FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended October 28, 2000

Commission file number 333-42427

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No

As of November 25, 2000, there were outstanding 11,726,865 shares of Common Stock, par value $.01 per share.

Part I - Financial Information

Item I. Financial Statements

J. CREW GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

Assets	October 28, 2000 (unaudited)	January 29, 2000
	(in thousands)	
Current assets:		
Cash and cash equivalents	$ 21,737	$ 38,693
Merchandise inventories	164,623	129,928
Prepaid expenses and other current assets	26,459	30,083
Net assets held for disposal	4,741	8,927

Total current assets	217,560	207,631
Property and equipment - at cost	252,295	216,083
Less accumulated depreciation and amortization	(94,468)	(77,683)
	157,827	138,400
Deferred income tax assets	14,830	14,830
Other assets	11,384	12,743
Total assets	$ 401,601	$ 373,604

Liabilities and Stockholders' Defi cit

Current liabilities:		
Notes payable - bank	$ 32,000	$ --
Accounts payable and other current liabilities	106,746	111,173
Federal and state income taxes	6,550	14,687
Deferred income tax liabilities	5,842	5,842
Total current liabilities	151,138	131,702
Long-term debt	290,687	284,684
Deferred credits and other long-term liabilities	56,085	48,277
Redeemable preferred stock	193,042	173,534
Stockholders' deficit	(289,351)	(264,593)
Total liabilities and stockholders' deficit	$ 401,601	$ 373,604

See notes to unaudited condensed consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

	Thirty-nine weeks ended	
	October 28, 2000	October 30, 1999
	(unaudited) (in thousands)	
Revenues:		
Net sales	$514,231	$464,006
Other	2,169	2,083
	516,400	466,089
Cost of goods sold including buying and occupancy costs	280,800	262,346
Selling, general and administrative expenses	218,000	197,964
Income from operations	17,600	5,779
Interest expense - net	(27,233)	(28,659)

Loss before income taxes	(9,633)	(22,880)
Income tax benefit	3,900	9,350
Net loss	$ (5,733)	$(13,530)

See notes to unaudited condensed consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

	Thirteen weeks ended October 28, 2000	October 30, 1999
	(unaudited) (in thousands)	
Revenues:		
Net sales	$193,971	$173,714
Other	796	690
	194,767	174,404
Cost of goods sold including buying and occupancy costs	104,000	96,065
Selling, general and administrative expenses	74,017	66,484
Income from operations	16,750	11,855
Interest expense - net	(9,213)	(9,906)
Income before income taxes	7,537	1,949
Income taxes	(3,000)	(800)
Net income	$ 4,537	$ 1,149

See notes to unaudited condensed consolidated financial statements.

J. CREW GROUP, INC. AND

SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Thirty-nine weeks ended	
	October 28, 2000	October 30, 1999
	(unaudited) (in thousands)	
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	$ (5,733)	$(13,530)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	15,993	12,917
Writeoff of software development costs	--	750
Amortization of deferred financing costs	1,647	1,649
Amortization of restricted stock	496	496
Noncash interest expense	10,003	8,815
Changes in operating assets and liabilities:		
Merchandise inventories	(34,695)	(4,078)
Prepaid expenses and other current assets	3,624	(489)
Net assets held for disposal	4,186	1,960
Other assets	(398)	(858)
Accounts payable and other liabilities	(4,145)	(6,420)
Federal and state income taxes	(8,137)	(1,672)
Net cash used in operating activities	(17,159)	(460)
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(39,560)	(35,831)
Proceeds from construction allowances	11,776	6,881
Net cash used in investing activities	(27,784)	(28,950)
CASH FLOW FROM FINANCING ACTIVITIES:		
Increase in notes payable, bank	32,000	39,000
Repayment of long-term debt	(4,000)	--
Proceeds from the exercise of stock options	14	--
Purchase of common stock	(27)	--
Net cash provided by financing activities	27,987	39,000
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(16,956)	9,590
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	38,693	9,643
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 21,737	$ 19,233
NON-CASH FINANCING ACTIVITIES:		
Dividends on preferred stock	$ 19,508	$ 11,092

