FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 1998

Commission file number 333-42427

J. CREW GROUP, INC.
(Exact name of registrant as specified in its charter)

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

770 Broadway, New York, New York 10003
(Address of principal executive offices)
(Zip code)

(212) 209-2500
(Registrant's telephone number, including area code)

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 x No

As of November 17, 1998, there were outstanding 60,745 shares of Common Stock, par value $.01 per share.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

J. CREW GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	October 31, 1998 (unaudited)	January 31, 1998
	(in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 22,069	$ 12,166
Accounts receivable (net of allowance for doubtful accounts of $5,579 and $5,438)	15,175	16,834
Merchandise inventories	277,207	202,763
Prepaid expenses and other current assets	62,403	62,399
Federal and state income taxes	12,319	--
Total current assets	389,173	294,162
PROPERTY AND EQUIPMENT--AT COST:	195,166	166,276
Less accumulated depreciation and amortization	(69,236)	(55,613)
	125,930	110,663
OTHER ASSETS	19,446	17,053
TOTAL ASSETS	$534,549	$421,878
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Notes payable--bank	$101,000	$ --
Accounts payable	112,984	65,553
Other current liabilities	53,291	77,700
Deferred income taxes	7,981	7,981
Federal and state income taxes	--	251
Total current liabilities	275,256	151,485
LONG-TERM DEBT	305,921	298,161
DEFERRED CREDITS AND OTHER LONG TERM LIABILITIES	44,991	43,578
REDEEMABLE PREFERRED STOCK	143,715	130,296
STOCKHOLDERS' DEFICIT	(235,334)	(201,642)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$534,549	$421,878

See notes to consolidated financial statements.

J. CREW GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Thirty-nine weeks ended October 31, 1998	Thirty-nine weeks ended November 1, 1997
	(unaudited) (in thousands)	
Net Sales	$554,249	$536,384
Other revenues	7,403	8,567
Revenues	561,652	544,951
Cost of goods sold including buying and occupancy costs	319,652	302,135
Gross profit	242,000	242,816
Selling, general and administrative expenses	246,580	244,566
Loss from operations	(4,580)	(1,750)
Interest expense - net	30,543	11,089
Expenses incurred in connection with recapitalization	---	19,851
Loss before income taxes and extraordinary item	(35,123)	(32,690)
Income tax benefit	14,100	5,100
Net loss before extraordinary item	(21,023)	(27,590)
Extraordinary item - loss on refinancing of debt ($7,627 net of income tax benefit of $3,127)	---	(4,500)
Net loss	$(21,023)	$(32,090)

See notes to consolidated financial statements

J. CREW GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Thirteen weeks ended October 31, 1998	Thirteen weeks ended November 1, 1997
	(unaudited) (in thousands)	
Net Sales	$216,600	$214,639
Other revenues	3,069	3,107
Revenues	219,669	217,746
Cost of goods sold including buying and occupancy costs	121,702	118,331
Gross profit	97,967	99,415
Selling, general and administrative expenses	81,216	86,653
Income from operations	16,751	12,762
Interest expense - net	10,962	4,461
Expenses incurred in connection with recapitalization	---	19,851
Income (loss) before income taxes and extraordinary item	5,789	(11,550)
Provision for income taxes	2,260	3,350
Net income (loss) before extraordinary item	3,529	(14,900)
Extraordinary item - loss on refinancing of debt ($7,627 net of income tax benefit of $3,127)	---	(4,500)
Net income (loss)	$3,529	$(19,400)

