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 May 1, 2010

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.
001-32927		22-2894486

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

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

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

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

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

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

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

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

Common Stock	Outstanding at May 14, 2010
Common Stock, $.01 par value per share	**63,822,629 shares**

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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 shares)

	May 1, 2010	January 30, 2010
Assets		
Cash and cash equivalents	$ 332,302	$ 298,107
Merchandise inventories	193,081	190,231
Prepaid expenses and other current assets	27,578	29,522
Prepaid income taxes	—	1,455
Total current assets	552,961	519,315
Property and equipment – at cost	355,665	348,584
Less accumulated depreciation and amortization	(165,679)	(153,969)
	189,986	194,615
Deferred income taxes, net	14,851	14,851
Other assets	9,969	9,777
Total assets	$ 767,767	$ 738,558
Liabilities and Stockholders' Equity		
Accounts payable	$ 105,354	$ 127,733
Other current liabilities	90,793	106,652
Federal and state income taxes	17,699	—
Deferred income taxes, net	958	958
Total current liabilities	214,804	235,343
Long-term debt	49,229	49,229
Deferred credits	66,508	67,646
Other liabilities	10,474	10,462
Total liabilities	341,015	362,680
Stockholders' equity:		
Common stock ($.01 par value; 200,000,000 shares authorized; 65,174,889 and 65,069,863 shares issued; 63,830,520 and 63,778,998 shares outstanding)	652	649
Additional paid-in capital	622,130	613,383
Accumulated deficit	(189,005)	(233,731)
Treasury stock, at cost (1,344,369 and 1,290,865 shares held)	(7,025)	(4,423)
Total stockholders' equity	426,752	375,878
Total liabilities and stockholders' equity	$ 767,767	$ 738,558

See notes to unaudited condensed consolidated financial statements.

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J.CREW GROUP, INC.

Condensed Consolidated Statements of Operations
(unaudited)
(in thousands, except share data)

	Thirteen weeks ended	
	May 1, 2010	May 2, 2009
Revenues:		
Net sales	$ 404,336	$ 336,086
Other	9,543	9,684
Total revenues	413,879	345,770
Cost of goods sold, including buying and occupancy costs	211,281	199,833
Gross profit	202,598	145,937
Selling, general and administrative expenses	127,179	110,669
Income from operations	75,419	35,268
Interest expense – net	627	1,077
Income before income taxes	74,792	34,191
Provision for income taxes	30,066	13,746
Net income	$ 44,726	$ 20,445
Net income per share:		
Basic	$ 0.71	$ 0.33
Diluted	$ 0.68	$ 0.32
Weighted average shares outstanding:		
Basic	63,237	62,130
Diluted	66,053	63,319

See notes to unaudited condensed consolidated financial statements.

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J.CREW GROUP, INC.

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

	Thirteen weeks ended	
	May 1, 2010	May 2, 2009
Cash flows from operating activities:		
Net income	$ 44,726	$ 20,445
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	11,709	12,494
Amortization of deferred financing costs	226	336
Share-based compensation	3,574	2,625
Excess tax benefit from share-based compensation plans	(4,118)	(132)
Changes in operating assets and liabilities:		
Merchandise inventories	(2,850)	(6,879)
Prepaid expenses and other current assets	1,944	4,180
Other assets	(418)	121
Accounts payable and other liabilities	(39,376)	(22,224)
Federal and state income taxes	23,284	13,331
Net cash provided by operating activities	38,701	24,297
Cash flow from investing activities:		
Capital expenditures	(7,080)	(16,502)
Cash flows from financing activities:		
Excess tax benefit from share-based compensation plans	4,118	132
Proceeds from share-based compensation plans	1,058	221
Repurchase of common shares	(2,602)	—
Net cash provided by financing activities	2,574	353
Increase in cash and cash equivalents	34,195	8,148
Cash and cash equivalents – beginning of period	298,107	146,430
Cash and cash equivalents – end of period	$ 332,302	$ 154,578
Supplemental cash flow information:		
Income taxes paid	$ 6,856	$ 391
Interest paid	$ 254	$ 575

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Thirteen weeks ended May 1, 2010 and May 2, 2009
(Dollars in thousands, unless otherwise indicated)

1. Basis of Presentation

The condensed consolidated financial statements presented herein include the accounts of J.Crew Group, Inc. and its wholly owned subsidiaries (the “Company” or “Group”). All significant intercompany balances and transactions are eliminated in consolidation.

