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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended May 3, 2008

Or

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

Commission File Number  
333-42427

Registrant, State of Incorporation Address  
and Telephone Number

**J. CREW GROUP, INC.**

(Incorporated in Delaware)

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

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770 Broadway  
New York, New York 10003  
Telephone: (212) 209-2500

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐ Small Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Outstanding at May 30, 2008:

62,347,883 shares of common stock, par value \$.01 per share

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# PART I – FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### J.CREW GROUP, INC.

#### Condensed Consolidated Balance Sheets (unaudited)

(in thousands, except share data)

	May 3, 2008	February 2, 2008
<b>Assets</b>		
Cash and cash equivalents	\$ 121,532	\$ 131,510
Merchandise inventories	174,493	158,525
Prepaid expenses and other current assets	41,450	43,087
Total current assets	337,475	333,122
Property and equipment – at cost	319,842	305,014
Less accumulated depreciation and amortization	(145,404)	(136,722)
	174,438	168,292
Deferred income taxes, net	20,227	20,188
Other assets	13,072	13,994
Total assets	<u>\$ 545,212</u>	<u>\$ 535,596</u>
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	\$ 95,657	\$ 101,277
Other current liabilities	84,485	93,796
Total current liabilities	180,142	195,073
Deferred credits	68,388	67,600
Long-term debt	100,000	125,000
Other liabilities	7,715	7,601
Total liabilities	356,245	395,274
Stockholders' equity:		
Common stock (\$.01 par value; 200,000,000 shares authorized; 63,509,580 and 62,823,940 shares issued; 62,260,502 and 61,574,862 shares outstanding)	635	628
Additional paid-in capital	572,253	554,127
Accumulated deficit	(380,696)	(411,208)
Treasury stock, at cost (1,249,078 shares)	(3,225)	(3,225)
Total stockholders' equity	188,967	140,322
Total liabilities and stockholders' equity	<u>\$ 545,212</u>	<u>\$ 535,596</u>

See notes to unaudited condensed consolidated financial statements.

**J.CREW GROUP, INC.**
**Condensed Consolidated Statements of Operations**

(unaudited)

(in thousands, except for share data)

	<b>Thirteen weeks ended</b>	
	<b>May 3, 2008</b>	<b>May 5, 2007</b>
Revenues:		
Net sales	\$ 330,043	\$ 287,579
Other	10,536	9,733
Total revenues	340,579	297,312
Cost of goods sold, including buying and occupancy costs	180,692	158,774
Gross profit	159,887	138,538
Selling, general and administrative expenses	106,841	94,165
Income from operations	53,046	44,373
Interest expense – net	2,370	3,442
Income before income taxes	50,676	40,931
Provision for income taxes	20,175	16,282
Net income	<u>\$ 30,501</u>	<u>\$ 24,649</u>
Income per share:		
Basic	<u>\$ 0.50</u>	<u>\$ 0.41</u>
Diluted	<u>\$ 0.48</u>	<u>\$ 0.39</u>
Weighted average shares outstanding:		
Basic	<u>61,192</u>	<u>59,731</u>
Diluted	<u>64,076</u>	<u>63,248</u>

See notes to unaudited condensed consolidated financial statements.

**J.CREW GROUP, INC.**
**Condensed Consolidated Statements of Cash Flows**

(unaudited)

(in thousands)

	<b>Thirteen weeks ended</b>	
	<b>May 3, 2008</b>	<b>May 5, 2007</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 30,501	\$ 24,649
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	8,682	7,425
Amortization of deferred financing costs	928	414
Share-based compensation	2,064	1,261
Excess tax benefit from share-based compensation	(10,093)	(10,148)
Changes in operating assets and liabilities:		
Merchandise inventories	(15,968)	(4,089)
Prepaid expenses and other current assets	443	1,686
Other assets	(6)	(217)
Accounts payable and other liabilities	(2,781)	(5,752)
Net cash provided by operating activities	13,770	15,229
<b>Cash flow used in investing activities:</b>		
Capital expenditures	(14,828)	(10,819)
<b>Cash flows from financing activities:</b>		
Repayments of long-term debt	(25,000)	(25,000)
Excess tax benefit from share-based compensation	10,093	10,148
Proceeds from share-based compensation plans	5,987	4,034
Costs incurred in connection with amended and restated credit agreement	—	(1,171)
Net cash used in financing activities	(8,920)	(11,989)
Decrease in cash and cash equivalents	(9,978)	(7,579)
Cash and cash equivalents—beginning of period	131,510	88,900
Cash and cash equivalents—end of period	<u>\$ 121,532</u>	<u>\$ 81,321</u>
<b>Supplemental cash flow information:</b>		
Income taxes paid	<u>\$ 2,281</u>	<u>\$ 1,814</u>
Interest paid	<u>\$ 1,700</u>	<u>\$ 3,446</u>

See notes to unaudited condensed consolidated financial statements.

