

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended February 3, 2001

Commission File Number 333-42427  
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J. CREW GROUP, INC.  
(Exact name of registrant as specified in its charter)

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

770 Broadway, New York, New York (Address of principal executive offices)	10003 (Zip Code)
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Registrant's telephone number, including area code: (212) 209-2500

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

As of April 1, 2001, there were 11,743,265 shares of Common Stock, par value \$.01 per share, outstanding.

Documents incorporated by reference: None

FORWARD LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K under the captions "Business", "Selected Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Financial Statements and Supplementary Data" and elsewhere constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make written or oral forward looking statements in our periodic reports to the Securities and Exchange Commission on Forms 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.

References herein to fiscal years are to the fiscal years of J. Crew Group, Inc., which end on the Friday closest to January 31 in the following calendar year for fiscal year 1996 and on the Saturday closest to January 31 in the following calendar year for fiscal years 1997, 1998, 1999 and 2000. Accordingly, fiscal years 1996, 1997, 1998, 1999 and 2000 ended on January 31, 1997, January 31, 1998, January 30, 1999, January 29, 2000 and February 3, 2001. All fiscal years for which financial information is included had 52 weeks, except fiscal year 2000 which had 53 weeks.

References in this Report to the "Company", "J. Crew" and "Holdings" mean J. Crew Group, Inc. and its subsidiaries, unless the context requires otherwise.

## Part I

### ITEM 1. BUSINESS

#### General

The Company is a leading retailer of women's and men's apparel, shoes and accessories operating under the J. Crew (R) brand name. The Company has built a strong and widely recognized brand name known for its timeless styles at price points that the Company believes represent exceptional product value. The J. Crew image has been built and reinforced over its 18-year history through the circulation of more than 800 million catalogs that use magazine-quality photography to portray a classic American perspective and aspirational lifestyle. Many of the original items introduced by the Company in the early 1980s (such as the rollneck sweater, weathered chino, barn jacket and pocket tee) were instrumental in establishing the J. Crew brand and continue to be core product offerings. The Company has capitalized on the strength of the J. Crew brand to provide customers with clothing to meet more of their lifestyle needs, including casual, career and sport.

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

affluent customers who, in the Company's experience, have demonstrated strong

brand loyalty and a tendency to make repeat purchases.

J. Crew products are distributed exclusively through the Company's retail and factory outlet stores, catalogs and the Company's Internet site, jcrew.com. The Company currently circulates over 70 million J. Crew catalogs per annum and operates 105 J. Crew retail stores and 41 J. Crew factory outlet stores. In addition, J. Crew products are distributed through 70 free-standing and shop-in-shop stores in Japan under a licensing agreement with Itochu Corporation.

The Company has three major operating divisions: J. Crew Retail, J. Crew Direct, and J. Crew Factory Outlets, each of which operate under the J. Crew brand name. In 2000, products sold under the J. Crew brand contributed \$787.7 million in net sales. J. Crew brand net sales in 2000 were comprised of \$406.8 million from J. Crew Retail, \$284.8 million from J. Crew Direct and \$96.1 million from J. Crew Factory Outlet. The Company also markets to its customers through its Internet site (jcrew.com). Net sales derived from the Internet, which were \$107.3 million for 2000, are included in J. Crew Direct net sales. The Company also generated licensing revenues of \$3.0 million and shipping and handling fees of \$35.3 million.

Effective as of October 30, 1998 the Company sold Popular Club Plan, Inc. and subsidiaries (PCP) to The Fingerhut Companies, Inc. for \$42.0 million and the assumption of an accounts receivable securitization facility. Revenues for PCP for the nine months ended October 30, 1998 were \$130.6 million. A gain on the sale of \$10.0 million was included in the results of operations in fiscal 1998. An additional gain of \$1.0 million was recognized in fiscal 1999 from the reversal of certain estimated liabilities recorded at the date of sale.

In 1998, management of the Company made a decision to exit the operations of its Clifford & Wills catalog and factory outlet subsidiaries (C&W). Revenues for C&W for the year ended January 30, 1999 were \$83.8 million. A charge of \$13.3 million was included in fiscal 1998 operations to write down the assets of C&W to net realizable value and to provide for certain additional costs in connection with the discontinuance of the C&W operations, including severance and lease termination costs. Additionally, fourth quarter charges of \$1.7 million, included in selling expense, were incurred relating to deferred catalog costs. In February 2000 the Company sold certain intellectual property assets of C&W 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. After consideration of the proceeds from this sale and other terms of the agreement, the Company provided an additional \$4.0 million to write down inventories to net realizable value as of January 29, 2000. During the year ended February 3, 2001 the remaining balance of net assets applicable to C&W of \$4.1 million was written off.

## J. Crew Brand

### Merchandising and Design Strategy

Over time, the J. Crew merchandising strategy has evolved from providing unisex products to creating full lines of men's and women's clothing, shoes and accessories. This strategy had the effect of increasing overall J. Crew brand sales volume, and significantly increasing revenues from sales of women's apparel as a percentage of total J. Crew brand sales from 50% in 1996 to 65% in 2000.

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

to ensure quality and value, while manufacturing teams research and develop key vendors worldwide to identify and maintain the essential characteristics for every style.

### Sourcing, Production and Quality

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

The Company's merchandise is produced for the Company by a variety of manufacturers, both domestically and outside the United States. The Company does not own or operate any manufacturing facilities, instead contracting with third party vendors in over 22 countries for the production of its products. In 2000, approximately 80% of the Company's J. Crew brand products were sourced in the Far East, 10% were sourced domestically and 10% were sourced in Europe and other regions. Rarely does the Company represent the majority of any one vendor's business and no one vendor supplies more than 10% of the Company's merchandise.

The Company retains independent buying agents to conduct in-line and final quality inspections at each manufacturing site. Random inspections of all incoming merchandise at the Lynchburg and Asheville distribution facilities further assure that the Company's products are of a consistently high quality.

Due to the high concentration of foreign suppliers of J. Crew brand merchandise, the Company estimates seven month lead times for its products. The Company has established through the use of domestic vendors and strategic partnerships, a core group of long-term suppliers to provide quick response programs at significantly shorter lead times for certain product categories.

### Distribution

The Company operates two major telemarketing and distribution facilities for its operations. Order fulfillment for J. Crew Direct takes place at the 406,500 square foot telemarketing and distribution center located in Lynchburg, Virginia. The Lynchburg facility processes approximately 3.8 million orders per year and employs approximately 900 full and part-time employees during its non-peak season and an additional 500 employees during its peak season.

A 192,500 square foot telemarketing and distribution facility in Asheville, North Carolina serves as the main distribution center for the retail and outlet store operations and also houses a J. Crew Direct telemarketing center. This facility employs approximately 300 full- and part-time employees during its non-peak season and an additional 200 employees during the peak holiday season.

The Company ships merchandise via UPS, the United States Postal Service and FedEx. To enhance efficiency, each facility is fully equipped with a highly advanced telephone system, an automated warehouse locator system and an inventory bar coding system and the Lynchburg facility has an automated packing and shipping sorter.

### Management Information Systems

The Company's management information systems are designed to provide, among other things, comprehensive order processing, production, accounting and management information for the marketing, manufacturing, importing and distribution functions of the Company's business. The Company has point-of-sale registers in its J. Crew Retail and Factory Outlet stores that enable it to track inventory from store receipt to final sale on a real-time basis. The Company believes its merchandising and financial systems, coupled with its point-of-sale registers and software programs, allow for rapid stock replenishment, concise merchandise planning and real-time inventory accounting

practices. The Company's telephone and telemarketing systems, warehouse package sorting systems, automated warehouse locator and inventory bar coding systems utilize advanced technology. These systems have provided the Company with a number of benefits in the form of enhanced customer service, improved operational efficiency and increased management control and reporting. In addition, the Company's real-time inventory systems provide inventory management on a per SKU basis and allow for an efficient fulfillment process.

The Company is in the process of installing a SAP enterprise resource planning system for its future information technology requirements. This system is scheduled for a phased-in implementation over a period of three years. In fiscal 2000 the Company's accounting systems were implemented. A corporate wide purchasing system and retail sales (including new point of sale registers) and inventory systems are scheduled for implementation in fiscal 2001. In February 2001, the Company outsourced its data center, desktop, network and telecommunications services management and operations support.

J. Crew Retail

During fiscal 2000, J. Crew Retail generated net sales of \$406.8 million, representing 51.6% of the Company's total net sales.

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

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

The Company believes that its J. Crew Retail stores are among the most productive in its industry segment. All of the Company's J. Crew Retail stores are profitable and have generated positive store contribution within the first 12 months of opening. J. Crew Retail stores that were open during all of fiscal 2000 averaged \$4.6 million per store in sales, produced sales per gross square foot of \$567 and generated store contribution margins of approximately 24.0%. The Company believes that these results compare favorably to the average among retailers that the Company believes to be its primary competitors. J. Crew Retail stores have an average size of 7,933 total square feet.

As of February 3, 2001 J. Crew Retail operated 105 retail stores nationwide, having expanded from 31 stores in 1996. The Company opened 24 stores in fiscal 2000 and intends to open approximately 30 stores in fiscal 2001. The stores are located in upscale shopping malls and in retail areas within major metropolitan markets that have an established higher-end retail business.

The table below highlights certain information regarding J. Crew Retail stores opened through fiscal 2000.

	Stores ----- Opened -----	Stores ----- Closed -----	Stores ----- Open at	Total ----- Square	Average ----- Store Total ----- Square
Stores Open	During	During	Open at	Square	Square

	At Beginning Of Fiscal Year	Fiscal Year	Fiscal Year	End of Fiscal Year	Footage (000's)	Footage at End of Year
1996	31	8	--	39	338	8,667
1997	39	12	--	51	428	8,392
1998	51	14	--	65	530	8,150
1999	65	16	--	81	668	8,243
2000	81	24	--	105	833	7,933

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#### J. Crew Direct

Since its inception in 1983, J. Crew Direct has distinguished itself from other catalog retailers by its award-winning catalog, which utilizes magazine-quality "real moment" pictures to depict an aspirational lifestyle image. During fiscal 2000, J. Crew Direct distributed 33 catalog editions with a combined circulation of approximately 73 million. J. Crew Direct generated \$284.8 million in net sales (including \$107.3 million from its Internet site) representing 36.2% of the Company's total J. Crew brand net sales in fiscal 2000.

#### Circulation Strategy

J. Crew Direct circulation strategy focuses on continually improving the segmentation of customer files and the acquisition of additional customer names. In 2000, approximately 60% of J. Crew Direct revenues were from customers in the 12-month buyer file (buyers who have made a purchase from any J. Crew catalog or on the Internet in the prior 12 months).

The Company segments its customer file and tailors its catalog offerings to address the different product needs of its customer segments. To increase core catalog productivity and improve the effectiveness of marginal and prospecting circulation, each customer segment is offered appropriate catalog editions. The Company currently circulates Base, Women's, Version, Prospect and Sale catalogs to targeted customer segments.

Descriptions of the Company's current catalogs follow:

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

**Women's Books.** The Women's books feature women's merchandise and are sent to buyers who purchase primarily women's merchandise. These books represent an additional customer contact potentially generating incremental revenue from women customers.

**Version Books.** These editions are abridged versions (in page count) of the Base Books and are sent to less active and prospective customers in order to cost effectively reactivate old customers and acquire new customers.

**Prospect Books.** These editions are abridged versions (in size and page count) of the Version Books and are sent to prospective customers to cost effectively acquire new customers.

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

In 2000, total circulation decreased to approximately 73 million from 75 million in 1999, and pages circulated were approximately 8.7 billion in 2000 compared to 9.3 billion in 1999.

J. Crew Direct name acquisition programs are designed to attract new customers

in a cost-effective manner. The Company acquires new names from various sources, including its Internet site, list rentals, exchanges with other catalog and credit card companies, "friends' name" card inserts, and through J. Crew Retail stores which represent an increasingly significant resource in prospecting for new names. In addition, the Company is in the process of placing telephones in its J. Crew Retail stores with direct access to the J. Crew Direct telemarketing center to allow customers in the stores to order catalog-specific or out-of-stock items.

#### Catalog Creation and Production

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

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J. Crew Direct does not have long-term contracts with paper mills. Projected paper requirements are communicated on an annual basis to paper mills to ensure the availability of an adequate supply. Management believes that the Company's long-standing relationships with a number of the largest coated paper mills in the United States allow it to purchase paper at favorable prices commensurate with the Company's size.

#### Telemarketing and Customer Service

J. Crew Direct's primary telemarketing and fulfillment facilities are located in Lynchburg, Virginia. An additional telemarketing facility is located in Asheville, North Carolina. Telemarketing operations are open 24 hours a day, seven days a week and handled over 5.0 million calls in fiscal 2000. Orders for merchandise may be received by telephone, facsimile, mail and on the Company's Internet site. The telemarketing centers are staffed by a total of 650 full-time and part time telemarketing associates, and up to 300 additional associates during peak periods, who are trained to assist customers in determining the customer's correct size and to describe merchandise fabric, texture and function. Each telemarketing associate utilizes a terminal with access to an IBM mainframe computer which houses complete and up-to-date product and order information. The fulfillment operations are designed to process and ship customer orders in a quick and cost-effective manner. Orders placed before 9:00 p.m. are shipped the following day. Same-day shipping is available for orders placed before noon.

#### J. Crew Factory Outlets

The Company extends its reach to additional consumers through its 41 J. Crew Factory Outlets. Offering J. Crew products at an average of 30% below full retail prices, J. Crew Factory Outlets target value-oriented consumers. The factory outlet stores also serve to liquidate excess, irregular or out-of-season J. Crew products outside of the Company's three primary distribution channels. During fiscal 2000, J. Crew Factory Outlets generated net sales of \$96.1 million, representing 12.2% of the Company's total J. Crew brand net sales.

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

#### Trademarks and International Licensing

J. Crew International, Inc., an indirect subsidiary of J. Crew Group, Inc., currently owns all of the trademarks and domain names for the J. Crew name that the Company holds throughout the world, as well as its international licensing contracts with third parties.

The Company derives revenues from the international licensing of its trademarks in the J. Crew name and the know-how it has developed. The Company has a licensing agreement with Itochu Corporation in Japan which gives the Company the right to receive payments of percentage royalty fees in exchange for the exclusive right to use the Company's trademarks in Japan. Under the license agreement the Company retains a high degree of control over the manufacture, design, marketing and sale of merchandise under the J. Crew trademarks. This agreement expires in January, 2003. In 2000, licensing revenues totaled \$3.0 million.

#### Employees

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

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At February 3, 2001 the Company had approximately 5,600 associates, of whom approximately 3,500 were full-time associates and 2,100 were part-time associates. In addition, approximately 2,000 associates are hired on a seasonal basis to meet demand during the peak holiday buying season. None of the associates employed by J. Crew are represented by a union. The Company believes that its relationship with its associates is good.

#### Competition

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

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#### ITEM 2. PROPERTIES

The Company is headquartered in New York City. The New York City headquarters' offices are leased under a lease agreement expiring in 2012 (not including renewal options). The Company owns two telemarketing and distribution facilities: a 406,500-square-foot telemarketing and distribution center for J. Crew Direct operations in Lynchburg, Virginia and a 192,500-square-foot telemarketing and distribution center in Asheville, North Carolina servicing the J. Crew Retail operations.

As of February 3, 2001, the Company operated 105 J. Crew retail stores and 41 factory outlet stores in 36 states and the District of Columbia. All of the retail and factory outlet stores are leased from third parties, and the leases in most cases have terms of 10 to 12 years, not including renewal options. As a general matter, the leases contain standard provisions concerning the payment of rent, events of default and the rights and obligations of each party. Rent due under the leases is comprised of annual base rent plus a contingent rent payment based on the store's sales in excess of a specified threshold. Substantially all the leases are guaranteed by the Company.

The table below sets forth the number of stores by state operated by the Company in the United States as of February 3, 2001.

	Retail	Outlet	Total
	-----	-----	-----
	Stores	Stores	Number
	-----	-----	-----
			Of Stores
			-----
Alabama	1	1	2
Arizona	2	--	2
California	17	3	20
Colorado	3	2	5
Connecticut	4	1	5
Delaware	1	1	2
Florida	4	3	7
Georgia	3	2	5
Illinois	6	--	6
Indiana	1	2	3
Kansas	1	--	1
Kentucky	1	--	1
Louisiana	1	--	1
Maine	--	2	2
Maryland	2	1	3
Massachusetts	6	1	7
Michigan	3	1	4
Minnesota	2	--	2
Missouri	1	1	2
Nevada	1	1	2
New Hampshire	--	2	2
New Jersey	4	1	5
New Mexico	1	--	1
New York	11	4	15
North Carolina	2	--	2
Ohio	4	--	4
Oregon	2	--	2
Pennsylvania	3	3	6
Rhode Island	1	-	1
South Carolina	1	2	3
Tennessee	2	1	3
Texas	6	2	8
Vermont	--	1	1
Virginia	4	1	5
Washington	2	1	3
Wisconsin	1	1	2
District of Columbia	1	--	1
	---	--	---
Total.	105	41	146
	===	==	===

ITEM 3. LEGAL PROCEEDINGS

Routine litigation is pending against the Company with respect to matters incidental to its business. Although the outcome of litigation cannot be predicted with certainty, in the opinion of the Company none of those actions should have a material adverse effect on the consolidated financial position or results of operations of the Company.

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

No matters were submitted to a vote of security holders during the quarter ended February 3, 2001.

PART II

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

There is no established public trading market for Holdings Common Stock. As of March 7, 2001, there were 38 shareholders of record of the Common Stock. See "Item 12. Security Ownership of Certain Beneficial Owners and Management" for a discussion of the ownership of Holdings.

