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

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended April 30, 2016**

**Or**

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

| Commission File Number | Registrant, State of Incorporation Address and Telephone Number | I.R.S. Employer Identification No. |
|---|---|---|
| **333-175075** | | **22-2894486** |

# J.CREW GROUP, INC.
**(Incorporated in Delaware)**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ☐ | Accelerated Filer | ☐ |
| Non-Accelerated Filer | ☒ | Smaller Reporting Company | ☐ |

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

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

| Common Stock | Outstanding at May 20, 2016 |
|---|---|
| Common Stock, $.01 par value per share | 1,000 shares |

* The Registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, but is not required to file such reports under such sections.

**J.CREW GROUP, INC.**
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**PART I – FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**J.CREW GROUP, INC.**

**Condensed Consolidated Balance Sheets**
**(unaudited)**
**(in thousands, except share data)**

| | April 30, 2016 | January 30, 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 54,690 | $ 87,812 |
| Merchandise inventories | 391,360 | 372,410 |
| Prepaid expenses and other current assets | 69,436 | 65,605 |
| Total current assets | 515,486 | 525,827 |
| Property and equipment, net | 387,836 | 398,244 |
| Intangible assets, net | 457,720 | 460,744 |
| Goodwill | 107,900 | 107,900 |
| Other assets | 8,329 | 7,261 |
| Total assets | $ 1,477,271 | $ 1,499,976 |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | |
| Current liabilities: | | |
| Accounts payable | $ 236,230 | $ 248,342 |
| Other current liabilities | 156,943 | 157,765 |
| Interest payable | 5,293 | 5,279 |
| Income taxes payable | 9,967 | 7,086 |
| Current portion of long-term debt | 15,670 | 15,670 |
| Total current liabilities | 424,103 | 434,142 |
| Long-term debt, net | 1,499,080 | 1,501,917 |
| Lease-related deferred credits, net | 135,086 | 131,812 |
| Deferred income taxes, net | 142,610 | 148,819 |
| Other liabilities | 53,068 | 52,273 |
| Total liabilities | 2,253,947 | 2,268,963 |
| Stockholders' deficit: | | |
| Common stock $0.01 par value; 1,000 shares authorized, issued and outstanding | — | — |
| Additional paid-in capital | 979,691 | 979,333 |
| Accumulated other comprehensive loss | (16,797) | (16,791) |
| Accumulated deficit | (1,739,570) | (1,731,529) |
| Total stockholders' deficit | (776,676) | (768,987) |
| Total liabilities and stockholders' deficit | $ 1,477,271 | $ 1,499,976 |

See notes to unaudited condensed consolidated financial statements.

**J.CREW GROUP, INC.**

**Condensed Consolidated Statements of Operations and Comprehensive Loss**
**(unaudited)**
**(in thousands)**

| | Thirteen Weeks Ended April 30, 2016 | Thirteen Weeks Ended May 2, 2015 |
|---|---|---|
| Revenues: | | |
| Net sales | $ 553,219 | $ 570,583 |
| Other | 14,280 | 11,221 |
| Total revenues | 567,499 | 581,804 |
| Cost of goods sold, including buying and occupancy costs | 362,545 | 365,281 |
| Gross profit | 204,954 | 216,523 |
| Selling, general and administrative expenses | 192,235 | 203,753 |
| Impairment losses | 5,396 | 533,362 |
| Income (loss) from operations | 7,323 | (520,592) |
| Interest expense, net of interest income | 18,215 | 17,309 |
| Loss before income taxes | (10,892) | (537,901) |
| Benefit for income taxes | (2,851) | (75,490) |
| Net loss | $ (8,041) | $ (462,411) |
| Other comprehensive income (loss): | | |
| Reclassification of losses on cash flow hedges, net of tax, to earnings | 605 | 12 |
| Unrealized gains (losses) on cash flow hedges, net of tax | (1,071) | 1,420 |
| Foreign currency translation adjustments | 460 | (230) |
| Comprehensive loss | $ (8,047) | $ (461,209) |

See notes to unaudited condensed consolidated financial statements.

**J.CREW GROUP, INC.**

**Condensed Consolidated Statements of Changes in Stockholders' Equity**
**(unaudited)**
**(in thousands, except shares)**

| | Common stock Shares | Common stock Amount | Additional paid-in capital | Retained earnings (accumulated deficit) | Accumulated other comprehensive loss | Total stockholders' equity (deficit) |
|---|---|---|---|---|---|---|
| **Balance at January 31, 2015** | 1,000 | $ — | $ 1,014,930 | $ (488,853) | $ (10,053) | $ 516,024 |
| Net loss | — | — | — | (1,242,676) | — | (1,242,676) |
| Share-based compensation | — | — | 2,580 | — | — | 2,580 |
| Dividend and contribution to Parent | — | — | (38,177) | — | — | (38,177) |
| Reclassification of realized losses on cash flow hedges, net of tax of $47, to earnings | — | — | — | — | 74 | 74 |
| Unrealized loss on cash flow hedges, net of tax of $4,483 | — | — | — | — | (7,012) | (7,012) |
| Foreign currency translation adjustments | — | — | — | — | 200 | 200 |
| **Balance at January 30, 2016** | 1,000 | — | 979,333 | (1,731,529) | (16,791) | (768,987) |
| Net loss | — | — | — | (8,041) | — | (8,041) |
| Share-based compensation | — | — | 358 | — | — | 358 |
| Reclassification of realized losses on cash flow hedges, net of tax of $387, to earnings | — | — | — | — | 605 | 605 |
| Unrealized loss on cash flow hedges, net of tax of $685 | — | — | — | — | (1,071) | (1,071) |
| Foreign currency translation adjustments | — | — | — | — | 460 | 460 |
| **Balance at April 30, 2016** | 1,000 | $ — | $ 979,691 | $(1,739,570) | $ (16,797) | $ (776,676) |

See notes to unaudited condensed consolidated financial statements.