The condensed consolidated balance sheet as of May 1, 2010, the condensed consolidated statements of operations for the thirteen weeks ended May 1, 2010 and May 2, 2009, and the condensed consolidated statements of cash flows for the thirteen weeks ended May 1, 2010 and May 2, 2009 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments, consisting of only normal recurring adjustments necessary for the fair presentation of the financial position, results of operations and cash flows, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles has been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the consolidated financial statements filed in the Company’s Annual Report on Form 10-K for the fiscal year ended January 30, 2010 (“fiscal 2009”).

The results of operations for the thirteen weeks ended May 1, 2010 are not necessarily indicative of the operating results for the full fiscal year.

2. Share–Based Compensation

A summary of the impact of share-based awards on financial condition and results of operations is as follows:

	Thirteen Weeks Ended	
	May 1, 2010	May 2, 2009
Share-based compensation[a]	$ 3,574	$ 2,625
Proceeds from exercise of stock options	$ 1,058	$ 221
Proceeds from issuance of common stock under ASPP	—	—
Total proceeds from share-based compensation plans [b]	$ 1,058	$ 221
Excess tax benefit from share-based compensation plans[b]	$ 4,118	$ 132

(a) included in selling, general and administrative expenses
(b) included in stockholders’ equity

During the first quarter of fiscal 2010, the Company issued 10,000 stock options with a weighted average grant date fair value of $22.16. These options become exercisable with a weighted average exercise price of $41.15 over the requisite service period. The Company also issued 22,000 service-based restricted shares with a weighted average grant date fair value of $43.99. There have been no significant changes subsequent to the end of fiscal 2009 in the methods or assumptions used to measure share-based awards.

3. Income Taxes

Group files a consolidated federal income tax return, which includes all of its wholly owned subsidiaries. Each subsidiary files separate, or combined where required, state tax returns in required jurisdictions. Group and its subsidiaries have entered into a tax sharing agreement providing that each of the subsidiaries will reimburse Group for its share of income taxes based on the proportion of such subsidiaries’ tax liability on a separate return basis to the total tax liability of Group.

IRS examinations for the tax year ended January 2006 and prior years have been completed and settled. 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 2002 to 2008. The results of these audits and appeals are not expected to have a significant effect on the results of operations or financial position.

J.CREW GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Thirteen weeks ended May 1, 2010 and May 2, 2009
(Dollars in thousands, unless otherwise indicated)

The Company has $10.5 million in unrecognized tax benefits, reflected in other liabilities, including interest and penalties. The amount, if recognized, that would affect the effective annual tax rate is $7.6 million. While the Company expects the amount of unrecognized tax benefits to change in the next twelve months, the change is not expected to have a significant effect on the estimated effective annual tax rate, the results of operations or financial position. The outcome of tax matters is uncertain and unforeseen results can occur.

It is the Company's policy to recognize interest income and expense related to income taxes as a component of interest expense, and penalties as a component of selling, general and administrative expenses. The amount of interest and penalties accrued at May 1, 2010 was $0.8 million.

4. Debt and Credit Agreements

Debt

Long-term debt consists of the following:

	May 1, 2010	January 30, 2010
Term loan	$ 49,229	$ 49,229
Less current portion	—	—
Long-term debt	$ 49,229	$ 49,229

On May 15, 2006 (the "Closing Date"), J.Crew Operating Corp. ("Operating"), as borrower, Group and certain of Operating's direct and indirect subsidiaries, as guarantors, entered into a Credit and Guaranty Agreement (the "Credit and Guaranty Agreement") with certain lenders named therein as lenders, Goldman Sachs Credit Partners L.P. ("GSCP") and Bear, Stearns & Co. Inc. as joint lead arrangers and joint bookrunners, GSCP as administrative agent and collateral agent, Bear Stearns Corporate Lending Inc. as syndication agent and Wachovia Bank, National Association as documentation agent.

The total amount of the term loan (the "Term Loan") borrowed by Operating under the Credit and Guaranty Agreement on the Closing Date was $285.0 million. Borrowings bear interest, at the Company's option, at the base rate plus a margin of 0.75% or at LIBOR plus a margin of 1.75% per annum, payable quarterly. All borrowings will mature on May 15, 2013.