See notes to consolidated financial statements

J. CREW GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Thirty-nine weeks ended October 31, 1998	Thirty-nine weeks ended November 1, 1997
	(unaudited) (in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(21,023)	$(32,090)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on early retirement of debt	---	7,627
Depreciation and amortization	11,556	10,191
Amortization of deferred financing costs	1,852	2,268
Amortization of restricted stock	1,479	---
Non cash interest expense	7,760	---
Provision for losses on accounts receivable	5,627	4,946
Changes in assets and liabilities providing/(using) cash:		
Accounts receivable	(3,968)	35,640
Merchandise inventories	(74,444)	(62,849)
Prepaid expenses and other current assets	(4)	(11,149)
Income taxes receivable	(12,570)	(14,436)
Other assets	(6,019)	(464)
Account payable	47,431	12,369
Other liabilities	(22,932)	(8,218)
Net cash used in operating activities	(65,255)	(56,165)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(27,924)	(38,426)
Proceeds from construction allowances	4,014	8,745
Net cash used in investing activities	(23,910)	(29,681)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in notes payable, bank	101,000	47,000
Issuance of long-term debt	---	295,257
Costs incurred in connection with the issuance of debt	---	(16,429)
Repayment of long-term debt	---	(92,863)
Issuance of preferred stock	---	125,000
Issuance of common stock	---	63,891
Cost incurred in connection with the repurchase of capital stock	---	(13,462)
Distribution to stockholders	---	(316,688)
Net cash provided by financing activities	101,000	91,706
INCREASE IN CASH AND CASH EQUIVALENTS	9,903	5,860
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,166	7,132
CASH AND CASH EQUIVALENTS, END OF PERIOD	22,069	12,992
NON-CASH FINANCING ACTIVITIES		
Dividends on preferred stock	$ 13,419	$ ---

See notes to consolidated financial statements

J. CREW GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

THIRTY-NINE WEEKS ENDED NOVEMBER 1, 1997 AND OCTOBER 31, 1998

1. BASIS OF PRESENTATION

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

The consolidated balance sheet as of October 31, 1998 and the consolidated statements of operations and cash flows for the thirteen and thirty nine week periods ended November 1, 1997 and October 31, 1998 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 a fair presentation of the financial position of the Company, the results of its operations and cash flows, have been made.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's consolidated financial statements for the fiscal year ended January 31, 1998.

The results of operations for the thirteen and thirty nine week periods ended October 31, 1998 are not necessarily indicative of the operating results for the full fiscal year.

Effective January 31, 1998, the Company changed its fiscal year-end from the Friday closest to January 31 to the Saturday closest to January 31. The Company also changed its quarterly reporting periods to four thirteen week reporting periods from 12-16-12-12 week reporting periods. Prior year amounts have been restated to conform to a thirteen week period.

2. SUBSEQUENT EVENT

On November 24, 1998 the Company closed on the sale of its Popular Club Plan, Inc. ("PCP") subsidiary to Fingerhut, Inc. for proceeds of $42.0 million plus the assumption of $41.0 million under a securitization arrangement by a wholly-owned subsidiary of PCP. Under the terms of its credit agreement, the Company is required to use 80% of the proceeds (after related expenses) from the sale of assets to pay down the $70.0 million term loan.

The financial position and results of operations of PCP will be included in the consolidated financial statements of J. Crew Group, Inc. through November 1, 1998. Revenues were $49.2 million and $125.7 million for the three month and nine month periods ended October 31, 1998.

3. OTHER

In May 1998 the Company announced that it had retained an investment banking firm to find a buyer for its Clifford & Wills mail order and factory outlet divisions. The decision to sell this business reflects the Company's strategy to focus on building the J.Crew brand. Revenues from Clifford & Wills were $20.3 million and $53.0 million for the three month and nine month periods ended October 31, 1998.

Forward-Looking Statements

Certain statements in this Report on Form 10Q under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations", constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performances or achievements of the Company, or industry results to differ materially from historical results, any future results, performances or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, competitive pressures in the apparel industry, changes in levels of consumer spending or preferences in apparel and acceptance by customers of the Company's products, overall economic conditions, governmental regulations and trade restrictions, political or financial instability in the countries where the Company's goods are manufactured, postal rate increases, paper and printing costs, Year 2000 issues, the level of the Company's indebtedness and exposure to interest rate fluctuations, and other risks and uncertainties described in the Company's other reports and documents filed or which may be filed, from time to time, with the Securities and Exchange Commission. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

Results of Operations - Nine months ended October 31, 1998 versus nine months ended November 1, 1997

Revenues for the nine months ended October 31, 1998 increased to $561.7 million from $545.0 million in the nine months ended November 1, 1997, an increase of 3.1%. This increase resulted primarily from an increase in J.Crew Retail net sales of $39.2 million from $136.0 million in the first nine months of 1997 to $175.2 million in the first nine months of 1998, offset by a decrease in J.Crew Mail Order net sales of $13.3 million from $150.7 million in the first nine months of 1997, to $137.4 million in the first nine months of 1998. Other revenues decreased by $1.2 million due to a decrease in service charge income as a result of the sales of accounts receivable.