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THIRTY-NINE WEEKS AND THIRTEEN WEEKS ENDED OCTOBER 28, 2000 AND OCTOBER 30,1999

1. BASIS OF PRESENTATION

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

The consolidated balance sheet as of October 28, 2000 and the consolidated statements of operations and cash flows for the thirteen and thirty-nine week periods ended October 28, 2000 and October 30, 1999

have been prepared by the Company and have not been audited. In the opinion of management, all adjustments, consisting of only normal recurring adjustments necessary for a fair presentation of the financial position of the Company, the results of its operations and cash flows have been made.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's consolidated financial statements for the fiscal year ended January 29, 2000.

The revenues and expenses of the discontinued Clifford and Wills catalog and outlet store operations for the thirteen and thirty-nine weeks ended October 29, 2000 and October 30, 1999 were not material and, as a result, have been netted in the accompanying condensed consolidated statements of operations. In February 2000, the Company sold certain intellectual property assets of Clifford & Wills, Inc. to Spiegel Catalog, Inc. for $3.9 million. In connection with this sale, the Company agreed to cease the fulfillment of catalog orders but retained the right to operate its outlet stores and conduct other liquidation sales of inventories through December 31, 2000.

The results of operations for the thirteen and thirty-nine week periods ended October 28, 2000 are not necessarily indicative of the operating results for the full fiscal year.

FORWARD LOOKING STATEMENTS

Certain statements in this Report on Form 10-Q constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make written or oral forward-looking statements in our periodic reports to the Securities and Exchange Commission on Forms 10-K, 10-Q, 8-K, etc., in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from historical results, any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, competitive pressures in the apparel industry, changes in levels of consumer spending or preferences in apparel and acceptance by customers of the Company's products, overall economic conditions, governmental regulations and trade restrictions, political or financial instability in the countries where the

Company's goods are manufactured, postal rate increases, paper and printing costs, the level of the Company's indebtedness and exposure to interest rate fluctuations, and other risks and uncertainties described in this report and the Company's other reports and documents filed or which may be filed, from time to time, with the Securities and Exchange Commission. These statements are based on current plans, estimates and projections, and therefore, you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made and we undertake no obligation to update publicly any of them in light of new information or future events.

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

Results of Operations - Thirteen weeks ended October 28, 2000 versus thirteen weeks ended October 30, 1999

Revenues for the three months ended October 28, 2000 increased to $194.8 from $174.4 million for the three months ended October 30, 1999, an increase of 11.7%. This increase resulted primarily from an increase of $23.1 million in the net sales of J.Crew Retail.

Revenues of J.Crew Retail increased from $79.7 million in the third quarter of 1999 to $102.8 million in the third quarter of 2000. This increase was due primarily to the sales from the new stores opened for less than a full fiscal year. Comparable stores sales in the third quarter of 2000 increased by 8.9%. The number of stores open at October 28, 2000 increased to 103 from 88 at July 29, 2000.

Revenues of J.Crew Direct increased from $61.6 million in the third quarter of 1999 to $61.9 million in the third quarter of 2000. Revenues from jcrew.com increased to $26.5 million in the third quarter of 2000 from $17.2 million in the third quarter of 1999. Catalog revenues decreased to $35.4 million in the third quarter of 2000 compared to $44.4 million in the third quarter of 1999, as the Company continued to migrate customers to the Internet. Pages circulated were approximately the same during both periods.

Revenues of J.Crew Factory decreased from $32.4 million in the third quarter of 1999 to $29.3 million in the third quarter of 2000. This decrease resulted primarily from a decrease of 5.3% in comp store sales.

Cost of goods sold, including buying and occupancy costs, decreased as a percentage of revenues from 55.1% in the third quarter of 1999 to 53.4% in the third quarter of 2000. This decrease resulted primarily from an increase in initial markup and a better inventory mix in J.Crew Factory.

