and local income and payroll taxes incurred by Ms. Woods in 1998 as a result of the grant of the Woods Restricted Shares and any federal, state and local income and payroll taxes incurred as a result of such payment. Ms. Woods is also entitled to various executive benefits and perquisites under the employment agreement.

In connection with the Recapitalization, Ms. Woods retained shares of Common Stock representing approximately 14.8% of the total outstanding shares of Common Stock determined immediately after the closing of the Recapitalization, such retention effected using an implied purchase price for the retained shares equal to the price that TPG paid for shares of Common Stock in connection with the Recapitalization (the "TPG Price"). Ms. Woods also purchased approximately $3.0 million of Preferred Stock issued in connection with the Recapitalization.

Under the J. Crew Group Inc. Stock Option Plan (the "Option Plan"), Holdings has granted Ms. Woods an option to purchase 1,641 shares of Common Stock at an exercise price equal to the TPG Price, 20% of which shall become exercisable following the end of each of fiscal years 1998 through 2002, provided that the Company attains certain earnings targets; however, all unvested options shall become exercisable (i) if Ms. Woods' employment is terminated by Holdings without cause, by Ms. Woods for good reason or by reason of death or disability, (ii) in the event of a change in control of Holdings, or (iii) if Ms. Woods is still employed by Holdings, on the seventh anniversary of the closing of the Recapitalization.

Also under the Option Plan, Holdings has granted Ms. Woods the option to purchase 820 shares of Common Stock. Under this option, Ms. Woods has the right to exercise 20% of the option after each of the first through the fifth anniversaries of the grant date at an exercise price equal to 125%, 156.25%, 195.31%, 244.14% and 305.18% of the TPG Price, respectively. The exercise of this option may require Ms. Woods to purchase a proportional amount of Preferred Stock issued in connection with the Recapitalization. In addition, all options shall become exercisable (i) if Ms. Woods' employment is terminated by Holdings without cause, by Ms. Woods for good reason or by reason of her death or disability or (ii) in the event of a change in control of Holdings.

All options granted to Ms. Woods are generally governed by and subject to the Option Plan described below.

The shares of Common Stock acquired by Ms. Woods pursuant to the foregoing are subject to a shareholders' agreement providing for certain transfer restrictions, registration rights and customary tag-along and drag-along rights.

On February 24, 1998, the Employers and Mr. Socol entered into an employment agreement (the "Socol Employment Agreement"), which provides that, for a period of four years commencing on February 24, 1998, he will serve as Chief Executive Officer of Holdings and as Chief Executive Officer of Operating Corp. The Employers also agreed to cause Mr. Socol to be elected as a member of the Board of Directors of Holdings. The employment agreement provides for an annual base salary of $1.0 million (subject to an increase to $1.2 million in any fiscal year following a fiscal year in which the Company's EBITDA (as defined) equals or exceeds $75 million), and provides an annual target bonus of up to 100 percent of his annual base salary based on achievement of earnings objectives to be determined each year provided that, with respect to fiscal year 1998, the bonus will be at least $500,000 regardless of whether the bonus objectives are achieved. The employment agreement also provided for the payment of a signing bonus of $1.5 million and the grant of 2,437 shares of Common Stock (the "Socol Restricted Shares"). The Socol Restricted Shares were issued to Mr. Socol as of March 20, 1998 and twenty-five percent of such Socol Restricted Shares will vest on each of the first through fourth anniversaries of the execution of the Socol Employment Agreement. In connection with the grant of the Socol Restricted Shares, if Mr. Socol makes an election to include in gross income on the date of the grant the value of the Socol Restricted Shares on such date pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, the Employers will pay Mr. Socol an amount equal to the federal, state and local income and payroll taxes incurred by Mr. Socol as a result of the grant of the Socol Restricted Shares and any federal, state and local income and payroll taxes incurred as a result of such payment. Mr. Socol is also entitled to various executive benefits and perquisites under the employment agreement.

Operating Corp has entered into an employment agreement with Mr. Rubel, dated January 27, 1998. The employment agreement provides that Mr. Rubel will be employed as president of PCP with an annual salary of $475,000. The agreement also provides that Mr. Rubel is eligible for performance-based annual bonus if certain performance objectives are satisfied. The agreement provides Mr. Rubel with various executive benefits and perquisites. In the event of a sale of the common stock or assets of PCP while Mr. Rubel is employed, the agreement provides Mr. Rubel with the opportunity to earn an additional bonus based on the "gain" on the sale (as defined in the agreement). Finally, the agreement provides for continuation of salary and medical benefits for a period of one year if Mr. Rubel's employment is terminated without cause (as defined in the agreement) and otherwise will provide that Mr. Rubel's relationship with the Operating Corp and Holdings is one of employment at will. Mr. Rubel has also received an option to purchase 188 shares of Common Stock granted pursuant to the Option Plan.

1997 STOCK OPTION PLAN

Holdings has adopted the Option Plan in order to promote the interests of the Company and its shareholders by providing the Company's key employees and consultants with an appropriate incentive to encourage them to continue in the employ of the Company and to improve the growth and profitability of the Company. Under the Option Plan, the Board of Directors of Holdings has the authority to administer the Option Plan and to grant options to purchase shares of Common Stock to certain key employees and consultants of the Company. The shareholders of Holdings have authorized up to an aggregate of 7,388 shares of Common Stock for issuance of options under the Option Plan, of which the Board of Directors of Holdings has reserved 4,744 shares for issuance under the Option Plan. As of April 15, 1998, the Board of Directors of Holdings has granted options which are outstanding under the Option Plan to purchase an aggregate of 3,308 shares of Common Stock (including the 2,461 shares underlying the options granted to Ms. Woods and the 188 shares underlying the option granted to Mr. Rubel as described above). The options granted under the Option Plan may be subject to various vesting conditions, including, under some circumstances, the achievement of certain performance objectives. All shares of Common Stock acquired by key employees or consultants pursuant to the foregoing shall be subject to a shareholders' agreement providing for certain transfer restrictions, registration rights and customary tag-along and drag-along rights.

Director Compensation

Holdings does not currently have any arrangement pursuant to which its directors are compensated for services provided as directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the information regarding the beneficial ownership of the Common Stock as of April 15, 1998 for each person that is known to Holdings to be the beneficial owner of 5% or more of the Common Stock. The holders listed have sole voting power and investment power over the shares held by them, except as indicated by the notes following the table.

(a) Title of Class	(b) Name and Address of Beneficial Owner	(c) Amount and Nature of Beneficial Ownership (1)	(d) Percent of Class
Common Stock	TPG Partners II, L.P. 201 Main Street, Suite 2420 Fort Worth, TX 76102	37,003.717 shares (2)	66.8%
Common Stock	Emily Woods J. Crew Group, Inc. 770 Broadway New York, NY 10003	8,410.883 shares (3)	15.2%

(1) As of April 15, 1998, there were 55,393 shares of Common Stock outstanding (excluding 5,352 shares of Common Stock which have not vested and are held in custody by the Company until the vesting thereof) and there were options to purchase 84.7 shares of Common Stock which were exercisable within 60 days.
(2) These shares of Common Stock are held by TPG Partners and the following affiliates of TPG Partners (collectively, "TPG"): TPG Parallel II L.P. and TPG Investors II, L.P.
(3) Excludes 2,915 shares of Common Stock which have not vested and are held in custody by the Company until the vesting thereof.

The following table sets forth the information regarding the beneficial ownership of each class of equity securities of Holdings as of April 15, 1998 for (i) each director, (ii) each of the executive officers of Holdings identified in the table set forth under Item 11. "Executive Compensation" and (iii) all directors and all such executive officers of Holdings as a group. The holders listed have sole voting power and investment power over the shares held by them, except as indicated by the notes following the table.

(a) Title of Class	(b) Name of Beneficial Owner	(c) Amount and Nature of Beneficial Ownership (1)	(d) Percent of Class
Common Stock	David Bonderman	37,003.717 shares (2)	66.8%
Common Stock	Richard W. Boyce	--	--
Common Stock	James G. Coulter	37,003.717 shares (2)	66.8%
Common Stock	Emily Woods	8,410.883 shares	15.2%
Common Stock	Matthew Rubel	18.800 shares (3)	0.0%
Common Stock	Trudy Sullivan	6.300 shares (4)	0.0%
Common Stock	All Directors and specified Officers as a Group	45,438.700 shares (2) (5)	82.0%
Series A Preferred Stock	Emily Woods	2,978.505 shares	3.22%
Series A Preferred Stock	All Directors and Officers as a Group	2,978.505 shares	3.22%

(1) As of April 15, 1998, there were 55,393 shares of Common Stock outstanding (excluding 5,352 shares of Common Stock which have not vested and are held in custody by the Company until the vesting thereof) and there were options to purchase 84.7 shares of Common Stock which were exercisable within 60 days. As of April 15, 1998, there were outstanding 92,500 shares of Series A Preferred Stock of Holdings and 32,500 shares of Series B Preferred Stock of Holdings.
(2) Attributes ownership of the shares owned by TPG to Messrs. Bonderman and Coulter, who are partners of TPG. Each of Messrs. Bonderman and Coulter disclaim beneficial ownership of the shares owned by TPG.
(3) Includes 18.8 shares of Common Stock issuable upon exercise of options which were exercisable within 60 days.
(4) Includes 6.3 shares of Common Stock issuable upon exercise of options which were exercisable within 60 days.
(5) Includes an aggregate of 25.1 shares of Common Stock issuable upon exercise of options which were exercisable within 60 days.

Operating Corp is a wholly owned subsidiary of Holdings. Holdings does not have any material assets other than the stock of Operating Corp.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As part of arrangements made prior to the negotiation and execution of the Recapitalization Agreement, Holdings agreed to make bonus payments to certain of its executive officers upon consummation of any merger, acquisition, recapitalization or other transaction resulting in a change of control of Holdings. Thus, Holdings made bonus payments in the amount of (i) $10.0 million to Emily Woods, (ii) $0.3 million to Matthew Rubel, (iii) $0.3 million to Michael McHugh and (iv) $1.2 million to other employees.

In addition, effective on the closing of the Recapitalization, the Company and Arthur Cinader entered into an Employment/Consulting and Non-Compete Agreement, under which Mr. Cinader agreed to serve as an employee and/or consultant for twelve months following the closing of the Recapitalization. Under the agreement, Mr. Cinader agreed, for a period of five years from the closing of the Recapitalization, not to compete, directly or indirectly, in association with or as a stockholder, director, officer, consultant, employee, partner, joint venturer, member or otherwise through any person or entity work for, act as a consultant to, or own any interest in, any competitor of the Company or its affiliates. In consideration of Mr. Cinader's non-compete, employment and consulting undertakings, the Company paid Mr. Cinader a total of $4.2 million. In addition, during this five-year period, Mr. Cinader is entitled to coverage under the Company's health and welfare plans.

In connection with the Recapitalization, the Company paid TPG a financial advisory fee in the amount of $5.6 million.

Holdings and its subsidiaries also entered into a tax sharing agreement providing (among other things) that each of the subsidiaries will reimburse Holdings for its share of income taxes determined as if such subsidiary had filed its tax returns separately from Holdings.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The following financial statements of J. Crew Group, Inc. and subsidiaries are included in Item 8:

(i) Report of KPMG Peat Marwick LLP, Independent Auditors
(ii) Report of Deloitte & Touche LLP, Independent Auditors
(iii) Consolidated Balance Sheets - January 31, 1998 and 1997
(iv) Consolidated Statements of Operations - Years ended January 31, 1998 and 1997 and February 2, 1996
(v) Consolidated Statements of Changes in Stockholders' Equity (Deficit) -Years ended January 31, 1998 and 1997 and February 2, 1996
(vi) Consolidated Statements of Cash Flows - Years ended January 31, 1998 and 1997 and February 2, 1996
(vii) Notes to consolidated financial statements

2. Financial Statements Schedules

Schedule II Valuation and Qualifying Accounts is set forth herein commencing on page F-[25] of this Report.

3. Exhibits

The exhibits listed on the accompanying Exhibit Index are incorporated by reference herein and filed as part of this report.

(b) Reports on Form 8-K

No reports on Form 8-K have been filed by registrant during the last quarter of the period covered by this report.

(c) Exhibits

See Item 14(a)3 above.

(d) Financial Statement Schedules

See Item 14(a)1 and 14(a)2 above.

J. CREW GROUP, INC. AND SUBSIDIARIES

Consolidated Financial Statements

January 31, 1998 and 1997

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of J. Crew Group, Inc. and subsidiaries (the "Company") as of January 31, 1998 and the related consolidated statements of operations, cash flows and changes in stockholders' equity (deficit) for the fiscal year then ended. In connection with our audit of the consolidated financial statements, we also have audited the financial statement schedule for the fiscal year ended January 31, 1998 as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 1998 and the results of its operations and cash flows for the fiscal year then ended in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule for the fiscal year ended January 31, 1998, 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.

KPMG Peat Marwick LLP

April 13, 1998

New York, New York

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
J. Crew Group, Inc.

We have audited the accompanying consolidated balance sheet of J. Crew Group, Inc. and subsidiaries as of January 31, 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two fiscal years in the period ended January 31, 1997. Our audits also included the financial statement schedule listed in the Index at Item 14(a)2. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, such consolidated financial statements present fairly, in all material respects, the financial position of J. Crew Group, Inc. and subsidiaries as of January 31, 1997, and the results of their operations and their cash flows for each of the two fiscal years in the period ended January 31, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, such 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.

As discussed in Note 16 to the consolidated financial statements, in 1995, the Company changed its method of accounting for catalog costs to conform with the provisions of Statement of Position 93-7, "Reporting on Advertising Costs," and changed its method of accounting for merchandise inventories.