**J. CREW GROUP, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Thirteen weeks ended May 3, 2008 and May 5, 2007**

**(Dollars in thousands, unless otherwise indicated)**

**1. Basis of Presentation**

The condensed consolidated financial statements presented herein include the accounts of J.Crew Group, Inc. and its wholly owned subsidiaries (“Group” or the “Company”). All significant intercompany balances and transactions are eliminated in consolidation.

The condensed consolidated balance sheet as of May 3, 2008, the condensed consolidated statements of operations for the thirteen weeks ended May 3, 2008 and May 5, 2007, and the condensed consolidated statements of cash flows for the thirteen weeks ended May 3, 2008 and May 5, 2007 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments, consisting of only normal recurring adjustments necessary for the fair presentation of the financial position, results of operations and cash flows, have been made.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with U.S. 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 consolidated financial statements filed in the Company’s Annual Report on Form 10-K for the fiscal year ended February 2, 2008 (“fiscal 2007”).

The results of operations for the thirteen weeks ended May 3, 2008 are not necessarily indicative of the operating results for the full fiscal year.

**2. Share-Based Compensation**

Effective January 29, 2006, the Company adopted the provisions of SFAS No. 123(R), using the modified prospective transition method. Under this method, share-based compensation recognized in the thirteen weeks ended May 3, 2008 and May 5, 2007 includes compensation cost for all share-based awards: (i) not vested as of January 29, 2006, and (ii) granted subsequent to January 29, 2006, based on the estimated grant date fair value using the Black-Scholes option pricing model. The Company recognizes compensation expense for stock option awards and restricted stock awards on a straight-line basis over the requisite service period of the award. There have been no significant changes subsequent to the end of fiscal 2007 in the methods or assumptions used to measure share-based awards.

A summary of the impact of share-based awards on our financial condition and results of operations is as follows:

	<b>Thirteen Weeks Ended</b>	
	<b>May 3, 2008</b>	<b>May 5, 2007</b>
Share-based compensation <sup>(1)</sup>	\$ 2,064	\$ 1,261
Proceeds from exercises of stock options <sup>(2)</sup>	\$ 5,987	\$ 4,034
Proceeds from issuance of common stock under ASPP	—	—
Proceeds from share-based compensation plans	\$ 5,987	\$ 4,034
Excess tax benefit from stock option exercises <sup>(2)</sup>	\$ 10,093	\$ 10,148

(1) included in selling, general and administrative expenses.

(2) included in stockholders’ equity.

**3. 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. Tax years ending January 2002 through January 2006 are currently under audit by the IRS. The results of these audits are not expected to have a significant effect on the results of operations or financial position. 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 2005.

The Company has \$7.7 million in unrecognized tax benefits, reflected in other liabilities, including interest and penalties. The amount, if recognized, that would affect the effective tax rate is \$4.3 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.

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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. The amount of interest and penalties accrued at May 3, 2008 is \$1.1 million.

### 4. Debt and Credit Agreements

#### *Debt*

Long-term debt consists of the following:

	May 3, 2008	February 2, 2008
Term loan	\$ 100,000	\$ 125,000
Less current portion	—	—
Total long-term debt	<u>\$ 100,000</u>	<u>\$ 125,000</u>

On May 15, 2006 (the "Closing Date"), J. Crew Operating Corp. ("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: (i) 1% of the original principal balance of the Term Loan due quarterly 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 a voluntary prepayment of \$25.0 million in April 2008. Aggregate voluntary prepayments are in excess of the required principal payments.

#### *Credit Agreements*

##### Citicorp

On May 4, 2007, Group 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 up to \$250 million subject to certain conditions) at floating interest rates based on Citibank N.A.'s prime rate plus a margin of up to 0.25% or LIBOR plus a margin ranging from 1.0% to 1.25%. The total amount of availability is limited to the sum of: (a) 100% of qualified cash, (b) 90% of eligible receivables, (c) 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, and (d) 65% of the fair market value of eligible real estate. The Credit Facility expires on May 4, 2013. Excess availability at May 3, 2008 was \$175.5 million. There were no short-term borrowings during the first three months of fiscal 2008 or fiscal 2007.

