

**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 August 3, 2019**

**Or**

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

**Commission  
File Number  
333-175075**

**Registrant, State of Incorporation  
Address and Telephone Number**

**I.R.S. Employer  
Identification No.  
22-2894486**

**J.CREW GROUP, INC.**

**(Incorporated in Delaware)**

**225 Liberty Street  
New York, New York 10281  
Telephone: (212) 209-2500**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 September 13, 2019
Common Stock, \$.01 par value per share	1,000 shares

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

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

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

J.CREW GROUP, INC.  
 Condensed Consolidated Balance Sheets  
 (unaudited)  
 (in thousands, except share data)

	August 3, 2019	February 2, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 27,173	\$ 25,738
Restricted cash	3,728	13,747
Accounts receivable, net	42,059	40,342
Merchandise inventories, net	415,637	390,470
Prepaid expenses and other current assets	57,474	84,942
Refundable income taxes	4,531	7,331
Total current assets	550,602	562,570
Property and equipment, net	237,295	243,620
Right-of-use lease assets	501,787	—
Intangible assets, net	298,779	301,397
Goodwill	107,900	107,900
Other assets	12,618	6,164
Total assets	\$ 1,708,981	\$ 1,221,651
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 251,562	\$ 259,705
Other current liabilities	208,784	244,864
Borrowings under the ABL Facility	198,200	70,800
Current portion of right-of-use lease liabilities	113,831	—
Due to Parent	35,472	37,462
Interest payable	20,085	23,866
Current portion of long-term debt	21,600	32,070
Total current liabilities	849,534	668,767
Long-term debt, net	1,667,318	1,673,282
Long-term right-of-use lease liabilities	472,949	—
Lease-related deferred credits, net	—	105,877
Deferred income taxes, net	19,098	16,872
Other liabilities	35,064	29,096
Total liabilities	3,043,963	2,493,894
Stockholders' deficit:		
Common stock \$0.01 par value; 1,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	733,250	733,229
Accumulated other comprehensive loss	(4,275)	(1,967)
Accumulated deficit	(2,063,957)	(2,003,505)
Total stockholders' deficit	(1,334,982)	(1,272,243)
Total liabilities and stockholders' deficit	\$ 1,708,981	\$ 1,221,651

See notes to unaudited condensed consolidated financial statements.

**J.CREW GROUP, INC.**

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

	<b>For the Thirteen Weeks Ended August 3, 2019</b>	<b>For the Thirteen Weeks Ended August 4, 2018</b>
Revenues:		
Net sales	\$ 538,812	\$ 550,541
Other	50,017	37,032
Total revenues	588,829	587,573
Cost of goods sold, including buying and occupancy costs	379,383	361,572
Gross profit	209,446	226,001
Selling, general and administrative expenses	208,020	192,659
Impairment losses	2,962	—
Income (loss) from operations	(1,536)	33,342
Interest expense, net	37,727	34,400
Loss before income taxes	(39,263)	(1,058)
Provision for income taxes	4,959	5,036
Net loss	\$ (44,222)	\$ (6,094)
Other comprehensive income (loss):		
Reclassification of losses on cash flow hedges, net of tax, to earnings	1,137	365
Unrealized loss on cash flow hedges, net of tax	(2,632)	(201)
Foreign currency translation adjustments	138	(147)
Comprehensive loss	\$ (45,579)	\$ (6,077)

See notes to unaudited condensed consolidated financial statements.

**J.CREW GROUP, INC.**

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

	<b>For the Twenty-six Weeks Ended August 3, 2019</b>	<b>For the Twenty-six Weeks Ended August 4, 2018</b>
Revenues:		
Net sales	\$ 1,047,788	\$ 1,058,247
Other	119,547	69,776
Total revenues	<u>1,167,335</u>	<u>1,128,023</u>
Cost of goods sold, including buying and occupancy costs	<u>744,112</u>	<u>695,214</u>
Gross profit	423,223	432,809
Selling, general and administrative expenses	397,771	393,495
Impairment losses	<u>4,880</u>	<u>6,866</u>
Income from operations	20,572	32,448
Interest expense, net	<u>74,645</u>	<u>67,382</u>
Loss before income taxes	(54,073)	(34,934)
Provision for income taxes	<u>6,379</u>	<u>5,085</u>
Net loss	<u>\$ (60,452)</u>	<u>\$ (40,019)</u>
Other comprehensive income (loss):		
Reclassification of losses on cash flow hedges, net of tax, to earnings	804	1,361
Unrealized gain (loss) on cash flow hedges, net of tax	(3,298)	2,217
Foreign currency translation adjustments	<u>186</u>	<u>(478)</u>
Comprehensive loss	<u>\$ (62,760)</u>	<u>\$ (36,919)</u>

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

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

	Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' deficit
	Shares	Amount				
<b>Balance at February 3, 2018</b>	1,000	\$ —	\$ 733,071	\$ (1,883,426)	\$ (2,603)	\$(1,152,958)
Net loss	—	—	—	(33,925)	—	(33,925)
Share-based compensation	—	—	46	—	—	46
Reclassification of realized losses on cash flow hedges, net of tax, to earnings	—	—	—	—	996	996
Unrealized gain on cash flow hedges	—	—	—	—	2,418	2,418
Foreign currency translation adjustments	—	—	—	—	(331)	(331)
<b>Balance at May 5, 2018</b>	1,000	—	733,117	(1,917,351)	480	(1,183,754)
Net loss	—	—	—	(6,094)	—	(6,094)
Share-based compensation	—	—	74	—	—	74
Reclassification of realized losses on cash flow hedges, net of tax, to earnings	—	—	—	—	365	365
Unrealized loss on cash flow hedges	—	—	—	—	(201)	(201)
Foreign currency translation adjustments	—	—	—	—	(147)	(147)
<b>Balance at August 4, 2018</b>	1,000	\$ —	\$ 733,191	\$ (1,923,445)	\$ 497	\$(1,189,757)
<b>Balance at February 2, 2019</b>	1,000	\$ —	\$ 733,229	\$ (2,003,505)	\$ (1,967)	\$(1,272,243)
Net loss	—	—	—	(16,230)	—	(16,230)
Share-based compensation	—	—	4	—	—	4
Reclassification of realized gains on cash flow hedges, net of tax, to earnings	—	—	—	—	(333)	(333)
Unrealized loss on cash flow hedges	—	—	—	—	(666)	(666)
Foreign currency translation adjustments	—	—	—	—	48	48
<b>Balance at May 4, 2019</b>	1,000	—	733,233	(2,019,735)	(2,918)	(1,289,420)
Net loss	—	—	—	(44,222)	—	(44,222)
Share-based compensation	—	—	17	—	—	17
Reclassification of realized losses on cash flow hedges, net of tax, to earnings	—	—	—	—	1,137	1,137
Unrealized loss on cash flow hedges	—	—	—	—	(2,632)	(2,632)
Foreign currency translation adjustments	—	—	—	—	138	138
<b>Balance at August 3, 2019</b>	1,000	\$ —	\$ 733,250	\$ (2,063,957)	\$ (4,275)	\$(1,334,982)

See notes to unaudited condensed consolidated financial statements.

**J.CREW GROUP, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**(unaudited)**  
**(in thousands)**

	<b>For the Twenty-six Weeks Ended August 3, 2019</b>	<b>For the Twenty-six Weeks Ended August 4, 2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (60,452)	\$ (40,019)
Adjustments to reconcile to cash flows from operating activities:		
Depreciation of property and equipment	40,383	45,253
Impairment losses	4,880	6,866
Amortization of deferred financing costs and debt discount	3,591	3,579
Amortization of intangible assets	2,568	3,603
Deferred income taxes	2,553	5,508
Reclassification of hedging losses to earnings	804	1,854
Foreign currency transaction losses	447	229
Share-based compensation	21	120
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,717)	(12,445)
Merchandise inventories, net	(25,359)	(120,761)
Prepaid expenses and other current assets	13,556	(3,270)
Other assets	(6,801)	(1,214)
Accounts payable and other	(55,104)	41,847
Federal and state income taxes	4,584	(1,169)
Net cash used in operating activities	<u>(76,046)</u>	<u>(70,019)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	<u>(39,557)</u>	<u>(19,106)</u>
Net cash used in investing activities	<u>(39,557)</u>	<u>(19,106)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings under the ABL Facility	127,400	25,300
Proceeds from Notes	1,003	—
Principal repayments of Term Loan Facility	<u>(21,204)</u>	<u>(7,835)</u>
Net cash provided by financing activities	<u>107,199</u>	<u>17,465</u>
Effect of changes in foreign exchange rates on cash, cash equivalents and restricted cash	<u>(180)</u>	<u>(664)</u>
Decrease in cash, cash equivalents and restricted cash	<u>(8,584)</u>	<u>(72,324)</u>
Beginning balance	39,485	107,066
Ending balance	<u>\$ 30,901</u>	<u>\$ 34,742</u>
<b>Supplemental cash flow information:</b>		
Income taxes paid	<u>\$ 512</u>	<u>\$ 793</u>
Interest paid	<u>\$ 74,226</u>	<u>\$ 63,053</u>

See notes to unaudited condensed consolidated financial statements.

**J.CREW GROUP, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the thirteen and twenty-six weeks ended August 3, 2019 and August 4, 2018**  
**(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, 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 February 2, 2019.

The Company’s fiscal year ends on the Saturday closest to January 31. All references to “fiscal 2019” represent the 52-week fiscal year that will end on February 1, 2020 and to “fiscal 2018” represent the 52-week fiscal year that ended February 2, 2019.

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. 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 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. Revenue Recognition**

*Overview*

The Company generates revenue from three sources: (i) customers who shop in its brick-and-mortar stores, (ii) customers who shop on its websites and (iii) wholesale customers who buy and resell its merchandise. The Company recognizes revenue at (i) the point-of-sale in brick-and-mortar stores, (ii) the date of receipt by a customer in the e-commerce business and (iii) the time ownership is transferred in the wholesale business.



### Disaggregation of Revenue

A summary of disaggregated revenue is as follows:

	For the Thirteen Weeks Ended		For the Twenty-six Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
J.Crew	\$ 399,078	\$ 428,891	\$ 775,161	\$ 820,756
Madewell	139,734	121,650	272,627	237,491
Other revenues:				
Wholesale	38,839	25,107	98,140	48,354
Shipping and handling fees	9,231	8,806	16,849	16,127
Other	1,947	3,119	4,558	5,295
Total revenues	<u>\$ 588,829</u>	<u>\$ 587,573</u>	<u>\$ 1,167,335</u>	<u>\$ 1,128,023</u>

### Accounts Receivable

A summary of accounts receivable with respect to the Company's wholesale customers is as follows:

	August 3, 2019	February 2, 2019
Accounts receivable	\$ 42,137	\$ 40,439
Less allowance for doubtful accounts	(78)	(97)
Accounts receivable, net	<u>\$ 42,059</u>	<u>\$ 40,342</u>

### Contract Liabilities

The Company recognizes a contract liability when it has received consideration from a customer and has a future performance obligation to transfer merchandise to the customer. The Company's contract liabilities include (i) unredeemed gift cards and (ii) unredeemed loyalty program rewards.

With respect to unredeemed gift cards, the Company is obligated to transfer merchandise in the future when a holder uses a gift card to make a purchase. The contract liability for gift cards is increased when customers purchase cards, and decreased when (i) a customer redeems the card or (ii) the Company estimates the gift card will go unredeemed (referred to as "breakage"). All of the Company's gift cards do not have an expiration date, and are classified as a current liability.

With respect to unearned loyalty program rewards, the Company is obligated to transfer merchandise to the customer upon accumulating points to certain thresholds. The contract liability for unearned loyalty program rewards is increased as certain customers make qualifying purchases, and decreased when (i) a customer achieves a threshold and a rewards card is issued or merchandise is transferred or (ii) the expiration of accumulated points that did not reach a threshold.

Rollforwards of the liabilities for gift cards and loyalty program awards are as follows:

	Unredeemed Gift Cards			
	For the Thirteen Weeks Ended		For the Twenty-six Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Balance at beginning of period	\$ 32,962	\$ 28,882	\$ 36,167	\$ 32,665
Issuance of cards	14,657	14,274	26,888	27,495
Redemption of cards	(13,830)	(14,382)	(28,531)	(30,345)
Recognition of estimated breakage	(807)	(867)	(1,617)	(1,788)
Other	261	24	336	(96)
Balance at end of period	<u>\$ 33,243</u>	<u>\$ 27,931</u>	<u>\$ 33,243</u>	<u>\$ 27,931</u>

	<b>Unredeemed Loyalty Program Rewards</b>			
	<b>For the Thirteen Weeks Ended</b>		<b>For the Twenty-six Weeks Ended</b>	
	<b>August 3, 2019</b>	<b>August 4, 2018</b>	<b>August 3, 2019</b>	<b>August 4, 2018</b>
Balance at beginning of period	\$ 15,392	\$ 3,914	\$ 13,830	\$ 8,422
Earning of loyalty program points	8,221	4,615	17,493	8,152
Redemption of cards	(6,632)	(2,048)	(12,065)	(9,511)
Recognition of estimated breakage	485	(1,136)	(1,784)	(1,903)
Other	(23)	31	(31)	216
Balance at end of period	<u>\$ 17,443</u>	<u>\$ 5,376</u>	<u>\$ 17,443</u>	<u>\$ 5,376</u>

### 3. Leases

#### *Overview*

The Company is party to various long-term operating lease agreements in connection with the leasing of its brick-and-mortar stores and its corporate offices. These operating leases expire on varying dates through 2034, with a portion of these leases containing options to renew for periods of up to 5 years. Generally, these leases contain standard provisions concerning the payment of rent, events of default and the rights and obligations of each party. Rent due under the leases is typically comprised of annual base rent plus a contingent rent payment based on the store's sales in excess of a specified threshold. Some of the leases also contain early termination options, which can be exercised by the Company or the landlord under certain conditions. The leases ordinarily require the Company to pay real estate taxes, insurance, certain utilities and common area costs.

#### *Accounting for Leases*

Historically, these operating leases were accounted for by expensing rent payments on a straight-line basis after consideration of rent holidays, step rent provisions and escalation clauses. Differences between rental expense, which was recognized from the date of possession, and actual rental payments were recorded as deferred rent and included in deferred credits. No liabilities were recognized on the balance sheet for long-term obligations pursuant to these lease agreements.

During the first quarter of fiscal 2019, however, the Company adopted pronouncements that were issued with respect to the accounting for leases. The pronouncements require lessees to recognize right-of-use lease assets ("ROU assets") and right-of-use lease liabilities ("ROU liabilities") for leases with terms of more than one year. The ROU liabilities are measured as the present value of the lease obligations. The ROU assets reflect the amount of the ROU liabilities less lease-related deferred credits. The Company used the effective date method whereby initial application occurred on the date of adoption with comparative periods unchanged.

Upon adoption of the new standard, the Company recorded a significant gross-up to the balance sheet, including ROU assets of \$533.5 million and ROU liabilities of \$624.6 million. The Company utilized the package of practical expedients permitted by the transition guidance, which allowed for a carryforward of its identification of leases, historical lease classification and initial direct costs for existing leases. The Company elected to use hindsight in determining lease term.

The new pronouncement requires a company to discount its ROU liabilities using implicit rates of return in the underlying leases. To the extent these rates of return cannot be readily determined, a company is permitted to use its incremental borrowing rate, which is required to be a collateralized rate for a period of time that corresponds to the remaining lease term.

A summary of the components of lease expense included in the statement of operations is as follows:

	<b>For the Thirteen Weeks Ended</b>	<b>For the Twenty-six Weeks Ended</b>
	<b>August 3, 2019</b>	<b>August 3, 2019</b>
	Operating lease cost	\$ 35,899
Variable lease cost	25,733	54,483
Total lease cost	<u>\$ 61,632</u>	<u>\$ 125,498</u>

As of August 3, 2019, the weighted-average remaining lease term was 8.2 years and the weighted-average discount rate was 9.01%. The Company paid \$78.3 million in the first half of fiscal 2019 for amounts included in the measurement of the ROU liabilities.