Deloitte & Touche LLP

New York, New York
March 31, 1997

J. CREW GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

ASSETS	January 31 1998	January 31 1997
	(in thousands)	
Current assets:		
Cash and cash equivalents	$ 12,166	7,132
Accounts receivable (net of allowance for doubtful accounts of $5,438 and $4,357)	16,834	58,079
Merchandise inventories	202,763	197,657
Prepaid expenses and other current assets	62,399	58,318
Total current assets	294,162	321,186
Property and equipment - at cost:		
Land	1,460	1,405
Buildings and improvements	11,167	11,167
Furniture, fixtures and equipment	47,673	43,537
Leasehold improvements	101,407	75,378
Construction in progress	4,569	4,063
	166,276	135,550
Less accumulated depreciation and amortization	55,613	49,121
	110,663	86,429
Other assets	17,053	3,206
Total assets	$ 421,878	410,821
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	65,553	103,279
Other current liabilities	77,700	62,938
Deferred income taxes	7,981	12,555
Federal and state income taxes payable	251	9,955
Current portion of long-term debt	--	237
Total current liabilities	151,485	188,964
Long-term debt	298,161	86,855
Deferred credits and other long-term liabilities	43,578	32,996
Redeemable preferred stock	130,296	--
Stockholders' (deficit) equity	(201,642)	102,006
Total liabilities and stockholders' (deficit) equity	$ 421,878	410,821

See accompanying notes to consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

		Years ended		
		January 31		February 2
		1998	1997	1996
		(in thousands)		
Net sales	$	822,840	795,931	732,580
Other revenues		11,191	12,912	13,329
Revenues		834,031	808,843	745,909
Cost of goods sold, including buying and occupancy costs		465,168	428,719	399,668
Gross profit		368,863	380,124	346,241
Selling, general and administrative expenses		359,811	348,305	327,672
Income from operations		9,052	31,819	18,569
Interest expense - net		20,494	10,470	9,350
Expenses incurred in connection with the recapitalization		20,707	--	--
(Loss) income before income taxes, extraordinary item and cumulative effect of accounting changes		(32,149)	21,349	9,219
(Benefit) provision for income taxes		(5,262)	8,800	3,700
(Loss) income before extraordinary item and cumulative effect of accounting changes		(26,887)	12,549	5,519
Extraordinary item - loss on early retirement of debt (net of income tax benefit of $3,127 and $1,200)		(4,500)	--	(1,679)
Cumulative effect of accounting changes (net of income taxes of $1,800)		--	--	2,610
Net (loss) income	$	(31,387)	12,549	6,450

See accompanying notes to consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Years ended		
		January 31	February 2
	1998	1997	1996
	(in thousands)		
Cash flows from operating activities:			
Net (loss)/income	$ (31,387)	12,549	6,450
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Loss on early retirement of debt	7,627	--	--
Depreciation and amortization	15,255	10,541	10,272
Amortization of deferred financing costs	958	401	1,186
Noncash interest expense	2,904	--	--
Deferred income taxes	(5,010)	(1,184)	10,131
Provision for losses on accounts receivable	7,343	6,945	7,277
Noncash compensation expense	150	--	1,142
Changes in operating assets and liabilities:			
Accounts receivable	(12,098)	(6,744)	(7,708)
Sale of accounts receivable	46,000	--	--
Merchandise inventories	(5,106)	(49,602)	(10,417)
Prepaid expenses and other current assets	(4,081)	(4,007)	(12,444)
Other assets	(587)	(375)	(2,031)
Accounts payable	(37,726)	31,864	6,318
Other liabilities	17,577	3,439	(5,351)
Federal and state income taxes payable	(9,268)	12,670	(12,674)
Net cash (used in) provided by operating activities	(7,449)	16,497	(7,849)
Cash flows from investing activities:			
Capital expenditures	(43,134)	(27,462)	(18,466)
Proceeds from construction allowances	11,767	4,981	3,826
Net cash used in investing activities	(31,367)	(22,481)	(14,640)
Cash flows from financing activities:			
Issuance of long-term debt	295,257	--	85,000
Repayment of long-term debt	(92,863)	(237)	(67,237)
Costs incurred in connection with the issuance of debt	(16,429)	--	--
Proceeds from the issuance of common stock	63,891	--	--
Proceeds from the issuance of redeemable preferred stock	125,000	--	--
Repurchase and retirement of capital stock	(316,688)	--	--
Costs incurred in connection with the repurchase of capital stock	(14,318)	--	--
Dividends paid	--	(176)	--
Net cash provided by (used in) financing activities	43,850	(413)	17,763
Increase (decrease) in cash and cash equivalents	5,034	(6,397)	(4,726)
Cash and cash equivalents at beginning of year	7,132	13,529	18,255
Cash and cash equivalents at end of year	$ 12,166	7,132	13,529
Supplementary cash flow information:			
Income taxes paid (refunded)	$ 5,180	(3,600)	7,000
Interest paid	$ 12,655	9,880	9,601
Noncash financing activities:			
Dividends on redeemable preferred stock	$ 5,296	--	--

See accompanying notes to consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity (Deficit)

Years ended January 31, 1998 and 1997 and February 2, 1996
(in thousands, except shares)

	6% noncumulative preferred stock		8% cumulative preferred stock		Common stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at February 3, 1995	15,794	$ 1,579	5,000	$ 500	262,912	$ 263
Net income	--	--	--	--	--	--
Issuance of 2,898 shares of common stock from treasury under stock bonus agreement	--	--	--	--	--	--
Balance at February 2, 1996	15,794	1,579	5,000	500	262,912	263
Net income	--	--	--	--	--	--
Dividends	--	--	--	--	--	--
Balance at January 31, 1997	15,794	1,579	5,000	500	262,912	263
Net loss	--	--	--	--	--	--
Repurchase and retirement of capital stock	(15,794)	(1,579)	(5,000)	(500)	(262,912)	(263)
Costs incurred in connection with the repurchase of capital stock	--	--	--	--	--	--
Issuance of 55,000 shares of common stock	--	--	--	--	55,000	1
Preferred stock dividends	--	--	--	--	--	--
Issuance of common stock pursuant to grant of restricted stock	--	--	--	--	3,308	--
Amortization of restricted stock	--	--	--	--	--	--
Balance at January 31, 1998	--	$ --	--	$ --	58,308	$ 1

	Additional paid-in capital	Retained earnings	Treasury stock	Deferred compen-sation expense	Total stockholders' (deficit) equity
Balance at February 3, 1995	2,993	83,027	(6,321)	--	82,041
Net income	--	6,450	--	--	6,450
Issuance of 2,898 shares of common stock from treasury under stock bonus agreement	717	--	425	--	1,142
Balance at February 2, 1996	3,710	89,477	(5,896)	--	89,633
Net income	--	12,549	--	--	12,549
Dividends	--	(176)	--	--	(176)
Balance at January 31, 1997	3,710	101,850	(5,896)	--	102,006
Net loss	--	(31,387)	--	--	(31,387)
Repurchase and retirement of capital stock	(3,161)	(317,081)	5,896	--	(316,688)
Costs incurred in connection with the repurchase of capital stock	--	(14,318)	--	--	(14,318)
Issuance of 55,000 shares of common stock	63,890	--	--	--	63,891
Preferred stock dividends	--	(5,296)	--	--	(5,296)
Issuance of common stock pursuant to grant of restricted stock	4,500	--	--	(4,500)	--
Amortization of restricted stock	--	--	--	150	150

Balance at January 31, 1998	68,939	(266,232)	--	(4,350)	(201,642)
	=======	=========	========	========	========

See accompanying notes to consolidated financial statements.

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) PRINCIPLES OF CONSOLIDATION

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

(B) BUSINESS

The Company, which operates in one business segment, designs, contracts for the manufacture of, markets and distributes men's, women's and children's apparel, accessories and home furnishings. The Company's products are marketed through catalogs and retail stores primarily in the United States. The Company is also party to a licensing agreement which grants the licensee exclusive rights to use the Company's trademarks in connection with the manufacture and sale of products in Japan. The license agreement provides for payments based on a specified percentage of net sales.

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 include the back-to-school and holiday seasons) of each fiscal year.

A significant amount of the Company's products are produced in the Far East 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 1997, 1996 and 1995 ended on January 31, 1998 (52 weeks), January 31, 1997 (52 weeks) and February 2, 1996 (52 weeks). Effective January 31, 1998 the Company changed its fiscal year-end from the Friday closest to January 31, to the Saturday closest to January 31. The effect of this change on the results of operations was not material.

(D) 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 $1,902,000 and $1,968,000 at January 31, 1998 and 1997, are stated at cost, which approximates market value.

(1), CONTINUED

(E) ACCOUNTS RECEIVABLE

Accounts receivable consists of installment receivables resulting from the sale of merchandise of Popular Club Plan, Inc., a subsidiary of the Company. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers comprising the accounts receivable base. Finance charge income (including the gain on sale of receivables (see Note 4)), which is included in other revenues, for the fiscal years 1997, 1996 and 1995 was $8,294,000, $9,095,000 and $9,354,000.

(F) MERCHANDISE INVENTORIES

Merchandise inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market. The Company capitalizes certain design, purchasing and warehousing costs into inventory. (See Note 16)

(G) CATALOG COSTS

Catalog costs, which primarily consist of catalog production and mailing costs, are capitalized and amortized over the expected future revenue stream, which extends up to five months from the date catalogs are mailed. The Company accounts for catalog costs in accordance with the AICPA Statement of Position ("SOP") 93-7, "Reporting on Advertising Costs." 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. Deferred catalog costs, included in prepaid expenses and other current assets, as of January 31, 1998 and 1997 were $39,227,000 and $41,191,000. Catalog costs, which are reflected in selling and administrative expenses, for the fiscal years 1997, 1996 and 1995 were $131,103,000, $135,633,000 and $132,566,000 (See Note 16).

(H) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Buildings and improvements are depreciated by the straight-line method over the estimated useful lives of the respective assets of twenty years. Furniture, fixtures and equipment are depreciated by the straight-line method over the estimated useful lives of the respective assets, ranging from three to ten years. Leasehold improvements are amortized over the shorter of their useful lives or related lease terms.

The Company receives construction allowances upon entering into certain store leases. These construction allowances are recorded as deferred credits and are amortized over the term of the related lease.

(1), CONTINUED

(I) OTHER ASSETS

Other assets consist primarily of debt issuance costs of $14,865,000 and $1,250,000 at January 31, 1998 and 1997, which are amortized over the term of the related debt agreements.

(J) INCOME TAXES

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, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes."

(K) REVENUE RECOGNITION

Revenue is recognized when merchandise is shipped to customers. The Company accrues a sales return allowance in accordance with its return policy for estimated returns of merchandise subsequent to the balance sheet date that relate to sales prior to the balance sheet date.

(L) STORE PREOPENING COST

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

(M) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used by the Company to manage its interest rate and foreign currency exposures. The Company does not hold derivative financial instruments for trading or speculative purposes. For interest rate swap agreements, the net interest paid is recorded as interest expense on a current basis. Gains or losses resulting from market fluctuations are not recognized. The Company from time to time enters into forward foreign exchange contracts as hedges relating to identifiable currency positions to reduce the risk from exchange rate fluctuations. Gains and losses on these contracts are deferred and recognized as adjustments to the bases of those assets. Such gains and losses were not material for the fiscal years ended January 31, 1998 and 1997.

(1), CONTINUED

(N) USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles 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.

(O) IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF

In March 1995, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an assets may not be recoverable, and is effective for fiscal years beginning after December 15, 1995. The adoption of SFAS No. 121 did not have an effect on the Company's financial position or results of operations.

(P) STOCK BASED COMPENSATION

SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). In accordance with APB No. 25, compensation expense is not recorded for options granted if the option price is equal to the fair market price at the date of grant. The adoption of SFAS No. 123 during 1997, for disclosure purposes, was immaterial to the financial statements.

(2) RECAPITALIZATION TRANSACTION

During 1997 the Company entered into a recapitalization transaction (the "Recapitalization"). In October 1997, Holdings purchased from the existing shareholders for an aggregate purchase price of approximately $316,688,000 all of the outstanding shares of Holdings' capital stock, other than a certain number of shares of Holdings' common stock held by existing shareholders which represented 14.8% of the outstanding shares of Holdings' common stock immediately following consummation of the Recapitalization. The purchase of such outstanding shares of capital stock was financed in part by (a) issuing to TPG Partners II, L.P. ("TPG"), its affiliates and other investors shares of common stock of Holdings for approximately $63,891,000 and shares of preferred stock of Holdings for $125,000,000 and (b) consummating the debt and securitization transactions described in Notes 4, 5 and 6. In connection with the Recapitalization, the Company repaid substantially all of its preexisting debt obligations immediately before the consummation of the Recapitalization.

Expenses incurred in connection with the recapitalization consisted of:

Management bonuses	$ 12,163,000
TPG financial advisory fee	5,550,000
Legal and accounting fees	1,454,000
Consulting fee	1,000,000
Other	540,000
Total	$ 20,707,000

(3) OTHER CURRENT LIABILITIES

Other current liabilities consist of:

	January 31, 1998	January 31, 1997
Customer liabilities	$ 18,572,000	22,968,000
Accrued catalog and marketing costs	12,504,000	10,734,000
Taxes, other than income taxes	9,067,000	9,093,000
Accrued interest	4,998,000	889,000
Reserve for sales returns	3,529,000	2,406,000
Other	29,030,000	16,848,000
	$ 77,700,000	62,938,000

(4) SALE OF ACCOUNTS RECEIVABLE

In October 1997, the Company entered into an agreement to securitize certain customer installment receivables of Popular Club Plan, Inc. on a revolving basis. This securitization involves the transfer of receivables through a special purpose, bankruptcy remote subsidiary to a trust in exchange for cash and subordinated certificates representing undivided interests in the pool of installment accounts receivable and the subsequent sale by the trust of certificates of beneficial interest to third party investors. The Company has no obligation to reimburse the trust or the purchasers of beneficial interests for credit losses. The transactions have been accounted for as a sale in accordance with the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities."