The increase in J.Crew Retail revenues was due primarily to the sales in the first nine months of 1998 from the 12 stores opened in fiscal 1997. Comparable store sales in the first nine months of 1998 increased by 7.8%. The number of stores opened at October 31, 1998 increased to 63 from 51 at January 31, 1998.

The decrease in J.Crew Mail Order revenues resulted from the elimination of a sale book in the first and third quarters of 1998 and a decrease in pages circulated from 5.5 billion in the first nine monthes of 1997 to 4.6 billion in the first nine months of 1998. The decrease in pages circulated resulted from a change in circulation strategy to increase the customer segmentation of catalog mailings. This reduction in pages circulated resulted in a decrease in paper and postage expense and an increase in productivity or sales per page circulated.

The gross margin for the nine months ended October 31, 1998 was $242.0 million or 43.1% of revenues compared to $242.8 million or 44.6% of revenues for the nine months ended November 1, 1997. The decrease in gross margin was due to a lower initial markup on spring merchandise in J.Crew Retail and J.Crew Mail Order and increased markdowns to dispose of inventory overstocks.

Selling, general and administrative expenses increased to $246.6 million for the nine months ended October 31, 1998 from $244.6 million for the nine months ended November 1, 1997. As a percentage of revenues, selling, general and administrative expenses were 43.9% of revenues in the first nine months of 1998 and 44.9% in the first nine months of 1997.

Selling expenses decreased from $79.0 million or 14.5% of revenues in the first nine months of 1997 to $77.7 million or 13.8% of revenues in the first nine months of 1998. Selling expenses in J.Crew Mail Order decreased by $3.5 million primarily as a result of the decrease in the number of pages circulated in 1998. This decrease was partially offset by an increase of $2.0 million at Clifford & Wills, resulting from an increase in circulation in 1998.

General and administrative expenses increased from $165.6 million or 30.4% of revenues in the first nine months of 1997 to $168.9 million or 30.1% of revenues in the first nine months of 1998. The dollar increase was attributed primarily to an increase in store-related expenses at J.Crew Retail resulting from the 12 stores opened in 1998 which offset a decrease attributable to the implementation of cost reduction programs.

The increase in interest expense from $11.1 million in the first nine months of 1997 to $30.5 million in the first nine months of 1998 resulted from the additional debt outstanding in the first nine months of 1998 as a result of the recapitalization transaction consummated in October 1997. Average borrowings under revolving credit arrangements were $49.3 million in the first nine months of 1998 compared to $67.3 million in the first nine months of 1997.

The increase in the loss before income taxes and extraordinary item from $32.7 million in the first nine months of 1997 to $35.1 million in the first nine months of 1998 resulted primarily from the increase in interest expense of $19.5 million and an increase in general and administrative expenses of $3.3 million. The loss in the 1997 period included $19.9 million of expenses incurred in connection with the recapitalization of the Company in October 1997.

The disproportionate tax rate in the nine month period ended November 1, 1997 resulted from the non-deductibility of certain expenses incurred in connection with the recapitalization.

Results of Operations - Three months ended October 31, 1998 versus three months ended Novemeber 1, 1997

Revenues for the three months ended October 31, 1998 increased to $219.7 million from $217.7 million in the three months ended November 1, 1997, an increase of .9%. This increase resulted primarily from an increase in J.Crew Retail net sales of $12.3 million from $54.8 million in the third quarter of 1997 to $67.1 million in the third quarter of 1998, offset by a decrease in J.Crew Mail Order net sales of $5.7 million from $59.8 million in the third quarter of 1997 to $54.1 million in the third quarter of 1998. Revenues in the third quarter of 1998 were also adversely impacted by a decrease in net sales in the Popular Club Plan division of $6.6 million compared to the third quarter of 1997.

The increase in J.Crew Retail revenues was due primarily to the sales in the third quarter of 1998 from the 12 stores opened in fiscal 1998. Comparable store sales in the third quarter of 1998 increased by 7.7%.

The decrease in J.Crew Mail Order revenues resulted primarily from the elimination of a sale book and a decrease in pages circulated in the third quarter of 1998 compared to the third quarter of 1997. Pages circulated in the third quarter of 1998 were 1.7 billion compared to 2.1 billion in the third quarter of 1997.