A reconciliation of undiscounted cash flows to the ROU liabilities is as follows:

Fiscal year	Amount
Remainder of 2019	\$ 77,354
2020	130,398
2021	129,028
2022	114,429
2023	89,116
Thereafter	312,318
Total lease payments	\$ 852,643
Less: interest	(265,863)
Present value of ROU liabilities	\$ 586,780
	<b>August 3, 2019</b>
Current portion of ROU liabilities	\$ 113,831
Long-term ROU liabilities	472,949
Total ROU liabilities	\$ 586,780

A summary of aggregate minimum rent at February 2, 2019 is as follows:

Fiscal year	Amount
2019	\$ 146,282
2020	132,209
2021	121,330
2022	107,245
2023	78,925
Thereafter	313,800
Total	\$ 899,791

#### 4. Debt Exchange and Refinancing

##### *Transaction Overview*

In the second quarter of fiscal 2017, the Parent and certain of its subsidiaries completed the following interrelated liability management transactions:

- a private exchange offer (the “Exchange Offer”) pursuant to which \$565.7 million aggregate principal amount of the outstanding 7.75%/8.50% Senior PIK Toggle Notes due 2019 (the “PIK Notes”) issued by Chinos Intermediate Holdings A, Inc., a direct wholly-owned subsidiary of the Parent (the “PIK Notes Issuer”), were exchanged for aggregate consideration consisting of:
  - \$249,596,000 aggregate principal amount of 13% Senior Secured Notes due 2021 issued by J.Crew Brand, LLC and J.Crew Brand Corp. (the “Exchange Notes”), which are secured primarily by the U.S. intellectual property assets held by J.Crew Domestic Brand, LLC (“IPCo”);
  - 189,688 shares of Parent’s 7% non-convertible perpetual series A preferred stock, no par value per share, with an aggregate initial liquidation preference of \$189,688,000 (the “Series A Preferred Stock”) (which aggregate liquidation preference was \$196,108,732 as of August 3, 2019); and
  - 15% of Parent’s common equity, or 17,362,719 shares of Parent’s class A common stock, \$0.00001 par value per share (the “Class A Common Stock”);
- certain amendments to the indenture governing the PIK Notes;

- an amendment to the Company’s Amended and Restated Credit Agreement, dated as of March 5, 2014 (the “Term Loan Facility”) to, among other things, facilitate the following related transactions:
  - the repayment of \$150.5 million principal amount of term loans then outstanding under the Term Loan Facility;
  - the transfer of the remaining undivided 27.96% ownership interest in the U.S. intellectual property rights of the J.Crew brand (the “Additional Transferred IP”) to IPCo, which, together with the undivided 72.04% ownership interest transferred in December 2016 (the “Initial Transferred IP”) represent 100% of the U.S. intellectual property rights of the J.Crew brand (the “Transferred IP”), and the execution of related license agreements;
  - the issuance of \$97.0 million aggregate principal amount of an additional series of 13% Senior Secured Notes due 2021 by J.Crew Brand, LLC and J.Crew Brand Corp. (the “New Money Notes” and, together with the Exchange Notes, the “Notes”), subject to the same terms and conditions as the Exchange Notes, for cash at a 3% discount, subject to the terms of the note purchase agreement, dated June 12, 2017, the proceeds of which were loaned on a subordinated basis to the Company and were applied, in part, to finance the repayment of the \$150.5 million principal amount of term loans referenced above; and
  - the raising of additional borrowings under the Term Loan Facility of \$30.0 million (at a 2% discount) provided by the Company’s Sponsors (the “New Term Loan Borrowings”), the net proceeds of which were also applied, in part, to finance the repayment of the \$150.5 million principal amount of term loans referenced above.

## 5. Management Services Agreement

Pursuant to a management services agreement (as amended and restated, the “Management Services Agreement”) entered into by the Parent, the Sponsors and the Company in connection with the Acquisition, and amended in the second quarter of fiscal 2017 in connection with the debt exchange and refinancing, the Parent provides the Company with certain ongoing consulting and management advisory services (the “Services”) and the Parent receives an aggregate annual monitoring fee prepaid quarterly in an amount equal to the greater of (i) 40 basis points of consolidated annual revenues or (ii) \$8 million (in either case, the “Advisory Fee”). The Parent also receives reimbursement for out-of-pocket expenses incurred in connection with services provided pursuant to the Management Services Agreement.

In addition to the amendment to the Management Services Agreement, in the second quarter of fiscal 2017 the Parent and Sponsors entered into a new management services agreement (the “New Management Services Agreement”), pursuant to which the Sponsors provide the Services to the Parent for an amount equal to the Advisory Fee less the accrued cash dividend in an amount equal to 5% of the liquidation preference on the outstanding Series A Preferred Stock of the Parent. The New Management Services Agreement also provides for reimbursement for out-of-pocket expenses incurred by the Sponsors or their designees.

The Company recorded an expense of \$5.0 million in the first half of both fiscal 2019 and fiscal 2018 for monitoring fees and out-of-pocket expenses, included in selling, general and administrative expenses in the statements of operations and comprehensive loss.

## 6. Goodwill and Intangible Assets

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

	<b>Favorable Lease Commitments</b>	<b>Madewell Trade Name</b>	<b>Key Money</b>	<b>J.Crew Trade Name</b>	<b>Total</b>
Balance at February 2, 2019	\$ 908	\$ 49,542	\$ 752	\$ 250,195	\$ 301,397
Amortization expense	(227)	(1,025)	(33)	—	(1,285)
Effect of changes in foreign exchange rates	—	—	5	—	5
Balance at May 4, 2019	\$ 681	\$ 48,517	\$ 724	\$ 250,195	\$ 300,117
Amortization expense	(227)	(1,025)	(32)	—	(1,284)
Effect of changes in foreign exchange rates	—	—	(54)	—	(54)
Balance at August 3, 2019	<u>\$ 454</u>	<u>\$ 47,492</u>	<u>\$ 638</u>	<u>\$ 250,195</u>	<u>\$ 298,779</u>
Total accumulated amortization or impairment losses at August 3, 2019	<u>\$ (60,556)</u>	<u>\$ (34,508)</u>	<u>\$ (4,179)</u>	<u>\$ (635,105)</u>	<u>\$ (734,348)</u>

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	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Intangible asset related to the J.Crew trade name	\$ —	\$ —	\$ —	\$ —
Long-lived assets (see note 10)	2,962	—	4,880	6,866
Impairment losses	\$ 2,962	\$ —	\$ 4,880	\$ 6,866

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. The carrying value of the J.Crew and Madewell trade names is \$250.2 million and \$47.5 million, respectively, at August 3, 2019. If revenues or operating results decline below the Company's current expectations, additional impairment charges may be recorded in the future.

## 7. Share-Based Compensation

### *Chinos Holdings, Inc. 2011 Equity Incentive Plan*

The Parent adopted the Chinos Holdings, Inc. 2011 Equity Incentive Plan (the "2011 Plan") in connection with the Acquisition. In the second quarter of fiscal 2017, in connection with a debt exchange and refinancing, the Parent completed a recapitalization of its outstanding equity. The recapitalization resulted in, among other things, a reverse stock split of the shares of common stock underlying the share-based awards issued by the Company. The reverse stock split of 10,000-to-1 resulted in (i) a substantial decrease in number of authorized awards from 91,740,627 shares to 9,174 shares and (ii) a substantial increase in the exercise price of \$0.10 to \$1,000 per share.

The recapitalization included (i) the issuance of preferred stock of the Parent, including an authorization for equity awards to be granted up to 20,000 shares and (ii) the issuance of additional shares of common stock of the Parent, including an authorization for equity awards to be granted up to 13,003,295 shares. Additionally, on October 3, 2017, the Company authorized additional awards of 5,209,823 shares to be granted to its then-Chief Executive Officer in accordance with an employment agreement. The following disclosures are presented with respect to the newly authorized share-based awards only.

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	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Share-based compensation	\$ 17	\$ 74	\$ 21	\$ 120

A summary of shares available for grant as stock options or other share-based awards, as adjusted for the reverse stock split, is as follows:

	Common Stock Awards	Preferred Stock Awards
Available for grant at February 2, 2019	5,344,394	20,000
Authorized	—	—
Granted	(625,650)	—
Forfeited and available for reissuance	1,655,360	—
Available for grant at August 3, 2019	6,374,104	20,000

## 8. Long-Term Debt and Credit Agreements

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

	<u>August 3, 2019</u>	<u>February 2, 2019</u>
Term Loan Facility	\$ 1,352,830	\$ 1,373,554
Notes	347,599	346,596
Less: current portion	(21,600)	(32,070)
Less: deferred financing costs	(7,993)	(10,288)
Less: discount	(3,518)	(4,510)
Long-term debt, net	<u>\$ 1,667,318</u>	<u>\$ 1,673,282</u>
Borrowings under the ABL Facility	<u>\$ 198,200</u>	<u>\$ 70,800</u>

### ABL Facility

The Company has an asset-based credit facility (the “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, following the Sixth Amendment described below, provides for a \$375 million senior secured asset-based revolving line of credit (which may be increased by up to \$75 million in certain circumstances), subject to a borrowing base limitation. The Company cannot borrow in excess of \$375 million under the ABL Facility without the consent of holders of at least a majority of the loans outstanding under the Term Loan Facility. The ABL Facility includes borrowing capacity in the form of letters of credit up to \$200 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 November 17, 2021.

On September 19, 2018, the Company entered into a Sixth Amendment to Credit Agreement (Incremental Amendment) (the “Sixth Amendment”), which amended the ABL Facility to increase the revolving credit commitment from \$350 million to \$375 million, with the additional \$25 million provided by MUFG Union Bank, N.A., which joined the ABL Facility as an additional lender.

On August 3, 2019, standby and documentary letters of credit were \$67.4 million, outstanding borrowings were \$198.2 million, and excess availability, as defined, was \$96.1 million. The weighted average interest rate on the borrowings outstanding under the ABL Facility was 4.67% on August 3, 2019. Average short-term borrowings under the ABL Facility were \$204.4 million and \$35.5 million in the first half of fiscal 2019 and fiscal 2018, respectively.

### Demand Letter of Credit Facility

The Company has an unsecured demand letter of credit facility with HSBC which provides for the issuance of up to \$20 million of documentary letters of credit on a no fee basis. On August 3, 2019, outstanding documentary letters of credit were \$0.3 million and availability under this facility was \$19.7 million.

### Term Loan Facility

*2017 Amendment.* In the second quarter of fiscal 2017, concurrently with the settlement of the Exchange Offer, the Company amended its Term Loan Facility to, among other things, (i) increase the interest rate applicable to the loans held by consenting lenders, which represented 88% of lenders, (the “Consenting Lenders”; and the loans held by the Consenting Lenders, the “Amended Loans”) by 22 basis points, (ii) increase the amount of amortization payable to Consenting Lenders, (iii) provide for the New Term Loan Borrowings of \$30.0 million, (iv) amend certain covenants and events of default and (v) direct Wilmington Savings Fund Society, FSB, as administrative agent under the Term Loan Facility, to dismiss, with prejudice, certain litigation regarding the Initial Transferred IP (and the related actions). Additionally, the Company repaid \$150.5 million of principal amount of term loans outstanding under the Term Loan Facility, which was financed with (i) the net proceeds from the New Money Notes of \$94.1 million, (ii) the net proceeds from the New Term Loan Borrowings of \$29.4 million and (iii) cash on hand of \$27.0 million.

*Interest Rate.* Initial borrowings under the Term Loan Facility bear interest at a rate per annum equal to an applicable margin (which, in the case of the Amended Loans, was increased by 22 basis points) plus, at Group’s option, either (a) a LIBOR determined by reference to the costs of funds for U.S. dollar deposits for the relevant interest period 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, plus 1.00%. New Term Loan Borrowings bear interest at LIBOR plus 9% per annum payable in cash plus 3% per annum payable in kind.

The weighted average interest rate on the borrowings outstanding under the Term Loan Facility was 5.67% on August 3, 2019. The applicable margin (i) in effect for base rate borrowings was, (x) in the case of term loans, other than the New Term Loan Borrowings and the Amended Loans, 2.00%, (y) in the case of the Amended Loans, 2.22% and (z) in the case of the New Term Loan Borrowings, 12.00% (of which 3.00% is payable in kind) and (ii) with respect to LIBOR borrowings was, (x) in the case of term loans, other than the New Term Loan Borrowings and the Amended Loans, 3.00% and the LIBOR Floor, (y) in the case of the Amended Loans, 3.22% and the LIBOR Floor and (z) in the case of the New Term Loan Borrowings, 12.00% (of which 3.00% is payable in kind), respectively, at August 3, 2019.

*Principal Repayments.* The Company is required to make principal repayments equal to 0.25% of the original principal amount of the Term Loan Facility (excluding the New Term Loan Borrowings), or \$3.9 million, on the last business day of January, April, July, and October. The Company is also required (i) to repay the term loan based on an annual calculation of excess cash flow, as defined in the agreement and (ii) beginning on July 31, 2019, on the last business day of January, April, July and October, to make additional principal repayments of \$1.5 million equal to 0.125% of the aggregate principal amount of Amended Loans outstanding on July 13, 2017. In the second quarter of fiscal 2019, the Company made an additional one-time principal repayment of \$11.9 million which is equal to 1.00% of the aggregate principal amount of Amended Loans outstanding on July 13, 2017. The maturity date of the Term Loan Facility is March 5, 2021.

#### Notes

*General.* In the second quarter of fiscal 2017, in connection with settlement of the Exchange Offer and the issuance of the Notes, J.Crew Brand, LLC and J.Crew Brand Corp. (together, the “Notes Co-Issuers”) and the Guarantors (as defined below) entered into (i) an indenture with U.S. Bank National Association, as Trustee and collateral agent, governing the terms of the Exchange Notes (the “Exchange Notes Indenture”) and (ii) an indenture with the Trustee and U.S. Bank, as collateral agent, governing the terms of the New Money Notes (the “New Money Notes Indenture”), which is in substantially the same form as the Exchange Notes Indenture.

*Interest Rate.* The Notes bear interest at a rate of 13% per annum, and interest is payable semi-annually on March 15 and September 15 of each year. The Notes mature on September 15, 2021.

*Notes Guarantee.* The Notes are guaranteed by J.Crew Brand Intermediate, LLC, IPCo and J.Crew International Brand, LLC, each of which is a Delaware limited liability company and a wholly-owned indirect subsidiary of the Company (collectively, the “Guarantors,” and each, a “Guarantor”). The PIK Notes Issuer also unconditionally guarantees the payment obligations of the Notes Co-Issuers and the Guarantors.

*Exchange Notes Collateral.* The Exchange Notes and the guarantees thereof are general senior secured obligations of the Notes Co-Issuers and the Guarantors, secured on a first priority lien basis by the Initial Transferred IP and certain other assets of the Notes Co-Issuers and Guarantors, and on a second priority lien basis by the Additional Transferred IP, subject, in each case, to permitted liens under the Exchange Notes Indenture and that certain intercreditor agreement, entered into between the collateral agents on July 13, 2017.

*New Money Notes Collateral.* The New Money Notes and the guarantees thereof are general senior secured obligations of the Notes Co-Issuers and the Guarantors, secured on a first priority lien basis by the Additional Transferred IP and certain other assets, and on a second priority lien basis by the Initial Transferred IP, subject, in each case, to permitted liens under the New Money Notes Indenture and the intercreditor agreement.

*Redemption.* The Notes are redeemable at the option of the Notes Co-Issuers, in whole or in part, at any time, at a price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but not including, the redemption date, plus a “make whole” premium. The Notes are not subject to any mandatory redemption obligation, and there is no sinking fund provided for the Notes.

*Change in Control.* Upon the occurrence of a Change of Control (as defined in each of the indentures, as applicable), the Notes Co-Issuers will be required to offer to repay all of the Notes at 100% of the aggregate principal amount repaid plus accrued and unpaid interest, if any, to, but not including, the date of purchase.

