NEIMAN MARCUS GROUP INC
Form 10-K
September 16, 2005

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended July 30, 2005

OR

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

For the transition period from to
Commission file no. 1-9659

The Neiman Marcus Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-4119509** (I.R.S. Employer Identification No.)
One Marcus Square **1618 Main Street** **Dallas, Texas** (Address of principal executive offices)	**75201** (Zip code)

Registrant's telephone number, including area code: **(214) 741-6911**

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, $.01 par value	New York Stock Exchange
Class B Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ý No o

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

As of January 31, 2005, the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant was approximately $3,236,027,132 computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

As of September 2, 2005, the registrant had outstanding 29,524,935 shares of its Class A Common Stock and 19,422,379 shares of its Class B Common Stock.

THE NEIMAN MARCUS GROUP, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED JULY 30, 2005

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

Business Overview

The Neiman Marcus Group, Inc. (the Company), is one of the nation's leading luxury retailers, offering distinctive merchandise and excellent customer service that cater to the needs of the affluent consumer. Since our founding in the early 1900s, we have established ourselves as a leading fashion authority among luxury consumers and have become a premier U.S. retail channel for many of the world's most exclusive designers. Currently, we operate 35 Neiman Marcus full-line stores at prime retail locations in major U.S. markets and two Bergdorf Goodman stores on Fifth Avenue in New York City. We also operate catalogs and e-commerce websites under the brands Neiman Marcus®, Bergdorf Goodman® and Horchow® and own majority interests in Kate Spade LLC, which designs and retails high-end accessories, and Gurwitch Products, LLC, which designs and markets Laura Mercier® cosmetics. During 2005, we generated revenues of $3,821.9 million.

We operate an integrated, multi-channel retailing model as described below:

Specialty Retail Stores. Our specialty retail store operations (Specialty Retail Stores) consist primarily of our 35 Neiman Marcus stores and two Bergdorf Goodman stores. We also operate 17 clearance centers to provide an outlet for the sale of end-of-season clearance merchandise. Over our past five fiscal years, Specialty Retail Stores has achieved a compounded annual growth rate, or CAGR, in revenues of 4.9%. During 2005, Specialty Retail Stores accounted for 81.2% of our total revenues and generated operating earnings of $377.8 million, or 12.2% of Specialty Retail Stores revenues.

> *Neiman Marcus Stores.* Neiman Marcus stores offer distinctive luxury merchandise, including women's couture and designer apparel, contemporary sportswear, handbags, fashion accessories, shoes, cosmetics, men's clothing and furnishings, precious and designer jewelry, decorative home accessories, fine china, crystal and silver, children's apparel and gift items. We locate our Neiman Marcus stores at carefully selected venues that cater to our target customers in major metropolitan markets across the United States and design our stores to provide a feeling of residential luxury by blending art and architectural details from the communities in which they are located. During 2005, our full-line Neiman Marcus stores and clearance centers accounted for 70.4% of our total revenues and 86.8% of Specialty Retail Stores revenues.

> *Bergdorf Goodman Stores.* Bergdorf Goodman is a premier luxury retailer in New York City well known for its couture merchandise, opulent shopping environment and landmark Fifth Avenue locations. Bergdorf Goodman features high-end apparel, fashion accessories, shoes, traditional and contemporary decorative home accessories, precious and designer jewelry, cosmetics and gift items. During 2005, our Bergdorf Goodman stores accounted for 10.7% of our total revenues and 13.2% of Specialty Retail Stores revenues.

Direct Marketing. Our upscale direct-to-consumer operation (Direct Marketing) conducts catalog and online sales of fashion apparel, accessories and home furnishings through the Neiman Marcus brand, catalog and online sales of home furnishings and accessories through the Horchow brand, and online sales of fashion apparel and accessories through the Bergdorf Goodman brand.

In 2005, Direct Marketing generated revenues of $592.1 million with over one million customers making a purchase through one of our catalogs or websites. Our catalog business circulated over 100 million catalogs and generated revenues of $279.0 million. Our online business generated revenues in 2005 of $313.1 million. We regularly send e-mails to over 1.7 million e-mail addresses, alerting our customers to our newest merchandise and the latest fashion trends. Over the last five fiscal years, Direct Marketing has achieved a CAGR in revenues of 7.9%. During 2005, Direct Marketing accounted for 15.5% of our total revenues and generated operating earnings of $75.2 million, or 12.7% of Direct Marketing revenues.

In recent years, we have achieved industry-leading financial performance, including strong growth in sales per square foot and comparable revenues, along with stable operating margins and significant cash flow generation. Our Neiman Marcus and Bergdorf Goodman stores generated sales per square foot of $577 in 2005.

For more information about our reportable segments, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 14 of the Notes to Consolidated Financial Statements in Item 15.

Our fiscal year ends on the Saturday closest to July 31. All references to 2005 relate to the 52 weeks ended July 30, 2005; all references to 2004 relate to the 52 weeks ended July 31, 2004 and all references to 2003 relate to the 52 weeks ended August 3, 2003. References to 2006 and years thereafter relate to our fiscal years for such periods.

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and related amendments, available free of charge through our website at www.neimanmarcusgroup.com as soon as reasonably practicable after we electronically file such material with (or furnish such material to) the Securities and Exchange Commission. The information contained on our website is not incorporated by reference into this Form 10-K and should not be considered to be part of this Form 10-K.

