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 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 August 26, 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.

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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)

	July 30, 2016	January 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,160	$ 87,812
Merchandise inventories	391,642	372,410
Prepaid expenses and other current assets	67,329	65,605
Total current assets	508,131	525,827
Property and equipment, net	377,142	398,244
Intangible assets, net	455,200	460,744
Goodwill	107,900	107,900
Other assets	7,442	7,261
Total assets	$ 1,455,815	$ 1,499,976
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 251,163	$ 248,342
Other current liabilities	139,665	157,765
Interest payable	5,255	5,279
Income taxes payable	9,429	7,086
Current portion of long-term debt	15,670	15,670
Total current liabilities	421,182	434,142
Long-term debt, net	1,496,244	1,501,917
Lease-related deferred credits, net	133,466	131,812
Deferred income taxes, net	136,656	148,819
Other liabilities	54,353	52,273
Total liabilities	2,241,901	2,268,963
Stockholders' deficit:		
Common stock $0.01 par value; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	979,940	979,333
Accumulated other comprehensive loss	(17,829)	(16,791)
Accumulated deficit	(1,748,197)	(1,731,529)
Total stockholders' deficit	(786,086)	(768,987)
Total liabilities and stockholders' deficit	$ 1,455,815	$ 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 July 30, 2016	Thirteen Weeks Ended August 1, 2015
Revenues:		
Net sales	$ 554,998	$ 574,475
Other	14,822	19,174
Total revenues	569,820	593,649
Cost of goods sold, including buying and occupancy costs	366,621	390,264
Gross profit	203,199	203,385
Selling, general and administrative expenses	196,522	199,761
Impairment losses	—	1,047
Income from operations	6,677	2,577
Interest expense, net of interest income	20,621	17,454
Loss before income taxes	(13,944)	(14,877)
Benefit for income taxes	(5,317)	(1,309)
Net loss	$ (8,627)	$ (13,568)
Other comprehensive income (loss):		
Reclassification of losses on cash flow hedges, net of tax, to earnings	1,927	18
Unrealized loss on cash flow hedges, net of tax	(1,806)	(1,817)
Foreign currency translation adjustments	(1,153)	760
Comprehensive loss	$ (9,659)	$ (14,607)

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

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

	Twenty-six Weeks Ended July 30, 2016	Twenty-six Weeks Ended August 1, 2015
Revenues:		
Net sales	$ 1,108,216	$ 1,145,058
Other	29,103	30,395
Total revenues	1,137,319	1,175,453
Cost of goods sold, including buying and occupancy costs	729,167	755,546
Gross profit	408,152	419,907
Selling, general and administrative expenses	388,756	403,513
Impairment losses	5,396	534,409
Income (loss) from operations	14,000	(518,015)
Interest expense, net of interest income	38,836	34,763
Loss before income taxes	(24,836)	(552,778)
Benefit for income taxes	(8,168)	(76,798)
Net loss	$ (16,668)	$ (475,980)
Other comprehensive income (loss):		
Reclassification of losses on cash flow hedges, net of tax, to earnings	2,532	30
Unrealized loss on cash flow hedges, net of tax	(2,877)	(397)
Foreign currency translation adjustments	(693)	530
Comprehensive loss	$ (17,706)	$ (475,817)

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

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

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total stockholders' equity (deficit)
	Shares	Amount				
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	—	—	—	(16,668)	—	(16,668)
Share-based compensation	—	—	607	—	—	607
Reclassification of realized losses on cash flow hedges, net of tax of $1,619, to earnings	—	—	—	—	2,532	2,532
Unrealized loss on cash flow hedges, net of tax of $1,839	—	—	—	—	(2,877)	(2,877)
Foreign currency translation adjustments	—	—	—	—	(693)	(693)
Balance at July 30, 2016	1,000	$ —	$ 979,940	$(1,748,197)	$ (17,829)	$ (786,086)

