NEIMAN MARCUS GROUP INC
Form 10-Q/A
May 31, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment #1)

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

For the Quarterly Period Ended October 30, 2004

OR

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

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 75201
(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ý NO o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES ý NO o

As of December 1, 2004, the number of outstanding shares of each of the issuer s classes of common stock was:

Class	**Outstanding Shares**
Class A Common Stock, $.01 Par Value	29,372,487

Class B Common Stock, $.01 Par Value	19,422,379

Explanatory Note

This amendment to the Quarterly Report on Form 10-Q for The Neiman Marcus Group, Inc. for the period ended October 30, 2004 is being filed to correct errors in previously issued financial statements related to 1) the classification of construction allowances in the balance sheets and statements of cash flows and 2) the classification of changes in undivided interests in the NMG Credit Card Master Trust in the statements of cash flows. See Note 9 in the Notes to Condensed Consolidated Financial Statements for a discussion of these corrections and a reconciliation of amounts previously reported to those shown herein. We have also revised our discussion in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. Information not affected by the corrections described in Note 9 remains unchanged and reflects the disclosures made at the time of the original filing of the Form 10-Q on December 6, 2004. Our previously reported net earnings, earnings per share and shareholders equity are not impacted by these corrections.

THE NEIMAN MARCUS GROUP, INC.

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THE NEIMAN MARCUS GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands)	October 30, 2004	July 31, 2004 (As Restated, See Note 9)	November 1, 2003
ASSETS			
Current assets:			
Cash and cash equivalents	$ 258,367	$ 368,367	$ 127,524
Undivided interests in NMG Credit Card Master Trust			314,138
Accounts receivable, net of allowance of $11,132, $10,078 and $432	641,236	551,687	33,075
Merchandise inventories	881,266	720,277	830,319
Other current assets	72,429	65,835	73,345
Total current assets	1,853,298	1,706,166	1,378,401
Property and equipment, net	776,665	750,483	735,516
Other assets	128,112	160,999	127,939
Total assets	$ 2,758,075	$ 2,617,648	$ 2,241,856
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 293,344	$ 289,282	$ 266,889
Accrued liabilities	347,232	286,833	323,188
Notes payable and current maturities of long-term liabilities	4,200	1,563	2,252
Current portion of borrowings under Credit Card Facility	225,000	150,000	
Total current liabilities	869,776	727,678	592,329
Long-term liabilities:			
Notes and debentures	249,762	249,757	249,739
Borrowings under Credit Card Facility		75,000	
Deferred real estate credits	70,587	71,898	75,830
Other long-term liabilities	115,469	112,455	114,463
Total long-term liabilities	435,818	509,110	440,032
Minority interest	11,474	10,298	9,700
Common stocks	496	492	488
Additional paid-in capital	505,573	491,849	471,328
Accumulated other comprehensive loss	(3,068)	(4,536)	(25,642)
Retained earnings	963,431	905,330	775,667
Treasury stock, at cost (764,631 shares, 710,227 shares and 699,777 shares)	(25,425)	(22,573)	(22,046)
Total shareholders equity	1,441,007	1,370,562	1,199,795
Total liabilities and shareholders equity	$ 2,758,075	$ 2,617,648	$ 2,241,856

See Notes to Condensed Consolidated Financial Statements.

THE NEIMAN MARCUS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

(in thousands, except per share data)	Thirteen Weeks Ended October 30, 2004	Thirteen Weeks Ended November 1, 2003
Revenues	$ 907,936	$ 818,769
Cost of goods sold including buying and occupancy costs	554,710	510,350
Selling, general and administrative expenses	227,963	211,130
Loss on disposition of Chef s Catalog	15,348	
Operating earnings	109,915	97,289
Interest expense, net	4,037	3,462
Earnings before income taxes and minority interest	105,878	93,827
Income taxes	40,975	36,592
Earnings before minority interest	64,903	57,235
Minority interest in net earnings of subsidiaries	(787)	(1,010)
Net earnings	$ 64,116	$ 56,225
Weighted average number of common and common equivalent shares outstanding:		
Basic	48,226	47,624
Diluted	49,133	48,396
Earnings per share:		
Basic	$ 1.33	$ 1.18
Diluted	$ 1.30	$ 1.16

See Notes to Condensed Consolidated Financial Statements.