Recent Developments

On May 1, 2005, our Board of Directors approved a definitive agreement to sell the Company to an investment group consisting of Texas Pacific Group and Warburg Pincus, LLC (collectively, the Sponsors). Under the terms of the agreement, the Sponsors will acquire all of the outstanding Class A and Class B shares of The Neiman Marcus Group, Inc. for $100.00 per share in cash, representing a transaction value of approximately $5.1 billion. Each of the Sponsors will own equal stakes in the Company upon completion of the transaction. Our shareholders approved the definitive agreement to sell the Company on August 16, 2005. The sale is currently anticipated to close in October 2005.

In connection with the Sponsors' purchase of the Company, the Company will incur significant indebtedness and will be highly leveraged. See "The Transactions." Significant additional liquidity requirements (resulting primarily from debt service requirements) and other factors relating to the Transactions will significantly affect our future financial position, results of operations and liquidity.

Industry Overview

We operate in the luxury apparel and accessories segment of the U.S. retail industry and have arrangements with luxury-branded fashion vendors, including Chanel, Prada, St. John, David Yurman, Ermenegildo Zegna, Gucci, Giorgio Armani and Manolo Blahnik to market and sell their merchandise. Luxury-branded fashion vendors typically manage the distribution and marketing of their merchandise to maximize the perception of brand exclusivity and to facilitate the sale of their goods at premium prices, including by limiting the number of retail locations through which they distribute their merchandise. These retail locations typically consist of a limited number of specialty stores, high-end department stores and, in some instances, vendor-owned proprietary boutiques. Retailers that compete with us for the distribution of luxury fashion brands include Saks Fifth Avenue, Nordstrom, Barney's New York and other national, regional and local retailers.

We believe that the following factors benefit well-positioned luxury retailers:

- attractive demographic trends, including increasing wealth concentration and an aging baby boomer population;
- growing consumer demand for prestige brands and exclusive products;
- retail consumption patterns of affluent consumers that are generally less influenced by economic cycles than middle- or lower-income consumers;
- higher price points and limited distribution of luxury merchandise, which have generally protected high-end specialty retailing from the growth of discounters and mass merchandisers;
- aggressive marketing by luxury brands; and
- consumer trends towards aspirational lifestyles.

Customer Service and Marketing

We are committed to providing our customers with a premier shopping experience through our relationship-based customer service model, with superior merchandise selection and elegant store settings of our stores. Critical elements to our customer service approach are:

- knowledgeable, professional and well-trained sales associates;
- marketing programs designed to promote customer awareness of our offerings of the latest fashion trends;
- loyalty programs designed to cultivate long-term relationships with our customers; and
- facilitating the extension of credit to our customers through our proprietary credit card program.

Sales Associates. We seek to maintain a sales force of knowledgeable, professional and well-trained sales associates to deliver personal attention and service to our customers through our relationship-based customer service model. We compensate our sales associates primarily on a commission basis and provide them with training in the areas of customer service, selling skills and product knowledge. Our sales associates participate in active clienteling programs designed to maintain contact with our customers between store visits and to ensure that our customers are aware of the latest merchandise offerings and fashion trends that we present in our stores. We empower our sales associates to act as personal shoppers and in many cases, as the personal style advisor to our customers. We actively monitor and analyze the service levels in our stores in order to maximize sales associate productivity and store profitability.

Marketing Programs. We conduct a wide variety of marketing programs to support our sales associates in the communication of fashion trends to our customers in order to create fashion excitement and enhance our customer relationships. The programs include both in-store events and targeted, brand-consistent print media communications.

We maintain an active calendar of in-store events to promote our sales efforts. The activities include in-store visits and trunk shows by leading designers featuring the newest fashions from the designer, in-store promotions of the merchandise of selected designers or merchandise categories, often through events conducted in connection with our loyalty programs, and participation in charitable functions in each of our markets. Past trunk shows and in-store promotions at our Neiman Marcus and Bergdorf Goodman stores have featured designers such as Chanel, Giorgio Armani and Oscar de la Renta.

Through our print media programs, we mail various publications to our customers communicating upcoming in-store events, new merchandise offerings and fashion trends. In connection with these programs, Neiman Marcus produces The Book® approximately eight to nine times each year. The Book is a high-quality publication featuring the latest fashion trends, is mailed on a targeted basis to our customers and has a yearly printing in excess of 3.3 million. Our other print publications include The Book for Men, the *Bergdorf Goodman Magazine* and specific designer mailers. Recently, we added The Addition, which identifies for our younger, aspirational customers, as well as our core customers, "must have items" for the current season.

We also believe that the print catalog and on-line operations of our Direct Marketing segment promote brand awareness which benefits the operations of our retail stores.

Loyalty Programs. We maintain loyalty programs designed to cultivate long-term relationships with our customers. The Neiman Marcus loyalty program is conducted under the InCircle® name and the Bergdorf Goodman loyalty program is conducted under the BG Rewards name. Our loyalty programs focus on our most active customers. These programs include marketing features, including private in-store events, special magazine issues, as well as the ability to accumulate points for qualifying purchases. Increased points are periodically offered in connection with in-store promotional and other events. Upon attaining specified point levels, customers may redeem their points for a variety of gifts ranging from gift cards to designer merchandise and trips to exotic locations. Approximately 46% of revenues at Neiman Marcus stores in calendar year 2004 were generated by our InCircle members.