At January 31, 1998, $46,000,000 of accounts receivable had been sold. The sale of receivables resulted in a gain on sale of $1,472,000 during the year ended January 31, 1998, which is included in other revenues.

Included in the gain on sale is the discount on sale of accounts receivable which is comprised of the interest, discount and administrative and other fees paid or accrued to the purchasers of the accounts receivables sold. The discount approximates the prevailing short-term London Inter Bank Offered Rate (LIBOR) plus a credit spread and administrative fees. The interest rate (including administrative fees) applicable to receivables sold as of January 31, 1998 was 7.125%.

Under SFAS No. 125, no servicing asset or liability is recorded as fees charged are expected to cover related expenses.

(5) LONG-TERM DEBT

	January 31, 1998	January 31, 1997
Senior notes due December 15, 2004 (Note 2)	$ --	85,000,000
Industrial Development Revenue Bond, bearing interest at 73.33% of prime rate (8.25% at January 31, 1997) (Note 2)	--	2,092,000
Term loan (a)	70,000,000	--
10-3/8% senior subordinated notes (b)	150,000,000	
13-1/8% senior discount debentures (c)	78,161,000	--
	298,161,000	87,092,000
Less payments due within one year	__	(237,000)
Total	$298,161,000	86,855,000

(a) The $70.0 million term loan is subject to the same interest rates and security terms as the Revolving Credit Agreement (see Note 6). The term loan is repayable in quarterly installments of $4.0 million from February 2001 through November 2001 and $6.75 million from February 2002 through November 2003.

(5), CONTINUED

(b) The senior subordinated notes are unsecured general obligations of J. Crew Operating Corp., a subsidiary of Holdings, and are subordinated in right of payment to all senior debt. Interest on the notes accrues at the rate of 10-3/8% per annum and is payable semi-annually in arrears on April 15 and October 15. The notes mature on October 15, 2007 and may be redeemed at the option of the issuer subsequent to October 15, 2002 at prices ranging from 105.188% in 2002 to 100% in 2005 and thereafter.

(c) The senior discount debentures were issued in aggregate principal amount of $142.0 million at maturity and mature on October 15, 2008. These debentures are senior unsecured obligations of Holdings. Cash interest will not accrue prior to October 15, 2002 and the principal amount of the debentures will accrete at a rate of 13-1/8% per annum and will be payable in arrears on April 15, and October 15 of each year. The senior discount debentures may be redeemed at the option of Holdings on or after October 15, 2002 at prices ranging from 106.563%, to 100% in 2005 and thereafter.

The maturities of long-term debt required during the next five years are:

Fiscal year	Amount
1998	$ --
1999	--
2000	--
2001	16,000,000
2002	27,000,000

(6) LINES OF CREDIT

On October 17, 1997, in connection with the Recapitalization, the Company entered into a syndicated revolving credit agreement of up to $200.0 million (the "Revolving Credit Agreement") with a group of banks, with The Chase Manhattan Bank as administrative and collateral agent (the "Administrative Agent"), and Donaldson, Lufkin & Jenrette Securities Corporation as syndication agent. Borrowings may be utilized to fund the working capital requirements of the Company's subsidiaries, including issuance of stand-by and trade letters of credit and bankers' acceptances.

(6), CONTINUED

Borrowings are secured by a perfected first priority security interest in all assets (except for the accounts receivable of Popular Club Plan, Inc.) of the Company's direct and indirect, domestic, and to the extent no adverse tax consequences would result, foreign subsidiaries and bear interest, at the Company's option, at a base rate equal to the Administrative Agent's Eurodollar rate plus an applicable margin or an alternate base rate equal to the highest of the Administrative Agent's prime rate, a certificate of deposit rate plus 1% or the Federal Funds effective rate plus one-half of 1% plus, in each case, an applicable margin. The Revolving Credit Agreement matures on October 17, 2003.

The Revolving Credit Agreement replaced the Company's previous revolving credit agreement which provided for commitments in an aggregate amount of up to $200.0 million, of which up to $120.0 million was available for direct borrowings.

During fiscal 1997, 1996 and 1995, maximum borrowings under revolving credit agreements were $104,000,000, $55,000,000 and $49,000,000 and average borrowings were $54,300,000, $31,200,000 and $25,500,000. There were no borrowings outstanding under the Company's revolving credit agreements at January 31, 1998 and 1997.

Outstanding letters of credit established to facilitate international merchandise purchases at January 31, 1998 and 1997 amounted to $20,143,000 and $37,800,000.

The provisions of the Revolving Credit Agreement require that the Company maintain certain levels of (i) consolidated net worth, (ii), leverage ratio, (iii) interest coverage ratio and (iv) inventory coverage ratio and provide for limitations on capital expenditures, sale and leaseback transactions, liens, investments, sales of assets and indebtedness.

(7) COMMON STOCK

The restated certificate of incorporation authorizes Holdings to issue up to 100,000,000 shares of common stock; par value $.01 per share. In connection with the Recapitalization, Holdings issued 55,000 shares of common stock, all of which was outstanding at January 31, 1998.

(8) REDEEMABLE PREFERRED STOCK

The restated certificate of incorporation authorizes Holdings to issue up to:

(a) 1,000,000 shares of Series A cumulative preferred stock; par value $.01 per share; and

(b) 1,000,000 shares of Series B cumulative preferred stock; par value $.01 per share.

In connection with the Recapitalization, Holdings issued 92,500 shares of Series A Preferred Stock and 32,500 shares of Series B Preferred Stock, all of which was outstanding at January 31, 1998.

The Preferred Stock accumulates dividends at the rate of 14.5% per annum (payable quarterly) for periods ending on or prior to October 17, 2009. Dividends compound to the extent not paid in cash. On October 17, 2009, Holdings is required to redeem the Series B Preferred Stock and to pay all accumulated but unpaid dividends on the Series A Preferred Stock. Thereafter, the Series A Preferred Stock will accumulate dividends at the rate of 16.5% per annum. Subject to restrictions imposed by certain indebtedness of the Company, Holdings may redeem shares of the Preferred Stock at any time at redemption prices ranging from 103% of liquidation value plus accumulated and unpaid dividends at October 17, 1997 to 100% of liquidation value plus accumulated and unpaid dividends at October 17, 2000 and thereafter. In certain circumstances (including a change of control of Holdings), subject to restrictions imposed by certain indebtedness of the Company, Holdings may be required to repurchase shares of the Preferred Stock at liquidation value plus accumulated and unpaid dividends.

Accumulated but unpaid dividends amounted to $5,296,000 at January 31, 1998 and were recorded as an increase to redeemable preferred stock and a reduction of retained earnings.

(9) COMMITMENTS AND CONTINGENCIES

(A) OPERATING LEASES

As of January 31, 1998, the Company was obligated under various long-term operating leases for retail and outlet stores, warehouses, office space and equipment requiring minimum annual rentals. These operating leases expire on varying dates to 2012. At January 31, 1998 aggregate minimum rentals in future periods are as follows:

Fiscal Year	Amount
1998	$ 33,578,000
1999	33,504,000
2000	30,656,000
2001	27,924,000
2002	26,375,000
Thereafter	130,935,000

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 1997, 1996 and 1995 was $35,753,000, $29,852,000 and $27,366,000, including contingent rent based on store sales of $2,877,000, $2,850,000 and $2,197,000.

(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 involved in various legal proceedings, both as plaintiff and as defendant, which are routine litigations incidental to the conduct of its business. The Company believes that the ultimate resolution of these matters will not have a material effect on its financial position.

(10) EMPLOYEE BENEFIT PLAN

The Company has a thrift/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 thrift/savings plan for fiscal 1997, 1996 and 1995 were $1,780,000, $1,680,000 and $1,478,000.

(11) LICENSE AGREEMENT

The Company has a licensing agreement through January 2003 with Itochu, a Japanese trading company. The agreement permits Itochu to distribute J. Crew merchandise in Japan. 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 1997, 1996 and 1995 was $2,897,000, $3,817,000 and $3,975,000.

(12) INTEREST EXPENSE - NET

Interest expense, net consists of the following:

	Fiscal Year		
	1997	1996	1995
Interest expense	$ 20,636,000	10,613,000	9,548,000
Interest income	(142,000)	(143,000)	(198,000)
Interest expense, net	$ 20,494,000	10,470,000	9,350,000

(13) FINANCIAL INSTRUMENTS

The following disclosure about the fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." The fair value of the Company's long-term debt, including current portion, is estimated to be approximately, $275,290,000 and $89,100,000 at January 31, 1998 and 1997, respectively, and is based on dealer quotes or quoted market prices of the same or similar instruments or management's estimate of the present value of future cash flows discounted at the current market rate for financial instruments with similar characteristics and maturity. The carrying amounts of long-term debt were $298,161,000 and $87,092,000 at January 31, 1998 and 1997. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, 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.

In October 1997 the Company entered into an interest rate swap agreement for $70 million notional amount, which effectively converted the interest rate on its $70 million term loan from a variable rate to a fixed rate of 6.23% through October 2000. If this agreement was settled on January 31, 1998, the Company would be required to pay $935,000.

(13), CONTINUED

At January 31, 1997, the Company had a forward foreign exchange contract outstanding with J. P. Morgan to deliver 235 million yen on March 31, 1997. This contract was a hedge relating to foreign licensing revenues. The fair value of this contract approximated carrying value due to its short-term maturity. There were no outstanding foreign exchange contracts at January 31, 1998.

The Company is exposed to credit losses in the event of nonperformance by the counterparties to these contracts, but it does not expect any counterparties to fail to meet their obligation given their high-credit rating.

(14) 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 liability method of accounting for income taxes. Under the 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 (benefit) provision for income taxes consists of:

		1997	1996	1995
Current:				
Foreign	$	309,000	400,000	--
Federal		(866,000)	8,984,000	(5,131,000)
State and local		305,000	600,000	500,000
		(252,000)	9,984,000	(4,631,000)
Deferred - Federal and state and local		(5,010,000)	(1,184,000)	8,331,000
Income taxes before tax effect of extraordinary items and cumulative effect of accounting changes		(5,262,000)	8,800,000	3,700,000
Extraordinary item - current - Federal and state and local		(3,127,000)	--	(1,200,000)
Cumulative effect of accounting changes - deferred		--	--	1,800,000
Total (benefit) provision for income taxes	$	(8,389,000)	8,800,000	4,300,000

(14), CONTINUED

A reconciliation between the provision for income taxes based on the U.S. Federal statutory rate and the Company's effective rate is as follows:

	1997	1996	1995
Federal income tax rate	(35.0)%	35.0%	35.0%
Foreign	0.8	0.9	--
State and local income taxes, net of Federal benefit	(1.8)	5.3	5.1
Nondeductible expenses	14.9	--	--
Effective tax rate	(21.1) %	41.2%	40.1%

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

		January 31 1998	1997
Deferred tax assets:			
Allowance for doubtful accounts	$	2,118,000	1,769,000
Net operating loss carryforwards		4,074,000	1,300,000
Difference in book and tax basis for property and equipment		2,277,000	2,212,000
Other		2,601,000	943,000
		11,070,000	6,224,000
Deferred tax liabilities:			
Prepaid catalog expenses and other prepaid expenses		(19,051,000)	(18,779,000)
Net deferred income taxes	$	(7,981,000)	(12,555,000)

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets. At January 31, 1998, the Company had Federal income tax loss carryforwards of approximately $2,860,000 which expire in 2012. The Company also had state and local income tax loss carryforwards of varying amounts.

(15) EXTRAORDINARY ITEMS

In June 1995, the Company prepaid $58 million principal amount of senior notes and recorded an extraordinary loss of $1,679,000 (net of an income tax benefit of $1,200,000), consisting of the write-off of deferred financing costs and redemption premiums related to the early retirement of debt.

In October 1997, the Company prepaid $85 million principal amount of senior notes and recorded an extraordinary loss of $4,500,000 (net of an income tax benefit of $3,127,000) consisting of the write-off of deferred financing costs and redemption premiums related to the early retirement of debt.

(16) ACCOUNTING CHANGES

Effective February 4, 1995, the Company changed its method of accounting for catalog costs to conform with the provisions of the SOP 93-7. SOP 93-7 requires that the amortization of capitalized advertising costs should 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. Prior to fiscal 1995, such costs were amortized on a straight-line basis over the estimated productive life of the catalog. The cumulative effect of applying this change in accounting on prior periods was a decrease in net income of $1,600,000 (net of an income tax benefit of $ 1,000,000).

Effective February 4, 1995, the Company modified its inventory accounting practices to include the capitalization of certain design, purchasing and warehousing costs. Prior to this change, these costs were charged to expense in the period incurred rather than in the period in which the inventories were sold. The Company believes this change is preferable because it provides a better matching of revenues and costs and improves the comparability of operating results and financial position with those of other companies. The cumulative effect of applying this change in accounting on prior periods was an increase in net income of $4,210,000 (net of income taxes of $2,800,000).

(17) COMMON STOCK

The J. Crew Group, Inc. Stock Option Plan (the "Option Plan") was adopted by the Company in 1997. Under the terms of the Option Plan, an aggregate of 7,388 shares are available for grant to certain key employees or consultants. During 1997, 3,934 shares were granted under the Option Plan at an exercise price per share of $1,364 for 3,114 shares, $1,705 for 164 shares, $2,131 for 164 shares, $2,664 for 164 shares, $3,330 for 164 shares and $4,162 for 164 shares.