THE NEIMAN MARCUS GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	Thirteen Weeks Ended October 30, 2004 (As Restated, See Note 9)	Thirteen Weeks Ended November 1, 2003
CASH FLOWS - OPERATING ACTIVITIES		
Net earnings	$ 64,116	$ 56,225
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Depreciation	24,386	22,596
Loss on disposition of Chef s Catalog	15,348	
Minority interest	787	1,010
Other primarily costs related to defined benefit pension and other long-term benefit plans	8,230	8,645
	112,867	88,476
Changes in operating assets and liabilities:		
Increase in undivided interests		(71,573)
Increase in accounts receivable	(89,549)	(10,480)
Increase in merchandise inventories	(160,989)	(143,257)
Decrease (increase) in other assets	15,187	(4,550)
Increase in accounts payable and accrued liabilities	65,401	61,566
(Decrease) increase in deferred real estate credits	(1,311)	5,488
Other	(1,377)	13,118
Net cash used for operating activities	(59,771)	(61,212)
CASH FLOWS - INVESTING ACTIVITIES		
Capital expenditures	(50,568)	(24,319)
Net cash used for investing activities	(50,568)	(24,319)
CASH FLOWS - FINANCING ACTIVITIES		
Proceeds from borrowings	2,750	1,000
Acquisitions of treasury stock	(2,851)	(7,026)
Proceeds from stock-based compensation awards	6,864	12,293
Cash dividends paid	(6,314)	
Distribution paid	(110)	(162)
Net cash provided by financing activities	339	6,105
CASH AND CASH EQUIVALENTS		
Decrease during the period	(110,000)	(79,426)
Beginning balance	368,367	206,950
Ending balance	$ 258,367	$ 127,524
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 1,170	$ 174
Income taxes	$ 2,311	$ 586

See Notes to Condensed Consolidated Financial Statements.

THE NEIMAN MARCUS GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

We have prepared the Condensed Consolidated Financial Statements of The Neiman Marcus Group, Inc. and its subsidiaries in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by accounting principles generally accepted for complete financial statements. Therefore, these financial statements should be read in conjunction with our amendment to the Annual Report on Form 10-K/A for the fiscal year ended July 31, 2004.

Our fiscal year ends on the Saturday closest to July 31. All references to the first quarter of 2005 relate to the thirteen weeks ended October 30, 2004 and all references to the first quarter of 2004 relate to the thirteen weeks ended November 1, 2003. All references to 2005 relate to the fifty-two weeks ending July 30, 2005.

In our opinion, the accompanying unaudited Condensed Consolidated Financial Statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows for the applicable interim periods. 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.

We are 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 and the disclosure of gain and loss contingencies at the date of the Condensed Consolidated Financial Statements. We evaluate our estimates and judgments on an ongoing basis and predicate those estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. We make adjustments to our assumptions and judgments when facts and circumstances dictate. Since future events and their effects cannot be determined with absolute certainty, actual results may differ from the estimates used in preparing the accompanying Condensed Consolidated Financial Statements.

We believe the following critical accounting policies, among others, encompass the more significant judgments and estimates used in the preparation of our financial statements:

Revenue recognition;

Valuation of merchandise inventories, including determination of original retail values, recognition of markdowns and vendor allowances, estimation of inventory shrinkage, and determination of cost of goods sold;

Recognition of income and expenses related to our securitization program;

Determination of impairment of long-lived assets;

Recognition of advertising and catalog costs;

Measurement of liabilities related to our loyalty programs;

Recognition of income taxes; and

Measurement of accruals for litigation, general liability, workers compensation and health insurance, short-term disability, pension and postretirement health care benefits.

A description of our critical accounting policies is included in our amendment to the Annual Report on Form 10-K/A for the fiscal year ended July 31, 2004.

Stock-Based Compensation. We account for stock-based compensation awards to employees in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, we have recognized compensation expense on our restricted stock and purchase restricted stock awards but have not recognized compensation expense for stock options since all options granted had an exercise price equal to the market value of our common stock on the grant date.