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

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

The Directors of Holdings have the right to receive all or a portion of the fees for their services as a Director in Common Stock. In fiscal year 2000, certain Directors elected to receive a total of 16,400 shares of Common Stock in payment of their fees, at a purchase price of \$10.00 per share. Holdings issued the Common Stock to the Directors in transactions which did not involve any public offering in reliance upon Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act").

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated historical financial, operating, balance sheet and other data of the Company. The selected income statement and balance sheet data for the fiscal year ended January 31, 1997 are derived from the Consolidated Financial Statements of the Company, which have been audited by Deloitte & Touche LLP, independent auditors. The selected income statement and balance sheet data for each of the four fiscal years ended February 3, 2001 are derived from the Consolidated Financial Statements of the Company, which have been audited by KPMG LLP, independent auditors. The data presented below should be read in conjunction with the Consolidated Financial Statements, including the related Notes thereto, included herein, the other financial information included herein, and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	January 31, ----- 1997 ----	January 31, ----- 1998 ----	Fiscal Year Ended January 30, ----- 1999 ----	January 29, ----- 2000 ----	February 3, ----- 2001 ----
	(dollars in thousands, except per square foot data)				
Income Statement Data:					
Revenues	\$854,728	\$ 881,044	\$ 870,842	\$ 750,696	\$ 825,975
Cost of goods sold(a)	480,539	517,378	511,716	431,193	463,909
Selling, general and administrative expenses	342,370	354,614	332,050	279,302	301,865

Other charges	--	--	7,995	7,018	--
Charges incurred in connection with discontinuance of Clifford & Wills	--	--	13,300	4,000	4,130
Income from operations	31,819	9,052	5,781	29,183	56,071
Interest expense-net	10,470	20,494	39,323	38,861	36,642
Gain on sale of Popular Club Plan	--	--	(10,000)	(1,000)	--
Expenses incurred-Recapitalization	--	20,707	--	--	--
Provision (benefit) for income taxes	8,800	(5,262)	(8,162)	(2,050)	7,500
Extraordinary items and cumulative effect of accounting changes, net of taxes	--	(4,500)	--	--	--
Net income (loss)	\$ 12,549	\$ (31,387)	\$ (15,380)	\$ (6,628)	\$ 11,929

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	Fiscal Year Ended				
	January 31, 1997	January 31, 1998	January 30, 1999	January 29, 2000	February 3, 2001
Balance Sheet Data (at period end):					
Cash and cash equivalents	\$ 7,132	\$ 12,166	\$ 9,643	\$ 38,693	\$ 32,930
Working capital	132,222	142,677	95,710	75,929	49,482
Total assets	410,821	421,878	376,330	373,604	389,861
Total long term debt and redeemable preferred stock	87,092	428,457	433,243	458,218	464,310
Stockholders' equity (deficit)	102,006	(201,642)	(235,773)	(264,593)	(278,347)
Operating Data:					
Revenues:					
J. Crew retail	\$167,957	\$ 209,559	\$ 273,972	\$ 333,575	\$ 406,784
J. Crew direct					
Catalog	289,773	260,853	230,752	213,308	177,535
Internet	--	4,000	22,000	65,249	107,225
	289,773	264,853	252,752	278,557	284,760
J. Crew factory outlet	94,579	100,285	96,461	101,987	96,114
J. Crew licensing	3,817	2,897	2,712	2,505	3,020
J. Crew shipping & handling fees	27,592	28,936	30,575	34,072	35,297
Total J. Crew brand	583,718	606,530	656,472	750,696	825,975
Other divisions (b)	271,010	274,514	214,370	--	--
Total	\$854,728	\$ 881,044	\$ 870,842	\$ 750,696	\$ 825,975
J. Crew Direct:					
Number of catalogs circulated (in thousands)	76,087	76,994	73,440	75,479	72,522
Number of pages circulated (in millions)	9,827	9,830	8,819	9,319	8,677
J. Crew Retail:					
Sales per gross square foot(c)	\$ 551	\$ 542	\$ 558	\$ 571	\$ 567
Store contribution margin(c)	25.4%	23.4%	25.0%	26.0%	23.9%
Number of stores open at end of period	39	51	65	81	105
Comparable store sales change(c)	4.5%	(6.6)%	9.0%	1.8%	1.7%
Depreciation and amortization	\$ 10,541	\$ 15,255	\$ 15,972	\$ 19,241	\$ 22,600
Net capital expenditures(d)					
New store openings	\$ 10,894	\$ 19,802	\$ 14,749	\$ 13,300	\$ 16,700
Other	11,587	11,565	21,605	27,953	25,475
Total net capital expenditures	\$ 22,481	\$ 31,367	\$ 36,354	\$ 41,253	\$ 42,175

- Includes buying and occupancy costs.
- Includes revenues from the Company's PCP and C&W divisions and finance charge income from PCP installment sales. PCP was sold effective October 30, 1998 and the Company made a decision in 1998 to exit the catalog and outlet store operations of C&W.
- Includes stores that have been opened for a full twelve month period.
- Capital expenditures are net of proceeds from construction allowances.

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

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity of the Company during the

three-year period ended February 3, 2001. This discussion should be read in conjunction with the audited consolidated financial statements of the Company for the three-year period ended February 3, 2001 and notes thereto included elsewhere in this Annual Report on Form 10-K.

## Results of Operations

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

	Fiscal year ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Revenues	100.0%	100.0%	100.0%
Cost of goods sold, including buying and occupancy costs	56.2	57.4	58.8
Selling, general and administrative expenses	36.5	37.2	38.1
Other charges	--	.9	.9
Charges incurred in connection with discontinuance of C&W	.5	.5	1.5
Income from operations	6.8	3.9	.7
Interest expense, net	(4.4)	(5.2)	(4.5)
Gain on the sale of Popular Club Plan	--	.1	1.1
Income/(loss) before income taxes	2.4	(1.2)	(2.7)
Income taxes	(.9)	.3	.9
	-----	-----	-----
Net income/(loss)	1.5%	(.9)%	(1.8)%
	=====	=====	=====

## Fiscal 2000 Compared to Fiscal 1999

### Revenues

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Revenues increased 10.0% to \$826.0 million in the fiscal year ended February 3, 2001 from \$750.7 million in the fiscal year ended January 29, 2000. The fiscal year ended February 3, 2001 consisted of 53 weeks compared to 52 weeks in the prior year. Net sales for the fifty-third week were \$10.8 million. The increase in revenues was due primarily to the increase of \$73.2 million in the net sales for J.Crew Retail.

J. Crew Retail net sales increased by 21.9% from \$333.6 million in fiscal 1999 to \$406.8 million in fiscal 2000. The percentage of the Company's total net sales derived from J. Crew Retail increased to 51.6% in fiscal year 2000 compared to 46.7% in fiscal 1999. This increase was attributed primarily to net sales from stores not opened for a full fiscal year. Comparable store sales increased by 1.7% in fiscal 2000. The number of stores opened at February 3, 2001 increased to 105 from 81 at January 29, 2000.

J. Crew Direct net sales (which includes net sales from catalog and internet operations) increased by 2.2% from \$278.6 million in fiscal 1999 to \$284.8 million in fiscal 2000. The percentage of the Company's total net sales derived from J. Crew Direct decreased to 36.2% in fiscal 2000 from 39.0% in fiscal 1999. Catalog net sales decreased to \$177.5 million in fiscal 2000 from \$213.3 million in fiscal 1999. Internet net sales increased to \$107.3 million in fiscal 2000 from \$65.3 million in fiscal 1999 as the Company continued to migrate catalog customers to the Internet.

J.Crew Factory Outlet net sales decreased by 5.8% from \$102.0 million in fiscal 1999 to \$96.1 million in fiscal 2000. The percentage of the Company's total net sales derived from J. Crew Factory Outlet decreased to 12.2% in fiscal 2000 from 14.3% in fiscal 1999. Comparable store sales for J. Crew Factory Outlet decreased by 2.9% in fiscal 2000. J. Crew Factory Outlet closed one store in fiscal 2000 and 41 stores were open at February 3, 2001.

Other revenues which consist of shipping and handling fees and royalties

increased from \$36.6 million to \$38.3 million, primarily as a result of an increase in shipping and handling fees.

Cost of sales, including buying and occupancy costs  
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Cost of sales, including buying and occupancy costs as a percentage of revenues decreased to 56.2% in fiscal 2000 from 57.4% in fiscal 1999. This decrease was caused primarily by an increase in initial mark up due to a decrease in the cost of merchandise and an improvement in inventory mix in our factory division.

Selling, general and administrative expenses  
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Selling, general and administrative expenses increased to \$301.9 million in fiscal 2000 (36.6% of revenues) from \$279.3 million in fiscal 1999 (37.2% of revenues).

General and administrative expenses of the J.Crew brand increased to \$239.2 million in fiscal 2000 (29.0% of revenues) from \$203.6 million in fiscal 1999 (27.1% of revenues). This increase resulted primarily from (a) an increase in the expenses attributable to the increased number of retail stores in operation during fiscal 2000 compared to fiscal 1999 and (b) an increase in bonus provision in fiscal 2000 as a result of the increase in operating income.

Selling expenses were \$62.7 million in fiscal 2000 (7.6% of revenues) compared to \$75.7 million in fiscal 1999 (10.1% of revenues). This decrease was due primarily to \$6.0 million of direct advertising related to the Internet that was incurred in fiscal 1999, a decrease in pages circulated from 9.3 billion pages in fiscal 1999 to 8.7 billion pages in fiscal year 2000 and catalog production efficiencies.

Write-down of assets and other charges in connection with the discontinuance of  
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Clifford & Wills  
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An additional charge of \$4.1 million was incurred in fiscal 2000 to write off the remaining balance of the net assets of Clifford & Wills, primarily inventories.

Interest expense  
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Interest expense, net decreased to \$ 36.6 million in fiscal 2000 from \$38.9 million in fiscal 1999. This decrease resulted from lower average borrowings during fiscal 2000 under the Revolving Credit Facility and the reduced term loan balance offset by higher non-cash interest. Average borrowings under the Revolving Credit Facility required to fund inventories and capital expenditures were \$9.8 million in fiscal 2000 compared to \$30.8 million in fiscal 1999.

Interest expense included non-cash interest and amortization of deferred financing costs of \$16.4 million in fiscal 2000 compared to \$14.2 million in fiscal 1999.

Income Taxes  
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The effective tax rate was 38.6% in fiscal 2000 compared to (23.6%) in fiscal 1999. The effective tax rate in 1999 was less than the normal rate due primarily to the inability of certain subsidiaries to deduct net operating losses for state tax purposes.

## Revenues

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Revenues decreased 13.8% to \$750.7 million in the fiscal year ended January 29, 2000 from \$870.8 million in the fiscal year ended January 30, 1999. The decrease in revenues was attributable to the sale of Popular Club Plan, effective as of October 30, 1998, and the discontinuance of Clifford & Wills operations which resulted in a decrease of \$214.4 million. This decrease was offset by increases of \$59.6 million in J. Crew Retail and \$25.8 million in J.Crew Direct. Excluding Popular Club Plan and Clifford & Wills, revenues increased 14.3% from \$656.5 million in fiscal 1998 to \$750.7 million in fiscal 1999.

J. Crew Retail net sales increased by 21.8% from \$274.0 million in fiscal 1998 to \$333.6 million in fiscal 1999. The percentage of the Company's total net sales derived from J. Crew Retail increased to 46.6% in fiscal year 1999 compared to 33.2% in fiscal 1998. This increase was attributed to \$54.6 million from the opening of new stores and \$5.0 million from an increase in comparable store sales of 1.8%. The number of stores open at January 29, 2000 increased to 81 from 65 at January 30, 1999.

J. Crew Direct net sales (which includes net sales from catalog and internet operations) increased by 10.2% from \$252.8 million in fiscal 1998 to \$278.6 million in fiscal 1999. The percentage of the Company's total net sales derived from J. Crew Direct increased to 38.9% in fiscal 1999 from 30.7% in fiscal 1998. This increase was primarily due to an increase in net sales from j.crew.com which increased to \$65.2 million fiscal 1999 from \$21.6 million in fiscal 1998. Catalog net sales decreased to \$213.4 million in fiscal 1999 from \$231.2 million in fiscal 1998 as the Company adopted initiatives to migrate catalog customers to the Internet.

J. Crew Factory Outlet net sales increased by 5.7% from \$96.5 million in fiscal 1998 to \$102.0 million in fiscal 1999. The percentage of the Company's total net sales derived from J. Crew Factory Outlet increased to 14.2% in fiscal 1999 from 11.7% in fiscal 1998. Comparable store sales for J. Crew Factory Outlet increased by 3.8% in fiscal 1999. J. Crew Factory Outlet closed three stores in fiscal 1999 and 42 stores were open at January 29, 2000.

Other revenues consist of shipping and handling fees and royalties in fiscal 1999 and 1998. Fiscal 1998 also included finance charge income related to Popular Club Plan. The decrease in fiscal 1999 compared to fiscal 1998 was due to the sale of Popular Club Plan in October 1998.

## Cost of sales, including buying and occupancy costs

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Cost of sales, including buying and occupancy costs as a percentage of revenues decreased to 57.4% in fiscal 1999 compared to 58.8% in fiscal 1998. Excluding the operations of PCP and C&W cost of sales including buying and occupancy costs decreased to 57.4% in fiscal 1999 from 58.6% in fiscal 1998. This decrease was caused primarily by an increase in initial mark up caused by a decrease in the cost of merchandise.

## Selling, general and administrative expenses

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Selling, general and administrative expenses decreased to \$279.3 million in fiscal 1999 (37.2% of revenues) from \$332.1 million in fiscal 1998 (38.1% of revenues). Approximately \$92.1 million of selling, general, and administrative expenses in fiscal 1998 resulted from the operations of PCP and C&W.

Selling, general and administrative expenses of the J.Crew brand increased to \$279.3 million in fiscal 1999 (37.2% of revenues) from \$239.9 million in fiscal 1998 (36.5% of revenues). This increase resulted primarily from an increase in general and administrative expenses of \$31.5 million due to (a) an increase in the number of retail stores in operation during fiscal 1999 compared to fiscal 1998; (b) an increase in consulting fees and other expenses attributable to information technology initiatives; and (c) an increase in marketing expenses of approximately \$8 million, primarily direct advertising, devoted to increasing

customer awareness of the Company's Internet site.

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Selling expenses were \$75.7 million in fiscal 1999 (10.1% of revenues) compared to \$67.8 million in fiscal 1998 (10.3% of revenues). This increase was due to \$6.0 million of direct advertising related to the Internet and an increase in pages circulated from 8.8 billion pages in fiscal 1998 to 9.3 billion pages in fiscal year 1999, an increase of 5.7%. These increases in selling expenses were partially offset by decreases related to efficiencies in the catalog production process.

Write-down of assets and other charges in connection with the discontinuance of  
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Clifford & Wills

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An additional charge of \$4.0 million was incurred in fiscal 1999 to write down the carrying value of inventories to net realizable value. (See note 3 to the consolidated financial statements).

Other charges  
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Other charges in fiscal 1999 include \$7.0 million relating to the write off of certain software development costs which were impaired by the decision of the Company to adopt an enterprise resource planning system for its future information technology requirements.

Gain on sale of subsidiary  
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An additional gain of \$1.0 million was recognized in fiscal 1999 from a reduction in certain estimated liabilities established at the time of sale. (See note 3 to the consolidated financial statements).

Interest expense  
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Interest expense, net decreased to \$38.9 million in fiscal 1999 from \$39.3 million in fiscal 1998. This decrease resulted primarily from lower average borrowings during fiscal 1999 under the Revolving Credit Facility and the reduced term loan balances which was offset by higher non-cash interest and interest related to the settlement of a sales and use tax assessment. Average borrowings under a Revolving Credit Facility required to fund inventories and capital expenditures were \$30.8 million in fiscal 1999 and \$47.5 million in fiscal 1998.

Interest expense included non-cash interest and amortization of deferred financing costs of \$14.2 million in fiscal 1999 compared to \$12.7 million fiscal 1998.

Income Taxes  
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The effective tax rate was (23.6%) in fiscal 1999 compared to (34.7)% in fiscal 1998. The decrease in the effective tax rate in 1999 was primarily due to the inability of certain subsidiaries to deduct net operating losses for state tax purposes.

Liquidity and Capital Resources

The Company's primary cash needs have been for capital expenditures incurred primarily for opening new stores and system enhancements, debt service requirements and working capital. The Company's sources of liquidity have been primarily cash flows from operations and borrowings under the revolving credit facility.

Cash provided by operating activities was \$70.3 million in fiscal 2000 compared to \$94.1 million in fiscal 1999. The decrease in cash provided by operations resulted from (a) an increase in the change in inventories of \$36.8 million and (b) a decrease in the change in prepaid expenses and other current assets of \$10.3 million offset by an increase in net income of \$18.6 million.

Capital expenditures, net of construction allowances, were \$42.2 million in fiscal 2000 which consisted primarily of the opening of 24 new J. Crew retail stores and for systems enhancements, primarily the SAP enterprise resource planning system. Capital expenditures in fiscal 1999 were \$41.3 million and consisted primarily from the opening of 16 new J.Crew Retail Stores and for system enhancements.

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Capital expenditures are expected to be approximately \$50.0 million in fiscal 2001, primarily for the opening of at least 30 J. Crew retail stores and system enhancements. The expected capital expenditures will be funded from internally generated cash flows and by borrowings from available financing sources.

The Company repaid the \$34.0 million outstanding balance of its term loan during fiscal 2000. There are no scheduled principal payments of the Company's long term debt during the next five years. There were no borrowings under the Revolving Credit Facility at February 3, 2001 and January 29, 2000. Average borrowings under the Revolving Credit Facility were \$9.8 million for the fiscal year ended February 3, 2001 and \$30.8 million for the fiscal year ended January 29, 2000.