(17), CONTINUED

The options have a term of ten years and become exercisable over a period of five years. At January 31, 1998, 147 shares were exercisable.

Options granted under the Option Plan are subject to various conditions, including under some circumstances, the achievement of certain performance objectives.

(18) EMPLOYEE RESTRICTED STOCK

Under the terms of an employment agreement with a key executive 3,308 shares of restricted stock were awarded on January 1, 1998. These shares will vest from January 1, 1998 through October 17, 2002. Deferred compensation of $4.5 million will be charged to expense over the vesting period.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

($ IN THOUSANDS)

	beginning balance	additions: charged to cost and expenses	additions: charged to other accounts
Allowance for doubtful accounts			
(deducted from accounts receivable)			
fiscal year ended:			
January 31, 1998	$4,357	$7,343	___
January 31, 1997	4,824	6,945	___
February 2, 1996	6,518	7,277	___

(a) accounts deemed to be uncollectible

	beginning balance	additions: charged to cost and expenses	additions: charged to other accounts
Inventory impairment reserve			
(deducted from inventories)			
fiscal year ended:			
January 31, 1998	$3,289	$1,111(b)	___
January 31, 1997	5,226	(1,937)(b)	___
February 2, 1996	9,074	(3,848)(b)	___
Allowance for sales returns			
(included in other current liabilities)			
fiscal year ended:			
January 31, 1998	$2,406	$1,123(b)	___
January 31, 1997	2,384	22(b)	___
February 2, 1996	1,935	449(b)	___

	deductions	ending balance
Allowance for doubtful accounts		
(deducted from accounts receivable)		
fiscal year ended:		
January 31, 1998	$ (6,262)(a)	$5,438
January 31, 1997	(7,412)(a)	4,357
February 2, 1996	(8,971)(a)	4,824

(a) accounts deemed to be uncollectible

	deductions	ending balance
Inventory impairment reserve		
(deducted from inventories)		
fiscal year ended:		
January 31, 1998	___	$4,400
January 31, 1997	___	3,289
February 2, 1996	___	5,226
Allowance for sales returns		
(included in other current liabilities)		
fiscal year ended:		
January 31, 1998	___	$3,529
January 31, 1997	___	2,406
February 2, 1996	___	2,384

(b) The inventory impairment 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.

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.

By: /s/ Emily Woods Date: May 1, 1998

Emily Woods
Chairman of the Board

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

Signature	Title	Date
/s/ Emily Woods Emily Woods	Chairman of the Board	May 1, 1998
/s/ Nicholas Lamberti Nicholas Lamberti	Vice President -- Corporate Controller	May 1, 1998

EXHIBIT INDEX

EXHIBIT No.	Description
2.1	Recapitalization Agreement, dated as of July 22, 1997 between TPG Partners II, L.P. and J. Crew Group, Inc. (the "Recapitalization Agreement") (incorporated by reference to Exhibit 2.1 to Registrant's Form S-4 Registration Statement, File No. 333-42427, filed December 16, 1997 (the "Registration Statement")) NOTE: Pursuant to the provisions of paragraph (b)(2) of Item 601 of Regulation S-K, the Registrant hereby undertakes to furnish to the Commission upon request copies of any schedule to the Recapitalization Agreement.
2.2	Amendment to Recapitalization Agreement, dated as of October 17, 1997 between TPG Partners II, L.P. and J. Crew Group, Inc. (the "Amendment") (incorporated by reference to Exhibit 2.2 to the Registration Statement) NOTE: Pursuant to the provisions of paragraph (b)(2) of Item 601 of Regulation S-K, the Registrant hereby undertakes to furnish to the Commission upon request copies of any schedule to the Amendment.
3.1	Restated Certificate of Incorporation of J. Crew Group, Inc. (incorporated by reference to Exhibit 3.1 to the Registration Statement)
3.2	By-laws of J. Crew Group, Inc. (incorporated by reference to Exhibit 3.2 to the Registration Statement)
4.1	Indenture, dated as of October 17, 1997, between J. Crew Group, Inc., as issuer, and State Street Bank and Trust Company, as trustee, relating to the Debentures (the "Indenture") (incorporated by reference to Exhibit 4.3 to the Registration Statement)
4.2	Credit Agreement, dated as of October 17, 1997, among J. Crew Group, Inc., J. Crew Operating Corp., the Lenders Party thereto, the Chase Manhattan Bank, as Administrative Agent, and Donaldson, Lufkin & Jenrette Securities Corporation, as Syndication Agent (incorporated by reference to Exhibit 4.5 to Amendment No. 1 to the Registration Statement, filed February 6, 1998 (the "Amendment No. 1"))
4.3	Guarantee Agreement dated as of October 17, among J. Crew Group, Inc., the subsidiary guarantors of J. Crew Operating Corp. that are signatories thereto and The Chase Manhattan Bank (incorporated by reference to Exhibit 4.6 to the Registration Statement)
4.4	Indemnity, Subrogation and Contribution Agreement dated as of October 17, 1997, among J. Crew Operating Corp., the subsidiary guarantors of J. Crew Operating Corp. that are signatories thereto and The Chase Manhattan Bank (incorporated by reference to Exhibit 4.7 to the Registration Statement)

EXHIBIT No.	Description
4.5	Pledge Agreement, dated as of October 17, among J. Crew Operating Corp., J. Crew Group, Inc., the subsidiary guarantors of J. Crew Operating Corp. that are signatories thereto and The Chase Manhattan Bank (incorporated by reference to Exhibit 4.8 to the Registration Statement)
4.6	Security Agreement, dated as of October 17, among J. Crew Operating Corp., J. Crew Group, Inc., the subsidiary guarantors of J. Crew Operating Corp. that are signatories thereto and The Chase Manhattan Bank (incorporated by reference to Exhibit 4.9 to the Registration Statement)
4.7	Registration Rights Agreement, dated as of October 17, 1997 by and among J. Crew Group, Inc., Donaldson, Lufkin & Jenrette Securities Corporation and Chase Securities Inc. (incorporated by reference to Exhibit 4.10 to the Registration Statement)
	NOTE: Pursuant to the provisions of paragraph (b)(4)(iii) of Item 601 of Regulation S-K, the Registrant hereby undertakes to furnish to the Commission upon request copies of the instruments pursuant to which various entities hold long-term debt of the Company or its parent or subsidiaries, none of which instruments govern indebtedness exceeding 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis.
10.1	Employment Agreement, dated October 17, 1997, among J. Crew Group, Inc., J. Crew Operating Corp., TPG Partners II, L.P. (only with respect to Section 2(c) therein) and Emily Woods (the "Woods Employement Agreement") (incorporated by reference to Exhibit 10.1 to the Registration Statement)
10.2	J. Crew Operating Corp. Senior Executive Bonus Plan (included as Exhibit A to the Woods Employment Agreement filed as Exhibit 10.1)
10.3	Stock Option Grant Agreement, made as of October 17, 1997 between J. Crew Group, Inc. and Emily Woods (time based) (incorporated by reference to Exhibit 10.3 to the Registration Statement)
10.4	Stock Option Grant Agreement, made as of October 17, 1997 between J. Crew Group, Inc. and Emily Woods (performance based) (incorporated by reference to Exhibit 10.4 to the Registration Statement)
10.5	Letter Agreement between Matthew Rubel and J. Crew Group, Inc. (incorporated by reference to Exhibit 10.5 to Amendment No. 2 to the Registration Statement, filed February 26, 1998)

EXHIBIT No.	Description
10.6	Employment Agreement, dated February 24, 1998, among J. Crew Group, Inc., J. Crew Operating Corp., TPG Partners II, L.P. (only with respect to Section 7 therein) and Howard Socol
10.7	Stockholders' Agreement, dated as of October 17, 1997, among J. Crew Group, Inc. and the Stockholder signatories thereto (incorporated by reference to Exhibit 4.1 to the Registration Statement)
10.8	Stockholders' Agreement, dated as of October 17, 1997, among J. Crew Group, Inc., TPG Partners II, L.P. and Emily Woods (included as Exhibit B to the Woods Employment Agreement filed as Exhibit 10.1)
10.9	J. Crew Group, Inc. 1997 Stock Option Plan (incorporated by reference to Exhibit 10.13 to the Registration Statement)
10.10	Contract Carrier Agreement, between J. Crew Group, Inc. and United Parcel Service, Inc. (incorporated by reference to Exhibit 10.6 to the Registration Statement)
10.11	Custom Pricing Agreement, made November 15, 1996 between Federal Express Corporation and J Crew Group, Inc. (incorporated by reference to Exhibit 10.7 to the Registration Statement)
10.12	Lease dated as of October 21, 1981 between Vornado, Inc. and Popular Services, Inc. (incorporated by reference to Exhibit 10.8 to the Registration Statement)
10.13	Agreement of Sublease dated November 4, 1993 between Revlon Holdings Inc., as Sublessor, and Popular Club Plan, Inc., as Sublessee (incorporated by reference to Exhibit 10.9 to the Registration Statement)
10.14	Letter Agreement dated July 29, 1996 between World Color and Clifford & Wills, Inc. (incorporated by reference to Exhibit 10.10 to the Registration Statement)
10.15	Agreement dated August 14, 1997 between R.R. Donnelley & Sons Company and J. Crew Inc. (incorporated by reference to Exhibit 10.11 to the Registration Statement)
10.16	Letter Agreement, dated April 17, 1998, betweem J. Crew Operating Corp. and Barry Erdos
21.1	Subsidiaries of J. Crew Group, Inc. (incorporated by reference to Exhibit 21.1 to the Amendment No. 1)
27.1	Financial Data Schedule

EXHIBIT 10.6

EMPLOYMENT AGREEMENT

AGREEMENT, dated this 24th day of February, 1998 (the "Agreement"), among J. Crew Group, Inc., a New York Corporation (the "Parent") and its operating subsidiary J. Crew Operating Corp. (the "Subsidiary" and collectively with the Parent, the "Employer"), with offices at 770 Broadway, New York, New York, TPG Partners II, L.P. ("TPG II") (only with respect to Section 7 herein) and Howard Socol (the "Employee").

1. Employment, Duties, Authority and Agreements.

(a) The Employer hereby agrees to cause the Employee to be elected as a member of the Board of Directors of the Parent and to employ the Employee as Chief Executive Officer of the Parent and the Subsidiary and the Employee hereby accepts such positions and agrees to serve the Parent and the Subsidiary in such capacities during the employment period fixed by Section 3 hereof (the "Employment Period"). The Employee shall report solely and directly to the Board of Directors of the Parent (the "Board") and to the Executive Committee of the Board. The Employee will have such duties, responsibilities and authority as are customary for chief executive officers of catalogue and specialty retailing, including direct authority over those divisions as shown on the organizational chart attached hereto as Exhibit C. During the Employment Period, the Employee shall be subject to, and shall act in substantial accordance with, all reasonable instructions and directions of the Board and all applicable reasonable policies and rules thereof as are consistent with the above title, duties, responsibilities and authority.

(b) During the Employment Period and as long as the Employer shall not be in default of a material obligation hereunder, excluding any periods of vacation and sick leave to which the Employee is entitled, the Employee shall devote his full working time, energy and attention to the performance of his duties and responsibilities hereunder and shall faithfully and diligently endeavor to promote the business and best interests of the Employer.

(c) During the Employment Period and so long as the Employer shall not be in default of a material obligation hereunder, the Employee may not, without the prior written consent of the Board, 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 Employer), provided that it shall not be a violation of the foregoing for the Employee to (i) act or serve as a director, trustee or committee member of any civic or charitable organization and (ii) manage his personal, financial and legal affairs, so long as such activities (described in clauses (i) and (ii)) do not interfere with the performance of his duties and responsibilities to the Employer as provided hereunder.

2. Compensation.

(a) As compensation for the agreements made by the Employee herein and the performance by the Employee of his obligations hereunder, during the Employment Period, the Employer shall pay the Employee, not less than once a month pursuant to the Employer's normal and customary payroll procedures, a base salary at the rate of $1,000,000 per annum (the "Base Salary"), provided that such base salary shall increase to $1,200,000 per annum in any fiscal year following a fiscal year in which the Employer's EBITDA (as reflected on the Employer's audited financial statements) equals or exceeds $75 million. The Base Salary may also be increased further in the absolute discretion of the Board.

(b) In addition to the Base Salary, during the Employment Period the Employee shall have an opportunity to earn an annual bonus (the "Bonus") in accordance with the terms of the J. Crew Operating Corp. Senior Executive Bonus Plan for Howard Socol attached hereto as Exhibit A (the "Bonus Plan"), provided that, with respect to the fiscal year beginning in 1998, the Employee's Bonus under the Bonus Plan shall be at least $500,000, regardless of whether the performance objectives under the Bonus Plan are achieved.

(c) As soon as practicable after the Effective Date (as defined in Section 3 below) but in no event later than ten (10) days after the Effective Date, the Employer will pay the Employee $1,500,000 (the "Signing Bonus"), provided that the Employee will be required to pay back the entire Signing Bonus in the event he voluntarily terminates his employment hereunder prior to the first anniversary of the Effective Date, and to the extent the Employee fails to pay back any portion of the Signing Bonus as provided herein, the Employer shall have the right to offset any other payments provided hereunder by such amount.