The following table illustrates the effect on net earnings and earnings per share as if we had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation using the Black-Scholes option-pricing model for the first quarter of 2005 and 2004:

	Thirteen Weeks Ended	
(in thousands, except per share data)	**October 30, 2004**	**November 1, 2003**
Net earnings:		
As reported	$ 64,116	$ 56,225
Add: stock-based employee compensation recorded under intrinsic value method, net of related taxes	932	524
Less: stock-based employee compensation expense determined under fair value based method, net of related taxes	(2,894)	(2,566)
Pro forma	$ 62,154	$ 54,183
Basic earnings per share:		
As reported	$ 1.33	$ 1.18
Pro forma	$ 1.29	$ 1.14
Diluted earnings per share:		
As reported	$ 1.30	$ 1.16
Pro forma	$ 1.27	$ 1.12

The effects on pro forma net earnings and earnings per share of expensing the estimated fair value of stock options are not necessarily representative of the effects on reported net earnings for future periods due to such factors as the vesting periods of stock options and the potential issuance of additional stock options in future years. In addition, the Black-Scholes option-pricing model has inherent limitations in calculating the fair value of stock options for which no active market exists since the model does not consider the inability to sell or transfer options, vesting requirements and a reduced exercise period upon termination of employment - all of which would reduce the fair value of the options.

***Reclassification*.** A substantial portion of the points earned by customers in connection with our loyalty programs are redeemed for gift cards. At the time the qualifying sales giving rise to the loyalty program points are made, we defer the portion of the revenues on the qualifying sales transactions equal to our estimate of the retail value of the gift cards to be issued upon conversion of the points to gift cards. Beginning in the first quarter of 2005, we began to record the deferral of revenues related to gift cards awards under our loyalty programs as a reduction of revenues. Previously, we charged such amounts to selling, general and administrative expenses (SG&A). In addition, we now charge the cost of all other awards under our loyalty programs to cost of goods sold (COGS) rather than SG&A. These changes in classification do not impact the previously reported operating earnings, net income or earnings per share amounts.

The following table presents quarterly and annual information giving recognition to the changes in classification related to our loyalty programs:

(in thousands)	**Revenues**	**COGS**	**SG&A**
Fiscal Year 2004:			
First quarter	$ 818,769	$ 510,350	$ 211,130
Second quarter	1,048,367	718,985	239,381
Third quarter	873,167	544,663	208,909
Fourth quarter	784,468	553,231	189,033
Total	$ 3,524,771	$ 2,327,229	$ 848,453
Fiscal Year 2003:			
First quarter	$ 727,832	$ 455,307	$ 197,281
Second quarter	934,844	655,459	220,981
Third quarter	718,557	465,160	181,565
Fourth quarter	699,120	502,510	179,981
Total	$ 3,080,353	$ 2,078,436	$ 779,808

Recent Accounting Pronouncements. In December 2003, the U.S. Congress enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) that will provide a prescription drug subsidy, beginning in 2006, to companies that sponsor postretirement health care plans that provide drug benefits. Additional legislation is anticipated that will clarify whether a company is eligible for the subsidy, the amount of the subsidy available and the procedures to be followed in obtaining the subsidy. In May 2004, the FASB issued Staff Position 106-2 Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 that provides guidance on the accounting and disclosure for the effects of the Act. We are evaluating the impact of the Act on our Postretirement Plan as well as future actions that we might take in response to the Act. As a result, we are currently unable to quantify the effects of this legislation on our obligations pursuant to the Postretirement Plan.

2. Loss on Disposition of Chef s Catalog

In November 2004, we sold our Chef s Catalog direct marketing business to a private equity firm. Chef s Catalog is a multi-channel retailer of professional-quality kitchenware with revenues in 2004 of approximately $73 million. At October 30, 2004, Chef s Catalog had net tangible assets, primarily inventory, of $12.5 million and net intangible assets of $17.2 million. We received proceeds, net of selling costs, of $14.4 million from the sale. As the carrying value of the Chef s Catalog assets exceeded the fair value of such assets as determined by the sale, we

incurred a pre-tax loss of $15.3 million in the first quarter of 2005 related to the disposition of Chef s Catalog.

3. Operating Segments

We have identified two reportable segments: Specialty Retail Stores and Direct Marketing. The Specialty Retail Stores segment includes all of our Neiman Marcus and Bergdorf Goodman retail stores, including Neiman Marcus clearance stores. The Direct Marketing segment conducts both print catalog and online operations under the Neiman Marcus, Horchow and Bergdorf Goodman brand names. Other includes the operations of Kate Spade LLC and Gurwitch Products, LLC (the Brand Development Companies).