The gross margin for the three months ended October 31, 1998 was $98.0 million or 44.6% of revenues compared to $99.4 million or 45.7% of revenues for the three months ended November 1, 1997. The decrease in gross margin was due to increased markdowns to dispose of inventory overstocks.

Selling, general and administrative expenses decreased to $81.2 million for the three months ended October 31, 1998 from $86.7 million for the three months ended November 1, 1997. As a percentage of revenues, selling, general and administrative expenses were 37.0% of revenues in the third quarter of 1998 and 39.8% in the third quarter of 1997.

Selling expenses decreased from $25.9 million or 11.9% of revenues in the third quarter of 1997 to $23.0 million or 10.5% of revenues in the third quarter of 1998. This decrease was due primarily to an decrease of $2.7 million at J.Crew Mail Order, which resulted from a decrease in pages circulated in the third quarter of 1998 compared to the third quarter of 1997.

General and administrative expenses decreased from $60.8 million or 27.9% of revenues in the third quarter of 1997 to $58.2 million or 26.5% of revenues in the third quarter of 1998. This decrease of $2.6 million was attributed primarily to the effect of cost reductions programs offset by an increase in store-related expenses from the 12 additional retail stores opened in 1998.

The increase in interest expense from $4.5 million in the third quarter of 1997 to $11.0 million in the third quarter of 1998 resulted from the additional debt outstanding in the third quarter of 1998 as a result of the recapitalization transaction consummated in October 1997. Average borrowings under revolving credit arrangements were $80.1 million in the third quarter of 1998 compared to $86.0 million in the third quarter of 1997.

The increase in income before income taxes from a loss of $11.6 million in the third quarter of 1997 to income of $5.8 million in the third quarter of 1998 was due to the incurrence of $19.9 million of expenses in connection with the recapitalization of the Company in October 1997.

The disproportionate tax rate in the three month period ended November 1, 1997 resulted from the non-deductibility of certain expenses incurred in connection with the recapitalization.

Liquidity and Capital Resources

The Company's primary cash needs are for opening new stores, information technology, and working capital. The Company's sources of liquidity are cash flow from operations and borrowings under a $200.0 million revolving credit facility. Cash flow used in operations increased from a use of $56.2 million in the first nine months of 1997 to a use of $65.3 million in the first nine months of 1998. This increase was primarily due to the sale of $40.0 million of accounts receivable in October 1997 which was used in part to fund working capital requirements.

Borrowings under the revolving credit line increased to $101.0 million at October 31, 1998 from $47.0 million at November 1, 1997. Borrowings at November 1, 1997 were reduced as a result of the funds received from the sale of accounts receivable in October 1997.

Capital expenditures for the nine months ended October 31, 1998 were incurred primarily to fund the opening of 12 new retail stores.

Inventories at October 31, 1998 were $277.3 million compared to $260.5 million at November 1, 1997. This increase is attributable primarily to the increase in the number of retail stores in operation at the end of the third quarter of 1998 compared to the third quarter of 1997.

On November 24, 1998 the Company closed on the sale of its Popular Club Plan, Inc. ("PCP") subsidiary to Fingerhut Companies, Inc. for proceeds of $42.0 million plus the assumption of $41.0 million under a securitization arrangement by a wholly-owned subsidiary of PCP. Under the terms of its credit agreement, the Company is required to use 80% of the proceeds (after related expenses) from the sale of assets to pay down the $70.0 million term loan.

Management believes that cash flow from operations and availability under its revolving credit facility will provide adequate funds for the Company's working capital needs, planned capital expenditures and debt service obligations. The Company's ability to fund its operations and make planned capital expenditures, scheduled debt payments, refinance indebtedness and remain in compliance with the financial covenants under its debt agreements depends on its future operating performance and cash flow, which are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond its control.

Seasonality

The Company's retail and mail order businesses experience two distinct selling seasons, spring and fall. The spring season is comprised of the first and second quarters and the fall season is comprised of the third and fourth quarters. Net sales are usually substantially higher in the fall season and selling, general and administrative expenses as a percentage of net sales are usually higher in the spring season. Approximately 35% of annual net sales in fiscal 1997 occurred in the fourth quarter. The Company's working capital requirements also fluctuate throughout the year, increasing substantially in September and October in anticipation of the holiday season inventory requirements.

