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 July 31, 2004

Or

o **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.
333-42427	**J. CREW GROUP, INC.** (Incorporated in New York) 770 Broadway New York, New York 10003 Telephone: (212) 209-2500	22-2894486
333-107211	**J. CREW INTERMEDIATE LLC** (Formed in Delaware) 770 Broadway New York, New York 10003 Telephone: (212) 209-2500	N/A
333-42423	**J. CREW OPERATING CORP.** (Incorporated in Delaware) 770 Broadway New York, New York 10003 Telephone: (212) 209-2500	22-3540930

Indicate by check mark whether each 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 o

Indicate by a check mark whether any of the registrants is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☒

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Outstanding at August 31, 2004

J. Crew Group, Inc.	12,197,978 shares of common stock, par value $.01 per share
J. Crew Intermediate LLC	100% of its membership interests are owned by J. Crew Group, Inc.
J. Crew Operating Corp.	100 shares of common stock, par value $.01 per share (all of which are owned by J. Crew Intermediate LLC)

This Quarterly Report on Form 10-Q is a combined report being filed by three different registrants: J. Crew Group, Inc., J. Crew Intermediate LLC (a wholly-owned subsidiary of J. Crew Group, Inc.) and J. Crew Operating Corp. (a wholly-owned subsidiary of J. Crew Intermediate LLC). The information contained herein relating to each individual registrant is filed by such registrant on its own behalf. No registrant makes any representation as to information relating to any other registrant.

J. Crew Intermediate LLC and J. Crew Operating Corp. meet the conditions set forth in General Instruction (I)(1)(a) and (b) of the Form 10-Q and are therefore filing this Form 10-Q with the reduced disclosure format.

PART I – FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

J. CREW GROUP, INC.
AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	July 31, 2004	January 31, 2004 (as restated)
	(unaudited) (in thousands)	
Assets		
-		
Current assets:		
Cash and cash equivalents	$ 35,014	$ 49,650
Merchandise inventories	94,377	66,028
Prepaid expenses and other current assets	15,958	20,733
Refundable income taxes	9,320	9,320
Total current assets	154,669	145,731
Property and equipment - at cost	288,467	284,945
Less accumulated depreciation and amortization	(161,689)	(146,565)
Property and equipment, net	126,778	138,380
Other assets	11,898	13,500
Total assets	$ 293,345	$ 297,611
Liabilities and Stockholders' Deficit		
Current liabilities:		
Current portion of long-term debt	$ 1,164	$ 1,164
Accounts payable and other current liabilities	101,974	97,175
Federal and state income taxes	761	1,175
Total current liabilities	103,899	99,514
Deferred credits	54,422	56,723
Long-term debt (includes redeemable preferred stock)	554,546	516,640
Preferred stock	92,800	92,800
Stockholders' deficit	(512,322)	(468,066)
Total liabilities and stockholders' deficit	$ 293,345	$ 297,611

See notes to unaudited condensed consolidated financial statements.

J. CREW GROUP, INC.
AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

	Thirteen weeks ended July 31, 2004	Thirteen weeks ended August 2, 2003 (as restated)
	(unaudited) (in thousands)	
Revenues:		
Net sales	$ 182,106	$ 159,186
Other	6,222	7,881
	188,328	167,067
Cost of goods sold, including buying and occupancy costs	114,108	115,722
Gross profit	74,220	51,345

Selling, general and administrative expenses	65,872	65,989
Income (loss) from operations	8,348	(14,644)
Interest expense – net	(22,110)	(13,028)
Gain on exchange of debt (net of related expenses of $2,992)	—	41,085
Insurance proceeds	—	1,600
Income (loss) before income taxes	(13,762)	15,013
Income taxes	—	—
Net income (loss)	$ (13,762)	$ 15,013

See notes to unaudited condensed consolidated financial statements.

	Twenty-six weeks ended July 31, 2004	Twenty-six weeks ended August 2, 2003 (as restated)
	(unaudited) (in thousands)	
Revenues:		
Net sales	$ 322,681	$ 311,778
Other	11,059	16,784
	333,740	328,562
Cost of goods sold, including buying and occupancy costs	198,788	219,382
Gross profit	134,952	109,180
Selling, general and administrative expenses	129,429	134,319
Income (loss) from operations	5,523	(25,139)
Interest expense – net	(43,072)	(22,790)
Gain on exchange of debt (net of related expenses of $2,992)	—	41,085
Insurance proceeds	—	1,600
Loss before income taxes	(37,549)	(5,244)
Income taxes	—	—
Net loss	$ (37,549)	$ (5,244)

See notes to unaudited condensed consolidated financial statements.

J. CREW GROUP, INC.
AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Twenty-six weeks ended July 31, 2004	Twenty-six weeks ended August 2, 2003 (as restated)
	(unaudited) (in thousands)	
Cash flow from operating activities:		
Net loss	$ (37,549)	$ (5,244)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	17,546	21,485
Amortization of deferred compensation	21	21
Non-cash interest expense (including non-cash preferred stock dividends of $15,716 and none in 2004 and 2003, respectively)	32,923	12,655

Gain on exchange of debt	—	(41,085)
Changes in operating assets and liabilities:		
Merchandise inventories	(28,349)	22,508
Prepaid expenses and other current assets	4,775	7,425
Other assets	439	11
Accounts payable and other liabilities	721	(23,049)
Federal and state income taxes	(414)	(262)
Net cash used in operating activities	(9,887)	(5,535)
Cash flow from investing activities:		
Capital expenditures	(5,944)	(5,800)
Proceeds from construction allowances	1,777	1,000
Net cash used in investing activities	(4,167)	(4,800)
Cash flow from financing activities:		
Additional long-term debt	—	25,820
Costs incurred in connection with debt financing	—	(2,592)
Repayment of long-term debt	(582)	(291)
Net cash provided by/(used in) financing activities	(582)	22,937
Increase/(decrease) in cash and cash equivalents	(14,636)	12,602
Cash and cash equivalents - beginning of period	49,650	18,895
Cash and cash equivalents - end of period	$ 35,014	$ 31,497
Non-cash financing activities:		
Dividends on preferred stock (reflected directly in stockholders' deficit)	$ 6,728	$ 19,532
Interest payable on 13 1/8% Senior Discount Debentures at February 1, 2003 that was added to the principal amount of debt	$ —	$ 4,416
Exchange of 16% Senior Discount Contingent Principal Notes of J.Crew Intermediate LLC with a fair value of $87,006 for $131,083 carrying value of 13 1/8% Senior Discount Debentures of J.Crew Group Inc., effective May 6, 2003	$ —	$ —

See notes to unaudited condensed consolidated financial statements.