Both the Specialty Retail Stores and Direct Marketing segments, as well as Kate Spade LLC and Gurwitch Products, LLC, derive their revenues from the sales of high-end fashion apparel, accessories, cosmetics and fragrances from leading designers, precious and fashion jewelry and decorative home accessories.

The following table sets forth the information for our reportable segments:

	Thirteen Weeks Ended			
(in thousands)		**October 30, 2004**		**November 1, 2003**
REVENUES:				
Specialty Retail Stores	$	736,890	$	664,474
Direct Marketing		139,799		128,006
Other		31,247		26,289
Total	$	907,936	$	818,769
OPERATING EARNINGS:				
Specialty Retail Stores	$	120,189	$	91,109
Direct Marketing		11,358		10,624
Other		2,860		3,667
Subtotal		134,407		105,400
Corporate expenses		(9,144)		(8,111)
Loss on disposition of Chef s Catalog		(15,348)		
Total	$	109,915	$	97,289

4. Stock Repurchase Program

In prior years, our Board of Directors authorized various stock repurchase programs and increases in the number of shares subject to repurchase. In the first quarter of 2005, we repurchased 54,404 shares at an average purchase price of $52.40. As of October 30, 2004, approximately 1.2 million shares remain available for repurchase under our stock repurchase programs.

5. Earnings per Share

The weighted average shares used in computing basic and diluted earnings per share (EPS) are presented in the table below. We made no adjustments to net earnings for the computations of basic and diluted EPS during the periods presented.

(in thousands of shares)	**Thirteen Weeks Ended October 30, 2004**	**Thirteen Weeks Ended November 1, 2003**
Weighted average shares outstanding	48,730	48,078
Less: shares of non-vested restricted stock	(504)	(454)
Shares for computation of basic EPS	48,226	47,624
Effect of dilutive stock options and restricted stock	907	772
Shares for computation of diluted EPS	49,133	48,396
Shares represented by antidilutive stock options	569	28

We did not include antidilutive stock options in the computation of diluted EPS because the exercise price of those options was greater than the average market price of the common shares.

6. Undivided Interests in NMG Credit Card Master Trust

Pursuant to a revolving credit card securitization program (the Credit Card Facility), we transfer substantially all of our credit card receivables to a wholly-owned subsidiary, Neiman Marcus Funding Corporation, which in turn sells such receivables to the Neiman Marcus Credit Card Master Trust (Trust). At the inception of the Credit Card Facility in September 2000, the Trust issued certificates representing undivided interests in the credit card receivables to third-party investors in the face amount of $225 million (Sold Interests). We hold certificates representing interests in the credit card portfolio equal to the excess of the balance of the credit card portfolio over $225 million (Retained Interests). In order to maintain the committed level of securitized assets, the Trust uses cash collections on the securitized receivables to purchase new credit card balances from us in accordance with the terms of the Credit Card Facility.

From the inception of the Credit Card Facility until December 2003, our transfers and sales of credit card receivables pursuant to the terms of the Credit Card Facility were accounted for as sales (Off-Balance Sheet Accounting). As a result, we removed $225 million of credit card receivables from our balance sheet at the inception of the Credit Card Facility and the Trust s $225 million repayment obligation to the holders of the certificates representing the Sold Interests was not shown as a liability on our consolidated balance sheet. During the period the transfers and sales qualified for Off-Balance Sheet Accounting, our Retained Interests were shown as Undivided interests in NMG Credit Card Master Trust on our consolidated balance sheets.

Beginning in December 2003, our subsequent transfers to the Trust ceased to qualify for Off-Balance Sheet Accounting. Rather, credit card receivables transferred to the Trust after November 2003 remain on our balance sheet and are recorded as secured borrowings (Financing Accounting). The transition period from Off-Balance Sheet Accounting to Financing Accounting (Transition Period) lasted approximately four months (December 2003 to March 2004). During the Transition Period, we allocated cash collections on our credit card receivables to the previous Sold Interests and Retained Interests until such time as those balances were reduced to zero and we recorded a liability for our repayment obligation to the holders of the $225 million of certificates representing the Sold Interests.