*Covenants.* Each of the indentures contains covenants covering (i) the payment of principal and interest, (ii) maintenance of an office or agency for the payment of the Notes, (iii) reports to the applicable Trustee and holders of the Notes, (iv) stay, extension and usury laws, (v) payment of taxes, (vi) existence, (vii) maintenance of properties and (viii) maintenance of insurance. Each of the indentures relating to the Notes also includes covenants that (i) limit the ability to transfer the collateral and (ii) limit liens that may be imposed on the assets of the Guarantors, which covenants are, in each case, subject to certain exceptions set forth in each of the indentures.

## Interest Expense

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

	For the Thirteen Weeks Ended		For the Twenty-six Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Term Loan Facility	\$ 20,254	\$ 19,501	\$ 41,385	\$ 37,884
Notes	11,264	11,264	22,514	22,529
ABL Facility	2,567	538	4,928	875
Amortization of deferred financing costs and debt discount	1,796	1,790	3,591	3,579
Realized hedging losses	1,137	498	804	1,854
Other interest, net	709	809	1,423	661
Interest expense, net	<u>\$ 37,727</u>	<u>\$ 34,400</u>	<u>\$ 74,645</u>	<u>\$ 67,382</u>

## 9. Derivative Financial Instruments

### *October 2018 Interest Rate Swap*

In October 2018, the Company entered into a floating-to-fixed interest rate swap agreement effective in March 2019 for a notional amount of \$750 million. This instrument limits exposure to interest rate increases on a portion of the Company's floating rate indebtedness through the expiration of the agreement in March 2020. Under the terms of this agreement, the Company's effective fixed interest rate on the notional amount of indebtedness is 3.03% plus the applicable margin.

### *August 2014 Interest Rate Swaps*

In August 2014, the Company entered into interest rate swap agreements that limited exposure to interest rate increases on a portion of the Company's floating rate indebtedness. The interest rate swap agreements covered an aggregate notional amount of \$800 million from March 2016 to March 2019 and carried a fixed rate of 2.56% plus the applicable margin.

The Company designated the interest rate 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 loss, while the ineffective portion of such gains or losses is recorded as a component of interest expense. Realized gains and losses in connection with each required interest payment are reclassified from accumulated other comprehensive loss to interest expense.

The fair values of the interest rate 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:

	August 3, 2019	February 2, 2019
Interest rate swaps (included in other assets)	\$ —	\$ 480
Interest rate swaps (included in other liabilities)	<u>\$ (5,467)</u>	<u>\$ (3,663)</u>

## 10. 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 long-term debt was estimated to be \$1,563 million and \$1,401 million at August 3, 2019 and February 2, 2019, respectively, based on quoted market prices of the debt (level 1 inputs).

The Company's interest rate swap agreements are measured in the financial statements at fair value on a recurring basis. See note 9 for more information regarding the fair value of this financial asset (liability).

The carrying amounts reported in the condensed 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 August 3, 2019 or February 2, 2019 that are measured on a recurring basis in the financial statements at fair value.

The Company assesses the recoverability of goodwill and intangibles 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 an income approach, specifically the relief from royalty method, which is a revenue and royalty rate approach. 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 6.

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 (for example, leasehold improvements) or at the corporate level (for example, software). 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:

	<b>For the Thirteen Weeks Ended</b>		<b>For the Twenty-six Weeks Ended</b>	
	<u>August 3, 2019</u>	<u>August 4, 2018</u>	<u>August 3, 2019</u>	<u>August 4, 2018</u>
Carrying value of long-term assets written down to fair value	\$ 2,962	\$ —	\$ 4,880	\$ 6,866
Impairment charge	<u>\$ 2,962</u>	<u>\$ —</u>	<u>\$ 4,880</u>	<u>\$ 6,866</u>

## **11. Income Taxes**

The Parent files a consolidated federal income tax return and state combined income tax returns, which include Group and all of its wholly owned subsidiaries. The income tax provision is calculated as if Group were a stand-alone taxpayer.

In the first half of fiscal 2019, the Company recorded a provision for income taxes of \$6.4 million on a pre-tax loss of \$54.1 million. The provision for income taxes reflects a charge for current federal and state tax liabilities and a discrete item of \$0.3 million related to state tax law changes. The Company's effective tax rate of (11.8)% differs from the U.S. federal statutory rate of 21% primarily related to current year losses for which no tax benefit was recognized as the Company did not conclude that all of its deferred tax assets were realizable on a more-likely-than-not basis. Other items impacting the provision for income taxes include the U.S. taxation of foreign earnings under the Global Intangible Low Tax Income ("GILTI") regime, the recognition of valuation allowances with respect to the carryforward of unutilized interest deductions, the recognition of international valuation allowances and lower rates in foreign tax jurisdictions.

In the first half of fiscal 2018, the Company recorded a provision for income taxes of \$5.1 million, which reflects a charge for the valuation allowance with respect to the deferred tax asset related to the carry forward of unutilized interest deductions. Other items impacting the provision for income taxes include the recognition of international valuation allowances, lower rates in foreign jurisdictions and reserves for uncertain tax positions. These items primarily drove the difference between the federal statutory rate of 21% and the effective rate of 15%.

The Company regularly assesses the need for a valuation allowance related to its deferred tax assets. In making that assessment, the Company considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets to determine, based on a weighing process of available evidence, whether it is more-likely-than-not that its deferred tax assets will not be realized. As of August 3, 2019, the Company maintained a full valuation allowance against its deferred tax assets.

The federal tax returns for the periods ended January 2013 through January 2016 are currently under examination. Various state and local jurisdiction tax authorities are in the process of examining income tax returns for certain tax years ranging from 2014 to 2016. The results of these audits and appeals are not expected to have a significant effect on the results of operations or financial position.

## 12. 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 August 3, 2019, the Company has recorded a reserve for certain legal contingencies in connection with ongoing claims and litigation. The reserve is not material to its results of operations. In addition, there are certain other claims and legal proceedings pending against the Company for which accruals have not been established.

### ***Eaton Vance Management, et al. v. Wilmington Savings Fund Society, FSB, as Administrative Agent and Collateral Agent, et al., Index No. 654397/2017, (Sup. Ct. N.Y. C'ty.).***

On June 22, 2017, Eaton Vance Management and certain affiliated funds as well as Highland Capital Management and certain affiliated funds (collectively, the "Plaintiffs"), filed a complaint in the New York State Supreme Court, Commercial Division, against the Company and WSFS, seeking, among other things, declarations that the July 13, 2017 Amendment to the Term Loan Facility was ineffective absent unanimous consent of all lenders under the facility, that certain of the Company's actions with respect to certain of its intellectual property assets were taken in violation of the terms of the Term Loan Facility, and that those actions also constituted fraudulent conveyances.

On August 7, 2017, WSFS and the Company filed separate motions to dismiss certain of Plaintiffs' claims for failure to state a claim and lack of standing, among other reasons. On September 7, 2017, Plaintiffs filed an amended complaint in the New York State Supreme Court, Commercial Division, against the Company and WSFS. The amended complaint continued to assert claims for breach of the terms of the Term Loan Facility, and for fraudulent conveyance and added an additional claim for fraudulent inducement against the Company.

In response to the amended complaint, WSFS and the Company withdrew their prior motions to dismiss and, on October 20, 2017, filed renewed motions seeking dismissal in whole or part. Among other things, the Company sought dismissal of the amended complaint for failure to state a claim, lack of standing, and because its fraud claims are duplicative of Plaintiffs' claims under the documents governing the Term Loan Facility. Plaintiffs filed an omnibus brief on December 1, 2017 opposing the motions to dismiss. The Company and WSFS each filed reply briefs on December 22, 2017 reiterating that the majority of Plaintiffs' claims should be dismissed as a matter of law.

Oral argument on the motions to dismiss occurred on March 8, 2018. On April 25, 2018, the judge issued a Memorandum Decision and Order, which granted the Company's partial motion to dismiss in its entirety and dismissed as a matter of law the majority of Plaintiffs' claims with prejudice. Plaintiffs' sole remaining claim is for breach of contract based on the theory that the July 13, 2017 Amendment to the Term Loan Facility required unanimous consent of all lenders under the facility.

On October 25, 2018, Highland Capital Management and certain affiliated funds were dismissed from the action with prejudice.

On November 21, 2018, the remaining Plaintiffs filed a limited appeal of the judge's April 25, 2018 Memorandum Decision and Order with the First Department of the New York Appellate Division in an attempt to resuscitate their fraudulent conveyance claim. The Company filed an opposition brief on February 14, 2019, arguing that the trial court properly dismissed the fraudulent conveyance claim. On March 8, 2019, the remaining Plaintiffs filed a reply brief in support of their appeal. Oral argument on the appeal occurred on April 2, 2019. On April 25, 2019, the First Department unanimously affirmed the trial court's decision to dismiss the fraudulent conveyance claim with prejudice.

Discovery in the action is ongoing. The Company believes that the remaining claim is wholly without merit, and intends to vigorously oppose the claim.

### 13. Workforce Reductions

A rollforward of the reserve for severance and related costs is as follows:

	For the Thirteen Weeks Ended		For the Twenty-six Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Balance at beginning of period	\$ 6,285	\$ 2,131	\$ 7,965	\$ 3,543
Provisions charged to expense	2,986	5	5,529	3,293
Reversals	(363)	(856)	(470)	(856)
Payments	(1,894)	(753)	(6,010)	(5,453)
Balance at end of period	<u>\$ 7,014</u>	<u>\$ 527</u>	<u>\$ 7,014</u>	<u>\$ 527</u>

The Company expects the unpaid severance at August 3, 2019 to be paid through the first quarter of fiscal 2021.

### 14. Corporate Headquarters Relocation

In the second quarter of fiscal 2018, the Company entered into a lease amendment and surrender agreement (the "Surrender Agreement") with Vornado Office Management, LLC ("Vornado"). The terms of the Surrender Agreement provide for, among other things, the early termination and surrender of the space currently occupied by the Company at 770 Broadway in New York City. In exchange for the surrender, Vornado agreed to pay the Company a termination payment of \$35 million. The Company fully vacated its former corporate headquarters in June 2019. The Company recognized the benefit of \$35 million, as a reduction of selling, general and administrative expense, over the period starting May 10, 2018 until June 30, 2019.

Additionally, concurrent with the entry into the Surrender Agreement, the Company entered into a sublease of new corporate office space at 225 Liberty Street in New York City. The sublease provides for, among other things, a 16-year occupancy of 325,000 square feet of office space in lower Manhattan with aggregate base rent of \$277 million, net of free rent. The Company completed its relocation to the new corporate office space in June 2019. The Company reinvested a significant portion of the termination payment of \$35 million into the new corporate office space.

### 15. Related Party Transactions

#### *Intellectual property license agreements*

In December 2016, J.Crew International, Inc. ("JCI") transferred an undivided 72.04% ownership interest in the U.S. intellectual property rights of the J.Crew brand to IPCo, and entered into a related intellectual property license agreement with IPCo. In July 2017, JCI transferred the remaining undivided 27.96% ownership interest in the U.S. intellectual property rights of the J.Crew brand to IPCo, which, together with the initial intellectual property contributed in December 2016, represent 100% of the U.S. intellectual property rights of the J.Crew brand, entered into a license agreement amending and restating the December 2016 license agreement with IPCo and entered into an additional intellectual property license agreement with IPCo (collectively, the "IP License Agreements").

Under the IP License Agreements, J.Crew Operating Corp. (“OpCo”), a direct wholly-owned subsidiary of the Company, pays a fixed license fee of \$59 million per annum to IPCo, which owns the U.S. intellectual property rights of the J.Crew brand. The license fees are payable on March 1 and September 1 of each fiscal year. These royalty payments have no impact on the Company’s condensed consolidated results of operations and are not subject to the covenants under the Company’s credit facilities or the PIK Notes.

The proceeds from the license fees to IPCo are used by IPCo and J.Crew Brand, LLC, wholly-owned subsidiaries of the Company (collectively, “J.Crew BrandCo”), to meet debt service requirements on the Notes. Any license fees in excess of the debt service requirements are loaned back to OpCo on a subordinated basis. As of August 3, 2019, J.Crew BrandCo had total assets of \$415.8 million, consisting of intangible assets of \$250.2 million, receivable due from OpCo of \$140.8 million, license fee receivable of \$24.6 million and cash and cash equivalents of \$0.2 million, and total liabilities of \$360.2 million related to the Notes. IPCo earned royalty revenue of \$14.8 million and \$29.5 million in the second quarter and first half of fiscal 2019, respectively. The Notes are guaranteed by the intangible assets of J.Crew BrandCo.

#### *Chinos Intermediate Holdings A, Inc. Senior PIK Toggle Note*

In the fourth quarter of fiscal 2013, the PIK Notes Issuer, which is an indirect parent holding company of Group, issued \$500 million of PIK Notes. As part of the debt exchange and refinancing in July 2017, \$565.7 million in aggregate principal amount of the PIK Notes were exchanged for \$249.6 million of Exchange Notes and shares of preferred and common stock of the Parent. As of February 2, 2019, there were \$1.0 million in aggregate principal amount of PIK Notes outstanding, and in the first quarter of fiscal 2019 the Parent redeemed all remaining outstanding PIK Notes. The PIK Notes were: (i) senior unsecured obligations of the PIK Notes Issuer, (ii) structurally subordinated to all of the liabilities of the PIK Notes Issuers’ subsidiaries, and (iii) not guaranteed by any of the PIK Notes Issuers’ subsidiaries, and therefore are not recorded in the Company’s financial statements.

The PIK Notes were not guaranteed by any of the PIK Notes Issuer’s subsidiaries, and therefore were not recorded in the Company’s financial statements. The Exchange Notes, however, are guaranteed by the Company’s subsidiaries, and therefore are recorded in its financial statements. In connection with recognizing the Exchange Notes, the Company recorded a non-cash contribution to its Parent as a reduction of additional paid-in capital. For more information on the long-term debt of the Company, see note 8.

#### *Due to Sponsors*

As part of the debt exchange and refinancing, the Sponsors purchased \$30.0 million principal amount of new term loans under the Term Loan Facility. As of August 3, 2019, the principal amount outstanding was \$31.9 million. For more information on the New Term Loan Borrowings, see note 8.

#### *Due to Parent*

Certain transactions, primarily related to income taxes, between Group and its Parent give rise to intercompany receivables and payables. A summary of the components of Due to Parent is as follows:

	<u>August 3, 2019</u>	<u>February 2, 2019</u>
Income taxes payable to Parent	\$ (48,648)	\$ (48,648)
Monitoring fees payable	(951)	(1,938)
Transaction-related payments on behalf of Parent	14,127	13,124
Due to Parent	<u>\$ (35,472)</u>	<u>\$ (37,462)</u>

## **16. Recent Accounting Pronouncements**

In June 2016, a pronouncement was issued that replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The pronouncement is effective for annual and interim periods in fiscal years beginning after December 15, 2019. The Company does not expect there to be a significant impact on its condensed consolidated financial statements.

In January 2017, a pronouncement was issued that simplifies the measurement of goodwill impairment by no longer requiring an entity to perform a hypothetical purchase price allocation. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. The pronouncement is effective for annual and interim periods in fiscal years beginning after December 15, 2019. The Company does not expect there to be a significant impact on its condensed consolidated financial statements.

In August 2018, a pronouncement was issued that modifies the disclosure requirements on fair value measurements. The pronouncement is effective for annual and interim periods in fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of the new pronouncement on its condensed consolidated financial statements.

### ***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, our substantial lease obligations, our ability to anticipate and timely respond to changes in trends and consumer preferences, the strength of the global economy, competitive market conditions, our ability to attract and retain key personnel, our ability to successfully develop, launch and grow our newer concepts and execute on strategic initiatives, product offerings, sales channels and businesses, our ability to implement our growth strategy, material disruption to our information systems, compromises to our data security, our ability to maintain the value of our brands and protect our trademarks, our ability to implement our real estate strategy, changes in demographic patterns, adverse or unseasonable weather or other interruptions in our foreign sourcing, customer call, order fulfillment or distribution operations, increases in the demand for or prices of raw materials used to manufacture our products, trade restrictions or disruptions, our exploration of strategic alternatives to maximize the value of the Company and the risk that such exploration may not lead to a successful transaction 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 February 2, 2019 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.