J. CREW INTERMEDIATE LLC
AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	July 31, 2004	January 31, 2004 (as restated)
	(unaudited) (in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 35,014	$ 49,650
Merchandise inventories	94,377	66,028
Prepaid expenses and other current assets	15,958	20,733
Refundable income taxes	9,320	9,320
Total current assets	154,669	145,731
Property and equipment - at cost	288,467	284,945
Less accumulated depreciation and amortization	(161,689)	(146,565)
Property and equipment, net	126,778	138,380
Investment in debentures of J. Crew Group, Inc.	131,083	131,083
Intercompany interest receivable	21,267	12,665
Other assets	11,749	13,333
Total assets	$ 445,546	$ 441,192
Liabilities and Membership Interests		
Current liabilities:		
Current portion of long-term debt	$ 1,164	$ 1,164
Accounts payable and other current liabilities	101,136	96,335
Federal and state income taxes	761	1,175
Total current liabilities	103,061	98,674

Long-term debt	298,731	283,269
Deferred credits	54,422	56,723
Due to J. Crew Group, Inc.	7,086	8,506
Membership interests	(17,754)	(5,980)
Total liabilities and membership interests	$ 445,546	$ 441,192

See notes to unaudited condensed consolidated financial statements.

J. CREW INTERMEDIATE LLC
AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

	Thirteen weeks ended	
	July 31, 2004	August 2, 2003 (as restated)
	(unaudited) (in thousands)	
Revenues:		
Net sales	$ 182,106	$ 159,186
Other	6,222	7,881
	188,328	167,067
Cost of goods sold, including buying and occupancy costs	114,108	115,722
Gross profit	74,220	51,345
Selling, general and administrative expenses	65,872	65,978
Income (loss) from operations	8,348	(14,633)
Interest expense – net	(13,352)	(11,280)
Intercompany interest income	4,301	4,160
Gain on exchange of debt	—	44,077
Insurance proceeds	—	1,600
Income (loss) before income taxes	(703)	23,924
Income taxes	—	—
Net income (loss)	$ (703)	$ 23,924

See notes to unaudited condensed consolidated financial statements.

	Twenty-six weeks ended	
	July 31, 2004	August 2, 2003 (as restated)
	(unaudited) (in thousands)	
Revenues:		
Net sales	$ 322,681	$ 311,778
Other	11,059	16,784
	333,740	328,562
Cost of goods sold, including buying and occupancy costs	198,788	219,382
Gross profit	134,952	109,180
Selling, general and administrative expenses	129,408	134,298

Income (loss) from operations	5,544	(25,118)
Interest expense – net	(25,920)	(16,340)
Intercompany interest income	8,602	4,160
Gain on exchange of debt	—	44,077
Insurance proceeds	—	1,600
Income (loss) before income taxes	(11,774)	8,379
Income taxes	—	—
Net income (loss)	$ (11,774)	$ 8,379

See notes to unaudited condensed consolidated financial statements.

J. CREW INTERMEDIATE LLC
AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Twenty-six weeks ended	
	July 31, 2004	August 2, 2003 (as restated)
	(unaudited) (in thousands)	
Cash flow from operating activities:		
Net income (loss)	$ (11,774)	$ 8,379
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	17,546	21,485
Non-cash interest expense	17,189	7,575
Gain on exchange of debt	—	(44,077)
Changes in operating assets and liabilities:		
Merchandise inventories	(28,349)	22,508
Prepaid expenses and other current assets	4,775	7,425
Other assets	439	11
Accounts payable and other liabilities	723	(23,049)
Federal and state income taxes	(414)	(262)
Net cash provided by/(used in) operating activities	135	(5)
Cash flow from investing activities:		
Capital expenditures	(5,944)	(5,800)
Proceeds from construction allowances	1,777	1,000
Net cash used in investing activities	(4,167)	(4,800)
Cash flow from financing activities:		
Additional long-term debt	—	25,820
Costs incurred in connection with debt financing	—	(2,500)
Repayment of long-term debt	(582)	(291)
Transfer to affiliates	(10,022)	(5,622)
Net cash provided by/(used in) financing activities	(10,604)	17,407
Increase/(decrease) in cash and cash equivalents	(14,636)	12,602
Cash and cash equivalents - beginning of period	49,650	18,895
Cash and cash equivalents - end of period	$ 35,014	$ 31,497
Non-cash financing activities:		
Exchange of 16% Senior Discount Contingent Principal Notes of J.Crew Intermediate LLC with a fair value of $87,006 for $131,083 carrying value of 13 1/8% Senior Discount Debentures of J.Crew Group Inc., effective May 6, 2003	$ —	$ —

See notes to unaudited condensed financial statements.

J. CREW OPERATING CORP.
AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	July 31, 2004	January 31, 2004 (as restated)
	(unaudited) (in thousands)	
Assets		
-		
Current assets:		
Cash and cash equivalents	$ 35,014	$ 49,650
Merchandise inventories	94,377	66,028
Prepaid expenses and other current assets	15,958	20,733
Refundable income taxes	9,320	9,320
Total current assets	154,669	145,731
Property and equipment - at cost	288,467	284,945
Less accumulated depreciation and amortization	161,689	(146,565)
Property and equipment, net	126,778	138,380
Other assets	9,786	11,091
Total assets	$ 291,233	$ 295,202
Liabilities and Stockholder’s Deficit		
Current liabilities:		
Current portion of long-term debt	$ 1,164	$ 1,164
Accounts payable and other current liabilities	101,128	96,328
Federal and state income taxes	761	1,175
Total current liabilities	103,053	98,667
Long-term debt	174,798	174,880
Deferred credits	54,422	56,723
Due to J. Crew Group, Inc.	4,473	5,897
Stockholder’s deficit	(45,513)	(40,965)
Total liabilities and stockholder’s deficit	$ 291,233	$ 295,202

See notes to unaudited condensed consolidated financial statements.

J. CREW OPERATING CORP.
AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

	Thirteen weeks ended	
	July 31, 2004	August 2, 2003 (as restated)
	(unaudited) (in thousands)	
Revenues		
Net sales	$ 182,106	$ 159,186
Other	6,222	7,881
	188,328	167,067
Cost of goods sold, including buying and occupancy costs	114,108	115,722
Gross profit	74,220	51,345
Selling, general and administrative expenses	65,872	65,978
Income (loss) from operations	8,348	(14,633)

Interest expense – net	(5,179)	(4,970)
Insurance proceeds	—	1,600
Income (loss) before income taxes	3,169	(18,003)
Income taxes	—	—
Net income (loss)	$ 3,169	$ (18,003)

See notes to unaudited condensed consolidated financial statements.

	Twenty-six weeks ended July 31, 2004	Twenty-six weeks ended August 2, 2003 (as restated)
	(unaudited) (in thousands)	
Revenues		
Net sales	$ 322,681	$ 311,778
Other	11,059	16,784
	333,740	328,562
Cost of goods sold, including buying and occupancy costs	198,788	219,382
Gross profit	134,952	109,180
Selling, general and administrative expenses	129,408	134,298
Income (loss) from operations	5,544	(25,118)
Interest expense – net	(10,092)	(10,030)
Insurance proceeds	—	1,600
Loss before income taxes	(4,548)	(33,548)
Income taxes	—	—
Net loss	$ (4,548)	$ (33,548)

See notes to unaudited condensed consolidated financial statements.