A reconciliation of the outstanding balance of our accounts receivable to the balances recorded at October 30, 2004 and November 1, 2003 is as follows:

(in millions)		**October 30, 2004**		**November 1, 2003**
Credit card receivables, net	$	603.8	$	539.1
Other receivables		37.4		33.1
		641.2		572.2
Less: Sold Interests originally qualifying for Off-Balance Sheet Accounting				(225.0)
Net balance	$	641.2	$	347.2
Amounts reflected in the balance sheet:				
Undivided interests in NMG Credit Card Master Trust	$		$	314.1
Accounts receivable, net		641.2		33.1
	$	641.2	$	347.2
Current portion of borrowings under Credit Card Facility	$	225.0	$	

After the Transition Period, our entire credit card portfolio is included in accounts receivable in our consolidated balance sheet and the $225 million repayment obligation is shown as a liability.

7. Employee Benefit Plans

Description of Benefit Plans. We sponsor a defined benefit pension plan (Pension Plan) covering substantially all full-time employees. We also sponsor an unfunded supplemental executive retirement plan (SERP Plan) that provides additional pension benefits to certain employees. Benefits under both plans are based on the employees years of service and compensation over defined periods of employment. Pension Plan assets consist primarily of equity and fixed income securities.

Retirees and active employees hired prior to March 1, 1989 are eligible to participate in a plan providing certain limited postretirement health care benefits (Postretirement Plan) if they have met certain service and minimum age requirements.

Costs of Benefits. The components of the expenses incurred under our Pension Plan, SERP Plan and Postretirement Plan are as follows:

(in thousands)	Thirteen Weeks Ended October 30, 2004		Thirteen Weeks Ended November 1, 2003	
Pension Plan:				
Service cost	$	3,196	$	3,168
Interest cost		4,636		4,823
Expected return on plan assets		(4,712)		(4,835)
Net amortization of losses and prior service costs		1,208		933
Pension Plan expense	$	4,328	$	4,089
SERP Plan:				
Service cost	$	361	$	340
Interest cost		1,014		974
Net amortization of losses and prior service costs		384		366
SERP Plan expense	$	1,759	$	1,680
Postretirement Plan:				
Service cost	$	15	$	20
Interest cost		318		384
Net amortization of losses		26		110
Postretirement expense	$	359	$	514

Funding Policy and Plan Assets. Our policy is to fund the Pension Plan at or above the minimum required by law. In 2004, we made voluntary contributions of $30.0 million in the second quarter for the plan year ended July 31, 2003 and $15.0 million in the fourth quarter for the plan year ended July 31, 2004. Based upon currently available information, we will not be required to make contributions to the Pension Plan for either the 2004 or 2005 plan years.

8. Commitments and Contingencies

We are involved in various suits and claims in the ordinary course of business. We do not believe that the disposition of any such suits or claims will have a material adverse effect upon our consolidated results of operations, cash flows or financial position.

9. Restatements

Subsequent to the issuance of the first quarter 2005 financial statements, we corrected errors in our previously issued financial statements related to 1) the classification of construction allowances in our balance sheets and statements of cash flows and 2) the classification of the changes in our Retained Interests in connection with the Credit Card Facility in our statements of cash flows. Previously reported operating earnings, net income, earnings per share and shareholders equity were not impacted by these corrections.

Construction Allowances**. On February 7, 2005, the Chief Accountant of the Securities and Exchange Commission (SEC) released a letter regarding various lease accounting issues and the application of generally accepted accounting principles to such issues. Following the issuance of the letter by the SEC, we reviewed our accounting policies related to construction allowances and determined that our classification of construction allowances in our balance sheets and statements of cash flows was not in accordance with generally accepted accounting principles.**

We periodically receive allowances from developers related to the construction of our stores. Historically, we recorded these allowances as a reduction of capital expenditures and, as result, the carrying values of property and equipment. After our review related to the accounting for construction allowances, we have corrected the classification of these construction allowances from a reduction of property and equipment to deferred real estate credits on our balance sheets. These deferred real estate credits are amortized over the lease term which is consistent with the amortization period for the constructed assets.

We periodically receive allowances from developers related to the construction of our stores. Historically, we record

In addition, capital expenditures, as presented in the statements of cash flows, were previously presented net of the construction allowances received. We have corrected the error in the classification of the cash receipts of construction allowances to cash flows from operating activities and, as a result, restated the statements of cash flows.

