

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended January 30, 2010

or

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

Commission  
File Number  
001-32927

Registrant, State of Incorporation  
Address and Telephone Number

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

**J.CREW GROUP, INC.**

(Incorporated in Delaware)

770 Broadway

New York, New York 10003

Telephone: (212) 209 2500

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

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

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

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes  No

Based upon the closing sale price on the New York Stock Exchange on July 31, 2009, the last business day of the registrant's most recently completed second fiscal quarter, which ended August 1, 2009, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant on such date was approximately \$1,632,096,519. For purposes of determining this amount, the registrant has excluded shares of common stock held by directors and officers. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

There were 63,789,883 shares of the registrant's \$.01 par value common stock outstanding on March 5, 2010.

DOCUMENTS INCORPORATED BY REFERENCE:

Documents  
Portions of Proxy Statement for the 2010 Annual Meeting of Stockholders

Form 10-K Reference  
Part III, Items 10-14

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## DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

This report contains “forward-looking statements,” which include information concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the headings “Business,” “Selected Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” When used in this report, the words “estimate,” “expect,” “anticipate,” “project,” “plan,” “intend,” “believe” and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but there can be no assurance that we will realize our expectations or that our beliefs will prove correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements are set forth in this report, including but not limited to those under the heading “Risk Factors.” There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.

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

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## PART I

### ITEM 1. BUSINESS.

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

#### General

J.Crew® is a nationally recognized apparel and accessories retailer that we believe embraces a high standard of style, craftsmanship, quality and customer service. We are a fully integrated multi-brand, multi-channel, specialty retailer that operates stores and websites to consistently communicate our vision. We focus on creating product lines featuring the highest quality design and fabrics with consistent fits and authentic details. We offer complete assortments of women’s, men’s and children’s apparel and accessories, including wedding, swimwear, loungewear, outerwear, shoes, bags, belts, hair accessories and jewelry. As of January 30, 2010, we operated 321 stores throughout the United States.

Our fiscal year ends on the Saturday closest to January 31, typically resulting in a fifty-two week year, but occasionally gives rise to an additional week, resulting in a fifty-three week year. All references to fiscal 2009 reflect the results of the 52-week period ended January 30, 2010; to fiscal 2008 reflect the results of the 52-week period ended January 31, 2009; and to fiscal 2007 reflect the results of the 52-week period ended February 2, 2008. In addition, all references to fiscal 2010 reflect the 52-week period ending January 29, 2011.

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

#### Brands and Merchandise

We seek to project our brand image through consistent creative messaging in our J.Crew and crewcuts catalogs, our websites, our store environments and our superior customer service. We believe we maintain our brand image by exercising substantial control over the presentation and pricing of our merchandise by selling all our products ourselves, and through senior management’s substantial involvement in each catalog before it is photographed, each merchandise floor set before it is rolled out to our stores and each website design before it is published.

*J.Crew.* The J.Crew brand offers a complete assortment of women’s and men’s apparel and accessories, including wedding, swimwear, loungewear, outerwear, shoes, bags, belts, hair accessories and jewelry. J.Crew offers products ranging from casual t-shirts and broken-in chinos, to Italian cashmere and leather items, limited edition “collection” items, such as dresses, hand-beaded skirts and double-faced cashmere jackets; and selected products from our evolving brand partnerships. Products of the J.Crew brand are distributed through our J.Crew retail and factory stores, our J.Crew catalog, and our J.Crew website.

*crewcuts.* We introduced crewcuts® in 2006, and it reflects the high quality, styled-classic apparel and accessories that we offer under the J.Crew brand. The crewcuts brand offers a product assortment for the children’s market ages two through fourteen. Products of the crewcuts brand are distributed through crewcuts stores, shop-in-shops in our J.Crew retail and factory stores, our catalogs, and our J.Crew website.

*Madewell.* We introduced Madewell® in 2006 as a modern-day interpretation of an American denim label originally founded in 1937. Madewell offers perfect-fitting heritage-inspired jeans – and all the downtown-cool pieces to wear with them, from vintage-influenced tees, cardigans and blazers to boots and jewelry. Products of the Madewell brand are distributed through its retail stores, phone orders, and on a limited basis, the

J.Crew website and Shopbop.com. We maintain a Madewell website at www.madewell1937.com that provides customers with a toll-free number to place orders for Madewell merchandise. We expect to launch an e-commerce website for Madewell in fiscal 2010.

## Channels

We conduct our business through two primary sales channels: Stores, which consists of our retail, factory, clearance, crewcuts, and Madewell stores; and Direct, which consists of our catalog and websites. The following is a summary of our revenues:

	Fiscal 2009		Fiscal 2008		Fiscal 2007	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Stores	\$ 1,110.9	70.4%	\$ 974.3	68.2%	\$ 914.8	68.5%
Direct	428.2	27.1	408.9	28.6	377.4	28.3
Other(1)	38.9	2.5	44.8	3.2	42.5	3.2
Total	\$ 1,578.0	100.0%	\$ 1,428.0	100.0%	\$ 1,334.7	100.0%

(1) Consists primarily of shipping and handling fees.

## Stores

*Retail stores.* As of January 30, 2010, we operated 243 retail stores, including nine crewcuts, two men's stores, one women's collection store and 17 Madewell stores, throughout the United States. Our retail stores are located in upscale regional malls, lifestyle centers, and street locations. We believe situating our stores in desirable locations is critical to the success of our business, and we determine store locations, as well as individual store sizes, based on several factors, including geographic location, demographic information, presence of anchor tenants in mall locations and proximity to other high-end specialty retail stores. Our retail stores are designed and built by our in-house design and construction staff and fixtured with the goal of creating a distinctive, sophisticated and inviting atmosphere, with clear displays and information about product quality.

Our retail stores averaged approximately 6,300 total square feet at the end of fiscal 2009, but are "sized to the market," which means that we adjust the size of a particular retail store based on the projected revenues from that particular store. For example, at the end of fiscal 2009, our largest retail store, located in New York, was approximately 15,000 square feet, and our smallest retail store, a men's store, also located in New York, was approximately 900 square feet. During fiscal 2009, eight of the 19 stores opened were Madewell stores. In light of unfavorable economic conditions, we have slowed the pace of our retail store expansion. We plan to expand our retail store base by approximately 10 retail stores in fiscal 2010, including approximately four Madewell stores

*Factory stores.* As of January 30, 2010, we operated 78 factory stores, including one factory crewcuts store, throughout the United States. Our factory stores are located primarily in large factory-outlet malls. Factory stores are designed with simple, volume-driving visuals to maximize sales of key items. We design and develop a specific line of merchandise for our factory stores based on products sold in our J.Crew retail stores, catalog and website. Our factory stores also use strategic and focused short-term promotional offerings designed to achieve higher margins. Sales associates in our factory stores adhere to the same customer-service focus as our retail stores, and are trained to help customers locate styles similar to those they have seen in our retail stores or catalog.

Our factory stores averaged 5,500 total square feet at the end of fiscal 2009, and are also "sized to the market." For example, at the end of fiscal 2009, our largest factory store, located in Connecticut, was approximately 9,000 square feet, and our smallest factory store, our factory crewcuts store, located in Florida,

was approximately 1,500 square feet. In light of unfavorable economic conditions, we have slowed the pace of our factory store expansion. We plan to expand our factory store base by approximately five factory stores in fiscal 2010.

The following table details the number of stores that we operated for the past two fiscal years:

	Retail stores			Total retail	J.Crew factory	Total(a)
	J.Crew	crewcuts	Madewell			
Fiscal 2008:						
Beginning of year	189	4	6	199	61	260
New	23	1	4	28	14	42
Closed	(1)	—	—	(1)	(1)	(2)
End of year	<u>211</u>	<u>5</u>	<u>10</u>	<u>226</u>	<u>74</u>	<u>300</u>
Fiscal 2009:						
Beginning of year	211	5	10	226	74	300
New	7	4	8	19	5	24
Closed	(1)	—	(1)	(2)	(1)	(3)
End of year	<u>217</u>	<u>9</u>	<u>17</u>	<u>243</u>	<u>78</u>	<u>321</u>

(a) Excludes three clearance stores.

### ***Direct***

Our Direct channel services customers through (i) our websites for the J.Crew, crewcuts and Madewell brands, and (ii) our J.Crew and crewcuts catalogs. Our J.Crew website located at [www.jcrew.com](http://www.jcrew.com) allows our customers to purchase our merchandise over the Internet. In addition to servicing our customers online, we also use our Direct channel to sell exclusive styles not available in stores, to introduce and test new product offerings, to sell specialty product lines such as crewcuts, wedding, and J.Crew collection, to offer extended sizes and colors on various products, and to drive targeted marketing campaigns. We maintain a Madewell website at [www.madewell1937.com](http://www.madewell1937.com) that provides customers with a toll-free number to place orders for Madewell merchandise. We expect to launch an e-commerce website for Madewell in fiscal 2010. In fiscal 2009, we distributed 14 catalog editions with a circulation of approximately 36.4 million copies and approximately 4.0 billion pages. We continuously evaluate the efficiency of our catalog circulation strategies.

### ***Financial Information about Segments***

We have determined our operating segments on the same basis that we use to internally evaluate performance. Our operating segments are Stores and Direct, which have been aggregated into one reportable financial segment. We aggregate our operating segments because they have similar class of consumer, economic characteristics, nature of products, nature of production process and distribution methods.

### **Shared Resources That Support Our Brands**

#### ***Design and Merchandising***

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

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Our products are developed in four seasonal collections and are rolled-out for monthly product introductions in our periodic catalog mailings and in our stores. The design process begins with our designers developing seasonal collections eight to twelve months in advance. Our designers regularly travel domestically and internationally to develop color and design ideas. Once the design team has developed a season's color palette and design concepts, they order a sample assortment in order to evaluate the details of the collection, such as how color takes to a particular fabric. The design team then presents the collection to senior management. The presentation reflects the design team's vision, from color direction and flow, to styling and silhouette evolution.

From the presentation of the sample assortment, our merchandising team selects which items to market in each of our sales channels and edits the assortment as necessary. Our teams communicate regularly and work closely with each other in order to leverage market data, ensure the quality of our products and remain true to a unified brand image. Our technical design team develops construction and fit specifications for every product, ensuring quality workmanship and consistency across product lines.

Because our product offerings originate from a single concept assortment, we believe that we are able to efficiently offer an assortment of styles within each season's line while still maintaining a unified brand image. As a final step that is intended to ensure image consistency, our senior management reviews the full line of products for each season across all of our sales channels before they are manufactured.

### ***Marketing and Advertising***

The J.Crew catalog is the primary branding and advertising vehicle for the J.Crew brand. We believe our catalog reinforces the J.Crew mission and brand image as well as drives sales in all of our channels. We believe we have distinguished ourselves from other catalog retailers by utilizing high quality photography and art direction. Additionally, in fiscal 2009, we continued to expand our marketing strategy to include online, print and outdoor advertising.

Furthermore, we offer a private-label credit card through an agreement with World Financial Network National Bank ("WFNNB"), under which WFNNB owns the credit card accounts and Alliance Data Systems Corporation provides services to our private-label credit card customers. In fiscal 2009, sales on J.Crew credit cards made up 17.3% of our total net sales. We believe that our credit card program encourages frequent store and website visits and catalog sales and promotes multiple-item purchases, thereby cultivating customer loyalty to the J.Crew brand and increasing sales. We also maintain a J.Crew credit card loyalty program by offering rewards for customer spending on J.Crew credit cards.

### ***Sourcing***

We source our merchandise in two ways: through the use of buying agents, and by purchasing merchandise directly from trading companies and manufacturers. We have no long-term merchandise supply contracts, and we typically transact business on an order-by-order basis. In fiscal 2009, we worked with eight buying agents, who supported our relationships with vendors that supplied approximately 57% of our merchandise, with one of these buying agents supporting our relationships with vendors that supplied approximately 44% of our merchandise. In exchange for a commission, our buying agents identify suitable vendors and coordinate our purchasing requirements with the vendors by placing orders for merchandise on our behalf, ensuring the timely delivery of goods to us, obtaining samples of merchandise produced in the factories, inspecting finished merchandise and carrying out other administrative communications on our behalf. In fiscal 2009, we worked with two trading companies, purchasing approximately 29% of our merchandise from these companies. Trading companies control factories which manufacture merchandise and also handle certain other shipping and customs matters related to importing the merchandise into the United States. We sourced the remaining 14% of our merchandise directly with manufacturers both within the United States and overseas with the majority of whom we have long-term, and what we believe to be, stable relationships.

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Our sourcing base currently consists of approximately 149 vendors who operate 215 factories in approximately 20 countries. Our top 10 vendors supply 54% of our merchandise.

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

In fiscal 2009, approximately 86% of our merchandise was sourced in Asia (with 74% of our products sourced from China, Hong Kong and Macau), 10% was sourced in Europe and other regions, and 4% was sourced in the United States. Substantially all of our foreign purchases are negotiated and paid for in U.S. dollars.

### ***Distribution***

We operate two distribution facilities and one customer call center. We own a 282,000 square foot facility in Asheville, North Carolina that houses our distribution operations for our stores. This facility currently employs approximately 200 full and part-time employees during our non-peak season and approximately 30 additional employees during our peak season. Merchandise is transported from this distribution center to our stores by independent trucking companies, Federal Express or UPS, with a transit time of approximately two to five days.

We also own a 262,000 square foot facility, and lease a 63,700 square foot facility, both located in Lynchburg, Virginia. These facilities contain our customer call center and order fulfillment operations for our Direct channel. The Lynchburg facilities currently employ approximately 800 full and part-time employees during our non-peak season and approximately 800 additional employees during our peak season. We outsource a portion of our customer calls to a third-party service provider. Merchandise sold via our Direct channel is sent directly to customers from this distribution center via the United States Postal Service, UPS or Federal Express.

### ***Management Information Systems***

Our management information systems are designed to provide comprehensive order processing, production, accounting and management information for the marketing, manufacturing, importing and distribution functions of our business. We also have point-of-sale systems in our stores that enable us to track inventory from store receipt to final sale on a real-time basis. We have an agreement with a third party to provide hosting services and administrative support for portions of our infrastructure. In addition, our websites are hosted by a third party at its data center.

We believe our merchandising and financial systems, coupled with our point-of-sale systems and software programs, allow for item-level stock replenishment, merchandise planning and real-time inventory accounting practices. Our telephone and telemarketing systems, warehouse package sorting systems, automated warehouse locator and inventory bar coding systems use current technology, and are designed with our highest-volume periods in mind, which results in substantial flexibility and ample capacity in our lower-volume periods. We also stress test our systems during low-volume periods to ensure optimal performance during our peak season.

We continue to expand and upgrade our information systems, networks and infrastructure to support recent and expected future growth. During fiscal 2008 we implemented certain Direct channel systems upgrades, including a new platform for our website, a new order management system in our call center and a new warehouse management system. These systems upgrades temporarily impaired our ability to capture, process and ship customer orders and resulted in the incurrence of additional costs in the second half of fiscal 2008. During fiscal 2009 we concentrated our efforts on optimizing these upgrades. In fiscal 2010, we are planning more scalability improvements and incremental stabilization and optimization measures for our warehouse management and order fulfillment systems.

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**Pricing**

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

**Competition**

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

**Associate Relations**

As of January 30, 2010, we had approximately 12,000 employees, of whom approximately 3,400 were full-time employees and 8,600 were part-time employees. Approximately 800 of these employees are employed in our customer call center and Direct order fulfillment operations facilities in Lynchburg, Virginia, and approximately 200 of these employees work in our store distribution center in Asheville, North Carolina. In addition, approximately 3,900 employees are hired on a seasonal basis in these facilities and our stores to meet demand during the peak season.

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

**Trademarks and Licensing**

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

**Government Regulation**

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

A substantial portion of our products are manufactured outside the United States. These products are imported and are subject to U.S. customs laws, which impose tariffs as well as import quota restrictions for textiles and apparel. Some of our imported products are eligible for duty-advantaged programs. While

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importation of goods from foreign countries from which we buy our products may be subject to embargo by U.S. Customs authorities if shipments exceed quota limits, we closely monitor import quotas and believe we have the sourcing network to efficiently shift production to factories located in countries with available quotas. The existence of import quotas has, therefore, not had a material adverse effect on our business.

#### **Available Information**

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

#### **ITEM 1A. RISK FACTORS.**

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

##### ***Unfavorable economic conditions could materially adversely affect our financial condition and results of operations.***

Economic conditions around the world can impact our customers and affect the general business environment in which we operate and compete. Our results can be impacted by a number of macroeconomic factors, including, but not limited to, consumer confidence and spending levels, employment rates, consumer credit availability, fuel and energy costs, raw materials costs, global factory production, commercial real estate market conditions, credit market conditions, interest rates, taxation and the level of customer traffic in malls and shopping centers and changing demographic patterns.

Demand for our merchandise is significantly impacted by negative trends in consumer confidence and other economic factors affecting consumer spending behavior. Consumer purchases of apparel and accessories may decline during recessionary periods or when disposable income is lower. As a result, our sales, growth and profitability may be adversely affected by unfavorable economic conditions at a regional or national level. In addition, unfavorable economic conditions abroad may impact our ability to meet quality and production goals.