## 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 February 2, 2019 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 generate approximately half of our net sales through our e-commerce business. We design our products, including those under the J.Crew® and Madewell® brands, to offer complete assortments of women's, men's and children's apparel and accessories.

We sell our J.Crew and Madewell merchandise through our retail and factory stores, our websites and select partners. As of August 3, 2019, we operated 193 J.Crew retail stores, 172 J.Crew factory stores and 132 Madewell stores throughout the United States, Canada, the United Kingdom and Hong Kong; compared to 229 J.Crew retail stores, 175 J.Crew factory stores and 122 Madewell stores as of August 4, 2018. During fiscal 2019, we expect to open 10 Madewell stores and one J.Crew retail store and close approximately 20 stores.

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

<i>(Dollars in millions)</i>	<b>For the Thirteen Weeks Ended August 3, 2019</b>	<b>For the Thirteen Weeks Ended August 4, 2018</b>
J.Crew	\$ 399.1	\$ 428.9
Madewell	139.7	121.7
Other(1)	50.0	37.0
Total revenues	<u>\$ 588.8</u>	<u>\$ 587.6</u>

(1) Consists primarily of revenues from wholesale customers and shipping and handling fees.

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

- Revenues increased 0.2% to \$588.8 million, with comparable company sales down 0.6%.
- J.Crew revenues decreased 7.0% to \$399.1 million, with J.Crew comparable sales down 3.7%.
- Madewell revenues increased 14.9% to \$139.7 million, with Madewell comparable sales up 10.1%.
- Gross margin decreased to 35.6% from 38.5% last year.
- We opened one J.Crew retail store and one Madewell store. We closed four J.Crew retail stores and one J.Crew factory store.
- We completed a comprehensive review of our J.Crew business and launched a multi-year cost-optimization program, which is expected to generate savings of approximately \$50 million over the next three years with approximately \$10 million expected to be realized in fiscal 2019.

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

<i>(Dollars in millions)</i>	<b>For the Twenty-six Weeks Ended August 3, 2019</b>	<b>For the Twenty-six Weeks Ended August 4, 2018</b>
J.Crew	\$ 775.2	\$ 820.7
Madewell	272.6	237.5
Other(1)	119.5	69.8
Total revenues	<u>\$ 1,167.3</u>	<u>\$ 1,128.0</u>

(1) Consists primarily of revenues from wholesale customers and shipping and handling fees.

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

- Revenues increased 3.5% to \$1,167.3 million, with comparable company sales up 0.3%.
- J.Crew revenues decreased 5.6% to \$775.2 million, with J.Crew comparable sales down 2.5%.
- Madewell revenues increased 14.8% to \$272.6 million, with Madewell comparable sales up 9.8%.
- Gross margin decreased to 36.3% from 38.4% last year.
- We opened one J.Crew retail store and three Madewell stores. We closed 11 J.Crew retail stores and two J.Crew factory stores.
- We completed a comprehensive review of our J.Crew business and launched a multi-year cost-optimization program, which is expected to generate savings of approximately \$50 million over the next three years with approximately \$10 million expected to be realized in fiscal 2019.

### ***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. Due to the 53<sup>rd</sup> week in fiscal 2017, when calculating comparable company sales for fiscal 2018, we have realigned the weeks of fiscal 2017 to be consistent with the fiscal 2018 retail calendar.

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 February 2, 2019 filed with the SEC.

### ***Results of Operations – Second Quarter of Fiscal 2019 compared to Second Quarter of Fiscal 2018***

<i>(Dollars in millions)</i>	For the Thirteen Weeks Ended August 3, 2019		For the Thirteen Weeks Ended August 4, 2018		Variance Increase/(Decrease)	
	Amount	Percent of Revenues	Amount	Percent of Revenues	Dollars	Percentage
Revenues	\$ 588.8	100.0%	\$ 587.6	100.0%	\$ 1.2	0.2%
Gross profit	209.4	35.6	226.0	38.5	(16.6)	(7.3)
Selling, general and administrative expenses	208.0	35.3	192.7	32.8	15.3	8.0
Impairment losses	3.0	0.5	—	—	3.0	NM
Income (loss) from operations	(1.5)	(0.3)	33.3	5.7	(34.8)	NM
Interest expense, net	37.7	6.4	34.4	5.9	3.3	9.7
Provision for income taxes	5.0	0.8	5.0	0.9	—	(1.5)
Net loss	\$ (44.2)	(7.5)%	\$ (6.1)	(1.0)%	\$ (38.1)	NM%

### ***Revenues***

Total revenues increased \$1.2 million, or 0.2%, to \$588.8 million in the second quarter of fiscal 2019 from \$587.6 million in the second quarter last year, driven primarily by (i) an increase in revenue of the Madewell business, resulting from an increase in sales of women's apparel, specifically pants, dresses and shorts, offset by (ii) a decrease in revenue of the J.Crew business, resulting from a decrease in sales of women's apparel, specifically dresses, knits and shorts. Comparable company sales decreased 0.6% following an increase of 5.4% in the second quarter last year.

J.Crew sales decreased \$29.8 million, or 7.0%, to \$399.1 million in the second quarter of fiscal 2019 from \$428.9 million in the second quarter last year. J.Crew comparable sales decreased 3.7% following an increase of 0.5% in the second quarter last year.

Madewell sales increased \$18.0 million, or 14.9%, to \$139.7 million in the second quarter of fiscal 2019 from \$121.7 million in the second quarter last year. Madewell comparable sales increased 10.1% following an increase of 27.8% in the second quarter last year.



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

	<u>For the Thirteen Weeks Ended August 3, 2019</u>	<u>For the Thirteen Weeks Ended August 4, 2018</u>
Apparel:		
Women's	58%	58%
Men's	22	22
Children's	5	6
Accessories	15	14
	<u>100%</u>	<u>100%</u>

Other revenues increased \$13.0 million to \$50.0 million in the second quarter of fiscal 2019 from \$37.0 million in the second quarter last year, primarily a result of increased wholesale revenues from Nordstrom.

### **Gross Profit**

Gross profit decreased \$16.6 million to \$209.4 million in the second quarter of fiscal 2019 from \$226.0 million in the second quarter last year. This decrease resulted from the following factors:

<u>(Dollars in millions)</u>	<u>Increase/ (decrease)</u>
Increase in revenues	\$ 0.6
Decrease in rate	(23.4)
Decrease in buying and occupancy costs	6.2
Decrease in gross profit	<u>\$ (16.6)</u>

Gross margin decreased to 35.6% in the second quarter of fiscal 2019 from 38.5% in the second quarter last year. The decrease in gross margin was driven by: (i) a 400 basis point deterioration in margin primarily due to increased promotional activity, offset by (ii) 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 \$15.3 million to \$208.0 million in the second quarter of fiscal 2019 from \$192.7 million in the second quarter last year. This increase resulted from the following:

<u>(Dollars in millions)</u>	<u>Increase/ (decrease)</u>
Increase in transaction costs(1)	\$ 14.4
Corporate occupancy actions last year	6.3
Charges related to a workforce reduction	3.5
Decrease in depreciation	(3.6)
Decrease in operating and corporate expenses	(5.3)
Total increase in selling, general and administrative expenses	<u>\$ 15.3</u>

(1) Represents costs related to our exploration of strategic alternatives to maximize the value of the Company.

As a percentage of revenues, selling, general and administrative expenses increased to 35.3% in the second quarter of fiscal 2019 from 32.8% in the second quarter last year.

### ***Interest Expense, Net***

Interest expense, net, increased \$3.3 million to \$37.7 million in the second quarter of fiscal 2019 from \$34.4 million in the second quarter last year. A summary of interest expense is as follows:

<i>(Dollars in millions)</i>	<b>For the Thirteen Weeks Ended August 3, 2019</b>	<b>For the Thirteen Weeks Ended August 4, 2018</b>
Term Loan Facility	\$ 20.3	\$ 19.5
Notes	11.3	11.3
ABL Facility	2.6	0.5
Amortization of deferred financing costs and debt discount	1.8	1.8
Realized hedging losses	1.2	0.5
Other, net	0.5	0.8
Interest expense, net	<u>\$ 37.7</u>	<u>\$ 34.4</u>

### ***Provision for Income Taxes***

In the second quarter of fiscal 2019, we recorded a provision for income taxes of \$5.0 million on a pre-tax loss of \$39.3 million. The provision for income taxes reflects a charge for current federal and state tax liabilities. Our effective tax rate of (12.6)% differs from the U.S. federal statutory rate of 21% primarily related to current year losses for which no tax benefit was recognized as we did not conclude that all of its deferred tax assets were realizable on a more-likely-than not basis. Other items impacting the provision for income taxes include the U.S. taxation of foreign earnings under the Global Intangible Low Tax Income (“GILTI”) regime, the recognition of valuation allowances with respect to the carryforward of unutilized interest deductions, the recognition of international valuation allowances and lower rates in foreign tax jurisdictions.

In the second quarter of fiscal 2018, we recorded a provision for income taxes of \$5.0 million, which reflects a charge for the valuation allowance with respect to the deferred tax asset related to the carry forward of unutilized interest deductions. Other items impacting the provision for income taxes include the recognition of international valuation allowances, lower rates in certain foreign jurisdictions and reserves for uncertain tax positions.

### ***Net Loss***

Net loss increased \$38.1 million to \$44.2 million in the second quarter of fiscal 2019 from \$6.1 million in the second quarter last year. This increase was due to: (i) a decrease in gross profit of \$16.6 million, (ii) an increase in selling, general and administrative expenses of \$15.3 million, (iii) an increase in interest expense of \$3.3 million and (iv) an increase in impairment losses of \$3.0 million.

### ***Results of Operations – First Half of Fiscal 2019 compared to First Half of Fiscal 2018***

<i>(Dollars in millions)</i>	<b>For the Twenty-six Weeks Ended August 3, 2019</b>		<b>For the Twenty-six Weeks Ended August 4, 2018</b>		<b>Variance Increase/(Decrease)</b>	
	<b>Amount</b>	<b>Percent of Revenues</b>	<b>Amount</b>	<b>Percent of Revenues</b>	<b>Dollars</b>	<b>Percentage</b>
Revenues	\$ 1,167.3	100.0%	\$ 1,128.0	100.0%	\$ 39.3	3.5%
Gross profit	423.2	36.3	432.8	38.4	(9.6)	(2.2)
Selling, general and administrative expenses	397.8	34.1	393.5	34.9	4.3	1.1
Impairment losses	4.9	0.4	6.9	0.6	(2.0)	(28.9)
Income from operations	20.6	1.8	32.4	2.9	(11.8)	(36.6)
Interest expense, net	74.6	6.4	67.4	6.0	7.2	10.8
Provision for income taxes	6.4	0.5	5.1	0.5	1.3	25.4
Net loss	<u>\$ (60.5)</u>	<u>(5.2)%</u>	<u>\$ (40.0)</u>	<u>(3.5)%</u>	<u>\$ (20.5)</u>	<u>(51.1)%</u>

## Revenues

Total revenues increased \$39.3 million, or 3.5%, to \$1,167.3 million in the first half of fiscal 2019 from \$1,128.0 million in the first half last year, driven primarily by (i) an increase in revenue of the Madewell business, resulting from an increase in sales of women's apparel, specifically pants, dresses and shorts, offset by (ii) a decrease in revenue of the J.Crew business, resulting from a decrease in sales of women's apparel, specifically knits, shirts and shorts. Comparable company sales increased 0.3% following an increase of 3.0% in the first half last year.

J.Crew sales decreased \$45.5 million, or 5.6%, to \$775.2 million in the first half of fiscal 2019 from \$820.7 million in the first half last year. J.Crew comparable sales decreased 2.5% following a decrease of 2.5% in the first half last year.

Madewell sales increased \$35.1 million, or 14.8%, to \$272.6 million in the first half of fiscal 2019 from \$237.5 million in the first half last year. Madewell comparable sales increased 9.8% following an increase of 29.3% in the first half last year.

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

	<u>For the Twenty-six Weeks Ended August 3, 2019</u>	<u>For the Twenty-six Weeks Ended August 4, 2018</u>
Apparel:		
Women's	59%	59%
Men's	20	21
Children's	6	6
Accessories	15	14
	<u>100%</u>	<u>100%</u>

Other revenues increased \$49.7 million to \$119.5 million in the first half of fiscal 2019 from \$69.8 million in the first half last year, primarily a result of increased wholesale revenues from Nordstrom.

## Gross Profit

Gross profit decreased \$9.6 million to \$423.2 million in the first half of fiscal 2019 from \$432.8 million in the first half last year. This decrease resulted from the following factors:

<u>(Dollars in millions)</u>	<u>Increase/ (decrease)</u>
Increase in revenues	\$ 20.7
Decrease in rate	(40.2)
Decrease in buying and occupancy costs	9.9
Decrease in gross profit	<u>\$ (9.6)</u>

Gross margin decreased to 36.3% in the first half of fiscal 2019 from 38.4% in the first half last year. The decrease in gross margin was driven by: (i) a 340 basis point deterioration in margin primarily due to the dilutive effect of the planned inventory liquidation and increased penetration of our wholesale business, offset by (ii) a 130 basis point decrease in buying and occupancy costs as a percentage of revenues.

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

Selling, general and administrative expenses increased \$4.3 million to \$397.8 million in the first half of fiscal 2019 from \$393.5 million in the first half last year. This increase resulted from the following:

<u>(Dollars in millions)</u>	<u>Increase/ (decrease)</u>
Increase in transaction costs(1)	\$ 17.3
Decrease in share-based and incentive compensation	(3.1)
Decrease in depreciation	(4.8)
Decrease in operating and corporate expenses	(5.1)
Total increase in selling, general and administrative expenses	<u>\$ 4.3</u>

(1) Represents costs related to our exploration of strategic alternatives to maximize the value of the Company.

As a percentage of revenues, selling, general and administrative expenses decreased to 34.1% in the first half of fiscal 2019 from 34.9% in the first half last year.

### ***Interest Expense, Net***

Interest expense, net, increased \$7.2 million to \$74.6 million in the first half of fiscal 2019 from \$67.4 million in the first half last year. A summary of interest expense is as follows:

<u>(Dollars in millions)</u>	<u>For the Twenty-six Weeks Ended August 3, 2019</u>	<u>For the Twenty-six Weeks Ended August 4, 2018</u>
Term Loan Facility	\$ 41.4	\$ 37.9
Notes	22.5	22.5
ABL Facility	4.9	0.9
Amortization of deferred financing costs and debt discount	3.6	3.6
Realized hedging losses	0.8	1.9
Other, net	1.4	0.6
Interest expense, net	<u>\$ 74.6</u>	<u>\$ 67.4</u>

### ***Provision for Income Taxes***

In the first half of fiscal 2019, we recorded a provision for income taxes of \$6.4 million on a pre-tax loss of \$54.1 million. The provision for income taxes reflects a charge for current federal and state tax liabilities and a discrete item of \$0.3 million related to state tax law changes. Our effective tax rate of (11.8)% differs from the U.S. federal statutory rate of 21% primarily related to current year losses for which no tax benefit was recognized as we did not conclude that all of its deferred tax assets were realizable on a more-likely-than-not basis. Other items impacting the provision for income taxes include the U.S. taxation of foreign earnings under the Global Intangible Low Tax Income ("GILTI") regime, the recognition of valuation allowances with respect to the carryforward of unutilized interest deductions, the recognition of international valuation allowances and lower rates in foreign tax jurisdictions.

In the first half of fiscal 2018, we recorded a provision for income taxes of \$5.1 million, which reflects a charge for the valuation allowance with respect to the deferred tax asset related to the carry forward of unutilized interest deductions. Other items impacting the provision for income taxes include the recognition of international valuation allowances, lower rates in foreign jurisdictions and reserves for uncertain tax positions. These items primarily drove the difference between the federal statutory rate of 21% and the effective rate of 15%.