**J.CREW GROUP, INC.**

**Condensed Consolidated Statements of Cash Flows**
**(unaudited)**
**(in thousands)**

| | Thirteen Weeks Ended April 30, 2016 | Thirteen Weeks Ended May 2, 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net loss | $ (8,041) | $ (462,411) |
| Adjustments to reconcile to cash flows from operating activities: | | |
| Depreciation of property and equipment | 26,210 | 25,100 |
| Impairment losses | 5,396 | 533,362 |
| Amortization of intangible assets | 3,024 | 3,880 |
| Amortization of deferred financing costs and debt discount | 1,265 | 1,257 |
| Reclassification of hedging losses to earnings | 992 | 12 |
| Share-based compensation | 358 | 1,293 |
| Foreign currency transaction gains | (2,289) | (1,330) |
| Changes in operating assets and liabilities: | | |
| Merchandise inventories | (17,983) | (41,827) |
| Prepaid expenses and other current assets | (3,672) | 1,485 |
| Other assets | (1,087) | (474) |
| Accounts payable and other liabilities | (13,133) | 10,272 |
| Federal and state income taxes | (1,664) | (75,542) |
| Net cash used in operating activities | (10,624) | (4,923) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Capital expenditures | (19,056) | (18,476) |
| Net cash used in investing activities | (19,056) | (18,476) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Principal repayments of Term Loan Facility | (3,918) | (3,918) |
| Dividend and contribution to Parent | — | (19,476) |
| Net cash used in financing activities | (3,918) | (23,394) |
| Effect of changes in foreign exchange rates on cash and cash equivalents | 476 | 155 |
| Decrease in cash and cash equivalents | (33,122) | (46,638) |
| Beginning balance | 87,812 | 111,097 |
| Ending balance | $ 54,690 | $ 64,459 |
| **Supplemental cash flow information:** | | |
| Income taxes paid | $ 72 | $ 252 |
| Interest paid | $ 18,179 | $ 18,660 |

See notes to unaudited condensed consolidated financial statements.

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**For the thirteen weeks ended April 30, 2016 and May 2, 2015**
**(Dollars in thousands, unless otherwise indicated)**

**1. Basis of Presentation**

J.Crew Group, Inc. and its wholly owned subsidiaries (the "Company" or "Group") were acquired (the "Acquisition") on March 7, 2011 through a merger with a subsidiary of Chinos Holdings, Inc. (the "Parent"). The Parent was formed by investment funds affiliated with TPG Capital, L.P. ("TPG") and Leonard Green & Partners, L.P. ("LGP" and together with TPG, the "Sponsors"). Subsequent to the Acquisition, Group became an indirect, wholly owned subsidiary of Parent, which is owned by affiliates of the Sponsors, co-investors and members of management. Prior to March 7, 2011, the Company operated as a public company with its common stock traded on the New York Stock Exchange.

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. Therefore, these financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

The Company's fiscal year ends on the Saturday closest to January 31. All references to "fiscal 2016" represent the 52-week fiscal year that will end on January 28, 2017, and to "fiscal 2015" represent the 52-week fiscal year that ended January 30, 2016.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly in all material respects the Company's financial position, results of operations and cash flows for the applicable interim periods. Certain prior year amounts have been reclassified to conform to current period presentation. Specifically, the Company adopted an accounting standard which requires certain deferred financing costs related to a recognized debt liability to be presented in the balance sheet as a reduction of the carrying amount of that debt liability. The adoption of this pronouncement resulted in the reclassification of $16,301 from long-term assets to long-term liabilities on the Company's condensed consolidated balance sheet at January 30, 2016. The results of operations for these periods are not necessarily comparable to, or indicative of, results of any other interim period or for the fiscal year as a whole.

Management is required to make estimates and assumptions about future events in preparing financial statements in conformity with generally accepted accounting principles. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses and the disclosure of loss contingencies at the date of the unaudited condensed consolidated financial statements. While management believes that past estimates and assumptions have been materially accurate, current estimates are subject to change if different assumptions as to the outcome of future events are made. Management evaluates estimates and judgments on an ongoing basis and predicates those estimates and judgments on historical experience and on reasonable factors. Since future events and their effects cannot be determined with absolute certainty, actual results may differ from the estimates used in preparing the accompanying unaudited condensed consolidated financial statements.

**2. Management Services Agreement**

Pursuant to a management services agreement entered into in connection with the Acquisition, and in exchange for ongoing consulting and management advisory services, the Sponsors receive an aggregate annual monitoring fee prepaid quarterly equal to the greater of (i) 40 basis points of consolidated annual revenues or (ii) $8 million. The Sponsors also receive reimbursement for out-of-pocket expenses incurred in connection with services provided pursuant to the agreement. The Company recorded an expense of $2.6 million in the first quarter of both fiscal 2016 and fiscal 2015 for monitoring fees and out-of-pocket expenses, included in selling, general and administrative expenses in the statements of operations and comprehensive loss.

### 3. Goodwill and Intangible Assets

A summary of the components of intangible assets is as follows:

| | Loyalty Program and Customer Lists | Favorable Lease Commitments | Madewell Trade Name | Key Money | J.Crew Trade Name |
|---|---|---|---|---|---|
| Balance at January 30, 2016 | $ 433 | $ 14,208 | $ 61,842 | $ 4,266 | $ 379,995 |
| Amortization expense | (433) | (1,453) | (1,025) | (113) | — |
| Balance at April 30, 2016 | $ — | $ 12,755 | $ 60,817 | $ 4,153 | $ 379,995 |
| Total accumulated amortization or impairment losses at April 30, 2016 | $ (27,010) | $ (48,255) | $ (21,183) | $ (664) | $ (505,305) |

During the first quarter of fiscal 2015, the Company recorded non-cash impairment charges of (i) $341 million related to goodwill and (ii) $190 million related to the intangible asset for the J.Crew trade name. The impairment losses were the result of the write-down of the following assets:

| | For the Thirteen Weeks Ended April 30, 2016 | For the Thirteen Weeks Ended May 2, 2015 |
|---|---|---|
| Goodwill allocated to the J.Crew reporting unit | $ — | $ 340,900 |
| Intangible asset related to the J.Crew trade name | — | 190,305 |
| Long-lived assets (see note 7) | 5,396 | 2,157 |
| Impairment losses | $ 5,396 | $ 533,362 |

The carrying value of goodwill of $107.9 million relates to the Madewell reporting unit. There is no remaining goodwill attributable to the J.Crew reporting unit, which has previously recorded accumulated impairment losses of $1,579.0 million. The carrying value of the intangible asset for the J.Crew and Madewell trade names is $380.0 million and $60.8 million, respectively, at April 30, 2016. If operating results decline below the Company's expectations, additional impairment charges may be recorded in the future.