Proprietary Credit Card Program. We maintain a proprietary credit card program through which we facilitate the extension of credit to customers under the "Neiman Marcus" and "Bergdorf Goodman" names.

On July 7, 2005, HSBC Bank Nevada, National Association (HSBC) purchased our approximately three million private label Neiman Marcus and Bergdorf Goodman credit card accounts and related assets, as well as the outstanding balances associated with such accounts (Credit Card Sale). The total purchase price was approximately $647 million, consisting of approximately $534 million in net cash proceeds and the assumption of approximately $113 million of outstanding debt under our revolving credit card securitization facility.

As a part of the Credit Card Sale, we entered into a long-term marketing and servicing alliance with HSBC. Under the terms of this alliance, HSBC offers credit cards and non-card payment plans bearing our brands and we receive from HSBC ongoing payments related to credit sales and compensation for marketing and servicing activities (HSBC Program Income). In addition, we continue to handle key customer service functions, initially including new account processing, most transaction authorization, billing adjustments, collection services and customer inquiries. As part of this transaction, we are changing, and will continue to change, the terms of credit offered to our customers following the Credit Card Sale. In addition, HSBC will have discretion over certain policies and arrangements with credit card customers and may change these policies and arrangements in ways that affect our relationship with these customers. Any such changes in our credit card arrangements may adversely affect our credit card program and ultimately, our business.

Historically, our customers holding a proprietary credit card have tended to shop more frequently and have a higher level of spending than customers paying with cash or third-party credit cards. In 2005, approximately 54% of our revenues were transacted through our proprietary credit cards.

We utilize data captured through our proprietary credit card program in connection with promotional events and customer relationship programs by targeting specific customers based upon their past spending patterns for certain brands, merchandise categories and store locations.

Integrated Multi-Channel Model. We offer products through our complementary Direct Marketing and Specialty Retail Stores businesses, which enables us to maximize our brand recognition and strengthen our customer relationships across all channels. Our well-established catalog and online operation expands our reach beyond the trading area of our retail stores, as approximately 50% of our Direct Marketing customers in 2005 were located outside of the trade areas of our existing retail locations. We also use our catalogs and e-commerce websites as selling and marketing tools to increase the visibility and exposure of our brand and generate customer traffic within our retail stores. We believe the combination of our retail stores and direct selling efforts is the main reason that our multi-channel customers spend more on average than our single-channel customers (approximately 3.5 times more in 2005).

Merchandise

Our percentages of revenues (exclusive of revenues generated by leased departments) by major merchandise category are as follows:

	Years Ended		
	July 30, 2005	**July 31, 2004**	**August 2, 2003**
Women's Apparel	34%	34%	34%
Women's Shoes, Handbags and Accessories	19%	19%	16%
Cosmetics and Fragrances	12%	12%	12%
Men's Apparel and Shoes	12%	11%	12%
Designer and Precious Jewelry	10%	10%	10%
Home Furnishings and Décor	9%	10%	11%
Other	4%	4%	5%
	100%	100%	100%

Substantially all of our merchandise is delivered to us by our vendors as finished goods and is manufactured in numerous locations including Europe and the United States, and to a lesser extent, China, Mexico and South America.

We lease certain departments in our stores to independent companies. Our management regularly evaluates the performance of the leased departments and requires compliance with established guidelines. The companies to which we lease store space are generally responsible for paying their own employees. We receive commissions from these leased departments on a percent of sales basis.

Our merchandise consists primarily of apparel and accessories from luxury-branded designers. Our major merchandise categories are as follows:

Women's Apparel: Women's apparel consists of dresses, eveningwear, suits, coats, and sportswear separates skirts, pants, blouses, jackets, and sweaters. Women's apparel occupies the largest amount of square footage within our stores. We work with women's apparel vendors to present the merchandise and highlight the best of the vendor's product. Our primary women's apparel vendors include Chanel, St. John, Giorgio Armani, Theory, Escada and Ellen Tracy.

Women's Shoes, Handbags and Accessories: These categories make up approximately 19% of our revenues. Women's accessories include belts, gloves, scarves, hats and sunglasses. Our primary vendors in this category include Manolo Blahnik, Prada, Gucci, Chanel, Dior and Ferragamo in Ladies Shoes; and handbags from Chanel, Prada, Gucci, Marc Jacobs, Judith Leiber and Luella Bartley.

Cosmetics and Fragrances: Cosmetics and fragrances include facial and skin cosmetics, skin therapy and lotions, soaps, fragrance, candles and beauty accessories. Our primary vendors of cosmetics and beauty products include La Mer, Bobbie Brown, Sisley, La Prairie, Chanel and Laura Mercier.

Men's Apparel and Shoes: Men's apparel and shoes include suits, dress shirts and ties, sport coats, jackets, trousers, casual wear and eveningwear as well as business and casual footwear. This category has been an increased focus of Neiman Marcus. Bergdorf Goodman has a fully dedicated men's store in New York. Our primary vendors in this category include Ermenegildo Zegna, Brioni, Giorgio Armani, and Prada in men's clothing and sportswear; and Ermenegildo Zegna, Prada, Ferragamo and Gucci in men's furnishings and shoes.