We believe that our current cash position, cash flow from operations and availability under our Second Amended and Restated Credit Agreement (the "Credit Facility") provide us with sufficient liquidity. However, a decrease in liquidity of our customers and suppliers could have a material adverse effect on our results of operations and liquidity.

Periods of economic uncertainty or volatility make it difficult to plan, budget and forecast our business. Incorrect assumptions concerning economic trends, customer requirements, distribution models, demand forecasts, interest rate trends and availability of resources may result in our failure to accurately forecast results and to achieve forecasted results or budget targets.

Failure to achieve sufficient levels of revenue and cash flow at individual store locations could result in impairment charges related to our stores. In fiscal 2009, we recorded non-cash asset impairment charges related to underperforming stores. Various uncertainties, including changes in consumer preferences or continued deterioration in the economic environment could impact the expected cash flows to be generated by our store locations, and may result in an impairment of those assets. Although such an impairment charge would be a non-cash expense, any impairment charges could materially increase our expenses and reduce our profitability.

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

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

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

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

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

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

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

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

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

We believe we have benefited substantially from the leadership and strategic guidance of our chief executive officer, and other key executives and members of our creative team, who are primarily responsible for developing our strategy. The loss, for any reason, of the services of any of these individuals and any negative market or industry perception arising from such loss could damage our brand image. Our executive and creative

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teams have substantial experience and expertise in the specialty retail industry and have made significant contributions to our growth and success. The unexpected loss of one or more of these individuals could delay the development and introduction of, and harm our ability to sell, our merchandise. In addition, products we develop without the guidance and direction of these key personnel may not receive the same level of acceptance.

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

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

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

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

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

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

We are increasingly dependent on information systems to operate our websites, process transactions, respond to customer inquiries, manage inventory, purchase, sell and ship goods on a timely basis and maintain cost-efficient operations. Previously, we have experienced interruptions resulting from upgrades to certain of our information systems which temporarily impaired our ability to capture, process and ship customer orders, and transfer product between channels. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems, including a disruption or slowdown caused by our failure to successfully upgrade our systems, could cause information, including data related to customer orders, to be lost or delayed which could—especially if the disruption or slowdown occurred during the holiday season—result in delays in the delivery of merchandise to our stores and customers or lost sales, which could reduce demand for our merchandise and cause our sales to decline. Moreover, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our customers and might lack sufficient resources to make the necessary investments in technology to compete with our competitors. Accordingly, if changes in technology cause our information systems to become obsolete, or if our information systems are inadequate to handle our growth, we could lose customers.

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

Management uses information systems to support decision making and to monitor business performance. We may fail to generate accurate and complete financial and operational reports essential for making decisions at various levels of management, which could lead to decisions being made that have adverse results. Failure to adopt systematic procedures to initiate change requests, test changes, document changes, and authorize changes to systems and processes prior to deployment may result in unsuccessful changes and could disrupt our business and reduce sales. In addition, if we do not maintain adequate controls such as reconciliations, segregation of duties and verification to prevent errors or incomplete information, our ability to operate our business could be limited.

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

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

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

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

We expanded our store base by 21 net new stores in fiscal 2009. In light of unfavorable economic conditions, we have slowed the pace of our store base expansion in fiscal 2010. We are also reviewing our existing store base and identifying opportunities, where available, to renegotiate the terms of those leases. The success of our business depends, in part, on our ability to open new stores and renew our existing store leases on terms that meet our financial targets. Our ability to open new stores on schedule or at all, to renew our existing store leases on favorable terms or to operate them on a profitable basis will depend on various factors, including our ability to:

- identify suitable markets for new stores and available store locations,
- anticipate the impact of changing economic and demographic conditions for new and existing store locations,
- negotiate acceptable lease terms for new locations or renewal terms for existing locations,
- hire and train qualified sales associates,
- develop new merchandise and manage inventory effectively to meet the needs of new and existing stores on a timely basis,
- foster current relationships and develop new relationships with vendors that are capable of supplying a greater volume of merchandise, and

- 
- avoid construction delays and cost overruns in connection with the build-out of new stores.

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

***Reductions in the volume of mall traffic or closing of shopping malls as a result of unfavorable economic conditions or changing demographic patterns could significantly reduce our sales and leave us with unsold inventory.***

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

***Our inability to maintain or increase levels of comparable store sales or Direct sales could cause our earnings to decline.***

If our future comparable store sales or sales from our Direct channel fail to meet market expectations, our earnings could decline. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—How We Assess the Performance of Our Business—Comparable Store Sales." In addition, our results have fluctuated in the past and can be expected to continue to fluctuate in the future. For example, over the past twelve fiscal quarters, our quarterly comparable store sales have ranged from an increase of 16.6% in the fourth quarter of fiscal 2009 to a decrease of 13.1% in the fourth quarter of fiscal 2008 and sales from our Direct business have ranged from an increase of 36% in the third quarter of fiscal 2007 to a decrease of 6% in the first quarter of fiscal 2009. A variety of factors affect comparable store sales and Direct sales, including fashion trends, competition, current economic conditions, pricing, inflation, the timing of the release of new merchandise and promotional events, changes in our merchandise mix, the success of marketing programs, timing and level of markdowns and weather conditions. These factors may cause our comparable store sales and Direct sales results to be materially lower than previous periods and our expectations, which could cause declines in our quarterly earnings.

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

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

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In fiscal 2009, approximately 96% of our merchandise was sourced from foreign factories. In particular, approximately 74% of our merchandise was sourced from China, Hong Kong and Macau. Any event causing a sudden disruption of manufacturing or imports from Asia or elsewhere, including the imposition of additional import restrictions, could materially harm our operations. We have no long-term merchandise supply contracts, and many of our imports are subject to existing or potential duties, tariffs or quotas that may limit the quantity of certain types of goods that may be imported into the United States from countries in Asia or elsewhere. We compete with other companies for production facilities and import quota capacity. While substantially all of our foreign purchases of our products are negotiated and paid for in U.S. dollars, the cost of our products may be affected by fluctuations in the value of relevant foreign currencies. Our business is also subject to a variety of other risks generally associated with doing business abroad, such as political instability, economic conditions, disruption of imports by labor disputes and local business practices.

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

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

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

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

The success of our stores depends on their timely receipt of merchandise from our distribution facilities, and the success of our Direct channel depends on the timely delivery of merchandise to our customers. Independent third party transportation companies deliver our merchandise to our stores and to our customers. Some of these third parties employ personnel represented by a labor union. Disruptions in the delivery of merchandise or work stoppages by employees of these third parties could delay the timely receipt of merchandise, which could result in cancelled sales, a loss of loyalty to our brand, increased logistics costs and excess inventory. Timely receipt of merchandise by our stores and our customers may also be affected by factors such as inclement weather, natural disasters, accidents, system failures and acts of terrorism. We may respond by increasing markdowns or initiating marketing promotions, which would decrease our gross profits and net income. Inability to recover from a business interruption and return to normal operations within a reasonable period of time could have a material adverse impact on our results of operations and damage our brand reputation.

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

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

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

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

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

***We are subject to customs, advertising, consumer protection, privacy, zoning and occupancy and labor and employment laws that could require us to modify our current business practices, incur increased costs or harm our reputation if we do not comply.***

We are subject to numerous laws and regulations, including customs, truth-in-advertising, consumer protection, general privacy, health information privacy, identity theft, online privacy, unsolicited commercial communication and zoning and occupancy laws and ordinances that regulate retailers generally and/or govern the importation, promotion and sale of merchandise and the operation of retail stores and warehouse facilities. If these regulations were to change or were violated by our management, employees, suppliers, buying agents or trading companies, the costs of certain goods could increase, or we could experience delays in shipments of our goods, be subject to fines or penalties, or suffer reputational harm, which could reduce demand for our merchandise and hurt our business and results of operations. Failure to protect personally identifiable information of our customers or associates could subject us to considerable reputational harm as well as significant fines, penalties and sanctions. In addition, changes in federal and state minimum wage laws and other laws relating to employee benefits could cause us to incur additional wage and benefits costs, which could hurt our profitability. We are also subject to securities laws, regulatory and stock exchange rules which could subject us to enforcement actions, de-listing and adverse legal sanctions for non-compliance.

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Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. Failure to define clear roles and responsibilities or to regularly communicate with and train our associates may result in noncompliance with applicable laws and regulations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business.

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

Postal rate increases and paper and printing costs affect the cost of our catalog and promotional mailings. In fiscal 2009, approximately 7% of our selling, general and administrative expenses were attributable to such costs. We receive discounts from the basic postal rate structure, such as discounts for bulk mailings and sorting by zip code and carrier routes. We are not a party to any long-term contracts for the supply of paper. Our cost of paper has fluctuated significantly, and our future paper costs are subject to supply and demand forces that we cannot control. Future additional increases in postal rates or in paper or printing costs would reduce our profitability to the extent that we are unable to pass those increases directly to customers or offset those increases by raising selling prices or by reducing the number and size of certain catalog editions.

***Our ability to obtain and/or maintain our Credit Facility could be adversely affected due to the ramifications of the global credit crisis and corresponding financial institution failures.***

We believe that we have sufficient cash flows from operating activities to meet our operating requirements. In addition, we have \$194.4 million of availability under the Credit Facility, and the participants in our Credit Facility are currently rated as investment grade. Although we expect to continue to generate positive cash flow despite a slowing economy, there can be no assurance that we will be able to successfully generate positive cash flow in the future. Continued negative trends in the credit markets, continued financial institution failures and/or our less than investment grade rating could lead to lowered credit availability and higher interest costs in the future. In the event of limitations on our access to credit facilities, our liquidity, continued growth and results of operations could be adversely affected.

The terms of our indebtedness include restrictive covenants that limit management's discretion in operating our business. In particular, these agreements include, or may include, covenants or restrictions relating to limitations on capital expenditures; liens and sale-leaseback transactions; loans and investments; debt and hedging arrangements; mergers, acquisitions and asset sales; transactions with affiliates; and changes in business activities conducted by us and our subsidiaries.

In addition, our indebtedness may require us, under certain circumstances, to maintain certain financial ratios. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility" and "MD&A-Term Loan." If we violate these ratios, we may be required to accelerate repayment of this debt.

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

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

Our revenues are generally lower during the first and second fiscal quarters. In addition, any factors that harm our fourth fiscal quarter operating results, including adverse weather or unfavorable economic conditions, could have a disproportionate effect on our results of operations for the entire fiscal year.

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In order to prepare for our peak shopping season, we must order and keep in stock significantly more merchandise than we would carry at other times of the year. Any unanticipated decrease in demand for our products during our peak shopping season could require us to sell excess inventory at a substantial markdown, which could reduce our net sales and gross profit. Additional unplanned decreases in demand for our products could produce further reductions to our net sales and gross profit.

Our quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of new store openings and of catalog mailings, the revenues contributed by new stores, merchandise mix and the timing and level of inventory markdowns. As a result, historical period-to-period comparisons of our revenues and operating results are not necessarily indicative of future period-to-period results.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES.**

We are headquartered in New York City. Our headquarter offices are leased under a lease agreement expiring in 2012, with an option to renew thereafter. We also have entered into a lease for additional corporate office space in New York City which expires in 2021. We own two facilities: a 262,000 square foot customer contact call center, order fulfillment and distribution center in Lynchburg, Virginia and a 282,000 square foot distribution center in Asheville, North Carolina. We also lease a 63,700 square foot facility in Lynchburg, Virginia under a lease agreement expiring in April 2011.

As of January 30, 2010, we operated 243 retail stores (including nine crewcuts<sup>®</sup>, two men's stores, one women's collection store, and 17 Madewell stores), 78 factory stores (including one crewcuts factory store), and three clearance stores, in 42 states and the District of Columbia. All of the retail and factory stores are leased from third parties and the leases historically have in most cases had terms of 5 to 15 years. A portion of our leases have options to renew for periods typically ranging from 5 to 10 years. Generally, the leases contain standard provisions concerning the payment of rent, events of default and the rights and obligations of each party. Rent due under the leases is generally comprised of annual base rent plus a contingent rent payment based on the store's sales in excess of a specified threshold. Some of the leases also contain early termination options, which can be exercised by us or the landlord under certain conditions. The leases also generally require us to pay real estate taxes, insurance and certain common area costs. When opportunities exist, we renegotiate with landlords to obtain more favorable terms. Excluding our stores and headquarters offices, all of our properties, whether owned or leased, are subject to liens or security interests under our Credit Facility.

The table below sets forth the number of retail (including crewcuts stores, two men's stores, one women's collection store, and Madewell stores) and factory stores operated by us in the United States as of January 30, 2010.

	<u>Retail Stores</u>	<u>Factory Stores</u>	<u>Total Number of Stores(a)</u>
Alabama	3	1	4
Arizona	4	1	5
California**	33	7	40
Colorado	4	3	7
Connecticut**	12	2	14
Delaware	—	1	1
Florida	13	9	22
Georgia*	7	3	10
Hawaii	1	—	1
Illinois	9	1	10
Indiana	1	2	3
Iowa	1	—	1
Kansas	1	—	1
Kentucky	2	—	2
Louisiana	2	—	2
Maine	—	2	2
Maryland*	5	3	8
Massachusetts**	12	2	14
Michigan	7	2	9
Minnesota	5	—	5
Mississippi	1	1	2
Missouri	4	1	5
Nebraska	1	—	1
Nevada	3	1	4
New Hampshire	1	2	3
New Jersey*	15	4	19
New Mexico	1	—	1
New York***	25	4	29
North Carolina*	8	2	10
Ohio	6	2	8
Oklahoma	2	—	2
Oregon	3	1	4
Pennsylvania*	11	5	16
Rhode Island	2	—	2
South Carolina	2	4	6
Tennessee	3	1	4
Texas**	14	5	19
Utah	2	1	3
Vermont	1	1	2
Virginia*	7	2	9
Washington	4	1	5
Wisconsin	3	1	4
District of Columbia	2	—	2
Total	<u>243</u>	<u>78</u>	<u>321</u>

(a) Excludes three clearance stores, two located in Virginia and one in North Carolina.

(\*) Asterisks indicate the number of Madewell stores included in the number of retail stores in that state.

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**ITEM 3. LEGAL PROCEEDINGS.**

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

**ITEM 4. RESERVED.**

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**PART II**

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

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

**Market Information**

	<u>Fiscal 2009</u>		<u>Fiscal 2008</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 18.26	\$ 9.01	\$ 50.21	\$ 39.53
Second Quarter	\$ 29.27	\$ 17.39	\$ 50.35	\$ 27.23
Third Quarter	\$ 44.18	\$ 28.00	\$ 38.00	\$ 15.13
Fourth Quarter	\$ 46.63	\$ 38.31	\$ 20.59	\$ 8.02

**Record Holders**

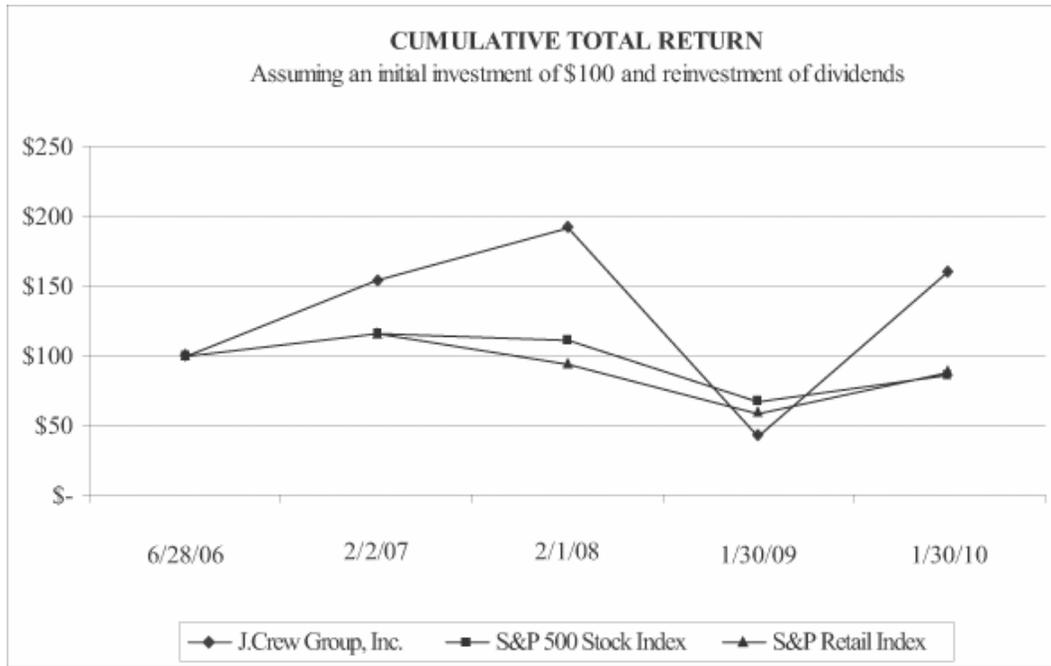
As of March 5, 2010, there were 43 record holders of our common stock.