J. CREW OPERATING CORP.
AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Twenty-six weeks ended July 31, 2004	Twenty-six weeks ended August 2, 2003 (as restated)
	(unaudited) (in thousands)	
Cash flow from operating activities:		
Net loss	$ (4,548)	$ (33,548)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	17,546	21,485
Non-cash interest expense	1,361	1,265
Changes in operating assets and liabilities:		
Merchandise inventories	(28,349)	22,508
Prepaid expenses and other current assets	4,775	7,425
Other assets	439	11
Accounts payable and other liabilities	727	(23,784)
Federal and state income taxes	(414)	(262)
Net cash used in operating activities	(8,463)	(4,900)

Cash flow from investing activities:		
Capital expenditures	(5,944)	(5,800)
Proceeds from construction allowances	1,777	1,000
Net cash used in investing activities	(4,167)	(4,800)
Cash flow from financing activities:		
Additional long-term debt	—	25,820
Costs incurred in connection with debt financing	—	(92)
Repayment of long-term debt	(582)	(291)
Transfers to affiliates	(1,424)	(3,135)
Net cash provided by/(used in) financing activities	(2,006)	22,302
Increase/(decrease) in cash and cash equivalents	(14,636)	12,602
Cash and cash equivalents - beginning of period	49,650	18,895
Cash and cash equivalents - end of period	$ 35,014	$ 31,497

See notes to unaudited condensed consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Thirteen and twenty-six weeks ended July 31, 2004 and August 2, 2003

1. Basis of Presentation

The consolidated financial statements presented herein are as follows:

a. J. Crew Operating Corp. and its wholly-owned subsidiaries (collectively, “Operating Corp.”), which consist of the accounts of J. Crew Operating Corp. and its wholly-owned subsidiaries.

b. J. Crew Intermediate LLC and its wholly-owned subsidiaries (collectively, “Intermediate”), which consist of the accounts of J. Crew Intermediate LLC and Operating Corp.

c. J. Crew Group, Inc. and its wholly-owned subsidiaries (collectively, “Group”), which consist of the accounts of J. Crew Group, Inc. and Intermediate.

All significant intercompany balances and transactions are eliminated in consolidation.

Intermediate was formed in Delaware as a limited liability company on March 27, 2003. 100% of the membership interests of Intermediate are owned by Group. Effective May 2003, Group transferred its investment in J. Crew Operating Corp. and subsidiaries to Intermediate. This combination of entities under common control was accounted for in a manner similar to a pooling of interests. On May 6, 2003, Intermediate issued $193,346,138 aggregate principal amount at maturity of 16% senior discount contingent principal notes due 2008 in exchange for $131,083,000 in aggregate principal amount (including accrued interest of $10,750,000) of outstanding 13 1/8% senior discount debentures of Group. The 13 1/8% Senior Discount Debentures of Group that were exchanged are being held as an intercompany asset by Intermediate, and interest income received by Intermediate from Group during the twenty-six weeks ended July 31, 2004 and August 2, 2003 was $8.6 million and $4.2 million.

The statements of operations and cash flows of Intermediate for the period prior to May 2003 consist of the operations and cash flows of Operating Corp. (the predecessor business).

The condensed consolidated balance sheets as of July 31, 2004 and the condensed consolidated statements of operations and cash flows for the thirteen and twenty-six week periods ended July 31, 2004 and August 2, 2003 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments, consisting of only normal recurring adjustments necessary for the fair presentation of the financial position, results of operations and cash flows, have been made.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the consolidated financial statements for the fiscal year ended January 31, 2004.

The results of operations for the twenty-six-week period ended July 31, 2004 are not necessarily indicative of the operating results for the full fiscal year.

2. Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. The provisions of this statement were effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 at the beginning of the third quarter of 2003 resulted in a reclassification of the liquidation value and accumulated and unpaid dividends of the Series B preferred stock and the accumulated and unpaid dividends related to the Series A preferred stock to liabilities, which total $234.1 million as of July 31, 2004. In connection with this reclassification, the dividends related to the Series B preferred stock and the accreted dividends of the Series A preferred stock are included in interest expense.

In December 2003, the FASB revised and reissued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities”. FIN No. 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the

entities do not effectively dispense the risks and rewards of ownership among their owners and other parties involved. The provisions of FIN No. 46 must be applied no later than as of the end of the first reporting period ending after March 5, 2004. The adoption of FASB Interpretation No. 46 did not have any effect on our financial statements.

3. Long-term debt

Long-term debt consists of the following:

	July 31, 2004	January 31, 2004
	(in thousands)	
Operating Corp.:		
Congress Credit Facility	$ 4,462	$ 5,044
5% notes payable	21,500	21,000
10 3/8% senior subordinated notes	150,000	150,000
	175,962	176,044
Less amount due within one year	(1,164)	(1,164)
Total Operating Corp.	174,798	174,880
Intermediate:		
16% senior discount contingent principal notes, net of debt issuance discount of $34,865 and $38,677	123,933	108,389
Total Intermediate	298,731	283,269
Group:		
13 1/8% senior discount debentures	21,667	21,667
Mandatorily redeemable preferred stock	234,148	211,704
Total Group	$ 554,546	$ 516,640

4. Restatement

The consolidated financial statements for the year ended January 31, 2004 and the thirteen weeks ended May 1, 2004 have been restated to reflect the write-off of prepaid sample costs that should have been expensed as incurred. The corrections, which are reflected in the financial statements as a reduction of prepaid expenses and other current assets and an increase in cost of goods sold, are as follows:

Net income (loss)

	Group		Intermediate		Operating	
Period Ended	**As Reported**	**As Adjusted**	**As Reported**	**As Adjusted**	**As Reported**	**As Adjusted**
13 weeks ended:						
May 3, 2003	$ (19.6)	$ (20.2)	$ (14.9)	$ (15.5)	$ (14.9)	$ (15.5)
Aug 2, 2003	15.2	15.0	24.1	23.9	(17.8)	(18.0)
Nov 1, 2003	(23.6)	(24.6)	(11.9)	(12.9)	(8.3)	(9.3)
Jan 31, 2004	(19.3)	(20.4)	(1.4)	(2.5)	1.9	0.8
Year ended Jan 31, 2004	(47.3)	(50.2)	(4.1)	(7.0)	(39.1)	(42.0)
13 weeks ended May 1, 2004	(23.3)	(23.8)	(10.6)	(11.1)	(7.3)	(7.8)

Stockholder’s deficit

	Group		Intermediate		Operating Corp	
as of	**as reported**	**as restated**	**as reported**	**as restated**	**as reported**	**as restated**
May 3, 2003	(420.9)	(421.5)	(13.9)	(14.5)	(13.9)	(14.5)
Aug 2, 2003	(415.6)	(416.4)	10.2	9.4	(31.7)	(32.5)
Nov 1, 2003	(442.3)	(441.1)	(1.7)	(3.5)	(40.0)	(41.8)
Jan 31, 2004	(465.2)	(468.1)	(3.1)	(6.0)	(38.1)	(41.0)
May 1, 2004	(491.8)	(495.2)	(13.7)	(17.1)	(45.3)	(48.7)