The Company is required to make the following annual principal payments based upon certain conditions as set forth in the Term Loan: (i) 1% per annum of the original principal balance of the Term Loan due in quarterly installments and (ii) an amount equal to 50% of excess cash flow, as defined in the agreement, due within 90 days of the fiscal year-end.

Credit Agreements

Credit Facility

On May 4, 2007, Group and certain of its subsidiaries, as guarantors, and Operating and certain of its subsidiaries, as borrowers, entered into a Second Amended and Restated Credit Agreement (the "Credit Facility") with Citicorp USA, Inc. ("Citicorp"), as administrative agent, Citicorp, as collateral agent, and Bank of America, N.A. and Wachovia Bank, National Association, as syndication agents.

The Credit Facility provides for revolving loans and letters of credit of up to $200 million (which amount may be increased to up to $250 million subject to certain conditions) at floating interest rates based on the base rate, as defined, plus a margin of up to 0.25% or LIBOR plus a margin ranging from 1.0% to 1.25%. The margin is based upon quarterly excess availability levels specified in the Credit Facility. The total amount of availability is limited to the sum of: (a) 100% of qualified cash, (b) 90% of eligible receivables, (c) the lesser of 90% of eligible inventory and 92.5% of the net recovery percentage of inventories (as determined by periodic inventory appraisals) for the period August 1 through December 31, or 90% of the net recovery percentage of inventories for the period January 1 through July 31, (d) 65% of the fair market value of eligible real estate, and (e) less any reserves established by Citicorp. The Credit Facility expires on May 4, 2013.

Borrowings under the Credit Facility are guaranteed by the Company and certain of its subsidiaries, and are secured by a perfected first priority security interest in substantially all of the Company's assets and those of certain of its subsidiaries. The Credit Facility includes restrictions on the Company's ability and the ability of certain of its subsidiaries to incur additional indebtedness and liens, pay dividends or make other distributions, make investments, dispose of assets and merge. If excess availability under the Credit Facility is less than $20 million at any time, then the Company's fixed charge coverage ratio for the most recently ended period of four consecutive fiscal quarters may not be less than 1.10 to 1.00 for that period.

(Dollars in thousands, unless otherwise indicated)

If an event of default occurs under the Credit Facility, the lenders may declare all amounts outstanding under the Credit Facility immediately due and payable. In such event, the lenders may exercise any rights and remedies they may have by law or agreement, including the ability to cause all or any part of the collateral securing the Credit Facility to be sold.

Operating has been in compliance with its financial covenants during the terms of these agreements.

There were no short-term borrowings during the first three months of fiscal 2010. Outstanding standby letters of credit were $4.6 million and excess availability, as defined, under the Credit Facility was $195.4 million at May 1, 2010.

Demand Letter of Credit Facility

On October 31, 2007, Operating entered into an unsecured, demand letter of credit facility with The Hong Kong and Shanghai Banking Corporation Limited that provides for the issuance of up to $35.0 million of documentary letters of credit on a no fee basis. Outstanding documentary letters of credit were $7.1 million and availability under this facility was $27.9 million at May 1, 2010.

5. Net Income Per Share

The calculation of basic and diluted income per share is as follows:

	Thirteen Weeks Ended	
	May 1, 2010	May 2, 2009
Net income	$ 44,726	$ 20,445
Income per share:		
Basic	$ 0.71	$ 0.33
Diluted	$ 0.68	$ 0.32
Weighted average common shares outstanding:		
Basic	63,237	62,130
Diluted	66,053	63,319

The number of shares of potentially dilutive securities excluded from the calculation of diluted earnings per share is as follows:

	Thirteen Weeks Ended	
	May 1, 2010	May 2, 2009
Stock options	596	1,183
Unvested restricted stock	26	6
Total	622	1,189

6. 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 Company does not have any financial assets or liabilities as of May 1, 2010 or January 30, 2010 that are measured in the financial statements at fair value on a recurring basis.

The fair value of the Company’s long-term debt is estimated to be approximately $47,260 at May 1, 2010 and January 30, 2010, and is based on quoted market prices of the debt (level 1 inputs). The carrying amounts of long-term debt were $49,229 at May 1, 2010 and January 30, 2010. 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 the short-term maturity of those financial instruments. The estimates presented herein are not necessarily indicative of amounts the Company could realize in a current market exchange.