(d) On the Effective Date (as defined in Section 3 below), the Employer shall grant the Employee restricted shares of common stock of the Parent representing, as of the Effective Date, 3.75% of the total outstanding common stock of the Parent including all issued or awarded options to purchase, or other equity securities convertible to, shares of common stock of the Parent (the "Restricted Shares"). Twenty-five percent of the Restricted Shares shall vest and become non-forfeitable on each of the first through the fourth anniversaries of the Effective Date, provided that the Employee is still employed by the Employer on such anniversary. Notwithstanding the foregoing, in the event that the Employee's employment hereunder is terminated by the Employer without Cause, any portion of the Restricted Shares not previously forfeited which would have vested within two years of the date of such termination shall immediately vest and become non-forfeitable on such date of termination and, in the event of a Change in Control (as defined below), all or any portion of the Restricted Shares not previously forfeited shall immediately vest and become non-forfeitable on the date such Change in Control occurs. If the Employment Period terminates for any other reason, the Restricted Shares which have not vested and become non-forfeitable on such date of termination shall be forfeited by the Employee and returned to the Employer. Notwithstanding anything to the contrary in the Stockholders' Agreement, the certificates representing the Restricted Shares shall be held in custody by the Employer until the vesting thereof and shall not be transferred until such shares become vested as provided herein. All cash, securities and other property paid or otherwise distributed with respect to the Restricted Shares which have not vested shall be held in custody by the Employer and shall be subject to the same vesting, forfeiture and distribution rules described above with respect to the Restricted Shares related thereto. In addition, the Employee shall be entitled to direct the Employer as to the manner in which the Restricted Shares held in custody by the Employer shall be voted.

(e) The term "Change in Control" shall mean the occurrence of any of the following events: (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Parent or Subsidiary to any Person or group of related persons for purposes of Section 13(d) of the Securities Exchange Act of 1934 (a "Group"), together with any affiliates thereof other than to TPG II; (ii) the approval by the holders of capital stock of the Parent or Subsidiary of any plan or proposal for the liquidation or dissolution of the Parent or Subsidiary, as the case may be; (iii) (A) any Person or Group (other than TPG II) shall become the owner, directly or indirectly, beneficially or of record, of shares representing more than 40% of the aggregate voting power of the issued and outstanding stock entitled to vote in the election of directors, managers or trustees (the "Voting Stock") of the Parent or Subsidiary and (B) TPG II beneficially owns, directly or indirectly, in the aggregate a lesser percentage of the Voting Stock of the Parent or Subsidiary than such other Person or Group; (iv) the replacement of a majority of the Board of Directors of the Parent or Subsidiary over a two-year period from the directors who constituted the Board of Directors of the Parent or Subsidiary, as the case may be, at the beginning of such period, and such replacement shall not have been approved by a vote of at least a majority of the Board of Directors of the Parent or Subsidiary, as the case may be, then still in office who either were members of such Board of Directors at the beginning of such period or whose election as a member of such Board of Directors was previously so approved or who were nominated by, or designees of, TPG II; (v) any Person or Group other than TPG II shall have acquired the power to elect a majority of the members of the Board of Directors of the Parent; or (vi) a merger or consolidation of the Parent with another entity in which holders of the common stock of the Parent immediately prior to the consummation of the transaction hold, directly or indirectly, immediately following the consummation of the transaction, 50% or less of the common equity interest in the surviving corporation in such transaction. For purposes of the Agreement, "Person" shall mean an individual, partnership, corporation, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

(f) In connection with the grant of the Restricted Shares, the Employee shall make an election within thirty days of the Effective Date, to include in gross income on the date of the grant the value of the Restricted Shares on such date pursuant to Section 83(b) (the "Section 83(b) Election") of the Internal Revenue Code of 1986, as amended. Upon notification from the Employee that the Section 83(b) Election has been made, the Employer shall pay the appropriate depository an amount equal to the Employee's federal, state and local income and payroll tax withholding obligations with respect to (i) the value of the Restricted Shares (the

"Restricted Share Value"), which value shall be mutually agreed upon by the parties, and (ii) the income required to be recognized by the Employee as a result of the payment by the Employer of such withholding obligations, in each case based on withholding rates determined by the Employer in compliance with applicable law, provided that with respect to the Employee's federal income tax, the withholding rate shall be thirty-six percent (36%) (such sum paid by the Employer hereinafter referred to as the "Withholding Amount"). At least thirty days before the Employee's due date for 1998 Federal income taxes (without consideration for any extensions filed thereto), the Employee shall provide a certificate to the Employer in which the Employee shall represent to the Employer the Employee's highest marginal income tax rate applicable to his actual income with respect to each of his federal, state and local income taxes for 1998. The "Stock Gross-Up Payment" shall be determined by an accounting firm mutually agreed upon by the parties (whose expenses will be paid by the Employer) and shall equal an amount such that, after payment of all federal, state and local income and payroll taxes ("Taxes") on the Stock Gross-Up Payment, the Employee will retain an amount sufficient to pay all Taxes that he is required to pay as a result of the grant of the Restricted Shares and the Section 83(b) Election. The calculation of the amount of the Stock Gross-Up Payment shall (i) take into account any marginal deduction with respect to the Employee's Federal income tax liability for state and local income taxes paid with respect to the grant of Restricted Shares and the Stock Gross-Up Payment to which the Employee will be entitled, and (ii) notwithstanding the time of year in which any payments are made hereunder by the Employer, be based on payroll taxes on income in excess of $100,000. The determination of the accounting firm shall be final and binding upon the Employee and the Employer. After the accounting firm notifies the Employer of the amount of the Stock Gross-Up Payment and no later than fifteen days prior to the Employee's due date for his 1998 Federal income taxes (without consideration for any extensions filed thereto), the Employer shall pay the Employee the excess, if any, of the Stock Gross-Up Payment over the Withholding Amount or the Employee shall pay the Employer the excess, if any, of the Withholding Amount over the Stock Gross-Up Payment, as applicable.

(g) All shares of common stock of the Parent acquired by the Employee under this Agreement or otherwise shall be subject to the Stockholders' Agreement attached hereto as Exhibit B.

(h) During the Employment Period, the Employee shall be entitled to the following benefits and perquisites:

(i) medical and dental benefits (including for the employee's spouse) paid 100% by the Employer;

(ii) life insurance equal to two (2) times Base Salary;

(iii) long-term disability plan providing a disability benefit equal to two-thirds of Base Salary in the event of permanent disability to the extent such insurance is reasonably available in the market;

(iv) a car and driver provided by the Employer;

(v) reimbursement of reasonable personal counseling services not to exceed $12,000 per year;

(vi) the provision of J. Crew Brand clothing (including for the Employee's spouse and children); and

(i) During the Employment Period: (i) except as specifically provided herein, the Employee shall be entitled to participate in all savings and retirement plans, practices, policies and programs of the Employer and which are made available generally to other executive officers of the Employer and (ii) except as specifically provided herein, the Employee and/or the Employee's family, as the case may be, shall be eligible for participation in, and shall receive all benefits under, all welfare benefit plans, practices, policies and programs provided by the Employer and its affiliated companies which are made available generally to other executive officers of the Employer (for the avoidance of doubt, such plans, practices, policies or programs shall not include any plan, practice, policy or program which provides benefits in the nature of severance or continuation pay).

(j) During the Employment Period, the Employee shall be entitled to paid vacation of at least four weeks per year. The ability to carry forward vacation time shall be subject to the Employer's vacation policy applicable generally to executive officers of the Employer as in effect from time to time.

(k) With respect to the Employee's relocation from Florida to the New York area, the Employer will provide the following payments or reimbursements of expenses and relocation benefits:

(i) Until the Employee obtains a permanent residence in the New York area but no longer than six (6) months after the Effective Date, the Employer will provide the Employee with weekly first class air travel between New York and Florida for both the Employee and his spouse and the Employer will provide the Employee with the use of a furnished apartment reasonably acceptable to the Employee in the New York area;

(ii) After the Employee's current residence in Florida (the "Florida Residence") has been listed on a multiple listing service covering the area in which the Florida Residence is located ("Local Area") or with a reputable real estate broker in the Local Area for a four-month period, the Employer will retain three independent third-party real estate appraisers to appraise the Florida Residence. The average of the three appraisals obtained by the Employer shall be referred to herein as the "Appraised Value." If the Florida Residence has not been sold following such four-month period, the Employer will either, (A) purchase or cause another entity to purchase the Florida Residence for the Appraised Value or

(B) if the Employee sells the Florida Residence to an independent third-party purchaser for less than the Appraised Value in a transaction approved by the Employer, pay the Employee an amount equal to the excess of (x) the Appraised Value over (y) the proceeds received by the Employee as a result of such sale;

(iii) the Employer will reimburse the Employee for the closing costs including reasonable brokerage fees and expenses incurred by the Employee with respect to the sale of the Florida Residence and incurred within six months of the Effective Date by the Employee with respect to his lease or purchase of a new residence in the New York area, excluding the purchase price for such residence and any mortgage points.

(l) The Employer shall promptly reimburse the Employee for all reasonable business expenses upon the presentation of statements of such expenses in accordance with the Employer'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 Employer.

3. Employment Period.

The Employment Period shall commence on the date hereof (the "Effective Date") and shall terminate on the day preceding the fourth anniversary of the Effective Date (the "Scheduled Termination Date"); provided, however, that the Employee's employment hereunder may be terminated during the Employment Period prior to the Scheduled Termination Date upon the earliest to occur of the following events (at which time the Employment Period shall be terminated):

(a) Death. The Employee's employment hereunder shall terminate upon his death.

(b) Disability. The Employer shall be entitled to terminate the Employee's employment hereunder for "Disability" if, as a result of the Employee's incapacity due to physical or mental illness, the Employee 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 Notice of Termination (as defined in Section 4 below) for Disability is given following such 6-month or 180/365-day period, as the case may be, the Employee shall not have returned to the performance of his duties on a full-time basis.

(c) Cause. The Employer may terminate the Employee's employment hereunder for Cause. For purposes of this Agreement, the term "Cause" shall mean: (i) a willful and material violation by the Employee of either Section 1(c) or 12 of this Agreement; (ii) the willful failure by the Employee to substantially perform the duties reasonably assigned to him within the scope of the Employee's duties and authority as stated in Section 1(a) hereunder (other than as a result of physical or mental illness or injury), after the Board delivers to the Employee a written demand for substantial performance that specifically identifies the manner in which the

Employee has not substantially performed the Employee's duties and provides the Employee ten (10) days to begin to substantially perform, provided that the Employer shall not have the right to terminate the Employee's employment hereunder for Cause if the Employee begins to substantially perform within such ten-day period; (iii) the Employee's willful misconduct, willful waste of corporate assets or gross negligence which in any such event substantially and materially injures the Employer; or (iv) the indictment of the Employee for a felony or other serious crime involving moral turpitude. If, subsequent to the Employee's termination of employment hereunder for other than Cause, it is discovered that the Employee's employment could have been terminated for Cause due to a subsequent conviction of the Employee for a criminal offense against the Employer, the Employee's employment shall, at the election of the Employer, be deemed to have been terminated for Cause retroactively to the date the events giving rise to Cause occurred.

(d) Without Cause. The Employer may terminate the Employee's employment hereunder without Cause.

(e) Voluntarily. The Employee may voluntarily terminate his employment hereunder, provided that the Employee provides the Employer with notice of his intent to terminate his employment at least three months in advance of the Date of Termination (as defined in Section 4 below). The Employee and the Employer shall mutually agree on the time, method and content of any public announcement regarding the Employee's termination of employment hereunder and neither the Employee nor the Employer shall make any public statements which are inconsistent with the information mutually agreed upon by the Employer and the Employee 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 Employee and Employer as described above.

4. Termination Procedure.

(a) Notice of Termination. Any termination of the Employee's employment by the Employer or by the Employee during the Employment Period (other than termination pursuant to Section 3(a)) shall be communicated by written "Notice of Termination" to the other party hereto in accordance with Section 13(a). For purposes of this Agreement, a Notice of Termination shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provision so indicated and shall attach any prior notices required under Section 3.

(b) Date of Termination. "Date of Termination" shall mean (i) if the Employee's employment is terminated by his death, the date of his death, (ii) if the Employee's employment is terminated pursuant to Section 3(b), thirty (30) days after Notice of Termination, (iii) if the Employee voluntarily terminates his employment, the date specified in the notice given pursuant to Section 3(e) herein and (iv) if the Employee'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.

5. Termination Payments.

(a) Without Cause. In the event of the termination of the Employee's employment during the Employment Period by the Employer without Cause, the Employee shall be entitled to a payment, within thirty (30) days following the Date of Termination, of (i) the Employee's Base Salary through the Date of Termination (to the extent not theretofore paid) and any unreimbursed expenses pursuant to Section 2(h), (k) and (l) herein (the "Accrued Obligations"), (ii) any earned but unpaid Bonus in respect of a Bonus Period ending prior to or coincident with the Date of Termination and (iii) a lump-sum payment equal to two (2) times Base Salary (as in effect on the Date of Termination). The Employee shall also be entitled to a payment, as soon as practicable after the end of the fiscal year in which the Date of Termination occurs, of the Bonus payable in accordance with the Bonus Plan attached as Exhibit A hereto, if any, calculated as if the Employee had been employed by the Employer through the end of such fiscal year. The payments provided in this Section 5(a) are conditioned upon and subject to the Employee executing a valid general release and waiver, waiving all claims the Employee may have against the Employer, its affiliates, directors, officers and employees. The Employer shall have no additional obligations under this Agreement.

(b) Cause. If the Employee's employment is terminated during the Employment Period by the Employer for Cause, the Employer shall pay to the Employee or to his estate in the event of his death, within thirty (30) days of the Date of Termination, (i) the Accrued Obligations and (ii) any earned but unpaid Bonus in respect of a Bonus Period ending prior to the Date of Termination, but only if the event constituting Cause occurs after the termination of such Bonus Period. The Employer shall have no additional obligations under this Agreement.

