

PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

| | November 3, 2018 | February 3, 2018 |
|--|-----------------------------|-----------------------------|
| | | (As adjusted) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 31,860 | \$ 107,066 |
| Merchandise inventories, net | 565,548 | 292,489 |
| Prepaid expenses and other current assets | 126,720 | 92,348 |
| Refundable income taxes | 2,963 | 1,622 |
| Total current assets | <u>727,091</u> | <u>493,525</u> |
| Property and equipment, net | 248,220 | 289,441 |
| Intangible assets, net | 303,222 | 308,702 |
| Goodwill | 107,900 | 107,900 |
| Other assets | 7,740 | 6,374 |
| Total assets | <u>\$ 1,394,173</u> | <u>\$ 1,205,942</u> |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | \$ 324,646 | \$ 232,480 |
| Other current liabilities | 184,553 | 177,206 |
| Borrowings under the ABL Facility | 148,500 | — |
| Due to Parent | 38,336 | 38,210 |
| Interest payable | 11,437 | 21,914 |
| Current portion of long-term debt | 30,570 | 15,670 |
| Total current liabilities | <u>738,042</u> | <u>485,480</u> |
| Long-term debt, net | 1,676,806 | 1,697,812 |
| Lease-related deferred credits, net | 111,306 | 117,688 |
| Deferred income taxes, net | 34,013 | 27,752 |
| Other liabilities | 28,863 | 30,168 |
| Total liabilities | <u>2,589,030</u> | <u>2,358,900</u> |
| Stockholders' deficit: | | |
| Common stock \$0.01 par value; 1,000 shares authorized, issued and outstanding | — | — |
| Additional paid-in capital | 733,148 | 733,071 |
| Accumulated other comprehensive income (loss) | 1,136 | (2,603) |
| Accumulated deficit | (1,929,141) | (1,883,426) |
| Total stockholders' deficit | <u>(1,194,857)</u> | <u>(1,152,958)</u> |
| Total liabilities and stockholders' deficit | <u>\$ 1,394,173</u> | <u>\$ 1,205,942</u> |

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

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

| | For the Thirteen Weeks Ended November 3, 2018 | For the Thirteen Weeks Ended October 28, 2017 (As adjusted) |
|---|--|--|
| Revenues: | | |
| Net sales | \$ 564,585 | \$ 534,043 |
| Other | 57,615 | 30,484 |
| Total revenues | <u>622,200</u> | <u>564,527</u> |
| Cost of goods sold, including buying and occupancy costs | <u>383,762</u> | <u>336,630</u> |
| Gross profit | 238,438 | 227,897 |
| Selling, general and administrative expenses | 202,828 | 200,955 |
| Impairment losses | <u>2,947</u> | <u>1,799</u> |
| Income from operations | 32,663 | 25,143 |
| Interest expense, net of interest income | <u>35,141</u> | <u>32,937</u> |
| Loss before income taxes | (2,478) | (7,794) |
| Provision for income taxes | <u>3,218</u> | <u>10,601</u> |
| Net loss | <u>\$ (5,696)</u> | <u>\$ (18,395)</u> |
| Other comprehensive income (loss): | | |
| Reclassification of losses on cash flow hedges, net of tax, to earnings | 308 | 1,541 |
| Unrealized gain on cash flow hedges, net of tax | 343 | 613 |
| Foreign currency translation adjustments | <u>(12)</u> | <u>(212)</u> |
| Comprehensive loss | <u>\$ (5,057)</u> | <u>\$ (16,453)</u> |

See notes to unaudited condensed consolidated financial statements.

J.CREW GROUP, INC.

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

| | For the Thirty-nine Weeks Ended November 3, 2018 | For the Thirty-nine Weeks Ended October 28, 2017 |
|---|---|---|
| Revenues: | | (As adjusted) |
| Net sales | \$ 1,622,832 | \$ 1,583,802 |
| Other | 127,391 | 77,155 |
| Total revenues | <u>1,750,223</u> | <u>1,660,957</u> |
| Cost of goods sold, including buying and occupancy costs | <u>1,078,976</u> | <u>1,024,678</u> |
| Gross profit | 671,247 | 636,279 |
| Selling, general and administrative expenses | 596,323 | 620,549 |
| Impairment losses | 9,813 | 136,854 |
| Income (loss) from operations | 65,111 | (121,124) |
| Interest expense, net of interest income | 102,524 | 76,191 |
| Loss before income taxes | (37,413) | (197,315) |
| Provision (benefit) for income taxes | 8,302 | (39,449) |
| Net loss | <u>\$ (45,715)</u> | <u>\$ (157,866)</u> |
| Other comprehensive income (loss): | | |
| Reclassification of losses on cash flow hedges, net of tax, to earnings | 1,669 | 5,087 |
| Unrealized gain on cash flow hedges, net of tax | 2,560 | 112 |
| Foreign currency translation adjustments | (490) | 975 |
| Comprehensive loss | <u>\$ (41,976)</u> | <u>\$ (151,692)</u> |

See notes to unaudited condensed consolidated financial statements.

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

| | For the Thirty-nine Weeks Ended November 3, 2018 | For the Thirty-nine Weeks Ended October 28, 2017 (As adjusted) |
|--|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (45,715) | \$ (157,866) |
| Adjustments to reconcile to cash flows from operating activities: | | |
| Depreciation of property and equipment | 67,385 | 74,150 |
| Impairment losses | 9,813 | 136,854 |
| Amortization of intangible assets | 5,405 | 6,776 |
| Amortization of deferred financing costs and debt discount | 5,371 | 4,338 |
| Deferred income taxes | 3,695 | (53,029) |
| Reclassification of hedging losses to earnings | 2,274 | 8,340 |
| Share-based compensation | 77 | 530 |
| Loss on sale of property | — | 526 |
| Foreign currency transaction gains | (230) | (641) |
| Changes in operating assets and liabilities: | | |
| Merchandise inventories, net | (273,493) | (50,911) |
| Prepaid expenses and other current assets | (34,632) | (6,769) |
| Other assets | (1,683) | (684) |
| Accounts payable and other liabilities | 82,009 | 20,236 |
| Federal and state income taxes | 4,069 | 5,400 |
| Net cash used in operating activities | <u>(175,655)</u> | <u>(12,750)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (35,519) | (28,594) |
| Proceeds from sale of property | — | 2,530 |
| Net cash used in investing activities | <u>(35,519)</u> | <u>(26,064)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net borrowings under the ABL Facility | 148,500 | — |
| Quarterly principal repayments of Term Loan Facility | (11,752) | (11,753) |
| Cost paid in connection with refinancings of debt | (74) | (5,740) |
| Proceeds from Notes, net of discount | — | 123,490 |
| Repayments pursuant to the Term Loan amendment | — | (150,456) |
| Net cash provided by (used in) financing activities | <u>136,674</u> | <u>(44,459)</u> |
| Effect of changes in foreign exchange rates on cash and cash equivalents | <u>(706)</u> | <u>261</u> |
| Decrease in cash and cash equivalents | (75,206) | (83,012) |
| Beginning balance | 107,066 | 132,226 |
| Ending balance | <u>\$ 31,860</u> | <u>\$ 49,214</u> |
| Supplemental cash flow information: | | |
| Income taxes paid | <u>\$ 977</u> | <u>\$ 1,313</u> |
| Interest paid | <u>\$ 106,971</u> | <u>\$ 68,525</u> |
| Non-cash contribution to Parent in connection with Exchange Offer | <u>\$ —</u> | <u>\$ 249,596</u> |

See notes to unaudited condensed consolidated financial statements.