J.CREW GROUP, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Thirteen weeks ended May 1, 2010 and May 2, 2009
(Dollars in thousands, unless otherwise indicated)

Non-financial assets and liabilities

Except for certain leasehold improvements, the Company does not have any non-financial assets or liabilities as of May 1, 2010 or January 30, 2010 that are measured in the financial statements at fair value.

The Company performs impairment tests of certain 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:

	Thirteen Weeks Ended	
	May 1, 2010	May 2, 2009
Carrying value of certain long-lived assets written down to fair value	$ —	$ 1,031
Impairment charge	$ —	$ 1,031

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. Many of these statements appear, in particular, under the headings “Condensed Consolidated Financial Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” 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 historical 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 materially from those expressed as forward-looking statements are set forth in this report, including but not limited to those under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended January 30, 2010 filed with the Securities and Exchange Commission (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.

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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, 2010 filed with the SEC. When used herein, the terms "Group," "Company," "we," "us" and "our" refer to J. Crew Group, Inc., including wholly owned consolidated subsidiaries.

Executive Overview

J.Crew® is a nationally recognized apparel and accessories retailer that we believe embraces a high standard of style, craftsmanship, quality and customer service. We are a fully integrated multi-brand, multi-channel, specialty retailer that operates stores and websites to consistently communicate our vision. We believe our customer base consists primarily of affluent, college-educated and professional and fashion-conscious women and men.

We have two primary sales channels: Stores, which consists of our J.Crew retail, J.Crew factory, clearance, crewcuts®, and Madewell® stores; and Direct, which consists of (i) our websites for the J.Crew, crewcuts and Madewell brands and (ii) our J.Crew and crewcuts catalogs. As of May 1, 2010, we operated 245 retail stores (including nine crewcuts, and 17 Madewell stores), 80 factory stores (including one crewcuts factory store), and three clearance stores, throughout the United States; compared to 234 retail stores (including seven crewcuts and 13 Madewell stores), 76 factory stores (including one crewcuts factory store) and two clearance stores as of May 2, 2009.

The following is a summary of our revenues for the thirteen week periods ended May 1, 2010 and May 2, 2009:

(Dollars in millions)	Thirteen Weeks Ended	
	May 1, 2010	May 2, 2009
Stores	$ 290.0	$ 240.7
Direct	114.3	95.4
Net sales	404.3	336.1
Other(a)	9.6	9.7
Total revenues	$ 413.9	$ 345.8

(a) Consists primarily of shipping and handling fees.

The following is a summary of first quarter fiscal 2010 highlights:

- Revenues increased 19.7% to $413.9 million.
- Comparable store sales increased 15.1%.
- Direct net sales increased 19.9% to $114.3 million.
- Income from operations increased to $75.4 million, or 18.2% of revenues.
- Pre-tax losses of Madewell decreased to $2.9 million in the first quarter of fiscal 2010 from $3.8 million in the first quarter last year.
- We opened two J.Crew retail stores and two J.Crew factory stores, one of which is temporarily closed due to flooding in Tennessee.

Results of Operations – First quarter of Fiscal 2010 compared to First quarter of Fiscal 2009

(Dollars in millions)	Thirteen Weeks Ended May 1, 2010 Amount	Thirteen Weeks Ended May 1, 2010 Percent of Revenues	Thirteen Weeks Ended May 2, 2009 Amount	Thirteen Weeks Ended May 2, 2009 Percent of Revenues	Increase / (Decrease) Dollars	Increase / (Decrease) Percentage
Revenues	$ 413.9	100.0%	$ 345.8	100.0%	$ 68.1	19.7%
Gross profit	202.6	49.0	145.9	42.2	56.7	38.8
Selling, general and administrative expenses	127.2	30.7	110.7	32.0	16.5	14.9
Income from operations	75.4	18.2	35.3	10.2	40.1	113.8
Interest expense, net	0.6	0.2	1.1	0.3	(0.5)	(41.8)
Income taxes	30.1	7.3	13.7	4.0	16.4	118.7
Net income	$ 44.7	10.8%	$ 20.4	5.9%	$ 24.3	118.8%

Revenues

Revenues increased $68.1 million, or 19.7%, to $413.9 million in the first quarter of fiscal 2010 from $345.8 million in the first quarter last year. This increase resulted from increases in comparable store sales and Direct sales, and non-comparable store sales.