(c) Voluntary, Death or Disability. If the Employee's employment is terminated by the Employee or as a result of his death or Disability, the Employer shall pay to the Employee or to his estate in the event of his death, within thirty (30) days of the Date of Termination, (i) the Accrued Obligations and (ii) any earned but unpaid Bonus in respect of a Bonus Period ending prior to or coincident with the Date of Termination. In addition, with respect to a termination of the Employee's employment hereunder as a result of death or Disability, the Employer shall pay the Employee a pro-rata bonus in respect of the year in which such termination occurs determined pursuant to Section 3 of the Bonus Plan as if the Employee's Date of Termination was the Scheduled Termination Date. The Employer shall have no additional obligations under this Agreement.

6. Change in Control.

Within the one-year period immediately following a Change in Control (as defined in Section 2(e) herein), the Employee may voluntarily terminate his employment hereunder and such termination will be deemed a termination without Cause by the Employer entitling the Employee to the payments described in Section 5(a) herein.

7. Bankruptcy Proceeding; TPG II Guarantee.

In the event the Employer files a petition for relief under the U.S. Bankruptcy Code, TPG II will guarantee the Employee's Base Salary for the one-year period immediately following the date of such filing provided that the Employee continues to be employed with the Employer unless the Employee's failure to remain employed is the result of the Employer terminating his employment hereunder without Cause.

8. Non-exclusivity of Rights.

Any vested benefits and other amounts that the Employee is otherwise entitled to receive under any employee benefit plan, policy, practice or program of the Employer or any of its affiliated companies shall be payable in accordance with such employee benefit plan, policy, practice or program as the case may be, except as explicitly modified by this Agreement.

9. Full Settlement.

The Employer's obligation to make the payments provided for in, and otherwise to perform its obligations under, this Agreement shall not be affected by any set off, counterclaim, recoupment, defense or other claim, right or action that the Employer may have against the Employee or others; provided that this provision shall not apply (i) with respect to any debt owed by the Employee to the Employer or any of its affiliates, (ii) with respect to the Employee's obligations, if applicable, under Section 2(c) hereof or (iii) in the event the Employee's employment is terminated by the Employer for Cause.

10. Legal Fees.

(a) The Employer shall reimburse the Employee for reasonable attorneys' fees and expenses and other reasonable fees incurred in connection with the preparation of this Agreement not to exceed $20,000.

(b) In the event of any contest or dispute between the Employer and the Employee with respect to this Agreement or the Employee's employment hereunder, each of the parties shall be responsible for their respective legal fees and expenses.

11. Indemnification.

(a) The Employer agrees to defend, indemnify and hold the Employee harmless for all claims asserted against and liabilities incurred by the Employee as a result of any action taken by the Employee's former employer and directly related to the Employee's employment hereunder, provided that the Employee fully cooperates with the Employer in defending or participating in any such action. This Section 11(a) shall survive any termination of the Employee's employment hereunder including the termination of the Employment Period.

(b) The Employee hereby represents to the Employer that he will not utilize or disclose any confidential information obtained by the Employee in connection with his former employment with respect to his duties and responsibilities hereunder.

12. Non-Solicitation.

(a) During the Employment Period and so long as the Employer is not in default of a material obligation hereunder, the Employee agrees not to offer employment to any employee of the Employer or any of its affiliates for other than employment by the Employer or attempt to induce any such employee to leave the employ of the Employer or any subsidiaries of the Employer and the Employee further agrees not to solicit any clients or suppliers of the Employer to do business with any competing business of the Employer.

(b) The parties hereto hereby declare that it is impossible to measure in money the damages which will accrue to the Employer by reason of a failure by the Employee to perform any of his obligations under this Section 12. Accordingly, if the Employer institutes any action or proceeding to enforce the provisions hereof, to the extent permitted by applicable law, the Employee hereby waives the claim or defense that the Employer has an adequate remedy at law, and the Employee shall not urge in any such action or proceeding the defense that any such remedy exists at law.

13. 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 Employer:

J. Crew Group, Inc.
770 Broadway
Fourth Floor
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 Employee:

Mr. Howard Socol
11 Tahiti Beach Road
Coral Gables, FL 33143

with a copy to:

Stephen N. Lipton, Esq.
Goldberg, Young & Gravenhorst, P.A.
1630 North Federal Highway
P.O. Box 23800
Fort Lauderdale, Florida 33307

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) This Agreement and all Exhibits hereto, including the Bonus Plan and the Stockholders' Agreement dated as of February 24, 1998 by and between the Employee and the Parent, constitute the entire agreement among the parties hereto with respect to the Employee's Employment, and supersedes and is in full substitution for any and all prior understandings or agreements with respect to the Employee's Employment.

(c) 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.

(d) (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 Employer or by the Employee.

(ii) The Employer 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 Employer expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Employer would have been required to perform it if no such succession had taken place. As used in the Agreement, "the Employer" shall mean both the Employer as defined above and any such successor that assumes and agrees to perform this Agreement, by operation of law or otherwise.

(e) 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 so broad as is enforceable.

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

(g) 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.

(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) Exhibit A hereto shall be subject to the provision of paragraphs (a), (c), (d), (f), (g) and (i) of this Section 13.

IN WITNESS WHEREOF, the parties have executed this Agreement, except that TPG II is only a party to this Agreement with respect to its obligations under Section 7 hereof, as of the date first written above.

J. CREW GROUP, INC.

/s/

Name:
Title:

J. CREW OPERATING CORP.

/s/

Name:
Title:

TPG Partners II, L.P.

/s/

Name:
Title:

/s/

Howard Socol

EXHIBIT A

J. CREW OPERATING CORP. SENIOR EXECUTIVE BONUS PLAN FOR HOWARD SOCOL

1. Definitions; References

As used herein, the following terms shall have the meanings indicated below. Capitalized terms used in this Plan but not defined herein shall have the meanings assigned to them in the Employment Agreement.

(a) "Annual EBITDA Performance Objective" shall mean the EBITDA performance objectives determined pursuant to Section 2(a) herein for each Bonus Period.

(b) "Bonus," with respect to any Bonus Period, shall mean the cash bonus earned pursuant to Section 2(b) hereof with respect to such Bonus Period.

(c) "Bonus Period" shall mean each fiscal year of the Employer during which this Plan is in effect, provided that the initial Bonus Period shall be the period commencing on the Effective Date of the Employment Agreement and ending on the last day of the fiscal year ending in January 1999.

(d) "EBITDA" shall mean, for any period, the consolidated earnings (losses) of the Employer before extraordinary items and the cumulative effect of accounting changes, as determined by the Employer in accordance with GAAP, and before interest (expense or income), taxes, depreciation, amortization, non-cash gains and losses from sales of assets other than in the ordinary course of business and Valuation Adjustments. For purposes of clarification in determining EBITDA, consolidated earnings shall not be reduced by compensation expenses attributable to this Plan but shall be reduced (or with respect to losses, increased), by compensation expenses attributable to any other compensation plan, program or arrangement of the Employer or any of its affiliates, to the extent such expenses are recorded in accordance with GAAP.

(e) "Employer" shall mean J. Crew Operating Corp. and the subsidiaries with which its financial accounts are required to be consolidated under GAAP.

(f) "Employment Agreement" shall mean the Employment Agreement dated February 24, 1998, between Howard Socol, J. Crew Group, Inc., J. Crew Operating Corp. and, for certain purposes, TPG Partners II, L.P.

(g) "GAAP" shall mean the U.S. generally accepted accounting principles.

(h) "Participant" shall mean Howard Socol.

(i) "Payment Date," with respect to a Bonus Period, shall mean the date on which a Bonus is paid with respect to such Bonus Period, but shall not be later than the last date on which a Bonus earned with respect to such Bonus Period may be paid pursuant to Section 2(c) hereof.

(j) "Plan" shall mean this J. Crew Group, Inc. Senior Executive Bonus Plan for Howard Socol.

(k) "Target Bonus" shall mean 100% of Participant's annual Base Salary, provided that, with respect to the initial Bonus Period, the Target Bonus shall be equal to the product of 100% of Participant's annual Base Salary multiplied by a fraction, the numerator of which is the number of whole days from and including the Effective Date to and including the last day of such Bonus Period, and the denominator of which is 365.

(l) "Valuation Adjustments" shall mean that amount of non-cash expense charged against earnings for any period resulting from the application of accounting for business combinations in accordance with Accounting Principles Board Opinion #16. These charges may include, but are not limited to, amounts such as inventory revaluations, property, plant and equipment revaluations, goodwill amortization and finance fee amortization.

2. Determination and Payment of Bonus Amounts

(a) The Board will determine the Annual EBITDA Performance Objectives within sixty (60) days after the beginning of each Bonus Period and will notify the Participant thereof. The parties intend that the financial assumptions that will form the starting point for the determination of the EBITDA Performance Objectives are the assumptions determined by the Board for executives of the Employer generally but that the final determination is intended to reflect changes in capitalization, prior performance of the Employer and any other relevant business and financial criteria.

(b) The amount of the Bonus earned by the Participant for each Bonus Period shall be determined pursuant to the table set forth below. In the event that the EBITDA of the Employer with respect to a Bonus Period is between 90% and 100% of the Annual EBITDA Performance Objective with respect to such Bonus Period, the amount of the Bonus earned by the Participant for such Bonus Period shall be determined on the basis of straight line interpolation based on amounts set forth in such table.

If EBITDA with respect to a Bonus Period equals:	then the Bonus earned with respect to such Bonus Period shall be:
Less than 90% of the Annual EBITDA Performance Objective with respect to such Bonus Period	Zero
90% of the Annual EBITDA Performance Objective with respect to such Bonus Period	50% of the Target Bonus with respect to such Bonus Period
100% of the Annual EBITDA Performance Objective with respect to such Bonus Period	100% of the Target Bonus with respect to such Bonus Period

(c) As soon as practical after the end of each Bonus Period, the Employer shall determine the EBITDA for such Bonus Period and cause such determination to be audited by the Company's independent auditors. The Employer shall pay the Bonus, if any, to the Participant not later than thirty (30) business days after the Employer has received an opinion of its independent auditors concerning the amount of EBITDA, but in no event later than 120 days after the end of such Bonus Period.

3. Effect of Termination of Employment

In the event the Participant's employment with the Employer terminates on the Scheduled Termination Date, the Participant shall be entitled to a Bonus with respect to the Bonus Period in which such Scheduled Termination Date occurs, equal to the product of (A) the amount of Bonus to which the Participant would have been entitled had he remained employed until the end of such Bonus Period, multiplied by (B) a fraction, the numerator of which is the number of whole days from the first day of the Bonus Period up to and including the Scheduled Termination Date, and the denominator of which is 365. In the event the Participant's employment with the Employer terminates pursuant to circumstances entitling the Participant to severance payments under Section 5(a) of the Employment Agreement, the Participant shall be entitled to a Bonus with respect to the Bonus Period in which such Date of Termination occurs, equal to the amount of Bonus to which the Participant would have been entitled had he remained employed until the end of such Bonus Period, provided that the Participant executes a valid general release and waiver in connection with such termination.

EXHIBIT 10.6

STOCKHOLDERS' AGREEMENT

STOCKHOLDERS' AGREEMENT (this "Agreement"), dated as of February 24, 1998, between J. Crew Group, Inc. (the "Company"), TPG Partners II, L.P. ("TPG") and Howard Socol (the "Stockholder").

WHEREAS, the Stockholder is an employee of the Company and in such capacity was granted restricted shares of common stock ("Common Stock") of the Company (the "Restricted Shares"), pursuant to the employment agreement, dated February 24, 1998, between Howard Socol, J. Crew Group, Inc., J. Crew Operating Corp. and, for certain purposes, TPG Partners II, L.P. (the "Employment Agreement");

WHEREAS, as a condition to the issuance of Restricted Shares of Common Stock, the Stockholder is required under the Employment Agreement to execute this Agreement; and

WHEREAS, the Stockholder and the Company desire to enter this Agreement and to have this Agreement apply to the shares to be issued pursuant to the Employment Agreement and to any shares of Common Stock acquired after the date hereof by the Stockholder from whatever source, subject to any future agreement between the Company and the Stockholder to the contrary (in the aggregate, the "Shares").

NOW THEREFORE, in consideration of the premises hereinafter set forth, and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows.

1. Investment. The Stockholder represents that the Shares are being acquired for investment and not with a view toward the distribution thereof.

2. Issuance of Shares. The Company hereby represents to the Stockholder that there are no agreements or arrangements other than this Stockholders' Agreement which would prohibit the issuance of, or restrict the Stockholder's ability to transfer, the Restricted Shares. The Stockholder acknowledges and agrees that the certificate for the Shares shall bear the following legends (except that the second paragraph of this legend shall not be required after the Shares have been registered and except that the first paragraph of this legend shall not be required after the termination of this Agreement):

> The shares represented by this certificate are subject to the terms and conditions of a Stockholders' Agreement dated as of February 24, 1998 and may not be sold, transferred, hypothecated, assigned or encumbered, except as may be permitted by the aforesaid Agreement. A copy of the Stockholders' Agreement may be obtained from the Secretary of the Company.

The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares have been acquired for investment and may not be sold, transferred, pledged or hypothecated in the absence of an effective registration statement for the shares under the Securities Act of 1933 or an opinion of counsel for the Company that registration is not required under said Act.

Upon the termination of this Agreement, or upon registration of the Shares under the Securities Act of 1933 (the "Securities Act"), the Stockholder shall have the right to exchange any Shares containing the above legend (i) in the case of the registration of the Shares, for Shares legended only with the first paragraph described above and (ii) in the case of the termination of this Agreement, for Shares legended only with the second paragraph described above.