5. Reclassification

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

Forward-Looking Statements

Certain statements in this Report on Form 10-Q constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make written or oral forward-looking statements in our periodic reports to the Securities and Exchange Commission on Forms 10-K, 10-Q, 8-K, etc., in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from historical results, any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, competitive pressures in the apparel industry, changes in levels of consumer spending or preferences in apparel and acceptance by customers of the Company's products, overall economic conditions, governmental regulations and trade restrictions, acts of war or terrorism in the United States or worldwide, political or financial instability in the countries where the Company's goods are manufactured, postal rate increases, paper and printing costs, availability of suitable store locations at appropriate terms, the level of the Company's indebtedness and exposure to interest rate fluctuations, and other risks and uncertainties described in this report and the Company's other reports and documents filed or which may be filed, from time to time, with the Securities and Exchange Commission. These statements are based on current plans, estimates and projections, and therefore, you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made and we undertake no obligation to update publicly any of them in light of new information or future events.

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

Management's discussion and analysis of the results of operations are provided solely with respect to J. Crew Operating Corp. and its subsidiaries since substantially all of our operations are conducted by J. Crew Operating Corp. However, J. Crew Intermediate LLC and J. Crew Group, Inc. have outstanding additional debt securities and preferred stock and debt securities of J. Crew Group, Inc. are being held as an intercompany asset by Intermediate. Accordingly, information with respect to interest income and expense of each of those entities is also provided herein. The discussion of liquidity and capital resources pertains to J. Crew Group, Inc. and its consolidated subsidiaries, including J. Crew Intermediate LLC and J. Crew Operating Corp.

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 year ended January 31, 2004 filed with the Securities and Exchange Commission.

Restatement

As disclosed in the Company's Form 8-K filed with the SEC on September 10, 2004, the Company has restated its financial statements for the fiscal year ended January 31, 2004 and first quarter ended May 1, 2004 to reflect the write-off of prepaid sample costs that should have been expensed during these periods. (See Note 4 to the condensed consolidated financial statements.)

Results of Operations – Thirteen Weeks Ended July 31, 2004 Compared to Thirteen Weeks Ended August 2, 2003

Revenues for the thirteen weeks ended July 31, 2004 increased to $188.3 million from $167.1 million in the thirteen weeks ended August 2, 2003, an increase of 12.7%.

Revenues of the Retail division (which consists of J. Crew Retail stores and J. Crew Factory stores) increased by 14.6% to $138.7 million in the second quarter of 2004 from $121.0 million in the second quarter of 2003. This increase was due to an increase of 12.4% in comparable store sales in the second quarter of 2004, which reflects the continuing increase in the customer acceptance of our merchandise assortment. There were 155 J. Crew Retail stores and 42 J. Crew Factory stores open at July 31, 2004 and August 2, 2003.

Revenues of the Direct division (which consists of Internet and catalog operations) increased by 13.6% to $43.4 million in the second quarter of 2004 from $38.2 million in the second quarter of 2003. The increase in Direct revenues was due to (a) the increase in customer acceptance of our merchandise assortment and (b) the negative impact that clearance sales had on the revenues in the second quarter of 2003.

Other revenues, which consist of shipping and handling fees and royalties, decreased to $6.2 million in the second quarter of 2004 from $7.9 million in the second quarter of 2003. This was due to a decrease in shipping and handling fees which resulted from a reduction in the number of orders shipped in the Direct division.

Gross margin increased as a percentage of revenues to 39.4% in the second quarter of 2004 from 30.7% in the second quarter of 2003, an increase of 870 basis points. This increase is attributable to an increase in merchandise margins

resulting from decreased markdowns across all channels and a significant reduction in clearance activities.

Selling, general and administrative expenses decreased to $65.9 million (35.0% of revenues) in the second quarter of 2004 from $66.0 million (39.5% of revenues) in the second quarter of 2003. This decrease can be attributed primarily to a reduction in catalog selling expense in the Direct division due to a decrease in circulation and a decrease in depreciation and amortization, which was largely offset by increases in employment expense. Selling, general and administrative expenses decreased as a percentage of revenues primarily as a result of the increase in sales.

Interest expense, net, consists of:

	Operating Corp.	Intermediate	Group

	Operating Corp.	Intermediate	Group
Thirteen weeks ended July 31, 2004:			
Cash interest	$ 4,500	$ 4,500	$ 5,209
Non-cash interest:			
Interest on notes	250	6,342	6,342
Amortization of deferred financing costs	429	585	593
Amortization of debt issuance costs	—	1,925	1,925
Dividends on mandatorily redeemable preferred stock	—	—	8,041
Total non-cash interest	679	8,852	16,901
Total interest expense	$ 5,179	$ 13,352	$ 22,110
Thirteen weeks ended August 2, 2003:			
Cash interest	$ 4,377	$ 4,377	$ 5,479
Non-cash interest:			
Interest on notes	250	4,684	5,324
Amortization of deferred financing costs	343	460	466
Amortization of debt issuance costs	—	1,759	1,759
Total non-cash interest	593	6,903	7,549
Total interest expense	$ 4,970	$ 11,280	$ 13,028
Increase in interest expense	$ 209	$ 2,072	$ 9,082

The increase in interest expense at Intermediate of $2.1 million results primarily from additional interest and amortization of debt issuance costs as a result of the issuance of the 16% senior discount contingent principal notes due 2008 in connection with the exchange offer completed on May 6, 2003.

Group's interest expense increased by $9.1 million due primarily to the classification of $8.0 million of dividends on mandatorily redeemable preferred stock as interest expense commencing in the third quarter of 2003 (which were recorded as a direct charge to stockholders deficit prior to the third quarter of 2003), and additional interest and amortization of debt issuance costs of $1.3 million resulting from the exchange of Group's 13 1/8% senior discount debentures for the 16% senior discount contingent principal notes of Intermediate.

The second quarter of 2003 includes a gain on the exchange of debt of $41.1 million, (net of related expenses of $3.0 million) and insurance proceeds of $1.6 million related to our World Trade Center store.

No tax benefit was attributed to the pre-tax loss in the second quarter of 2004 and 2003. The net deferred tax assets at January 31, 2004 were fully reserved. No tax benefits are expected to be recognized in future results of operations until an appropriate level of profitability is sustained.

Results of Operations – Twenty-six Weeks Ended July 31, 2004 Compared to Twenty-six Weeks Ended August 2, 2003

Revenues for the twenty-six weeks ended July 31, 2004 increased to $333.7 million from $328.6 million in the twenty-six weeks ended August 2, 2003, an increase of 1.6%.