Designer and Precious Jewelry: Our designer and precious jewelry offering includes women's accessories, necklaces, bracelets, rings, brooches and watches that are selected to complement our apparel merchandise offering. Our primary vendors in this category include David Yurman, Stephen Dweck and John Hardy in Designer Jewelry, and Henry Dunay and Roberto Coin in Precious Jewelry. We often sell precious jewelry on a consignment basis.

Home Furnishings and Décor: Home furnishings and décor include linens, tabletop, kitchen accessories, furniture, rugs, decoratives (frames, candlesticks, vases and sculptures) as well as collectables. Merchandise for the home complements our apparel offering in terms of quality and design. Our primary vendors in this category include Jay Strongwater, Daum, Waterford, Steuben and Baccarat.

Vendor Relationships

Our merchandise assortment consists of a wide selection of luxury goods purchased from both well-known luxury-branded fashion vendors as well as new and emerging designers. We communicate with our vendors frequently, providing feedback on current demand for their products, suggesting, at times, changes to specific product categories or items and gaining insight into their future fashion direction. Certain designers sell their merchandise, or certain of their design collections, exclusively to us and other designers sell to us pursuant to their limited distribution policies. We compete for quality merchandise and assortment principally based on relationships and purchasing power with designer resources. Our women's and men's apparel and fashion accessories businesses are especially dependent upon our relationships with these designer resources. We monitor and evaluate the sales and profitability performance of each vendor and adjust our future purchasing decisions from time to time based upon the results of this analysis. We have no guaranteed supply arrangements with our principal merchandising sources and, accordingly, there can be no assurance that such sources will continue to meet our needs for quality, style and volume. In addition, our vendor base is diverse, with no single vendor representing more than 5% of the cost of our total purchases in 2005. The breadth of our sourcing helps mitigate risks associated with a single brand or designer.

Consistent with industry business practice, we receive allowances from certain of our vendors in support of the merchandise we purchase for resale. We receive certain allowances to reimburse us for markdowns taken or to support the gross margins that we earn in connection with the sales of the vendor's merchandise. Other allowances we receive represent reductions to the amounts we pay to acquire the merchandise. We also receive advertising allowances from certain of our merchandise vendors, substantially all of which represent reimbursements of direct, specified and incremental costs we incurred to promote the vendors' merchandise. These allowances are recorded as a reduction of our advertising costs when incurred. We also receive allowances from certain merchandise vendors in conjunction with compensation allowances for employees who sell the vendors' merchandise, which allowances are netted against the related compensation expenses that we incur. See Note 1 to our audited consolidated financial statements included herein.

We offer certain merchandise, primarily precious jewelry, on a consignment basis in order to expand our product assortment. As of July 30, 2005, we held consigned inventories with a cost basis of approximately $226.8 million (consigned inventories are not reflected in our consolidated balance sheet as we do not take title to consigned merchandise). From time to time, we make advances to certain of our vendors. These advances are typically deducted from amounts paid to vendors at the time we receive the merchandise or, in the case of advances made for consigned goods, at the time we sell the goods. We had net outstanding advances to vendors of approximately $24.6 million at July 30, 2005.

Inventory Management

Our merchandising function is decentralized with separate merchandising functions for Neiman Marcus stores, Bergdorf Goodman and our Direct Marketing operation. Each merchandising function is responsible for determining the merchandise assortment and quantities to be purchased and, in the case of Neiman Marcus stores, for the allocation of merchandise to each store. We currently have almost 300 merchandise buyers and a planning team in charge of determining the type and amount of merchandise we buy, as well as its allocation among Neiman Marcus stores.

The majority of the merchandise we purchase is initially received at one of our centralized distribution facilities. To support our Specialty Retail Stores, we utilize a primary distribution facility in Longview, Texas, a regional distribution facility in Totowa, New Jersey and five regional service centers. We also operate two distribution facilities in the Dallas-Fort Worth area to support our Direct Marketing operation.

We primarily operate on a pre-distribution model through which we allocate merchandise on our initial purchase orders to each store. This merchandise is shipped from our vendors to our distribution facilities for delivery to designated stores. We have also implemented a "locker stock" program to store a portion of our most in-demand and high fashion merchandise at our distribution facilities. For products stored in locker stock, we can ship replenishment merchandise to the stores that demonstrate the highest customer demand. This program helps minimize excess inventory and allows us to maximize the opportunity for full-price selling.

Our distribution facilities are linked electronically to our various merchandising staffs to facilitate the distribution of goods to our stores. We utilize electronic data interchange (EDI) technology with certain of our vendors, which is designed to move merchandise onto the selling floor quickly and cost-effectively by allowing vendors to deliver floor-ready merchandise to the distribution facilities. In addition, we utilize high-speed automated conveyor systems capable of scanning the bar coded labels on incoming cartons of merchandise and directing the cartons to the proper processing areas. Many types of merchandise are processed in the receiving area and immediately "cross docked" to the shipping dock for delivery to the stores. Certain processing areas are staffed with personnel equipped with hand-held radio frequency terminals that can scan a vendor's bar code and transmit the necessary information to a computer to record merchandise on hand. We utilize third-party carriers to distribute our merchandise to individual stores.