### ***Net Loss***

Net loss increased \$20.5 million to \$60.5 million in the first half of fiscal 2019 from \$40.0 million in the first half last year. This increase was due to: (i) a decrease in gross profit of \$9.6 million, (ii) an increase in interest expense of \$7.2 million, (iii) an increase in selling, general and administrative expenses of \$4.3 million and (iv) an increase in the provision for income taxes of \$1.3 million, offset by (v) a decrease in impairment losses of \$2.0 million.

### Liquidity and Capital Resources

Our primary sources of liquidity are our current balances of cash and cash equivalents and borrowings available under the ABL Facility. Our primary cash needs are (i) meeting debt service requirements, (ii) capital expenditures in connection with making information technology enhancements, opening new stores and improving our existing stores and making investments in our distribution network and corporate headquarters and (iii) funding working capital requirements. The most significant components of our working capital are cash and cash equivalents, merchandise inventories, accounts payable and other current liabilities. See “—Outlook” below.

### Operating Activities

<u>(Dollars in millions)</u>	<u>For the Twenty-six Weeks Ended August 3, 2019</u>	<u>For the Twenty-six Weeks Ended August 4, 2018</u>
Net loss	\$ (60.5)	\$ (40.0)
Adjustments to reconcile to cash flows from operating activities:		
Depreciation of property and equipment	40.4	45.3
Impairment losses	4.9	6.9
Amortization of deferred financing costs and debt discount	3.6	3.6
Amortization of intangible assets	2.6	3.6
Deferred income taxes	2.6	5.5
Reclassification of hedging losses to earnings	0.8	1.9
Foreign currency transaction losses	0.4	0.2
Share-based compensation	—	0.1
Changes in operating assets and liabilities	(70.8)	(97.1)
Net cash used in operating activities	<u>\$ (76.0)</u>	<u>\$ (70.0)</u>

Cash used in operating activities of \$76.0 million in the first half of fiscal 2019 resulted from: (i) changes in operating assets and liabilities of \$70.8 million, primarily due to working capital fluctuations, and (ii) a net loss of \$60.5 million, partially offset by (iii) non-cash adjustments of \$55.3 million.

Cash used in operating activities of \$70.0 million in the first half of fiscal 2018 resulted from: (i) changes in operating assets and liabilities of \$97.1 million, primarily due to an increase in merchandise inventories as a result of an anticipated increase in revenues, and (ii) a net loss of \$40.0 million, partially offset by (iii) non-cash adjustments of \$67.1 million.

### Investing Activities

<u>(Dollars in millions)</u>	<u>For the Twenty-six Weeks Ended August 3, 2019</u>	<u>For the Twenty-six Weeks Ended August 4, 2018</u>
Capital expenditures:		
Corporate headquarters relocation	\$ (24.8)	\$ (1.2)
New stores and store improvements	(7.4)	(5.2)
Information technology	(6.2)	(10.9)
Other(1)	(1.2)	(1.8)
Net cash used in investing activities	<u>\$ (39.6)</u>	<u>\$ (19.1)</u>

(1) Includes capital expenditures for warehouse improvements and general corporate purposes.

Capital expenditures are planned at approximately \$55 to \$65 million for fiscal year 2019, including approximately \$25 million for our corporate headquarters relocation, approximately \$20 million for new stores and store improvements, approximately \$15 million for information technology enhancements, and the remainder for warehouse improvements and general corporate purposes.

## Financing Activities

<i>(Dollars in millions)</i>	<b>For the Twenty-six Weeks Ended August 3, 2019</b>	<b>For the Twenty-six Weeks Ended August 4, 2018</b>
Net borrowings under the ABL Facility	\$ 127.4	\$ 25.3
Proceeds from Notes	1.0	—
Principal repayments of Term Loan Facility	(21.2)	(7.8)
Net cash provided by financing activities	<u>\$ 107.2</u>	<u>\$ 17.5</u>

Cash provided by financing activities of \$107.2 million in the first half of fiscal 2019 resulted primarily from: (i) net borrowings under the ABL Facility, offset by (ii) principal repayments of the Term Loan Facility.

Cash provided by financing activities of \$17.5 million in the first half of fiscal 2018 resulted from: (i) net borrowings under the ABL Facility, offset by (ii) quarterly principal repayments of the Term Loan Facility.

### Debt Exchange and Refinancing

In the second quarter of fiscal 2017, the Parent and certain of its subsidiaries completed the following interrelated liability management transactions:

- a private exchange offer (the “Exchange Offer”) pursuant to which \$565.7 million aggregate principal amount of the outstanding 7.75%/8.50% Senior PIK Toggle Notes due 2019 (the “PIK Notes”) issued by Chinos Intermediate Holdings A, Inc., a direct wholly-owned subsidiary of the Parent (the “PIK Notes Issuer”), were exchanged for aggregate consideration consisting of:
  - \$249,596,000 aggregate principal amount of 13% Senior Secured Notes due 2021 issued by J.Crew Brand, LLC and J.Crew Brand Corp. (the “Exchange Notes”), which are secured primarily by the U.S. intellectual property assets held by J.Crew Domestic Brand, LLC (“IPCo”);
  - 189,688 shares of Parent’s 7% non-convertible perpetual series A preferred stock, no par value per share, with an aggregate initial liquidation preference of \$189,688,000 (which aggregate liquidation preference was \$196,108,732 as of August 3, 2019); and
  - 15% of Parent’s common equity, or 17,362,719 shares of Parent’s class A common stock, \$0.00001 par value per share;
- certain amendments to the indenture governing the PIK Notes;
- an amendment to our Amended and Restated Credit Agreement, dated as of March 5, 2014 (the “Term Loan Facility”) to, among other things, facilitate the following related transactions:
  - the repayment of \$150.5 million principal amount of term loans then outstanding under the Term Loan Facility;
  - the transfer of the remaining undivided 27.96% ownership interest in the U.S. intellectual property rights of the J.Crew brand (the “Additional Transferred IP”) to IPCo, which, together with the undivided 72.04% ownership interest transferred in December 2016 (the “Initial Transferred IP”) represent 100% of the U.S. intellectual property rights of the J.Crew brand (the “Transferred IP”), and the execution of related license agreements;
  - the issuance of \$97.0 million aggregate principal amount of an additional series of 13% Senior Secured Notes due 2021 by J.Crew Brand, LLC and J.Crew Brand Corp. (the “New Money Notes” and, together with the Exchange Notes, the “Notes”), subject to the same terms and conditions as the Exchange Notes, for cash at a 3% discount, subject to the terms of the note purchase agreement, dated June 12, 2017, the proceeds of which were loaned on a subordinated basis to us and were applied, in part, to finance the repayment of the \$150.5 million principal amount of term loans referenced above; and
  - the raising of additional borrowings under the Term Loan Facility of \$30.0 million (at a 2% discount) provided by our Sponsors (the “New Term Loan Borrowings”), the net proceeds of which were also applied, in part, to finance the repayment of the \$150.5 million principal amount of term loans referenced above.

## *Financing Arrangements*

### ABL Facility

We have an asset-based credit facility (the “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, following the Sixth Amendment described below, provides for a \$375 million senior secured asset-based revolving line of credit (which may be increased by up to \$75 million in certain circumstances), subject to a borrowing base limitation. We cannot borrow in excess of \$375 million under the ABL Facility without the consent of holders of at least a majority of the loans outstanding under our Term Loan Facility. 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 \$200 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 November 17, 2021.

On September 19, 2018, we entered into a Sixth Amendment to Credit Agreement (Incremental Amendment) (the “Sixth Amendment”), which amended the ABL Facility to increase the revolving credit commitment from \$350 million to \$375 million, with the additional \$25 million provided by MUFG Union Bank, N.A., which joined the ABL Facility as an additional lender.

On August 3, 2019, standby and documentary letters of credit were \$67.4 million, outstanding borrowings were \$198.2 million, and excess availability, as defined, was \$96.1 million. The weighted average interest rate on the borrowings outstanding under the ABL Facility was 4.67% on August 3, 2019. Average short-term borrowings under the ABL Facility were \$204.4 million and \$35.5 million in the first half of fiscal 2019 and fiscal 2018, respectively.

As of the date of this report, there were outstanding borrowings of approximately \$216 million under the ABL Facility with excess availability of approximately \$93 million.

### Demand Letter of Credit Facility

We have an unsecured demand letter of credit facility with HSBC which provides for the issuance of up to \$20 million of documentary letters of credit on a no fee basis. On August 3, 2019, outstanding documentary letters of credit were \$0.3 million and availability under this facility was \$19.7 million.

### Term Loan Facility

*2017 Amendment.* In the second quarter of fiscal 2017, concurrently with the settlement of the Exchange Offer, we amended our Term Loan Facility to, among other things, (i) increase the interest rate applicable to the loans held by consenting lenders, which represented 88% of lenders, (the “Consenting Lenders”; and the loans held by the Consenting Lenders, the “Amended Loans”) by 22 basis points, (ii) increase the amount of amortization payable to Consenting Lenders, (iii) provide for the New Term Loan Borrowings of \$30.0 million, (iv) amend certain covenants and events of default and (v) direct Wilmington Savings Fund Society, FSB, as administrative agent under the Term Loan Facility, to dismiss, with prejudice, certain litigation regarding the Initial Transferred IP (and the related actions). Additionally, we repaid \$150.5 million of principal amount of term loans outstanding under the Term Loan Facility, which was financed with (i) the net proceeds from the New Money Notes of \$94.1 million, (ii) the net proceeds from the New Term Loan Borrowings of \$29.4 million and (iii) cash on hand of \$27.0 million.

*Interest Rate.* Initial borrowings under the Term Loan Facility bear interest at a rate per annum equal to an applicable margin (which, in the case of the Amended Loans, was increased by 22 basis points) plus, at our option, either (a) a LIBOR determined by reference to the costs of funds for U.S. dollar deposits for the relevant interest period 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, plus 1.00%. New Term Loan Borrowings bear interest at LIBOR plus 9% per annum payable in cash plus 3% per annum payable in kind.

The weighted average interest rate on the borrowings outstanding under the Term Loan Facility was 5.67% on August 3, 2019. The applicable margin (i) in effect for base rate borrowings was, (x) in the case of term loans, other than the New Term Loan Borrowings and the Amended Loans, 2.00%, (y) in the case of the Amended Loans, 2.22% and (z) in the case of the New Term Loan Borrowings, 12.00% (of which 3.00% is payable in kind) and (ii) with respect to LIBOR borrowings was, (x) in the case of term loans, other than the New Term Loan Borrowings and the Amended Loans, 3.00% and the LIBOR Floor, (y) in the case of the Amended Loans, 3.22% and the LIBOR Floor and (z) in the case of the New Term Loan Borrowings, 12.00% (of which 3.00% is payable in kind), respectively, at August 3, 2019.

*Principal Repayments.* We are required to make principal repayments equal to 0.25% of the original principal amount of the Term Loan Facility (excluding the New Term Loan Borrowings), or \$3.9 million, on the last business day of January, April, July, and October. We are also required (i) to repay the term loan based on an annual calculation of excess cash flow, as defined in the agreement and (ii) beginning on July 31, 2019, on the last business day of January, April, July and October, to make additional principal repayments of \$1.5 million equal to 0.125% of the aggregate principal amount of Amended Loans outstanding on July 13, 2017. In the second quarter of fiscal 2019, we made an additional one-time principal repayment of \$11.9 million which is equal to 1.00% of the aggregate principal amount of Amended Loans outstanding on July 13, 2017. The maturity date of the Term Loan Facility is March 5, 2021.

#### Notes

*General.* In the second quarter of fiscal 2017, in connection with settlement of the Exchange Offer and the issuance of the Notes, J.Crew Brand, LLC and J.Crew Brand Corp. (together, the “Notes Co-Issuers”) and the Guarantors (as defined below) entered into (i) an indenture with U.S. Bank National Association, as Trustee and collateral agent, governing the terms of the Exchange Notes (the “Exchange Notes Indenture”) and (ii) an indenture with the Trustee and U.S. Bank, as collateral agent, governing the terms of the New Money Notes (the “New Money Notes Indenture”), which is in substantially the same form as the Exchange Notes Indenture.

*Interest Rate.* The Notes bear interest at a rate of 13% per annum, and interest is payable semi-annually on March 15 and September 15 of each year. The Notes mature on September 15, 2021.

*Notes Guarantee.* The Notes are guaranteed by J.Crew Brand Intermediate, LLC, IPCo and J.Crew International Brand, LLC, each of which is a Delaware limited liability company and a wholly-owned indirect subsidiary of the Company (collectively, the “Guarantors,” and each, a “Guarantor”). The PIK Notes Issuer also unconditionally guarantees the payment obligations of the Notes Co-Issuers and the Guarantors.

*Exchange Notes Collateral.* The Exchange Notes and the guarantees thereof are general senior secured obligations of the Notes Co-Issuers and the Guarantors, secured on a first priority lien basis by the Initial Transferred IP and certain other assets of the Notes Co-Issuers and Guarantors, and on a second priority lien basis by the Additional Transferred IP, subject, in each case, to permitted liens under the Exchange Notes Indenture and that certain intercreditor agreement, entered into between the collateral agents on July 13, 2017.

*New Money Notes Collateral.* The New Money Notes and the guarantees thereof are general senior secured obligations of the Notes Co-Issuers and the Guarantors, secured on a first priority lien basis by the Additional Transferred IP and certain other assets, and on a second priority lien basis by the Initial Transferred IP, subject, in each case, to permitted liens under the New Money Notes Indenture and the intercreditor agreement.

*Redemption.* The Notes are redeemable at the option of the Notes Co-Issuers, in whole or in part, at any time, at a price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but not including, the redemption date, plus a “make whole” premium. The Notes are not subject to any mandatory redemption obligation, and there is no sinking fund provided for the Notes.

*Change in Control.* Upon the occurrence of a Change of Control (as defined in each of the indentures, as applicable), the Notes Co-Issuers will be required to offer to repay all of the Notes at 100% of the aggregate principal amount repaid plus accrued and unpaid interest, if any, to, but not including, the date of purchase.

*Covenants.* Each of the indentures contains covenants covering (i) the payment of principal and interest, (ii) maintenance of an office or agency for the payment of the Notes, (iii) reports to the applicable Trustee and holders of the Notes, (iv) stay, extension and usury laws, (v) payment of taxes, (vi) existence, (vii) maintenance of properties and (viii) maintenance of insurance. Each of the indentures relating to the Notes also includes covenants that (i) limit the ability to transfer the collateral and (ii) limit liens that may be imposed on the assets of the Guarantors, which covenants are, in each case, subject to certain exceptions set forth in each of the indentures.



### PIK Notes

In the fourth quarter of fiscal 2013, the PIK Notes Issuer, an indirect parent holding company of Group, issued \$500 million of PIK Notes. As part of the debt exchange and refinancing in July 2017, \$565.7 million in aggregate principal amount of the PIK Notes were exchanged for \$249.6 million of Exchange Notes and shares of preferred and common stock of the Parent. As of February 2, 2019, there were \$1.0 million in aggregate principal amount of PIK Notes outstanding, and in the first quarter of fiscal 2019 the Parent redeemed all remaining outstanding PIK Notes. The PIK Notes were: (i) senior unsecured obligations of the PIK Notes Issuer, (ii) structurally subordinated to all of the liabilities of the PIK Notes Issuers' subsidiaries, and (iii) not guaranteed by any of the PIK Notes Issuers' subsidiaries, and therefore are not recorded in our financial statements.

### IP License Agreements

In December 2016, J.Crew International, Inc. ("JCI") transferred an undivided 72.04% ownership interest in the U.S. intellectual property rights of the J.Crew brand to IPCo, and entered into a related intellectual property license agreement with IPCo. In July 2017, JCI transferred the remaining undivided 27.96% ownership interest in the U.S. intellectual property rights of the J.Crew brand to IPCo, which, together with the initial intellectual property contributed in December 2016, represent 100% of the U.S. intellectual property rights of the J.Crew brand, entered into a license agreement amending and restating the December 2016 license agreement with IPCo and entered into an additional intellectual property license agreement with IPCo (collectively, the "IP License Agreements").