Selling, general and administrative expenses increased to $74.0 million in the three months ended October 28, 2000 from $66.5 million in the three months ended October 30, 1999. As a percentage of revenues, selling, general and administrative expenses decreased to 38.0% of revenues in the third quarter of 2000 from 38.1% in the third quarter of 1999. The increase in dollar amount resulted from an increase in general and administrative expenses of $9.1 million due primarily to the increase in the number of retail stores in operation during the third quarter of 2000 compared to the third quarter of 1999 offset by a decrease in

selling expense from the third quarter of 1999 to the third quarter of 2000 of $1.6 million. This decrease resulted from direct advertising related to jcrew.com of $3.0 million in the third quarter of 1999 which did not occur in the third quarter of 2000 offset by higher catalog costs in the third quarter of 2000.

The decrease in interest expense from $9.9 million in the three months ended October 30, 1999 to $9.2 million in the three months ended October 28, 2000 resulted primarily from the pay down of $14 million of the term loan subsequent to the third quarter of 1999 and a decrease in average borrowings under revolving credit arrangements, which were $19.9 million in the third quarter of 2000 compared to $43.1 million in the third quarter of 1999. Non cash interest expense was $4.0 million in the third quarter of 2000 compared to $3.6 million in the third quarter of 1999.

The increase in income before income taxes from $1.9 million in the three months ended October 30, 1999 to $7.5 million in the three months ended October 28, 2000 resulted primarily from the improvement in sales volume and merchandise margins and the decrease in marketing expenses incurred by jcrew.com compared to the third quarter of 1999.

Results of Operations - Thirty-nine weeks ended October 28, 2000 versus thirty-nine weeks ended October 30, 1999.

Revenues for the nine months ended October 28, 2000 increased to $516.4 million from $466.1 million in the nine months ended October 30, 1999, an increase of 10.8%. This increase resulted from an increase in the net sales of J.Crew Retail of $53.0 million.

Revenues of J.Crew Retail increased from $215.7 million in the nine months ended October 30, 1999 to $268.7 million in the nine months ended October 28, 2000. This increase was due primarily to sales from new stores opened for less than a full fiscal year. Comparable store sales in the nine months ended October 28, 2000 increased by 5.5%. The number of stores open at October 28, 2000 increased to 103 from 81 at January 29, 2000.

Revenues of J.Crew Direct increased from $171.4 million in the nine months ended October 30, 1999 to $172.8 million in the nice months ended October 28, 2000. Revenues from jcrew.com increased to $63.5 in the first nine months of 2000 from $36.5 million in the first nine months 1999. Catalog revenues decreased to $109.3 million in the first nine months of 2000 from $134.9 million in the first nine months of 1999, as the Company continues to migrate customers to the Internet. Pages circulated were approximately the same during both periods.

Revenues of J.Crew Factory decreased from $77.0 million in the nine months ended October 30, 1999 to $72.7 million in the nine months ended October 28, 2000. This decrease resulted primarily from a decrease in the number of stores from 44 at October 30, 1999 to 41 at October 28, 2000.

Cost of goods sold, including buying and occupancy costs, decreased as a percentage of revenues from 56.3% in the nine months ended October 30, 1999 to 54.4% in the nine months ended October 28, 2000. This decrease resulted primarily from an increase in initial markup and a better inventory mix in J.Crew Factory.

Selling, general and administrative expenses increased to $218.0 million in the nine months ended October 28, 2000 from $198.0 million in the nine months ended October 30, 1999. As a percentage of revenues, selling, general and administrative expenses decreased to 42.2% of revenues in the nine months ended October 28, 2000 from 42.5% in the nine months ended October 30, 1999. The increase in dollar amount resulted from an increase in general and administrative expenses of $24.2 million due to (a) the increase in the number of retail stores in operation during the first nine months of 2000 compared to the first nine months of 1999 and (b) an increase in the bonus provision during the first nine months of 2000. Selling expenses were $43.9 million for the nine months ended October 28, 2000 compared to $48.1 million for the nine months ended October 30, 1999. The decrease in selling expenses was attributable primarily to direct advertising related to jcrew.com of $3.0 million incurred in the third quarter of 1999.