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

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

	Twenty-six Weeks Ended July 30, 2016	Twenty-six Weeks Ended August 1, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (16,668)	$ (475,980)
Adjustments to reconcile to cash flows from operating activities:		
Depreciation of property and equipment	52,887	50,421
Amortization of intangible assets	5,544	7,759
Impairment losses	5,396	534,409
Reclassification of hedging losses to earnings	4,151	48
Amortization of deferred financing costs and debt discount	2,529	2,512
Share-based compensation	607	1,690
Foreign currency transaction gains	(1,579)	(112)
Changes in operating assets and liabilities:		
Merchandise inventories	(19,080)	(45,564)
Prepaid expenses and other current assets	(1,750)	(6,087)
Other assets	(622)	(391)
Accounts payable and other liabilities	(19,148)	20,549
Federal and state income taxes	(6,769)	(77,153)
Net cash provided by operating activities	5,498	12,101
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(36,137)	(45,544)
Net cash used in investing activities	(36,137)	(45,544)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of Term Loan Facility	(7,835)	(7,835)
Dividend and contribution to Parent	—	(38,172)
Net borrowings under the ABL Facility	—	10,000
Net cash used in financing activities	(7,835)	(36,007)
Effect of changes in foreign exchange rates on cash and cash equivalents	(178)	(250)
Decrease in cash and cash equivalents	(38,652)	(69,700)
Beginning balance	87,812	111,097
Ending balance	$ 49,160	$ 41,397
Supplemental cash flow information:		
Income taxes paid	$ 490	$ 776
Interest paid	$ 37,246	$ 37,020

See notes to unaudited condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the thirteen and twenty-six weeks ended July 30, 2016 and August 1, 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 $5.0 million and $5.1 million in the first half of fiscal 2016 and fiscal 2015, respectively, 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
Amortization expense	—	(1,383)	(1,025)	(112)	—
Balance at July 30, 2016	$ —	$ 11,372	$ 59,792	$ 4,041	$ 379,995
Total accumulated amortization or impairment losses at July 30, 2016	$ (27,010)	$ (49,638)	$ (22,208)	$ (776)	$ (505,305)

During the first half 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		For the Twenty-six Weeks Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 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)	—	1,047	5,396	3,204
Impairment losses	$ —	$ 1,047	$ 5,396	$ 534,409

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 was $380.0 million and $59.8 million, respectively, at July 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.

Accounting for Option Exchange

In the second quarter of fiscal 2016, the Parent completed an option exchange program (the "Option Exchange") which allowed eligible associates of the Company to exchange outstanding options for options with an exercise price of $0.10 per share. The new awards will vest over a four year period. The Option Exchange resulted in no incremental fair value of the options when comparing the value of the options immediately before and immediately after the exchange. Therefore, no additional expense will be recorded in connection with the Option Exchange.

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

	For the Thirteen Weeks Ended		For the Twenty-six Weeks Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Share-based compensation	$ 249	$ 397	$ 607	$ 1,690

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	(66,476,962)
Cancelled	51,386,962
Forfeited and available for reissuance	3,352,500
Available for grant at July 30, 2016	3,487,570

5. Long-Term Debt and Credit Agreements

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

	July 30, 2016	January 30, 2016
Term Loan Facility	$ 1,531,742	$ 1,539,578
Less current portion	(15,670)	(15,670)
Less deferred financing costs	(14,698)	(16,301)
Less discount	(5,130)	(5,690)
Long-term debt, net	$ 1,496,244	$ 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 July 30, 2016, standby letters of credit were $23.0 million, excess availability, as defined, was $311.3 million, and there were no borrowings outstanding. Average short-term borrowings under the ABL Facility were $5.4 million and $4.8 million in the first half of fiscal 2016 and fiscal 2015, respectively.

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 July 30, 2016, outstanding documentary letters of credit were $16.9 million, and aggregate availability under these facilities was $53.1 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 July 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 July 30, 2016.

Interest expense

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

	For the Thirteen Weeks Ended		For the Twenty-six Weeks Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Term Loan Facility	$ 15,558	$ 15,685	$ 31,092	$ 31,409
Realized hedging losses	3,158	67	4,153	130
Amortization of deferred financing costs and debt discount	1,265	1,256	2,529	2,512
Other interest, net of interest income	640	446	1,062	712
Interest expense, net	$ 20,621	$ 17,454	$ 38,836	$ 34,763

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:

	July 30, 2016	January 30, 2016
Interest rate caps (included in other assets)	$ —	$ —
Interest rate swaps (included in other liabilities)	$ (30,350)	$ (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 was $1,095 million and $1,051 million at July 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 July 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.

A summary of the impact of the impairment of certain long-lived assets on financial condition and results of operations is as follows:

	For the Thirteen Weeks Ended		For the Twenty-six Weeks Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Carrying value of long-term assets written down to fair value	$ —	$ 1,349	$ —	$ 1,349
Impairment charge	$ —	$ 1,047	$ 5,396	$ 3,204

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 half of fiscal 2016 was 33%. Items driving differences between the U.S. federal statutory rate of 35% and the effective rate include (i) lower rates in certain foreign jurisdictions, (ii) the recognition of certain foreign valuation allowances, (iii) reserves for uncertain tax positions, and (iv) state and local income taxes.