With respect to the Specialty Retail Stores, the majority of the merchandise is held in our retail stores. We closely monitor the inventory levels and assortments in our retail stores to facilitate reorder and replenishment decisions, satisfy customer demand and maximize sales. Transfers of goods between stores are made primarily at the direction of merchandising personnel and, to a lesser extent, by store management primarily to fulfill customer requests. We also maintain certain inventories at the Longview distribution facility. The goods held at the Longview distribution facility consist primarily of goods held in limited assortment or quantity by our stores and replenishment goods available to stores achieving high initial sales levels. During fiscal year 2004, we expanded our distribution center in Longview, Texas by 25% to over 600,000 square feet. As part of this expansion, we realigned the warehouse space, enabling us to strengthen our "locker stock" inventory management program. With this program, we maintain certain key inventory items centrally, allowing us to restock inventory at individual stores more efficiently and to maximize opportunities for full-price selling. In addition, our sales associates can use the program to ship items directly to our customers, improving customer service and increasing productivity. We plan to continue to expand this program to deliver goods to our customers more quickly and to enhance the allocation of goods to our stores.

Capital Investments

We make capital investments annually to support our long-term business goals and objectives. We invest capital in new and existing stores, distribution and support facilities as well as information technology. We have gradually increased the number of our stores over the past ten years, growing our full-line Neiman Marcus and Bergdorf Goodman store base from 28 stores at the beginning of 1995 to our current 37 stores.

We invest capital in the development and construction of new stores in both existing and new markets. We conduct extensive demographic, marketing and lifestyle research to identify attractive retail markets with a high concentration of our target customers prior to our decision to construct a new store. We compete with other retailers for real estate opportunities principally on the basis of our ability to attract customers. In addition to the construction of new stores, we also invest in the on-going maintenance of our stores to ensure an elegant shopping experience in our stores. Capital expenditures for existing stores range from minor renovations of certain areas within the store to major remodels and renovations and store expansions. We are focused on operating only in attractive markets that can profitably support our stores and are focused on maintaining the quality of our stores and, consequently, our brand. With respect to our major remodels, we only expand after extensive analysis of our projected returns on capital. We generally experience increases in both total sales and sales per square foot at stores that undergo a remodel or expansion.

We also believe capital investments for information technology in our stores, distribution facilities and support functions are necessary to support our business strategies. As a result, we are continually upgrading our information systems to improve efficiency and productivity.

In the past three fiscal years, we have made capital expenditures aggregating $453 million related primarily to:

- the construction of new stores in Orlando, Coral Gables, San Antonio and Boca Raton;
- the renovation and expansion of our main Bergdorf Goodman store in New York City and Neiman Marcus stores in San Francisco, Newport Beach, Las Vegas, Houston and Beverly Hills;
- the expansion of our distribution facilities;
- the development and installation of a new point-of-sale system in our retail stores; and
- the development and installation of new financial systems and non-merchandise procurement modules.

In 2006, we anticipate capital expenditures for our planned new stores in Boca Raton, Charlotte, Austin and suburban Boston and renovations of the San Francisco and Houston stores as well as the main Bergdorf Goodman store. We also expect to make technology related expenditures for new warehousing and distribution systems and a new human capital management system, both of which are scheduled for implementation in 2006.

We receive allowances from developers related to the construction of our stores thereby reducing our cash investment in these stores. We record these allowances as deferred real estate credits which are recognized as a reduction of rent expense on a straight-line basis over the lease term. We received construction allowances aggregating $26.1 million in 2005.

Competition

The specialty retail industry is highly competitive and fragmented. We compete for customers with specialty retailers, traditional and high-end department stores, national apparel chains, vendor-owned proprietary boutiques, individual specialty apparel stores and direct marketing firms. We compete for customers principally on the basis of quality and fashion, customer service, value, assortment and presentation of merchandise, marketing and customer loyalty programs and, in the case of Neiman Marcus and Bergdorf Goodman, store ambiance. Retailers that compete with us for distribution of luxury fashion brands include Saks Fifth Avenue, Nordstrom, Barney's New York and other national, regional and local retailers.

We believe we are differentiated from other national retailers by our distinctive merchandise assortment, which we believe is more upscale than other high-end department stores, excellent customer service, prime real estate locations and elegant shopping environment. We believe we differentiate ourselves from regional and local high-end luxury retailers through our diverse product selection, strong national brand, loyalty programs, customer service, prime shopping locations and strong vendor relationships that allow us to offer the top merchandise from each vendor. Vendor-owned proprietary boutiques and specialty stores carry a much smaller selection of brands and merchandise, lack the overall shopping experience we provide and have a limited number of retail locations.

Employees

As of September 2, 2005, we had approximately 16,100 employees. Neiman Marcus stores had approximately 13,500 employees, Bergdorf Goodman stores had approximately 1,000 employees, Neiman Marcus Direct had approximately 1,500 employees and Neiman Marcus Group had approximately 90 employees. Our staffing requirements fluctuate during the year as a result of the seasonality of the retail industry. We hire additional temporary associates and increase the hours of part-time employees during seasonal peak selling periods. None of our employees are subject to collective bargaining agreements, except for approximately 15% of the Bergdorf Goodman employees. We believe that our relations with our employees are good.