Stores sales increased $49.3 million, or 20.5%, to $290.0 million in the first quarter of fiscal 2010 from $240.7 million in the first quarter last year. Comparable store sales increased 15.1% to $275.0 million in the first quarter of fiscal 2010 from $238.8 million last year. Comparable store sales decreased 5.1% in the first quarter of fiscal 2009. Non-comparable store sales were $15.0 million in the first quarter of fiscal 2010 due primarily to stores opened subsequent to the first quarter of last year.

Direct sales increased $18.9 million, or 19.9%, to $114.3 million in the first quarter of fiscal 2010 from $95.4 million in the first quarter last year. Direct sales decreased $5.5 million, or 5.5%, in the fiscal quarter of fiscal 2009.

The increase in Stores and Direct sales in the first quarter of fiscal 2010 was primarily driven by an increase in sales of women’s apparel, specifically knits, sweaters, and shirts. Sales of men’s and children’s apparel, and accessories also increased during the quarter.

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

	Thirteen Weeks Ended May 1, 2010	Thirteen Weeks Ended May 2, 2009
Apparel:		
Women’s	66%	69%
Men’s	18	16
Children’s(a)	5	3
Accessories	11	12
	100%	100%

(a) Our children’s apparel is distributed through crewcuts stores, shop-in-shops in some of our J.Crew retail and factory stores, our catalogs, and our J.Crew website

Other revenues, which consist primarily of shipping and handling fees, decreased $0.1 million, or 1.4%, to $9.6 million in the first quarter of fiscal 2010 from $9.7 million in the first quarter last year. This decrease resulted primarily from shipping and handling promotions offsetting the impact of shipping and handling fees from increased direct sales. Other revenues will decline as we increase the frequency of shipping and handling promotions.

Gross Profit

Gross profit increased $56.7 million to $202.6 million in the first quarter of fiscal 2010 from $145.9 million in the first quarter last year. This increase resulted from the following factors:

(Dollars in millions)	
Increase in revenues	$37.3
Increase in merchandise margin	23.5
Increase in buying and occupancy costs	(4.1)
	$56.7

Gross margin increased to 49.0% in the first quarter of fiscal 2010 from 42.2% in the first quarter last year. The increase in gross margin was driven by a 570 basis point expansion in merchandise margin due to decreased markdowns and a 110 basis point decrease in buying and occupancy costs as a percentage of revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $16.5 million, or 14.9%, to $127.2 million in the first quarter of fiscal 2010 from $110.7 million in the first quarter last year. This increase primarily resulted from the following:

Increases

- $7.1 million in Stores operating expenses—primarily payroll, payroll-related and maintenance;
- $4.9 million in corporate overhead—primarily payroll, payroll-related and consulting;
- $3.6 million in share-based and incentive compensation; and
- $1.4 million in advertising and marketing expenses.

Decreases

- $1.3 million of severance and related costs incurred last year related to our workforce reduction; and
- $1.0 million of impairment charges incurred last year related to underperforming stores.

As a percentage of revenues, selling, general and administrative expenses decreased to 30.7% in the first quarter of fiscal 2010 from 32.0% in the first quarter last year, primarily due to the above mentioned items.

Interest Expense, Net

Interest expense, net of interest income, decreased $0.5 million to $0.6 million in the first quarter of fiscal 2010 from $1.1 million in first quarter last year due primarily to lower debt outstanding resulting from a voluntary prepayment of $50.0 million in the fourth quarter of fiscal 2009.

Income Taxes

The income tax provisions reflect the estimated annual effective tax rate of approximately 40%.

Net Income

Net income increased $24.3 million to $44.7 million in the first quarter of fiscal 2010 from $20.4 million in the first quarter of fiscal 2009. This increase was due to a $56.7 million increase in gross profit and a $0.5 million decrease in interest expense, offset by $16.5 million increase in selling, general and administrative expenses and a $16.4 million increase in the provision for income taxes.

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 Credit Facility. Our primary cash needs are (i) capital expenditures in connection with opening new stores, remodeling existing stores and information technology system enhancements, (ii) working capital requirements and (iii) debt service requirements. The most significant components of our working capital are merchandise inventories, accounts payable and other current liabilities.