The effective tax rate for the first half 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 July 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 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 adoption of the new pronouncement is not expected to have a significant impact on the Company's 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 July 30, 2016, we operated 287 J.Crew retail stores, 170 J.Crew factory stores (including 27 J.Crew Mercantile stores), and 107 Madewell stores throughout the United States, Canada, the United Kingdom, Hong Kong, and France; compared to 283 J.Crew retail stores, 147 J.Crew factory stores (including one J.Crew Mercantile store), and 89 Madewell stores as of August 1, 2015.

A summary of revenues by brand for the second quarter is as follows:

(Dollars in millions)	For the Thirteen Weeks Ended July 30, 2016	For the Thirteen Weeks Ended August 1, 2015
J.Crew	$ 476.7	$ 506.5
Madewell	78.3	67.9
Other(a)	14.8	19.2
Total revenues	$ 569.8	$ 593.6

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

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

- Revenues decreased 4.0% to $569.8 million, with comparable company sales down 7.6%.
- J.Crew revenues decreased 5.9% to $476.7 million, with comparable J.Crew sales down 9.0%.
- Madewell revenues increased 15.2% to $78.3 million, with comparable Madewell sales up 2.8%.
- Income from operations increased to $6.7 million.
- We opened one J.Crew factory store, five J.Crew Mercantile stores and one Madewell store.

A summary of revenues by brand for the first half is as follows:

(Dollars in millions)	For the Twenty-six Weeks Ended July 30, 2016	For the Twenty-six Weeks Ended August 1, 2015
J.Crew	$ 957.5	$ 1,015.3
Madewell	150.7	129.8
Other(a)	29.1	30.4
Total revenues	$ 1,137.3	$ 1,175.5

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

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

- Revenues decreased 3.2% to $1,137.3 million, with comparable company sales down 7.1%.
- J.Crew revenues decreased 5.7% to $957.5 million, with comparable J.Crew sales down 8.5%.
- Madewell revenues increased 16.1% to $150.7 million, with comparable Madewell sales up 4.3%.

- Income from operations increased to $14.0 million.
- We opened one J.Crew retail store, one J.Crew factory store, seven J.Crew Mercantile stores and four 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 – Second Quarter of Fiscal 2016 compared to Second Quarter of Fiscal 2015

	For the Thirteen Weeks Ended July 30, 2016		For the Thirteen Weeks Ended August 1, 2015		Variance Increase /(Decrease)	
(Dollars in millions)	**Amount**	**Percent of Revenues**	**Amount**	**Percent of Revenues**	**Dollars**	**Percentage**
Revenues	$ 569.8	100.0%	$ 593.6	100.0%	$ (23.8)	(4.0)%
Gross profit	203.2	35.7	203.4	34.3	(0.2)	(0.1)
Selling, general and administrative expenses	196.5	34.5	199.8	33.6	(3.3)	(1.6)
Impairment losses	—	—	1.0	0.2	(1.0)	(100.0)
Income from operations	6.7	1.2	2.6	0.4	4.1	NM
Interest expense, net	20.6	3.6	17.5	2.9	3.1	18.1
Benefit for income taxes	(5.3)	(0.9)	(1.3)	(0.2)	(4.0)	NM
Net loss	$ (8.6)	(1.5)%	$ (13.6)	(2.3)%	$ 5.0	36.4%

Revenues

Total revenues decreased $23.8 million, or 4.0%, to $569.8 million in the second quarter of fiscal 2016 from $593.6 million in the second quarter last year, driven primarily by a decrease in sales of women's apparel, specifically shorts, knits and suiting. Comparable company sales decreased 7.6% following a decrease of 11.4% in the second quarter last year.

J.Crew sales decreased $29.8 million, or 5.9%, to $476.7 million in the second quarter of fiscal 2016 from $506.5 million in the second quarter last year. J.Crew comparable sales decreased 9.0% following a decrease of 13.4% in the second quarter last year.