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.

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.

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### HSBC

On October 31, 2007, Operating entered into an unsecured, demand letter of credit facility with The Hong Kong and Shanghai Banking Corporation Limited (“HSBC”) which provides for the issuance of up to \$35 million of documentary letters of credit on a no fee basis. Availability under this line was \$18.3 million at May 3, 2008.

### 5. Income Per Share

The calculation of basic and diluted income per share is presented as follows:

	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
Net income	\$ 30,501	\$ 24,649
Net income per share:		
Basic	\$ 0.50	\$ 0.41
Diluted	\$ 0.48	\$ 0.39
Weighted average common shares outstanding:		
Basic	61,192	59,731
Diluted	64,076	63,248

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

	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
Stock options	92	56

### 6. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for the Company beginning February 1, 2009. The Company has not yet determined the impact, if any, from the adoption of this new accounting standard.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company beginning February 3, 2008. The adoption of SFAS No. 159 will not impact the financial condition or results of operations of the Company.

**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 “Condensed Consolidated Financial Statements” 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” in our Annual Report on Form 10-K for the fiscal year ended February 2, 2008 filed with the Securities and Exchange Commission. 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.

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

This document should be read in conjunction with the Management’s Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended February 2, 2008 filed with the Securities and Exchange Commission. When used herein, the terms “Group,” “Company,” “we,” “us” and “our” refer to J. Crew Group, Inc., including consolidated subsidiaries.

**Executive Overview**

J.Crew is a nationally recognized apparel and accessories brand that we believe embraces a high standard of style, craftsmanship, quality and customer service, while projecting an aspirational American lifestyle. On the basis of data collected on our Internet channel customers, we believe our customer base consists primarily of affluent, college-educated, professional and fashion-conscious women and men.

We have two primary sales channels: Stores, which consists of our retail and factory stores, and Direct, which consists of our catalog and our Internet website at [www.jcrew.com](http://www.jcrew.com). At May 3, 2008, we operated 204 retail stores (including four crewcuts® and seven Madewell® stores) and 63 factory stores, compared to 180 retail stores (including three crewcuts stores and three Madewell stores) and 53 factory stores at May 5, 2007.

The following is a summary of our revenues for the thirteen week periods ended May 3, 2008 (first quarter of fiscal 2008) and May 5, 2007 (first quarter of fiscal 2007):

(Dollars in millions)	<b>Thirteen Weeks Ended</b>	
	<b>May 3, 2008</b>	<b>May 5, 2007</b>
Stores	\$ 229.1	\$ 201.0
Direct	100.9	86.6
Net sales	330.0	287.6
Other	10.6	9.7
<b>Total revenues</b>	<b>\$ 340.6</b>	<b>\$ 297.3</b>

The following is a brief summary of first quarter fiscal 2008 highlights:

- Revenues totaled \$340.6 million, reflecting a 15% increase over prior year revenues of \$297.3 million.
- Comparable store sales increased 2%.

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- Direct net sales increased 17% to \$100.9 million.
- Income from operations increased 20% to \$53.0 million.
- A voluntary prepayment of \$25.0 million was made under the Term Loan.
- We opened four J.Crew retail stores, two J.Crew factory stores and one Madewell store.

### 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, which reflect net sales at stores that have been open for at least twelve months. In the first quarter of fiscal 2008, we refined our comparable stores sales calculation to include the impact of more significant remodelings of our stores. This refinement did not significantly change the increase in comparable store sales in the first quarter of fiscal 2008.

A complete description of the measures we use to assess the performance of our business appears in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended February 2, 2008 filed with the Securities and Exchange Commission.

### Results of Operations – First Quarter of Fiscal 2008 Compared to First Quarter of Fiscal 2007

(Dollars in millions)	Thirteen Weeks Ended May 3, 2008		Thirteen Weeks Ended May 5, 2007		Increase / (Decrease)	
	Amount	Percent of Revenues	Amount	Percent of Revenues	Dollars	Percentage
Revenues	\$ 340.6	100.0%	\$ 297.3	100.0%	\$ 43.3	14.6%
Gross profit	159.9	46.9%	138.5	46.6%	21.4	15.4%
Selling, general and administrative expenses	106.8	31.4%	94.2	31.7%	12.6	13.5%
Income from operations	53.0	15.6%	44.4	14.9%	8.6	19.5%
Interest expense, net	2.4	0.7%	3.4	1.2%	(1.0)	(31.1)%
Income taxes	20.2	5.9%	16.3	5.5%	3.9	23.9%
Net income	\$ 30.5	9.0%	\$ 24.6	8.3%	\$ 5.9	23.7%