The Year 2000 Issue

The Year 2000 issue affecting most companies, including the Company, is caused by the inability of internal and external computer systems to recognize and process more than two digit entries in the date code field. Beginning with dates later than December 31, 1999, these date code fields will need to accept four digit entries to identify 21st century dates from 20th century dates.

The Company has adopted a Year 2000 plan consisting of the following four phases: identifying and prioritizing the components of the Company's internal systems, equipment and related programs that are impacted by the Year 2000 problem; remediation or replacement of non-compliant systems; testing to determine the success of remediation efforts; and development of contingency plans. The Company is also attempting to contact key vendors and third parties on whom it relies to obtain assurances that their systems will be Year 2000 compliant. The Company has substantially completed the first phase, expects to complete the second phase by the end of the third quarter of fiscal year 1999 and anticipates that the third phase would continue through December 1999. The Company plans to prepare any necessary contingency plans by Fall of 1999.

The Company is using internal programming resources, outside consulting services, system upgrades from existing vendors and replacement of existing packages with packages that are Year 2000 compliant. Certain of the key systems are being replaced to modernize existing systems, not just for Year 2000 compliance. Total expenditures relating to implementing the plan are currently estimated to be $11.0 million for fiscal years 1997 through 2000, a substantial portion of which will be capitalized expenditures relating to acquistion and implementation of new package systems. This cost estimate does not include time and costs that may be incurred by the Company as a result of failure of any third parties to become Year 2000 ready or costs to implement contingency plans. As of October 31, 1998, the Company has incurred costs of approximately $3.0 million relating to the Company's Year 2000 initiatives.

The Company believes that its Year 2000 compliance program is designed to identify and address Year 2000 issues that are subject to the Company's control. However, there can be no assurance that the Company's efforts will be fully effective and there are significant risks that are beyond the Company's control, including, without limitation, failure of (a) vendors to produce merchandise or perform services required by the Company, (b) utilities to deliver electricity, (c) shippers (including the U.S. Postal Service) to deliver merchandise, and (d) landlords to have the malls or buildings in which the Company has stores be Year 2000 compliant.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce net income or the net assets of the Company. The Company's variable rate debt consists of borrowings under the Revolving Credit Facility and the $70.0 million Term Loan Facility. In order to manage this interest rate risk, the Company entered into an interest rate swap agreement in October 1997 for $70.0 million notional principal amount, which decreased to $50.0 million as of October 21, 1998. This agreement, which has a term of three years, converts the interest rate on $50.0 million notional principal amount of debt to a fixed rate of 6.23%. If this interest rate swap agreement was settled on October 31, 1998, the Company would be required to pay an additional $1.6 million.

The Company enters into letters of credit to facilitate the international purchase of merchandise. The letters of credit are primarily denominated in U.S. dollars. Outstanding letters of credit at October 31, 1998 were approximately $58.9 million.

Furthermore, the Company has a licensing agreement in Japan which provides for royalty payments based on sales of J.Crew merchandise as denominated in yen. The Company has from time to time entered into forward foreign exchange contracts to minimize this risk. At October 31, 1998, there were two forward foreign exchange contracts outstanding which provide for the conversion of 130 million yen into U.S. dollars at rates of $1 = 135.3 Yen and $1 = 114.5 Yen.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

27. Financial Data Schedule.

(b) Reports on Form 8-K.

The Company did not file any reports on Form 8-K during the quarter for which this report is filed.

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: December 11, 1998

By: /s/ Howard Socol

Howard Socol
Chief Executive Officer

Date: December 11, 1998

By: /s/ Scott Rosen

Scott Rosen
Chief Financial Officer

5
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED
FROM CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY
REFERENCE TO SUCH FINANCIAL STATEMENTS: OF J. CREW GROUP, INC. AND SUBSIDIARIES.
1,000

9-MOS
JAN-31-1998
FEB-01-1998
OCT-31-1998
22,069
0
20,754
(5,579)
277,207
389,173
195,166
(69,236)
534,549
275,256
305,921
143,715
0
0
(235,334)
534,549
554,249
561,652
319,652
566,232
0
0
30,543
(35,123)
14,100
21,023
0
0
0
21,023
0
0