The decrease in interest expense from $28.7 million in the nine months ended October 30, 1999 to $27.2 million in the first nine months of 2000 resulted primarily from the pay down of $14 million of the term loan subsequent to the third quarter of 1999 and a decrease in average borrowings under revolving credit arrangements, which were $9.9 million in the nine months ended October

28, 2000 compared to $34.7 million in the nine months ended October 30, 1999. Non-cash interest expense was $11.7 million in the first nine months of 2000 compared to $10.5 million in the first nine months of 1999.

The decrease in the loss before income taxes from $22.9 million in the nine months ended October 30, 1999 to $9.4 million in the nine months ended October 28, 2000 resulted primarily from the improvement in sales volume and merchandise margin and the decrease in marketing expense related to jcrew.com in the nine months ended October 28, 2000 compared to the nine months ended October 30, 1999.

Liquidity and Capital Resources

Cash flows from operations decreased from a use of $ .5 million in the nine months ended October 30, 1999 to a use of $17.2 million in the nine months ended October 28, 2000. This increase in cash used in operations resulted primarily from an increase in the change in inventories during the nine months ended October 28, 2000 compared to the same period in the prior year.

Capital expenditures, net of construction allowances, were $27.7 million in the first nine months of 2000 compared to $29.0 million in the first nine months of 1999. These expenditures were incurred in connection with the acquisition of computer hardware and software and the construction of new stores.

Borrowings under the revolving credit line were $ 32.0 million at October 28, 2000 compared to $53.0 million at October 30,1999.

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

Seasonality

The Company's retail and direct businesses experience two distinct selling seasons, spring and fall. The spring season is comprised of the first and second quarters and the fall season is comprised of the third and fourth quarters. Net sales are usually substantially higher in the fall season and selling, general and administrative expenses as a percentage of net sales are usually higher in the spring season. Approximately 35% of annual net sales in fiscal year 1999 occurred in the fourth quarter. The Company's working capital requirements also fluctuate throughout the year, increasing substantially in September and October in anticipation of the holiday season inventory requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce net income or the net assets of the Company. The Company's variable rate debt consists of borrowings under the Revolving Credit Facility and the Term Loan Facility. In order to manage this interest rate risk, the Company entered into an interest rate swap agreement in October 1997, which converted the variable interest rate for $50 million of debt to a fixed rate of 6.23%. The swap agreement expired in October 2000 and was not renewed because the Company's exposure under the Revolving Credit Facility and Term Loan Facility have been substantially reduced.

The Company enters into letters of credit to facilitate the international purchase of merchandise. The letters of credit are primarily denominated in U.S. dollars. Outstanding letters of credit at October 28, 2000 were approximately $38.2 million.

The Company has a licensing agreement in Japan which provides for royalty payments based on sales of J.Crew merchandise denominated in yen. The Company has from time to time entered into forward foreign exchange contracts to minimize this risk. There were no foreign exchange contracts outstanding as of October 28, 2000

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

In the period covered by this Report, 2000 shares of Registrant's Common Stock were issued upon the exercise of stock options. The shares were issued in reliance on the exemption provided by Section 4 (2) of the Securities Act of 1933, as amended.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

27. Financial Data Schedule.

(b) Reports on Form 8-K.

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

SIGNATURES

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

J. CREW GROUP, INC.
(Registrant)

Date: December 5, 2000 By: /s/ Mark Sarvary

Mark Sarvary
Chief Executive Officer

Date: December 5, 2000 By: /s/ Scott M. Rosen

Scott M. Rosen
Chief Financial Officer

<ARTICLE> 5
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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE J. CREW GROUP, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF OPERATIONS FOR THE NINE MONTHS AND THREE MONTHS ENDED OCTOBER 28, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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