### Revenues

Revenues for the first quarter of fiscal 2008 (the thirteen weeks ended May 3, 2008) increased \$43.3 million, or 14.6%, to \$340.6 million from \$297.3 million in the first quarter of fiscal 2007 (the thirteen weeks ended May 5, 2007). We believe the increase in revenues for the first quarter of fiscal 2008 resulted from the continuing appeal of our expanded product line in both Stores and Direct, the additional number of store locations compared to the prior year and our continuing commitment to customer service.

Stores sales increased \$28.1 million, or 14.0%, to \$229.1 million in the first quarter of fiscal 2008 from \$201.0 million in the first quarter of fiscal 2007. Comparable store sales increased \$4.7 million, or 2.4%, to \$200.1 million in the first quarter of fiscal 2008 from \$195.4 million in the comparable period last year. Non-comparable store sales were \$29.0 million in the first quarter of fiscal 2008.

Direct sales increased \$14.3 million, or 16.6%, to \$100.9 million in the first quarter of fiscal 2008 from \$86.6 million in the first quarter of fiscal 2007. The number of catalog pages circulated in the first quarter of fiscal 2008 decreased 3% from the comparable period last year. We continue to see a shift of orders place on the phone to the Internet. We evaluate the efficiency of our circulation strategies on a continuing basis and make adjustments as we deem appropriate. The following table summarizes net sales of the Direct channel:

(Dollars in millions)	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
Internet	\$ 86.6	\$ 65.7
Phone	14.3	20.9
Total Direct net sales	<u>\$ 100.9</u>	<u>\$ 86.6</u>

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

	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
Apparel:		
Women's	69%	67%
Men's	16%	17%
Children's	3%	2%
Accessories	12%	14%
	<u>100%</u>	<u>100%</u>

The increase in Stores and Direct sales in the first quarter of 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 period. We offer our children's apparel both in shops within our retail stores and stand-alone stores, in addition to our Direct channel. As of May 3, 2008, we operated 37 crewcuts shop-in-shops and four stand-alone stores.

Other revenues, which consist primarily of shipping and handling fees and royalties, increased to \$10.6 million in the first quarter of fiscal 2008 from \$9.7 million in the comparable period last year. The increase resulted primarily from an increase in shipping and handling fees attributable to the increase in Direct sales.

### Gross Profit

Gross profit increased \$21.4 million to \$159.9 million in the first quarter of fiscal 2008 from \$138.5 million in the first quarter of fiscal 2007. This increase resulted from the following factors:

(Dollars in millions)	
Increase in revenues	\$25.2
Increase in merchandise margin	3.7
Increase in buying and occupancy costs	(7.5)
	<u>\$21.4</u>

Gross margin increased to 46.9% in the first quarter of fiscal 2008 from 46.6% in the first quarter of fiscal 2007. The increase in gross margin was driven by approximately 110 basis point expansion in merchandise margin partially offset by approximately 70 basis point increase in buying and occupancy costs as a percentage of revenues.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$12.6 million, or 13.5%, to \$106.8 million in the first quarter of fiscal 2008 from \$94.2 million in the first quarter of fiscal 2007. This increase primarily resulted from an increase in Direct and Stores operating expenses, primarily payroll and internet marketing costs.

As a percentage of revenues, selling, general and administrative expenses decreased to 31.4% in the first quarter of fiscal 2008 from 31.7% in the comparable period last year, resulting primarily from the fact that these expenses increased at a slower rate than revenues during fiscal 2008.

### Interest Expense, Net

Interest expense, net decreased \$1.0 million to \$2.4 million in the first quarter of fiscal 2008 from \$3.4 million in the first quarter of fiscal 2007. This decrease primarily reflects our lower average outstanding debt in fiscal 2008 resulting from voluntary prepayments under the Term Loan.

### Income Taxes

The income tax provisions for the first quarter of fiscal 2008 and 2007 reflect our estimated annual effective tax rate of 39.8%.

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### Net Income

Net income increased \$5.9 million to \$30.5 million in the first quarter of fiscal 2008 from \$24.6 million in the first quarter of fiscal 2007. This increase was due to a \$21.4 million increase in gross profit driven by the 14.6% increase in revenues, a \$1.0 million decrease in interest expense, offset by a \$12.6 million increase in selling, general and administrative expenses, and a \$3.9 million increase in the provision for income taxes.

### Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations and borrowings under the Credit Facility (as defined below). Our primary cash needs are (a) making capital expenditures in connection with opening new stores, enhancing information technology systems and expanding our distribution centers, (b) meeting debt service requirements and (c) 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.

### Operating Activities

	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
	(amounts in millions)	
Net income	\$ 30.5	\$ 24.6
Adjustments to reconcile to net cash provided by operations:		
Depreciation and amortization of property and equipment	8.7	7.4
Amortization of deferred financing costs	0.9	0.4
Share-based compensation	2.1	1.3
Excess tax benefit from share-based compensation	(10.1)	(10.1)
Changes in operating assets and liabilities	(18.3)	(8.4)
Net cash provided by operations	<u>\$ 13.8</u>	<u>\$ 15.2</u>

Cash provided by operating activities in the first three months of fiscal 2008 was \$13.8 million and consisted of (i) net income of \$30.5 million, (ii) adjustments to net income of \$11.7 million, offset by (iii) changes in operating assets and liabilities – including the impact of excess tax benefits from share-based compensation – of \$28.4 million due primarily to increases in inventories and accounts payable resulting from anticipated sales increases.

Cash provided by operating activities in the first three months of fiscal 2007 was \$15.2 million and consisted of (i) net income of \$24.6 million, (ii) adjustments to net income of \$9.1 million, offset by (iii) changes in operating assets and liabilities – including the impact of excess tax benefits from share-based compensation – of \$18.5 million due primarily to increases in inventories and accounts payable resulting from anticipated sales increases.

### Investing Activities

Capital expenditures were \$14.8 million in the first three months of fiscal 2008 compared to \$10.8 million in the first three months of fiscal 2007. Capital expenditures for the opening of new stores were \$6.7 million and \$6.3 million in the first three months of fiscal 2008 and fiscal 2007, respectively. Capital expenditures are planned at approximately \$80 to \$85 million for fiscal 2008, including approximately \$35 to \$40 million for new stores, \$20 to \$25 million for information technology enhancements and the remainder for store renovations and refurbishments and general corporate purposes.

### Financing Activities

	Thirteen Weeks Ended	
	May 3, 2008	May 5, 2007
	(amounts in millions)	
Repayments of long-term debt	\$ (25.0)	\$ (25.0)
Excess tax benefit from share-based compensation	10.1	10.1
Proceeds from share-based compensation plans	6.0	4.0
Costs incurred in connection with amended and restated credit agreement	—	(1.1)
Net cash used in financing activities	<u>\$ (8.9)</u>	<u>\$ (12.0)</u>

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Cash used in financing activities in the three months of fiscal 2008 was \$8.9 million due to (i) a voluntary principal payment under the Term Loan of \$25.0 million, offset by (ii) proceeds from share-based compensation plans of \$6.0 million and (iii) excess tax benefits from share-based compensation of \$10.1 million.

Cash used in financing activities in the first three months of fiscal 2007 was \$12.0 million due to (i) a voluntary principal payment under the Term Loan of \$25.0 million, (ii) costs incurred in connection with the amended and restated credit agreement of \$1.1 million, offset by (iii) proceeds from share-based compensation plans of \$4.0 million and (iv) excess tax benefits from share-based compensation of \$10.1 million.

### **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 Citibank N.A.’s prime rate plus a margin of up to 0.25% or LIBOR plus a margin ranging from 1.0% to 1.25%. The total amount of availability is limited to the sum of: (a) 100% of qualified cash, (b) 90% of eligible receivables, (c) 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, and (d) 65% of the fair market value of eligible real estate. 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.

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 were no short-term borrowings during the first three months of fiscal 2008 or fiscal 2007. There was \$175.5 million of excess availability under the Credit Facility at May 3, 2008.

### **Demand Documentary 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. Availability under this line was \$18.3 million at May 3, 2008.

### **Outlook**

Management anticipates that capital expenditures in fiscal 2008 will be approximately \$80 to \$85 million, primarily for opening 43 new stores, information technology enhancements, store renovations and refurbishments and general corporate purposes. Management believes that the Company’s current cash position, 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, 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 the international purchase of merchandise. We also enter into standby letters of credit to secure certain of our obligations, including insurance programs and duties related to import purchases. As of May 3, 2008, we had the following obligations under letters of credit 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)				
Letters of Credit					
Standby	\$ 7.3	\$ —	\$ —	\$ —	\$ 7.3
Documentary	17.2	17.2	—	—	—
	<u>\$24.5</u>	<u>\$17.2</u>	<u>\$—</u>	<u>\$—</u>	<u>\$ 7.3</u>

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We have converted a substantial amount of international merchandise purchases to open account from letters of credit thereby reducing the dollar amount of outstanding documentary letters of credit.