Under the IP License Agreements, J.Crew Operating Corp. ("OpCo"), our direct wholly-owned subsidiary, pays a fixed license fee of \$59 million per annum to IPCo, which owns the U.S. intellectual property rights of the J.Crew brand. The license fees are payable on March 1 and September 1 of each fiscal year. The terms of the 2017 IP License Agreements are no less favorable than could be obtained in an arm's length transaction with an unaffiliated third party. These royalty payments have no impact on our condensed consolidated results of operations and are not subject to the covenants under our credit facilities or the PIK Notes.

The proceeds from the license fees to IPCo are used by IPCo and J.Crew Brand, LLC, wholly-owned subsidiaries of the Company (collectively, "J.Crew BrandCo"), to meet debt service requirements on the Notes. Any license fees in excess of the debt service requirements are loaned back to OpCo on a subordinated basis. As of August 3, 2019, J.Crew BrandCo had total assets of \$415.8 million, consisting of intangible assets of \$250.2 million, receivable due from OpCo of \$140.8 million, license fee receivable of \$24.6 million and cash and cash equivalents of \$0.2 million, and total liabilities of \$360.2 million related to the Notes. IPCo earned royalty revenue of \$14.8 million and \$29.5 million in the second quarter and first half of fiscal 2019, respectively. The Notes are guaranteed by the intangible assets of J.Crew BrandCo.

Below is consolidating balance sheet information reflecting the elimination of the accounts of J.Crew BrandCo from our condensed consolidated balance sheet as of August 3, 2019.

	As of August 3, 2019 (unaudited)		
	Consolidated balance sheet	Eliminations of J.Crew BrandCo	Consolidated balance sheet of subsidiaries excluding J.Crew BrandCo
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 27,173	\$ (187)	\$ 26,986
Restricted cash	3,728	—	3,728
Accounts receivable, net	42,059	—	42,059
Merchandise inventories, net	415,637	—	415,637
Prepaid expenses and other current assets	57,474	—	57,474
Refundable income taxes	4,531	2,096	6,627
Total current assets	<u>550,602</u>	<u>1,909</u>	<u>552,511</u>
Property and equipment, net	237,295	—	237,295
Right-of-use lease assets	501,787	—	501,787
Intangible assets, net	298,779	(250,195)	48,584
Investment in subsidiary	—	231,097	231,097
Goodwill	107,900	—	107,900
Other assets	12,618	—	12,618
Total assets	<u>\$ 1,708,981</u>	<u>\$ (17,189)</u>	<u>\$ 1,691,792</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>			
Current liabilities:			
Accounts payable	\$ 251,562	\$ —	\$ 251,562
Other current liabilities	208,784	24,583	233,367
Borrowings under the ABL Facility	198,200	—	198,200
Current portion of right-of-use lease liabilities	113,831	—	113,831
Due to Parent	35,472	—	35,472
Interest payable	20,085	(16,897)	3,188
Current portion of long-term debt	21,600	—	21,600
Total current liabilities	<u>849,534</u>	<u>7,686</u>	<u>857,220</u>
Long-term debt, net	1,667,318	(343,273)	1,324,045
Due to J.Crew BrandCo	—	140,847	140,847
Long-term right-of-use lease liabilities	472,949	—	472,949
Deferred income taxes, net	19,098	(19,098)	—
Other liabilities	35,064	62	35,126
Total liabilities	<u>3,043,963</u>	<u>(213,776)</u>	<u>2,830,187</u>
Stockholders' deficit:			
Common stock \$0.01 par value; 1,000 shares authorized, issued and outstanding	—	—	—
Additional paid-in capital	733,250	249,596	982,846
Accumulated other comprehensive loss	(4,275)	—	(4,275)
Accumulated deficit	(2,063,957)	(53,009)	(2,116,966)
Total stockholders' deficit	<u>(1,334,982)</u>	<u>196,587</u>	<u>(1,138,395)</u>
Total liabilities and stockholders' deficit	<u>\$ 1,708,981</u>	<u>\$ (17,189)</u>	<u>\$ 1,691,792</u>

Below is consolidating statement of operations and comprehensive loss information reflecting the elimination of the accounts of J.Crew BrandCo from our condensed consolidated statement of operations and comprehensive loss for the thirteen and twenty-six weeks ended August 3, 2019.

	<b>For the Thirteen Weeks Ended August 3, 2019</b>		
	(unaudited)		
<b>Condensed Consolidated Statements of Operations and Comprehensive Loss</b>	<u>Consolidated</u>	<u>Eliminations of J.Crew BrandCo</u>	<u>Consolidated subsidiaries excluding J.Crew BrandCo</u>
Revenues:			
Net sales	\$ 538,812	\$ —	\$ 538,812
Other	50,017	—	50,017
Total revenues	<u>588,829</u>	<u>—</u>	<u>588,829</u>
Cost of goods sold, including buying and occupancy costs	379,383	—	379,383
Royalty expense	—	14,750	14,750
Gross profit	<u>209,446</u>	<u>(14,750)</u>	<u>194,696</u>
Selling, general and administrative expenses	208,020	—	208,020
Impairment losses	<u>2,962</u>	<u>—</u>	<u>2,962</u>
Loss from operations	(1,536)	(14,750)	(16,286)
Interest expense, net	<u>37,727</u>	<u>(6,949)</u>	<u>30,778</u>
Loss before income taxes	(39,263)	(7,801)	(47,064)
Provision for income taxes	<u>4,959</u>	<u>(3,479)</u>	<u>1,480</u>
Net loss	<u>\$ (44,222)</u>	<u>\$ (4,322)</u>	<u>\$ (48,544)</u>
Other comprehensive income (loss):			
Reclassification of losses on cash flow hedges, net of tax, to earnings	1,137	—	1,137
Unrealized loss on cash flow hedges, net of tax	(2,632)	—	(2,632)
Foreign currency translation adjustments	<u>138</u>	<u>—</u>	<u>138</u>
Comprehensive loss	<u>\$ (45,579)</u>	<u>\$ (4,322)</u>	<u>\$ (49,901)</u>

	For the Twenty-six Weeks Ended August 3, 2019		
	(unaudited)		
	Consolidated	Eliminations of J.Crew BrandCo	Consolidated subsidiaries excluding J.Crew BrandCo
<b>Condensed Consolidated Statements of Operations and Comprehensive Loss</b>			
Revenues:			
Net sales	\$ 1,047,788	\$ —	\$ 1,047,788
Other	119,547	—	119,547
Total revenues	1,167,335	—	1,167,335
Cost of goods sold, including buying and occupancy costs	744,112	—	744,112
Royalty expense	—	29,500	29,500
Gross profit	423,223	(29,500)	393,723
Selling, general and administrative expenses	397,771	(61)	397,710
Impairment losses	4,880	—	4,880
Income (loss) from operations	20,572	(29,439)	(8,867)
Interest expense, net	74,645	(18,707)	55,938
Loss before income taxes	(54,073)	(10,732)	(64,805)
Provision for income taxes	6,379	(4,247)	2,132
Net loss	<u>\$ (60,452)</u>	<u>\$ (6,485)</u>	<u>\$ (66,937)</u>
Other comprehensive income (loss):			
Reclassification of losses on cash flow hedges, net of tax, to earnings	804	—	804
Unrealized loss on cash flow hedges, net of tax	(3,298)	—	(3,298)
Foreign currency translation adjustments	186	—	186
Comprehensive loss	<u>\$ (62,760)</u>	<u>\$ (6,485)</u>	<u>\$ (69,245)</u>

### Outlook

Our short-term and long-term liquidity needs arise primarily from (i) debt service requirements, including required (a) quarterly principal repayments and (b) repayments, if any, based on annual excess cash flows, if any, as defined, (ii) capital expenditures and (iii) working capital. Management anticipates that capital expenditures in fiscal 2019 will be approximately \$55 to \$65 million, including approximately \$25 million for our corporate headquarters relocation, approximately \$20 million for new stores and store improvements, approximately \$15 million for information technology enhancements, and the remainder for warehouse improvements and general corporate purposes. Management expects to pay interest of approximately \$140 million in fiscal 2019 to fund debt service obligations. During fiscal 2019, we expect to open 10 Madewell stores and one J.Crew retail store and close approximately 20 stores.

Management believes that our current balances of cash and cash equivalents, projected cash flows from operating, investing and financing activities and amounts available under the ABL Facility will be adequate to fund primary 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. During the first quarter of fiscal 2019, we, in consultation with our legal and financial advisors, announced that we are actively exploring strategic alternatives to maximize the value of the Company.

### Off Balance Sheet Arrangements

We enter into documentary letters of credit to facilitate a portion of our 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 August 3, 2019, we had the following obligations under letters of credit in future periods:

Letters of Credit	Total	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
			<i>(Dollars in millions)</i>		
Standby	\$ 64.4	\$ 64.3	\$ 0.1	\$ —	\$ —
Documentary	3.3	3.3	—	—	—
	<u>\$ 67.7</u>	<u>\$ 67.6</u>	<u>\$ 0.1</u>	<u>\$ —</u>	<u>\$ —</u>

### Cyclical and Seasonality

Our industry is cyclical and 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, foreign currency exchange rates and consumer confidence.

Our business is seasonal, and 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 in December when 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 February 2, 2019 filed with the SEC.

During the first quarter of fiscal 2019, we adopted pronouncements that were issued with respect to the accounting for leases. The pronouncements require lessees to recognize right-of-use lease assets ("ROU assets") and right-of-use lease liabilities ("ROU liabilities") for leases with terms of more than one year. The ROU liabilities are measured as the present value of the lease obligations. The ROU assets reflect the amount of the ROU liabilities less lease-related deferred credits. We used the effective date method whereby initial application occurred on the date of adoption with comparative periods unchanged. Additionally, we utilized the package of practical expedients permitted by the transition guidance, which allowed for a carryforward of our identification of leases, historical lease classification and initial direct costs for existing leases. See note 3 to our unaudited condensed consolidated financial statements included in this report for more information regarding our accounting for leases.

## 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 or net loss and cash flow.

We manage a portion of our interest rate risk related to floating rate indebtedness by entering into interest rate swaps whereby we receive floating rate payments based on the greater of LIBOR and the floor rate and make payments based on a fixed rate. In October 2018, we entered into an interest rate swap agreement which covers a notional amount of \$750 million from March 2019 to March 2020. Under the terms of this agreement, our effective fixed interest rate on the notional amount of indebtedness is 3.03% plus the applicable margin.

In August 2014, we entered into interest rate swap agreements that covered 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 was 2.56% plus the applicable margin.

As a result of the floor rate described above, we estimate that a 1% increase in LIBOR would increase our annual interest expense by approximately \$6 million.

### *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 August 3, 2019, we have recorded a reserve for certain legal contingencies in connection with ongoing claims and litigation. The reserve is not material to our results of operations. In addition, there are certain other claims and legal proceedings pending against us for which accruals have not been established.

*Eaton Vance Management, et al. v. Wilmington Savings Fund Society, FSB, as Administrative Agent and Collateral Agent, et al., Index No. 654397/2017, (Sup. Ct. N.Y. C'ty.).*

On June 22, 2017, Eaton Vance Management and certain affiliated funds as well as Highland Capital Management and certain affiliated funds (collectively, the "Plaintiffs"), filed a complaint in the New York State Supreme Court, Commercial Division, against the Company and WSFS, seeking, among other things, declarations that the July 13, 2017 Amendment to the Term Loan Facility was ineffective absent unanimous consent of all lenders under the facility, that certain of our actions with respect to certain of its intellectual property assets were taken in violation of the terms of the Term Loan Facility, and that those actions also constituted fraudulent conveyances.

On August 7, 2017, WSFS and the Company filed separate motions to dismiss certain of Plaintiffs' claims for failure to state a claim and lack of standing, among other reasons. On September 7, 2017, Plaintiffs filed an amended complaint in the New York State Supreme Court, Commercial Division, against the Company and WSFS. The amended complaint continued to assert claims for breach of the terms of the Term Loan Facility, and for fraudulent conveyance and added an additional claim for fraudulent inducement against the Company.

In response to the amended complaint, WSFS and the Company withdrew their prior motions to dismiss and, on October 20, 2017, filed renewed motions seeking dismissal in whole or part. Among other things, we sought dismissal of the amended complaint for failure to state a claim, lack of standing, and because its fraud claims are duplicative of Plaintiffs' claims under the documents governing the Term Loan Facility. Plaintiffs filed an omnibus brief on December 1, 2017 opposing the motions to dismiss. The Company and WSFS each filed reply briefs on December 22, 2017 reiterating that the majority of Plaintiffs' claims should be dismissed as a matter of law.

Oral argument on the motions to dismiss occurred on March 8, 2018. On April 25, 2018, the judge issued a Memorandum Decision and Order, which granted our partial motion to dismiss in its entirety and dismissed as a matter of law the majority of Plaintiffs' claims with prejudice. Plaintiffs' sole remaining claim is for breach of contract based on the theory that the July 13, 2017 Amendment to the Term Loan Facility required unanimous consent of all lenders under the facility.

On October 25, 2018, Highland Capital Management and certain affiliated funds were dismissed from the action with prejudice.

On November 21, 2018, the remaining Plaintiffs filed a limited appeal of the judge's April 25, 2018 Memorandum Decision and Order with the First Department of the New York Appellate Division in an attempt to resuscitate their fraudulent conveyance claim. We filed an opposition brief on February 14, 2019, arguing that the trial court properly dismissed the fraudulent conveyance claim. On March 8, 2019, the remaining Plaintiffs filed a reply brief in support of their appeal. Oral argument on the appeal occurred on April 2, 2019. On April 25, 2019, the First Department unanimously affirmed the trial court's decision to dismiss the fraudulent conveyance claim with prejudice.

Discovery in the action is ongoing. We believe that the remaining claim is wholly without merit, and intend to vigorously oppose the claim.

### ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 includes a detailed discussion of certain risks that could materially adversely affect our business, our operating results or our financial condition. In addition, you should carefully consider the additional factor described below.

***Our exploration of strategic alternatives to maximize the value of the Company may not be successful, and will involve significant time and expense, which could have a material adverse effect on our business, financial condition and results of operations.***

We have previously announced that we are pursuing or contemplating various initiatives to maximize value, position both the J.Crew and Madewell brands for long-term growth and deleverage and strengthen our balance sheet. We may not be successful in completing any strategic alternatives that we may pursue. Even if we are successful, we may not realize some or all of the anticipated strategic, financial, operational or other benefits from the transaction. In addition, any transaction could subject us to operational, tax or other risks that we may not have identified or may fail to identify, some or all of which could have a material adverse effect on our business, financial condition and results of operations.

We expect that actively exploring such strategic alternatives will be time-consuming and involve significant costs and expenses, which may be significantly higher than what we currently anticipate and may not yield a benefit if any such transaction is not completed. Executing any transaction that we identify and pursue will require significant time and attention from our senior management and employees, which could disrupt our ongoing business and adversely affect our results of operations. We may also experience increased difficulties in attracting, retaining and motivating employees and/or attracting and retaining customers or vendors during the pendency of any transaction and following its completion, which could harm our business. Any of these factors could have a material adverse effect on our business, financial condition or results of operations.

## **ITEM 6. EXHIBITS**

### ***Articles of Incorporation and Bylaws***

Exhibit No.	Document
3.1	<a href="#">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.</a>
3.2	<a href="#">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.</a>

### ***Material Contracts***

Exhibit No.	Document
10.1	<a href="#">Letter Agreement, dated May 7, 2019, between J.Crew Group, Inc. and Billy May.*</a>
10.2	<a href="#">Non-disclosure, Non-solicitation, Non-competition, Work Product Ownership and Dispute Resolution Agreement, dated May 8, 2019, between J.Crew Group, Inc. and Billy May.*</a>

### ***Certifications***

Exhibit No.	Document
31.1	<a href="#">Certification of Interim Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</a>
32.1	<a href="#">Certification of Interim Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**</a>

### ***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 August 3, 2019 and February 2, 2019, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the thirteen weeks ended August 3, 2019 and August 4, 2018, (iii) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the twenty-six weeks ended August 3, 2019 and August 4, 2018, (iv) the Condensed Consolidated Statements of Changes in Stockholders' Deficit for the thirteen and twenty-six weeks ended August 3, 2019 and August 4, 2018, (v) the Condensed Consolidated Statements of Cash Flows for the twenty-six weeks ended August 3, 2019 and August 4, 2018, and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements.*

\* Filed herewith.