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.

#### Impact of Inflation

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

#### Seasonality

The Company's retail and 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 2000 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.

#### Recent Accounting Pronouncements

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" and No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities" which require entities to recognize all derivatives

as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133, as amended and SFAS No. 138 are effective for all fiscal years beginning after June 15, 2000. The Company will adopt these standards in fiscal year 2001. Due to its limited use of derivative instruments, the Company does not expect the adoption of these standards to have a material effect on its consolidated financial positions or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's principal market risk relates to interest rate sensitivity, which is the risk the 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.

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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 February 3, 2001 were approximately \$50.9 million.

The Company has a licensing agreement in Japan which provides for royalty payments based on sales of J. Crew merchandise as denominated in yen. The Company has from time to time entered into forward foreign exchange contracts to minimize this risk. At February 3, 2001, there were no forward foreign exchange contracts outstanding.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position
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Emily Woods.....	39	Director, Chairman of the Board
Mark A. Sarvary.....	41	Director, Chief Executive Officer
Charlotte L. Beers.....	65	Director
David Bonderman.....	58	Director
Richard W. Boyce.....	46	Director
Gregory D. Brenneman.....	39	Director

John W. Burden, III.....64	Director
James G. Coulter.....41	Director
Barbara K. Eisenberg.....55	Senior Vice President, General Counsel and Corporate Secretary
Scott Formby.....39	Executive Vice President, Design
Scott D. Hyatt.....43	Senior Vice President, Manufacturing
Walter Killough.....46	Chief Operating Officer
David F. Kozel.....45	Senior Vice President, Human Resources
Nicholas Lamberti.....58	Vice President, Corporate Controller
Scott M. Rosen.....42	Executive Vice President, Chief Financial Officer
Carol Sharpe.....46	Executive Vice President, Merchandising - Brand
Trudy Sullivan.....51	President
Brian T. Swette.....47	Director
Josh S. Weston.....72	Director

Emily Woods

Ms. Woods became Chairman of the Board of Directors of Holdings in 1997. Ms. Woods is also a director and Chairman of the Board of Operating Corp. Ms. Woods co-founded the J. Crew brand in 1983. Ms. Woods has also served as Chief Executive Officer and Vice-Chairman of Holdings and as Chief Executive Officer of Operating Corp. She is also a director of Yankee Candle Company, Inc.

Mark A. Sarvary

Mr. Sarvary has been Chief Executive Officer and a Director of the Company since May 1999. He was President/General Manager of the Nestle Frozen Food Division of Nestle USA from 1996 to 1999.

Charlotte L. Beers

Ms. Beers became a director of Holdings in 1998. Ms. Beers was Chairman of J. Walter Thompson (advertising agency) from 1999 until February 2001. She was Chairman and Chief Executive Officer of Ogilvy & Mather (advertising agency) from 1992 until 1997 and Chairman Emeritus from 1997 until March 1999. She also serves as a director of Martha Stewart Living Omnimedia, Inc. and IBeauty.com.

David Bonderman

Mr. Bonderman became a director of Holdings in 1997. Mr. Bonderman is a founding partner of Texas Pacific Group and has been Managing General Partner of TPG for more than eight years. Mr. Bonderman serves on the Boards of Directors of Bell & Howell, Inc., Continental Airlines, Inc., Co-Star Realty Information, Inc., Denbury Resources Inc., Ducati Motor Holdings S.p.A., Magellan Health Services, Inc., Oxford Health Plans, Inc., Paradyne Networks, Inc., RyanAir Holdings PLC., ON Semiconductor Corporation, Washington Mutual, Inc., Urogenesys, Inc. and Seagate Technology, Inc.

Richard W. Boyce

Mr. Boyce became a director of Holdings in 1997 and served as Chief Executive Officer of the Company during portions of 1997 and 1999 while also providing operating oversight to the remainder of the TPG portfolio. Mr. Boyce is the senior operating partner of Texas Pacific Group. Prior to joining Texas Pacific Group in 1997, Mr. Boyce was employed by PepsiCo for more than five years prior thereto, most recently as Senior Vice President of Operations for Pepsi-Cola, North America. He was Chairman of Favorite Brands International Holding Corp., which filed for protection under Chapter 11 of the Bankruptcy Code in 1999. Mr. Boyce also serves on the Boards of Directors of Convergent Communications, Del Monte Foods Corp. and ON Semiconductor Corporation.

Gregory D. Brenneman

Mr. Brenneman became a director of Holdings in 1998. He has been President of Continental Airlines Inc. ("Continental") since 1996 and Chief Operating Officer of Continental since 1995. He is a director of Continental and Home Depot, Inc.

John W. Burden, III

Mr. Burden became a director of Holdings in 1998. Mr. Burden has been a retail consultant for more than five years. He also serves as a director of Saks Incorporated and Chicos Fas Inc.

James G. Coulter

Mr. Coulter became a director of Holdings in 1997. Mr. Coulter is a founding partner of Texas Pacific Group and has been Managing General Partner of

TPG for more than eight years. Mr. Coulter serves on the Boards of Directors of Genesis Health Ventures, Inc., Northwest Airlines, Inc., Oxford Health Plans, Inc., ON Semiconductor Corporation, Globespan, Inc. and Seagate Technology, Inc.

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Barbara K. Eisenberg

Ms. Eisenberg has been Senior Vice President, General Counsel and Corporate Secretary of the Company since 1999 and was Vice President, General Counsel and Corporate Secretary from 1998 until then. Prior thereto, she was Vice President, Associate General Counsel and Corporate Secretary of Burlington Industries, Inc. (textile manufacturer) for more than five years.

Scott Formby

Mr. Formby has been Executive Vice President, Design of the Company since 1999. Prior thereto, he was Vice President, Design for more than five years.

Scott D. Hyatt

Mr. Hyatt has been Senior Vice President, Manufacturing of the Company since 1998. He was with Express Inc. as Vice President, Production and Sourcing from 1996 to 1998.

Walter Killough

Mr. Killough has been Chief Operating Officer of the Company since 1999. He was Senior Vice President, General Manager, Mail Order from 1997 to 1999 and prior thereto, he was Senior Vice President of Clifford & Wills, a subsidiary of the Company, for more than five years.

David F. Kozel

Mr. Kozel has been Senior Vice President, Human Resources of the Company since 1999. Prior thereto, he was with Grey Advertising Inc. as Vice President, Human Resources from 1998, Vice President, Human Resources of Deluxe Corporation from 1997 to 1998 and Vice President, Human Resources of Citibank from 1995 to 1996.

Nicholas Lamberti

Mr. Lamberti has been Vice President - Corporate Controller of the Company for more than five years.

Scott M. Rosen

Mr. Rosen has been Executive Vice President and Chief Financial Officer of the Company since 1999, Senior Vice President and Chief Financial Officer from 1998 until then and Chief Financial Officer of Mail Order for more than five years prior thereto.

Carol Sharpe

Ms. Sharpe has been Executive Vice President, Merchandising - Brand of the Company since 1999 and was Senior Vice President, General Merchandising Manager, Retail prior thereto. She was Senior Vice President and General Merchandising Manager-Women's from 1998 until then and Vice President, Women's for more than 5 years prior to 1998.

Trudy Sullivan

Ms. Sullivan has been President since rejoining the Company in 2000. She was President of Kids "R" Us, a division of Toys "R" Us, Inc., from October 1999 to February 2000. Ms. Sullivan was President, Mail Order of the Company from 1998 to 1999 and President of Clifford and Wills from 1995 to 1998.

Brian T. Swette

Mr. Swette became a director of Holdings in 1998. He has been Chief Operating Officer of eBay Inc. (person-to-person trading community on the Internet), since 1999 and from 1998 until then was Senior Vice President of Marketing and International of eBay. He was Executive Vice President and Chief Marketing Officer-Global Beverages of Pepsi-Cola Beverages from 1996 until joining eBay Inc. and Executive Vice President Marketing-North America of Pepsi-Cola Beverages from 1994 to 1996. He is also a director of eBay Inc.

Josh S. Weston

Mr. Weston became a director of Holdings in 1998. He has been Honorary Chairman of the Board of Directors of Automatic Data Processing (computing services business) since 1998. He was Chairman of the Board of Automatic Data Processing from 1996 until 1998 and Chairman and Chief Executive Officer for more than five years prior thereto. Mr. Weston is also a director of Gentiva Health Services, Inc., Aegis Communications Group, Inc. and Russ Berrie & Company, Inc.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth compensation paid for fiscal years 2000, 1999, and 1998 to each individual serving as its chief executive officer during fiscal 2000 and to each of the four other most highly compensated executive officers of the Company as of the end of fiscal 2000.

Name And Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards	Securities Underlying Options/ SARS (#) (1)	Payouts	
Emily Woods Chairman	2000	\$1,000,000	\$1,000,000	\$ --	--	--	--	\$ 5,250 (5)
	1999	1,000,000	1,000,000	--	--	--	--	5,000 (5)
	1998	1,000,000	1,000,000	--	(2)	--	--	2,907,590 (3) (5)
Mark Sarvary Chief Executive Officer	2000	729,811	502,500	--	--	--	--	5,250 (5)
	1999	560,190	335,000	1,000,000(4)	--	272,000	--	--
	1998	--	--	--	--	--	--	--
Trudy Sullivan President	2000	420,315	375,000	275,000(4)	--	70,000	--	5,250 (5)
	1999	329,231	--	--	--	--	--	5,000 (5)
	1998	310,000	230,000	--	--	25,000(6)	--	5,000 (5)
Scott Formby Executive Vice President, Design	2000	450,000	337,500	--	--	10,000	--	4,558 (5)
	1999	422,115	106,800	--	--	8,800	--	5,000 (5)
	1998	392,158	107,000	--	--	--	--	5,000 (5)
Carol Sharpe Executive Vice President, Merchandising - Brand	2000	400,000	360,000	--	--	--	--	5,250 (5)
	1999	400,000	240,000	360,000(4)	--	12,000	--	5,000 (5)
	1998	362,500	100,300	--	--	12,400	--	5,000 (5)

- (1) There is no established public market for shares of Common Stock. Holders of restricted stock have the same right to receive dividends as other holders of Common Stock. The Company has not paid any cash dividends on its Common Stock.
- (2) Ms. Woods was granted 661,600 shares of Common Stock ("Woods Restricted Shares"), of which 78,600 shares vested immediately upon grant, 194,400 shares will vest on October 17, 2000 and 2001 and 194,200 shares will vest on October 17, 2002.
- (3) The amount set forth in this column includes reimbursement for income taxes in the amount of \$ 2,902,590 incurred by Ms. Woods as a result of the grant of the Woods Restricted Shares.
- (4) This amount is a signing bonus.
- (5) Represents Company matching contributions to 401(k) plan.
- (6) These options were forfeited when Ms. Sullivan left the Company in 1999.

The following Table shows information concerning stock options granted to any of the named executive officers during fiscal year 2000.

Option Grants In Fiscal Year 2000

Name	Individual Grants			Assumed Annual Rates Of Stock Price Appreciation For Option Term		
	Number of Securities Underlying Options Granted(1) (2)	Percent Of Total Options Granted To Employees In Fiscal Year	Exercise Price(\$/Sh)	Expiration Date	5%(\$)	10% (\$)
Scott Formby	10,000	2.7%	\$10.00	3/13/10	\$62,900	\$159,400
Trudy Sullivan	37,600 32,400	10.0% 8.6%	\$ 6.82 \$10.00	1/31/10 1/31/10	\$161,300 \$203,800	\$408,700 \$516,400

(1) The Company has not granted any SARs.

(2) The options have 10-year terms. Ms. Sullivan's option grant of 37,600 shares is exercisable 15,040 shares on the grant date and 20% on January 31st in each of 2001 through 2003. Ms. Sullivan's option grant of 32,400 shares is exercisable 20% on January 31st in each of 2001 through 2005. Mr. Formby's options are exercisable 20% on January 31st in each of 2001 through 2005. All unvested options become exercisable in the event of a change in control of Holdings.

The following Table shows the number of stock options held by the named executive officers at the end of fiscal year 2000. The named executive officers did not exercise any stock options in fiscal year 2000.

Aggregated Option Exercises in Fiscal Year 2001 and Fiscal Year-End Option Values

Name	Number Of Securities Underlying Unexercised Options At Fiscal Year End (1) (#)	
	Exercisable/Unexercisable	
Scott Formby.....	24,240	/ 25,760
Mark Sarvary.....	54,400	/ 217,600
Carol Sharpe.....	17,400	/ 19,600
Trudy Sullivan.....	29,040	/ 40,960
Emily Woods.....	98,400	/ 393,800

(1) There is no established public market for shares of the Company's Common Stock.

Employment Agreements and Other Compensation Arrangements

Ms. Woods has an employment agreement with Holdings and Operating Corp. (the "Employers") which provides that, for a period of five years beginning on October 17, 1997, she will serve as Chairman of the Board of Directors of Holdings. The employment agreement provides for an annual base salary of \$1.0 million, and an annual target bonus of up to \$1.0 million based on achievement of earnings objectives to be determined each year. The employment agreement also provided for the grant of 661,600 shares of Common Stock (the "Woods Restricted Shares"). (See footnotes 2 and 3 to the Executive Compensation Table for information on the vesting of the Woods Restricted Shares and the reimbursement of income taxes incurred by Ms. Woods in connection with such grant.) Ms. Woods is also entitled to various executive benefits and perquisites under the employment agreement.

Under the terms of stock options awarded to Ms. Woods under the Company's Stock Option Plan, all unvested options shall become exercisable (i) if Ms. Woods' employment is terminated by Holdings without cause, by Ms. Woods for good reason or by reason of death or disability, or (ii) in the event of a change in control of Holdings. Because of a change in Ms. Woods' duties and responsibilities, upon the termination of Ms. Woods' employment, she will be entitled to severance benefits and other benefits as described in the February 4, 2000 amendment to her agreement.

Mr. Sarvary has an Employment Agreement with Operating Corp., which provides that, for a period of five years commencing on May 10, 1999, he will serve as Chief Executive Officer of Operating Corp. The Employers also agreed to cause Mr. Sarvary to be elected to the Board of Directors of Holdings. The Employment Agreement provides for an annual base salary of \$670,000 and an annual target bonus of 50% of his annual base salary based on achievement of earnings objectives to be determined each year. The Employment Agreement also provides for the payment of a signing bonus of \$1,000,000 and the grant of options to purchase 272,000 shares of Common Stock as well as the grant of additional stock options to purchase 68,000 shares on the earlier of the date of an initial public offering of Holdings' Common Stock or May 10, 2004. Mr. Sarvary is also entitled to various executive benefits and perquisites under the Employment Agreement. Mr. Sarvary's Employment Agreement also provides that in the event of his termination by Operating Corp. without Cause or termination by Mr. Sarvary for Good Reason (as those terms are defined in the Employment Agreement), he will receive an amount equal to two times his base salary.

Ms. Sullivan has an Employment Agreement with Operating Corp. which provides that, for a period of three years commencing on February 27, 2000, she will serve as President of Operating Corp. at an annual base salary of \$500,000 and an annual target bonus of 50% of her annual base salary based on achievement of earnings objectives to be determined for each year. The Employment Agreement also provides for a signing bonus of \$275,000 and the grant of options to purchase 70,000 shares of Common Stock. Ms. Sullivan is also entitled to various executive benefits and perquisites under the Employment Agreement. Ms. Sullivan's Employment Agreement also provides for continuation of her salary for a period of one year if her employment is terminated by Operating Corp. without Cause or if she terminates her employment for Good Reason (as those terms are defined in the Employment Agreement).

Ms. Sharpe has an Employment Agreement with Operating Corp. which provides that, for a period of five years commencing on April 30, 1999, she will serve as Executive Vice President-Merchandising of Operating Corp. The Employment Agreement provides for an annual base salary of \$400,000 and an annual target bonus of 60% of her annual base salary based on achievement of earnings objectives to be determined for each year. The Employment Agreement also provides for a signing bonus of \$360,000 and the grant of options to purchase 12,000 shares of Common Stock. The Employment Agreement provides for continuation of salary for a period of one year if Ms. Sharpe's employment is terminated without Cause (as defined in the Agreement). Ms. Sharpe's Employment Agreement also provides that if, on April 30, 2003, the aggregate spread between the fair market value per share and the exercise price per share of her options to purchase 34,600 shares of Holdings Common Stock does not equal or exceed \$1,124,500, then Operating Corp. will pay her a cash payment equal to any such shortfall, subject to adjustment in the event she has disposed of any of the shares underlying such options.

The Woods Restricted Shares and any shares of Common Stock acquired by Ms. Woods, Mr. Sarvary and Ms. Sullivan and Sharpe pursuant to the exercise of options are subject to a shareholders' agreement providing for certain transfer restrictions, registration rights and customary tag-along and drag-along rights.

Ms. Woods, Chairman, and Mr. Boyce, a director and former Chief Executive Officer of the Company, are members of the Compensation Committee of Holdings.

Compensation of Directors

An attendance fee of \$10,000 for each Board of Directors meeting (up to a total of \$40,000 per year) is paid to each Director who is neither an employee of the Company nor a representative of TPG. Directors have the option to receive all or a portion of that fee paid in cash or in shares of Common Stock at a per share purchase price equal to the fair market value thereof.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of the Common Stock of Holdings as of March 7, 2001 for each person who is known to Holdings to be the beneficial owner of 5% or more of Holdings Common Stock. The holders listed have sole voting power and investment power over the shares held by them, except as indicated by the notes following the table.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	TPG Partners II, L.P. 301 Commerce Street, Suite 3300 Fort Worth, TX 76102	7,313,797.6 shares (1)	59%
Common Stock	Emily Woods J. Crew Group, Inc. 770 Broadway New York, NY 10003	2,363,576.6 shares (2)	19%

(1) These shares of Common Stock are held by TPG and the following affiliates of TPG (collectively, "TPG Affiliates"): TPG Parallel II L.P., TPG Partners II L.P. and TPG Investors II, L.P.