Madewell sales increased $10.4 million, or 15.2%, to $78.3 million in the second quarter of fiscal 2016 from $67.9 million in the second quarter last year. Madewell comparable sales increased 2.8% following an increase of 8.1% in the second 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 July 30, 2016	For the Thirteen Weeks Ended August 1, 2015
Apparel:		
Women's	54%	55%
Men's	25	25
Children's	7	6
Accessories	14	14
	100%	100%

Other revenues decreased $4.4 million to $14.8 million in second quarter of fiscal 2016 from $19.2 million in the second quarter last year, primarily a result of a decrease in revenue from third party resellers.

Gross Profit

Gross profit decreased $0.2 million to $203.2 million in the second quarter of fiscal 2016 from $203.4 million in the second quarter last year. This decrease resulted from the following factors:

(Dollars in millions)	Increase/ (decrease)
Decrease in revenues	$ (11.4)
Increase in merchandise margin	14.4
Increase in buying and occupancy costs	(3.2)
Decrease in gross profit	$ (0.2)

Gross margin increased to 35.7% in the second quarter of fiscal 2016 from 34.3% in the second quarter last year. The increase in gross margin was driven by: (i) a 250 basis point increase in merchandise margin primarily due to decreased markdowns, offset by (ii) a 110 basis point increase in buying and occupancy costs as a percentage of revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $3.3 million to $196.5 million in the second quarter of fiscal 2016 from $199.8 million in the second quarter last year. This decrease primarily resulted from the following:

(Dollars in millions)	Increase/ (decrease)
Corporate occupancy actions	$ (5.3)
Charges related to a workforce reduction last year	(4.5)
Decrease in advertising and catalog costs	(0.9)
Increase in legal expense and settlement costs	1.4
Increase in share-based and incentive compensation	1.5
Increase in operating and corporate expenses	4.5
Total decrease in selling, general and administrative expenses	$ (3.3)

As a percentage of revenues, selling, general and administrative expenses increased to 34.5% in the second quarter of fiscal 2016 from 33.6% in the second quarter last year.

Interest Expense, Net

Interest expense, net of interest income, increased $3.1 million to $20.6 million in the second quarter of fiscal 2016 from $17.5 million in the second quarter last year. A summary of interest expense is as follows:

(Dollars in millions)	For the Thirteen Weeks Ended July 30, 2016	For the Thirteen Weeks Ended August 1, 2015
Term Loan Facility	$ 15.6	$ 15.7
Realized hedging losses	3.2	0.1
Amortization of deferred financing costs and debt discount	1.3	1.3
Other, net of interest income	0.5	0.4
Interest expense, net	$ 20.6	$ 17.5

Benefit for Income Taxes

The effective tax rate for the second quarter of fiscal 2016 was 38%. Items driving differences between the U.S. federal statutory rate of 35% and the effective rate include (i) lower rates in certain foreign jurisdictions, (ii) reserves for uncertain tax positions, (iii) the recognition of certain foreign valuation allowances, and (iv) state and local income taxes.

The effective tax rate for the second quarter of fiscal 2015 was 9%. Items driving differences between the U.S. federal statutory rate of 35% and the effective rate include (i) lower rates in certain foreign jurisdictions, (ii) state and local income taxes, and (iii) the recognition of certain foreign valuation allowances.

Net Loss

Net loss decreased $5.0 million to $8.6 million in the second quarter of fiscal 2016 from $13.6 million in the second quarter last year. This decrease was due to: (i) higher benefit for income taxes of $4.0 million, (ii) a decrease in selling, general and administrative expenses of $3.3 million and (iii) lower impairment losses of $1.0 million, offset by (iv) an increase in interest expense of $3.1 million and (v) a decrease in gross profit of $0.2 million.

Results of Operations – First Half of Fiscal 2016 compared to First Half of Fiscal 2015

	For the Twenty-six Weeks Ended July 30, 2016		For the Twenty-six Weeks Ended August 1, 2015		Variance Increase /(Decrease)	
(Dollars in millions)	**Amount**	**Percent of Revenues**	**Amount**	**Percent of Revenues**	**Dollars**	**Percentage**
Revenues	$ 1,137.3	100.0%	$ 1,175.5	100.0%	$ (38.2)	(3.2)%
Gross profit	408.2	35.9	419.9	35.7	(11.7)	(2.8)
Selling, general and administrative expenses	388.8	34.2	403.5	34.3	(14.7)	(3.7)
Impairment losses	5.4	0.5	534.4	45.5	(529.0)	(99.0)
Income (loss) from operations	14.0	1.2	(518.0)	(44.1)	532.0	NM
Interest expense, net	38.8	3.4	34.8	3.0	4.0	11.7
Benefit for income taxes	(8.2)	(0.7)	(76.8)	(6.5)	68.6	89.4
Net loss	$ (16.7)	(1.5)%	$ (476.0)	(40.5)%	$ 459.3	96.5%

Revenues

Total revenues decreased $38.2 million, or 3.2%, to $1,137.3 million in the first half of fiscal 2016 from $1,175.5 million in the first half last year, driven primarily by a decrease in sales of women's apparel, specifically knits, shorts and skirts. Comparable company sales decreased 7.1% following a decrease of 9.7% in the first half last year.