**Dividends**

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

**Performance Graph**

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



	<u>6/28/06</u>	<u>2/3/07</u>	<u>2/2/08</u>	<u>1/31/09</u>	<u>1/30/10</u>
J.Crew Group, Inc.	\$ 100	\$ 156	\$ 195	\$ 42	\$ 163
S&P 500 Stock Index	\$ 100	\$ 117	\$ 113	\$ 67	\$ 87
S&P Retail Index	\$ 100	\$ 117	\$ 95	\$ 58	\$ 89

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

## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

The selected historical consolidated financial data for each of the years in the three-year period ended January 30, 2010 and as of January 30, 2010 have been derived from our audited consolidated financial statements included elsewhere herein. The selected historical consolidated financial data for each of the years in the two-year period ended February 3, 2007 have been derived from our audited consolidated financial statements which are not included herein. The consolidated financial statements for each of the years in the five-year period ended January 30, 2010 and as of the end of each such year have been audited.

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

	Year Ended(1)				
	January 30, 2010	January 31, 2009	February 2, 2008	February 3, 2007	January 28, 2006
(in thousands, except per share data)					
<b>Income Statement Data</b>					
Revenues	\$1,578,042	\$1,427,970	\$1,334,723	\$1,152,100	\$953,188
Cost of goods sold(2)	882,385	872,547	746,180	651,748	555,192
Gross profit	695,657	555,423	588,543	500,352	397,996
Selling, general and administrative expense	484,396	458,738	416,064	374,738	318,499
Income from operations(3)	211,261	96,685	172,479	125,614	79,497
Interest expense, net	5,384	5,940	11,224	43,993	72,903
Loss on debt refinancing	—	—	—	10,039	—
Provision (benefit) for income taxes	82,517	36,628	64,180	(6,200)	2,800
Net income	123,360	54,117	97,075	77,782	3,794
Preferred stock dividends	—	—	—	(6,141)	(13,456)
Net income (loss) applicable to common shareholders	<u>\$ 123,360</u>	<u>\$ 54,117</u>	<u>\$ 97,075</u>	<u>\$ 71,641</u>	<u>\$ (9,662)</u>
Net income (loss) per share					
Basic	\$ 1.97	\$ 0.88	\$ 1.61	\$ 1.61	\$ (0.39)
Diluted	\$ 1.91	\$ 0.85	\$ 1.52	\$ 1.49	\$ (0.39)
Weighted average shares outstanding					
Basic	62,583	61,687	60,346	44,558	24,472
Diluted	64,714	64,027	63,748	48,039	24,472

	As of				
	January 30, 2010	January 31, 2009	February 2, 2008	February 3, 2007	January 28, 2006
(in thousands)					
<b>Balance Sheet Data</b>					
Cash and cash equivalents	\$ 298,107	\$ 146,430	\$ 131,510	\$ 88,900	\$ 61,275
Working capital	283,972	183,059	138,049	117,100	72,657
Total assets	738,558	613,809	535,596	428,066	337,321
Total long-term debt and preferred stock	49,229	99,200	125,000	200,000	724,667
Stockholders' equity (deficit)	375,878	224,949	140,322	5,620	(587,843)

- (1) J.Crew's fiscal year ends on the Saturday closest to January 31. Fiscal years ended January 30, 2010 (fiscal 2009), January 31, 2009 (fiscal 2008), February 2, 2008 (fiscal 2007) and January 28, 2006 (fiscal 2005) consisted of 52 weeks, while the fiscal year ended February 3, 2007 (fiscal 2006) consisted of 53 weeks.
- (2) Includes buying and occupancy costs.
- (3) Includes pre-tax losses incurred by Madewell of \$14.0 million, \$11.5 million, \$10.0 million and \$5.1 million, in fiscal 2009, 2008, 2007 and 2006, respectively.

	Year Ended(1)				
	January 30, 2010	January 31, 2009	February 2, 2008	February 3, 2007	January 28, 2006
(in thousands except percentages; numbers of stores; catalog pages; and per square foot data)					
<b>Operating Data</b>					
Revenues:					
Stores	\$ 1,110,932	\$ 974,284	\$ 914,810	\$ 808,542	\$ 670,447
Direct	428,186	408,916	377,444	308,611	253,682
Other(2)	38,924	44,770	42,469	34,947	29,059
Total revenues	<u>\$ 1,578,042</u>	<u>\$ 1,427,970</u>	<u>\$ 1,334,723</u>	<u>\$ 1,152,100</u>	<u>\$ 953,188</u>
Stores:					
Sales per gross square foot (52 week basis)	\$ 577	\$ 551	\$ 573	\$ 526	\$ 457
Number of stores open at end of period	321	300	260	227	203
Comparable stores sales change(3)	4.1%	(4.0)%	5.6%	13.0%	13.4%
Direct:					
Number of catalogs circulated	36,400	44,400	49,000	50,000	55,000
Number of pages circulated (in millions)	4,000	5,200	5,300	5,400	6,100
Depreciation and amortization	\$ 51,765	\$ 44,143	\$ 34,140	\$ 33,525	\$ 33,461
Capital expenditures:					
New store openings	\$ 19,954	\$ 41,700	\$ 38,313	\$ 21,277	\$ 8,243
Other(4)	24,751	35,826	42,305	24,654	13,695
Total capital expenditures	<u>\$ 44,705</u>	<u>\$ 77,526</u>	<u>\$ 80,618</u>	<u>\$ 45,931</u>	<u>\$ 21,938</u>

- (1) The fiscal year ended February 3, 2007 consisted of 53 weeks. All other fiscal years presented consisted of 52 weeks.
- (2) Consists primarily of shipping and handling fees.
- (3) Comparable store sales reflect net sales at stores that have been open for at least twelve months on a 52 week basis.
- (4) Consists primarily of expenditures on information technology, warehouse expansion and store remodels.

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

This discussion summarizes our consolidated operating results, financial condition and liquidity during each of the years in the three-year period ended January 30, 2010. Our fiscal year ends on the Saturday closest to January 31. Fiscal years 2009, 2008 and 2007 ended on January 30, 2010, January 31, 2009 and February 2, 2008, respectively. Each fiscal year consisted of 52 weeks. The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 10-K.

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

### Executive Overview

As of January 30, 2010, we operated 243 retail stores (including nine crewcuts<sup>®</sup>, two men's stores, one women's collection store, and 17 Madewell stores), 78 factory stores (including one crewcuts factory store), and three clearance stores, throughout the United States.

The following is a summary of fiscal 2009 highlights:

- Revenues increased 10.5% to \$1,578.0 million.
- Comparable store sales increased 4.1%.
- Direct net sales increased 4.7% to \$428.2 million.
- Income from operations increased to \$211.3 million, or 13.4% of revenues.
- Pre-tax losses of Madewell increased to \$14.0 million in fiscal 2009 from \$11.5 million in fiscal 2008.
- A voluntary prepayment of \$50.0 million was made under the Term Loan, reducing our total indebtedness to \$49.2 million. We incurred a charge of \$1.6 million related to accelerated amortization of deferred financing fees, included as component of interest expense, net.
- We opened 11 and closed one J.Crew retail store; opened five and closed one J.Crew factory store; and opened eight and closed one Madewell store.
- We incurred charges of \$4.0 million related to under-performing stores for asset impairment and lease termination actions, and \$1.3 million for severance and related costs associated with a workforce reduction as part of a cost reduction program announced in February 2009.

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

<i>(Dollars in millions)</i>	Fiscal 2009	Fiscal 2008	Fiscal 2007
Stores	\$ 1,110.9	\$ 974.3	\$ 914.8
Direct	428.2	408.9	377.4
Net sales	<u>\$ 1,539.1</u>	<u>\$ 1,383.2</u>	<u>\$ 1,292.2</u>

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

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

### How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of performance and financial measures. A key measure for determining how our business is performing is comparable store sales for Stores and net sales for Direct. We also consider gross profit and selling, general and administrative expenses in assessing the performance of our business.

### Net Sales

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

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

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

	Year Ended		
	January 30, 2010	January 31, 2009	February 2, 2008
Apparel			
Women’s	65%	66%	66%
Men’s	19	19	20
Children’s	4	3	1
Accessories	12	12	13
	100%	100%	100%

Our crewcuts children’s concept was introduced in the first quarter of fiscal 2006 with the opening of 10 shops within our J.Crew retail stores followed by the opening of two stand-alone stores in the third quarter of fiscal 2006. During fiscal 2009, we opened one and closed 10 shop-in-shops within our Retail stores and opened two and closed one shop-in-shops within our Factory stores. As of January 30, 2010, we operated 33 crewcuts shop-in-shops in our J.Crew retail stores, nine stand-alone crewcuts retail stores, 11 crewcuts shop-in-shops in our factory stores, and one stand-alone crewcuts factory store.

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## Comparable Store Sales

Comparable store sales reflect net sales at stores that have been open for at least twelve months. Therefore, a store is included in comparable store sales on the first day it has comparable prior year sales. Non-comparable store sales include net sales from (1) new stores that have not been open for twelve months, (2) stores that experience a square footage change of at least 15 percent, (3) stores that have been temporarily closed for at least 30 consecutive days, (4) permanently closed stores, and (5) temporary stores.

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

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

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

## Cyclical and Seasonality

The industry in which we operate is cyclical, and consequently our revenues are affected by general economic conditions. Purchases of apparel and accessories are sensitive to a number of factors that influence the levels of consumer spending, including economic conditions and the level of disposable consumer income, consumer debt, interest rates and consumer confidence.

Our business is seasonal. As a result, our revenues fluctuate from quarter to quarter. We have four distinct selling seasons that align with our four fiscal quarters. Revenues are usually substantially higher in our fourth fiscal quarter, particularly December, as customers make holiday purchases. In fiscal 2009, we realized approximately 29% of our revenues in the fourth fiscal quarter compared to 27% in fiscal 2008. This percentage was lower last year due to the macroeconomic environment which resulted in increased markdowns in the fourth quarter of fiscal 2008.

## Gross Profit

Gross profit is equal to our revenues minus our cost of goods sold. Cost of goods sold includes the direct cost of purchased merchandise, freight, design, buying and production costs, occupancy costs related to store operations (such as rent and utilities) and all shipping costs associated with our Direct channel. Our cost of goods sold is substantially higher in the holiday season because cost of goods sold generally increases as revenues increase and cost of goods sold includes the cost of purchasing merchandise that we sell to generate revenues. Cost of goods sold also generally changes as we expand or contract our store base and incur higher or lower store

occupancy and related costs. The primary drivers of the costs of individual goods are the costs of raw materials and labor in the countries where we source our merchandise. Gross margin measures gross profit as a percentage of our revenues.

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

### Selling, General and Administrative Expenses

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

### Results of Operations

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

	Fiscal Year Ended		
	January 30, 2010	January 31, 2009	February 2, 2008
Revenues	100.0%	100.0%	100.0%
Cost of goods sold, including buying and occupancy costs(1)	55.9	61.1	55.9
Gross profit(1)	44.1	38.9	44.1
Selling, general and administrative expenses(1)	30.7	32.1	31.2
Income from operations	13.4	6.8	12.9
Interest expense, net	0.3	0.4	0.8
Income before income taxes	13.1	6.4	12.1
Provision for income taxes	5.2	2.6	4.8
Net income	7.9%	3.8%	7.3%

	Fiscal Year Ended		
	January 30, 2010	January 31, 2009	February 2, 2008
<b>Selected store data:</b>			
Number of stores open at end of period	321	300	260
Sales per gross square foot	\$ 577	\$ 551	\$ 573
Comparable store sales change	4.1%	(4.0)%	5.6%

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

## Fiscal 2009 Compared to Fiscal 2008

	Fiscal Year Ended				Variance	
	January 30, 2010 (Fiscal 2009)		January 31, 2009 (Fiscal 2008)		Dollars	Percentages
	Amount	Percent of Revenues	Amount	Percent of Revenues		
<i>(Dollars in millions)</i>						
Revenues	\$ 1,578.0	100.0%	\$ 1,427.9	100.0%	\$ 150.1	10.5%
Gross profit	695.7	44.1	555.4	38.9	140.3	25.2
Selling, general & administrative expenses	484.4	30.7	458.7	32.1	25.7	5.6
Income from operations	211.3	13.4	96.7	6.8	114.6	118.5
Interest expense, net	5.4	0.3	5.9	0.4	(0.5)	(9.4)
Provision for income taxes	82.5	5.2	36.6	2.6	45.9	125.3
Net income	\$ 123.4	7.9%	\$ 54.1	3.8%	\$ 69.3	127.9%

### Revenues

Revenues increased \$150.1 million, or 10.5%, to \$1,578.0 million in fiscal 2009 from \$1,427.9 in fiscal 2008. This increase resulted from non-comparable store sales, and increases in comparable store sales and Direct sales.

Stores sales increased \$136.6 million, or 14.0%, to \$1,110.9 million in fiscal 2009 from \$974.3 million in fiscal 2008. Comparable store sales increased 4.1% to \$993.9 million in fiscal 2009 from \$954.9 million last year. Non-comparable store sales were \$117.0 million in fiscal 2009 due primarily to stores opened subsequent to the fourth quarter of last year. Non-comparable store sales in fiscal 2010 will decline as we slow the rate of new store openings.

Direct sales increased \$19.3 million, or 4.7%, to \$428.2 million in fiscal 2009 from \$408.9 million in fiscal 2008.

The increase in Stores and Direct sales in fiscal 2009 was primarily driven by an increase in sales of women's apparel, specifically sweaters, knits, and shirts. Sales of men's and children's apparel, and accessories also increased this year.

Other revenues, which consist primarily of shipping and handling fees, decreased \$5.8 million, or 13.1%, to \$38.9 million in fiscal 2009 from \$44.8 million in fiscal 2008. This decrease resulted from (i) an increase in shipping and handling promotions, (ii) the termination of our licensing agreement in Japan in January 2009 and (iii) insurance proceeds in fiscal 2008. Other revenues will decline as we increase the frequency of shipping and handling promotions.

### Gross Profit

Gross profit increased \$140.3 million to \$695.7 million in fiscal 2009 from \$555.4 million in fiscal 2008. This increase resulted from the following factors:

<i>(Dollars in millions)</i>	
Increase in revenues	\$ 76.6
Increase in merchandise margin	74.5
Increase in buying and occupancy costs	(10.8)
	<u>\$ 140.3</u>

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Gross margin increased to 44.1% in fiscal 2009 from 38.9% in fiscal 2008. The increase in gross margin was driven by a 470 basis point expansion in merchandise margin due primarily to decreased markdowns and a 50 basis point decrease in buying and occupancy costs as a percentage of revenues.

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

Selling, general and administrative expenses increased by \$25.7 million, or 5.6%, to \$484.4 million in fiscal 2009 from \$458.7 million in fiscal 2008. The increase primarily resulted from the following:

#### Increases

- \$21.0 million in share-based and incentive compensation;
- \$8.1 million in operating expenses—primarily payroll, payroll-related and consulting expenses;
- \$6.6 million in depreciation and amortization associated primarily with our growth in store locations and information technology infrastructure;
- \$6.4 million in advertising and marketing expenses;
- \$1.3 million related to lease termination actions;
- \$1.3 million for severance and related costs due to our workforce reduction;

#### Decreases

- \$9.6 million of expenses incurred last year related to our Direct channel stabilization efforts; and
- \$8.9 million in catalog paper, postage and printing costs due to a decrease in pages circulated and other initiatives as a result of our ongoing evaluation of our circulation strategies. The number of catalog pages circulated in fiscal 2009 decreased 29% from last year.

As a percentage of revenues, selling, general and administrative expenses decreased to 30.7% in fiscal 2009 from 32.1% in fiscal 2008, primarily due to the above mentioned items.

### **Interest Expense, Net**

Interest expense, net of interest income, decreased \$0.5 million to \$5.4 million in fiscal 2009 from \$5.9 million in fiscal 2008 due primarily to declining interest rates. The decline in interest expense includes: (1) a decrease of \$2.9 million in interest on the Term loan, offset by (2) a decrease of \$1.7 million of interest income and (2) an increase of \$0.7 million in amortization of deferred financing costs as a result of our voluntary prepayment in January 2010 under the Term Loan.

### **Provision for Income Taxes**

The effective tax rate was 40.1% in fiscal 2009 compared to 40.4% in fiscal 2008.

### **Net Income**

Net income increased \$69.3 million to \$123.4 million in fiscal 2009 from \$54.1 million in fiscal 2008. This increase was due to a \$140.3 million increase in gross profit and a \$0.5 million decrease in interest expense, offset by a \$25.7 million increase in selling, general and administrative expenses and a \$45.9 million increase in the provision for income taxes.

## Fiscal 2008 Compared to Fiscal 2007

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

### Revenues

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

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

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

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

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

### Gross Profit

In fiscal 2008, gross profit decreased by \$33.1 million, or 5.6%, to \$555.4 million from \$588.5 million in fiscal 2007. This increase resulted from the following factors:

<i>(Dollars in millions)</i>	
Increase in revenues	\$ 51.5
Decrease in merchandise margin	(60.1)
Increase in buying and occupancy costs	(24.5)
	<u>\$ (33.1)</u>

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

### Selling, General and Administrative Expenses

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

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

As a percentage of revenues, selling, general and administrative expenses increased to 32.1% in fiscal 2008 from 31.2% in fiscal 2007, resulting primarily from the fact that these expenses increased at a faster rate than revenues during fiscal 2008.