(2) Includes (a) 98,400 shares not currently owned but which are issuable upon the exercise of stock options awarded under the Company's Stock Option Plan that are currently exercisable, and (b) 388,600 shares of Common Stock that have not vested and are held in custody by the Company until vesting thereof.

The following table sets forth information regarding the beneficial ownership of each class of equity securities of Holdings as of March 7, 2001 for (i) each director, (ii) each of the executive officers identified in the table set forth under Item 11. "Executive Compensation", and (iii) all directors and executive officers as a group. The holders listed have sole voting power and investment power over the shares held by them, except as indicated by the notes following the table.

Title of Class	Name of Beneficial Owner	Number of Shares and Nature of Beneficial Ownership	Percent of Class
Common Stock	Charlotte L. Beers	16,466.276	*
Common Stock	David Bonderman	7,313,797.6 (1)	59%

Common Stock	Richard W. Boyce	55,200 (2)	*
Common Stock	Gregory D. Brenneman	13,000	*
Common Stock	John W. Burden, III	4,466.276	*
Common Stock	James G. Coulter	7,313,797.6 (1)	59%
Common Stock	Scott Formby	24,240 (2)	*
Common Stock	Mark A. Sarvary	108,800 (2)	*
Common Stock	Carol Sharpe	19,800 (2)	*
Common Stock	Trudy Sullivan	29,040 (2)	*
Common Stock	Brian T. Swette	17,866.276	*
Common Stock	Josh S. Weston	17,466.276	*
Common Stock	Emily Woods	2,363,576.6 (3)	19%
Common Stock	All Directors and executive officers as a group	10,079,439.3 (1) (2) (3)	81%
Series A Preferred Stock	Charlotte L. Beers	60	*
Series A Preferred Stock	David Bonderman	73,474.58 (1)	79%
Series A Preferred Stock	Gregory D. Brenneman	60	*
Series A Preferred Stock	James G. Coulter	73,474.58 (1)	79%
Series A Preferred Stock	Brian T. Swette	60	*
Series A Preferred Stock	Josh S. Weston	60	*
Series A Preferred Stock	Emily Woods	2,978.505	3%
Series A Preferred Stock	All Directors and executive officers as a group	76,753.085	83%

\*Represents less than 1% of the class.

- (1) Attributes ownership of the shares owned by TPG Affiliates to Messrs. Bonderman and Coulter, who are partners of TPG. Each of Messrs. Bonderman and Coulter disclaim beneficial ownership of the shares owned by TPG Affiliates.
- (2) These are shares not currently owned but which are issuable upon the exercise of stock options awarded under the Company's Stock Option Plan that are currently exercisable or become exercisable within 60 days.
- (3) Includes (a) 98,400 shares not currently owned but which are issuable upon the exercise of stock options awarded under the Company's Stock Option Plan that are currently exercisable, and (b) 388,600 shares of Common Stock that have not vested and are held in custody by the Company until vesting thereof.

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

In connection with Mr. Sarvary's relocation to the Company's headquarters, the Company loaned Mr. Sarvary \$1.0 million on an interest-free basis to purchase a residence. The largest amount outstanding in fiscal year 2000 was \$950,000. The loan is secured by a mortgage on that residence and \$900,000 is still outstanding.

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

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#### PART IV

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

##### (a) 1. Financial Statements

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

- (i) Report of KPMG LLP, Independent Auditors
- (ii) Consolidated Balance Sheets as of February 3, 2001 and January 29, 2000

- (iii) Consolidated Statements of Operations - Years ended February 3, 2001, January 29, 2000 and January 30, 1999
- (iv) Consolidated Statements of changes in Stockholders' Deficit - Years ended February 3, 2001, January 29, 2000 and January 30, 1999
- (v) Consolidated Statements of Cash Flows - Years ended February 3, 2001, January 29, 2000 and January 30, 1999
- (vi) Notes to consolidated financial statements

2. Financial Statements Schedules

Schedule II Valuation and Qualifying Accounts.

3. Exhibits

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

(b) Reports on Form 8-K

The Company has not filed any reports on Form 8-K during the fiscal quarter ended February 3, 2001.

(c) Exhibits

See Item 14(a)3 above.

(d) Financial Statements Schedules

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: April 20, 2001

J. CREW GROUP, INC.

By: /s/ Mark A. Sarvary

-----  
Mark A. Sarvary  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on April 20, 2001.

Signature -----	Title -----
/s/ Emily Woods ----- Emily Woods	Director; Chairman of the Board
/s/ Mark A. Sarvary ----- Mark A. Sarvary	Director; Chief Executive Officer (Principal Executive Officer)
/s/ Scott M. Rosen ----- Scott M. Rosen	Executive Vice President, Chief Financial Officer (Principal Financial Officer)
/s/ Nicholas Lamberti	Vice President, Corporate Controller

----- Nicholas Lamberti	(Principal Accounting Officer)
/s/ Charlotte L. Beers ----- Charlotte L. Beers	Director
/s/ David Bonderman ----- David Bonderman	Director
/s/ Richard W. Boyce ----- Richard W. Boyce	Director
/s/ Gregory D. Brenneman ----- Gregory D. Brenneman	Director
/s/ John W. Burden, III ----- John W. Burden, III	Director
/s/ James G. Coulter ----- James G. Coulter	Director
/s/ Brian T. Swette ----- Brian T. Swette	Director
/s/ Josh S. Weston ----- Josh S. Weston	Director

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Independent Auditors' Report

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

We have audited the consolidated financial statements of J. Crew Group, Inc. and subsidiaries (the "Company") as listed in the accompanying Index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 J. Crew Group, Inc. and subsidiaries as of February 3, 2001 and January 29, 2000 and the results of their operations and their cash flows for each of the years in the three-year period ended February 3, 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the

related financial statement schedule when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

KPMG LLP

March 30, 2001

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J. CREW GROUP, INC. AND  
SUBSIDIARIES

Consolidated Balance Sheets

Assets -----	February 3, 2001 ----	January 29, 2000 ----
	(in thousands)	
Current assets:		
Cash and cash equivalents	\$ 32,930	\$ 38,693
Merchandise inventories	140,667	129,928
Prepaid expenses and other current assets	23,740	30,083
Net assets held for disposal	--	8,927
	-----	-----
Total current assets	197,337	207,631
	-----	-----
Property and equipment - at cost:		
Land	1,460	1,460
Buildings and improvements	11,432	11,363
Furniture, fixtures and equipment	70,541	60,355
Leasehold improvements	144,906	130,054
Construction in progress	22,983	12,851
	-----	-----
Less accumulated depreciation and amortization	251,322	216,083
	85,746	77,683
	-----	-----
	165,576	138,400
	-----	-----
Deferred income tax assets	14,362	14,830
Other assets	12,586	12,743
	-----	-----
Total assets	\$ 389,861	\$ 373,604
	=====	=====
Liabilities and Stockholders' Deficit -----		
Current liabilities:		
Accounts payable	\$ 49,705	\$ 40,951
Other current liabilities	75,168	70,222
Federal and state income taxes payable	17,581	14,687
Deferred income tax liabilities	5,401	5,842
	-----	-----
Total current liabilities	147,855	131,702
	-----	-----
Long-term debt	264,292	284,684
	-----	-----
Deferred credits and other long-term liabilities	56,043	48,277
	-----	-----
Redeemable preferred stock	200,018	173,534
	-----	-----
Stockholders' deficit	(278,347)	(264,593)
	-----	-----
Total liabilities and stockholders' deficit	\$ 389,861	\$ 373,604
	=====	=====

See accompanying notes to consolidated financial statements.

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J. CREW GROUP, INC. AND  
SUBSIDIARIES

Consolidated Statements of Operations

	Years ended		
	February 3, ----- 2001 ----	January 29, ----- 2000 ----	January 30, ----- 1999 ----
(in thousands)			
Revenues:			
Net sales	\$787,658	\$714,119	\$816,221
Other	38,317	36,577	54,621
	-----	-----	-----
	825,975	750,696	870,842
Operating costs and expenses:			
Cost of goods sold, including buying and occupancy costs	463,909	431,193	511,716
Selling, general and administrative expenses	301,865	279,302	332,050
Write off of software development costs	--	7,018	--
Write down of assets and other charges in connection with discontinuance of Clifford & Wills	4,130	4,000	13,300
Termination costs and other nonrecurring employment contract charges	--	-	7,995
	-----	-----	-----
	769,904	721,513	865,061
	-----	-----	-----
Income from operations	56,071	29,183	5,781
Interest expense - net	36,642	38,861	39,323
Gain on sale of Popular Club Plan	--	(1,000)	(10,000)
	-----	-----	-----
Income/(loss) before income taxes	19,429	(8,678)	(23,542)
(Provision) benefit for income taxes	(7,500)	2,050	8,162
	-----	-----	-----
Net income/(loss)	\$ 11,929	\$ (6,628)	\$ (15,380)
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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J. CREW GROUP, INC. AND  
SUBSIDIARIES

Consolidated Statements of Cash Flows

	Years ended		
	February 3, ----- 2001 -----	January 29, ----- 2000 -----	January 30, ----- 1999 -----
(in thousands)			
Cash flows from operating activities:			
Net income/(loss)	\$ 11,929	\$ (6,628)	\$ (15,380)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation and amortization	22,600	19,241	15,972

Write off of software development costs	--	7,018	--
Amortization of deferred financing costs	2,793	2,196	2,119
Noncash interest expense	13,608	11,989	10,534
Deferred income taxes	27	(6,840)	(10,129)
Provision for losses on accounts receivable	--	--	5,627
Noncash compensation expense	649	636	881
Gain on sale of subsidiary	--	(1,000)	(10,000)
Write down of assets and other charges in connection with discontinued catalog	4,130	4,000	15,000
Changes in operating assets and liabilities:			
Accounts receivable	--	--	(8,242)
Merchandise inventories	(10,739)	26,094	(15,608)
Net assets held for disposal	4,797	4,450	--
Prepaid expenses and other current assets	6,343	16,646	(536)
Other assets	(2,788)	(777)	(2,559)
Accounts payable	8,754	821	7,415
Other liabilities	5,263	12,892	1,931
Federal and state income taxes payable	2,894	3,407	11,029
Net cash provided by operating activities	70,260	94,145	8,054
Cash flows from investing activities:			
Capital expenditures	(55,694)	(48,684)	(41,177)
Proceeds from construction allowances	13,519	7,431	4,823
Proceeds from sale of subsidiary, net of related expenses	-	--	37,157
Net cash provided by (used in) investing activities	(42,175)	(41,253)	803
Cash flows from financing activities:			
(Decrease)/increase in notes payable, bank	--	(14,000)	14,000
Repayment of long-term debt	(34,000)	(10,000)	(26,000)
Proceeds from the issuance of common stock	178	158	320
Proceeds from the issuance of redeemable preferred stock	--	--	300
Repurchase of common stock	(26)	-	--
Net cash used in financing activities	(33,848)	(23,842)	(11,380)
Increase (decrease) in cash and cash equivalents	(5,763)	29,050	(2,523)
Cash and cash equivalents at beginning of year	38,693	9,643	12,166
Cash and cash equivalents at end of year	\$ 32,930	\$ 38,693	\$ 9,643
Supplementary cash flow information:			
Income taxes paid (refunded)	\$ 4,279	\$ (7,570)	\$ (515)
Interest paid	\$ 20,513	\$ 24,792	\$ 27,763
Noncash financing activities:			
Dividends on redeemable preferred stock	\$ 26,484	\$ 22,986	\$ 19,952

See accompanying notes to consolidated financial statements.

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J. CREW GROUP, INC. AND  
SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Deficit

(in thousands, except shares)

	Common stock		Additional paid-in capital	Retained earnings (Deficit)	Treasury stock	Deferred compen- sation	Stock- holders' deficit
	Shares	Amount					
Balance at January 31, 1998	11,661,600	\$ 1	\$68,939	\$ (266,232)	\$ --	\$ (4,350)	\$ (201,642)
Net loss	--	--	--	(15,380)	--	--	(15,380)
Issuance of common stock	47,600	--	320	--	--	--	320
Preferred stock dividends	--	--	--	(19,952)	--	--	(19,952)
Issuance of common stock pursuant to grant of restricted stock, net	487,400	--	1,120	--	--	(1,120)	--
Forfeiture of shares of restricted stock	--	--	--	--	(2,325)	2,325	--
Amortization of restricted stock	--	--	--	--	--	881	881
Balance at January 30, 1999	12,196,600	1	70,379	(301,564)	(2,325)	(2,264)	(235,773)

Net loss	--	--	--	(6,628)	--	--	(6,628)
Issuance of common stock	17,665	--	158	--	--	--	158
Preferred stock dividends	--	--	--	(22,986)	--	--	(22,986)
Amortization of restricted stock	--	--	--	--	--	636	636
Balance at January 29, 2000	<u>12,214,265</u>	<u>\$ 1</u>	<u>\$70,537</u>	<u>\$(331,178)</u>	<u>\$(2,325)</u>	<u>\$(1,628)</u>	<u>\$(264,593)</u>
Net income	--	--	--	11,929	--	--	11,929
Preferred stock dividends	--	--	--	(26,484)	--	--	(26,484)
Issuance of common stock	18,400	--	178	--	--	--	178
Amortization of restricted stock	--	--	--	--	--	649	649
Repurchase of common stock	--	--	--	--	(26)	--	(26)
Balance at February 3, 2001	<u>12,232,665</u>	<u>\$ 1</u>	<u>\$70,715</u>	<u>\$(345,733)</u>	<u>\$(2,351)</u>	<u>\$(979)</u>	<u>\$(278,347)</u>

See accompanying notes to consolidated financial statements.

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J. CREW GROUP, INC. AND  
SUBSIDIARIES

Notes to Consolidated Financial Statements

Years ended February 3, 2001, January 29, 2000 and January 30, 1999

(1) Nature Of Business And Summary Of Significant Accounting Policies

(a) Principles of Consolidation

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

(b) Business

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

The Company is subject to seasonal fluctuations in its merchandise sales and results of operations. The Company expects its sales and operating results generally to be lower in the first and second quarters than in the third and fourth quarters (which include the back-to-school and holiday seasons) of each fiscal year.

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

(c) Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31. The fiscal years 2000, 1999, and 1998 ended on February 3, 2001 (53 weeks), January 29, 2000 (52 weeks) and January 30, 1999 (52 weeks).

(d) Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments, with maturities of 90 days or less when purchased, to be cash equivalents. Cash equivalents, which were \$18,331,000 and \$23,896,000 at February 3, 2001 and January 29, 2000, are stated at cost, which approximates market value.

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J. CREW GROUP, INC. AND  
SUBSIDIARIES

Notes to Consolidated Financial Statements

Years ended February 3, 2001, January 29, 2000 and January 30, 1999

(e) Merchandise Inventories

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

(f) 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. The Company accounts for catalog costs in accordance with the AICPA Statement of Position ("SOP") 93-7, "Reporting on Advertising Costs." SOP 93-7 requires that the amortization of capitalized advertising costs be the amount computed using the ratio that current period revenues for the catalog cost pool bear to the total of current and estimated future period revenues for that catalog cost pool. Deferred catalog costs, included in prepaid expenses and other current assets, as of February 3, 2001 and January 29, 2000 were \$10,600,000 and \$14,300,000. Catalog costs, which are reflected in selling and administrative expenses, for the fiscal years 2000, 1999, and 1998 were \$69,000,000, \$84,077,000, and \$116,515,000.

All other advertising costs are expensed as incurred. Advertising expenses were \$6,671,000 for fiscal year 1999. Advertising costs were not significant in all other years.

(g) Property and Equipment

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

Significant systems development costs are capitalized and amortized on a straight-line basis over periods ranging from three to five years. Approximately \$15.0 million and \$6.0 million of systems development costs were capitalized in fiscal years 2000 and 1999.

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

(h) Other Assets

Other assets consist primarily of debt issuance costs of \$8,703,000 and \$11,282,000 at February 3, 2001 and January 29, 2000, which are amortized over the term of the related debt agreements.

(i) Income Taxes

The provision for income taxes includes taxes currently payable and deferred taxes resulting from the tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes."

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J. CREW GROUP, INC. AND  
SUBSIDIARIES

Notes to Consolidated Financial Statements

Years ended February 3, 2001, January 29, 2000 and January 30, 1999

(j) Revenue Recognition

Revenue is recognized for catalog and internet sales when merchandise is shipped to customers, and at the time of sale for retail sales. 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. Amounts billed to customers for shipping and handling fees related to catalog and internet sales are included in other revenues at the time of shipment.

(k) Store Preopening Costs

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

(l) Derivative Financial Instruments

Derivative financial instruments are used by the Company to manage its interest rate and foreign currency exposures. For interest rate swap agreements, the net interest paid is recorded as interest expense on a current basis. Gains or losses resulting from market fluctuations are not recognized. The Company from time to time enters into forward foreign exchange contracts as hedges relating to identifiable currency positions to reduce the risk from exchange rate fluctuations. Gains and losses on contracts accounted for as hedges are deferred and recognized as adjustments to the bases of those assets. Contracts accounted for as speculative are marked to market and gains and losses are recorded currently. Such gains and losses were not material for the fiscal years ended February 3, 2001, January 29, 2000 and January 30, 1999.