J.Crew sales decreased $57.8 million, or 5.7%, to $957.5 million in the first half of fiscal 2016 from $1,015.3 million in the first half last year. J.Crew comparable sales decreased 8.5% following a decrease of 11.5% in the first half last year.

Madewell sales increased $20.9 million, or 16.1%, to $150.7 million in the first half of fiscal 2016 from $129.8 million in the first half last year. Madewell comparable sales increased 4.3% following an increase of 9.7% in the first half last year.

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

	For the Twenty-six Weeks Ended July 30, 2016	For the Twenty-six Weeks Ended August 1, 2015
Apparel:		
Women's	55%	55%
Men's	23	23
Children's	7	7
Accessories	15	15
	100%	100%

Other revenues decreased $1.3 million to $29.1 million in first half of fiscal 2016 from $30.4 million in the first half last year, primarily a result of a decrease in revenue from third party resellers.

Gross Profit

Gross profit decreased $11.7 million to $408.2 million in the first half of fiscal 2016 from $419.9 million in the first half last year. This decrease resulted from the following factors:

(Dollars in millions)	Increase/ (decrease)
Decrease in revenues	$ (18.8)
Increase in merchandise margin	14.9
Increase in buying and occupancy costs	(7.8)
Decrease in gross profit	$ (11.7)

Gross margin increased to 35.9% in the first half of fiscal 2016 from 35.7% in the first half last year. The increase in gross margin was driven by: (i) a 140 basis point increase in merchandise margin primarily due to decreased markdowns, offset by (ii) a 120 basis point increase in buying and occupancy costs as a percentage of revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $14.7 million to $388.8 million in the first half of fiscal 2016 from $403.5 million in the first half last year. This decrease primarily resulted from the following:

(Dollars in millions)	Increase/ (decrease)
Corporate occupancy actions	$ (8.7)
Decrease in advertising and catalog costs	(6.7)
Charges related to a workforce reduction last year	(4.5)
Decrease in operating and corporate expenses	(1.2)
Increase in severance costs	1.4
Increase in share-based and incentive compensation	1.7
Increase in legal expense and settlement costs	3.3
Total decrease in selling, general and administrative expenses	$ (14.7)

As a percentage of revenues, selling, general and administrative expenses decreased to 34.2% in the first half of fiscal 2016 from 34.3% in the first half last year.

Impairment Losses

Impairment losses were $5.4 million in the first half of fiscal 2016 compared to $534.4 million in the first half last year. The impairment losses were the result of the write-down of the following assets:

(Dollars in millions)	For the Twenty-six Weeks Ended July 30, 2016	For the Twenty-six Weeks Ended August 1, 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	3.2
Impairment losses	$ 5.4	$ 534.4

Interest Expense, Net

Interest expense, net of interest income, increased $4.0 million to $38.8 million in the first half of fiscal 2016 from $34.8 million in the first half last year. A summary of interest expense is as follows:

(Dollars in millions)	For the Twenty-six Weeks Ended July 30, 2016	For the Twenty-six Weeks Ended August 1, 2015
Term Loan Facility	$ 31.1	$ 31.4
Realized hedging losses	4.2	0.1
Amortization of deferred financing costs and debt discount	2.5	2.5
Other, net of interest income	1.0	0.8
Interest expense, net	$ 38.8	$ 34.8

Benefit for Income Taxes

The effective tax rate for the first half of fiscal 2016 was 33%. Items driving differences between the U.S. federal statutory rate of 35% and the effective rate include (i) lower rates in certain foreign jurisdictions, (ii) the recognition of certain foreign valuation allowances, (iii) reserves for uncertain tax positions, and (iv) state and local income taxes.