### Interest Expense, Net

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

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

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

### Provision for Income Taxes

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

### Net Income

Net income decreased \$43.0 million to \$54.1 million in fiscal 2008 from \$97.1 million in fiscal 2007. This decrease was due to a \$33.1 million decrease in gross profit primarily driven by a lower gross margin rate,

partially offset by the 7.0% increase in revenue, and a \$42.6 million increase in selling, general and administrative expenses, offset by a \$5.3 million decrease in interest expense and a \$27.6 million decrease in the provision for income taxes.

### Liquidity and Capital Resources

Our primary sources of liquidity are our current balances of cash and cash equivalents, cash flows from operations and borrowings available under the Credit Facility. Our primary cash needs are capital expenditures in connection with opening new stores and remodeling our existing stores, making information technology system enhancements, meeting debt service requirements and funding working capital requirements. The most significant components of our working capital are cash and cash equivalents, merchandise inventories, accounts payable and other current liabilities. See “—Outlook” below.

### Operating Activities

	Year Ended		
	January 30, 2010	January 31, 2009 <small>(in millions)</small>	February 2, 2008
Net income	\$ 123.4	\$ 54.1	\$ 97.1
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	51.8	44.1	34.1
Amortization of deferred financing costs	2.9	2.2	2.3
Deferred income taxes	(6.7)	13.0	8.1
Excess tax benefit from share based compensation	(7.1)	(13.5)	(22.2)
Share based compensation	12.8	8.4	7.0
Changes in inventories	(3.2)	(28.5)	(17.9)
Changes in accounts payable and other current liabilities	30.8	10.9	38.2
Changes in other operating assets and liabilities	27.6	4.7	21.5
Net cash provided by operations	<u>\$ 232.3</u>	<u>\$ 95.4</u>	<u>\$ 168.2</u>

Cash provided by operating activities in fiscal 2009 was \$232.3 million and consisted of (i) net income of \$123.4 million, (ii) adjustments to net income of \$53.7 million, and (iii) changes in operating assets and liabilities of \$55.2 million due primarily to increases in accounts payable and accrued incentive compensation; and a decrease in prepaid income taxes.

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

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

### Investing Activities

Capital expenditures were \$44.7 million, \$77.5 million, and \$80.6 million in fiscal 2009, fiscal 2008, and fiscal 2007, respectively. Capital expenditures for the opening of new stores were \$20.0 million, \$41.7 million, and \$38.3 million in fiscal 2009, fiscal 2008, and fiscal 2007, respectively. The remaining capital expenditures in each period were for store renovation and refurbishment programs, and investments in information systems and

distribution center initiatives as well as general corporate purposes. In light of unfavorable economic conditions we have slowed the pace of our store expansion for fiscal 2010. Capital expenditures are planned at approximately \$55 million for fiscal year 2010, including \$16 million for new stores and \$20 million for information technology enhancements and the remainder for store renovations and refurbishments, office space improvements and general corporate purposes.

### Financing Activities

	Year Ended		
	January 30, 2010	January 31, 2009	February 2, 2008
Repayment of debt	\$ (50.8)	\$ (25.0)	\$ (75.0)
Proceeds from share based compensation plans	8.5	9.0	9.6
Excess tax benefit from share based compensation	7.1	13.5	22.2
Repurchase of common stock	(0.8)	(0.4)	(0.5)
Costs incurred in connection with amended and restated credit agreement	—	—	(1.3)
Net cash used in financing activities	<u>\$ (36.0)</u>	<u>\$ (2.9)</u>	<u>\$ (45.0)</u>

Cash used in financing activities was \$36.0 million in fiscal 2009 resulting from the voluntary prepayment on the Term Loan, offset primarily by proceeds and tax benefits from share based compensation plans.

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

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

### Credit Facilities

#### Amended and Restated Credit Agreement

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

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

Borrowings under the Credit Facility are guaranteed by the Company and certain of its subsidiaries, and are secured by a perfected first priority security interest in substantially all of the Company's assets and those of certain of its subsidiaries. The Credit Facility includes restrictions on the Company's ability and the ability of

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certain of its subsidiaries to incur additional indebtedness and liens, pay dividends or make other distributions, make investments, dispose of assets and merge. If excess availability under the Credit Facility is less than \$20 million at any time, then the Company's fixed charge coverage ratio for the most recently ended period of four consecutive fiscal quarters may not be less than 1.10 to 1.00 for that period.

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

There was \$194.4 million available in borrowings under the Credit Facility at January 30, 2010. There were no borrowings outstanding during fiscal 2009, 2008 or 2007.

#### Demand Letter of Credit Facility

On October 31, 2007, Operating entered into an unsecured, demand letter of credit facility with HSBC which provides for the issuance of up to \$35 million of documentary letters of credit on a no fee basis. Outstanding letters of credit were \$12.4 million and availability was \$22.6 million at January 30, 2010 under this facility.

#### **Term Loan**

On May 15, 2006, Operating, as borrower, we and certain of Operating's direct and indirect subsidiaries, as guarantors, entered into the Term Loan, a \$285.0 million senior secured term loan facility with certain lenders named therein as lenders, Goldman Sachs Credit Partners L.P. ("GSCP") and Bear, Stearns & Co. Inc. as joint lead arrangers and joint bookrunners, GSCP as administrative agent and collateral agent, Bear Stearns Corporate Lending Inc. as syndication agent and Wachovia as documentation agent.

The Company is required to make the following annual principal payments based upon certain conditions as set forth in the Term Loan: (i) 1% per annum of the original principal balance of the Term Loan due in quarterly installments and (ii) an amount equal to 50% of excess cash flow, as defined in the agreement, due within 90 days of the fiscal year-end. The Company made aggregate voluntary prepayments of \$50.0 million and \$25.0 million in fiscal 2009 and 2008, respectively.

As of January 30, 2010, the amount outstanding under the Term Loan was \$49.2 million. As a result of the \$50.0 million voluntary prepayment made in January 2010, no principal payments are required under the Term Loan in fiscal 2010. Borrowings bear interest, at our option, at the base rate plus a margin of 0.75% or at LIBOR plus a margin of 1.75% per annum. All borrowings will mature on May 15, 2013.

#### **Outlook**

Our short-term and long-term liquidity needs arise primarily from capital expenditures associated with our growth strategy, principal and interest payments on our indebtedness and working capital requirements. Management anticipates that capital expenditures in fiscal 2010 will be approximately \$55 million, primarily for opening new stores, information technology enhancements, store renovations and refurbishments, office space improvements and general corporate purposes. As of January 30, 2010, we were permitted to borrow \$194.4 million under the Credit Facility. Our annual debt service obligations will change by \$0.5 million per year for each 1.0% change in the average interest rate we pay based on the \$49.2 million balance of variable interest rate debt outstanding at January 30, 2010. Management believes that our current balances of cash and cash equivalents, cash flow from operations and availability under the Credit Facility will be adequate to finance working capital needs, planned capital expenditures and debt service obligations for the next twelve months. Our ability to fund our operations and make planned capital expenditures, to make scheduled debt payments, to

refinance indebtedness and to remain in compliance with the financial covenants under our debt agreements depends on our future financing activities, our future operating performance and our future cash flow, which in turn, are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond our control.

### **Off Balance Sheet Arrangements**

We enter into documentary letters of credit to facilitate a portion of our international purchase of merchandise. We also enter into standby letters of credit as required to secure certain of our obligations, including insurance programs and duties related to import purchases. As of January 30, 2010, we had the following obligations under letters of credit in future periods.

<u>Letters of Credit</u>	<u>Total</u>	<u>Within 1 Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>After 5 Years</u>
			(in millions)		
Standby	\$ 5.6	\$ 5.6	\$ —	\$ —	\$ —
Documentary	12.4	12.4	—	—	—
	<u>\$18.0</u>	<u>\$18.0</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>

### **Contractual Obligations**

The following table summarizes our contractual obligations as of January 30, 2010 and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

	<u>Total</u>	<u>Within 1 Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>After 5 Years</u>
			(amounts in millions)		
Term Loan(1)	\$ 49.2	\$ —	\$ 1.0	\$ 48.2	\$ —
Interest on long term debt(2)					
Operating lease obligations(3)	582.8	92.0	163.6	124.0	203.2
Liabilities associated with uncertain tax positions(4)					
Purchase obligations:					
Inventory commitments	344.7	344.7	—	—	—
Employment agreements	5.1	2.2	2.8	0.1	—
Other	7.7	1.5	3.2	3.0	—
Total purchase obligations	<u>357.5</u>	<u>348.4</u>	<u>6.0</u>	<u>3.1</u>	<u>—</u>
Total	<u>\$989.5</u>	<u>\$440.4</u>	<u>\$170.6</u>	<u>\$175.3</u>	<u>\$203.2</u>

- (1) Mandatory principal payment requirements are based on, among other things, 1% of original principal balance and annual excess cash flows as defined and subject to certain conditions. As of January 30, 2010, the amount outstanding under the Term Loan is \$49.2 million. As a result of the \$50 million voluntary prepayment made in January 2010, no principal payments are required under the Term Loan in fiscal 2010.
- (2) The Term Loan bears interest at a floating rate of LIBOR + 1.75% or the base rate + 0.75%. As of January 30, 2010, annual interest expense related to the Term Loan is expected to be approximately \$1.0 million.
- (3) Operating lease obligations represent obligations under various long-term operating leases entered in the normal course of business for retail and factory stores, warehouses, office space and equipment requiring minimum annual rentals. Operating lease expense is a significant component of our operating expenses. The lease terms range for various periods of time in various rental markets and are entered into at different times, which mitigates exposure to market changes that could have a material effect on our results of operations within any given year. Operating lease obligations do not include common area maintenance, insurance, taxes and other occupancy costs, which constitute approximately 50% of the minimum lease obligations.

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- (4) As of January 30, 2010, the Company has recorded \$10.5 million in liabilities associated with uncertain tax positions, which are included in other liabilities on the consolidated balance sheet. While these tax liabilities may result in future cash outflows, management cannot make reliable estimates of the cash flows by period due to the inherent uncertainty surrounding the effective settlement of these positions.

### ***Impact of Inflation***

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

### ***Recent Accounting Pronouncements***

We adopted an accounting standard which codified authoritative generally accepted accounting principles, or GAAP, into one source. SEC rules and interpretive releases also continue to be sources of authoritative GAAP for SEC registrants. The adoption of this standard resulted in the incorporation of plain English to describe accounting standards, but did not have an impact on our financial condition or results of operations.

We adopted an accounting standard which formalizes the recognition, nonrecognition and disclosure requirements of subsequent events. The adoption of this standard did not have an impact on our financial condition or results of operations.

We adopted an accounting standard that provides guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased. The standard includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of this standard did not have an impact on our financial condition or results of operations.

We adopted an accounting standard that requires disclosure about the fair value of financial instruments for interim and annual reporting periods. See Note 12, Fair Value Measurements, for additional required disclosures.

We adopted an accounting standard with respect to non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. See Note 12, Fair Value Measurements, for additional required disclosures.

### ***Critical Accounting Policies***

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

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

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### **Revenue Recognition**

- We recognize Store sales at the time of sale, and Direct sales at the time merchandise is shipped to customers. Amounts billed to customers for shipping and handling of phone and Internet sales are classified as other revenues and recognized at the time of shipment. We must make estimates of future sales returns related to current period sales. Management analyzes historical returns, current economic trends and changes in customer acceptance of our products when evaluating the adequacy of the reserve for sales returns.
- In fiscal 2008 and 2007, we licensed our J.Crew trademark and know-how to Itochu Corporation in Japan for which we received royalty fees based on a percentage of sales. The licensing agreement expired in January 2009. In fiscal 2008 and 2007, we deferred recognition of advance royalty payments and recognized royalty revenue when sales entitling us to royalty revenue occurred.
- Employee discounts are classified as a reduction of revenue.
- We account for gift cards by recognizing a liability at the time a gift card is sold and recognizing revenue at the time the gift card is redeemed for merchandise. We review our gift card liability on an ongoing basis and recognize our estimate of the unredeemed gift card liability on a ratable basis over the estimated period of redemption. We defer revenue and recognize a liability for gift cards issued in connection with our customer loyalty program. Any unredeemed loyalty gift cards are recognized as income in the period in which they expire.

### **Inventory Valuation**

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

### **Deferred Catalog Costs**

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

### **Asset Impairment**

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

### **Income Taxes**

An asset and liability method is used to account for income taxes. Deferred tax assets and deferred tax liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred taxes are measured using current enacted tax rates in effect in the years in which those temporary differences are expected to reverse. Inherent in the measurement of deferred taxes are certain judgments and interpretations of enacted tax law and published guidance.

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

With respect to uncertain tax positions that the Company has taken or expects to take on a tax return, we recognize in our financial statements the impact of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position. The tax benefits recognized from uncertain positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon effective settlement.

### **Share Based Compensation**

The fair value of employee share-based awards, including stock options, restricted stock, and associate stock purchase plans, is recognized as compensation expense in the statement of operations. Determining the fair value of options at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the expected dividend yield. Upon grant of awards, we also estimate an amount of forfeitures that will occur prior to vesting. If actual forfeitures differ significantly from the estimates, share-based compensation expense could be materially impacted.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Our principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce our net income or net assets. Our Credit Facility and Term Loan carry floating rates of interest that are a function of prime rate or LIBOR. A one percentage point change in the interest rate on our variable rate debt would result in a change in income before taxes of approximately \$100,000 for each \$10.0 million of borrowings under the Credit Facility and approximately \$0.5 million for the \$49.2 million of borrowings under the Term Loan.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

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

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

None.

## **ITEM 9A. CONTROLS AND PROCEDURES.**

### **Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and our Executive Vice President and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period

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covered by this report to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

**Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. Management evaluated the effectiveness of the Company's internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in *Internal Control-Integrated Framework*. Management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of January 30, 2010 and concluded that it is effective. The Company's independent auditors have issued an audit report on the effectiveness of the Company's internal control over financial reporting. That report appears herein on page F-3.

**Changes in Internal Control over Financial Reporting**

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

**ITEM 9B. OTHER INFORMATION.**

None.

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**PART III**

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

The information set forth in the Proxy Statement for the 2010 Annual Meeting of Stockholders is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

In 2009, we submitted to the New York Stock Exchange the Annual CEO Certification required pursuant to Section 303A.12(A) of the New York Stock Exchange's Listed Company Manual.

**ITEM 11. EXECUTIVE COMPENSATION.**

The information set forth in the Proxy Statement for the 2010 Annual Meeting of Stockholders is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

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

Security ownership of management as set forth in the Proxy Statement for the 2010 Annual Meeting of Stockholders is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

The information set forth in the Proxy Statement for the 2010 Annual Meeting of Stockholders is incorporated herein by reference. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The information required by this item is incorporated herein by reference to the section entitled "Independent Registered Public Accounting Firm Fees and Services" in the Proxy Statement for the 2010 Annual Meeting of Stockholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

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**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

- (a) Financial Statements and Financial Statement Schedules. See “Index to Financial Statements” which is located on page F-1 of this report.
- (b) Exhibits. See the exhibit index which is included herein.



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**J.Crew Group, Inc.**  
**INDEX TO FINANCIAL STATEMENTS**

**Audited Consolidated Financial Statements**

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**Financial Statement Schedules**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**The Board of Directors and Stockholders**

**J.Crew Group, Inc.:**

We have audited the accompanying consolidated balance sheets of J.Crew Group, Inc. and subsidiaries (“Group”) as of January 30, 2010 and January 31, 2009, and the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended January 30, 2010. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule II. These consolidated financial statements and the financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Group as of January 30, 2010 and January 31, 2009 and the results of its operations and its cash flows for each of the years in the three-year period ended January 30, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Group’s internal control over financial reporting as of January 30, 2010, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 19, 2010 expressed an unqualified opinion on the effectiveness of Group’s internal control over financial reporting

As discussed in Note 13 to the consolidated financial statements, Group changed its method of accounting for uncertainty in income taxes in the year ended February 2, 2008 due to the adoption of an accounting standard.