3. Transfer of Shares; Call Rights.

(a) The Stockholder agrees that he will not cause or permit the Shares or his interest in the Shares to be sold, transferred, hypothecated, assigned or encumbered except as expressly permitted by this Section 3; provided, however, that the Shares or any such interest may be transferred (i) on the Stockholder's death by bequest or inheritance to the Stockholder's executors, administrators, testamentary trustees, legatees or beneficiaries, (ii) to a trust or custodianship the beneficiaries of which may include only the Stockholder, the Stockholder's spouse, or the Stockholder's lineal descendants (by blood or adoption) and (iii) in accordance with Section 4 of this Agreement, subject in any such case to the agreement by each transferee (other than the Company) in writing to be bound by the terms of this Agreement and provided in any such case that no such transfer that would cause the Company to be required to register the Common Stock under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), shall be permitted.

(b) The Company (or its designated assignee) shall have the right, during the one-hundred-twenty-day period (x) immediately following the termination of the Employee's employment with the Company for any reason in respect of Shares acquired by the Stockholder prior to such termination and (y) immediately following the date of the acquisition of any Shares acquired by the Stockholder following the termination of the Employee's employment for any reason, to purchase from the Stockholder, and upon the exercise of such right the Stockholder shall sell to the Company (or its designated assignee), all or any portion of the Shares held by the Stockholder as of the date as of which such right, is exercised at a per Share price equal to the Fair Market Value of a share of Common Stock determined as of the date as of which such right is exercised. The Company (or its designated assignee) shall exercise such right by delivering to the Stockholder a written notice specifying its intent to purchase Shares held by the Stockholder, the date as of which such right is to be exercised and the number of Shares to be purchased. Such purchase and sale shall occur on such date as the Company (or its designated assignee) shall specify which date shall not be later than ninety (90) days after the fiscal quarter-end immediately following the date as of which the Company's right is exercised.

(c) For purposes of this Agreement, "Fair Market Value" shall mean, as of any date:

(1) prior to the existence of a Public Market (as defined in Section 5 herein) for the Common Stock, the quotient obtained by dividing (i) the excess of (x) the product of (A) 9 (as such number may be changed as provided below, the "Multiple") and (B) EBITDA (as defined in Exhibit A of the Employment Agreement) for the twelve month period ending on the fiscal quarter-end immediately preceding such date over (y) the sum of (I) the weighted arithmetic average indebtedness (net of all cash and cash equivalents) during such period of the Company and its consolidated direct and indirect wholly-owned subsidiaries and (II) for each less than wholly-owned direct or indirect subsidiary of the Company the earnings of which are either consolidated with those of the Company or accounted for on an equity basis, the weighted arithmetic average indebtedness (net of all cash and cash equivalents) during such period of such subsidiary multiplied by the proportion of the total earnings (determined on the same basis as, and excluding the same items as in the determination of, EBITDA) of such subsidiary included in EBITDA (excluding earnings attributable to dividends received from such subsidiary), by (ii) the total number of shares of Common Stock on the last day of such period, determined on a fully diluted basis. For purposes of determining the indebtedness of an entity, all preferred stock of the entity, other than preferred stock convertible into Common Stock, shall be considered indebtedness in the amount of the liquidation value thereof plus accumulated but unpaid dividends thereon. Notwithstanding the foregoing provisions of this paragraph (1), for the ten (10) day period immediately following the occurrence of a Change in Control (as defined in the Employment Agreement), Fair Market Value shall not be less than the price per share, if any, paid to any member of the Initial Ownership Group or the public tender offer price paid in connection with such Change in Control. The Committee shall review the Multiple then in effect following the audit of the Company's financial statements each fiscal year, and shall make such increases or decreases in the Multiple as shall be determined by the Committee in good faith to reflect market conditions and Company performance.

(2) on which a Public Market (as defined in Section 5 herein) for the Common Stock exists, (i) the average of the high and low sales prices during the ten (10) trading days immediately preceding such day of a share of Common Stock as reported on the principal securities exchange on which shares of Common Stock are then listed or admitted to trading or (ii) if not so reported, the average of the closing bid and ask prices during the ten (10) trading days immediately preceding such day as reported on the National Association of Securities Dealers Automated Quotation System (which shall include the NASDAQ National Market or the NASDAQ Small Cap Market) or (iii) if not so reported, as furnished by any member of the National Association of Securities

Dealers, Inc. selected by the Committee. The Fair Market Value of a share of Common Stock as of any such date on which the applicable exchange or inter-dealer quotation system through which trading in the Common Stock regularly occurs is closed shall be the Fair Market Value determined pursuant to the preceding sentence as of the immediately preceding date on which the Common Stock is traded, a bid and ask price is reported or a trading price is reported by any member of NASD selected by the Committee. In the event that the price of a share of Common Stock shall not be so reported or furnished, the Fair Market Value shall be determined by the Committee in good faith to reflect the fair market value of a share of Common Stock.

4. Certain Rights.

(a) Drag Along Rights. If TPG desires to sell all or substantially all of its shares of Common Stock to a good faith independent purchaser (a "Purchaser") (other than any other investment partnership, limited liability company or other entity established for investment purposes and controlled by the principals of TPG or any of its affiliates and other than any employees of TPG or any of its affiliates, hereinafter referred to as a "Permitted Transferee") and said Purchaser desires to acquire all or substantially all of the issued and outstanding shares of Common Stock (or all or substantially all of the assets of the Company) upon such terms and conditions as agreed to with TPG, the Stockholder agrees to sell all of his Shares to said Purchaser (or to vote all of his Shares in favor of any merger or other transaction which would effect a sale of such shares of Common Stock or assets of the Company) at the same price per share of Common Stock and pursuant to the same terms and conditions with respect to payment for the shares of Common Stock as agreed to by TPG. In such case, TPG shall give written notice of such sale to the Stockholder at least 30 days prior to the consummation of such sale, setting forth (i) the consideration to be received by the holders of shares of Common Stock, (ii) the identity of the Purchaser, (iii) any other material items and conditions of the proposed transfer and (iv) the date of the proposed transfer.

(b) Tag Along Rights. (i) Subject to paragraph (iv) of this Section 4(b), if TPG or its affiliates proposes to transfer any of its shares of Common Stock to a Purchaser (other than a Permitted Transferee), then TPG or such Permitted Transferee (hereinafter referred to as a "Selling Stockholder") shall give written notice of such proposed transfer to the Stockholder (the "Selling Stockholder's Notice") at least 30 days prior to the consummation of such proposed transfer, and shall provide notice to all other stockholders of the Company to whom TPG has granted similar "tag-along" rights (such stockholders together with the Stockholder, referred to herein as the "Other Stockholders") setting forth (A) the number of shares of Common Stock offered, (B) the consideration to be received by such Selling Stockholder, (C) the identity of the Purchaser, (D) any other material items and conditions of the proposed transfer and (E) the date of the proposed transfer.

(ii) Upon delivery of the Selling Stockholder's Notice, the Stockholder may elect to sell up to the sum of (A) the Pro Rata Portion (as hereinafter defined) and (B) the Excess Pro

Rata Portion (as hereinafter defined) of his Shares, at the same price per share of Common Stock and pursuant to the same terms and conditions with respect to payment for the shares of Common Stock as agreed to by the Selling Stockholder, by sending written notice to the Selling Stockholder within 15 days of the date of the Selling Stockholder's Notice, indicating his election to sell up to the sum of the Pro Rata Portion plus the Excess Pro Rata Portion of his Shares in the same transaction. Following such 15 day period, the Selling Stockholder and each Other Stockholder shall be permitted to sell to the Purchaser on the terms and conditions set forth in the Selling Stockholder's Notice the sum of (X) the Pro Rata Portion and (Y) the Excess Pro Rata Portion of its Shares.

(iii) For purposes of Section 4(b) and 4(c) hereof, "Pro Rata Portion" shall mean, with respect to shares of Common Stock held by the Stockholder or Selling Stockholder, as the case may be, a number equal to the product of (x) the total number of such shares then owned by the Stockholder or the Selling Stockholder, as the case may be, and (y) a fraction, the numerator of which shall be the total number of such shares proposed to be sold to the Purchaser as set forth in the Selling Stockholder's Notice or initially proposed to be registered by the Selling Stockholder, as the case may be, and the denominator of which shall be the total number of such shares then outstanding (including such shares proposed to be sold or registered by the Selling Stockholder); provided, however, that any fraction of a share resulting from such calculation shall be disregarded for purposes of determining the Pro Rata Portion. For purposes of Sections 4(b) and 4(c), "Excess Pro Rata Portion" shall mean, with respect to shares of Common Stock held by the Stockholder or the Selling Stockholder, as the case may be, a number equal to the product of (x) the number of Non-Elected Shares (as defined below) and (y) a fraction, the numerator of which shall be such Stockholder's Pro Rata Portion with respect to such shares, and the denominator of which shall be the sum of (1) the aggregate Pro Rata Portions with respect to the shares of Common Stock of all of the Other Stockholders that have elected to exercise in full their rights to sell their Pro Rata Portion of shares of Common Stock, and (2) the Selling Stockholder's Pro Rata Portion of shares of Common Stock (the aggregate amount of such denominator is hereinafter referred to as the "Elected Shares"). For purposes of this Agreement, "Non-Elected Shares" shall mean the excess, if any, of the total number of shares of Common Stock, proposed to be sold to a Purchaser as set forth in a Selling Stockholder's Notice or initially proposed to be registered by the Selling Stockholder, as the case may be, less the amount of Elected Shares.

(iv) Notwithstanding anything to the contrary contained herein, the provisions of this Section 4(b) shall not apply to any sale or transfer by TPG of shares of Common Stock unless and until TPG, after giving effect to the proposed sale or transfer, shall have sold or transferred in the aggregate (other than to Permitted Transferees) shares of Common Stock, representing 7.5% of shares of Common Stock owned by TPG on the date hereof.

(c) Piggyback Registration Rights.

(i) Notice to Stockholder. If the Company determines that it will file a registration statement under the Securities Act, other than a registration statement on Form S-4 or Form S-8 or any successor form, for an offering which includes shares of Common Stock held by TPG or its affiliates (hereinafter in this paragraph (c) of Section 4 referred to as a "Selling Stockholder"), then the Company shall give prompt written notice to the Stockholder that such filing is expected to be made (but in no event less than 30 days nor more than 60 days in advance of filing such registration statement), the jurisdiction or jurisdictions in which such offering is expected to be made, and the underwriter or underwriters (if any) that the Company (or the person requesting such registration) intends to designate for such offering. If the Company, within 15 days after giving such notice, receives a written request for registration of any Shares from the Stockholder, then the Company shall include in the same registration statement the number of Shares to be sold by the Stockholder as shall have been specified in his request, except that the Stockholder shall not be permitted to register more than the Pro Rata Portion plus the Excess Pro Rata portion of his Shares. The Company shall bear all costs of preparing and filing the registration statement, and shall indemnify and hold harmless, to the extent customary and reasonable, pursuant to indemnification and contribution provisions to be entered into by the Company at the time of filing of the registration statement, the seller of any shares of Common Stock covered by such registration statement.

Notwithstanding anything herein to the contrary, the Company, on prior notice to the participating Stockholder, may abandon its intention to file a registration statement under this Section 4(c) at any time prior to such filing.

(ii) Allocation. If the managing underwriter shall inform the Company in writing that the number of shares of Common Stock requested to be included in such registration exceeds the number which can be sold in (or during the time of) such offering within a price range acceptable to TPG, then the Company shall include in such registration such number of shares of Common Stock which the Company is so advised can be sold in (or during the time of) such offering. All holders of shares of Common Stock proposing to sell shares of Common Stock shall share pro rata in the number of shares of Common Stock to be excluded from such offering, such sharing to be based on the respective numbers of shares of Common Stock as to which registration has been requested by such holders.

(iii) Permitted Transfer. Notwithstanding anything to the contrary contained herein, sales of Shares pursuant to a registration statement filed by the Company may be made without compliance with any other provision of this Agreement.

5. Termination. This Agreement shall terminate immediately following the existence of a Public Market for the Common Stock except that (i) the requirements contained in Section 2 hereof shall survive the termination of this Agreement and (ii) the provisions contained in Section 3 hereof shall continue with respect to each Share during such period of time, if any, as the Stockholder is precluded from selling such Shares pursuant to Rule 144 of the Securities Act. For this purpose, a "Public Market" for the Common Stock shall be deemed to exist if the

Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act and trading regularly occurs in such Common Stock in, on or through the facilities of securities exchanges and/or inter-dealer quotation systems in the United States (within the meaning of Section 902(n) of the Securities Act) or any designated offshore securities market (within the meaning of Rule 902(a) of the Securities Act).

6. Distributions With Respect To Shares. As used herein, the term "Shares" includes securities of any kind whatsoever distributed with respect to the Common Stock acquired by the Stockholder pursuant to the Option Plan or any such securities resulting from a stock split or consolidation involving such Common Stock.

7. Amendment; Assignment. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by authorized representatives of the parties or, in the case of a waiver, by an authorized representative of the party waiving compliance. No such written instrument shall be effective unless it expressly recites that it is intended to amend, supersede, cancel, renew or extend this Agreement or to waive compliance with one or more of the terms hereof, as the case may be. Except for the Stockholder's right to assign his or her rights under Section 3(a) or the Company's right to assign its rights under Section 3(b), no party to this Agreement may assign any of its rights or obligations under this Agreement without the prior written consent of the other parties hereto.

8. Notices. All notices and other communications hereunder shall be in writing, shall be deemed to have been given if delivered in person or by certified mail, return receipt requested, and shall be deemed to have been given when personally delivered or three (3) days after mailing to the following address:

If to the Stockholder:

Mr. Howard Socol
11 Tahiti Beach Road
Coral Gables FL 33143

If to the Company:

J. Crew Group, Inc.
770 Broadway
Fourth Floor
New York, NY 10003

Attention: Board of Directors and Secretary

If to TPG:

TPG Partners II, L.P.
600 California Street
Suite 1850
San Francisco, CA 94108

Attention: Jonathan Coslet

or to such other address as any party may have furnished to the others in writing in accordance herewith, except that notices of change of address shall only be effective upon receipt.

9. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but each of which together shall constitute one and the same document.

10. Governing Law. 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.

11. Binding Effect. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by the heirs, personal representatives, successors and permitted assigns of the parties hereto. Nothing expressed or referred to in this Agreement is intended or shall be construed to give any person other than the parties to this Agreement, or their respective heirs, personal representatives, successors or assigns, any legal or equitable rights, remedy or claim under or in respect of this Agreement or any provision contained herein.

12. Entire Agreement. This Agreement along with the Employment Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof.

13. Severability. If any term, provision, covenant or restriction of this Agreement, is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

14. Miscellaneous. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

* * * * * *

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

____
Howard Socol

J. CREW GROUP, INC.

____
By:
Title:

TPG PARTNERS II, L.P.

____
By:
Title:

EXHIBIT 10-16

LETTER AGREEMENT

April 28, 1998

Mr. Barry Erdos
2111 Park Hill Drive
Columbus, OH 43209

Dear Barry:

Pursuant to our recent discussions regarding your employment with J. Crew Operating Corporation (the "Company"), we thought it would be useful to lay out the terms and conditions of our agreement in this letter agreement ("Agreement") for both parties to sign.

1. EMPLOYMENT.

(A) The Company hereby agrees to employ you as Chief Operating Officer of the Company and you hereby agree to serve the Company in such capacity during the "Employment Period" (as defined below). You will report to the Chief Executive Officer of the Company. Your principal work location will be the New York metropolitan area, but you will be required to travel to the extent necessary to perform your duties and responsibilities.

(B) You shall devote your full business time and energy, attention, skills and ability to the performance of your duties and responsibilities as provided hereunder on an exclusive basis, shall faithfully and diligently endeavor to promote the business and best interests of the Company.

2. EMPLOYMENT PERIOD.

(A) The "Employment Period" shall commence on April 13, 1998 (the "Effective Date") and shall terminate upon the earliest to occur of (i) the third anniversary of the Effective Date, (ii) your death or Disability (as such term is defined in the Company's Long-Term Disability Plan), (iii) voluntary termination of employment by you, (iv) termination of employment by the Company other than for Cause, death or Disability or (v) termination of employment by the Company for Cause.

(B) Upon termination of the Employment Period, you shall be entitled to any earned but unpaid Base Salary (as defined in Section 3(a) below) as of the date of termination. In addition, you will be entitled to the following payments:

(i) if such termination is pursuant to subsection (ii) of Section 2(a) hereof, you or your estate, as the case may be, will be entitled to (A) payment of any Annual Bonus earned but not yet paid with respect to the fiscal year ended before the date of termination of employment and (B) a pro-rata portion of your Annual Bonus (the "Pro-Rata Bonus") with respect to the fiscal year in which such termination occurs equal to the product of (x) the Annual Bonus determined as if you worked through the end of the fiscal year, multiplied by (y) a fraction, the numerator of which is the number of full months worked by you during such fiscal year and the denominator of which is twelve (12); or

(ii) if such termination is pursuant to subsection (iv) of Section 2(a) hereof, you shall be entitled to (A) continuation of Base Salary as in effect immediately prior to such termination for a period of twelve (12) months after the date of termination, (B) payment of any Annual Bonus earned but not yet paid with respect to the fiscal year ended before the date of termination of employment, (C) payment of the Pro-Rata Bonus with respect to the fiscal year in which such termination occurs determined in accordance with subsection (i) of this section 2(b), provided that, in the event such termination occurs prior to the end of the fiscal year beginning in 1998, you shall be entitled to the Guaranteed Bonus (described in Section 3(b) hereof) instead of the Pro-Rata Bonus, and (D) if your employment is terminated prior to payment of the Second-Half Signing Bonus (described in Section 3(c) hereof), the Company will pay you such Second-Half Signing Bonus. All the payments provided herein are conditioned upon and subject to your compliance with the Restrictive Covenants provided in Section 4 hereof and your execution of a general release and waiver, waiving all claims you may have against the Company except for claims which may arise as a result of the Company's failure to meet its obligations after the date of such waiver.

Except as provided in this Section 2(b), no further compensation shall be due upon your termination of employment.

(C) For purposes of this Agreement, "Cause" shall mean (i) the commission of a felony, (ii) willful misconduct or gross negligence in connection with the performance of your duties as an employee of the Company, (iii) a material breach of this Agreement, (iv) a fraudulent act or omission by you adverse to the reputation of the Company or any affiliate, and (v) the disclosure by you of any Confidential Information (as defined in Section 4(b) hereof) to persons not authorized to know same. If subsequent to your termination of employment, it is discovered that your employment could have been terminated for Cause by reason of subsection (i) 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.

3. COMPENSATION AND BENEFITS.

(A) During the Employment Period, your annual base salary shall be $600,000 ("Base Salary") and shall be paid pursuant to regular Company payroll practices for the senior executives of the Company. The Base Salary will be reviewed annually and may be increased but not decreased in the sole discretion of the Company.

(B) In addition to the Base Salary, in each fiscal year during the Employment Period, you will have the opportunity to earn an annual bonus ("Annual Bonus") of up to fifty percent (50%) of the Base Salary if the Company achieves certain performance objectives (which will be determined by the Company for each such fiscal year), provided that, with respect to the fiscal year beginning in 1998, your Annual Bonus will be at least $150,000 (the "Guaranteed Bonus"), regardless of whether the performance objectives for such fiscal year are achieved. The Annual Bonus will be paid no later than May 1 following the fiscal year for which it relates and, except as otherwise provided in Section 2(b) hereof, such Annual Bonus will be paid only if you are actively employed with the Company and not in breach of this Agreement on such date of disbursement.

(C) As soon as practicable after the Effective Date, but in no event later than ten (10) days thereafter, the Company will pay you $250,000 (the "First-Half Signing Bonus") as consideration for entering into this Agreement. In addition, on or as soon as practicable after the first anniversary of the Effective Date, the Company will pay you an additional $250,000 (the "Second-Half Signing Bonus"), provided that you are actively employed with the Company and not in breach of this Agreement on such first anniversary.

(D) As soon as practicable after the Effective Date, but in no event later than ten (10) days thereafter, the Company will provide you with a recourse loan in the amount of $300,000 (the "Loan"). Prior to receiving the Loan, you will be required to execute a promissory note in favor of the Company which shall provide the specific terms and conditions of the Loan. The promissory note shall provide that (i) the principal amount of the loan will be $300,000, (ii) the rate of interest shall be 5.5% compounded semi-annually, (iii) you shall make interest payments on each anniversary of the date such loan is made until the entire principal amount is paid and (iv) fifty percent of the principal amount of such loan shall be paid on each of the first and second anniversaries of the date the loan is made. At your discretion, you make interim interest payments and may pay the principal amount on any portion thereof before the dates provided in the preceding sentence. The promissory note also will provide that the Company shall have the right to withhold all or any portion of any payments owed to you, including without limitation the Second-Half Signing Bonus and Guaranteed Bonus as payment of all or any portion of the principal or interest due under such promissory note.

(E) As soon as practicable after the Effective Date and subject to approval of the Board of Directors of J. Crew Group, Inc., the Company will grant you an option (the "Option") to purchase the number of shares equal to approximately one percent (1%) of the total outstanding shares of common stock of J. Crew Group, Inc. as of the Effective Date (rounded down to the nearest whole share) at an exercise price equal to $1,363.64 per share. Except as otherwise provided herein, the Option shall be governed by the terms and subject to the conditions of the 1997 J. Crew Group Inc. Stock Option Plan (the "Option Plan"), including the requirements regarding the execution of a Stock Option Grant Agreement and a Stockholders' Agreement. Ten percent (10%) of the Option will be immediately exercisable upon grant, ten percent (10%) of the Option will become exercisable on January 31, 1999 and twenty percent (20%) of the Option will become exercisable on each of January 31, 2000 through 2003, provided you are actively employed with the Company on such date. Any portion of the Option which has not yet become exercisable, shall become immediately exercisable upon the occurrence of a Change in Control (as defined in the Option Plan). Subject to the provisions of the Option Plan, with respect to the Option or any portion thereof which has not become exercisable, the Option shall expire on the date your employment with the Company is terminated for any reason, and with respect to any Option or any portion thereof which has become exercisable, the Option shall expire on the earlier of: (i) 90 days after your termination of employment with the Company other than for Cause, death or disability; (ii) one year after termination of your employment with the Company by reason of death or disability; (iii) the commencement of business on the date your employment with the Company is, or is deemed to have been, terminated for Cause; or (iv) the tenth anniversary of the Effective Date.

(F) The Company will reimburse you for relocation expenses with respect to your relocation from Ohio to New York not to exceed $420,000, provided that relocation expenses shall not include any loss incurred in connection with the sale of your primary residence located in Ohio. However, in the event that, after the primary Ohio residence has been listed on a multiple listing service or with a reputable real estate broker in the area for at least six months, you receive an offer to purchase such residence from an unrelated third-party purchaser for less than the amount that you originally paid for such residence plus the amount of any capital expenditures not to exceed $80,000 which are supported by documentation reasonably requested by the Company (the "Original Purchase Price"), and you intend to accept such offer, prior to accepting such offer you shall notify the Company and provide the Company with all reasonably requested details and documents regarding the offer, any previous offers received by you and any other relevant information regarding the residence. At that time, you agree to cooperate with the Company in determining the various alternatives related to the disposition of the residence with a view toward eliminating any loss to you with respect to such disposition, including possibly reimbursing you for the difference between the Original Purchase Price and the amount that you would receive in the proposed sale, provided that you do not agree to sell the residence for less than the Original Purchase Price without the consent of the Company. It is understood that the term "loss" as used in this Section 3(f) shall mean the excess, if any, of the Original Purchase Price over the amount received in any sale of your primary Ohio residence. You agree that you will use your reasonable best efforts to sell the residence for an amount in excess of the Original Purchase Price and to minimize all other relocation costs and will provide the Company with documentation reasonably requested by the Company with respect to any such reimbursement claims.

(G) During the Employment Period, you will be entitled to participate generally in the Company's benefit plans, except where specifically provided herein and except for any severance or other termination of employment plans. Currently, the Company's benefit package includes 3 weeks vacation, 3 personal days, holidays, life insurance, medical insurance, long term disability, 401(k) tax deferred savings plan, a health flexible spending account, and the employee discount. The Company reserves the right to change these benefits at any time in its sole discretion.

(H) The Company will reimburse you for all reasonable business expenses 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 the senior executives of the Company.

4. RESTRICTIVE COVENANTS.

(A) As additional consideration for the Company entering into this Agreement and agreeing to make the salary continuation payments described in Section 2(a) hereof, you agree that during the Employment Period and for a period of twelve (12) months after the date on which the Employment Period is terminated, you shall not solicit, hire, or seek to influence the employment decisions of, any employee of the Company on behalf of any person or entity other than the Company.

(B) You agree that, during the Employment Period and thereafter, you will hold in strict confidence any proprietary or Confidential Information related to the Company. For purposes of this Agreement, the term "Confidential Information" shall mean all information of the Company in whatever form which is not generally known to the public, including without limitation, customer lists, trade practices, marketing techniques, pricing structures and practices, research, trade secrets, processes, systems, programs, methods, software, merchandising, planning, inventory and financial control, store design and staffing.

(C) You also agree that breach of the confidentiality or employee non-solicitation provisions provided in paragraphs (a) or (b) of 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 Restrictive Covenants provided herein, the Company would be entitled to temporary and permanent injunctive relief in any court of competent jurisdiction (without the need to post any bond).

(D) You agree not to disclose any information regarding the existence or substance of this Agreement to any third party, without the prior written consent of the Company except as may be required by law, during any legal proceeding brought by you relating to this Agreement or with your professional advisers for purposes of discussing the subject matter hereof and, with respect to such professional advisers, you agree to inform them of your obligations hereunder and take all reasonable steps to ensure that such professional advisers do not disclose the existence or substance hereof. Further, you agree not to directly or indirectly disparage or defame the Company or any of its directors, officers or employees.

5. REPRESENTATIONS.

(A) Each party hereto represents and warrants to the other party hereto that (i) the execution, delivery and performance of such party of this Agreement has been duly authorized by all necessary action on its part and does not contravene or conflict with any provisions of any agreement or other instrument to which it is party or by which it is bound or any applicable law, judgment, order, writ, injunction, decree, rule or regulation of any court, governmental authority, administrative agency or arbitrator, (ii) this Agreement is the legal, valid and binding obligation of such party, enforceable against it in accordance with its terms and (iii) there is no pending or threatened action or proceeding affecting such party before or by any court, governmental authority, administrative agency or arbitrator, which if adversely determined, would prevent such party from consummating the transactions contemplated hereby.

6. 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, return receipt requested and addressed as follows:

If to the Company:

J. Crew Operating Corp.
770 Broadway
Twelfth Floor
New York, NY
Attention: Chief Executive Officer

If to the Employee:

Mr. Barry Erdos
2111 Park Hill Drive
Columbus, OH 43209

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

(B) This Agreement constitutes the entire agreement among 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.

(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 your duties and obligations 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.

(E) 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 that County 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.

(F) The Company shall be responsible for and shall pay the agency fees with respect to Herbert Mines Associates, Inc. which arranged for and facilitated your employment with the Company hereunder.

(G) The Company shall reimburse you for reasonable attorneys' fees and expenses and other reasonable fees incurred in connection with the preparation of this Agreement not to exceed $20,000.

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

Sincerely,

/s/

Howard Socol
Chief Executive Officer
J. Crew Operating Corporation

Agreed to and Accepted:

/s/
- -------------------------------------
Barry Erdos Date

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AT JANUARY 31, 1998 AND THE CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED JANUARY 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

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JAN-31-1998
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