\*\* Furnished herewith.







May 7, 2019

Via Electronic Mail

Billy May

Dear Billy:

We are pleased to extend an offer to join our team as Chief Customer Officer. This offer is contingent upon you providing your current employer with your notice of resignation before May 17, 2019 and accepting employment with J. Crew Group, Inc. ("J. Crew" or the "Company") on or before July 22, 2019. In this position, you will report to me.

J. Crew is a company committed to creativity, quality and teamwork. We believe that you meet the high standards that we look for in our associates and are confident that, if you join our team, we can provide you with professional challenges and rewarding opportunities. This letter sets forth the terms of the offer to you. All amounts, payments, and benefits herein are subject to applicable tax withholdings and are expressed in U.S. Dollars.

**Annual Salary**

Your annual salary will be \$800,000 payable biweekly every other Friday in accordance with our normal payroll practices.

**Sign on Bonus**

In addition, you will receive a \$300,000 sign-on bonus payable within 30 days of your start of employment with the Company. This amount is contingent upon you being actively employed by us on the date of actual payout. If you voluntarily terminate your employment for any reason or are terminated for Cause (defined below) within 12 months after your start date, you agree to repay J. Crew, within 30 days of your separation date, the gross amount of the \$300,000 sign-on bonus.

**Relocation**

We will provide you with relocation assistance in accordance with J. Crew's Executive Homeowner relocation policy. Please contact Stuart Robertson at 212-209-6656, who will set you up with our relocation service company.

If you voluntarily terminate your employment for any reason or are terminated for "Cause" (as defined below) within one year after your start date, you agree to repay the full gross amount of all payments, benefits and expense reimbursements, paid by the Company in connection with your relocation ("Relocation Costs"). The repayment of the Relocation Costs must take place within 30 days after your last day of employment.

**Annual Bonus**

In addition to the annual base salary, for fiscal year 2019 and thereafter during your employment, you will have the opportunity to earn an annual bonus ("Annual Bonus") at a target of 75% of your annual base salary, up to a maximum bonus based upon the terms of the bonus plan as in effect from time to time or as otherwise determined by the Compensation Committee of the Company. This bonus is contingent on the achievement of certain company and individual performance objectives which will be determined by the Company for each such fiscal year in accordance with the Company's annual bonus plan ("Plan"). Bonus payment is also contingent upon you being an active associate on the date of actual payout.

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For fiscal year 2019 only, you will receive a guaranteed minimum annual bonus payment of \$300,000.00 (“Guaranteed FY 2019 Bonus”). This payment is contingent upon you being an active associate on the date of actual payout, which shall be on or about April 2020. If any portion of the Guaranteed FY 2019 Bonus payment exceeds what you otherwise would have been entitled to under the Plan based on actual achievement of FY 2019 annual target objectives, and you voluntarily terminate your employment for any reason or are terminated for Cause (defined below) within 12 months after J. Crew provides you said bonus, you agree to repay the gross amount of the difference between the Guaranteed FY 2019 Bonus and the actual earned FY 2019 bonus. Such repayment shall be made within 30 days after your last day of employment.

#### **Long Term Incentive Bonus**

During your first three years of employment (“Measurement Period”), you will be eligible to earn an additional one-time bonus (the “Performance Incentive Bonus”) in the aggregate amount of one million five hundred thousand dollars (\$1,500,000), to be paid in two equal installments of \$750,000 each upon the achievement of two performance goals, respectively, which shall be based on the Adjusted EBITDA (“EBITDA”) of businesses within the Company, the scope and amount of which shall be communicated to you within 60 days of the start of your employment. An installment of the Performance Incentive Bonus will become vested if a) the relevant EBITDA goal is achieved on a trailing twelve fiscal month basis and sustained at such level for a period of six (6) fiscal months thereafter (“Tail Period”) during the Measurement Period, and b) you have remained in continuous employment from your start date until completion of the Tail Period. Payment will be made as soon as reasonably practicable following the vesting of each applicable EBITDA target, but in no event later than two and one-half months following the end of the calendar year in which the vesting date occurs. For this purpose, “Adjusted EBITDA” shall have the same meaning as reported to the SEC on a quarterly basis on Company’s Form 8-K.

#### **Outside Interests**

During your employment, you shall devote your full business time and energy, attention, skills and ability to the performance of your duties and responsibilities hereunder. Accordingly, you may not, directly or indirectly, without the prior written consent of the Company, operate, participate in the management, operations or control of, or act as an employee, officer, consultant, agent or representative of, any type of business or service (other than as an employee of the Company). Provided you have obtained the prior consent of the Company, you may participate as a director of up to one for-profit company at any given time during your employment.

#### **Benefits**

We want you to stay healthy, have a secure financial future and live a balanced work life. Accordingly, we offer a competitive benefits package to help you do this, including medical and dental insurance, paid time off, 401(k) savings plan (with immediate enrollment eligibility and company matching after one year).

#### **Equity**

In accordance with the Chinos Holdings, Inc. 2011 Equity Incentive Plan or any successor plan and the Management Stockholders Agreement (as either are amended or restated from time to time, collectively the “Plan”), you will, as soon as reasonably practicable following your start date, be granted (a) 560,000 restricted shares of Class A common stock, 280,000 of which shall be time-based vesting at 40% on the second anniversary of the grant date and thereafter 20% on each of the third, fourth, and fifth anniversaries of the grant date, and 280,000 of which shall be performance based vesting (together the restricted stock shall be referred to as the “Equity Awards”). The performance based restricted shares shall vest in accordance with any applicable restricted stock award agreement issued to you. The Equity Awards are subject to the Plan, the terms of the award agreements evidencing such Equity Awards, the terms of the Management Stockholders Agreement and other restrictions and limitations generally applicable to common stock of Parent or equity awards held by Company executives or otherwise imposed by law.

#### **Restrictive Covenants and Confidential Information**

As additional consideration for J.Crew extending this offer and in light of the sensitive nature of your position, you agree to enter into a separate agreement with the Company concurrent your execution of this letter in which you agree to comply with certain non-competition and non-solicitation covenants during the

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term of your employment and for a period of twelve (12) months and eighteen (18) months respectively following termination of such employment for any reason, as well as obligations relating to the treatment and ownership of confidential information.

“Cause” shall mean (i) indictment, conviction or admission of any crime involving dishonesty, violence, or moral turpitude (ii) willful misconduct or gross negligence in connection with the performance of your duties as a J. Crew employee, (iii) a material breach of this letter agreement, including without limitation, your failure to perform your duties and responsibilities hereunder, or a breach of any representation or covenant provided herein, (iv) a fraudulent act or omission by you adverse to the reputation of J. Crew or any affiliate, (v) the disclosure by you of any confidential information of J. Crew to persons not authorized to know same, (vi) use of alcohol or drugs which interferes with your performance of your duties or compromises the integrity or reputation of the Company, (vii) excessive absence from work other than as a result of disability, (viii) a violation of or failure to comply with any J. Crew policy or the Company’s Code of Ethics and Business Practices; provided, however, that in the event of a termination under subsection (ii), (iii), (vi), (vii) or (viii), J. Crew must have given you 15 days’ written notice of the act or omission constituting Cause and an opportunity to cure.

**Director and Officer Insurance**

During your employment, and at all times thereafter during which you remain an executive officer of the Company, the Company or its affiliates will provide you with directors’ and officers’ insurance liability coverage to cover claims arising from your activities on behalf of the Company and its Affiliates, in the same manner as such insurance is provided to other similarly-situated executive officers or directors of the Company and its Affiliates.

**Proprietary Information and Trade Secrets of Others**

You represent to J. Crew that you do not have any other agreements, arrangements or commitments with any other person or entity that conflict with accepting this offer or performing your obligations and that you will not disclose to J. Crew or use any proprietary information or trade secrets of another person or entity. You also agree that you will keep all proprietary, confidential information of J. Crew strictly confidential and not disclose any such information during or after your employment without J. Crew’s prior written consent, and that you will abide by all J. Crew policies, including, but not limited to, those contained in the J. Crew Code of Ethics and Business Practices.

**At Will Employment**

By reviewing and signing this letter, you understand that your employment would be “at will” and may be terminated by you or J.Crew at any time and for any reason, and that this letter does not constitute an employment contract. No representative of J.Crew other than a J.Crew executive has the authority to enter into any agreement for employment for a specified duration or to any agreement other than at-will. Any such agreement that changes your at-will status must be explicit, in writing, and signed by an executive and you. This offer is contingent upon the successful completion of a background screen, reference check and your ability to provide the necessary original documents needed to satisfactorily complete the Form I-9 of the US Citizenship & Immigration Service. No employment shall commence, and eligibility for benefits will not be made available until you have provided the aforementioned documents.

If you agree that J. Crew and this offer are right for you, kindly sign and date the enclosed copy of this letter and return it in the enclosed self-addressed stamped envelope. Please keep the other copy for your records. If you have any questions, please do not hesitate to contact me.

We are truly excited to have you join our team and look forward to working with you.

Very truly yours,

/s/Michael J. Nicholson  
Michael J. Nicholson  
Chief Executive Officer

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AGREED TO AND ACCEPTED:

/s/Billy May  
Billy May

Date: May 8, 2019

**NON-DISCLOSURE, NON-SOLICITATION, NON-COMPETITION, WORK PRODUCT OWNERSHIP AND  
DISPUTE RESOLUTION AGREEMENT**

In consideration of your offer of employment as Chief Customer Officer with J. Crew Group, Inc. (“J. Crew”) and for other good and valuable consideration, receipt of which is hereby acknowledged, effective as of your first day of employment with J. Crew, you and J. Crew agree (this “Agreement”) as follows:

1. **Agreement Not to Disclose Confidential Information.** In the course of your employment with or provision of services to J. Crew and its affiliates (collectively, the “Company”), you have and will have acquired and have had access to confidential or proprietary information, whether disclosed to you directly or indirectly in writing, orally, or through drawings or observation, about the Company, including but not limited to, trade secrets, know-how, methods, models, passwords, access to computer files, financial information and other business information and records, computer software programs, agreements and/or contracts between the Company and its vendors and suppliers, the Company’s merchandising, marketing and/or creative policies, practices, concepts, strategies, inventions, processes, technology, and methods of operations, inventory, pricing and price change strategies, possible new product lines, future merchandise designs, drawings, patterns, fabrication or fit information, internal policies, pricing policies and procedures, cost estimates, employee lists, training manuals, financial or business projections, unannounced financial data such as sales, earnings or capital requirements, possible mergers, acquisitions or joint ventures and information about or received from vendors and other companies with which the Company does business. The foregoing shall be collectively referred to as “Confidential Information.” You acknowledge that the Confidential Information is not readily available to the public and accordingly agree that during your employment or provision of services and thereafter, you will keep strictly confidential and not disclose any Confidential Information to anyone or use any of it for your own benefit or for the benefit of others, except in performing your duties as the Company’s employee or agent. You agree that this restriction shall apply whether or not any such information is marked “confidential.” Confidential Information does not include any of the foregoing items which have become publicly known and made generally available through no wrongful act of yours or of others who were under confidentiality obligations as to the item or items involved.

You agree that you will not, during your employment with the Company, improperly use or disclose any proprietary information or trade secrets of any former or concurrent employer or other person or entity and that you will not bring onto the premises of the Company any unpublished document or proprietary information belonging to any such employer, person or entity unless consented to in writing by such employer, person or entity.

You recognize that the Company has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. You agree to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out your work for the Company consistent with the Company's agreement with such third party.

All memoranda, disks, data, files, notes, reports, lists, correspondence, drawings, sketches, materials, records or other documents, whether in electronic form or hard copy

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(collectively, the “Material”) compiled by you or made available to you during your employment (whether or not the Material contains confidential information) or reproductions of any of the aforementioned items are the property of the Company and shall be delivered to the Company on the termination of your employment or at any other time upon request.

**2. Agreement Not to Engage in Unfair Competition.** You agree that your position with J. Crew requires and will continue to require you to devote your full time and attention to furthering the Company’s business and require you to perform services that are special, unique, extraordinary and of an intellectual and/or artistic character, and which place you in a position of confidence and trust with the Company. You further acknowledge that the rendering of your services to the Company necessarily requires the disclosure of Confidential Information and trade secrets of the Company. You agree that in the course of your employment with or rendering of services to the Company, you may develop on behalf of the Company a special acquaintanceship and relationship with the vendors, customers of the Company, and other business associates of the Company and knowledge of their affairs, requirements and history of confidential dealings with the Company, and that your name and reputation may become closely associated with the goodwill and business of the Company. Consequently, you agree that it is reasonable and necessary for the protection of the goodwill and business of the Company and to avoid consumer confusion in the future that you make the covenants contained herein. Accordingly, you agree that:

(a) while you are in the Company’s employ and for the period of twelve (12) months after the termination of your employment, for any reason whatsoever, you shall not directly or indirectly, except on behalf of the Company, within the United States or Canada (or any other country or territory (e.g., the United Kingdom, Hong Kong, and/or The People’s Republic of China) in which you assisted in the design or development of the Company’s products, brand or business during the last twelve months of your employment) render the same or substantially similar services (as an employee, officer, consultant, contractor, director, owner, partner, shareholder, joint venturer or otherwise) to any person or entity identified on Schedule A hereto (as may be updated by the Company and communicated to you from time to time) or any person or entity having a headquarters location within 120 miles of New York City, NY that is, or within twelve (12) months of the Termination Date (as defined below in Section 4) will be, competing with the Company in the design, manufacture, distribution, marketing, or retail sale of men’s, women’s and children’s apparel, shoes and/or accessories (“Competing Business”); and

(b) while you are in the Company’s employ and for the period of eighteen (18) months after the termination of your employment, for any reason whatsoever, you shall not directly or indirectly, except on behalf of the Company recruit, hire, solicit, or employ as an employee or retain as a consultant any person who is then or at any time during the preceding eighteen (18) months was an employee of or consultant to the Company, or persuade or attempt to persuade any employee of or consultant to the Company to leave the employ of the Company or to become employed as an employee or retained as a consultant by anyone other than the Company.

(c) In the event that you leave the employ of the Company, you hereby grant consent to notification by the Company to your new employer of your rights and obligations under this Agreement.

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**3 . Ownership of Work Product.** You acknowledge and agree that all products, designs, strategies, business plans, marketing plans, artwork, original works of authorship, concepts, inventions, improvements, trade secrets, prototypes, samples, and all other materials developed by you (solely or jointly with others), or to which you have or will contribute, during your employment with the Company whether or not registerable under copyright or patentable (collectively, “Work Product”) are works made for hire and that the Company is the sole author and owner of the Work Product and the results and proceeds of the Work Product (including all intellectual property rights in the Work Product). You further acknowledge and agree that Work Product includes that which you solely or jointly created or conceived, or to which you contributed, during or outside normal working hours, on or away from the Company’s premises, on a supervised or unsupervised basis, alone or with others. You retain no rights in the Work Product and agree not to challenge the Company’s ownership of the Work Product and/or any rights embodied in the Work Product. You also hereby irrevocably assign, grant and convey to the Company, without further consideration, all rights, title and interest now existing or that may exist in the future in and to the Work Product, including without limitation all intellectual property rights. You also agree to execute, at the Company’s request and expense, all documents and other instruments necessary or desirable to confirm such assignment. In the event that you do not, for any reason, execute such documents within a reasonable time of the Company’s request, you hereby irrevocably appoint the Company as your attorney-in-fact for the purpose of executing such documents on your behalf, which appointment is coupled with an interest. You shall not attempt to register any Work Product at the U.S. Copyright Office, the U.S. Patent & Trademark Office, any foreign copyright, patent, or trademark registry, or any domain name registry. You further agree to assist the Company in every proper way to protect and enforce its rights relating to the Work Product in any and all countries, including, but not limited to, executing, verifying and delivering such documents and performing such other acts (including appearing as a witness) as the Company may reasonably request for use in obtaining, perfecting, evidencing, sustaining and/or enforcing its rights relating to the Work Product. If you have any rights, including, but not limited to, “artist’s rights” or “moral rights,” in the Work Product that cannot be assigned (“Non-Assignable Rights”), you agree to waive enforcement worldwide of such rights against the Company. If you have any such rights that cannot be assigned or waived, you hereby grant to the Company a royalty-free, paid-up, exclusive, worldwide, irrevocable, perpetual license under the Non-Assignable Rights to (i) use, make, have made, sell, offer to sell, import, and further sublicense the Work Product, and (ii) reproduce, distribute, create derivative works of, and publicly display the Work Product in any medium or format, whether now known or later developed. During the period of your employment and for six months after termination of your employment with J. Crew for any reason, you will promptly disclose to the Company any previously undisclosed Work Product, of which the Company did not have actual knowledge, with was authored, conceived or reduced to practice by you, or to which you contributed, either alone or jointly with others.