### 4. Share-Based Compensation

*Chinos Holdings, Inc. 2011 Equity Incentive Plan*

On March 4, 2011, the Parent adopted the Chinos Holdings, Inc. 2011 Equity Incentive Plan (the "2011 Plan"), which authorizes equity awards to be granted for up to 91,740,627 shares of the common stock of the Parent. The types of equity awards issued from the 2011 Plan include: (i) stock options that become exercisable over the requisite service period, (ii) stock options that only become exercisable when certain owners of the Parent receive a specified level of cash proceeds, as defined in the equity incentive plan, from the sale of their initial investment, (iii) restricted stock that vests over the requisite service period, and (iv) restricted stock that vests when certain performance conditions are met.

A summary of share-based compensation recorded in the statements of operations and comprehensive loss is as follows:

| | For the Thirteen Weeks Ended April 30, 2016 | For the Thirteen Weeks Ended May 2, 2015 |
|---|---|---|
| Share-based compensation | $ 358 | $ 1,293 |

A summary of shares available for grant as stock options or other share-based awards is as follows:

| | Shares |
|---|---|
| Available for grant at January 30, 2016 | 15,225,070 |
| Granted | (40,000) |
| Forfeited and available for reissuance | 1,220,000 |
| Available for grant at April 30, 2016 | 16,405,070 |

**5. Long-Term Debt and Credit Agreements**

A summary of the components of long-term debt is as follows:

| | April 30, 2016 | January 30, 2016 |
|---|---|---|
| Term Loan Facility | $ 1,535,660 | $ 1,539,578 |
| Less current portion | (15,670) | (15,670) |
| Less deferred financing costs | (15,500) | (16,301) |
| Less discount | (5,410) | (5,690) |
| Long-term debt, net | $ 1,499,080 | $ 1,501,917 |
| Borrowings under the ABL Facility | $ — | $ — |

ABL Facility

The Company has an ABL Facility, which is governed by an asset-based credit agreement with Bank of America, N.A., as administrative agent and the other agents and lenders party thereto, that provides for a $350 million senior secured asset-based revolving line of credit (which may be increased by up to $25 million in certain circumstances), subject to a borrowing base limitation. The ABL Facility includes borrowing capacity in the form of letters of credit up to $300 million, and up to $25 million in U.S. dollars for loans on same-day notice, referred to as swingline loans, and is available in U.S. dollars, Canadian dollars and Euros. Any amounts outstanding under the ABL Facility are due and payable in full on December 10, 2019.

On April 30, 2016, standby letters of credit were $21.2 million, excess availability, as defined, was $328.8 million, and there were no borrowings outstanding. Average short-term borrowings under the ABL Facility were $4.3 million in the first quarter of fiscal 2016. There were no short-term borrowings under the ABL Facility in the first quarter of fiscal 2015.

Demand Letter of Credit Facility

The Company has unsecured, demand letter of credit facilities with HSBC and Bank of America which provide for the issuance of up to $50 million and $20 million, respectively, of documentary letters of credit on a no fee basis. On April 30, 2016, outstanding documentary letters of credit were $13.3 million, and aggregate availability under these facilities was $56.7 million.

Term Loan Facility

Borrowings under the Term Loan Facility bear interest at a rate per annum equal to an applicable margin plus, at Group's option, either (a) LIBOR determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs (subject to a floor) or (b) a base rate determined by reference to the highest of (1) the prime rate of Bank of America, N.A., (2) the federal funds effective rate plus 0.50% and (3) a LIBOR determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs, plus 1.00%.

The Company is required to make principal repayments equal to 0.25% of the original principal amount of the Term Loan Facility, or $3.9 million, on the last business day of January, April, July, and October. The Company is also required to repay the term loan based on an annual calculation of excess cash flow, as defined in the agreement. The maturity date of the Term Loan Facility is March 5, 2021.

The interest rate on the borrowings outstanding under the Term Loan Facility was 4.00% on April 30, 2016. The applicable margin in effect for base rate borrowings was 2.00% and the LIBOR Floor and applicable margin with respect to LIBOR borrowings were 1.00% and 3.00%, respectively, at April 30, 2016.

Interest expense

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

| | For the Thirteen Weeks Ended April 30, 2016 | For the Thirteen Weeks Ended May 2, 2015 |
|---|---|---|
| Term Loan Facility | $ 15,534 | $ 15,724 |
| Amortization of deferred financing costs and debt discount | 1,265 | 1,257 |
| Realized hedging losses | 995 | 64 |
| Other interest, net of interest income | 421 | 264 |
| Interest expense, net | $ 18,215 | $ 17,309 |

**6. Derivative Financial Instruments**

In August 2014, the Company entered into interest rate cap and swap agreements that limit exposure to interest rate increases on a portion of the Company's floating rate indebtedness. The interest rate cap agreements covered notional amounts of $400 million and capped LIBOR at 2.00% from March 2015 to March 2016. The interest rate swap agreements cover a notional amount of $800 million from March 2016 to March 2019 and carry a fixed rate of 2.56% plus the applicable margin.

The Company designated the interest rate cap and swap agreements as cash flow hedges. As cash flow hedges, unrealized gains are recognized as assets while unrealized losses are recognized as liabilities. The effective portion of such gains or losses is recorded as a component of accumulated other comprehensive income or loss, while the ineffective portion of such gains or losses is recorded as a component of interest expense. Future realized gains and losses in connection with each required interest payment will be reclassified from accumulated other comprehensive income or loss to interest expense.

The fair values of the interest rate cap and swap agreements are estimated using industry standard valuation models using market-based observable inputs, including interest rate curves (level 2 inputs). A summary of the recorded assets (liabilities) included in the condensed consolidated balance sheet is as follows:

| | April 30, 2016 | January 30, 2016 |
|---|---|---|
| Interest rate caps (included in other assets) | $ — | $ — |
| Interest rate swaps (included in other liabilities) | $ (30,538) | $ (31,110) |

**7. Fair Value Measurements**

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

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

***Financial assets and liabilities***

The fair value of the Company's debt is $1,236 million and $1,051 million at April 30, 2016 and January 30, 2016 based on quoted market prices of the debt (level 1 inputs).

The Company's interest rate cap and swap agreements are measured in the financial statements at fair value on a recurring basis. See note 6 for more information regarding the fair value of this financial liability.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts payable and other current liabilities approximate fair value because of their short-term nature.