Operating Activities

	Thirteen Weeks Ended	
	May 1, 2010	May 2, 2009
	(amounts in millions)	
Net income	$ 44.7	$ 20.4
Adjustments to reconcile to net cash provided by operations:		
Depreciation and amortization of property and equipment	11.7	12.5
Amortization of deferred financing costs	0.2	0.3
Share-based compensation	3.6	2.6
Excess tax benefit from share-based compensation plans	(4.1)	(0.1)
Changes in operating assets and liabilities	(17.4)	(11.4)
Net cash provided by operations	$ 38.7	$ 24.3

Cash provided by operating activities in the first quarter of fiscal 2010 was $38.7 million and consisted of (i) net income of $44.7 million, (ii) adjustments to net income of $15.5 million, offset by (iii) changes in operating assets and liabilities (including the impact of excess tax benefits from share-based compensation plans) of $21.5 million due primarily to normal business fluctuations.

Cash provided by operating activities in the first quarter of fiscal 2009 was $24.3 million and consisted of (i) net income of $20.4 million, (ii) adjustments to net income of $15.4 million, offset by (iii) changes in operating assets and liabilities (including the impact of excess tax benefits from share-based compensation plans) of $11.5 million due primarily to normal business fluctuations.

Investing Activities

Capital expenditures were $7.1 million in the first quarter of fiscal 2010 compared to $16.5 million in the first quarter last year. Capital expenditures for the opening of new stores were $3.2 million and $10.6 million in the first quarter of fiscal 2010 and 2009, respectively. The remaining capital expenditures were for information technology enhancements, store renovations and corporate facilities. In light of unfavorable economic conditions we have slowed the pace of our store expansion for fiscal 2010. Capital expenditures are planned at approximately $55 million for fiscal year 2010, including $16 million for new stores and $20 million for information technology enhancements, and the remainder for store renovations and corporate facilities.

Financing Activities

	Thirteen Weeks Ended	
	May 1, 2010	May 2, 2009
	(amounts in millions)	
Excess tax benefit from share-based compensation plans	$ 4.1	$ 0.1
Proceeds from share-based compensation plans	1.1	0.2
Repurchase of common shares	(2.6)	—
Net cash provided by financing activities	$ 2.6	$ 0.3

Cash provided by financing activities in the first quarter of fiscal 2010 was $2.6 million due primarily to (i) excess tax benefits from share-based compensation plans of $4.1 million, (ii) proceeds from share-based compensation plans of $1.1 million offset by (iii) cash used to repurchase common shares of $2.6 million in connection with net settlements of restricted stock vestings.

Cash provided by financing activities in the first quarter of fiscal 2009 was $0.3 million due primarily to (i) proceeds from share-based compensation plans of $0.2 million and (ii) excess tax benefits from share-based compensation plans of $0.1 million.

Amended and Restated Credit Agreement

On May 4, 2007, Group and certain of its subsidiaries, as guarantors, and Operating and certain of its subsidiaries, as borrowers, entered into a Second Amended and Restated Credit Agreement (the "Credit Facility") with Citicorp USA, Inc. ("Citicorp"), as administrative agent, Citicorp, as collateral agent, and Bank of America, N.A. and Wachovia Bank, National Association, as syndication agents.

The Credit Facility provides for revolving loans and letters of credit of up to $200 million (which amount may be increased to up to $250 million subject to certain conditions) at floating interest rates based on the base rate, as defined, plus a margin of up to 0.25% or LIBOR plus a margin ranging from 1.0% to 1.25%. The margin is based upon quarterly excess availability levels specified in the Credit Facility. The total amount of availability is limited to the sum of: (a) 100% of qualified cash, (b) 90% of eligible receivables, (c) the lesser of 90% of eligible inventory and 92.5% of the net recovery percentage of inventories (as determined by periodic inventory appraisals) for the period August 1 through December 31, or 90% of the net recovery percentage of inventories for the period January 1 through July 31, (d) 65% of the fair market value of eligible real estate, and (e) less any reserves established by Citicorp. The Credit Facility expires on May 4, 2013.

Borrowings under the Credit Facility are guaranteed by the Company and certain of its subsidiaries, and are secured by a perfected first priority security interest in substantially all of the Company's assets and those of certain of its subsidiaries. The Credit Facility includes restrictions on the Company's ability and the ability of certain of its subsidiaries to incur additional indebtedness and liens, pay dividends or make other distributions, make investments, dispose of assets and merge. If excess availability under the Credit Facility is less than $20 million at any time, then the Company's fixed charge coverage ratio for the most recently ended period of four consecutive fiscal quarters may not be less than 1.10 to 1.00 for that period.

If an event of default occurs under the Credit Facility, the lenders may declare all amounts outstanding under the Credit Facility immediately due and payable. In such event, the lenders may exercise any rights and remedies they may have by law or agreement, including the ability to cause all or any part of the collateral securing the Credit Facility to be sold.