In addition, capital expenditures, as presented in the statements of cash flows, were previously presented net of the

Retained Interests. Pursuant to the terms of the Credit Card Facility, as more fully described in Note 6, our Retained Interests fluctuate monthly based on the underlying balance of our credit card receivables. We previously reflected the changes in our Retained Interests in the determination of cash flows from investing activities. We have determined that such presentation is not in accordance with generally accepted accounting principles and have corrected such error by restating our statements of cash flows to include the changes in the Retained Interests in the determination of cash flows from operating activities.

The following table summarizes the impact of these restatements in our previously issued financial statements:

The following table summarizes the impact of these restatements in our previously issued financial statements:

	As Originally Reported	Restatements: Construction Allowances	Restatements: Changes in Retained Interests	As Restated
First Quarter 2005				
Consolidated Balance Sheet:				
Property and equipment, net	$ 706,078	$ 70,587	$	$ 776,665
Total assets	2,687,488	70,587		2,758,075
Deferred real estate credits		70,587		70,587
Total long-term liabilities	365,231	70,587		435,818
Consolidated Statement of Cash Flow:				
Net cash (used for) provided by operating activities	$ (74,958)	$ 15,187	**$**	$ (59,771)
Net cash used for investing activities	(35,381)	(15,187)		(50,568)

The following table summarizes the impact of these restatements in our previously issued financial statements:

	As Originally Reported	Restatements: Construction Allowances	Restatements: Changes in Retained Interests	As Restated
Fiscal Year 2004				
Consolidated Balance Sheet:				
Property and equipment, net	$ 693,772	$ 56,711	$	$ 750,483
Other assets	145,812	15,187		160,999
Total assets	2,545,750	71,898		2,617,648
Deferred real estate credits		71,898		71,898
Total long-term liabilities	437,212	71,898		509,110
First Quarter 2004				
Consolidated Balance Sheet:				
Property and equipment, net	$ 674,970	$ 60,546	$	$ 735,516
Other assets	112,655	15,284		127,939
Total assets	2,166,026	75,830		2,241,856
Deferred real estate credits		75,830		75,830
Total long-term liabilities	364,202	75,830		440,032
Consolidated Statement of Cash Flow:				
Net cash provided by (used for) operating activities	$ 8,115	$ 2,246	$ (71,573)	$ (61,212)
Net cash (used for) provided by investing activities	(93,646)	(2,246)	71,573	(24,319)

The following table summarizes the impact of these restatements in our previously issued financial statements:

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

EXECUTIVE OVERVIEW

The following discussion and analysis gives effect to the restatements described in Note 9 of the Notes to Condensed Consolidated Financial Statements.

Company Profile

The Neiman Marcus Group, Inc., together with its operating divisions and subsidiaries, is a high-end specialty retailer. Our operations include the Specialty Retail Stores segment and the Direct Marketing segment. Our Specialty Retail Stores segment consists primarily of Neiman Marcus and Bergdorf Goodman stores. Our Direct Marketing segment conducts both print catalog and online operations under the brand names of Neiman Marcus, Horchow and Bergdorf Goodman (beginning in September 2004). We recently sold our Chef s Catalog operations, as more fully described in Note 2 to the Condensed Consolidated Financial Statements.

We own a 51 percent interest in Gurwitch Products, LLC, which distributes and markets the Laura Mercier cosmetic line, and a 56 percent interest in Kate Spade LLC, a manufacturer and retailer of high-end designer handbags and accessories. Gurwitch Products, LLC and Kate Spade LLC are hereafter referred to collectively as the Brand Development Companies.

Our fiscal year ends on the Saturday closest to July 31. All references to the first quarter of 2005 relate to the thirteen weeks ended October 30, 2004 and all references to the first quarter of 2004 relate to the thirteen weeks ended November 1, 2003. All references to 2005 relate to the fifty-two weeks ending July 30, 2005.

The information contained in this Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our amendment to the Annual Report on Form 10-K/A for the fiscal year ended July 31, 2004. Unless otherwise specified, the meanings of all defined terms in MD&A are consistent with the meanings of such terms as defined in the Notes to the Condensed Consolidated Financial Statements.

Overview of the Business

We believe that our unique product assortment of luxury, designer and fashion merchandise, coupled with our sales promotion activities and our commitment to superior customer service, have been critical to our success in the past. In addition, we believe these factors are critical to our future growth and success.