***Non-financial assets and liabilities***

Certain non-financial assets, including goodwill, the intangible asset for the J.Crew trade name, and certain long-lived assets have been written down and measured in the financial statements at fair value. The Company does not have any other non-financial assets or liabilities as of April 30, 2016 or January 30, 2016 that are measured in the financial statements at fair value.

The Company assesses the recoverability of goodwill and intangible assets whenever there are indicators of impairment, or at least annually in the fourth quarter. If the recorded carrying value of an intangible asset exceeds its fair value, the Company records a charge to write down the intangible asset to its fair value. Impairment charges of goodwill are based on fair value measurements derived using a combination of an income approach, specifically the discounted cash flow, a market approach, and a transaction approach. Impairment charges of intangible assets are based on fair value measurements derived using a relief from royalty method, which considers projected revenue and an estimated royalty rate. The valuation methodologies incorporate unobservable inputs reflecting significant estimates and assumptions made by management (level 3 inputs). For more information related to goodwill and intangible asset impairment charges, see note 3.

The Company performs impairment tests of long-lived assets whenever there are indicators of impairment. These tests typically contemplate assets at a store level (e.g. leasehold improvements). The Company recognizes an impairment loss when the carrying value of a long-lived asset is not recoverable in light of the undiscounted future cash flows and measures an impairment loss as the difference between the carrying amount and fair value of the asset based on discounted future cash flows. The Company has determined that the future cash flow approach (level 3 inputs) provides the most relevant and reliable means by which to determine fair value in this circumstance. The carrying value of long-lived assets written down to fair value was $5,396 and $2,157 in the first quarter of fiscal 2016 and fiscal 2015, respectively.

**8. Income Taxes**

The Parent files a consolidated federal income tax return, which includes Group and all of its wholly owned subsidiaries. Each subsidiary files separate, or combined where required, state or local tax returns in required jurisdictions.

The federal tax returns for the periods ended January 2012 and January 2013 are currently under examination. Various state and local jurisdiction tax authorities are in the process of examining income tax returns or hearing appeals for certain tax years ranging from 2009 to 2013. The results of these audits and appeals are not expected to have a significant effect on the results of operations or financial position.

The effective tax rate for the first quarter of fiscal 2016 was 26%. Items driving differences between the U.S. federal statutory rate of 35% and the effective rate include (i) state and local income taxes, (ii) the recognition of certain foreign valuation allowances, (iii) lower rates in certain foreign jurisdictions, and (iv) reserves for uncertain tax positions.

The effective tax rate for the first quarter of fiscal 2015 was 14%. The difference between the U.S. federal statutory rate of 35% and the effective rate was driven primarily by the non-cash impairment charge related to the write off of goodwill, which is not tax deductible, and therefore has no tax benefit. Other items impacting the effective rate include state and local income taxes and the recognition of certain foreign valuation allowances.

While the Company expects the amount of unrecognized tax benefits to change in the next 12 months, the change is not expected to have a significant effect on the results of operations or financial position. However, the outcome of tax matters is uncertain and unforeseen results can occur.

**9. Legal Proceedings**

The Company is subject to various legal proceedings and claims arising in the ordinary course of business. Management does not expect that the results of any of these legal proceedings, either individually or in the aggregate, would have a material effect on the Company's financial position, results of operations or cash flows. As of April 30, 2016, the Company has accrued an immaterial amount of charges for certain legal contingencies in connection with ongoing claims and litigation. In addition, there are certain other claims and legal proceedings pending against the Company for which accruals have not been established.

**10. Related Party Transaction**

On November 4, 2013, Chinos Intermediate Holdings A, Inc. (the "Issuer"), an indirect parent holding company of Group, issued $500 million aggregate principal of 7.75/8.50% Senior PIK Toggle Notes due May 1, 2019 (the "PIK Notes").

The PIK Notes are (i) senior unsecured obligations of the Issuer, (ii) structurally subordinated to all of the liabilities of the Issuer's subsidiaries, and (iii) not guaranteed by any of the Issuer's subsidiaries, and therefore are not recorded in the financial statements of the Company.

On April 29, 2016, the Issuer delivered notice to U.S. Bank N.A., as trustee, under the indenture governing the PIK Notes, that with respect to the interest that will be due on such notes on the November 1, 2016 interest payment date, the Issuer will make such interest payment by paying in kind at the PIK interest rate of 8.50% instead of paying in cash. The PIK election will increase the outstanding principal balance of the PIK Notes by $22.2 million to $543.4 million. Therefore, the Company will not pay a dividend to the Issuer in the third quarter of fiscal 2016 to fund a semi-annual interest payment. Pursuant to the terms of the indenture governing the PIK Notes, the Issuer intends to evaluate this option prior to the beginning of each interest period based on relevant factors at that time.

**11. Recent Accounting Pronouncements**

In April 2015, a pronouncement was issued that requires certain deferred financing costs related to a recognized debt liability to be presented in the balance sheet as a reduction of the carrying amount of that debt liability. The pronouncement is effective for fiscal years beginning after December 15, 2015. The adoption of this pronouncement resulted in the reclassification of $16,301 from long-term assets to long-term liabilities on the Company's condensed consolidated balance sheet at January 30, 2016.

In May 2014, a pronouncement was issued that clarified the principles of revenue recognition, which standardizes a comprehensive model for recognizing revenue arising from contracts with customers. The pronouncement is effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact of the new pronouncement on its condensed consolidated financial statements.

In July 2015, a pronouncement was issued that more closely aligns the measurement of inventory in U.S. GAAP with International Financial Reporting Standards by requiring companies using the first-in, first-out and average costs methods to measure inventory using the lower of cost and net realizable value. The pronouncement is effective for fiscal years beginning after December 15, 2016. The Company is currently evaluating the impact of the new pronouncement on its condensed consolidated financial statements.

In February 2016, a pronouncement was issued that requires lessees to recognize assets and liabilities on the balance sheet for leases with accounting lease terms of more than 12 months. The pronouncement is effective for fiscal years beginning after December 15, 2018. While the Company is currently evaluating the impact of the new pronouncement on its consolidated financial statements, the adoption is expected to have a significant impact on its condensed consolidated balance sheet.