(m) Use of Estimates in the Preparation of Financial Statements

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

(n) Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of

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.

During fiscal 1999 the Company wrote off \$7,018,000 of capitalized computer software costs which were impaired by the Company's decision to adopt an enterprise resource planning system for its future information technology requirements.

(o) Stock Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method of accounting for employee stock options as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation". Accordingly compensation expense is not recorded for options granted if the option price is equal to the fair market price at the date of grant, as determined by management.

(p) Reclassifications

Certain amounts in the prior year have been reclassified to conform with the current year presentation.

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J. CREW GROUP, INC. AND  
SUBSIDIARIES

Notes to Consolidated Financial Statements

Years ended February 3, 2001, January 29, 2000 and January 30, 1999

(2) Shipping and Handling Revenues

In July 2000 the Emerging Issues Task Force of the Financial Accounting Standards Board issued EITF 00-10 "Accounting for Shipping and Handling Fees and Costs", which requires that amounts billed to a customer in a sale transaction related to shipping and handling should be classified as revenues. The Company adopted EITF 00-10 in its consolidated financial statements during the fourth quarter of fiscal 2000 and has restated all comparative prior period financial statements.

Previously, the Company netted shipping and handling fees against third-party shipping costs in cost of sales. Handling costs, including shipping supplies and labor to assemble and ship the product, were included in selling, general and administrative expenses. After the restatement, shipping and handling fees are included in other revenues and shipping and handling costs are included in cost of sales.

(3) Disposal of Businesses

(a) Popular Club Plan

In accordance with a sale agreement dated November 24, 1998 the Company sold all of the capital stock of Popular Club Plan, Inc. and subsidiaries ("PCP") to The Fingerhut Companies, Inc. effective as of October 30, 1998 for gross proceeds of \$42.0 million in cash.

A gain on the sale of PCP of \$10.0 million is included in the statement of operations for fiscal 1998. An additional gain of \$1.0 million was recognized in fiscal 1999 from the reversal of certain estimated liabilities recorded at the date of sale. For the nine months ended October 30, 1998 revenues of \$130.6 million were included in the statement of operations.

(b) Clifford & Wills

In 1998, management of the Company made a decision to exit the catalog and outlet store operations of Clifford & Wills ("C&W"). Revenues of C&W included in the statement of operations for the year ended January 30, 1999 were \$83.8 million. Revenues and expenses for fiscal 1999 and 2000 were not material and as a result have been netted in the accompanying consolidated statement of operations.

The statement of operations for fiscal year 1998 includes a charge of \$13,300,000 to write down assets to net realizable value and provide for other costs to be incurred in the discontinuance of operations including lease termination and severance costs. This loss includes the write down of inventories of \$9,400,000; the estimated loss on cancellation of leases of \$1,000,000, severance costs of \$1,100,000, write down of property and equipment of \$600,000, and other related costs of \$1,200,000. The inventory write down of \$9,400,000 was required due to lower than anticipated recovery rates on the liquidation of these inventories. Additionally fourth quarter charges of \$1,700,000 included in selling expense were incurred relating to deferred catalog costs.

In February 2000 the Company sold certain intellectual property assets 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. After consideration of the proceeds from the sale and other terms of the agreement the Company provided an additional \$4,000,000 to write down inventories to net realizable value as of January 29, 2000.

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J. CREW GROUP, INC. AND  
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Years ended February 3, 2001, January 29, 2000 and January 30, 1999

At February 3, 2001 the Company determined that the realizable value of the remaining net assets of C&W, primarily inventories, was less than their carrying amounts and an additional charge of \$4,130,000 was taken.

(4) Recapitalization Transaction

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

(5) Other Current Liabilities

Other current liabilities consist of:

February 3, January 29,

	2001	2000
	-----	-----
Customer liabilities	\$12,251,000	\$ 8,855,000
Accrued catalog and marketing costs	4,515,000	11,503,000
Taxes, other than income taxes	3,686,000	2,372,000
Accrued interest	4,746,000	4,926,000
Accrued occupancy	2,339,000	6,957,000
Reserve for sales returns	6,530,000	5,011,000
Accrued compensation	11,051,000	7,411,000
Other	30,050,000	23,187,000
	-----	-----
	\$75,168,000	\$70,222,000
	-----	-----

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J. CREW GROUP, INC. AND  
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Notes to Consolidated Financial Statements

Years ended February 3, 2001, January 29, 2000 and January 30, 1999

(6) Long-Term Debt

	February 3, 2001	January 29, 2000
	----	----
Term loan (a)	\$ --	\$ 34,000,000
10-3/8% senior subordinated notes (b)	150,000,000	150,000,000
13-1/8% senior discount debentures (c)	114,292,000	100,684,000
	-----	-----
Total	\$264,292,000	\$284,684,000
	=====	=====

(a) The term loan was subject to the same interest rates and security terms as the Revolving Credit Agreement and was fully repaid in January 2001. Weighted average interest rate was 8.5% at January 29, 2000.

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

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Years ended February 3, 2001, January 29, 2000 and January 30, 1999

(c) The senior discount debentures were issued in aggregate principal amount of \$142.0 million at maturity and mature on October 15, 2008. These debentures are senior unsecured obligations of Holdings. Cash interest will not accrue prior to October 15, 2002. However, the Company records non-cash interest expense as an accretion of the principal amount of the debentures at a rate of 13-1/8% per annum. Interest will be payable in

arrears on April 15 and October 15 of each year subsequent to October 15, 2002. The senior discount debentures may be redeemed at the option of Holdings on or after October 15, 2002 at prices ranging from 106.563% of principal to 100% in 2005 and thereafter.

There are no maturities of long-term debt required during the next five years.

(7) Lines of Credit

On October 17, 1997, the Company entered into a syndicated revolving credit agreement of up to \$200.0 million (the "Revolving Credit Agreement") with a group of banks. This agreement was amended on March 18, 1998, November 23, 1998 and April 20, 1999. Borrowings may be utilized to fund the working capital requirements of the Company including issuance of stand-by and trade letters of credit and bankers' acceptances.

Borrowings are secured by a perfected first priority security interest in all assets of the Company's subsidiaries and bear interest, at the Company's option, at a base rate equal to the Administrative Agent's Eurodollar rate plus an applicable margin or an alternate base rate equal to the highest of the Administrative Agent's prime rate, a certificate of deposit rate plus 1% or the Federal Funds effective rate plus one-half of 1% plus, in each case, an applicable margin. The Revolving Credit Agreement matures on October 17, 2003.

Maximum borrowings under revolving credit agreements were \$34,000,000, \$58,000,000 and \$104,000,000 during fiscal years 2000, 1999 and 1998 and average borrowings were \$9,800,000, \$30,800,000, and \$47,500,000. There were no borrowings outstanding at February 3, 2001 and January 29, 2000.

Outstanding letters of credit established to facilitate international merchandise purchases at February 3, 2001 and January 29, 2000 amounted to \$50,948,000 and \$38,315,000.

The provisions of the Revolving Credit Agreement, as amended, require that the Company maintain certain levels of (i) leverage ratio, (ii) interest coverage ratio and (iii) inventory coverage ratio; provide for limitations on capital expenditures, sale and leaseback transactions, liens, investments, sales of assets and indebtedness; and prohibit the payment of cash dividends on shares of common stock.

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J. CREW GROUP, INC. AND  
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Years ended February 3, 2001, January 29, 2000 and January 30, 1999

(8) Common Stock

The restated certificate of incorporation authorizes Holdings to issue up to 100,000,000 shares of common stock; par value \$.01 per share. At February 3, 2001, shares issued were 12,232,665 and shares outstanding were 11,743,265. In April 1999 the Board of Directors approved a 200 for 1 stock split of its common stock in the form of a stock dividend. During 1998 directors acquired 30,000 shares of common stock and converted fees into 17,600 shares of common stock. During 1999 and 2000 directors converted fees into 17,665 shares and 16,400 shares of common stock.

(9) Redeemable Preferred Stock

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

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

In connection with the Recapitalization, Holdings issued 92,500 shares of Series A Preferred Stock and 32,500 shares of Series B Preferred Stock. During 1998 directors acquired 300 shares of preferred stock at \$1,000 per share.

The Preferred Stock accumulates dividends at the rate of 14.5% per annum (payable quarterly) for periods ending on or prior to October 17, 2009. Dividends compound to the extent not paid in cash. On October 17, 2009, Holdings is required to redeem the Series B Preferred Stock and to pay all accumulated but unpaid dividends on the Series A Preferred Stock. Thereafter, the Series A Preferred Stock will accumulate dividends at the rate of 16.5% per annum. Subject to restrictions imposed by certain indebtedness of the Company, Holdings may redeem shares of the Preferred Stock at any time at redemption prices ranging from 103% of liquidation value plus accumulated and unpaid dividends at October 17, 1998 to 100% of liquidation value plus accumulated and unpaid dividends at October 17, 2000 and thereafter. In certain circumstances (including a change of control of Holdings), subject to restrictions imposed by certain indebtedness of the Company, Holdings may be required to repurchase shares of the Preferred Stock at liquidation value plus accumulated and unpaid dividends.

Accumulated but unpaid dividends amounted to \$75,018,000 at February 3, 2001. Dividends are recorded as an increase to redeemable preferred stock and a reduction of retained earnings.

(10) Commitments and Contingencies

(a) Operating Leases

As of February 3, 2001, the Company was obligated under various long-term operating leases for retail and outlet stores, warehouses, office space and equipment requiring minimum annual rentals. These operating leases expire on varying dates through 2012. At February 3, 2001 aggregate minimum rentals in future periods are, as follows:

Fiscal year	Amount
-----	-----
2001	\$ 42,131,000
2002	40,095,000
2003	38,917,000
2004	35,864,000
2005	33,212,000
Thereafter	139,432,000

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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 2000, 1999, and 1998 was \$45,138,000, \$39,474,000, and \$42,347,000, including contingent rent based on store sales of \$1,974,000, \$2,600,000, and \$3,270,000.

(b) Employment Agreements

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

(c) Litigation

The Company is 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 the ultimate resolution of these matters will have a material adverse effect on the Company's financial condition or results of operations.

(11) Employee Benefit Plan

The Company has a thrift/savings plan pursuant to Section 401 of the Internal Revenue Code whereby all eligible employees may contribute up to 15% of their annual base salaries subject to certain limitations. The Company's contribution is based on a percentage formula set forth in the plan agreement. Company contributions to the thrift/savings plan were \$1,241,000, \$1,320,000 and \$1,780,000 for fiscal 2000, 1999 and 1998.

(12) License Agreement

The Company has a licensing agreement through January 2003 with Itochu Corporation, a Japanese trading company. The agreement permits Itochu to distribute J. Crew merchandise in Japan. The Company earns royalty payments under the agreement based on the sales of its merchandise. Royalty income, which is included in other revenues, for fiscal 2000, 1999, and 1998 was \$3,020,000, \$2,505,000, and \$2,712,000.

(13) Interest Expense - Net

Interest expense, net consists of the following:

	2000	1999	1998
	----	----	----
Interest expense	\$34,390,000	\$36,903,000	\$38,260,000
Amortization of deferred financing costs	2,793,000	2,196,000	2,119,000
Interest income	(541,000)	(238,000)	(1,056,000)
	-----	-----	-----
Interest expense, net	\$36,642,000	\$38,861,000	\$39,323,000
	-----	-----	-----

Interest expense in fiscal 1999 includes \$1,029,000 incurred in connection with the settlement of a sales and use tax assessment. Interest income in fiscal 1998 includes \$979,000 related to a federal income tax refund.

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J. CREW GROUP, INC. AND  
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Years ended February 3, 2001, January 29, 2000 and January 30, 1999

(14) Other Revenues

Other revenues consist of the following:

	2000 ----	1999 ----	1998 ----
Shipping and handling fees	\$35,297,000	\$34,072,000	\$46,584,000
Royalties	3,020,000	2,505,000	2,712,000
Finance charge income	--	--	5,325,000
	-----	-----	-----
	\$38,317,000	\$36,577,000	\$54,621,000
	=====	=====	=====

(15) Financial Instruments

The following disclosure about the fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." The fair value of the Company's long-term debt is estimated to be approximately \$202,793,000 and \$235,215,000 at February 3, 2001 and January 29, 2000, and is based on dealer quotes or quoted market prices of the same or similar instruments. The carrying amounts of long-term debt were \$264,292,000 and \$284,684,000 at February 3, 2001 and January 29, 2000. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, notes payable-bank, 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.

(16) Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". This statement requires the use of the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

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The income tax provision/benefit consists of:

	2000 ----	1999 ----	1998 ----
Current:			
Foreign	\$ 300,000	\$ 250,000	\$ 270,000
Federal	6,253,000	3,100,000	600,000
State and local	920,000	1,440,000	1,097,000
	-----	-----	-----
	7,473,000	4,790,000	1,967,000
	-----	-----	-----
Deferred - Federal, state and local	27,000	(6,840,000)	(10,129,000)
	-----	-----	-----
Total	\$7,500,000	\$(2,050,000)	\$(8,162,000)
	=====	=====	=====

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

	2000 -----	1999 -----	1998 -----
Federal income tax rate	35.0%	(35.0)%	(35.0)%
State and local income taxes, net of federal benefit	7.6	7.0	(1.4)
Nondeductible expenses and other	(4.0)	4.4	1.7
	-----	-----	-----
Effective tax rate	38.6%	(23.6)%	(34.7)%
	=====	=====	=====

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

	February 3, 2001 ----	January 29, 2000 ----
Deferred tax assets:		
Original issue discount	\$ 15,007,000	\$ 8,629,000
State and local net operating loss carryforwards	1,900,000	3,034,000
Reserve for sales returns	2,625,000	2,012,000
Other	3,412,000	2,298,000
	-----	-----
	22,944,000	15,973,000
	-----	-----
Deferred tax liabilities:		
Prepaid catalog and other prepaid expenses	(8,026,000)	(8,870,000)
Difference in book and tax basis for property and equipment	(5,957,000)	1,885,000
	-----	-----
	(13,983,000)	(6,985,000)
	-----	-----
Net deferred income tax asset	\$ 8,961,000	\$ 8,988,000
	=====	=====

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Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets. The Company has state and local income tax net operating loss carryforwards of varying amounts.

(17) Stock Options

The J. Crew Group, Inc. Stock Option Plan (the "Option Plan") was adopted by the Company in 1997. Under the terms of the Option Plan, an aggregate of 1,910,000 shares are available for grant to certain key employees or consultants. The options have terms of seven to ten years and become exercisable over a period of five years. Options granted under the Option Plan are subject to various conditions, including under some circumstances, the achievement of certain performance objectives.

A summary of stock option activity for the Plan was, as follows:

	2000		1999		1998	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	1,532,800	\$ 8.87	997,200	\$8.00	786,800	\$8.31
Granted	374,700	10.17	772,800	9.47	431,000	6.82
Exercised	(2,000)	6.82	-	-	-	-
Cancelled	(116,750)	8.72	(237,200)	7.14	(220,600)	6.82
Outstanding, end of year	1,788,750	\$ 9.15	1,532,800	\$8.87	997,200	\$8.00
Options exercisable at end of year	583,000	\$ 9.24	318,040	\$7.97	189,460	\$7.06

(18) Employee Restricted Stock

Under the terms of employment agreements with several key executives 661,600 shares of restricted stock were awarded in fiscal 1997 and 487,400 shares in fiscal 1998. These shares vest through October 2002. Deferred compensation of \$5,620,000 was credited to additional paid in capital. Deferred compensation is charged to expense over the vesting period.

In connection with the termination of an executive in 1998, 487,400 shares were forfeited and deferred compensation of \$2,325,000 was reversed and the shares were reacquired as treasury stock.

(19) Termination costs and other non-recurring employment contract charges

Charges of \$2,850,000 were incurred in fiscal 1998 in connection with the termination of the employment contracts of two senior executives including the former Chief Executive Officer. Additionally, during fiscal 1998, tax gross-up payments of \$5,145,000 were made on behalf of senior executives relating to restricted stock grants.

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J. CREW GROUP, INC. AND  
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Years ended February 3, 2001, January 29, 2000 and January 30, 1999

(20) Segment Information

The Company designs, contracts to manufacture and markets men's, women's, and children's apparel, accessories and home furnishings primarily under Company owned brand names. The brands are marketed through various channels of distribution including retail and factory outlet stores, catalogs, the Internet and licensing arrangements with third parties. These operations have been aggregated into three reportable segments based on brand identification: J. Crew, Clifford & Wills and Popular Club Plan. Management evaluates the results of operations of its segments based on income from operations.

All of the Company's identifiable assets are located in the United States. Export sales are not significant.

During 1998, the Company sold PCP to The Fingerhut Companies, Inc. and decided to discontinue the operations of its C&W brand. The revenues and

operating income of PCP are included through October 30, 1998 and through January 30, 1999 for C&W.

Income from operations relating to Clifford & Wills for fiscal 1998 includes a non cash write-down of \$13,300,000 relating to the discontinuance of C&W operations and \$1,700,000 of fourth quarter charges to write off deferred catalog costs. Fiscal 1999 and 2000 include additional charges of \$4,000,000 and \$4,130,000 primarily to write down inventories to net realizable value. (See note 3 to the consolidated financial statements).

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J. CREW GROUP, INC. AND  
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Corporate and other expenses include expenses incurred by the corporate office and certain non-recurring expenses that are not allocated to specific business units. Corporate and other expenses in fiscal 1999 include the write off of impaired software development costs. Corporate and other expenses in fiscal 1998 include tax gross-up payments related to restricted stock grants and employee contract termination costs.

Segment assets represent the assets used directly in the operations of each business unit such as inventories and property and equipment. Corporate assets consist principally of investments, deferred financing costs and certain capitalized software.