Revenues of the Retail division (which consists of J. Crew Retail stores and J. Crew Factory stores) increased to $242.7 million in the first half of 2004 from $218.6 million in the first half of 2003. This increase was due to an increase of 8.6% in comparable store sales in the first half of 2004 and sales from stores not open in the first half of 2003.

Revenues of the Direct division (which consists of Internet and catalog operations) decreased to $80.0 million in the first half of 2004 from $93.2 million in the first half of 2003. The decrease in Direct revenues was due to the decrease of $18.4 million in Direct revenues in the 2004 first quarter which resulted from (a) reduced circulation, (b) the reduction in clearance activities which particularly impacted the revenues of the Internet operation and (c) reduced inventory levels.

Other revenues, which consist of shipping and handling fees and royalties, decreased to $11.0 million in the first half of 2004 from $16.8 million in the first half of 2003. This was due to a reduction in shipping and handling fees as a result of the decline in the revenues of the Direct division and a reduction in the number of orders shipped.

Gross margin increased as a percentage of revenues to 40.4% in the first half of 2004 from 33.2% in the first half of 2003. This increase of 720 basis points was attributable primarily to an increase in merchandise margins from decreased markdowns across all channels and a significant reduction in clearance activities, reduced by increased buying and occupancy costs due to additional merchandise design expenses. The first half of 2003 was negatively impacted by clearance activities as we adopted a new inventory strategy of liquidating current season inventories in season and disposed of prior season inventories.

Selling, general and administrative expenses decreased to $129.4 million (38.8% of revenues) in the first half of 2004 from $134.3 million (40.9% of revenues) in the first half of 2003. This decrease can be attributed primarily to a reduction of $3.1 million in selling expense in the Direct division due to a decrease in circulation and a $3.9 million decrease in depreciation and amortization, which were partially offset by increases in employment expense. Selling, general and administrative expenses decreased as a percentage of revenues primarily as a result of the sales increase in the second quarter.

Interest expense, net, consists of:

	Operating Corp.	Intermediate	Group
Twenty-six weeks ended July 31, 2004:			
Cash interest	$ 8,731	$ 8,731	$ 10,149
Non-cash interest:			
Interest on notes	500	12,233	12,233
Amortization of deferred financing costs	861	1,145	1,163

Amortization of debt issuance costs	—	3,811	3,811
Dividends on mandatorily redeemable preferred stock	—	—	15,716
Total non-cash interest	1,361	17,189	32,923
Total interest expense	$ 10,092	$ 25,920	$ 43,072
Twenty-six weeks ended August 2, 2003:			
Cash interest	$ 8,765	$ 8,765	$ 10,135
Non-cash interest:			
Interest on notes	500	4,866	9,963
Amortization of deferred financing costs	765	890	933
Amortization of debt issuance costs	—	1,759	1,759
Total non-cash interest	1,265	7,575	12,655
Total interest expense	$ 10,030	$ 16,340	$ 22,790
Increase in interest expense	$ 62	$ 9,580	$ 20,282

The increase in interest expense at Intermediate of $9.6 million results primarily from additional interest expense of $6.7 million and amortization of debt issuance discount and deferred financing costs of $2.3 million associated with the issuance of the 16% senior discount contingent principal notes due 2008 in connection with the exchange offer completed on May 6, 2003.

Group's interest expense increased by $20.3 million due to the classification of $15.7 million of dividends on mandatorily redeemable preferred stock as interest expense commencing in the third quarter of 2003, (which were recorded as a direct charge to stockholders deficit prior to the third quarter of 2003) and additional interest and amortization of debt issuance costs resulting from the exchange of Group's 13 1/8% senior discount debentures for the 16% senior discount contingent principal notes of Intermediate.

The 2003 first half includes a gain on exchange of debt of $41.1 million (net of related expenses of $3.0 million) and insurance proceeds of $1.6 million related to our World Trade Center store.

No tax benefit was attributed to the pre-tax loss in the first half of 2004 and 2003. The net deferred tax assets at January 31, 2004 were fully reserved and no tax benefits are expected to be recognized in future results of operations until an appropriate level of profitability is sustained.

Liquidity and Capital Resources

Our sources of liquidity are primarily cash flows from operations and borrowings under our working capital credit facility. Our primary cash needs are for capital expenditures, incurred primarily for opening new stores and system maintenance and enhancements, debt service requirements and working capital.

On December 23, 2002, Operating Corp. entered into a Loan and Security Agreement with Wachovia Bank, N.A., as arranger, Congress Financial Corporation, as administrative and collateral agent, and a syndicate of lenders, which provides for maximum credit availability of up to $180.0 million (the "Congress Credit Facility"). The Congress Credit Facility expires in December 2005 and provides for revolving loans of up to $160.0 million; supplemental loans of up to $20.0 million each year during the period from April 15 to September 15; and letter of credit accommodations. The total amount of availability is limited to the sum of (a) 85% of eligible receivables, (b) 90% of the net recovery percentage of inventories (as determined by inventory appraisal) for the period of August 1 through November 30, or 85% of the net recovery percentage of inventories for the period December 1 through July 31 and (c) the remaining outstanding balance of the real estate availability loan.

The Congress Credit Facility includes restrictions, including the incurrence of additional indebtedness, the payment of dividends and other distributions, the making of investments, the granting of loans and the making of capital expenditures. We are required to maintain minimum levels of earnings before interest, taxes, depreciation, amortization and certain non-cash items ("EBITDA") if excess availability is less than $15.0 million for any 30 consecutive day period. We have at all times been in compliance with all financial covenants under the Congress Credit Facility.

At July 31, 2004, there was $21.2 million in availability under the Congress Credit Facility. There were no short-term borrowings under the Congress Credit Facility during the six month period ended July 31, 2004 and average short-term borrowings of $200 thousand during the six month period ended August 2, 2003.

Cash used in operations increased to $9.9 million in the first half of 2004 from $5.5 million in the first half of 2003, primarily as a result of the increase in inventories, which more than offset the increase in operating income.

Capital expenditures, net of construction allowances, were $4.2 million for the first half of 2004 compared to $4.8 million in the first half of 2003. Capital expenditures for fiscal year 2004 are expected to be approximately $10.0 million. Four new stores have opened to date in fiscal 2004 and an additional store is scheduled to open in October 2004.

Long-term indebtedness increased by $25.8 million in 2003, consisting of $20.0 million of notes payable due in 2008 and $5.8 million under the Congress Credit Facility which is repayable over a period of 60 months commencing June 1, 2003.

Management believes that invested cash, cash flow from operations, and availability under the Congress Credit Facility will provide adequate funds for our foreseeable working capital needs, planned capital expenditures and debt service obligations. Our ability to fund our operations and make planned capital expenditures, to make scheduled debt payments, to refinance indebtedness and to remain in compliance with the financial covenants under our debt agreements depends on our future 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 our control.

Off Balance Sheet Arrangements

We enter into letters of credit to facilitate the international purchase of merchandise. Standby letters of credit are required to secure certain obligations.