**4. Use of Name/Image/Likeness.** During the course of your employment with J. Crew, you further grant it the irrevocable and non-exclusive right and license to use and publish your name (in whole or in part), photograph, video, approved biography, actual and simulated likeness, signature and voice in connection with the Company’s sale, offering for sale, advertising and promotion of its goods and services in any media now or hereafter known throughout the world. You waive any right that you may have to inspect or approve any content,

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goods, services, or materials containing your name or likeness and/or other matter that may be used in connection therewith.

**5. Termination Without Cause or for Good Reason.** Should your employment be (a) terminated by the Company without “Cause” or through your resignation for “Good Reason”, both as defined below; and (b) the Company does not consent at your written request to waive any of the post-employment restrictions contained in Section 2(a) above, and (c) you execute and deliver to Company an irrevocable Separation Agreement and Release, within 60 days after your termination of employment (and any payment that constitutes non-qualified deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended and any regulations thereunder (the “Code”) that otherwise would be made within such 60-day period pursuant to this paragraph shall be paid at the expiration of such 60-day period), in a form acceptable to the Company, the Company will (i) continue to pay your then-current base salary (“Ending Base Salary”), less all applicable deductions, according to the company’s normal payroll practices for the twelve (12) months immediately following your last date of employment (“Termination Date”) (collectively, the “Salary Continuation Payments”); (ii) pay you an amount equal to your actual annual bonus, if achieved (based on you and the Company achieving the performance metrics set by the Company’s Compensation Committee) for the fiscal year immediately prior to the fiscal year that includes the Termination Date, but only to the extent you remain continuously employed through the end of the prior fiscal year and such prior fiscal year bonus has not yet been paid as of the Termination Date, and (iii) pay you an amount equal to your target annual bonus, more specifically 75% of your annual base salary, payable in equal installments concurrent with your Salary Continuation Payments; and (iv) reimburse you for out-of-pocket COBRA payments paid by you to continue your group health benefits for such twelve-month period, provided you submit relevant supporting documentation to the company evidencing such payments. For purposes of clarity, the bonus payment(s) cited in this paragraph shall be in lieu of and replace any annual bonus payment or portion thereof that might otherwise be payable to you. Notwithstanding anything herein to the contrary, however, your right to receive the foregoing payments shall terminate effective immediately and be of no force and effect upon the date that you become employed or are retained by another entity as an employee, consultant or otherwise, with or without compensation (“New Employment”); provided that if the cash compensation you receive pursuant to such New Employment, including without limitation guaranteed bonus payments relating to the period of your Salary Continuation Payments (“Severance Period”) whether or not paid during the Severance Period (“New Compensation”), is less than your Ending Base Salary, the Company will continue to pay you, in accordance with the regular payroll practices of the Company, an incremental amount during the remaining Severance Period such that the New Compensation payments you receive together with such incremental amount will equal your Ending Base Salary on an annualized basis. In addition, your right to receive the COBRA reimbursements shall cease immediately upon your being eligible for coverage under another group health plan. You shall immediately notify the Chief Administration Officer of the Company upon obtaining New Employment and provide all information regarding compensation and medical coverage reasonably requested by the Company. If you fail to so notify the Chief Administrative Officer, (a) you will forfeit your right to receive the payments described above (to the extent the payments were not theretofore paid) and (b) the company shall be entitled to recover any payments already made to you or on your behalf.

Notwithstanding the foregoing, in the event you are a “specified employee” (within the meaning of Section 409A(2)(B) of the Internal Revenue Code of 1986, as amended (the

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“Code”) on the Termination Date and the Salary Continuation Payments to be paid to you within the first six months following such date (the “Initial Payment Period”) exceed the amount referenced in Treas. Regs. Section 1.409A-1(b)(9)(iii)(A) (the “Limit”), then: (i) any portion of the Salary Continuation Payments that is payable during the Initial Payment Period that does not exceed the Limit shall be paid at the times set forth above; (ii) any portion of the Salary Continuation Payments that is a “short-term deferral” within the meaning of Treas. Regs. Section 1.409A-1(b)(4)(i) shall be paid at the times set forth above; (iii) any portion of the Salary Continuation Payments that exceeds the Limit and is not a “short-term deferral” (and would have been payable during the Initial Payment Period but for the Limit) shall be paid on the first business day of the first calendar month that begins after the six-month anniversary of the Termination Date or, if earlier, on the date of your death; and (iv) any portion of the Salary Continuation Payments that is payable after the Initial Payment Period shall be paid at the times set forth above. It is intended that each installment, if any, of the payments and benefits, if any, provided to you under this Section 3 shall be treated as a separate “payment” for purposes of Section 409A of the Code.

“Cause” shall mean (i) indictment, conviction or admission of any crime involving dishonesty, violence, or moral turpitude (ii) willful misconduct or gross negligence in connection with the performance of your duties as a J. Crew employee, (iii) a material breach of this letter agreement, including without limitation, your failure to perform your duties and responsibilities hereunder, or a breach of any representation or covenant provided herein, (iv) a fraudulent act or omission by you adverse to the reputation of J. Crew or any affiliate, (v) the disclosure by you of any confidential information of J. Crew to persons not authorized to know same, (vi) use of alcohol or drugs which interferes with your performance of your duties or compromises the integrity or reputation of the Company, (vii) excessive absence from work other than as a result of disability, (viii) a violation of or failure to comply with any J. Crew policy or the Company’s Code of Ethics and Business Practices; provided, however, that in the event of a termination under subsection (ii), (iii), (vi), (vii) or (viii), J. Crew must have given you 15 days’ written notice of the act or omission constituting Cause and an opportunity to cure.

For purposes of this Agreement, the term “Good Reason” shall mean (i) any act or actions by the Company that result in a material and continuing diminution in your position culminating in a reduction of more than one-third of your authority, duties and responsibilities over the span of a twelve month period, including without limitation an adverse change in your title; (ii) a material reduction by the Company in your base salary or annual bonus opportunity as in effect on the date of this Agreement; provided that, your annual base salary and/or annual bonus may be reduced if the annual base salaries and/or annual bonuses in effect for all or the majority of other senior executive officers of the Company are similarly reduced; or (iii) a relocation of your principal place of employment to more than fifty (50) miles from such principal place of employment as of the start of your employment, in each case without your written consent. For a termination to qualify as a termination of your employment for “Good Reason”, you must deliver to the Board a written notice specifically identifying in a reasonable detail the conduct of the Company which you believe constitutes “Good Reason” in accordance with this section within ninety (90) days of the initial occurrence of the event(s) you believe constitute “Good Reason” and provide the Board and/or Company at least thirty (30) days to remedy such conduct after receipt of such written notice, and to the extent not cured, you must terminate your employment within thirty (30) days after such failure to cure.

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**6. Termination With Cause or Resignation of Employment.** If the Company terminates your employment and such termination is for "Cause," as defined above, or if you resign your employment for any reason, then the Company shall pay you all wages due through the Termination Date. In the event of termination for Cause or your resignation without "Good Reason", the Company will not pay any bonus, COBRA reimbursement, or Salary Continuation Payments set forth in Section 5 above, and the restrictions contained in Sections 1 and 2 above will remain in full force and effect unless waived by the Company.

**7. Term.** The term of this agreement shall be three (3) years, beginning on the date signed by you, as set forth below, and terminating on the third anniversary of such date; provided however, that it shall automatically renew for further terms of one (1) year each upon the same terms and conditions herein, unless the Company provides written notice of non-renewal to you at least 30 days prior to the expiration of the initial term or any renewal term.

Notwithstanding the foregoing, in the event that your employment terminates prior to the expiration of any term, you shall remain subject to the post-termination restrictions contained in Sections 1, 2, 3, and 8 hereof and shall be entitled to the severance payment contained in Section 5 hereof provided that the terms and conditions applicable thereto have been satisfied.

## **8. Dispute Resolution and Arbitration**

(a) Except as provided in subparagraph (b) below, any and all justiciable controversies, claims or disputes that you may have against the Company and/or the Company may have against you arising out of, relating to, or resulting from your employment with the Company, or the separation of your employment with the Company, including claims arising out of or related to this Agreement, shall be subject to mandatory arbitration ("Mandatory Arbitration") as set forth herein. The mutual obligations by the Company and you to arbitrate differences provide mutual consideration for this Mandatory Arbitration provision. Prior to commencing arbitration, if any such matter cannot be settled through negotiation, then the parties agree first to try in good faith to settle the dispute by mediation through a mediator selected by the mutual agreement of both parties. If any such matters cannot be resolved by mediation within 30 days of the Company or you requesting mediation (or such longer period as to which you and the Company agree in writing), they shall be finally resolved by final and binding arbitration. The parties shall select a neutral arbitrator and/or arbitration sponsoring organization by mutual agreement. If the parties are not able to mutually agree to an arbitrator and/or arbitration sponsoring organization, the arbitration will be held under the auspices of the American Arbitration Association ("AAA"), and except as otherwise provided in this Agreement, shall be in accordance with the then current Employment Arbitration Rules of the AAA, which may be found at [www.adr.org](http://www.adr.org) or by using an internet search engine to locate "AAA Employment Arbitration Rules"). The arbitrator, and not any federal, state or local court or agency, shall have the exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Mandatory Arbitration provision. Subject to remedies to which a party to the arbitration may be entitled under applicable law, each party shall pay the fees of its own attorneys, the expenses of its witnesses and all other expenses connected with presenting its case. Other costs of the arbitration, including the cost of any record or transcripts of the arbitration, administrative fees, the fee of the arbitrator, and all other fees and costs, shall be borne by the Company. All arbitral awards shall be final and binding, and

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the arbitration will be conducted in the City of New York, New York, in accordance with the Federal Arbitration Act (9 U.S.C. §§ 1 et seq.). A judgment of a court of competent jurisdiction shall be entered upon the award made pursuant to the arbitration.

(b) You agree that any actual or threatened breach by you of the covenants and agreements set forth in Sections 1, 2, and 3 of this Agreement would result in irreparable harm to the Company for which monetary damages alone would be an insufficient remedy. Thus, without limiting Section 7 (a) herein, either party may pursue temporary and/or preliminary injunctive relief in a court of competent jurisdiction for specific performance of the restrictions or provisions in Sections 1, 2, and 3 of this Agreement, tortious interference with prospective employment and/or the protection of confidential information and/or trade secrets, prevention of unfair competition, or enforcement of post-employment contractual restrictions or rights related to same; provided, however, that all issues of final relief shall continue to be decided through arbitration, and the pursuit of the temporary and/or preliminary injunctive relief described herein shall not constitute a waiver of the parties' agreement to arbitrate by any party. Both you and the Company expressly waive the right to trial by jury.

9. **Severability.** If any provision of this agreement, or any part thereof, is found to be invalid or unenforceable, the same shall not affect the remaining provisions, which shall be given full effect, without regard to the invalid portions. Moreover, if any one or more of the provisions contained in this agreement shall be held to be excessively broad as to duration, scope, activity or subject, such provisions shall be construed by limiting and reducing them so as to be enforceable to the maximum extent with applicable law.

10. **At-Will Employment.** This agreement is limited to the foregoing terms and shall not be construed to create any relationship between you and the Company other than at-will employment for all purposes. This agreement supersedes any and all prior agreements concerning the subject matter hereof, and any severance amounts or obligations of the Company to you referenced herein shall be in lieu of, and not in addition to, any such amounts or obligations in prior agreements.

11. **Governing Law.** Subject to the applicability of the Federal Arbitration Act as stated in Section 7 of this agreement, all other terms of this agreement and all other rights and obligations of the parties thereto shall be interpreted and governed by the laws of the state of New York.

12. **Section 409A of the Code.** If any provision of this agreement (or any award of compensation or benefits provided under this agreement) would cause you to incur any additional tax or interest under Section 409A of the Code, the Company and you shall reasonably cooperate to reform such provision to comply with 409A and the Company agrees to maintain, to the maximum extent practicable without violating 409A of the Code, the original intent and economic benefit to you of the applicable provision; provided that nothing herein shall require the Company to provide you with any gross-up for any tax, interest or penalty incurred by you under Section 409A of the Code.

13. **Entire Agreement.** This Agreement sets forth the entire agreement and understanding between the Company and you relating to the subject matter herein and merges all

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prior discussions between the parties. No modification of or amendment to this Agreement, nor any waiver of any rights under this agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in your duties, salary or compensation will not affect the validity or scope of this Agreement.

14. **Headings.** The headings and captions of the various sections and subdivisions of this Agreement are provided for convenience of reference only and will not affect its construction or interpretation.

15. **Successors and Assigns.** This Agreement will be binding upon your heirs, executors, administrators and other legal representatives and will be for the benefit of the Company, its successors, and its assigns

AGREED TO AND ACCEPTED

J. Crew Group, Inc.

Signature: /s/BILLY MAY

Signature: /s/MICHAEL J. NICHOLSON

Name: Billy May

Michael J. Nicholson  
Chief Executive Officer

Date: May 8, 2019

Date: May 7, 2019

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## SCHEDULE A

Unless waived in writing by the Company, and without limiting the generality of the restrictions on employment contained in section 2(a) above, those restrictions apply to employment with , among others, any entity doing business under any of the names set forth below, as well as their parent, subsidiary, and affiliate companies or joint venture partners, in the United States, Canada, the United Kingdom, Hong Kong, The People's Republic of China and any other countries or territories in which you assisted in the design or development of the Company's products, brand or business during the last twelve months of your employment:

Abercrombie & Fitch Co.  
Aéropostale, Inc.  
Amazon.com, Inc. (including but not limited to Shopbop)  
American Eagle Outfitters, Inc.  
Ascena Retail Group, Inc.  
Bonobos, Inc.  
Cole Haan LLC  
Everlane, Inc.  
Fast Retailing Co., Ltd. (including but not limited to Theory)  
Gap, Inc.  
J.Jill, Inc.  
Lands' End, Inc.  
PVH Corp.  
Ralph Lauren Corporation  
The Talbots, Inc.  
Tapestry, Inc.  
Tory Burch LLC  
Urban Outfitters, Inc.  
Vince, LLC  
Vineyard Vines, LLC

The foregoing list also includes any newly formed or organized entities, whether or not operated by one of the above companies, and all brands or divisions operated by any of the above companies, but only insofar as a listed entity or any other Competing Business require you to undertake the same or substantially similar services for it in an area of that business that meets the definition of Competing Business.



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

I, Vincent Zanna, 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: September 13, 2019

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/s/ Vincent Zanna  
Vincent Zanna  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)



**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 August 3, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Michael J. Nicholson, Interim Chief Executive Officer of the Company, and Vincent Zanna, 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: September 13, 2019

/s/ Michael J. Nicholson

**Michael J. Nicholson**  
**Interim Chief Executive Officer**  
**(Principal Executive Officer)**

/s/ Vincent Zanna

**Vincent Zanna**  
**Chief Financial Officer**  
**(Principal 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.*