The accounting policies used for segment reporting are consistent with those described in the summary of significant accounting policies.

	[\$ in thousands]		
Revenues	2000	1999	1998
	----	----	----
J. Crew	\$825,975	\$750,696	\$656,472
Clifford & Wills	--	--	83,796
PCP	--	--	130,574
	-----	-----	-----
	825,975	750,696	870,842
	=====	=====	=====
Income from operations			
J. Crew	61,094	41,052	34,736
Clifford & Wills	(4,130)	(4,000)	(16,694)
PCP	--	--	(2,701)
Corporate and other expenses	(893)	(7,869)	(9,560)
	-----	-----	-----
Income from operations	56,071	29,183	5,781
	-----	-----	-----
Interest expense, net	(36,642)	(38,861)	(39,323)
Gain on sale of PCP	--	1,000	10,000
Income/(loss) before income taxes	19,429	\$ (8,678)	\$ (23,542)
	=====	=====	=====
Depreciation and amortization			
J. Crew	\$ 22,448	\$ 19,051	\$ 14,455

Clifford & Wills	--	--	327
PCP	--	--	1,015
Corporate	152	190	175
	-----	-----	-----
	\$ 22,600	\$ 19,241	\$ 15,972
	=====	=====	=====

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Years ended February 3, 2001, January 29, 2000 and January 30, 1999

Identifiable assets	2000	1999	1998
	----	----	----
J. Crew	\$342,541	\$305,552	\$324,949
Clifford & Wills	--	8,927	17,377
Corporate	47,320	59,125	34,004
	-----	-----	-----
	\$389,861	\$373,604	\$376,330
	=====	=====	=====

Capital expenditures (net of disposals)

J. Crew	\$ 55,394	\$ 39,435	\$ 34,084
Clifford & Wills	--	--	(59)
PCP	--	--	5,264
Corporate	300	9,249	1,888
	-----	-----	-----
	\$ 55,694	\$ 48,684	\$ 41,177
	=====	=====	=====

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(21) Quarterly Financial Information (Unaudited)

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(\$ in millions)

	13 weeks ended	13 weeks ended	13 weeks ended	14 weeks ended	53 weeks ended
	4/29/00	7/29/00	10/28/00	2/3/01 (a)	2/3/01
	-----	-----	-----	-----	-----
Net sales	\$ 158.0	\$ 162.2	\$ 194.0	\$273.5	\$ 787.7
Gross profit	72.8	71.0	90.2	128.1	362.1
Net income (loss)	\$ (5.2)	\$ (5.1)	\$ 4.5	\$ 17.7	\$ 11.9
	13 weeks ended	13 weeks ended	13 weeks ended	13 weeks ended	52 weeks ended
	5/1/99	7/31/99	10/30/99	1/29/00 (b)	1/29/00
	-----	-----	-----	-----	-----

Net sales	\$ 142.3	\$ 148.0	\$ 173.7	\$250.1	\$ 714.1
Gross profit	63.6	60.8	77.7	117.4	319.5
Net income (loss)	\$ (8.0)	\$ (6.7)	\$ 1.1	\$ 7.0	\$ (6.6)

(a) includes \$4.1 million writedown of net assets of C&W.

(b) includes \$4.0 million writedown of net assets of C&W and \$6.3 million writeoff of software development costs.

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SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

	beginning balance	charged to cost and expenses	charged to other accounts	deductions	ending balance
	(\$ in thousands)				
<u>Allowance for doubtful accounts</u>					
(deducted from accounts receivable)					
fiscal year ended:					
January 30, 1999	\$5,438	\$ 5,627	\$ --	\$ (5,486) (a) (5,579) (c)	\$ --
<u>Inventory reserve</u>					
(deducted from inventories)					
fiscal year ended:					
February 3, 2001	\$4,447	\$ 2,913(b)	\$ --	\$ --	\$7,360
January 29, 2000	6,122	(1,675) (b)	--	--	4,447
January 30, 1999	4,400	4,929(b)	--	(2,200) (c) (1,007) (d)	6,122
<u>Allowance for sales returns</u>					
(included in other current liabilities)					
fiscal year ended:					
February 3, 2001	\$5,011	\$ 1,519(b)	\$ --	\$ --	\$6,530
January 29, 2000	3,473	1,538(b)	--	--	5,011
January 30, 1999	3,529	844(b)	--	500 (c) 400 (d)	3,473

(a) accounts deemed to be uncollectible

(b) 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.

(c) charged to gain on sale of Popular Club Plan, Inc.

(d) reclassified to net assets held for disposal (relating to discontinuance of Clifford & Wills operation)

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EXHIBIT INDEX

Exhibit No.	Description
--	-----
3.1	Restated Certificate of Incorporation of J. Crew Group, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-4, File No. 333-42427, filed December

16, 1997 (the "Registration Statement")).

- 3.2\* By-laws of J. Crew Group, Inc., as amended.
- 4.1 Indenture, dated as of October 17, 1997, between J. Crew Group, Inc., as issuer, and State Street Bank and Trust Company, as trustee, relating to the Debentures (incorporated by reference to Exhibit 4.3 to the Registration Statement).
- 4.2(a) Credit Agreement, dated as of October 17, 1997 ("Credit Agreement"), among J. Crew Group, Inc., J. Crew Operating Corp., the Lenders Party thereto, the Chase Manhattan Bank, as Administrative Agent, and Donaldson, Lufkin & Jenrette Securities Corporation, as Syndication Agent (incorporated by reference to Exhibit 4.5 to Amendment No. 1 to the Registration Statement, filed February 6, 1998).
- 4.2(b) Amendment, dated as of November 23, 1998, to the Credit Agreement (incorporated by reference to Exhibit 4.2(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 30, 1999 (the "1998 Form 10-K")).
- 4.2(c) Amendment, dated as of March 18, 1998, to the Credit Agreement (incorporated by reference to Exhibit 4.2(c) of the 1998 Form 10-K).
- 4.2(d) Amendment and Restatement Agreement, dated as of April 20, 1999, relating to the Credit Agreement (incorporated by reference to Exhibit 4.2(d) of the 1998 Form 10-K).
- 4.3 Guarantee Agreement, dated as of October 17, 1997, among J. Crew Group, Inc., the subsidiary guarantors of J. Crew Operating Corp. that are signatories thereto and The Chase Manhattan Bank (incorporated by reference to Exhibit 4.6 to the Registration Statement).
- 4.4 Indemnity, Subrogation and Contribution Agreement, dated as of October 17, 1997, among J. Crew Operating Corp., the subsidiary guarantors of J. Crew Operating Corp. that are signatories thereto and The Chase Manhattan Bank (incorporated by reference to Exhibit 4.7 to the Registration Statement).
- 4.5 Pledge Agreement, dated as of October 17, 1997, among J. Crew Operating Corp., J. Crew Group, Inc., the subsidiary guarantors of J. Crew Operating Corp. that are signatories thereto and The Chase Manhattan Bank (incorporated by reference to Exhibit 4.8 to the Registration Statement).
- 4.6 Security Agreement, dated as of October 17, 1997, among J. Crew Operating Corp., J. Crew Group, Inc., the subsidiary guarantors of J. Crew Operating Corp. that are signatories thereto and The Chase Manhattan Bank (incorporated by reference to Exhibit 4.9 to the Registration Statement).
- 4.7 Registration Rights Agreement, dated as of October 17, 1997, by and among J. Crew Group, Inc., Donaldson, Lufkin & Jenrette Securities Corporation and Chase Securities Inc. (incorporated by reference to Exhibit 4.10 to the Registration Statement).

NOTE: Pursuant to the provisions of paragraph (b)(4)(iii) of Item 601 of Regulation S-K, the Registrant hereby undertakes to furnish to the Commission upon request copies of the instruments pursuant to which various entities hold long-term debt of the Company or its parent or subsidiaries, none of which instruments govern indebtedness exceeding 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis.

No. --	Description -----
10.1(a)+	Employment Agreement, dated October 17, 1997, among J. Crew Group, Inc., J. Crew Operating Corp., TPG Partners II, L.P. (only with respect to Section 2(c) therein) and Emily Woods (the "Woods Employment Agreement") (incorporated by reference to Exhibit 10.1 to the Registration Statement).
10.1(b)+	Letter Agreement, dated February 4, 2000, between J. Crew Group, Inc. and Emily Woods (incorporated by reference to Exhibit 10.1 (b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 29, 2000 (the "1999 Form 10-K")).
10.2+	J. Crew Operating Corp. Senior Executive Bonus Plan (included as Exhibit A to the Woods Employment Agreement filed as Exhibit 10.1(a) above).
10.3+	Stock Option Grant Agreement, made as of October 17, 1997, between J. Crew Group, Inc. and Emily Woods (time based) (incorporated by reference to Exhibit 10.3 to the Registration Statement).
10.4+	Stock Option Grant Agreement, made as of October 17, 1997, between J. Crew Group, Inc. and Emily Woods (performance based) (incorporated by reference to Exhibit 10.4 to the Registration Statement).
10.5(a)+	Employment Agreement, dated May 3, 1999, between J.Crew Group, Inc. and Mark Sarvary (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended May 1, 1999).
10.5(b)+	Letter Agreement, dated August 9, 1999, between Mark Sarvary and J. Crew Operating Corp. (incorporated by reference to Exhibit 10.5(b) to the 1999 Form 10-K).
10.6+	Agreement, dated September 30, 1999, between J. Crew Operating Corp. and Carol Sharpe (incorporated by reference to Exhibit 10.6 to the 1999 Form 10-K).
10.7+ *	Employment Agreement, dated February 18, 2000, between J. Crew Operating Corp. and Trudy Sullivan.
10.8(a)+ *	Employment Agreement, dated April 18, 1999, between J. Crew Group, Inc. and Richard Anders.
10.8(b)+ *	Letter Agreement, dated January 29, 2001, between J. Crew Group, Inc. and Richard Anders.
10.9	Stockholders' Agreement, dated as of October 17, 1997, among J. Crew Group, Inc. and the Stockholder signatories thereto (incorporated by reference to Exhibit 4.1 to the Registration Statement).
10.10	Stockholders' Agreement, dated as of October 17, 1997, among J. Crew Group, Inc., TPG Partners II, L.P. and Emily Woods (included as Exhibit B to the Woods Employment Agreement filed as Exhibit 10.1 to the Registration Statement).
10.11(a)+	J. Crew Group, Inc. 1997 Stock Option Plan (the "1997 Plan") (incorporated by reference to Exhibit 10.13 to the Registration Statement).
10.11(b)+*	Amendment to the 1997 Plan, dated July 24, 2000.
10.11(c)+*	Amendment to the 1997 Plan, dated February 2, 2001.

Exhibit

No.	Description
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10.12	Agreement, dated August 14, 1997, between R.R. Donnelley & Sons Company and J. Crew Inc. (incorporated by reference to Exhibit 10.11 to the Registration Statement).
21.1	Subsidiaries of J. Crew Group, Inc. (incorporated by reference to Exhibit 21.1 to the 1999 Form 10-K).

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+Management contract or compensatory plan or arrangement.

\* Filed herewith

J. CREW GROUP, INC.

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BY- LAWS  
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ARTICLE I  
The Corporation  
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Section 1.01. Name. The legal name of this corporation (hereinafter  
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called the "Corporation") is J. Crew Group, Inc.

Section 1.02. Offices. The Corporation shall have its principal  
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office in the City of New York, County of New York, State of New York. The Corporation may also have offices at such other places within and without the State of New York as the Board of Directors may from time to time appoint or as the business of the Corporation may require.

Section 1.03. Seal. The corporate seal shall have inscribed thereon  
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the name of the Corporation, the year of its organization and the words "Corporate Seal, New York." One or more duplicate dies for impressing such seal may be kept and used.

ARTICLE II  
Meetings of Shareholders  
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Section 2.01. Place of Meetings. All meetings of the shareholders  
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shall be held at the principal office of the Corporation in the State of New York, or at such other place, within or without the State of New York, as may be fixed in the notice of the meeting.

Section 2.02. Annual Meeting. An annual meeting of the shareholders  
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of the Corporation for the election of directors and the transaction of such other business as may properly come before the meeting shall be held on the second Tuesday in May in each year if not a legal holiday, and if a legal holiday, then on the next business day following, at such time as may be fixed in the notice of the meeting. If for any reason any annual meeting shall not be held at the time herein specified, the same may be held at any time thereafter upon notice, as herein provided, or

the business thereof may be transacted at any special meeting called for the purpose.

Section 2.03. Special Meetings. Special meetings of shareholders  
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may be called by the Chairman of the Board or the President whenever he deems it necessary or advisable, and shall be called by the Chairman of the Board or the President or the Secretary upon the written request of a majority of the entire Board of Directors or of the holders of one-third of the number of shares of the Corporation entitled to vote at such meeting.

Section 2.04. Notice of Meetings. Written notice of all meetings  
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stating the place, date and hour of the meeting shall be given to each shareholder entitled to vote at such meeting personally or by first class mail, not fewer than ten nor more than fifty days before the date of the meeting. Notice of each special meeting shall state the purpose or purposes for which the meeting is called and shall indicate that it is being called by or at the direction of the person or persons calling the meeting. If, at any meeting, action is proposed to be taken which would, if taken, entitle shareholders fulfilling the requirements of Section 623 of the New York Business Corporation Law to receive payment for their shares, the notice of such meeting shall include a statement of that purpose and to that effect. If mailed, a notice of meeting shall be deemed given when deposited in the United States mail, with postage prepaid, directed to the shareholder at his address as it appears on the record of shareholders, or at such other address for mailing of notices as any shareholder may in writing file with the Secretary of the Corporation. Notice of a meeting need not be given to any shareholder who submits a signed waiver of notice, in person or by proxy, whether before or after the meeting. The attendance of a shareholder at a meeting, in person or by proxy, without protesting prior to the conclusion of the meeting the lack of notice of such meeting, shall constitute a waiver of notice by him.

Section 2.05. Record Date for Shareholders. For the purpose of  
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determining the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to or dissent from any proposal without a meeting, or for the purpose of determining shareholders entitled to receive payment of any dividend or the allotment of any rights or for the purpose of any other action, the Board of Directors may fix, in advance, a record date, which shall not be more than fifty nor less than ten days before the date of such meeting, nor more than fifty days prior to any other action. If no record date is fixed, the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next

preceding the day on which notice is given, or, if no notice is given, the day on which the meeting is held; the record date for determining shareholders entitled to express consent to or dissent from any proposal without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent or dissent, as the case may be, is expressed; and the record date for determining shareholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of shareholders of record entitled to notice of or to vote at any meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 2.06. Proxy Representation. Every shareholder may authorize  
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another person or persons to act for him by proxy in all matters in which a shareholder is entitled to participate, whether by waiving notice of any meeting, voting or participating at a meeting, or expressing consent or dissent without a meeting. Every proxy must be signed by the shareholder or by his attorney-in-fact. No proxy shall be valid after the expiration of eleven months from the date thereof unless such proxy provides for a longer period. Every proxy shall be revocable at the pleasure of the shareholder executing it, except as may be otherwise provided by law.

Section 2.07. Voting at Shareholders' Meetings. Except as otherwise  
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provided by statute or by the Certificate of Incorporation, each outstanding share of stock having voting power shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders. Directors shall be elected by the vote of the holders of a plurality of the shares present at a meeting and entitled to vote in the election. Unless otherwise provided by statute, any other corporate action shall be authorized by the vote of the holders of a majority of the shares present at a meeting of shareholders and entitled to vote

thereon. Voting need not be by ballot.

Section 2.08. Quorum and Adjournment. Except as otherwise provided

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by statute or by the Certificate of Incorporation, the holders of a majority of the shares of the Corporation shall constitute a quorum for the transaction of any business. When a quorum is once present to organize a meeting, it shall not be broken by the subsequent withdrawal of any shareholders. If a quorum is not present or represented at any meeting of the shareholders, the shareholders present in person or represented by proxy shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such

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adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 2.09. List of Shareholders. The officer who has charge of

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the record of shareholders of the Corporation shall prepare, make and certify, at least ten days before every meeting of shareholders, a complete list of the shareholders, as of the record date fixed for such meeting, arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in each shareholder's name. Such list shall be open to the examination of any shareholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, at the principal office of the Corporation or at a place within the city, municipality or community where the meeting is to be held, and shall be available for the examination of any shareholder at the place and during the time of the meeting. If the right of any shareholder to vote at any meeting is challenged, the inspectors of election, if any, or the person presiding, shall require such list of shareholders to be produced as evidence of the right of the persons challenged to vote, and all persons who appear from such list to be shareholders entitled to vote thereat may vote at such meeting.

Section 2.10. Action of the Shareholders Without a Meeting. Whenever

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shareholders are required or permitted to take any action by vote, such action may be taken without a meeting on written consent, setting forth the action so taken, signed by the holders of all of the outstanding shares entitled to vote thereon.

ARTICLE III  
Directors

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Section 3.01. Number of Directors. The number of directors which

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shall constitute the entire Board of Directors shall not be less than three nor more than eleven. Subject to the foregoing limitation, the number of directors may be fixed from time to time by action of a majority of the entire Board of Directors or of the shareholders at an annual or special meeting, or, if the number of directors is not so fixed, the number shall be four.

Section 3.02. Election and Term. The initial Board of Directors

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shall be elected by the incorporator and the initial directors so elected shall hold office until the first annual meeting of shareholders and until their successors have been elected and qualified. Thereafter, each director who is elected at an annual meeting of shareholders, and each director who is

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elected in the interim to fill a vacancy or a newly created directorship, shall

hold office until the next annual meeting of shareholders and until his successor has been elected and qualified.