/s/ KPMG LLP

New York, New York  
March 19, 2010

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited J.Crew Group, Inc. and subsidiaries' ("Group") internal control over financial reporting as of January 30, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Group maintained, in all material respects, effective internal control over financial reporting as of January 30, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Group as of January 30, 2010 and January 31, 2009, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended January 30, 2010, and our report dated March 19, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York  
March 19, 2010

**J.CREW GROUP, INC.**  
**Consolidated Balance Sheets**  
(in thousands, except shares)

	January 30, 2010	January 31, 2009
<b>Assets</b>		
Cash and cash equivalents	\$ 298,107	\$ 146,430
Merchandise inventories	190,231	187,044
Prepaid expenses and other current assets	29,522	34,926
Prepaid income taxes	1,455	23,116
Total current assets	<u>519,315</u>	<u>391,516</u>
Property and equipment—at cost	348,584	344,952
Less accumulated depreciation and amortization	<u>(153,969)</u>	<u>(143,277)</u>
	194,615	201,675
Deferred income taxes, net	14,851	8,862
Other assets	9,777	11,756
Total assets	<u>\$ 738,558</u>	<u>\$ 613,809</u>
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	\$ 127,733	\$ 119,719
Other current liabilities	106,652	83,889
Deferred income taxes, net	958	4,049
Current portion of long-term debt	—	800
Total current liabilities	<u>235,343</u>	<u>208,457</u>
Long-term debt	49,229	99,200
Deferred credits	67,646	73,815
Other liabilities	10,462	7,388
Total liabilities	<u>362,680</u>	<u>388,860</u>
Stockholders' equity:		
Common stock \$.01 par value; authorized 200,000,000 shares; issued 65,069,863 and 63,791,590 shares; outstanding 63,778,998 and 62,529,563 shares	649	637
Additional paid-in capital	613,383	585,003
Accumulated deficit	(233,731)	(357,091)
Treasury stock, at cost (1,290,865 and 1,262,027 shares held)	<u>(4,423)</u>	<u>(3,600)</u>
Total stockholders' equity	375,878	224,949
Total liabilities and stockholders' equity	<u>\$ 738,558</u>	<u>\$ 613,809</u>

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

**J.CREW GROUP, INC.**  
**Consolidated Statements of Operations**  
(in thousands, except share data)

	Years Ended		
	January 30, 2010	January 31, 2009	February 2, 2008
Revenues:			
Net sales	\$ 1,539,118	\$ 1,383,200	\$ 1,292,254
Other	38,924	44,770	42,469
Total Revenues	1,578,042	1,427,970	1,334,723
Cost of goods sold, including buying and occupancy costs	882,385	872,547	746,180
Gross profit	695,657	555,423	588,543
Selling, general and administrative expenses	484,396	458,738	416,064
Income from operations	211,261	96,685	172,479
Interest expense-net of interest income of \$310; \$2,037 and \$4,043	5,384	5,940	11,224
Income before income taxes	205,877	90,745	161,255
Provision for income taxes	82,517	36,628	64,180
Net income	<u>\$ 123,360</u>	<u>\$ 54,117</u>	<u>\$ 97,075</u>
Net income per share:			
Basic	\$ 1.97	\$ 0.88	\$ 1.61
Diluted	<u>\$ 1.91</u>	<u>\$ 0.85</u>	<u>\$ 1.52</u>
Weighted average shares outstanding:			
Basic	62,583	61,687	60,346
Diluted	<u>64,714</u>	<u>64,027</u>	<u>63,748</u>

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

**J.CREW GROUP, INC.**

**Consolidated Statements of Changes in Stockholders' Equity**

(in thousands, except shares)

	<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Treasury stock</u>	<u>Total stockholders' equity</u>
	<u>Shares</u>	<u>Amount</u>				
<b>Balance as of February 3, 2007</b>	61,114,458	\$ 611	\$ 515,348	\$ (507,653)	\$ (2,686)	\$ 5,620
Adoption of an accounting standard for uncertainty in income taxes	—	—	—	(630)	—	(630)
Net income	—	—	—	97,075	—	97,075
Issuance of restricted stock	325,000	3	(3)	—	—	—
Net settlement of vested restricted stock	—	—	—	—	(539)	(539)
Forfeiture of restricted stock	(90,734)	(1)	1	—	—	—
Stock based compensation	—	—	6,975	—	—	6,975
Issuance of common stock under ASPP	53,893	1	1,819	—	—	1,820
Exercise of stock options	1,421,323	14	7,810	—	—	7,824
Excess tax benefit from exercise of stock options	—	—	22,177	—	—	22,177
<b>Balance as of February 2, 2008</b>	<u>62,823,940</u>	<u>628</u>	<u>554,127</u>	<u>(411,208)</u>	<u>(3,225)</u>	<u>140,322</u>
Net income	—	—	—	54,117	—	54,117
Issuance of restricted stock	14,994	—	—	—	—	—
Net settlement of vested restricted stock	—	—	—	—	(375)	(375)
Forfeiture of restricted stock	(56,131)	(1)	1	—	—	—
Stock based compensation	—	—	8,405	—	—	8,405
Issuance of common stock under ASPP	111,215	1	1,539	—	—	1,540
Exercise of stock options	897,572	9	7,430	—	—	7,439
Excess tax benefit from exercise of stock options	—	—	13,501	—	—	13,501
<b>Balance as of January 31, 2009</b>	<u>63,791,590</u>	<u>637</u>	<u>585,003</u>	<u>(357,091)</u>	<u>(3,600)</u>	<u>224,949</u>
Net income	—	—	—	123,360	—	123,360
Issuance of restricted stock	341,247	3	(3)	—	—	—
Net settlement of vested restricted stock	—	—	—	—	(823)	(823)
Forfeiture of restricted stock	(5,000)	—	—	—	—	—
Stock based compensation	—	—	12,770	—	—	12,770
Issuance of common stock under ASPP	132,389	1	1,732	—	—	1,733
Exercise of stock options	809,637	8	6,772	—	—	6,780
Excess tax benefit from exercise of stock options	—	—	7,109	—	—	7,109
<b>Balance as of January 30, 2010</b>	<u>65,069,863</u>	<u>\$ 649</u>	<u>\$ 613,383</u>	<u>\$ (233,731)</u>	<u>\$ (4,423)</u>	<u>\$ 375,878</u>

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

**J.CREW GROUP, INC.**  
**Consolidated Statements of Cash Flows**  
(in thousands, except shares)

	Years Ended		
	January 30, 2010	January 31, 2009	February 2, 2008
<b>Cash flows from operating activities:</b>			
Net income	\$ 123,360	\$ 54,117	\$ 97,075
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	51,765	44,143	34,140
Amortization of deferred financing costs	2,942	2,150	2,319
Deferred income taxes	(6,739)	12,993	8,066
Share based compensation	12,770	8,405	6,975
Excess tax benefit from share based compensation	(7,109)	(13,501)	(22,177)
Changes in operating assets and liabilities:			
Merchandise inventories	(3,187)	(28,519)	(17,855)
Prepaid expenses and other current assets	5,404	(1,633)	(2,565)
Other assets	(963)	88	(1,475)
Accounts payable and other liabilities	24,608	17,132	43,341
Federal and state income taxes	29,503	(15)	20,386
Net cash provided by operating activities	<u>232,354</u>	<u>95,360</u>	<u>168,230</u>
<b>Cash flow from investing activities:</b>			
Capital expenditures	<u>(44,705)</u>	<u>(77,526)</u>	<u>(80,618)</u>
<b>Cash flow from financing activities:</b>			
Proceeds from share-based compensation plans	8,513	8,960	9,644
Excess tax benefit from share-based compensation	7,109	13,501	22,177
Costs incurred in connection with amended and restated credit agreement	—	—	(1,284)
Repayments and redemption of long-term debt	(50,771)	(25,000)	(75,000)
Repurchase of common stock	(823)	(375)	(539)
Net cash used in financing activities	<u>(35,972)</u>	<u>(2,914)</u>	<u>(45,002)</u>
Increase in cash and cash equivalents:	151,677	14,920	42,610
Cash and cash equivalents at beginning of year	146,430	131,510	88,900
Cash and cash equivalents at end of year	<u>\$ 298,107</u>	<u>\$ 146,430</u>	<u>\$ 131,510</u>
<b>Supplemental cash flow information:</b>			
Income taxes paid	<u>\$ 69,053</u>	<u>\$ 32,492</u>	<u>\$ 35,789</u>
Interest paid	<u>\$ 2,051</u>	<u>\$ 5,199</u>	<u>\$ 11,600</u>

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

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**J.CREW GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended January 30, 2010, January 31, 2009 and February 2, 2008**  
(Dollars in thousands, unless otherwise indicated)

**1. Nature of Business and Summary of Significant Accounting Policies**

*(a) Basis of Presentation*

The consolidated financial statements presented herein are J.Crew Group, Inc. and its wholly-owned subsidiaries (collectively, the Company or Group), which consist of the accounts of J.Crew Group, Inc. and its wholly owned subsidiaries, including J.Crew Operating Corp. (Operating).

All significant intercompany balances and transactions are eliminated in consolidation.

*(b) Business*

The Company designs, contracts for the manufacture of, markets and distributes women's, men's and children's apparel, shoes and accessories under the J.Crew, crewcuts and Madewell brand names. The Company's products are marketed primarily in the United States through various channels of distribution, including retail and factory stores, catalogs, and the Internet.

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

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

*(c) Fiscal Year*

The Company's fiscal year ends on the Saturday closest to January 31. The fiscal years 2009, 2008 and 2007 ended on January 30, 2010, January 31, 2009 and February 2, 2008, respectively, and consisted of 52 weeks.

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

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

*(e) Revenue Recognition*

Revenue is recognized for phone and Internet sales when merchandise is shipped to customers and at the time of sale for store sales. Shipping terms for phone and Internet sales are FOB shipping point, and title passes to the customer at the time and place of shipment. Prices for all merchandise are listed in the Company's catalogs and website and are confirmed with the customer upon order. The customer has no cancellation privileges other

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than customary rights of return. The Company accrues a sales return allowance for estimated returns of merchandise subsequent to the balance sheet date that relate to sales prior to the balance sheet date. The Company presents taxes collected from customers and remitted to governmental authorities on a net basis in the Consolidated Statements of Operations.

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

Other revenues include the estimated amount of unredeemed gift card liability based on Company specific historical trends, which amounted to \$2,931, \$2,954 and \$1,922 in fiscal years 2009, 2008 and 2007, respectively.

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

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

*(f) Merchandise Inventories*

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

*(g) Advertising and Catalog Costs*

Direct response advertising, which consists primarily of catalog production and mailing costs, are capitalized and amortized over the expected future revenue stream. Amortization of capitalized advertising costs is computed using the ratio of current period revenues for the catalog cost pool to the total of current and estimated future period revenues for that catalog cost pool. The capitalized costs of direct response advertising are amortized, commencing with the date catalogs are mailed, over the duration of the expected revenue stream, which is approximately two months. Deferred catalog costs, included in prepaid expenses and other current assets, as of January 30, 2010 and January 31, 2009 were \$5,403 and \$7,996 respectively. Catalog costs, which are reflected in selling, general and administrative expenses, for the fiscal years 2009, 2008 and 2007, were \$42,111, \$51,746 and \$45,652 respectively.

All other advertising costs, which are expensed as incurred, for the fiscal years 2009, 2008 and 2007 were \$14,700, \$8,763 and \$6,665, respectively.

*(h) Deferred Rent and Lease Incentives*

Rental payments under operating leases are charged to expense on a straight-line basis after consideration of rent holidays, step rent provisions and escalation clauses. Differences between rental expense and actual rental payments are recorded as deferred rent and included in deferred credits. Rent expense is recognized from the date of possession.

The Company receives construction allowances upon entering into certain store leases. These construction allowances are recorded as deferred credits and are amortized as a reduction of rent expense over the term of the related lease. Deferred construction allowances were \$42,110 and \$49,168 at January 30, 2010 and January 31, 2009, respectively.

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*(i) Stock Based Compensation*

The fair value of employee share-based awards, including stock options, time and performance based restricted stock, and associate stock purchase plans, is recognized as compensation expense on a straight line basis over the requisite service period of the award. Determining the fair value of options at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the expected dividend yield. Upon grant of awards, the Company also estimates an amount of forfeitures that will occur prior to vesting.

*(j) Property and Equipment*

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

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

*(k) Impairment of Long-Lived Assets*

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company assesses the recoverability of such assets based upon estimated cash flow forecasts. Charges for impairment for the fiscal years 2009 and 2008 were \$2,704 and \$2,652, respectively. There were no charges for impairment in fiscal year 2007.

*(l) Income Taxes*

The Company accounts for income taxes using an asset and liability method. Deferred tax assets and deferred tax liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred taxes are measured using current enacted tax rates in effect in the years in which those temporary differences are expected to reverse. The provision for income taxes includes taxes currently payable and deferred taxes resulting from the tax effects of temporary differences between the financial statement and tax bases of assets and liabilities.

The Company maintains valuation allowances where it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in the valuation allowances are included in our tax provision in the period of change. In determining whether a valuation allowance is warranted, the Company evaluates factors such as prior earnings history, expected future earnings, carry-back and carry-forward periods and tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset.

With respect to uncertain tax positions taken or expects to take on a tax return, the Company recognizes in its financial statements the impact of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position. The tax benefits recognized from uncertain positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon effective settlement.

It is the Company's policy to recognize interest income and expense related to income taxes as a component of interest expense, and penalties as a component of selling, general and administrative expenses.

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*(m) Segment Information*

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

*(n) Cash and Cash Equivalents*

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments, with maturities of 90 days or less when purchased, to be cash equivalents. Cash equivalents, which were \$282,078 and \$132,402 at January 30, 2010 and January 31, 2009, respectively, are stated at cost, which approximates market value.

*(o) Operating Expenses*

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

Selling, general and administrative expenses include all operating expenses not included in cost of goods sold, primarily catalog production and mailing costs, administrative payroll, store expenses other than occupancy costs, depreciation and amortization, certain warehousing expenses (aggregating to \$24,661, \$30,343, and \$22,078 for fiscal years 2009, 2008, and 2007, respectively) and credit card fees.

*(p) Debt Issuance Costs*

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

*(q) Store Pre-opening Costs*

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

*(r) Income / (Loss) per Share*

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

*(s) Reclassification*

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

## **2. Share Based Compensation**

At January 30, 2010, the Company has five share-based compensation plans, which are described below:

*Amended and Restated 1997 Stock Option Plan*

Under the terms of the Amended and Restated 1997 Stock Option Plan (the "1997 Plan"), an aggregate of 3,697,374 shares of Group common stock were allotted for grant to key employees and consultants in the form of

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non-qualified stock options. The options have terms of seven to ten years and become exercisable over a period of four to five years. Options granted under the 1997 Plan are subject to various conditions, including under some circumstances, the achievement of certain performance objectives.

#### *2003 Equity Incentive Plan*

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

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

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

#### *2005 Equity Incentive Plan*

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

#### *Amended and Restated 2007 Associate Stock Purchase Plan*

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

#### *Amended and Restated 2008 Equity Incentive Plan*

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

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

## Accounting for Share-Based Payments

The fair value of employee share-based awards, including stock options, time and performance based restricted stock, and associate stock purchase plans, is recognized as compensation expense on a straight line basis over the requisite service period of the award. Determining the fair value of options at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the expected dividend yield. Upon grant of awards, the Company also estimates an amount of forfeitures that will occur prior to vesting. Total share based compensation expense was \$12.8 million, \$8.4 million and \$7.0 million for fiscal 2009, 2008, and 2007, respectively.

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

<u>Black-Scholes Option Valuation Assumptions</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Risk-free interest rates(1)	1.7%	3.1%	4.6%
Dividend yield	—	—	—
Expected volatility(2)	62.4%	44.7%	40.0%
Weighted-average expected term(3) (in years)	5.0	5.1	5.4

- (1) Based on the U.S. Treasury yield curve in effect at the time of grant.
- (2) In 2006, volatility was based on average volatility of stock prices of companies in a peer group analysis. Beginning in July 2007, the first anniversary of the Company's initial public offering, volatility has been based on the historical volatility of the Company's stock price, implied volatility of publicly traded options on the Company's stock and the average volatility of the stock prices of a peer group.
- (3) Represents the period of time options are expected to be outstanding.

As of January 30, 2010, there was \$26.4 million of total unrecognized compensation cost related to non-vested options that is expected to be recognized over the remaining weighted-average vesting period of 3.4 years. The weighted-average grant-date fair value of options granted was \$9.31, \$12.18 and \$17.94 for fiscal 2009, 2008 and 2007, respectively. The aggregate intrinsic value of stock options exercised was \$20.0 million, \$30.4 million and \$52.5 million for fiscal 2009, 2008 and 2007, respectively.

The following table summarizes stock option activity for fiscal 2009:

	<u>Shares</u> (in thousands)	<u>Weighted Average</u> <u>Exercise Price</u>	<u>Weighted Average</u> <u>Remaining</u> <u>Contractual Term</u> (in years)	<u>Aggregate</u> <u>Intrinsic</u> <u>Value</u> (in millions)
Outstanding at January 31, 2009	7,540	\$ 15.91		
Granted	1,358	\$ 17.42		
Exercised	(810)	\$ 8.37		
Forfeited	(111)	\$ 28.76		
Outstanding at January 30, 2010	7,977	\$ 16.73	4.7	\$ 180.5
Exercisable at January 30, 2010	4,730	\$ 10.52	4.2	\$ 136.2
Expected to vest at January 30, 2010	2,955	\$ 25.78	5.4	\$ 40.3

The following table summarizes information about unvested options for fiscal 2009:

	<u>Shares</u> (in thousands)	<u>Weighted Average Grant Date Fair Value</u>
Unvested at January 31, 2009	2,640	\$ 11.87
Granted	1,358	\$ 9.31
Vested	(664)	\$ 5.74
Forfeited	(87)	\$ 13.81
Unvested at January 30, 2010	<u>3,247</u>	<u>\$ 12.01</u>

The following table summarizes information about stock options outstanding as of January 30, 2010:

<u>Exercise Price Range</u>	<u>Outstanding</u>		<u>Weighted Average Remaining Contractual Term (in years)</u>	<u>Exercisable</u>	
	<u>Number of options</u> (in thousands)	<u>Weighted Average Exercise price</u>		<u>Number of options</u> (in thousands)	<u>Weighted Average Exercise price</u>
\$3.53 – \$4.41	761	\$ 3.53	3.4	761	\$ 3.53
\$5.17 – \$10.76	1,974	\$ 7.62	4.4	1,959	\$ 7.62
\$11.58 – \$18.19	3,027	\$ 14.29	5.1	1,727	\$ 12.91
\$20.00 – \$55.72	2,215	\$ 32.73	4.9	283	\$ 34.96
\$3.53 – \$55.72	<u>7,977</u>	<u>\$ 16.73</u>	4.7	<u>4,730</u>	<u>\$ 10.52</u>

The Company issues new shares upon the exercise of stock options. Cash received from share based compensation plans was \$8.5 million, \$9.0 million and \$9.6 million for fiscal 2009, 2008, and 2007, respectively.