***Forward-Looking Statements***

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

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Important factors that could cause our actual results to differ include, but are not limited to, our substantial indebtedness and the indebtedness of our indirect Parent, the retirement, repurchase or exchange of our indebtedness or the indebtedness of our indirect Parent, our substantial lease obligations, the strength of the global economy, declines in consumer spending or changes in seasonal consumer spending patterns, competitive market conditions, our ability to anticipate and timely respond to changes in trends and consumer preferences, our ability to successfully develop, launch and grow our newer concepts and execute on strategic initiatives, product offerings, sales channels and businesses, adverse or unseasonable weather, material disruption to our information systems, our ability to implement our real estate strategy, our ability to implement our international expansion strategy, our ability to attract and retain key personnel, interruptions in our foreign sourcing operations, and other factors which are set forth in the section entitled "Risk Factors" and elsewhere in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 filed with the SEC. There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements.

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

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

This document should be read in conjunction with the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 filed with the SEC. When used herein, the terms "J.Crew," "Group," "Company," "we," "us" and "our" refer to J.Crew Group, Inc., including its wholly-owned subsidiaries.

### *Executive Overview*

J.Crew is an internationally recognized multi-brand apparel and accessories retailer that differentiates itself through high standards of quality, style, design and fabrics. We are a vertically-integrated, omni-channel specialty retailer that operates stores and websites both domestically and internationally. We design, market and sell our products, including those under the J.Crew® and Madewell® brands, offering complete assortments of women's, men's and children's apparel and accessories. We believe our customer base consists primarily of affluent, college-educated, professional and fashion-conscious women and men.

We sell our J.Crew and Madewell merchandise through our retail and factory stores, our websites and our catalogs. As of April 30, 2016, we operated 287 J.Crew retail stores, 164 J.Crew factory stores (including 22 J.Crew Mercantile stores), and 106 Madewell stores throughout the United States, Canada, the United Kingdom, Hong Kong, and France; compared to 283 J.Crew retail stores, 142 J.Crew factory stores, and 87 Madewell stores as of May 2, 2015.

A summary of revenues by brand is as follows:

| (Dollars in millions) | For the Thirteen Weeks Ended April 30, 2016 | For the Thirteen Weeks Ended May 2, 2015 |
|---|---|---|
| J.Crew | $ 480.7 | $ 508.7 |
| Madewell | 72.5 | 61.9 |
| Other(a) | 14.3 | 11.2 |
| Total revenues | $ 567.5 | $ 581.8 |

(a) Consists primarily of shipping and handling fees and revenues from third-party resellers.

A summary of highlights for the first quarter is as follows:

- Revenues decreased 2.5% to $567.5 million, with comparable company sales down 6.5%.
- J.Crew revenues decreased 5.5% to $480.7 million, with comparable J.Crew sales down 8.0%.
- Madewell revenues increased 17.2% to $72.5 million, with comparable Madewell sales up 5.9%.
- Income from operations increased to $7.3 million.
- We opened one J.Crew retail store, two J.Crew Mercantile stores and three Madewell stores.

### *How We Assess the Performance of Our Business*

In assessing the performance of our business, we consider a variety of performance and financial measures. A key measure used in our evaluation is comparable company sales, which includes (i) net sales from stores that have been open for at least 12 months, (ii) e-commerce net sales, and (iii) shipping and handling fees.

A complete description of the measures we use to assess the performance of our business appears in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 filed with the SEC.

***Results of Operations – First Quarter of Fiscal 2016 compared to First Quarter of Fiscal 2015***

| | For the Thirteen Weeks Ended April 30, 2016 | | For the Thirteen Weeks Ended May 2, 2015 | | Variance Increase /(Decrease) | |
|---|---|---|---|---|---|---|
| **(Dollars in millions)** | **Amount** | **Percent of Revenues** | **Amount** | **Percent of Revenues** | **Dollars** | **Percentage** |
| Revenues | $ 567.5 | 100.0% | $ 581.8 | 100.0% | $ (14.3) | (2.5)% |
| Gross profit | 205.0 | 36.1 | 216.5 | 37.2 | (11.5) | (5.3) |
| Selling, general and administrative expenses | 192.2 | 33.9 | 203.8 | 35.0 | (11.6) | (5.7) |
| Impairment losses | 5.4 | 1.0 | 533.4 | 91.7 | (528.0) | (99.0) |
| Income (loss) from operations | 7.3 | 1.3 | (520.6) | (89.5) | 527.9 | NM |
| Interest expense, net | 18.2 | 3.2 | 17.3 | 3.0 | 0.9 | 5.2 |
| Benefit for income taxes | (2.9) | (0.5) | (75.5) | (13.0) | 72.6 | 96.2 |
| Net loss | $ (8.0) | (1.4)% | $ (462.4) | (79.5)% | $ 454.4 | 98.3% |

***Revenues***

Total revenues decreased $14.3 million, or 2.5%, to $567.5 million in the first quarter of fiscal 2016 from $581.8 million in the first quarter last year, driven primarily by a decrease in sales of accessories, specifically jewelry. Comparable company sales decreased 6.5% following a decrease of 7.9% in the first quarter last year.

J.Crew sales decreased $28.0 million, or 5.5%, to $480.7 million in the first quarter of fiscal 2016 from $508.7 million in the first quarter last year. J.Crew comparable sales decreased 8.0% following a decrease of 9.6% in the first quarter last year.

Madewell sales increased $10.6 million, or 17.2%, to $72.5 million in the first quarter of fiscal 2016 from $61.9 million in the first quarter last year. Madewell comparable sales increased 5.9% following an increase of 11.6% in the first quarter last year.

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

| | For the Thirteen Weeks Ended April 30, 2016 | For the Thirteen Weeks Ended May 2, 2015 |
|---|---|---|
| Apparel: | | |
| Women's | 56% | 55% |
| Men's | 21 | 22 |
| Children's | 8 | 7 |
| Accessories | 15 | 16 |
| | 100% | 100% |

Other revenues increased $3.1 million to $14.3 million in first quarter of fiscal 2016 from $11.2 million in the first quarter last year, primarily a result of revenue from third party resellers.

***Gross Profit***

Gross profit decreased $11.5 million to $205.0 million in the first quarter of fiscal 2016 from $216.5 million in the first quarter last year. This decrease resulted from the following factors:

| **(Dollars in millions)** | **Increase/ (decrease)** |
|---|---|
| Decrease in revenues | $ (7.2) |
| Increase in merchandise margin | 0.3 |
| Increase in buying and occupancy costs | (4.6) |
| Decrease in gross profit | $ (11.5) |

Gross margin decreased to 36.1% in the first quarter of fiscal 2016 from 37.2% in the first quarter last year. The decrease in gross margin was driven by: (i) a 120 basis point increase in buying and occupancy costs as a percentage of revenues, offset by (ii) a 10 basis point increase in merchandise margin primarily due to decreased markdowns.