Seasonality

Our business, like that of most retailers, is affected by seasonal fluctuations in customer demand, product offerings and working capital expenditures. For additional information on seasonality, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations Executive Overview Seasonality."

Regulation

Our operations are affected by numerous federal and state laws that impose disclosure and other requirements upon the origination, servicing and enforcement of credit accounts and limitations on the maximum amount of finance charges that may be charged by a credit provider. In addition to our proprietary credit cards, credit to our customers is also provided primarily through third parties such as American Express, Visa and MasterCard. Any change in the regulation of credit that would materially limit the availability of credit to our customer base could adversely affect our results of operations or financial condition.

Our and our competitors' practices are subject to review in the ordinary course of business by the Federal Trade Commission and are subject to numerous federal and state laws. Additionally, we are subject to certain customs, truth-in-advertising and other laws, including consumer protection regulations that regulate retailers generally and/or govern the importation, promotion and sale of merchandise. We undertake to monitor changes in these laws and believe that we are in material compliance with all applicable state and federal regulations with respect to such practices.

Investments in Brand Development Companies

Our Brand Development Companies consist of our 56% interest in Kate Spade LLC, which designs and retails high-end designer handbags and accessories, and our 51% interest in Gurwitch

Products, LLC, which designs and markets the Laura Mercier cosmetics line. Our investments in and relationships with our Brand Development Companies are governed by operating agreements that provide for an orderly transition process in the event any investor wishes to sell its interest, or purchase another investor's interest. Among other things, these operating agreements contain currently exercisable put option provisions entitling each minority investor to put their interest to us, and currently exercisable call option provisions entitling us to purchase each minority investor's interest, at a purchase price mutually agreed to by the parties. The purchase price will be determined, in the case of the Gurwitch interests, by one or more nationally recognized investment banking firms and, in the case of the Kate Spade interests, by the parties or, in the event the parties are unable to agree on a mutually acceptable price, by a mutually acceptable nationally recognized investment banking firm, subject to certain conditions. We may elect, in certain circumstances, to defer the consummation of a put option for a period of six months by cooperating with the other investors in seeking either a sale of the Brand Development Company to a third party or a public offering of the Brand Development Company's securities. If a sale to a third party or public offering of the Brand Development Company's securities is not consummated within six months after the exercise of the put option (which period may be automatically extended for an additional two months if a registration statement for the Brand Development Company is filed with the Securities and Exchange Commission), we are obligated to consummate the put option. Under the terms of the Kate Spade operating agreement, such consummation shall occur within thirty days after the determination of the valuation with respect to the exercise of the put option.

Recently, we have been in extensive discussions with the minority investors of Kate Spade LLC regarding certain strategic alternatives, including the possible sale of such company. However, while such discussions are ongoing, no assurance can be given that they will ultimately lead to any transaction.

The Transactions

On May 1, 2005, our Board of Directors approved a definitive agreement to sell the Company to an investment group consisting of Texas Pacific Group and Warburg Pincus, LLC (collectively, the Sponsors), through a merger of the Company with an entity owned by the Sponsors. Under the terms of this agreement, Newton Acquisition Merger Sub, Inc. (Merger Sub) will merge with the Company and each share of the Company's common stock (other than shares held in treasury or owned by Newton Acquisition Merger Sub, Inc., its parent company or any direct or indirect subsidiary of Newton Acquisition Merger Sub, Inc. or its parent company and other than shares held by stockholders who properly demand appraisal rights) will be converted into the right to receive $100.00 in cash, without interest. The merger will be structured as a reverse subsidiary merger, under which Newton Acquisition Merger Sub, Inc. will be merged with and into The Neiman Marcus Group, Inc. at closing, and The Neiman Marcus Group, Inc. will be the surviving corporation.

The merger is expected to be completed in October 2005, subject to the satisfaction or waiver of all the closing conditions set forth in the merger agreement. These conditions include the receipt of stockholder approval, the absence of governmental orders and the receipt of certain regulatory approvals. Since the signing of the merger agreement, the Federal Trade Commission has granted early termination of the applicable waiting period for the merger and stockholder approval of the merger has been obtained.

In connection with the merger, we will incur significant indebtedness and will be highly leveraged. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Financing Structure Related to the Transactions."

ITEM 2. PROPERTIES

Our corporate headquarters are located at the Downtown Neiman Marcus store location in Dallas, Texas. The operating headquarters for Neiman Marcus, Bergdorf Goodman and Neiman Marcus Direct are located in Dallas, Texas; New York, New York; and Irving, Texas, respectively.

We opened a new Neiman Marcus store in San Antonio in September 2005 and plan to open another new store in Boca Raton in November 2005. In addition, we plan to open new Neiman Marcus stores in Charlotte and Austin in 2007; suburban Boston and Long Island in 2008; and greater Los Angeles area in 2009. In total, we expect the planned new stores will add over 665,000 square feet of new selling space over approximately the next three years, representing an almost 13% increase in square footage as compared to the current aggregate square footage of our full-line Neiman Marcus and Bergdorf Goodman stores. In addition, we recently have completed the remodels of our Las Vegas, Newport Beach and Beverly Hills stores and have remodels underway at our San Francisco, Houston and Bergdorf Goodman stores.