	Within 1 Year	2-3 Years	4-5 Years	After 5 Years	Total
			(dollars in millions)		
Letters of Credit					
Standby	$ —	$ —	$ —	$ 4.2	$ 4.2
Import	62.9	—	—	—	62.9
	$ 62.9	$ —	$ —	$ 4.2	$ 67.1

Contractual Obligations

The following summarizes our contractual obligations as of July 31, 2004 and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

	Within 1 Year	2-3 Years	4-5 Years	After 5 Years	Total
			(dollars in millions)		
Long-term debt obligations(1)	$ 1.2	$ 2.4	$ 351.7	$ —	$ 355.3
Redeemable preferred stock(2)	—	—	—	234.1	234.1
Operating lease obligations(3)	52.4	96.4	84.3	116.2	349.3
Purchase obligations:					
Inventory commitments	200.0	—	—	—	200.0
Other	4.5	9.0	2.4	—	15.9
Employment agreements	1.8	3.6	3.6	—	9.0
	$ 259.9	$ 111.4	$ 442.0	$ 350.3	$ 1,163.6

(1) Excludes unamortized debt issuance discount.
(2) Included in long-term debt in the financial statements.
(3) Operating lease obligations represent obligations under various long-term operating leases entered in the normal course of business for retail and factory stores, warehouses, office space and equipment requiring minimum annual rentals. Operating lease expense is a significant component of our operating expenses. The lease terms range for various rental markets and are entered into at different times, which mitigates exposure to market changes which could have a material effect on our results of operations within any given year.

Seasonality

We 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 31% of annual net sales in fiscal year 2003 occurred in the fourth quarter. Our working capital requirements also fluctuate throughout the year, increasing substantially in September and October in anticipation of the 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 year ended January 31, 2004 filed with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce our net income or net assets. Our variable rate debt consists of borrowings under the Congress Credit Facility. The interest rates are a function of the bank prime rate or LIBOR. A one percentage point increase in the base interest rate would result in approximately $100,000 change in income before taxes for each $10 million of borrowings.

We have a licensing agreement in Japan which provides for royalty payments based on sales of J. Crew merchandise as denominated in yen. We have entered into forward foreign exchange contracts from time to time in order to minimize this risk. At July 31, 2004, there were no forward foreign exchange contracts outstanding.

We enter into letters of credit to facilitate the international purchase of merchandise. The letters of credit are denominated in U.S. dollars. Outstanding letters of credit at July 31, 2004 were $67.1 million.

ITEM 4. CONTROLS AND PROCEDURES

With the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company has conducted an evaluation of its disclosure controls and procedures as of the end of the period covered by this Report. Based on such evaluation, the Company's Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Report.

There were no significant changes in the Company's internal controls over financial reporting during the period covered by this Report that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II – OTHER INFORMATION

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

A special meeting of the Company's shareholders was held on June 16, 2004. At the meeting, the grants of certain replacement equity awards under the Company's 2003 Equity Incentive Plan to Millard Drexler and Jeffrey Pfeifle were voted on and approved by the Company's shareholders for purposes of exempting them from the Golden Parachute Rules of Section 280G of the Internal Revenue Code. 10,666,753 shares were voted in favor of such awards and no shares were voted against or abstained from voting on this proposal.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

10.1* Stock Option Grant Agreement, dated as of May 12, 2004, between the Company and Millard Drexler.

10.2* Stock Option Grant Agreement, dated as of May 12, 2004, between the Company and Jeffrey Pfeifle.

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.

(b) Reports on Form 8-K.

The following report on Form 8-K was filed during the quarter covered by this report:

1. Form 8-K filed June 4, 2004 relating to the Company's financial results for the quarter ended May 1, 2004.

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*Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company.

J. CREW GROUP, INC.
(Registrant)

Date: September 14, 2004

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

Date: September 14, 2004

By: /s/ Amanda J. Bokman
Amanda J. Bokman
Executive Vice-President and
Chief Financial Officer

J. CREW INTERMEDIATE LLC
(Registrant)

Date: September 14, 2004

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

Date: September 14, 2004

By: /s/ Amanda J. Bokman
Amanda J. Bokman
Executive Vice-President and
Chief Financial Officer

J. CREW OPERATING CORP.
(Registrant)

Date: September 14, 2004

By: /s/ Millard S. Drexler

Millard S. Drexler
Chairman of the Board and
Chief Executive Officer

Date:	September 14, 2004	By:	/s/ Amanda J. Bokman
			Amanda J. Bokman Executive Vice-President and Chief Financial Officer

STOCK OPTION GRANT AGREEMENT

THIS AGREEMENT, made as of this 12th day of May, 2004 between J.CREW GROUP INC. (the "Company") and Millard S. Drexler (the "Participant").

WHEREAS, the Company has adopted and maintains and the shareholders of the Company have approved the J.Crew Group, Inc. 2003 Equity Incentive Plan (the "Plan") to promote the interests of the Company and its stockholders by providing the Company's key employees and others with an appropriate incentive to encourage them to continue in the employ of the Company and to improve the growth and profitability of the Company;

WHEREAS, the Plan provides for the Grant to Participants in the Plan of Non-Qualified Stock Options to purchase shares of Common Stock of the Company;

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties hereto hereby agree as follows:

1. Grant of Options. Pursuant to, and subject to, the terms and conditions set forth herein and in the Plan, the Company hereby Grants to the Participant the following NON-QUALIFIED STOCK OPTIONS (collectively, the "Options"):

(a) Premium Option Tranche 1. An Option with respect to 836,889 shares of Common Stock of the Company (the "Premium Option Tranche 1"); and

(b) Premium Option Tranche 2. An Option with respect to 836,889 shares of Common Stock of the Company (the "Premium Option Tranche 2" and together with the Premium Option Tranche 1, the "Premium Options").

2. Grant Date. The Grant Date of the Options hereby granted is March 26, 2004.

3. Incorporation of the Plan; Modification of Specific Sections of the Plan.

(a) Incorporation of the Plan. Except as otherwise provided herein, all terms, conditions and restrictions of the Plan are incorporated herein and made part hereof as if stated herein. Notwithstanding anything to the contrary in the Plan, if there is any conflict between the terms and conditions of the Plan and this Agreement, the terms and conditions of this Agreement, as interpreted by the Committee, shall govern. Unless otherwise indicated herein, all capitalized terms used herein shall have the meanings given to such terms in the Plan. Notwithstanding anything to the contrary in the Plan, the Committee shall interpret the Plan and this Agreement in a manner consistent with the terms of the Plan and this Agreement and such interpretation and determination shall be final and binding on all parties.

(b) Modification of Sections 5.11 and 5.12 of the Plan.

(i) Section 5.11. The last sentence of Section 5.11 of the Plan shall not apply to the Options, unless the Participant provides his prior written consent to such application.

(ii) Section 5.12. The last sentence of Section 5.12 of the Plan shall not apply to the Options, unless the Participant provides his prior written consent to such application. The remaining provisions of Section 5.12 of the Plan shall be applicable to the Options only to the extent that the rights in such Section are being exercised in connection with the exercise of and in accordance with the terms of Sections 5(a) or 5(b) of the Stockholders' Agreement, dated as of January 24, 2003, between the Company, the Participant and TPG Partners II, L.P. (the "Stockholders' Agreement").