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

Selling, general and administrative expenses decreased $11.6 million to $192.2 million in the first quarter of fiscal 2016 from $203.8 million in the first quarter last year. This decrease primarily resulted from the following:

| (Dollars in millions) | Increase/ (decrease) |
|---|---|
| Decrease in advertising and catalog costs | $ (5.8) |
| Decrease in operating and corporate expenses | (3.8) |
| Corporate occupancy actions | (3.4) |
| Increase in severance costs | 1.4 |
| Total decrease in selling, general and administrative expenses | $ (11.6) |

As a percentage of revenues, selling, general and administrative expenses decreased to 33.9% in the first quarter of fiscal 2016 from 35.0% in the first quarter last year.

***Impairment Losses***

Impairment losses were $5.4 million in the first quarter of fiscal 2016 compared to $533.4 million in the first quarter last year. The impairment losses were the result of the write-down of the following assets:

| (Dollars in millions) | For the Thirteen Weeks Ended April 30, 2016 | For the Thirteen Weeks Ended May 2, 2015 |
|---|---|---|
| Goodwill allocated to the J.Crew reporting unit | $ — | $ 340.9 |
| Intangible asset related to the J.Crew trade name | — | 190.3 |
| Long-lived assets | 5.4 | 2.2 |
| Impairment losses | $ 5.4 | $ 533.4 |

***Interest Expense, Net***

Interest expense, net of interest income, increased $0.9 million to $18.2 million in the first quarter of fiscal 2016 from $17.3 million in the first quarter last year. A summary of interest expense is as follows:

| (Dollars in millions) | For the Thirteen Weeks Ended April 30, 2016 | For the Thirteen Weeks Ended May 2, 2015 |
|---|---|---|
| Term Loan Facility | $ 15.5 | $ 15.7 |
| Amortization of deferred financing costs and debt discount | 1.3 | 1.3 |
| Realized hedging losses | 1.0 | — |
| Other, net of interest income | 0.4 | 0.3 |
| Interest expense, net | $ 18.2 | $ 17.3 |

***Benefit for Income Taxes***

The effective tax rate for the first quarter of fiscal 2016 was 26%. Items driving differences between the U.S. federal statutory rate of 35% and the effective rate include (i) state and local income taxes, (ii) the recognition of certain foreign valuation allowances, (iii) lower rates in certain foreign jurisdictions, and (iv) reserves for uncertain tax positions.

The effective tax rate for the first quarter of fiscal 2015 was 14%. The difference between the U.S. federal statutory rate of 35% and the effective rate was driven primarily by the non-cash impairment charge related to the write off of goodwill, which is not tax deductible, and therefore has no tax benefit. Other items impacting the effective rate include state and local income taxes and the recognition of certain foreign valuation allowances.

***Net Loss***

Net loss decreased $454.4 million to $8.0 million in the first quarter of fiscal 2016 from $462.4 million in the first quarter last year. This decrease was due to: (i) lower impairment losses of $528.0 million and (ii) a decrease in selling, general and administrative expenses of $11.6 million, offset by (iii) lower benefit for income taxes of $72.6 million, (iv) a decrease in gross profit of $11.5 million and (v) an increase in interest expense of $0.9 million.

***Liquidity and Capital Resources***

Our primary sources of liquidity are our current balances of cash and cash equivalents, cash flows from operations and borrowings available under the ABL Facility. Our primary cash needs are (i) capital expenditures in connection with opening new stores and remodeling our existing stores, investments in our distribution network and making information technology system enhancements, (ii) meeting debt service requirements (including paying dividends to an indirect parent company, when required, for the purposes of servicing debt) and (iii) funding working capital requirements. The most significant components of our working capital are cash and cash equivalents, merchandise inventories and accounts payable and other current liabilities. See "—Outlook" below.

***Operating Activities***

| (Dollars in millions) | For the Thirteen Weeks Ended April 30, 2016 | For the Thirteen Weeks Ended May 2, 2015 |
|---|---|---|
| Net loss | $ (8.0) | $ (462.4) |
| Adjustments to reconcile to cash flows from operating activities: | | |
| Depreciation of property and equipment | 26.2 | 25.1 |
| Impairment losses | 5.4 | 533.4 |
| Amortization of intangible assets | 3.0 | 3.9 |
| Amortization of deferred financing costs and debt discount | 1.3 | 1.3 |
| Reclassification of hedging losses to earnings | 1.0 | — |
| Share-based compensation | 0.4 | 1.3 |
| Foreign currency transaction gains | (2.3) | (1.3) |
| Changes in operating assets and liabilities | (37.6) | (106.2) |
| Net cash used in operating activities | $ (10.6) | $ (4.9) |

Cash used in operating activities of $10.6 million in the first quarter of fiscal 2016 resulted from: (i) net loss of $8.0 million and (ii) changes in operating assets and liabilities of $37.6 million due to seasonal working capital fluctuations, partially offset by (iii) non-cash adjustments of $35.0 million.

Cash used in operating activities of $4.9 million in the first quarter of fiscal 2015 resulted from: (i) net loss of $462.4 million and (ii) changes in operating assets and liabilities of $106.2 million due to the tax effect of the write off of an intangible asset and seasonal working capital fluctuations, partially offset by (iii) non-cash adjustments of $563.7 million.

***Investing Activities***

| (Dollars in millions) | For the Thirteen Weeks Ended April 30, 2016 | For the Thirteen Weeks Ended May 2, 2015 |
|---|---|---|
| Capital expenditures: | | |
| New stores | $ 7.8 | $ 10.2 |
| Information technology | 8.0 | 6.9 |
| Other(1) | 3.3 | 1.4 |
| Net cash used in investing activities | $ 19.1 | $ 18.5 |

(1) Includes capital expenditures for warehouse and corporate office improvements, store renovations and general corporate purposes.

Capital expenditures are planned at approximately $95 to $105 million for fiscal year 2016, including $40 to $45 million for new stores, $35 to $40 million for information technology enhancements, $10 to $15 million for warehouse and corporate office improvements, and the remainder for store renovations and general corporate purposes.