Certain employees and directors have been awarded restricted stock, which vests over a period of two to five years, under the 2003 Plan, 2005 Plan, and the 2008 Plan. Compensation expense is recognized on a straight-line basis over the vesting period. Compensation expense associated with restricted stock was \$3.7 million, \$1.9 million, and \$1.3 million for fiscal 2009, 2008, and 2007 respectively. As of January 30, 2010, there was \$6.8 million of unrecognized compensation cost related to non-vested restricted stock that is expected to be recognized over the remaining weighted-average vesting period of 1.9 years. The total intrinsic value of restricted shares vested during fiscal 2009, 2008, and 2007 was \$4.5 million, \$7.0 million, and \$6.6 million, respectively.

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

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

- (1) Based on the U.S. Treasury yield curve in effect at the time of grant.
- (2) In 2006, volatility was based on average volatility of stock prices of companies in a peer group analysis. Beginning in July 2007, the first anniversary of the Company's initial public offering, volatility has been based on the historical volatility of the Company's stock price, implied volatility of publicly traded options on the Company's stock and the average volatility of the stock prices of a peer group.

The following table summarizes restricted share activity for fiscal 2009:

	<u>Shares</u> (in thousands)	<u>Weighted Average Grant-Date Fair Value</u>
Outstanding at January 31, 2009	429	\$ 17.69
Granted	341	\$ 18.34
Vested	(167)	\$ 7.56
Forfeited	(5)	\$ 47.65
Outstanding at January 30, 2010	<u>598</u>	<u>\$ 20.64</u>

Shares available for the issuance of stock options or other stock based awards under our share-based compensation plans were 198,500 at January 30, 2010.

### 3. Property and Equipment

Property and equipment, net consists of:

	<u>January 30, 2010</u>	<u>January 31, 2009</u>
Land	\$ 1,710	\$ 1,710
Buildings and improvements	12,781	15,465
Fixtures and equipment	109,820	104,242
Leasehold improvements	210,518	206,362
Construction in progress	<u>13,755</u>	<u>17,173</u>
	348,584	344,952
Less accumulated depreciation and amortization	<u>(153,969)</u>	<u>(143,277)</u>
	<u>\$ 194,615</u>	<u>\$ 201,675</u>

### 4. Other Current Liabilities

Other current liabilities consist of:

	<u>January 30, 2010</u>	<u>January 31, 2009</u>
Customer liabilities	\$ 32,974	\$ 28,214
Taxes, other than income taxes	6,770	9,137
Accrued occupancy	2,793	2,648
Reserve for sales returns	8,300	5,942
Accrued compensation	19,012	5,877
Other	36,803	32,071
	<u>\$ 106,652</u>	<u>\$ 83,889</u>

### 5. Credit Agreements

#### *Credit Facility*

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

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

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

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

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

There was \$194.4 million available for borrowings under the Credit Facility at January 30, 2010. There were no borrowings outstanding under the Credit Facility during fiscal 2009, 2008 or 2007.

#### *Demand Letter of Credit Facility*

On October 31, 2007, Operating entered into an unsecured, demand letter of credit facility with The Hong Kong and Shanghai Banking Corporation Limited that provides for the issuance of up to \$35.0 million of documentary letters of credit on a no fee basis. Outstanding documentary letters of credit were \$12.4 million and availability under this facility was \$22.6 million at January 30, 2010.

Outstanding letters of credit under our facilities established primarily to facilitate international merchandise purchases at January 30, 2010 and January 31, 2009 amounted to \$12.4 million and \$19.5 million respectively.

## **6. Long-Term Debt**

Long-term debt consists of the following:

	January 30, 2010	January 31, 2009
Term Loan	\$49,229	\$100,000
Less current portion	—	(800)
Long-term debt	<u>\$49,229</u>	<u>\$99,200</u>

On May 15, 2006 (the "Closing Date"), Operating, as borrower, Group and certain of Operating's direct and indirect subsidiaries, as guarantors, entered into a Credit and Guaranty Agreement (the "Credit and Guaranty Agreement") with certain lenders named therein as lenders, Goldman Sachs Credit Partners L.P. ("GSCP") and

Bear, Stearns & Co. Inc. as joint lead arrangers and joint bookrunners, GSCP as administrative agent and collateral agent, Bear Stearns Corporate Lending Inc. as syndication agent and Wachovia Bank, National Association as documentation agent.

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

The Company is required to make the following annual principal payments based upon certain conditions as set forth in the Term Loan: (i) 1% per annum of the original principal balance of the Term Loan due in quarterly installments and (ii) an amount equal to 50% of excess cash flow, as defined in the agreement, due within 90 days of the fiscal year-end. The Company made aggregate voluntary prepayments of \$50.0 and \$25.0 million in fiscal 2009 and 2008, respectively.

## 7. Income per Share

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		(\$ in thousands, except per share amounts)	
Net income	\$ 123,360	\$ 54,117	\$ 97,075
Income per Share:			
Basic	\$ 1.97	\$ 0.88	\$ 1.61
Diluted	\$ 1.91	\$ 0.85	\$ 1.52
Weighted average common shares outstanding:			
Basic	62,583	61,687	60,346
Diluted	64,714	64,027	63,748

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		(amounts in thousands)	
Stock options	2,116	2,225	87
Unvested shares of restricted stock	5	18	—
	<u>2,121</u>	<u>2,243</u>	<u>87</u>

## 8. Commitments and Contingencies

### (a) Operating Leases

As of January 30, 2010, the Company was obligated under various long-term operating leases for retail and factory stores, warehouses, office space and equipment requiring minimum annual rentals.

These operating leases expire on varying dates through 2023. At January 30, 2010 aggregate minimum rentals are as follows:

<u>Fiscal year</u>	<u>Amount</u>
2010	\$ 91,974
2011	\$ 86,627
2012	\$ 76,956
2013	\$ 65,001
2014	\$ 58,965
Thereafter	\$ 203,248

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 2009, 2008 and 2007 was \$85,771, \$74,922 and \$62,662 respectively, including contingent rent, based on store sales, of \$4,305, \$4,070 and \$4,186, respectively.

*(b) Employment Agreements*

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

*(c) Litigation*

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

**9. Employee Benefit Plan**

The Company has a 401(K) Savings Plan pursuant to Section 401 of the Internal Revenue Code whereby all eligible employees may contribute up to 15% of their annual base salaries subject to certain limitations. The Company's contribution is based on a percentage formula set forth in the plan agreement. Company contributions to the 401(K) Savings Plan were \$962, \$3,019 and \$2,520 for fiscal 2009, 2008 and 2007, respectively. The decrease in contributions was due to the Company suspending its 401(k) Savings Plan matching contribution in April 2009. The match was reinstated effective January 1, 2010.

**10. License Agreement**

The Company had a licensing agreement through January 2009 with Itochu Corporation, a Japanese trading company. The agreement permitted Itochu to distribute J.Crew merchandise in Japan. The Company earned royalty payments under the agreement based on the sales of its merchandise. Royalty income, which is included in other revenues, for fiscal 2008 and 2007 was \$1,656 and \$2,589, respectively.

## 11. Other Revenues

Other revenues consist of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Shipping and handling fees	\$35,887	\$39,368	\$37,958
Royalties	—	1,656	2,589
Other	3,037	3,746	1,922
	<u>\$ 38,924</u>	<u>\$ 44,770</u>	<u>\$ 42,469</u>

## 12. Fair Value Measurements

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

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

### Financial Assets and Liabilities

The Company does not have any financial assets or liabilities as of January 30, 2010 or January 31, 2009 that are measured in the financial statements at fair value on a recurring basis.

The fair value of the Company's long-term debt is estimated to be approximately \$47,260 and \$83,000 at January 30, 2010 and January 31, 2009, respectively, and is based on quoted market prices of the debt (level 1 inputs). The carrying amounts of the Term Loan were \$49,229 and \$100,000 at January 30, 2010 and January 31, 2009, respectively. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts payable and other current liabilities approximate fair value because of the short-term maturity of those financial instruments. The estimates presented herein are not necessarily indicative of amounts the Company could realize in a current market exchange.

### Non-financial Assets and Liabilities

Except for certain leasehold improvements, the Company does not have any non-financial assets or liabilities as of January 30, 2010 or January 31, 2009 that are measured in the financial statements at fair value.

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

A summary of the impact of the impairment of certain long-lived assets on financial condition and results of operations is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Carrying value of certain long-lived assets written down to fair value	\$2,704	\$2,652	\$—
Impairment charge	\$2,704	\$2,652	\$—

### 13. Income Taxes

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

The following table summarizes the components of the provision for income taxes:

<i>(Dollars in millions)</i>	<u>Years Ended</u>		
	<u>January 30, 2010</u>	<u>January 31, 2009</u>	<u>February 2, 2008</u>
<b>Current:</b>			
Federal	\$ 68.5	\$ 19.0	\$ 45.6
State and local	20.8	4.6	10.2
Foreign	—	—	0.3
	<u>89.3</u>	<u>23.6</u>	<u>56.1</u>
<b>Deferred:</b>			
Federal	(6.6)	12.9	8.0
State and local	(0.1)	0.1	0.1
	<u>(6.7)</u>	<u>13.0</u>	<u>8.1</u>
<b>Total</b>	<u>\$ 82.6</u>	<u>\$ 36.6</u>	<u>\$ 64.2</u>

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

	<u>Years Ended</u>		
	<u>January 30, 2010</u>	<u>January 31, 2009</u>	<u>February 2, 2008</u>
Federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	5.9	5.9	4.1
Other	(0.8)	(0.5)	0.7
<b>Effective tax rate</b>	<u>40.1%</u>	<u>40.4%</u>	<u>39.8%</u>

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

<i>(Dollars in millions)</i>	<u>January 30, 2010</u>	<u>January 31, 2009</u>
<b>Deferred tax assets:</b>		
Rent	\$ 19.7	\$ 19.8
Reserve for sales returns	3.3	2.4
Share-based payments	10.9	7.2
State taxes and interest	2.4	2.5
Other	3.4	3.2
	<u>39.7</u>	<u>35.1</u>
<b>Deferred tax liabilities:</b>		
Prepaid catalog and other prepaid expenses	(8.7)	(9.2)
Difference in book and tax basis for property and equipment	(17.1)	(21.1)
	<u>(25.8)</u>	<u>(30.3)</u>
Net deferred income tax assets	<u>\$ 13.9</u>	<u>\$ 4.8</u>
<b>Amounts included in consolidated balance sheets:</b>		
Non-current assets	\$ 14.8	\$ 8.9
Current liabilities	(0.9)	(4.1)
	<u>\$ 13.9</u>	<u>\$ 4.8</u>

Management believes that the net deferred tax asset balance of \$13.9 million as of January 30, 2010 is more likely than not to be realized.

On February 4, 2007, the Company adopted an accounting standard that prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements, uncertain tax positions that it has taken or expects to take on a tax return. The Company considers the technical merits of tax positions, and recognizes the impact of positions that meet a "more likely than not" threshold. As a result of this adoption, the Company recognized a \$0.6 million net increase in unrecognized tax benefits with a corresponding decrease in retained earnings.

As of January 30, 2010, the Company has \$10.5 million in liabilities associated with uncertain tax positions (including interest and penalties of \$0.8 million) reflected in other liabilities. The amount, if recognized, that would affect the effective tax rate is \$7.6 million. While the Company expects the amount of unrecognized tax benefits to change in the next twelve months, the change is not expected to have a significant effect on the estimated effective annual tax rate, the results of operations or financial position.

A reconciliation of unrecognized tax benefits is as follows :

<i>(Dollars in millions)</i>	<u>Fiscal 2009</u>	<u>Fiscal 2008</u>
Balance at beginning of fiscal year	\$ 6.2	\$ 6.6
Additions for tax positions taken during current year	4.5	1.2
Reductions for tax positions taken during prior years	(0.2)	(0.2)
Settlements	(0.4)	(0.1)
Expirations of statutes of limitations	(0.4)	(1.3)
Balance at end of fiscal year	<u>\$ 9.7</u>	<u>\$ 6.2</u>

In fiscal 2009, audits for the tax years ended January 2004 through January 2006 were closed by the IRS. The results of these audits did not have a significant effect on the results of operations or financial position. In

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fiscal 2008, audits for the tax years ended January 2002 and January 2003 were closed by the IRS, and the Company collected \$9.3 million of refundable income taxes including interest. Various state and local jurisdiction tax authorities are in the process of examining income tax returns of Group's subsidiaries for various tax years ranging from 2001 to 2008. The results of these audits are not expected to have a significant effect on the results of operations or financial position.

#### **14. Related Party Transaction**

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

#### **15. Recent Accounting Pronouncements**

The Company adopted an accounting standard which codified authoritative generally accepted accounting principles, or GAAP, into one source. The adoption of this standard resulted in the incorporation of plain English to describe accounting standards, but did not have an impact on the financial condition or results of operations of the Company.

The Company adopted an accounting standard which formalizes the recognition, nonrecognition and disclosure requirements of subsequent events. The adoption of this standard did not have an impact on the financial condition or results of operations of the Company.

The Company adopted an accounting standard that provides guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased. The standard includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of this standard did not have an impact on the financial condition or results of operations of the Company.

The Company adopted an accounting standard that requires disclosure about the fair value of financial instruments for interim and annual reporting periods. See Note 12, Fair Value Measurements, for additional required disclosures.

The Company adopted an accounting standard with respect to non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. See Note 12, Fair Value Measurements, for additional required disclosures.

## 16. Quarterly Financial Information (Unaudited)

Summarized quarterly financial results for fiscal 2009 and fiscal 2008 follow:

<i>(in thousands, except share related amounts)</i>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<b>Fiscal 2009</b>				
Total revenues	\$ 345,770	\$ 357,555	\$ 414,109	\$ 460,608
Gross profit	145,937	147,228	200,427	202,067
Net income	\$ 20,445	\$ 18,610	\$ 43,869	\$ 40,436
Income per share:				
Basic	\$ 0.33	\$ 0.30	\$ 0.70	\$ 0.64
Diluted	\$ 0.32	\$ 0.29	\$ 0.67	\$ 0.61
Weighted average common shares outstanding:				
Basic	62,130	62,323	62,775	63,085
Diluted	63,319	64,326	65,223	65,882
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter(1)</u>
<b>Fiscal 2008</b>				
Total revenues	\$ 340,579	\$ 336,275	\$ 363,080	\$ 388,036
Gross profit	159,887	137,732	150,868	106,936
Net income (loss)	\$ 30,501	\$ 18,123	\$ 19,041	\$ (13,548)
Income (loss) per share:				
Basic	\$ 0.50	\$ 0.29	\$ 0.31	\$ (0.22)
Diluted	\$ 0.48	\$ 0.28	\$ 0.30	\$ (0.22)
Weighted average common shares outstanding:				
Basic	61,192	61,693	61,878	61,991
Diluted	64,076	64,346	64,078	61,991

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

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

**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

	<u>Beginning Balance</u>	<u>Charged to Cost and Expenses(a)</u>	<u>Charged to other Accounts</u> (in thousands)	<u>Deductions(a)</u>	<u>Ending Balance</u>
<i>Inventory reserve</i>					
(deducted from merchandise inventories)					
Year ended:					
January 30, 2010	\$ 8,913	\$ —	\$ —	\$ 1,826	\$ 7,087
January 31, 2009	7,966	947	—	—	8,913
February 2, 2008	7,698	268	—	—	7,966
<i>Allowance for sales returns</i>					
(included in other current liabilities)					
Year ended:					
January 30, 2010	\$ 5,942	\$ 2,358	\$ —	\$ —	\$ 8,300
January 31, 2009	7,140	—	—	1,198	5,942
February 2, 2008	6,221	919	—	—	7,140