4. Exercise Price. The exercise price of each share underlying the Options are as follows:

(a) Premium Option Tranche 1. $15.00 per share; and

(b) Premium Option Tranche 2. $25.00 per share.

5. Vesting Date. The Options shall become exercisable as follows: 25% of the shares of Common Stock underlying each Option shall vest on January 27, 2005; 25% of the shares of Common Stock underlying each Option shall vest on January 27, 2006; 25% of the shares of Common Stock underlying each Option shall vest on January 27, 2007; and 25% of the shares of Common Stock underlying each Option shall vest on January 27, 2008; provided that the Service Period (as defined in the

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Services Agreement, dated as of January 24, 2003, between the Company, J. Crew Operating Corp., the Participant and Millard S. Drexler, Inc. (the "Services Agreement")) has not terminated as of each such applicable Vesting Date. Notwithstanding the foregoing, (i) in the event that the Company terminates the Services without Cause (as each term is defined in the Services Agreement) or the Participant terminates the Services for Good Reason (as defined in the Services Agreement) prior to the consummation of a Change in Control (as defined in the Plan), that portion of each Option that would have become vested and exercisable on the next succeeding Vesting Date shall vest and become immediately exercisable and any remaining portion of each Option that has not become vested and exercisable shall immediately expire and be forfeited, (ii) in the event that, within the two-year period following the consummation of a Change in Control, the Company terminates the Services without Cause or the Participant terminates the Services for Good Reason, all or any portion of each Option that has not yet become exercisable shall vest and become immediately exercisable, or (iii) if the Service Period terminates for any other reason, any portion of each Option which has not become exercisable on the date of termination of the Services shall immediately expire and be forfeited. For the avoidance of doubt, the last sentence of Section 2(d) of the Plan does not apply to this Agreement.

6. Expiration Date. Subject to the provisions of the Plan and this Agreement, with respect to the Options (or any portions thereof) which have not become exercisable, the Options shall expire on the date the Services are terminated for any reason, and with respect to the Options (or any portions thereof) which have become exercisable, the Options shall expire on the earlier of (A) the tenth anniversary of the date of Grant, (B) the commencement of business on the date the Services are terminated for Cause, (C) ninety days after the Services are terminated by the Participant without Good Reason, or (D) the second

anniversary of the date the Services are terminated (x) on account of the Participant's death or Disability, (y) by the Company without Cause, or (z) by the Participant for Good Reason.

7. Right to Quarterly Reports. Following a termination of the Participant's Employment, as soon as reasonably practicable following its receipt of a written request from the Participant, the Company shall provide the Participant with a quarterly valuation of the Fair Market Value per share of Common Stock.

8. Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party hereto upon any breach or default of any party under this Agreement, shall impair any such right, power or remedy of such party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party or any provisions or conditions of this Agreement, shall be in writing and shall be effective only to the extent specifically set forth in such writing.

9. Limitation on Transfer. During the lifetime of the Participant, the Options shall be exercisable only by the Participant and a Permitted Transferee under this Section 9. The Options shall not be Transferred otherwise than in accordance with the terms and conditions of Section 5.6 of the Plan and Sections 5(a) or 5(b) of the Stockholders' Agreement. In the event of any such Transfer, such trust or custodianship or transferee shall be subject to all the restrictions, obligations, and responsibilities as apply to the Participant under the Plan and this Agreement and shall be entitled to all the rights of the Participant under the Plan. All shares of Common Stock obtained pursuant to the Options granted herein shall not be Transferred except as provided in the Plan and, where applicable, the Stockholders' Agreement. In the event of any purported Transfer of any portion of the Options in violation of the provisions of the Plan and this Agreement, such purported Transfer shall, to the extent permitted by applicable law, be void and of no effect.

10. Integration. This Agreement, the Plan and the Stockholders' Agreement, and the other documents referred to herein or delivered pursuant hereto which form a part hereof contain the entire understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, representations, warranties, covenants or undertakings with respect to the subject matter hereof other than those expressly set forth herein, in the Plan, the Services Agreement and the Stockholders' Agreement. This Agreement, the Plan, the Services Agreement and the Stockholders' Agreement supersede all prior agreements and understandings between the parties with respect to its subject matter.

11. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

12. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of NEW YORK, without regard to the provisions governing conflict of laws.

13. Participant Acknowledgment. The Participant hereby acknowledges receipt of a copy of the Plan. The Participant hereby acknowledges that all decisions, determinations and interpretations of the Committee in respect of the Plan, this Agreement and the Option shall be final and conclusive.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by its duly authorized officer and said Participant has hereunto signed this Agreement on the Participant's own behalf, thereby representing that the Participant has carefully read and understands this Agreement and the Plan as of the day and year first written above.

J.CREW GROUP INC.

/s/ Amanda Bokman
By: Amanda Bokman
Title:Chief Financial Officer

/s/ Millard S. Drexler
Millard S. Drexler

Exhibit 10.2

STOCK OPTION GRANT AGREEMENT

THIS AGREEMENT, made as of this 12th day of May, 2004, between J.CREW GROUP, INC. (the "Company") and Jeffrey A. Pfeifle (the "Participant").

WHEREAS, the Company has adopted and maintains the J.Crew Group, Inc. 2003 Equity Incentive Plan (the "Plan") to promote the interests of the Company and its stockholders by providing the Company's key employees and others with an appropriate incentive to encourage them to continue in the employ of the Company and to improve the growth and profitability of the Company;

WHEREAS, the Plan provides for the Grant to Participants in the Plan of Non-Qualified Stock Options to purchase shares of Common Stock of the Company;

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties hereto hereby agree as follows:

1. Grant of Options. Pursuant to, and subject to, the terms and conditions set forth herein and in the Plan, the Company hereby Grants to the Participant the following NON-QUALIFIED STOCK OPTIONS (collectively, the "Options"):

(a) Premium Option Tranche 1. An Option with respect to 111,585 shares of Common Stock of the Company (the "Premium Option Tranche 1"); and

(b) Premium Option Tranche 2. An Option with respect to 111,585 shares of Common Stock of the Company (the "Premium Option Tranche 2" and together with the Premium Option Tranche 1, the "Premium Options").

2. Grant Date. The Grant Date of the Options hereby granted is March 26, 2004.

3. Incorporation of the Plan. Except as otherwise provided herein, all terms, conditions and restrictions of the Plan are incorporated herein and made part hereof as if stated herein. Notwithstanding anything to the contrary in the Plan, if there is any conflict between the terms and conditions of the Plan and this Agreement, the terms and conditions of this Agreement, as interpreted by the Committee, shall govern. Unless otherwise indicated herein, all capitalized terms used herein shall have the meanings given to such terms in the Plan.