Properties that we use in our operations include Neiman Marcus stores, Bergdorf Goodman stores, clearance centers and distribution support and office facilities. As of September 15, 2005, the approximate aggregate square footage of the properties used in our operations was as follows:

	Owned	Owned Subject to Ground Lease	Leased	Total
Neiman Marcus Stores	751,000	2,140,000	1,981,000	4,872,000
Bergdorf Goodman Stores			316,000	316,000
Clearance Centers			447,000	447,000
Distribution, Support and Office Facilities	1,317,000	150,000	974,000	2,441,000

Neiman Marcus Stores. As of September 15, 2005, we operated 35 Neiman Marcus stores, with an aggregate total property size of approximately 4,872,000 gross square feet. The following table sets forth certain details regarding each Neiman Marcus store:

Locations	Fiscal Year Opening Date	Gross Store Sq. Feet	Locations	Fiscal Year Opening Date	Gross Store Sq. Feet
Dallas, Texas (Downtown)(1)	1908	129,000	Boston, Massachusetts(2)	1984	111,000
Dallas, Texas (NorthPark)(2)	1965	218,000	Palo Alto, California(3)	1986	120,000
Houston, Texas (Galleria)(3)	1969	224,000	McLean, Virginia(4)	1990	130,000
Bal Harbour, Florida(2)	1971	97,000	Denver, Colorado(3)	1991	90,000
Atlanta, Georgia(2)	1973	154,000	Minneapolis, Minnesota(2)	1992	119,000
St. Louis, Missouri(2)	1975	145,000	Scottsdale, Arizona(2)	1992	118,000
Northbrook, Illinois(3)	1976	144,000	Troy, Michigan(3)	1993	157,000
Fort Worth, Texas(2)	1977	119,000	Short Hills, New Jersey(3)	1996	138,000
Washington, D.C.(2)	1978	130,000	King of Prussia, Pennsylvania(3)	1996	142,000
Newport Beach, California(3)	1978	154,000	Paramus, New Jersey(3)	1997	141,000
Beverly Hills, California(1)	1979	185,000	Honolulu, Hawaii(3)	1999	181,000
Westchester, New York(2)	1981	138,000	Palm Beach, Florida(2)	2001	53,000
Las Vegas, Nevada(2)	1981	174,000	Plano, Texas (Willow Bend)(4)	2002	156,000
Oak Brook, Illinois(2)	1982	119,000	Tampa, Florida(3)	2002	96,000
San Diego, California(2)	1982	106,000	Coral Gables, Florida(2)	2003	136,000
Fort Lauderdale, Florida(3)	1983	94,000	Orlando, Florida(4)	2003	95,000
San Francisco, California(4)	1983	251,000	San Antonio, Texas(4)	2006	120,000
Chicago, Illinois (Michigan Ave.)(2)	1984	188,000			

(1) Owned subject to partial ground lease.

(2) Leased.

(3) Owned subject to ground lease.

(4) Owned.

Bergdorf Goodman Stores. We operate two Bergdorf Goodman stores, both of which are located in Manhattan at 58th Street and Fifth Avenue. The following table sets forth certain details regarding these stores:

Locations	Fiscal Year Operations Began	Gross Store Sq. Feet
New York City (Main)	1901	250,000
New York City (Men's)	1991	66,000

Clearance Centers. We operate 17 clearance centers (15 Last Call and 2 Horchow) that average approximately 26,000 gross square feet each in size.

Distribution, Support and Office Facilities. We own approximately 34 acres of land in Longview, Texas, where our primary distribution facility is located. The Longview facility occupies 612,000 square feet and is the principal merchandise processing and distribution facility for Neiman Marcus stores. We currently utilize a regional distribution facility in Totowa, New Jersey and five regional service centers in New York, Florida, Illinois, Texas and California. We also own approximately 50 acres of land in Irving, Texas, where our 705,000 square foot Neiman Marcus Direct operating headquarters and distribution facility is located. We also currently utilize another regional distribution facility in Dallas, Texas to support our Direct Marketing operation.

Lease Terms. The terms of the leases for substantially all of our stores, assuming all outstanding renewal options are exercised, range from 15 to 99 years. The lease on the Bergdorf Goodman Main Store expires in 2050 and the lease on the Bergdorf Goodman Men's Store expires in 2010, with two 10-year renewal options. Most leases provide for monthly fixed rentals or contingent rentals based upon sales in excess of stated amounts and normally require us to pay real estate taxes, insurance, common area maintenance costs and other occupancy costs.

For further information on our properties and lease obligations, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 10 of the Notes to Consolidated Financial Statements in Item 15.

ITEM 3. LEGAL PROCEEDINGS

We are currently involved in various legal actions and proceedings that arose in the ordinary course of our business. We believe that any liability arising as a result of these actions and proceedings will not have a material adverse effect on our financial position, results of operations or cash flows.