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

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## EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Document</u>
3.1	Certificate of Incorporation of J.Crew Group, Inc. Incorporated by reference to Exhibit 3.1 to the S-1/A Registration Statement filed on October 11, 2005.
3.2	By-laws of J.Crew Group, Inc. Incorporated by reference to Exhibit 3.2 to the Form 8-K/A filed on October 17, 2005.
<b>Instruments Defining the Rights of Security Holders, Including Indentures</b>	
4.1	Form of Specimen Common Stock Certificate of J.Crew Group, Inc. Incorporated by reference to Exhibit 4.1 to the S-1/A Registration Statement filed on June 22, 2006.
4.2	Stockholders' Agreement, dated as of January 24, 2003, among J.Crew Group, Inc., TPG Partners II, L.P. and Millard Drexler. Incorporated by reference to Exhibit 4.1 to the Form 8-K filed on February 3, 2003.
4.3	Form of Amendment No. 1 to Stockholders Agreement, by and among J.Crew Group, Inc., Millard S. Drexler and each of TPG Partners II, L.P., TPG Parallel II, L.P., TPG Investors II, L.P. and TPG 1999 Equity II, L.P. Incorporated by reference to Exhibit 4.5(b) to the S-1/A Registration Statement filed on June 22, 2006.
<b>Material Contracts</b>	
10.1	Amended and Restated Loan and Security Agreement, dated as of December 23, 2004, by and among J.Crew Operating Corp., J.Crew Inc., Grace Holmes, Inc. d/b/a J.Crew Retail, H.F.D. No. 55, Inc. d/b/a J.Crew Factory as Borrowers, J.Crew Group, Inc., J.Crew International, Inc., J.Crew Intermediate LLC as Guarantors, Wachovia Capital Markets LLC as Arranger and Bookrunner, Wachovia Bank, National Association as Administrative Agent, Bank of America, N.A. as Syndication Agent, Congress Financial Corporation as Collateral Agent, and the Lenders (the "Credit Facility"). Incorporated by reference to Exhibit 4.6 to the Form 8-K filed on December 28, 2004.
10.2	Amendment No. 1, dated as of October 10, 2005, to the Credit Facility. Incorporated by reference to Exhibit 4.1 to the Form 8-K/A filed on October 17, 2005.
10.3	Joinder Agreement between the Company and Wachovia Bank, National Association, as Agent under the Credit Facility, dated October 12, 2005. Incorporated by reference to Exhibit 4.1 to the Form 8-K filed on October 18, 2005.
10.4	Amendment No. 2, dated as of May 15, 2006, to the Credit Facility by and among Operating, J.Crew Inc., Grace Holmes, Inc., H.F.D. No. 55, Inc., as borrowers, Group, J.Crew International, Inc. and Madewell Inc., as guarantors, the lenders named therein and Wachovia Bank, National Association, successor by merger to Congress Financial Corporation, a national banking association, in its capacity as administrative agent and collateral agent for lenders (the "Agent"), and Amendment No. 1 to Guarantee, dated as of May 15, 2006, by the borrowers and guarantors in favor of the Agent. Incorporated by reference to Exhibit 10.1(c) to the S-1/A Registration Statement filed on May 16, 2006.
10.5	Amendment No. 3, dated as of May 15, 2006, to the Credit Facility by and among Operating, J.Crew Inc., Grace Holmes, Inc., H.F.D. No. 55, Inc., as borrowers, Group, J.Crew International, Inc. and Madewell Inc., as guarantors, the lenders named therein and the Agent. Incorporated by reference to Exhibit 10.1(d) to the S-1/A Registration Statement filed on May 16, 2006.
10.6	Amendment No. 4, dated as of June 26, 2006, to the Credit Facility by and among Operating, J.Crew Inc., Grace Holmes, Inc., H.F.D. No. 55, Inc., as borrowers, Group, J.Crew International, Inc. and Madewell Inc., as guarantors, the lenders named therein and the Agent. Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on June 30, 2006.

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

<u>Exhibit No.</u>	<u>Document</u>
10.20	Trademark Security Agreement, dated as of May 15, 2006, by and among J.Crew Inc. and J.Crew International, as grantors, and Goldman Sachs Credit Partners L.P., as collateral agent. Incorporated by reference to Exhibit 10.19 to the S-1/A Registration Statement filed on May 16, 2006.
10.21	Copyright Security Agreement, dated as of May 15, 2006, by and between J.Crew International, as grantor, and Goldman Sachs Credit Partners L.P., as collateral agent. Incorporated by reference to Exhibit 10.20 to the S-1/A Registration Statement filed on May 16, 2006.
10.22	Intercreditor Agreement, dated as of May 15, 2006, by and among J.Crew Operating Corp., J.Crew Group, Inc. and certain subsidiaries of J.Crew Operating Corp. named as guarantors in the Credit and Guaranty Agreement, Goldman Sachs Credit Partners L.P., in its capacity as administrative agent and collateral agent under the Credit and Guaranty Agreement, and Wachovia Bank, National Association, in its capacity as administrative agent and collateral agent under the Credit Facility. Incorporated by reference to Exhibit 10.21 to the S-1/A Registration Statement filed on May 16, 2006.
10.23	J.Crew Group, Inc. 2005 Equity Incentive Plan. Incorporated by reference to Exhibit 10.4 to the S-8 Registration Statement filed on June 28, 2006.
10.24	Amendment No. 1, dated December 5, 2006, to the J.Crew Group, Inc. 2005 Equity Incentive Plan. Incorporated by reference to Exhibit 10.27 to the Form 10-Q for the period ended October 28, 2006.
10.25	Stock option grant agreement, dated as of November 15, 2006, between J.Crew Group, Inc. and Tracy Gardner. Incorporated by reference to Exhibit 10.2 to the Form 8-K filed on November 17, 2006.
10.26	Stock option grant agreement, dated as of November 15, 2006, between J.Crew Group, Inc. and James Scully. Incorporated by reference to Exhibit 10.3 to the Form 8-K filed on November 17, 2006.
10.27	Standard form of Restricted Stock Grant Agreement (Time-Based Vesting). Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on November 29, 2006.
10.28	Standard form of Restricted Stock Grant Agreement (Performance-Based Vesting). Incorporated by reference to Exhibit 10.2 to the Form 8-K filed on November 29, 2006.
10.29	Standard form of Stock Option Grant Agreement. Incorporated by reference to Exhibit 10.3 to the Form 8-K filed on November 29, 2006.
10.30	Amended and Restated J.Crew Group, Inc. 2007 Associate Stock Purchase Plan. †
10.31	J.Crew Group, Inc. Amended and Restated 2008 Equity Incentive Plan (As of September 10, 2008). Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on December 23, 2008.
10.32	Standard Form of Restricted Stock Grant Agreement (Time-Based Vesting). Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on July 17, 2008.
10.33	Standard Form of Restricted Stock Grant Agreement (Performance-Based Vesting). Incorporated by reference to Exhibit 10.2 to the Form 8-K filed on July 17, 2008.
10.34	Standard Form of Stock Option Grant Agreement. Incorporated by reference to Exhibit 10.3 to the Form 8-K filed on July 17, 2008.
10.35	Second Amended and Restated Employment Agreement by and among the Company, Operating and Millard S. Drexler dated as of October 20, 2005 and executed as of December 29, 2008. Incorporated by reference to Exhibit 10.36 to the Form 10-K filed on March 23, 2009.

<u>Exhibit No.</u>	<u>Document</u>
10.36	Amended and Restated Employment Agreement, dated March 14, 2008, between the Company and Tracy Gardner. Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on March 19, 2008.
10.37	Amended and Restated Employment Agreement, dated September 10, 2008, between the Company and James Scully. Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on September 11, 2008.
10.38	Amended and Restated Non-Disclosure, Non-Solicitation and Non-Competition Agreement, dated December 29, 2008, between the Company and Libby Wadle. Incorporated by reference to Exhibit 10.39 to the Form 10-K filed on March 23, 2009.
10.39	Amended and Restated Employment Agreement, dated December 17, 2008, between the Company and Jenna Lyons Mazeau. Incorporated by reference to Exhibit 10.40 to the Form 10-K filed on March 23, 2009.
10.40	Long term incentive agreement, dated April 24, 2006, between the Company and Jenna Lyons. Incorporated by reference to Exhibit 10.41 to the Form 10-K filed on March 23, 2009.
10.41	Special Bonus Agreement, dated October 26, 2009, between the Company and Jenna Lyons. Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on October 29, 2009.

**Other Exhibits**

21.1	Subsidiaries of J.Crew Group, Inc.†
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm.†
24.1	Power of Attorney†
31.1	Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.†
31.2	Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.†
32.1	Certification of chief executive officer and chief financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

† Filed herewith.

\* Furnished herewith.

# J.CREW

## 2007 ASSOCIATE STOCK PURCHASE PLAN (As Amended and Restated effective January 4, 2010)

- 1) Purpose. The purpose of this J. Crew 2007 Associate Stock Purchase Plan (the “Plan”) is to provide associates of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an “employee stock purchase plan” under Section 423 of the Internal Revenue Code of 1986, as amended (the “Code”). Accordingly, the provisions of the Plan shall be construed in a manner consistent with the requirements of Section 423 of the Code.
- 2) Definitions.
  - a) “Affiliate” shall mean any parent corporation or subsidiary corporation, whether now or hereafter existing, as those terms are defined in Section 424 of the Code.
  - b) “Board” shall mean the board of directors of J. Crew Group, Inc.
  - c) “Committee” shall mean the Compensation Committee of the Board, or the Board or such other persons as the Board or the Committee may appoint from time to time.
  - d) “Common Stock” shall mean the common stock of J. Crew Group, Inc.
  - e) “Company” shall mean J. Crew Group, Inc., a Delaware corporation, and any Designated Subsidiary(ies) of J. Crew Group, Inc.
  - f) “Compensation” shall mean regular compensation including salary, wages, overtime, shift differentials and commissions, but excluding (i) bonus payments, (ii) relocation, expense, tuition or other reimbursements and (iii) income realized as a result of participation in any stock option, stock purchase, or similar plan of the Company.
  - g) “Custodian” shall mean the custodian(s) appointed by the Committee pursuant to Section 3 hereof.
  - h) “Designated Subsidiary” shall mean any Subsidiary that the Board may designate from time to time in its sole discretion as being eligible to have its employees participate in the Plan.
  - i) “Exercise Date” shall mean the last day of each Offering Period.

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- j) "Fair Market Value" shall mean, as of a specified day, (i) the average of the high and low sales prices on 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 on such day as reported on the National Association of Securities Dealers Automated Quotation System 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.
- k) "Grant Date" shall mean the first day of each Offering Period.
- l) "Law" shall mean all provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933 (as amended), the Securities Exchange Act of 1934 (as amended) and the Code, in each case together with the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Common Stock may then be listed.
- m) "Offering Period" shall mean a six-month period commencing on or about February 1 and August 1 of each year (or at such other period as the Committee may determine in its discretion), provided that the Committee shall have the power to change the timing and duration of any Offering Period, and/or the frequency of Offering Periods, with respect to future offerings without stockholder approval if such change is announced at least five (5) days prior to the Grant Date of any Offering Period to be affected thereby.
- n) "Participant" shall mean an individual who becomes a participant in the Plan pursuant to Section 5 hereof.
- o) "Purchase Price" shall mean an amount equal to eighty-five percent (85%) of the Fair Market Value of a share of Common Stock on either the Grant Date or the Exercise Date, whichever is less.
- p) "Subsidiary" shall mean a corporation, domestic or foreign, of which the Company or a Subsidiary owns stock possessing at least fifty percent (50%) of the combined voting power of all classes of stock, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.
- 3) Administration.
- a) The Committee acting in its absolute discretion shall have the power to interpret this Plan and to take, or authorize one or more of its members or one or more of the Company's executive officers to take, such actions in the administration and operation of this Plan as

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are expressly called for in the Plan or as the Committee deems equitable under the circumstances, which actions shall to the fullest extent permitted by law be final and binding on all parties.

- b) The Committee may from time to time appoint one or more Custodians for the Plan to (i) hold all shares of Common Stock purchased under the Plan, (ii) maintain a separate account in the name of each Participant (such Participant's "Participant Account"), to which payroll deductions made for such Participant pursuant to Section 6 hereof and Common Stock purchased on such Participant's behalf pursuant to Section 8 hereof shall be credited, (iii) provide Participants, at least annually, with statements of their respective Participant Accounts and (iv) perform such other functions as the Committee shall specify.
- c) No member of the Committee shall be liable for any action, omission or determination relating to the Plan, and the Company shall indemnify and hold harmless each member of the Committee, and each other director or employee of the Company to whom any duty or power relating to the administration or interpretation of the Plan has been delegated, against any cost, expense (including reasonable attorneys' fees) or liability arising out of any action, omission or determination relating to the Plan, unless, in either case, such action, omission or determination was taken or made by such Committee member, director or employee in bad faith and without reasonable belief that it was in the best interests of the Company.

4) Eligibility.

- a) Individuals eligible to participate in the Plan ("Eligible Associates") shall include all individuals who, as of a given Grant Date, are employees of the Company for tax purposes, excluding:
  - i) employees who have been employed with the Company for less than one (1) year prior to such Grant Date;
  - ii) employees whose customary employment with the Company is twenty (20) hours or less per week;
  - iii) employees whose customary employment with the Company is for not more than five (5) months in any calendar year; and
  - iv) employees who (A) constitute "highly compensated employees" within the meaning of Section 414(q) of the Code and (B)(1) receive an annual salary that is equal to or greater than \$300,000 or (2) are subject to the disclosure requirements of Section 16(a) of the Securities Exchange Act of 1934 (as amended) with respect to his or her relationship with, and/or ownership interest in the equity securities of, the Company.
- b) If any individual who the Company deems to be ineligible to participate in the Plan because such individual is classified by the Company as an independent contractor with respect to the Company shall, prior to a given Grant Date, be reclassified by the

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Company as an employee of the Company for tax purposes, then as of such Grant Date such individual shall be eligible to participate in the Plan subject to Section 4(a) hereof.

- c) For purposes of Section 4(a), the employment relationship between the Company and an employee shall be treated as continuing intact while the employee is on sick leave or other leave of absence approved by the Company if either (i) the period of such leave does not exceed three months or (ii) the employee's right to reemployment is guaranteed either by statute or by contract. If an employee's leave of absence exceeds three months in duration and he or she has no right to reemployment that is guaranteed either by statute or by contract, the employment relationship between the Company and such individual shall be deemed to be terminated for purposes of Section 4(a) (and thus the individual shall be ineligible to participate in the Plan) as of the first day following the expiration of such three-month period.
- d) If any individual whose employment is deemed to have terminated in accordance with Section 4(c) hereof is subsequently rehired as an employee of the Company, then upon commencing his or her new period of employment with the Company such individual shall be eligible to participate in the Plan in accordance with Section 4(a) hereof; provided that for the purpose of determining the length of such individual's employment under Section 4(a)(i), if such individual commences his or her new period of employment with the Company (i) within twelve (12) months of the date his or her employment was deemed to have been terminated, such individual shall receive credit for the period immediately prior to such deemed termination during which he or she was continuously employed by the Company or (ii) at any time following the twelve (12) month anniversary of the date his or her employment was deemed to have been terminated, the one-year period described in Section 4(a)(i) shall be deemed to begin on the date such individual commences his or her new period of employment with the Company.

5) Participation.

- a) An Eligible Associate may become a Participant by completing and submitting a subscription agreement in such form and manner as the Committee may prescribe (a "Subscription Agreement") authorizing the Company to make payroll deductions as provided herein.
- b) Each Subscription Agreement completed and submitted by a Participant pursuant to Section 5(a), 6(d) or 12(b) hereof shall remain in effect for successive Offering Periods, and payroll deductions authorized thereby shall continue to be made, until either the Participant duly completes and submits a new Subscription Agreement or the Participant's participation is terminated as provided in Section 10, 11 or 13 hereof.

6) Payroll Deductions.

- a) In his or her Subscription Agreement, each Participant shall elect to have payroll deductions made (subject to Section 6(b) hereof) on each pay day during the Offering Period in an amount, designated in whole percentages, not exceeding fifteen percent (15%) of the Compensation which he or she receives on each such pay day.