***Financing Activities***

| (Dollars in millions) | | For the Thirteen Weeks Ended April 30, 2016 | | For the Thirteen Weeks Ended May 2, 2015 |
|---|---|---|---|---|
| Principal repayments of Term Loan Facility | $ | (3.9) | $ | (3.9) |
| Dividend and contribution to Parent | | — | | (19.5) |
| Net cash used in financing activities | $ | (3.9) | $ | (23.4) |

Cash used in financing activities of $3.9 million in the first quarter of fiscal 2016 resulted from the principal repayments of the Term Loan Facility.

Cash used in financing activities of $23.4 million in the first quarter of fiscal 2015 resulted from: (i) the payment of dividends to an indirect parent company to fund debt service obligations and (ii) principal repayments of the Term Loan Facility.

*Financing Arrangements*

ABL Facility

We have an ABL Facility, which is governed by a credit agreement with Bank of America, N.A., as administrative agent and the other agents and lenders, which provides for a $350 million senior secured asset-based revolving line of credit (which may be increased by up to $25 million in certain circumstances), subject to a borrowing base limitation. The borrowing base under the ABL Facility equals the sum of: 90% of the eligible credit card receivables; plus, 85% of eligible accounts; plus, 90% (or 92.5% for the period of August 1 through December 31 of any fiscal year) of the net recovery percentage of eligible inventory multiplied by the cost of eligible inventory; plus 85% of the net recovery percentage of eligible letters of credit inventory, multiplied by the cost of eligible letter of credit inventory; plus, 85% of the net recovery percentage of eligible in-transit inventory, multiplied by the cost of eligible in-transit inventory; plus, 100% of qualified cash; minus, all availability and inventory reserves. The ABL Facility includes borrowing capacity in the form of letters of credit up to $300 million, and up to $25 million in U.S. dollars for loans on same-day notice, referred to as swingline loans, and is available in U.S. dollars, Canadian dollars and Euros. Any amounts outstanding under the ABL Facility are due and payable in full on the maturity date of December 10, 2019.

On April 30, 2016, standby letters of credit were $21.2 million, excess availability, as defined, was $328.8 million, and there were no borrowings outstanding. Average short-term borrowings under the ABL Facility were $4.3 million in the first quarter of fiscal 2016. There were no short-term borrowings under the ABL Facility in the first quarter of fiscal 2015.

As of the date of this report, there were outstanding borrowings of $10 million under the ABL Facility with excess availability of approximately $320 million.

Demand Letter of Credit Facility

The Company has unsecured, demand letter of credit facilities with HSBC and Bank of America which provide for the issuance of up to $50 million and $20 million, respectively, of documentary letters of credit on a no fee basis. On April 30, 2016, outstanding documentary letters of credit were $13.3 million, and aggregate availability under these facilities was $56.7 million.

Term Loan Facility

Borrowings under the Term Loan Facility bear interest at a rate per annum equal to an applicable margin plus, at Group's option, either (a) LIBOR determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs (subject to a floor) or (b) a base rate determined by reference to the highest of (1) the prime rate of Bank of America, N.A., (2) the federal funds effective rate plus 0.50% and (3) a LIBOR determined by reference to the costs of funds for U.S. dollar deposits for an interest period of one month adjusted for certain additional costs, plus 1.00%. The applicable margin with respect to base rate borrowings is 2.00% and the LIBOR floor and applicable margin with respect to LIBOR borrowings are 1.00% and 3.00%, respectively.

We are required to make principal repayments equal to 0.25% of the original principal amount of the Term Loan Facility, or $3.9 million, on the last business day of January, April, July, and October, which commenced in July 2014. We are also required to repay the term loan based on annual excess cash flow, as defined in the agreement beginning in fiscal 2014. The maturity date of the Term Loan Facility is March 5, 2021.

The interest rate on the borrowings outstanding amounts under the Term Loan Facility was 4.00% on April 30, 2016.

PIK Notes

On November 4, 2013, Chinos Intermediate Holdings A, Inc. (the "Issuer"), an indirect parent holding company of Group, issued $500 million aggregate principal of 7.75/8.50% Senior PIK Toggle Notes due May 1, 2019 (the "PIK Notes"). The PIK Notes are (i) senior unsecured obligations of the Issuer, (ii) structurally subordinated to all of the liabilities of the Issuer's subsidiaries, and (iii) not guaranteed by any of the Issuer's subsidiaries, and therefore are not recorded in our financial statements.

On April 29, 2016, the Issuer delivered notice to U.S. Bank N.A., as trustee, under the indenture governing the PIK Notes, that with respect to the interest that will be due on such notes on the November 1, 2016 interest payment date, the Issuer will make such interest payment by paying in kind at the PIK interest rate of 8.50% instead of paying in cash. The PIK election will increase the outstanding principal balance of the PIK Notes by $22.2 million to $543.4 million. Therefore, we will not pay a dividend to the Issuer in the third quarter of fiscal 2016 to fund a semi-annual interest payment. Pursuant to the terms of the indenture governing the PIK Notes, the Issuer intends to evaluate this option prior to the beginning of each interest period based on relevant factors at that time.

***Outlook***

Our short-term and long-term liquidity needs arise primarily from (i) capital expenditures, (ii) debt service requirements, including required (a) quarterly principal repayments, (b) repayments, if any, based on annual excess cash flows, if any, as defined and (c) dividends to the Issuer, when required, for the purposes of servicing debt, and (iii) working capital. Management anticipates that capital expenditures in fiscal 2016 will be approximately $95 to $105 million, including $40 to $45 million for new stores, $35 to $40 million for information technology enhancements, $10 to $15 million for warehouse and corporate office improvements, and the remainder for store renovations and general corporate purposes. Management believes that our current balances of cash and cash equivalents, projected cash flow from operations and amounts available under the ABL Facility will be adequate to fund our short-term and long-term liquidity needs. Our ability to satisfy these obligations and to remain in compliance with the financial covenants under our financing arrangements, depends on our future operating performance, which in turn, may be impacted by prevailing economic conditions and other financial and business factors, some of which are beyond our control.

We may from time to time seek to retire or purchase, directly or indirectly, our outstanding indebtedness, including the PIK Notes, through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions, by tender offer or otherwise. Such purchases and/or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material, which could impact our capital structure, the market for our debt securities, the price of the indebtedness being purchased and/or exchanged and affect our liquidity.