Operating has been in compliance with its financial covenants during the terms of these agreements.

There were no short-term borrowings during the first three months of fiscal 2010. Outstanding standby letters of credit were $4.6 million and excess availability, as defined, under the Credit Facility was $195.4 million at May 1, 2010.

Demand Letter of Credit Facility

On October 31, 2007, Operating entered into an unsecured, demand letter of credit facility with The Hong Kong and Shanghai Banking Corporation Limited that provides for the issuance of up to $35.0 million of documentary letters of credit on a no fee basis. Outstanding documentary letters of credit were $7.1 million and availability under this facility was $27.9 million at May 1, 2010.

Outlook

Our short-term and long-term liquidity needs arise primarily from capital expenditures associated with our growth strategy, principal and interest payments on our indebtedness and working capital requirements. Management anticipates that capital expenditures in fiscal 2010 will be approximately $55 million, primarily for opening new stores, information technology enhancements, store renovations and corporate facilities. As of May 1, 2010, excess availability, as defined, under the Credit Facility was $195.4 million. Our annual debt service obligations will change by $0.5 million per year for each 1.0% change in the average interest rate we pay based on the $49.2 million balance of variable interest rate debt outstanding at May 1, 2010. Management believes that our current balances of cash and cash equivalents, cash flow from operations and availability under the Credit Facility will be adequate to finance working capital needs, planned capital expenditures and debt service obligations for the next twelve months. Our ability to fund our operations and make planned capital expenditures, to make scheduled debt payments, to refinance indebtedness and to remain in compliance with the financial covenants under our debt agreements depends on our future financing activities, our future operating performance and our future cash flow, which in turn, are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond our control. See Item 1A. "Risk Factors" in part II of this report.

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 certain of our obligations, including insurance programs and duties related to import purchases. As of May 1, 2010, 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	$ 4.6	$ —	$—	$—	$ 4.6
Documentary	7.1	7.1	—	—	—
	$11.7	$ 7.1	$—	$—	$ 4.6

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. Approximately 29% of our revenues in fiscal year 2009 occurred in the fourth quarter. 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, 2010 filed with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce our net income or net assets. Our Credit Facility and Term Loan carry floating rates of interest that are a function of prime rate or LIBOR. A one percentage point per annum change in the interest rate on our variable rate debt would result in a change in income before taxes of approximately $100,000 for each $10.0 million of borrowings under the Credit Facility and approximately $0.5 million for the $49.2 million of borrowings under the Term Loan.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and our Chief Administrative Officer and 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 Administrative Officer and 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

The Company is a party to routine litigation arising in the ordinary course of its business. Although the amount of any liability that could arise with respect to these actions cannot be accurately predicted, in the Company's opinion, any such liability will not have a material adverse effect on its consolidated financial position, consolidated results of operations or liquidity.

ITEM 1A. RISK FACTORS

The Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2010 contains a detailed discussion of certain risk factors 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Articles of Incorporation and Bylaws

Exhibit No.	Document
3.1	Certificate of Incorporation of J. Crew Group, Inc. Incorporated by reference to Exhibit 3.1 to the S-1/A Registration Statement filed on October 11, 2005.
3.2	Bylaws of J. Crew Group, Inc. Incorporated by reference to Exhibit 3.2 to the Form 8-K/A filed on October 17, 2005.

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.

* Filed herewith.
** Furnished herewith.

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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: June 1, 2010

By: /S/ MILLARD DREXLER

Millard Drexler
Chairman of the Board and Chief Executive Officer

Date: June 1, 2010

By: /S/ JAMES SCULLY

James Scully
Chief Administrative Officer and Chief Financial Officer

EXHIBIT INDEX

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** 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: June 1, 2010

/S/ MILLARD DREXLER

Millard Drexler
Chief Executive Officer

Exhibit 31.2

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

I, James Scully, 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: June 1, 2010

/S/ JAMES SCULLY

James Scully
Chief Administrative 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 May 1, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Millard Drexler, Chief Executive Officer of the Company, and James Scully, Chief Administrative Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of each of our knowledge:

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

Date: June 1, 2010

/S/ MILLARD DREXLER

Millard Drexler
Chief Executive Officer

/S/ JAMES SCULLY

James Scully
Chief Administrative Officer and 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.