The effective tax rate for the first half 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 $459.3 million to $16.7 million in the first half of fiscal 2016 from $476.0 million in the first half last year. This decrease was due to: (i) lower impairment losses of $529.0 million and (ii) a decrease in selling, general and administrative expenses of $14.7 million, offset by (iii) lower benefit for income taxes of $68.6 million, (iv) a decrease in gross profit of $11.7 million and (v) an increase in interest expense of $4.0 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 Twenty-six Weeks Ended July 30, 2016	For the Twenty-six Weeks Ended August 1, 2015
Net loss	$ (16.7)	$ (476.0)
Adjustments to reconcile to cash flows from operating activities:		
Depreciation of property and equipment	52.9	50.4
Amortization of intangible assets	5.5	7.8
Impairment losses	5.4	534.4
Reclassification of hedging losses to earnings	4.2	—
Amortization of deferred financing costs and debt discount	2.5	2.5
Share-based compensation	0.6	1.7
Foreign currency transaction gains	(1.6)	(0.1)
Changes in operating assets and liabilities	(47.3)	(108.6)
Net cash provided by operating activities	$ 5.5	$ 12.1

Cash provided by operating activities of $5.5 million in the first half of fiscal 2016 resulted from: (i) non-cash adjustments of $69.5 million, partially offset by (ii) net loss of $16.7 million and (iii) changes in operating assets and liabilities of $47.3 million primarily due to seasonal working capital fluctuations.

Cash provided by operating activities of $12.1 million in the first half of fiscal 2015 resulted from: (i) non-cash adjustments of $596.7 million, partially offset by (ii) net loss of $476.0 million and (iii) changes in operating assets and liabilities of $108.6 million due to the tax effect of the write off of an intangible asset and seasonal working capital fluctuations.

Investing Activities

(Dollars in millions)	For the Twenty-six Weeks Ended July 30, 2016	For the Twenty-six Weeks Ended August 1, 2015
Capital expenditures:		
New stores	$ 14.4	$ 20.6
Information technology	15.5	18.6
Other(1)	6.2	6.3
Net cash used in investing activities	$ 36.1	$ 45.5

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

Capital expenditures are planned at approximately $90 to $100 million for fiscal year 2016, including $35 to $40 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 Twenty-six Weeks Ended July 30, 2016	For the Twenty-six Weeks Ended August 1, 2015
Principal repayments of Term Loan Facility	$ (7.8)	$ (7.8)
Dividend and contribution to Parent	—	(38.2)
Net borrowings under the ABL Facility	—	10.0
Net cash used in financing activities	$ (7.8)	$ (36.0)

Cash used in financing activities of $7.8 million in the first half of fiscal 2016 resulted from the principal repayments of the Term Loan Facility.

Cash used in financing activities of $36.0 million in the first half 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, partially offset by (iii) net borrowings under the ABL 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 July 30, 2016, standby letters of credit were $23.0 million, excess availability, as defined, was $311.3 million, and there were no borrowings outstanding. Average short-term borrowings under the ABL Facility were $5.4 million and $4.8 million in the first half of fiscal 2016 and fiscal 2015, respectively.

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 July 30, 2016, outstanding documentary letters of credit were $16.9 million, and aggregate availability under these facilities was $53.1 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 July 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 $90 to $100 million, including $35 to $40 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 July 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	$ 23.0	$ 21.8	$ 0.9	$ 0.3	$ —
Documentary	16.9	16.9	—	—	—
	$ 39.9	$ 38.7	$ 0.9	$ 0.3	$ —

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 July 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 July 30, 2016 and January 30, 2016, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the thirteen weeks ended July 30, 2016 and August 1, 2015, (iii) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the twenty-six weeks ended July 30, 2016 and August 1, 2015, (iv) the Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the twenty-six weeks ended July 30, 2016 and the fifty-two weeks ended January 30, 2016, (v) the Condensed Consolidated Statements of Cash Flows for the twenty-six weeks ended July 30, 2016 and August 1, 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: August 31, 2016	By:	/s/ MILLARD DREXLER **Millard Drexler** **Chairman of the Board and Chief Executive Officer** **(Principal Executive Officer)**
Date: August 31, 2016	By:	/s/ MICHAEL J. NICHOLSON **Michael J. Nicholson** **President, Chief Operating Officer and** **Chief Financial Officer** **(Principal Financial Officer)**
Date: August 31, 2016	By:	/s/ JEREMY BROOKS **Jeremy Brooks** **Chief Accounting Officer** **(Principal Accounting Officer)**

EXHIBIT INDEX

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* 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: August 31, 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: August 31, 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 July 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: August 31, 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.