On May 4, 2005, a purported class action complaint, NECA-IBEW Pension Fund (The Decatur Plan) v. The Neiman Marcus Group, Inc. et al. (CA No. 3-05 CV-0898B), was filed by a putative stockholder in federal court in the Northern District of Texas against The Neiman Marcus Group, Inc. and its directors challenging the proposed merger. An amended complaint was filed on July 25, 2005. The amended complaint alleges a cause of action for breach of fiduciary duty against us and our directors, claiming, among other things, that the defendants are endeavoring to complete the sale of The Neiman Marcus Group, Inc. and its assets at a grossly inadequate and unfair price and pursuant to an unfair process that fails to maximize shareholder value. In addition, the amended complaint alleges that the directors are not independent and breached their fiduciary duties in connection with the approval of the merger by, among other things, tailoring the transaction to serve the interests of the defendants and the family of Richard A. Smith, chairman of our board of directors and our largest stockholder, rather than structuring the merger to obtain the highest price for stockholders, depriving public stockholders of the value of certain assets (including the credit card business and our third quarter 2005 profits), failing to realize the financial benefits from the sale of the credit card business, not engaging in a fair process of negotiating at arm' s length, including provisions precluding superior competing bids (including a termination fee and no solicitation provision) and structuring a preferential deal for insiders. The amended complaint further claims that our financial advisor had a conflict of interest by also acting as a financing source for the merger, and that our proxy statement in respect of the merger allegedly omitted material information purportedly necessary to ensure a fully informed shareholder vote. The amended complaint currently seeks, among other things, injunctive relief to enjoin the consummation of the merger, to rescind any actions taken to effect the merger, to direct the defendants to sell or auction The Neiman Marcus Group, Inc. for the highest possible price, and to impose a constructive trust in favor of plaintiffs upon any benefits improperly received by defendants. The lawsuit is in its preliminary stage and we expect to file a motion to dismiss the lawsuit in October 2005. While we believe that the lawsuit is without merit and intend to defend vigorously against it, there can be no assurance that it will not adversely affect our business, including the merger and related transactions.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the quarter ended July 30, 2005.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Our Class A Common Stock and Class B Common Stock are currently traded on the New York Stock Exchange under the symbols NMG.A and NMG.B, respectively. As of September 2, 2005, there were 9,227 record holders of the Class A Common Stock and 3,152 record holders of the Class B Common Stock. In the second quarter of 2005, our Board of Directors increased our quarterly cash dividend from $0.13 per share to $0.15 per share. In 2005, we declared dividends on October 29, 2004, January 28, 2005, April 29, 2005 and July 29, 2005 aggregating $28.4 million.

The following table indicates the quarterly stock price ranges for 2005 and 2004:

	NMG.A		NMG.B	
2005 Quarter	**High**	**Low**	**High**	**Low**
First	$ 60.83	$ 50.47	$ 56.61	$ 47.30
Second	72.82	61.12	68.55	56.85
Third	100.12	66.90	99.05	62.50
Fourth	$ 98.50	$ 92.96	$ 98.21	$ 92.46

	NMG.A		NMG.B	
2004 Quarter	**High**	**Low**	**High**	**Low**
First	$ 48.00	$ 38.90	$ 44.25	$ 36.25
Second	55.78	48.20	51.85	44.20
Third	59.18	48.55	55.54	45.25
Fourth	$ 55.65	$ 48.00	$ 52.15	$ 44.76

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is qualified in entirety by our Consolidated Financial Statements (and the related Notes thereto) contained in Item 15 and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7. We derived the selected financial data as of July 30, 2005, July 31, 2004 and August 2, 2003 and for the periods ended July 30, 2005, July 31, 2004 and August 2, 2003 from our audited consolidated financial statements and related notes. The selected financial data as of August 3, 2002 and July 28, 2001 and for the period ended July 28, 2001 reflect adjustments to our audited consolidated financial statements for those specific years to reclassify certain amounts related to the presentation of construction allowances in the consolidated balance sheets and statements of cash flows and the retained interest of our credit card facility in the statements of cash flows. After adjustment, all periods are presented on a basis comparable to our audited consolidated financial statements referred to in the previous sentence. Additionally, 2002 included 53 weeks of operations while the other years presented consist of 52 weeks of operations.

	Years Ended				
	July 30, 2005	**July 31, 2004**	**August 2, 2003**	**August 3, 2002**	**July 28, 2001**
	(in millions, except per share data)				
OPERATING RESULTS					
Revenues	$ 3,821.9	$ 3,524.8	$ 3,080.4	$ 2,932.0	$ 2,997.7
Gross margin	1,327.8	1,197.5	1,001.9	930.1	969.5
Operating earnings	411.5 (1)	345.2 (3)	222.1	177.7 (6)	193.6 (7)
Earnings before income taxes, minority interest and change in accounting principle	399.1	329.3	205.8	162.2	178.4
Net earnings	248.8 (2)	204.8 (4)	$ 109.3 (5)	$ 99.6	$ 107.5
Basic earnings per share:					
Earnings before change in accounting principle	$ 5.15	$ 4.27	$ 2.61	$ 2.10	$ 2.28
Change in accounting principle			(0.31)(5)		
Basic earnings per share	$ 5.15	$ 4.27	$ 2.30	$ 2.10	$ 2.28
Diluted earnings per share:					
Earnings before change in accounting principle	$ 5.02	$ 4.19	$ 2.60	$ 2.08	$ 2.26
Change in accounting principle			(0.31)(5)		
Diluted earnings per share	$ 5.02	$ 4.19	$ 2.29	$ 2.08	$ 2.26