Section 3.03. Filling Vacancies, Resignation and Removal. Any  
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director may be removed, with or without cause, by vote of the shareholders. In the interim between annual meetings of shareholders or special meetings of shareholders called for the election or removal of one or more directors, newly created directorships and any vacancies in the Board of Directors, including vacancies resulting from the resignation or removal of directors, may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum, or by the sole remaining director.

Section 3.04. Qualifications and Powers. Each director shall be at  
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least eighteen years of age. A director need not be a shareholder, a citizen of the United States or a resident of the State of New York. The business of the Corporation shall be managed by the Board of Directors, subject to the provisions of the certificate of incorporation. In addition to the powers and authorities expressly conferred upon it by these bylaws, the Board may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these bylaws directed or required to be exercised or done exclusively by the shareholders.

Section 3.05. Regular and Special Meetings of the Board. The Board  
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of Directors may hold its meetings, regular or special, within or without the State of New York. The annual meeting of the Board of Directors shall be held immediately after, and at the same place as, the annual meeting of shareholders. No notice shall be required for regular meetings of the Board of Directors for which the time and place have been fixed. Special meetings of the Board may be called by or at the direction of the Chairman of the Board, the President, any Vice President, the Secretary or a majority of the directors in office, upon three days notice to each director, delivered personally, sent by telegraph or mailed to each director at his residence or usual place of business. Meetings of the Board, regular or special, may be held at any time and place, and for any purpose, without notice, when all the directors are present or when all directors not present, before or after such meeting, in writing waive notice of the holding of such meeting. Any requirement of furnishing a notice shall be waived by any director who attends any meeting of the Board without protesting, prior thereto or at its commencement, the lack of notice to him.

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Section 3.06. Chairman. At the Annual Meeting of Directors, the  
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Board shall elect from its members a Chairman of the Board who shall hold office until the Annual Meeting of Directors next succeeding his election. At all other meetings of the Board of Directors, the Chairman of the Board, or in his absence the President, shall preside. At all meetings of the stockholders the Chairman of the Board, or in his absence the President, shall preside.

Section 3.07. Quorum and Action. A majority of the directors shall  
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constitute a quorum of the Board of Directors. Except as otherwise provided by the New York Business Corporation Law, the vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board. A majority of the directors present at the time and place of any regular or special meeting, although less than a quorum, may adjourn the same from time to time without further notice, until a quorum shall be present.

Section 3.08. Telephonic Meetings. Any member or members of the  
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Board of Directors, or of any committee designated by the Board, may participate in a meeting of the Board, or any such committee, as the case may be, by means of conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time, and

participation in a meeting by such means shall constitute presence in person at such meeting.

Section 3.09. Action Without a Meeting. Any action required or

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permitted to be taken by the Board of Directors, or any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent in writing to the adoption of a resolution authorizing the action. The resolution and the written consents thereto by the members of the Board or committee shall be filed with the minutes of proceedings of the Board or committee.

Section 3.10. Compensation of Directors. By resolution of the Board

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of Directors, the directors may be paid their expenses, if any, for attendance at each regular or special meeting of the Board or of any committee designated by the Board and may be paid a fixed sum for attendance at such meeting, or a stated salary as director, or both. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor; provided, however, that directors who are also salaried officers shall not receive fees or salaries as directors.

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ARTICLE IV  
Committees

Section 4.01. In General. The Board of Directors may, by resolution

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or resolutions passed by the affirmative vote of a majority of the entire Board, designate an Executive Committee and such other committees as the Board may from time to time determine, each to consist of one or more directors, and each of which, to the extent provided in the resolution or in the certificate of incorporation or in the bylaws, shall have all the powers of the Board, except that no such committee shall have power to fill vacancies in the Board, or to change the membership of or to fill vacancies in any committee, or to make, amend, repeal or adopt By-laws of the Corporation, or to submit to the shareholders any action that needs shareholder approval under these By-laws or the New York Business Corporation Law, or to fix the compensation of the directors for serving on the Board or any committee thereof, or to amend or repeal any resolution of the Board which by its terms shall not be so amendable or repealable. Each committee shall serve at the pleasure of the Board. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

ARTICLE V  
Officers

Section 5.01. Designation, Term and Vacancies. The officers of the

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Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents (one or more of whom may be designated as Executive Vice President), a Secretary, a Treasurer, and such other officers as the Board of Directors may from time to time deem necessary. Such officers may have and perform the powers and duties usually pertaining to their respective offices, the powers and duties respectively prescribed by law and by these bylaws, and such additional powers and duties as may from time to time be prescribed by the Board. The same person may hold any two or more offices, except that the offices of President and Secretary may not be held by the same person unless all the issued and outstanding stock of the Corporation is owned by one person, in which instance

such person may hold all or any combination of offices.

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The initial officers of the Corporation shall be appointed by the initial Board of Directors. Thereafter, the officers of the Corporation shall be appointed by the Board as soon as practicable after the election of the Board at the annual meeting of shareholders, and shall hold office until the regular annual meeting of the Board of Directors following their appointment and until their successors have been appointed and qualified; provided, however, that the Board of Directors may remove any officer at any time, with or without cause. Vacancies occurring among the officers of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

Section 5.02. Chairman. The Chairman of the Board, who shall be  
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elected from among the Directors, shall preside at all meetings of the stockholders and the Board of Directors. The Chairman shall have such other powers and duties as the Board of Directors may from time to time assign to him or her.

Section 5.03. President. The President of the Corporation shall be  
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the administrative officer of the Corporation and, as such, shall manage its operations, perform all the duties incident to his office, and shall see that all orders and resolutions of the Board of Directors are carried into effect. In the event of the absence or the disability of the Chairman of the Board, he shall act in his place and assume his duties.

Section 5.04. Vice-Presidents. During the absence or disability of  
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the President, the Vice-President or, if there be more than one, a Vice-President or Executive Vice-President designated by the Board of Directors, shall exercise all the functions of the President and, when so acting, shall have all the powers of and be subject to all restrictions upon the President. Each Vice-President shall have such powers and discharge such duties as may be assigned to him from time to time by the Board of Directors.

Section 5.05. Secretary. The Secretary shall have custody of the  
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seal of the Corporation and when required by the Board of Directors, or when any instrument shall have been signed by the President or by any other officer duly authorized to sign the same, or when necessary to attest any proceedings of the shareholders or directors, shall affix it to any instrument requiring the same and shall attest the same with his signature, provided that the seal may be affixed by the President or any Vice President or other officer of the Corporation to any document executed by either of them respectively on behalf of the Corporation which does not require the attestation of the Secretary. He shall attend to the giving and serving of notices

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of meetings. He shall have charge of such books and papers as properly belong to his office or as may be committed to his care by the Board of Directors. He shall perform such other duties as appertain to his office or as may be required by the Board of Directors.

Section 5.06. Assistant Secretaries. Whenever requested by or in the  
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absence or disability of the Secretary, the Assistant Secretary designated by the Secretary (or in the absence of such designation, the Assistant-Secretary designated by the Board of Directors) shall perform all the duties of the Secretary and when so acting shall have all the powers of, and be subject to all the restrictions upon, the Secretary.

Section 5.07. Treasurer. The Treasurer shall render to the President  
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or the Board of Directors whenever requested a statement of the financial condition of the Corporation and of all his transactions as Treasurer, and render a full financial report at the annual meeting of the stockholders if called upon to do so and perform such duties as are given to him by these By-laws or as from time to time may be assigned to him by the Board of Directors or the President.

Section 5.08. Assistant Treasurer. Whenever requested by or in the  
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absence or disability of the Treasurer, the Assistant Treasurer designated by the Treasurer (or in the absence of such designation, the Assistant-Treasurer designated by the Board of Directors) shall perform all the duties of the treasurer, and when so acting, shall have all the powers of, and be subject to all the restrictions upon, the Treasurer.

Section 5.09. Subordinate Officers and Agents. The Board of  
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Directors may from time to time appoint such other officers and agents as it may deem necessary or advisable, to hold office for such period, have such authority and perform such duties as the Board of Directors may from time to time determine. The Board of Directors may delegate to any officer or agent the power to appoint any such subordinate officers or agents and to prescribe their respective terms of office, authorities and duties.

Section 5.10. Delegation. In case of the absence of any officer of  
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the Corporation, or for any other reason that the Board of Directors may deem sufficient, the Board may temporarily delegate the powers or duties, or any of them, of such officer to any other officer or to any director.

Section 5.11. Compensation. The salaries or other compensation of  
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the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from

receiving such salary or any compensation by reason of the fact that he is also a director of the Corporation. The Board of Directors, in accordance with the provisions of Section 5.11 of this Article V, may delegate to any officer or agent the power to fix from time to time the salaries or other compensation of officers or agents.

ARTICLE VI  
Shares  
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Section 6.01. Certificates Representing Shares. All certificates  
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representing shares of the Corporation shall be signed by the Chairman of the Board, the President or a Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, shall bear the seal of the Corporation and shall not be valid unless so signed and sealed. Certificates countersigned by a duly appointed transfer agent or registered by a duly appointed registrar shall be deemed to be so signed and sealed whether the signatures be manual or facsimile signatures and whether the seal be a facsimile seal or any other form of seal. All certificates shall be consecutively numbered and the name of the person owning the shares represented thereby, his residence, with the number of such shares and the date of issue, shall be entered on the Corporation's books. All certificates surrendered shall be cancelled and no new certificates issued until the former certificates for the same number of shares shall have been surrendered and cancelled, except as provided for herein.

In case any officer who signed or whose facsimile signature was affixed to any certificate shall have ceased to be such officer before such

certificate is issued, it nevertheless may be issued by the Corporation as if he were such officer at the date of its issuance.

When the Corporation is authorized to issue shares of more than one class there shall be set forth upon the face or back of the certificate, or the certificate shall have a statement that the Corporation will furnish to any shareholder upon request and without charge, a full statement of the designation, relative rights, preferences, and limitations of the shares of each class authorized to be issued and, if the Corporation is authorized to issue any class of preferred shares in series, the designation, relative rights, preferences and limitations of each such series so far as the same have been fixed and the authority of the Board of Directors to designate and fix the relative rights, preferences and limitations of other series.

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Any restrictions on the transfer or registration of transfer of any shares of any class or series shall be noted conspicuously on the certificate representing such shares.

Section 6.02. Addresses of Shareholders. Every shareholder shall  
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furnish the Corporation with an address to which notices of meetings and all other notices may be served upon or mailed to him, and in default thereof notices may be addressed to him at his last known post office address.

Section 6.03. Stolen, Lost or Destroyed Certificates. The Board of  
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Directors may in its sole discretion direct that a new certificate for shares be issued in place of any certificate for shares issued by the Corporation alleged to have been stolen, lost or destroyed. When authorizing such issuance of a new certificate, the Board of Directors may, in its discretion, and as a condition precedent thereto, require the owner of such stolen, lost or destroyed certificate or his legal representatives to give the Corporation a bond in such sum as the Corporation may direct not exceeding double the value of the shares represented by the certificate alleged to have been stolen, lost or destroyed.

Section 6.04. Transfers of Shares. Upon compliance with all  
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provisions restricting the transferability of shares, if any, transfers of shares shall be made only upon the books of the Corporation by the holder in person or by his attorney thereunto authorized by power of attorney duly filed with the Secretary of the Corporation or with a transfer agent or registrar, if any, and upon the surrender and cancellation of the certificate or certificates for such shares properly endorsed and the payment of all taxes due thereon. The Board of Directors may appoint one or more suitable banks or trust companies as transfer agents or registrars of transfers, for facilitating transfers of any class or series of shares of the Corporation by the holders thereof under such regulations as the Board of Directors may from time to time prescribe. Upon such appointment being made, all certificates of shares of such class or series thereafter issued shall be countersigned by one of such transfer agents or one of such registrars of transfers, and shall not be valid unless so countersigned.

ARTICLE VII  
Dividends and Finance  
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Section 7.01. Dividends. Subject to the conditions and limitations  
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set forth in the Certificate of Incorporation, the Board of Directors shall have power to fix and determine and to vary, from time to time, the amount of the working capital of the Corporation before declaring any dividends among its

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shareholders, to determine the date or dates for the declaration and payment of

dividends and the amount of any dividend, and the amount of any reserves necessary in their judgment before declaring any dividends among its shareholders, and to determine the amount of surplus of the Corporation from time to time available for dividends.

Section 7.02. Fiscal Year. The fiscal year of the Corporation shall

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end on the last Friday of January in each year and shall begin on the next succeeding day, or shall be for such other period as the Board of Directors may from time to time designate.

ARTICLE VIII  
Indemnification

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Section 8.01 Except to the extent expressly prohibited by the New York Business Corporation Law, the Corporation shall indemnify each person made or threatened to be made a party to or called as a witness in or asked to provide information in connection with any pending or threatened action, proceeding, hearing or investigation, whether civil or criminal, and whether judicial, quasi-judicial, administrative, or legislative, and whether or not for or in the right of the Corporation or any other enterprise, by reason of the fact that such person or such persons testator or intestate is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation who also serves or served at the request of the Corporation any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in any capacity, against judgments, fines, penalties, amounts paid in settlement and reasonable expenses, including attorneys' fees, incurred in connection with such action or proceeding, or any appeal therein, provided that no such indemnification shall be made if a judgment or other final adjudication adverse to such person establishes that his or her acts were committed in bad faith or were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, or that he or she personally gained in fact a financial profit or other advantage to which he or she was not legally entitled, and provided further that no such indemnification shall be required with respect to any settlement or other nonadjudicated disposition of any threatened or pending action or proceeding unless the Corporation has given its prior consent to such settlement or other disposition.

The Corporation shall advance or promptly reimburse, upon request of any person entitled to indemnification hereunder, all expenses, including attorneys' fees, reasonably incurred in defending any action or proceeding in advance of the final disposition thereof upon receipt of a written undertaking by or

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on behalf of such person to repay such amount if such person is ultimately found not to be entitled to indemnification or, where indemnification is granted, to the extent the expenses so advanced or reimbursed exceed the amount to which such person is entitled; provided, however, that such person shall cooperate in good faith with any request by the Corporation that common counsel be utilized by the parties to an action or proceeding who are similarly situated unless to do so would be inappropriate due to actual or potential differing interests between or among such parties.

Nothing herein shall limit or affect any right of any person otherwise than hereunder to indemnification or expenses, including attorneys' fees, under any statute, rule, regulation, certificate of incorporation, by-law, insurance policy, contract or otherwise.

No elimination of this by-law, and no amendment of this by-law adversely affecting the right of any person to indemnification or advancement of expenses hereunder shall be effective until the 60th day following notice to such person of such action, and no elimination of or amendment to this by-law shall deprive any person of his or her rights hereunder arising out of alleged or actual occurrences, acts or failures to act prior to such 60th day. The

provisions of this paragraph shall supersede anything to the contrary in these by-laws.

The Corporation shall not, except by elimination or amendment of this by-law in a manner consistent with the preceding paragraph, take any corporate action or enter into any agreement which prohibits, or otherwise limits the rights of any person to, indemnification in accordance with the provisions of this by-law. The indemnification of any person provided by this by-law shall continue after such person has ceased to be a director or officer of the Corporation and shall inure to the benefit of such person's heirs, executors, administrators and legal representatives.

The Corporation is authorized to enter into agreements with any of its directors, officers or employees extending rights to indemnification and advancement of expenses to such person to the fullest extent permitted by applicable law, but the failure to enter into any such agreement shall not affect or limit the rights of such person pursuant to this by-law. It is hereby expressly recognized that all directors and officers of the Corporation, by serving as such after the adoption hereof, are acting in reliance hereon and that the Corporation is estopped to contend otherwise. Additionally, it is hereby expressly recognized that all persons who serve or served as directors, officers or employees of corporations which are subsidiaries or

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affiliates of the Corporation (or other entities controlled by the Corporation) and are directors or officers of the Corporation are conclusively presumed to serve or have served as such at the request of the Corporation and, to the extent permitted by law, are entitled to indemnification hereunder, but that no such person shall have any rights hereunder or in connection herewith, except to the extent that indemnification hereunder is permitted by law.

In case any provision in this by-law shall be determined at any time to be unenforceable in any respect, the other provisions shall not in any way be affected or impaired thereby, and the affected provision shall be given the fullest possible enforcement in the circumstances, it being the intention of the Corporation to afford indemnification and advancement of expenses to its directors and officers, acting in such capacities or in the other capacities mentioned herein, to the fullest extent permitted by law.

For purposes of this by-law, the Corporation shall be deemed to have requested a director or officer of the Corporation to serve an employee benefit plan where the performance by such person of his or her duties to the Corporation also imposes duties on, or otherwise involves services by, such person to the plan or participants or beneficiaries of the plan, and excise taxes assessed on a person with respect to an employee benefit plan pursuant to applicable law shall be considered indemnifiable expenses. For purposes of this by-law, the term "Corporation" shall include any legal successor to the Corporation, including any corporation which acquires all or substantially all of the assets of the Corporation in one or more transactions.

A person who has been successful, on the merits or otherwise, in the defense of a civil or criminal action or proceeding of the character described in the first paragraph of this by-law shall be entitled to indemnification as authorized in such paragraph. Except as provided in the preceding sentence and unless ordered by a court, any indemnification under this by-law shall be made by the Corporation if, and only if, authorized in the specific case:

(1) By the Board of Directors acting by a quorum consisting of directors who are not parties to such action or proceeding upon a finding that the director or officer has met the standard of conduct set forth in the first paragraph of this by-law, or,

(2) If such a quorum is not obtainable or, even if obtainable, a quorum of disinterested directors so directs:

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(a) By the Board of Directors upon the opinion in writing of independent legal counsel that indemnification is proper in the circumstances because the standard of conduct set forth in the first paragraph of this by-law has been met by such director or officer, or

(b) By the shareholders upon a finding that the director or officer has met the applicable standard of conduct set forth in such paragraph.