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- b) Payroll deductions for each Participant shall commence on the first payroll following the applicable Grant Date and shall be made as specified by the Participant in his or her Subscription Agreement then in effect, provided that the amount deducted from any Participant's Compensation in any calendar year shall not exceed the amount equal to eighty five percent (85%) of the maximum dollar value of Common Stock which the Participant is permitted to purchase in such calendar year under Section 423 of the Code, and provided further that the Company may reduce a Participant's payroll deductions to zero percent (0%) at any time during an Offering Period in order to prevent the amount deducted from the Participant's Compensation from exceeding (i) the maximum amount that may be deducted pursuant to this Section 6(b) or (ii) the amount that may be used to purchase stock on the Participant's behalf on the Exercise Date of such Offering Period pursuant to Section 7(b) hereof and Section 423 of the Code. Unless earlier terminated pursuant to Section 10, 11 or 13 hereof, payroll deductions shall recommence at the rate provided in such Participant's Subscription Agreement then in effect at the beginning of the first Offering Period with respect to which the Company determines that a decrease in payroll deductions pursuant to this Section 6(b) is no longer required.
- c) All payroll deductions made for a Participant under the Plan shall be credited to his or her Participant Account. No interest shall accrue on the amounts credited to a Participant's Participant Account under the Plan. A Participant may not make or arrange to be made any additional payments into his or her Participant Account.
- d) A Participant may elect to decrease the rate of his or her payroll deductions during the Offering Period by completing and submitting a new Subscription Agreement authorizing a change in payroll deduction rate. The Committee shall have the power to limit the number of payroll deduction rate changes during any Offering Period. Any change in payroll deduction rate requested by a Participant shall take effect as of the first payroll period commencing at least five (5) business days after the Company's receipt of the Participant's new Subscription Agreement (unless the Company in its discretion elects to process a particular request more quickly) and shall remain in effect in accordance with Section 5(b) hereof.
- 7) Grant of Options.
- a) Subject to Section 7(b), and subject to adjustment pursuant to Section 16, on the Grant Date of each Offering Period, each Participant shall be granted an option to purchase at the applicable Purchase Price on the Exercise Date of such Offering Period the number of shares of Common Stock determined by dividing (i) the amount credited to such Participant's Participant Account pursuant to Section 6 hereof as of the Exercise Date by (ii) the applicable Purchase Price for such option.
- b) Notwithstanding the foregoing, the maximum number of shares of Common Stock that may be purchased pursuant to any option shall be the lowest of (i) five thousand (5,000) shares, (ii) the number determined by dividing (x) the amount equal to the maximum dollar value of Common Stock which a Participant is permitted to purchase under the Plan pursuant to Section 423 of the Code in the calendar year in which the Exercise Date for such option will occur less the total Fair Market Value of all shares purchased by the

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Participant under the Plan (measured as of the Grant Date on which the option to purchase such shares was granted) during such calendar year by (y) the Fair Market Value of a share of the Common Stock underlying such option as of the Grant Date on which the option is granted, and (iii) the number permitted under Section 7(c) hereof and Section 423 of the Code.

- c) Notwithstanding any other provision of the Plan to the contrary, no individual shall be granted any option under the Plan to the extent that, immediately after the grant,
  - i) such individual (or any other person whose stock would be attributed to such individual pursuant to Section 424(d) of the Code) would own capital stock of the Company or an Affiliate, or hold outstanding options to purchase such stock, possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Affiliate or
  - ii) such individual's rights to purchase stock under the Plan and any other plans of the Company or its Affiliates which constitute "employee stock purchase plans" within the meaning of Section 423 of the Code would accrue at a rate which exceeds twenty-five thousand dollars (\$25,000) worth of stock (or, if Section 423(b)(8) of the Code is hereafter amended, such other maximum dollar value of Common Stock as may be specified therein), determined at the Fair Market Value of the shares on the date the option to purchase such shares is granted, for each calendar year in which such option is outstanding at any time.

8) Exercise of Option.

- a) Unless a Participant's participation in the Plan is terminated as provided in Section 10, 11 or 13 hereof, his or her option shall be automatically exercised on the Exercise Date of the Offering Period in which such option was granted. Upon exercise, the monies accumulated in the Participant's Participant Account as of the Exercise Date shall be applied to purchase for Participant at the applicable Purchase Price the maximum number of whole shares subject to such option (as determined pursuant to Section 7 hereof). No fractional shares of Common Stock shall be purchased under the Plan. Shares purchased on a Participant's behalf pursuant to this Section 8(a) shall be registered either in the name of the Participant or in the name of the Participant and his or her spouse, as specified by the Participant in his or her Subscription Agreement then in effect.
- b) As soon as practicable following the Exercise Date on which a Participant's option is exercised, the shares of Common Stock purchased on such Participant's behalf pursuant to such exercise shall be credited to his or her Participant Account. Any payroll deductions remaining in a Participant's Participant Account following the Exercise Date which were insufficient to purchase a whole share of Common Stock shall be held in the Participant Account and, unless the Participant's participation in the Plan is terminated as provided in Section 10, 11 or 13 hereof, shall be applied to purchase shares of Common Stock on the Participant's behalf on the following Exercise Date, provided that the

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Committee may determine to distribute to a Participant any payroll deductions remaining in the Participant's Participant Account following any Exercise Date which were not used to purchase shares on such Exercise Date.

- c) During a Participant's lifetime, any options granted to a Participant under the Plan shall be exercisable only by such Participant.
- d) At the time the option is exercised, or at the time some or all of the Common Stock purchased under the Plan is disposed of, the Participant must make adequate provision for the Company's federal, state or other tax withholding obligations, if any, which arise upon such exercise or disposition. At any time, the Company may, but shall not be obligated to, withhold from the Participant's Compensation the amount necessary to satisfy any applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Participant.

9) Rights as a Stockholder.

- a) Prior to the Exercise Date on which shares of Common Stock are purchased on behalf of a Participant under the Plan, such Participant shall not have any rights as a stockholder of the Company with respect to such shares.
- b) From and after the Exercise Date on which shares of Common Stock are purchased on behalf of a Participant under the Plan, such Participant (or, in the case of the Participant's death, the person(s) entitled thereto under Section 12) shall have all of the rights and privileges of a stockholder of the Company with respect to such shares, provided that shares held in a Participant's Participant Account must remain in the Participant Account until such time as the Participant (or, in the case of the Participant's death, the person(s) entitled to do so under Section 12) directs the sale of such shares in accordance with this Section 9(b). Subject to the Company's policies then in effect (including without limitation its policies regarding insider trading and trading windows then in effect) and subject to applicable Law, a Participant (or, in the case of the Participant's death, the person(s) entitled thereto under Section 12) shall be entitled at any time, upon the payment of a customary brokerage fee, to direct the Custodian to sell all or any portion of the shares then held in such Participant Account. Shares held in a Participant's Participant Account shall be sold in the order in which they were purchased on such Participant's behalf under the Plan.

10) Withdrawal.

- a) During any Offering Period, a Participant may withdraw all, but not less than all, of the monies credited to his or her Participant Account under the Plan by giving written notice to the Company, in such form and manner as the Committee may prescribe, prior to the Exercise Date of such Offering Period.
- b) As soon as reasonably practicable after the Company receives notice of a Participant's withdrawal from any Offering Period, (i) the Company shall cause to be distributed to such Participant any monies credited to his or her Participant Account, (ii) such Participant's option for the Offering Period during which such Participant withdraws shall be automatically terminated and (iii) no further payroll deductions for such

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Participant shall be made under the Plan for the remainder of such Offering Period. Any shares of Common Stock held in the Participant's Participant Account as of the date of his or her withdrawal shall remain in the Participant Account in accordance with Section 9(b).

- c) If a Participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the Participant completes and submits a new Subscription Agreement.
  - d) A Participant's withdrawal from an Offering Period shall not in any way affect his or her eligibility to participate in the Plan during any Offering Periods that commence after the expiration of the Offering Period from which the Participant withdraws or in any similar plan that the Company may hereafter adopt.
- 11) Termination of Employment. Upon termination of a Participant's employment for any reason, such Participant shall be deemed to have elected to withdraw from the Plan and the provisions of Section 10(b) hereof shall apply. In the case of termination due to a Participant's death, the distribution described in Section 10(b)(i) shall be made to the person(s) entitled thereto under Section 12.
- 12) Designation of Beneficiary.
- a) In his or her Subscription Agreement, a Participant may designate a beneficiary or beneficiaries who, in the event of such Participant's death, shall be entitled to (i) receive any monies credited to the Participant's Participant Account and not yet applied to purchase shares of Common Stock under the Plan as of the date of the Participant's death and/or (ii) have transferred into his or her name the Participant's Participant Account and any shares of Common Stock held therein as of the date of the Participant's death, which shares shall remain in the Participant Account in accordance with Section 9(b).
  - b) A Participant may change his or her designated beneficiary(ies) at any time by completing and submitting a new Subscription Agreement indicating such change.
  - c) If a Participant is married and any designated beneficiary is not the Participant's spouse, the consent of the Participant's spouse shall be required for such designation to be effective.
  - d) In the event of the death of a Participant who has not validly designated a beneficiary under the Plan, or whose designated beneficiary predeceases the Participant, the rights and entitlements described in Section 12(a) shall pass to the executor or administrator of the Participant's estate, or if to the knowledge of the Company no such executor or administrator has been appointed, to the Participant's spouse or to any one or more dependents or relatives of the Participant as determined by the Company in its discretion, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

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- 13) Transferability. Neither payroll deductions credited to a Participant's Participant Account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, under the laws of descent and distribution, or as provided in Section 12 hereof) by the Participant. Any attempt to make any such assignment, transfer, pledge or other disposition shall be without effect, except that the Company in its discretion may treat such act as an election to withdraw from the Plan, in which case the provisions of Section 10(b) hereof shall apply.
- 14) Use of Funds. Each Participant shall be a general unsecured creditor of the Company with respect to any amounts deducted from such Participant's Compensation under the Plan during the period prior to the Exercise Date on which such amounts are applied to the purchase of Common Stock for the Participant. The Company shall not be obligated to segregate from other assets of the Company any funds accumulated through payroll deductions made for Participants under the Plan, and may use such funds for any corporate purpose.
- 15) Common Stock Reserved for the Plan.
- a) Subject to adjustment pursuant to Section 16 hereof, the maximum number of shares of the Common Stock that shall be available for purchase under the Plan shall be five hundred thousand (500,000) shares.
  - b) If the number of shares to be purchased pursuant to outstanding options on any Exercise Date exceeds the number of shares then available to be purchased under the Plan, the Committee shall (i) allocate the shares available to be purchased under the Plan among Participants in as uniform and equitable a manner as the Committee in its discretion shall determine to be practicable and (ii) return to Participants any monies remaining in such Participants' respective Participant Accounts after such Exercise Date.
- 16) Adjustments Upon Changes in Capitalization, Dissolution, Liquidation, Merger or Asset Sale.
- a) Changes in Capitalization. Subject to any action required by law to be taken by the stockholders of J. Crew Group, Inc., in the event of any increase or decrease in the number of shares of Common Stock effected without receipt of consideration by J. Crew Group, Inc. (including, without limitation, changes resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock) the maximum number or class(es) of shares that may be purchased under the Plan and under any options outstanding under the Plan shall be proportionately adjusted; provided, however, that conversion of any convertible securities of J. Crew Group, Inc. shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.
  - b) Merger, Asset Sale, Dissolution or Liquidation. In the event of a proposed sale of all or substantially all of the assets of J. Crew Group, Inc., or the proposed merger of J. Crew

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Group, Inc. with or into another corporation, arrangements shall be made for each outstanding option to be assumed or an equivalent option substituted by the successor corporation or an Affiliate of the successor corporation. In the event that such a successor corporation refuses to assume or substitute for the options, or in the event of the proposed dissolution or liquidation of J. Crew Group, Inc., in each case unless provided otherwise by the Committee, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the “ New Exercise Date”), which shall be before the date of the proposed merger, asset sale, dissolution or liquidation. The Committee shall notify each Participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the Participant’s option has been changed to the New Exercise Date and that the Participant’s option shall be exercised automatically on the New Exercise Date unless prior to such date the Participant has withdrawn from the Offering Period pursuant to Section 10, 11 or 13 hereof.

17) Amendment or Termination.

- a) The Committee may at any time and for any reason terminate or amend the Plan in any manner permitted by applicable Law, provided that, except as otherwise provided herein, no amendment shall make any change to any outstanding option that adversely affects the rights of any Participant. To the extent required by applicable Law, J. Crew Group, Inc. shall obtain stockholder approval of changes to the Plan in such a manner and to such a degree as so required.
- b) In the event the Plan is terminated by the Committee, payroll deductions accumulated in a Participant’s Participant Account and not yet applied to purchase shares of Common Stock as of the date of termination shall be paid to such Participant. Any shares of Common Stock held in the Participant’s Participant Account as of the date of such termination shall remain in the Participant Account in accordance with Section 9(b).
- c) Without stockholder consent and without regard to whether any Participant’s rights may be considered to have been “adversely affected,” the Committee shall be entitled to terminate the Plan at any time, change the Offering Periods, limit the frequency and/or number of changes to payroll deductions that Participants may make during an Offering Period, establish the exchange ratio applicable to amounts deducted from the payroll in a currency other than U.S. dollars (if applicable), permit payroll deductions in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company’s processing of properly completed payroll deduction elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each Participant properly correspond with amounts deducted from the Participant’s Compensation, and establish such other limitations or procedures as the Committee in its sole discretion determines to be advisable and consistent with the Plan.

- 18) Notices. All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

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- 19) Conditions Upon Issuance of Shares. Shares shall not be issued with respect to any option unless:
- a) the Plan is approved by J. Crew Group, Inc.'s stockholders prior to the date such option will be exercised,
  - b) the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable Law and, if required by the Company in its discretion, shall be approved by counsel for the Company with respect to such compliance, and
  - c) if required or desirable in the opinion of counsel for the Company in order to ensure compliance with applicable Law, the Participant has represented and warranted at the time such option is being exercised that (a) such shares are being purchased only for investment and without any present intention to sell or distribute such shares and/or (b) any disposition of such shares will be made in accordance with the Company's policies then in effect (including without limitation its policies regarding insider trading and trading windows then in effect) and applicable Law.
- 20) Government and Other Regulations. The Plan and the purchase of Common Stock hereunder shall be subject to (a) all applicable Law and (b) all rules and regulations promulgated by the Committee regarding the Plan and purchases and sales of Common Stock hereunder.
- 21) Risk of Participants. Each Participant assumes all risks associated with any decrease in the value of any securities in the Participant's Participant Account and agrees that his or her Participant Account will be the sole source of payments under the Plan and that the Company will not be responsible for the payment of any benefits under the Plan. The establishment and operation of this Plan by the Company does not constitute a recommendation that any person purchase Common Stock or any other securities. The Common Stock available for purchase under the Plan may or may not be a suitable investment for Eligible Associates, and each Eligible Associate should therefore make an independent investigation into the merits of each investment. Each Participant, by becoming a Participant, agrees that the Participant is in no way relying on the Company or the Custodian for information or advice concerning the Participant's investment decisions and that the Company and the Custodian are under no obligation to inform the Participant of any information which the Company or the Custodian may possess at any time which is or may be material to the investment decision of the Participant.
- 22) Tax Effects. Each Participant, by completing a Subscription Agreement, acknowledges that the Participant is not relying on advice by any person associated with the Company that favorable tax effects will result from participation in the Plan and that the Participant has been given sufficient opportunity to consult with the Participant's own tax advisors concerning participation in the Plan.
- 23) Term of Plan. Upon approval of the Plan by J. Crew Group, Inc.'s stockholders, the Plan shall be deemed to have become effective upon the date of its adoption by the Board and, unless earlier terminated under Section 17 hereof, shall continue in effect until the earlier of (i) the date on which no Common Stock remains reserved for issuance under the Plan and (ii)

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the tenth anniversary of the date the Plan became effective pursuant to this Section 23. In the event the Plan is not approved by J. Crew Group, Inc.'s stockholders, it shall be of no force and effect and each Participant shall be treated as though he or she withdrew from the Plan in accordance with Section 10 hereof.

- 24) No Employment Rights. The establishment and operation of the Plan shall not confer any legal rights upon any Participant or other person for a continuation of employment, nor shall it interfere with the rights of the Company to discharge any employee and to treat him or her without regard to the effect which that treatment might have upon him or her as a Participant or potential Participant under the Plan.
- 25) Severability of Provisions. If any provisions of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and the Plan shall be construed and enforced as if such provisions had not been included.
- 26) Construction. The headings and captions herein are provided for reference and convenience only, and shall not be considered part of the Plan or employed in the construction of the Plan.

## Subsidiaries of J.Crew Group, Inc.

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

\* Inactive subsidiary

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We consent to the incorporation by reference in the registration statements (File No. File No. 333-126142, File No. 333-135390, File No. 333-139313 and File No. 333-151623,) on Forms S-8 of J. Crew Group, Inc. of our reports dated March 19, 2010, with respect to the consolidated balance sheets of J. Crew Group, Inc. and subsidiaries as of January 30, 2010 and January 31, 2009, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended January 30, 2010, and the related financial statement schedule and the effectiveness of internal control over financial reporting as of January 30, 2010 which reports appear in the January 30, 2010 annual report on Form 10-K of J. Crew Group, Inc.

As discussed in Note 13 to the consolidated financial statements, Group changed its method of accounting for uncertainty in income taxes in the year ended February 2, 2008 due to the adoption of an accounting standard.

/s/ KPMG LLP

New York, New York  
March 19, 2010



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

I, Millard Drexler, certify that:

1. I have reviewed this Annual Report on Form 10-K of J. Crew Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 19, 2010

/s/ MILLARD DREXLER

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Millard Drexler  
Chief Executive Officer

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

I, James Scully, certify that:

1. I have reviewed this Annual Report on Form 10-K of J. Crew Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 19, 2010

/s/ JAMES SCULLY

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James Scully  
Chief Administrative Officer and Chief Financial Officer

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

In connection with the Annual Report of J.Crew Group, Inc. (the "Company") on Form 10-K for the period ended January 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Millard S. Drexler, Chief Executive Officer of the Company, and James S. Scully, Chief Administrative Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of each of our knowledge:

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

Date: March 19, 2010

/s/ MILLARD DREXLER

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Millard Drexler  
Chief Executive Officer

/s/ JAMES SCULLY

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James Scully  
Chief Administrative Officer and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and is not being filed as part of the Report or as a separate disclosure document.

*A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.*