### **Seasonality**

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. Approximately 30% of our revenues in fiscal year 2007 occurred in the fourth quarter. Our working capital requirements also fluctuate throughout the year, increasing substantially in September and October in anticipation of holiday season inventory requirements.

### **Critical Accounting Policies**

A summary of our critical accounting policies is included in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended February 2, 2008 filed with the Securities and Exchange Commission.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 variable rate debt consists of borrowings under the Credit Facility and the Term Loan. The interest rates under the Credit Facility are a function of Citigroup's prime rate or LIBOR, and the interest rates under the Term Loan are a function of a base 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 \$1.0 million for the \$100.0 million of borrowings under the Term Loan.

We have a licensing agreement in Japan that provides for royalty payments in yen based on sales of J.Crew merchandise. We have entered into forward foreign exchange contracts from time to time in order to minimize this risk. At May 3, 2008, there were no forward foreign exchange contracts outstanding. In February 2008, we provided notice that we do not intend to renew the licensing agreement, which expires in January 2009.

We also enter into letters of credit to facilitate the international purchase of merchandise. The letters of credit are primarily denominated in U.S. dollars. Outstanding letters of credit at May 3, 2008 were \$24.5 million, including \$7.3 million of standby letters of credit.

### **ITEM 4. 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 our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period 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.

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

**PART II – OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

The Company is a party to routine litigation arising in the ordinary course of its business. Although the amount of any liability that could arise with respect to these actions cannot be accurately predicted, in the Company's opinion, any such liability will not have a material adverse effect on its consolidated financial position, consolidated results of operations or liquidity.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2008.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

J. Crew Group, Inc.'s Annual Meeting of Stockholders was held June 5, 2008. The following matters were voted upon and approved by the Company's stockholders at the meeting:

1. Election of Directors.

<u>Directors</u>	<u>For</u>	<u>Withheld</u>
Mary Ann Casati	59,419,072	128,831
Jonathan Coslet	59,394,332	153,571
Josh Weston	59,418,088	129,815

Messrs. Coulter, Drexler, Grand-Jean, House and Sloan and Ms. Reisman are continuing in their terms of office as directors following the annual meeting.

2. Approval of the J. Crew Group, Inc. 2008 Equity Incentive Plan.

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Vote</u>
43,549,608	14,015,630	450	1,982,215

3. Ratification of the appointment of KPMG LLP as the Company's independent auditors for fiscal year 2008.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
59,194,729	351,826	1,348

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<u>Exhibit No.</u>	<u>Document</u>
<b>Articles of Incorporation and Bylaws</b>	
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	Bylaws of J. Crew Group, Inc. Incorporated by reference to Exhibit 3.2 to the Form 8-K/A filed on October 17, 2005.

**Certifications**

<u>Exhibit No.</u>	<u>Document</u>
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.

**SIGNATURES**

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

J. CREW GROUP, INC.  
(Registrant)

Date: June 11, 2008

By: /s/ Millard S. Drexler  
Millard S. Drexler  
Chairman of the Board and Chief Executive Officer

Date: June 11, 2008

By: /s/ James S. Scully  
James S. Scully  
Executive Vice President and Chief Financial Officer

**EXHIBIT INDEX**

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<hr/>	
*	Filed herewith.
**	Furnished herewith.

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

I, Millard S. Drexler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 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 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: June 11, 2008

/s/ MILLARD S. DREXLER

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**Millard S. Drexler**  
**Chief Executive Officer**

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

I, James S. Scully, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 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 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 June 11, 2008

/s/ JAMES S. SCULLY

**James S. Scully**

**Executive Vice President and Chief Financial Officer**

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

In connection with the quarterly report of J.Crew Group, Inc. (the "Company") on Form 10-Q for the period ended May 3, 2008 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, Executive Vice President 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: June 11, 2008

/s/ MILLARD S. DREXLER

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**Millard S. Drexler**  
**Chief Executive Officer**

/s/ JAMES S. SCULLY

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**James S. Scully**  
**Executive Vice President 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.*