If any action with respect to indemnification of directors and officers is taken by way of amendment of these by-laws, resolution of directors, or by agreement, the Corporation shall, not later than the next annual meeting of shareholders, unless such meeting is held within three months from the date of such action and, in any event, within fifteen months from the date of such action, mail to its shareholders of record at the time entitled to vote for the election of directors a statement specifying the action taken.

ARTICLE IX  
Miscellaneous Provisions  
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Section 9.01. Books and Records. Subject to the New York Business Corporation Law, the Corporation may keep its books and accounts outside the State of New York.  
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Section 9.02. Notices. Whenever any notice is required by these by-laws to be given, personal notice is required only if it is expressly so stated, and any notice so required shall be deemed to be sufficient if given by depositing the same in a post office box in a sealed post-paid wrapper, addressed to the person entitled thereto at his last known post office address, and such notice shall be deemed to have been given on the day of such mailing.

Any person may waive the right to receive any notice by signing a written waiver thereof.

Section 9.03. Amendments. Except as otherwise provided herein, these by-laws may be altered, amended, or repealed and by-laws may be adopted by the shareholders or by the Board of Directors.  
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J. Crew Operating Corp.1  
770 Broadway  
New York, New York 10003

February 18, 2000

Ms. Trudy Sullivan  
544 East 86th Street  
Apartment 12W  
New York, NY 10028

Dear Trudy,

We are delighted that you have decided to return to J. Crew Operating Corp. (the "Company"). We thought it would be useful to lay out the terms and

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conditions of our agreement in this letter agreement ("Agreement") for both  
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parties to sign.

1. Employment.

During the Employment Period (as defined below), you will be employed as President of the Company and shall report to the Chief Executive Officer of the Company or to another officer serving in the capacity of Chief Executive Officer. You will be required to devote your full time and best efforts, attention and energy to the performance of your responsibilities and duties to the Company, and you may be required to serve as an officer of certain of the Company's subsidiaries or affiliates as the Company may determine. The "Employment Period" shall commence on February 27, 2000 (the "Effective Date")

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and shall terminate on the third anniversary of such Effective Date, unless sooner terminated as provided in Section 3 hereof.

2. Compensation and Benefits.

(a) During the Employment Period, your annual base salary (the "Base Salary") shall be \$500,000 and shall be paid pursuant to regular company payroll practices.

(b) In addition to the Base Salary, in each fiscal year during the Employment Period, starting with the fiscal year beginning on February 1, 2000, you will have the opportunity to earn an annual bonus ("Annual Bonus") with the

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target Annual Bonus set at fifty percent (50%) of Base Salary and the stretch Annual Bonus set at one hundred percent (100%) of Base Salary, in each case, based upon and subject to the Company achieving certain performance objectives (which will be determined by the Company for each such fiscal year). The performance objectives will be determined in a manner that is generally consistent with the other executive officers of the Company. The Annual Bonus will be paid no later than May 1 following the

fiscal year for which it relates and such Annual Bonus will be paid only if you are actively employed with the Company and not in breach of this Agreement on such date of disbursement.

(c) On the payroll date immediately following the Effective Date, the

Company will pay you a one-time signing bonus in the amount of \$275,000 (the "Signing Bonus"), provided that you will be required to immediately pay back a

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pro-rata portion of such Signing Bonus in the event that you voluntarily terminate your employment with the Company prior to the second anniversary of the Effective Date.

(d) You will be eligible to participate in the 1997 J. Crew Stock Option Plan (the "Option Plan"). As soon as practicable after the Effective Date and

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subject to approval of the Compensation Committee of the Board of Directors of J. Crew Group, Inc. (the "Parent") and the shareholders of the Parent, the

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Company will cause the Parent to grant to you two stock options (each an "Option") to purchase a specified number of shares of common stock of the Parent

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under the Option Plan. The first Option (the "First Option") will provide you

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with the opportunity to purchase 37,600 shares of common stock of the Parent at an exercise price of \$6.82 per share, and shall become exercisable on the same vesting schedule that applied to the options that were previously granted to you under the Option Plan during your previous employment with the Company (the "Prior Option Grants"), it being understood that any portion of the First Option

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that would have been exercisable as of the date of grant under the Prior Option Grants shall become immediately exercisable, and provided that you are actively employed by the Company on each subsequent vesting date. The second Option (the "Second Option") will provide you with the opportunity to purchase 32,400 shares

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of common stock of the Parent at an exercise price of \$10.00 per share, which shall become exercisable as follows: 6,480 shares on each of January 31, 2001, January 31, 2002, January 31, 2003, January 31, 2004 and January 31, 2005, provided that you are actively employed by the Company on each such date. Each Option shall be subject to the terms and condition set forth in the Stock Option Plan and shall be evidenced by a separate stock option grant agreement. Each Option shall become exercisable in full upon a Change in Control as defined in the Stock Option Plan.

(e) During the Employment Period, you will be entitled to the benefit package made available generally to the employees of the Company. Currently, the Company provides a paid time off plan, which in your case will include four weeks paid vacation, as well as life insurance, medical insurance, long term disability, 401(k) tax deferred savings plan, a health flexible spending account, and an employee discount. The Company reserves the right to change these benefits at any time in its sole discretion.

(f) During the Employment Period, you will receive a monthly automobile allowance in the amount of \$675.00 per month.

### 3. Termination from Employment.

(a) If the Company terminates your employment for other than death, Disability (as defined below) or Cause (as defined below) or if you terminate your employment for Good Reason (as defined below), you shall be entitled to any earned but unpaid Base Salary as of the date of termination and the Company will continue your base salary and medical benefits for a period of twelve months; provided that (i) you are in compliance with the restrictive covenants

provided in this Agreement and (ii) you execute a general release and waiver, waiving all claims you may have against the Company, its affiliates, officers, employees and directors. If, however, you resign (other than for Good Reason as provided above), become Disabled (as defined below), die, or are terminated for Cause, no salary continuation will be paid. Except as provided in this Section 3(a), no further compensation shall be due upon your termination of employment.

(b) For purposes of this Agreement, "Cause" shall mean (i) the commission of a felony, (ii) willful misconduct or gross negligence in connection with the performance of your duties as an employee of the Company, (iii) a material breach of this Agreement, (iv) a fraudulent act or omission by you adverse to the reputation of the Company or any affiliate, and (v) the disclosure by you of any Confidential Information (as defined in Section 4(b) hereof) to persons not authorized to know such information. If subsequent to your termination of employment, it is discovered that your employment could have been terminated for Cause, your employment shall, at the election of the Company, in its sole discretion, be deemed to have been terminated for Cause. In addition, for purposes of this Agreement, "Disability" shall mean a disability entitling you to benefits under the Company's long-term disability plan., and "Good Reason" shall mean (i) a material adverse change in the terms and conditions of your employment, (ii) a decrease in your Base Salary or Bonus opportunity, or (iii) the failure of the Parent to grant to you the stock options described in Section 2(d) hereof within a reasonable period of time after the Effective Date, in each case, provided that you serve the Company with notice specifying the events or circumstances which you believe give rise to Good Reason within sixty days after the occurrence of such events and provide the Company with a reasonable period of time (not to exceed thirty days) to cure such adverse change, decrease or failure.

4. Restrictive Covenants.

(a) As additional consideration for the Company entering into this Agreement and agreeing to make the salary continuation payments described in Section 3(a) hereof, you agree that during the Employment Period and for a period of one (1) year after your employment with the Company terminates, you shall not:

(i) solicit or hire or assist any other person or entity in soliciting or hiring any employee of the Company or of any of its subsidiaries to perform services for any entity (other than the Company or any of its subsidiaries), or attempt to induce any such employee to leave the employ of the Company or any of its subsidiaries;

(ii) (1) engage (either as owner, investor, partner, member, shareholder, employer, employee, consultant or director) in or otherwise perform services for any Competitive Business (as defined below) which operates within a 50 mile radius of the location of any store of the Company or any of its affiliates or in the same area that the Company directs its mail order operations, provided that such restriction shall not prohibit you from owning a passive investment of not more than 5% of the total outstanding securities of any publicly-traded company and shall not prohibit you from performing services for an entity that engages in a Competitive Business as well as other non-competitive businesses if your services are solely related to such entity's non-competitive businesses and (2) solicit or cause another to solicit any customers or suppliers of the Company or any of its subsidiaries to terminate or otherwise

adversely modify their relationship with the Company or any such subsidiary. The term "Competitive Business" means the retail, mail order and/or internet adult

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apparel and/or accessories business and/or any other substantial business of the Company or its affiliates on the date of termination.

(b) During your Employment Period and thereafter, you will hold in strict confidence any proprietary or Confidential Information (as defined below) related to the Company and its affiliates. For the purposes of this Agreement, the term "Confidential Information" shall mean all information of the Company or

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any of its affiliates (in whatever form) which is not generally known to the public, including without limitation any inventions, designs, store plans, processes, methods of distribution, customer lists or customers' or the Company's trade secrets;

(c) Upon termination from employment, you shall not take, without the prior written consent of the Company, any drawing, specification or other document (in whatever form) of the Company or its affiliates, which is of a confidential nature relating to the Company or its affiliates, or, without limitation, relating to its or their methods of distribution, or any description of any source or pricing information and will return any such information (in whatever form) then in your possession;

(d) You agree not to defame or disparage the Company, its affiliates and their officers, directors, members or employees. You agree to cooperate with the Company in refuting any defamatory or disparaging remarks by any third party made in respect of the Company or its affiliates or their directors, members, officers or employees. The Company agrees to use its reasonable efforts to prevent its senior executive officers from making any defamatory or disparaging remarks about you and agrees to cooperate with in refuting any defamatory or disparaging remarks by any third party made in respect of you.

(e) You also agree that breach of the confidentiality or employee non-solicitation, non-competition and non-disparagement provisions provided in paragraphs (a), (b), (c) and (d) of this Section 4 may, depending on the circumstances, cause the Company to suffer irreparable harm for which money damages would not be an adequate remedy and therefore, if you breach any of the Restrictive Covenants provided herein, in addition to all other remedies which the Company may have at law or equity, the Company would be entitled to temporary and permanent injunctive relief in any court of competent jurisdiction (without the need to post any bond).

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

5. Representations.

(a) You and the Company represent that they each have the authority to enter into this Agreement, and you hereby represent to the Company that the execution of, and performance of duties under, this Agreement shall not constitute a breach of or otherwise violate any other agreement to which you are a party other than any notice provisions.

(b) You hereby represent to the Company that you will not utilize or disclose any confidential information obtained by you in connection with your former employment with respect of the duties and responsibilities hereunder.

6. Miscellaneous.

(a) This Agreement shall inure to the benefit of and be an obligation of the Company's assigns and successors; however you may not assign your duties and obligations hereunder to any other party.

(b) This Agreement and all amendments thereof shall, in all respects, be governed by and construed and enforced in accordance with the internal laws (without regard to principles of conflicts of law) of the State of New York. Each party hereto hereby agrees to and accepts the exclusive jurisdiction of any court in New York County or the U.S. District Court for the Southern District of New York in that County in respect of any action or proceeding relating to the subject matter hereof, expressly waiving any defense relating to jurisdiction or forum non conveniens.

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(c) Any notice or other communication required or permitted under this

Agreement shall be effective only if it is in writing and shall be deemed to be given when delivered personally or three days after it is sent by registered or certified mail, postage prepaid, or one day after it is sent by a reputable overnight carrier service (next-day service), and, in each case, addressed as follows: To you, at the address appearing at the beginning of this Agreement, and to the Company at 770 Broadway, New York, NY 10003, Attention General Counsel.

(d) This Agreement constitutes the entire agreement among the parties hereto with respect to your services hereunder, and supersedes and is in full substitution for any and all prior understandings or agreements with respect to your services hereunder.

(e) This Agreement may be amended only by an instrument in writing signed by the parties hereto, and any provision hereof may be waived only by an instrument in writing signed by the party or parties against whom or which enforcement of such waiver is sought. The failure of any party hereto at any time to require the performance by any other party hereto of any provision hereof shall in no way affect the full right to require such performance at any time thereafter, nor shall the waiver by any party hereto of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or a waiver of the provision itself or a waiver of any other provision of this Agreement.

(f) If any provision of this Agreement or portion thereof is so broad, in scope or duration, so as to be unenforceable, such provision or portion thereof shall be interpreted to be only so broad as is enforceable.

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

(h) The parties hereto acknowledge and agree that each party has reviewed and negotiated the terms and provisions of this Agreement and has contributed to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed fairly as to both parties hereto and not in favor or against either party.

(i) This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. A facsimile of a signature shall be deemed to be and shall be treated as an original signature hereto.

(j) The headings in this Agreement are inserted for convenience of reference only and shall not be a part of or control or affect the meaning of any provision hereof.

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

Sincerely,

-----  
Mark Sarvary  
Chief Executive Officer

Agreed to and Accepted:

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Trudy Sullivan      Date



April 18, 1999

Richard Anders  
5 Brightwood Way  
Danville, CA 94506

Dear Rich,

Congratulations and welcome to J. Crew. Below please find a summary of the offer.

1. Position: President of Retail Stores.
2. Reporting Relationship: You will report to Mark Savary, Chief Executive Officer.
3. Start Date: As agreed, you will start on or about May 3, 1999.
4. Compensation: Your salary will be \$300,000 per year. Your fiscal 1999 bonus will be guaranteed to be a minimum of \$75,000. Annual target bonus is 25% of base salary stretch is 50%.
5. Stock Options: You have been granted 300 options at \$1363.64 per share strike price. Your shares become 60,000 options at a strike price of \$6.18 post split.
6. Protection for Gap Inc. value in unvested stock. Guaranteed floor value of J. Crew stock options at One Million Dollars to be paid as regular income in the event one of the following occurs:
  - a. J. Crew is sold and Richard Anders is terminated within one year. At the time of sale, all options are automatically vested, exercised and sold at the offer price. He is guaranteed one million dollars minimum payout stock options, net value. In addition, he will be granted 18 months base pay as severance (\$450,000).
  - b. J.Crew does not successfully complete an Initial Public Offering by January 31, 2001. This payment will be offset by future exercise of J. Crew options.
  - c. My employment is terminated by J. Crew before January 31, 2001. In addition to the One Million Dollars, you will be granted 12 months base pay as severance.
7. Relocation: As agreed, all reasonable expenses will be paid.
8. Benefits: Cobra reimbursement for 3 to 4 months waiting period. Vacation of 3 weeks.
9. Sign on Bonus: You will receive \$300,000 sign on bonus, pro rata payback if you resign within two years.

\_\_\_\_\_  
Dick Boyce      Date

\_\_\_\_\_  
Richard Anders      Date

January 29, 2001

Mr. Richard Anders  
J. Crew Group, Inc.  
770 Broadway  
New York, New York 10003

Dear Rich:

In accordance with Paragraph 6 of the letter agreement dated April 18, 1999 (the "Agreement"), between J. Crew and yourself and in full satisfaction thereof, J.Crew is paying you \$1,000,000, less all applicable taxes.

The above-described payment continues to be subject to your agreement to immediately pay to J. Crew upon exercise of any of your J. Crew stock options an amount equal to the difference between the fair market value per share of J. Crew common stock on the exercise date for each such share acquired upon exercise and the exercise price (up to an aggregate of \$1,000,000).

Please sign the enclosed copy of this letter to indicate your agreement.

Sincerely,

\_\_\_\_\_  
David Kozel  
Senior Vice President,  
Human Resources

Accepted and Agreed:

\_\_\_\_\_  
Richard Anders

Dated: \_\_\_\_\_

FIFTH INSTRUMENT OF AMENDMENT

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WHEREAS, J. Crew Group, Inc. (the "Company") maintains the J. Crew Group, Inc. 1997 Stock Option Plan (the "Plan");

WHEREAS, Section 4.12 of the Plan provides that the Plan may be amended by the Committee at any time, with exceptions not here material;

WHEREAS, the Committee wishes to amend the Plan, subject to shareholder approval, to increase the number of shares of common stock reserved for issuance upon exercise of options awarded under the Plan;

WHEREAS, all defined terms used herein shall have the meaning set forth in the Plan unless specifically defined herein;

NOW, THEREFORE, the Plan is hereby amended, subject to shareholder approval, as follows:

1. The reference to "1,810,000 shares of Common Stock" in the first sentence of Section 4 of the Plan shall be replaced with a reference to "1,910,000 shares of Common Stock".

July 24, 2000

SIXTH INSTRUMENT OF AMENDMENT  
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WHEREAS, J. Crew Group, Inc. (the "Company") maintains the J. Crew Group, Inc. 1997 Stock Option Plan (the "Plan");

WHEREAS, Section 4.12 of the Plan provides that the Plan may be amended by the Committee at any time, with exceptions not here material;

WHEREAS, the Committee wishes to amend the Plan to provide for exercise in the case of retirement of vested stock options awarded under the Plan;

WHEREAS, all defined terms used herein shall have the meanings set forth in the Plan unless specifically defined herein;

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Section 2 of the Plan shall be amended to add the following as new Section 2(cc) and old Section 2(cc) and the ensuing Sections shall be appropriately relettered:

"Retirement" shall mean, when used in connection with the termination of a Participant's Employment, a Participant who is at least age 60 and has been Employed for at least five years at the time of such termination."

2. Clauses (ii) and (iii) of Section 4.5 of the Plan shall be amended to read in their entirety as follows:

"(ii) 90 days after the date the Participant's Employment is terminated for any reason other than Cause, Retirement, death or Disability; (iii) one year after the date the Participant's Employment is terminated by reason of death, Retirement or Disability;"

February 2, 2001