***Off Balance Sheet Arrangements***

We enter into documentary letters of credit to facilitate the international purchase of merchandise. We also enter into standby letters of credit to secure reimbursement obligations under certain insurance and import programs and lease obligations. As of April 30, 2016, we had the following obligations under letters of credit in future periods:

| | Total | Within 1 Year | 2-3 Years | 4-5 Years | After 5 Years |
|---|---|---|---|---|---|
| | (amounts in millions) | | | | |
| Letters of Credit | | | | | |
| Standby | $ 21.2 | $ 20.0 | $ 0.4 | $ 0.8 | $ — |
| Documentary | 13.3 | 13.3 | — | — | — |
| | $ 34.5 | $ 33.3 | $ 0.4 | $ 0.8 | $ — |

***Cyclicality and Seasonality***

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

Our business is seasonal. As a result, our revenues fluctuate from quarter to quarter. We have four distinct selling seasons that align with our four fiscal quarters. Revenues are usually higher in our fourth fiscal quarter, particularly December, as customers make holiday purchases. Our working capital requirements also fluctuate throughout the year, increasing substantially in September and October in anticipation of holiday season inventory requirements.

***Critical Accounting Policies***

A summary of our critical accounting policies is included in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 filed with the SEC.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

*Interest Rates*

We are exposed to interest rate risk arising from changes in interest rates on the floating rate indebtedness under our Senior Credit Facilities. Borrowings pursuant to our Term Loan Facility bear interest at floating rates based on LIBOR, but in no event less than the floor rate of 1.00%, plus the applicable margin. Borrowings pursuant to our ABL Facility bear interest at floating rates based on LIBOR and the prime rate, plus the applicable margin. Accordingly, fluctuations in market interest rates may increase or decrease our interest expense which will in turn, increase or decrease our net income and cash flow.

In August 2014, we entered into interest rate cap and swap agreements that limit exposure to interest rate increases on a portion of the Company's floating rate indebtedness. The interest rate cap agreements covered a notional amount of $400 million and capped LIBOR at 2.00% from March 2015 to March 2016. The interest rate swap agreements cover a notional amount of $800 million from March 2016 to March 2019. Under the terms of these agreements, our effective fixed interest rate on the notional amount of indebtedness is 2.56% plus the applicable margin.

As a result of the floor rate described above, we estimate that a 1% increase in LIBOR would not impact our interest expense in the current fiscal year.

*Foreign Currency*

Foreign currency exposures arise from transactions denominated in a currency other than the entity's functional currency. Although our inventory is primarily purchased from foreign vendors, such purchases are denominated in U.S. dollars; and are therefore not subject to foreign currency exchange risk. However, we operate in foreign countries, which exposes the Company to market risk associated with exchange rate fluctuations. The Company is exposed to foreign currency exchange risk resulting from its foreign operating subsidiaries' U.S. dollar denominated transactions.

**ITEM 4. CONTROLS AND PROCEDURES**

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

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

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims arising in the ordinary course of business. Management does not expect that the results of any of these legal proceedings, either individually or in the aggregate, would have a material effect on our financial position, results of operations or cash flows. As of April 30, 2016, we have accrued an immaterial amount of charges for certain legal contingencies in connection with ongoing claims and litigation. In addition, there are certain other claims and legal proceedings pending against us for which accruals have not been established.

### ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 includes a detailed discussion of certain risks that could materially adversely affect our business, our operating results, or our financial condition. There have been no material changes to the risk factors previously disclosed.

### ITEM 6. EXHIBITS

***Articles of Incorporation and Bylaws***

| Exhibit No. | Document |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation of J.Crew Group, Inc., adopted March 7, 2011. Incorporated by reference to Exhibit 3.1 to the Form 8-K filed on March 10, 2011. |
| 3.2 | Amended and Restated By-laws of J.Crew Group, Inc., adopted March 7, 2011. Incorporated by reference to Exhibit 3.2 to the Form 8-K filed on March 10, 2011. |

***Certifications***

| Exhibit No. | Document |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.** |

***Interactive Data Files***

| Exhibit No. | Document |
|---|---|
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets at April 30, 2016 and January 30, 2016, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the thirteen weeks ended April 30, 2016 and May 2, 2015, (iii) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the thirteen weeks ended April 30, 2016 and the fifty-two weeks ended January 30, 2016, (v) the Condensed Consolidated Statements of Cash Flows for the thirteen weeks ended April 30, 2016 and May 2, 2015, and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements.* |

* Filed herewith.
** Furnished herewith.

## SIGNATURES

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

J.CREW GROUP, INC.
(Registrant)

| | | |
|---|---|---|
| Date: May 25, 2016 | By: | /s/ Millard Drexler<br>**Millard Drexler**<br>**Chairman of the Board and Chief Executive Officer**<br>**(Principal Executive Officer)** |
| Date: May 25, 2016 | By: | /s/ Michael J. Nicholson<br>**Michael J. Nicholson**<br>**President, Chief Operating Officer and Chief Financial Officer**<br>**(Principal Financial Officer)** |
| Date: May 25, 2016 | By: | /s/ Jeremy Brooks<br>**Jeremy Brooks**<br>**Chief Accounting Officer**<br>**(Principal Accounting Officer)** |

## EXHIBIT INDEX

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| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.** |

*Interactive Data Files*

| Exhibit No. | Document |
|---|---|
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets at April 30, 2016 and January 30, 2016, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the thirteen weeks ended April 30, 2016 and May 2, 2015, (iii) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the thirteen weeks ended April 30, 2016 and the fifty-two weeks ended January 30, 2016, (v) the Condensed Consolidated Statements of Cash Flows for the thirteen weeks ended April 30, 2016 and May 2, 2015, and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements.* |

* Filed herewith.

** Furnished herewith.

**Exhibit 31.1**

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

I, Millard Drexler, certify that:

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

Date: May 25, 2016

/S/ MILLARD DREXLER

**Millard Drexler**
**Chief Executive Officer**

**Exhibit 31.2**

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

I, Michael J. Nicholson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of J.Crew Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 25, 2016

/s/ MICHAEL J. NICHOLSON

**Michael J. Nicholson**
**President, Chief Operating Officer and Chief Financial Officer**

**Exhibit 32.1**

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

In connection with the quarterly report of J.Crew Group, Inc. (the "Company") on Form 10-Q for the period ended April 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Millard Drexler, Chief Executive Officer of the Company, and Michael J. Nicholson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 25, 2016

/S/ MILLARD DREXLER
**Millard Drexler**
**Chief Executive Officer**

/S/ MICHAEL J. NICHOLSON
**Michael J. Nicholson**
**Chief Financial Officer**

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

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