4. Exercise Price. The Exercise Price of each share underlying the Options are as follows:

(a) Premium Option Tranche 1. $15.00 per share; and

(b) Premium Option Tranche 2. $25.00 per share.

5. Vesting Date. The Options shall become exercisable as follows: 25% of the shares of Common Stock underlying each Option shall vest on February 1, 2005, 25% of the shares of Common Stock underlying each Option shall vest on February 1, 2006, 25% of the shares of Common Stock underlying each Option shall vest on February 1, 2007, and 25% of the shares of Common Stock underlying each Option shall vest on February 1, 2008; provided that the Participant remains continuously Employed by the Company through each such applicable Vesting Date. Notwithstanding the foregoing, (A) in the event that (x) the Company terminates the Participant's Employment without Cause (as defined in and pursuant to the Employment Agreement, dated as of January 24, 2003, between the Company, J. Crew Operating Corp., and the Participant (the "Employment Agreement")), the Participant terminates his Employment for Good Reason (as defined in and pursuant to the Employment Agreement) or the Participant's Employment terminates as a result of the Company's providing notice to the Participant of its intent not to renew the Employment Period (as defined in the Employment Agreement) prior to the consummation of a Change in Control or (y) the Participant's Employment is terminated on account of the Participant's death or Disability (as defined in and pursuant to the Employment Agreement) at any time during the Employment Period, the portion of each of the Options that would have become vested and exercisable on the next succeeding Vesting Date shall vest and become immediately exercisable and any remaining portion of the Options that has not become vested and exercisable shall immediately expire and be forfeited, (B) in the event that, within the two-year period following the consummation of a Change in Control or within six months prior to a Change in Control if such termination is in contemplation of the Change in Control, the Company terminates the Participant's Employment without Cause, the Participant terminates his Employment for Good Reason or the Participant's Employment terminates as a result of the Company's providing notice to the Participant of its intent not to renew the Employment Period, all shares of Common Stock underlying the Options shall become immediately vested and exercisable; and (C) if the Participant's Employment terminates for any other reason, any portion of the Options which has not become exercisable on such Date of Termination (as defined in the Employment Agreement) shall immediately expire and be forfeited.

6. Expiration Date. Subject to the provisions of the Plan and this Agreement, with respect to the Options (or any portions thereof) which have not become exercisable, the Options shall expire on the date the Participant's Employment is terminated for any reason, and with respect to any Options (or any portions thereof) which have become exercisable, the Options shall expire on the earlier of (A) the tenth anniversary of the Grant Date, (B) the commencement of business on the date the Participant's Employment is terminated for Cause, (C) ninety days after the Participant's Employment is terminated by the Participant without Good Reason, or (D) the second anniversary of the date the Participant's Employment is terminated (x) on account of the Participant's death or Disability, (y) by the Company without Cause, or (z) by the Participant for Good Reason.

7. Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party hereto upon any breach or default of any party under this Agreement, shall impair any such right, power or remedy of such party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party or any provisions or conditions of this Agreement, shall be in writing and shall be effective only to the extent specifically set forth in such writing.

8. Limitation on Transfer. During the lifetime of the Participant, the Options shall be exercisable only by the Participant. The Options shall not be assignable or transferable otherwise than by will or by the laws of descent and distribution. Notwithstanding the foregoing, the Participant may request authorization from the Committee to assign the Participant's rights with respect to the Options granted herein to a trust or custodianship, the beneficiaries of which may include only the Participant, the Participant's spouse or the Participant's lineal descendants (by blood or adoption), and, if the Committee grants such authorization, the Participant may assign the Participant's rights accordingly. In the event of any such assignment, such trust or custodianship, or in the event of the Participant's death, his beneficiaries or estate, shall be subject to all the restrictions, obligations, and responsibilities as apply to the Participant under the Plan and this Agreement and shall be entitled to all the rights of the Participant under the Plan. All shares of Common Stock obtained pursuant to the Option granted herein shall not be transferred except as provided in the Plan and, where applicable, the Stockholders' Agreement. In the event of any purported Transfer of any portion of the Options in violation of the provisions of the Plan and this Agreement, such purported Transfer shall, to the extent permitted by applicable law, be void and of no effect.

9. Integration. This Agreement, the Plan and the Stockholders' Agreement contain the entire understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, representations, warranties, covenants or undertakings with respect to the subject matter hereof other than those expressly set forth herein, in the Plan, the Employment Agreement and the Stockholders' Agreement. This Agreement, the Plan and the Stockholders' Agreement supersede all prior agreements and understandings between the parties with respect to its subject matter.

10. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

11. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of NEW YORK, without regard to the provisions governing conflict of laws.

12. Participant Acknowledgment. The Participant hereby acknowledges receipt of a copy of the Plan. The Participant hereby acknowledges that all decisions, determinations and interpretations of the Committee in respect of the Plan, this Agreement and the Options shall be final and conclusive.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by its duly authorized officer and said Participant has hereunto signed this Agreement on the Participant's own behalf, thereby representing that the Participant has carefully read and understands this Agreement and the Plan as of the day and year first written above.

J.CREW GROUP, INC.

/s/ Amanda Bokman
By: Amanda Bokman
Title: Chief Financial Officer

/s/ Jeffrey A. Pfeifle
Jeffrey A. Pfeifle

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

I, Millard S. Drexler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of J. Crew Group, Inc., J. Crew Intermediate LLC and J. Crew Operating Corp.;

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 each registrant as of, and for, the periods presented in this report;

4. Each 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)) for such 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 such 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) Evaluated the effectiveness of such 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

   c) Disclosed in this report any change in such 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, such registrant's internal control over financial reporting; and

5. Each registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to such registrant's auditors and the audit committee of such 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 such 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 such registrant's internal control over financial reporting.

Dated: September 14, 2004

/s/ Millard S. Drexler

Millard S. Drexler
Chairman of the Board and
Chief Executive Officer

Exhibit 31.2

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

I, Amanda J. Bokman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of J. Crew Group, Inc., J. Crew Intermediate LLC and J. Crew Operating Corp.;

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 each registrant as of, and for, the periods presented in this report;

4. Each 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)) for such 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 such 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) Evaluated the effectiveness of such 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

   c) Disclosed in this report any change in such 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, such registrant's internal control over financial reporting; and

5. Each registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to such registrant's auditors and the audit committee of such 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 such 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 such registrant's internal control over financial reporting.

Dated: September 14, 2004

/s/ Amanda J. Bokman

Amanda J. Bokman
Executive Vice-President 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., J. Crew Intermediate LLC and J. Crew Operating Corp. (collectively, the "Company") on Form 10-Q for the period ended July 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Millard S. Drexler, Chairman of the Board and Chief Executive Officer of the Company, and Amanda J. Bokman, Executive Vice-President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of each of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 14, 2004

/s/ Millard S. Drexler

Millard S. Drexler
Chairman of the Board and
Chief Executive Officer

/s/ Amanda J. Bokman

Amanda J. Bokman
Executive Vice-President and
Chief Financial Officer

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.