The following table summarizes the impact of these restatements in our previously issued financial statements:

We conduct our selling activities in two primary selling seasons, Fall and Spring. Sales and margins increase and decrease during each selling season due to the results of in-store marketing towards the beginning of each season, sales on a marked down basis towards the end of each season and the effects of the December holiday season. As a result of the seasonality of our selling activities, inventory management is critical to our success.

Inherent in the successful execution of our business plans, particularly our inventory management strategy, is our ability both to predict the fashion trends that will be of interest to our customers and to anticipate future spending patterns of our customer base. Accordingly, we monitor the sales performance of our inventories throughout each season. We seek to order additional goods to supplement our original purchasing decisions when the level of customer demand is higher than originally anticipated. However, in certain merchandise categories, particularly fashion apparel, our ability to purchase additional goods can be limited. This can result in lost sales in the event of higher than anticipated demand for the fashion goods offered or a higher than anticipated level of consumer spending. Conversely, in the event we buy fashion goods that are not accepted by our customer or the level of consumer spending is less than we anticipated, we typically incur a higher than anticipated level of markdowns, net of vendor allowances, to sell the goods that remain at the end of the season, resulting in lower operating profits. We believe that the experience of our merchandising and selling organizations help to minimize the inherent risk in predicting fashion trends and related demand.

The following table summarizes the impact of these restatements in our previously issued financial statements:

First Quarter Fiscal Year 2005 Highlights

Diluted earnings per share for the first quarter of 2005 increased 12.1 percent to $1.30 from $1.16 in the prior year period. Other significant highlights for the first quarter of 2005 include:

Revenues Our revenues for the first quarter of 2005 were $907.9 million compared to $818.8 million in the prior year period. Total revenues increased 10.9 percent in the first quarter of 2005 while comparable revenues increased 11.4 percent. We have experienced double digit percentage increases in comparable store sales in the last five consecutive quarters.

Margins Margins increased to 38.9 percent of revenues in the first quarter of 2005 from 37.7 percent in the first quarter of 2004. This increase is reflective of the high level of acceptance and demand for the fashion goods we offer as well as our purchasing efforts that resulted in the close alignment of purchases to customer demand. These factors resulted in a lower level of markdowns in the current quarter.

Selling, general and administrative expenses Selling, general and administrative (SG&A) expenses decreased to 25.1 percent of revenues from 25.8 percent in the first quarter 2004. This decrease was attributable to both the leveraging of fixed expenses over the higher revenue base and the control and containment of variable expenses.

Loss on disposition of Chef s Catalog In the first quarter of 2005, we incurred a pre-tax loss of $15.3 million related to the sale of our Chef s Catalog direct marketing business.

Operating earnings Operating earnings increased 13.0 percent in the first quarter of 2005, representing 12.1 percent of our revenues compared to 11.9 percent in first quarter of 2004. Excluding the loss on disposition of Chef s Catalog, operating earnings were 13.8 percent of our revenues for the first quarter of 2005. Operating earnings were 16.3 percent of revenues for our Specialty Retail Stores and 8.1 percent of revenues for Direct Marketing.

OPERATING RESULTS

Performance Summary

The following table sets forth certain items expressed as percentages of net sales for the periods indicated.

The following table summarizes the impact of these restatements in our previously issued financial statements:

	Thirteen Weeks Ended	
	October 30, 2004	November 1, 2003
Revenues	100.0%	100.0%
Cost of goods sold including buying and occupancy costs	61.1	62.3
Selling, general and administrative expenses	25.1	25.8
Loss on disposition of Chef s Catalog	1.7	
Operating earnings	12.1	11.9
Interest expense, net	0.4	0.4
Earnings before income taxes, minority interest and change in accounting principle	11.7	11.5
Income taxes	4.5	4.5
Earnings before minority interest	7.2	7.0
Minority interest in net earnings of subsidiaries	(0.1)	(0.1)
Net earnings	7.1%	6.9%

The following table summarizes the impact of these restatements in our previously issued financial statements:

Set forth in the following table is certain summary information with respect to our operations for the periods indicated.

	Thirteen Weeks Ended	
(dollars in millions)	**October 30, 2004**	**November 1, 2003**
REVENUES		
Specialty Retail Stores	$ 736.9	$ 664.5
Direct Marketing	139.8	128.0
Other (1)	31.2	26.3
Total	$ 907.9	$ 818.8
OPERATING EARNINGS		
Specialty Retail Stores	$ 120.2	$ 91.1
Direct Marketing	11.3	10.6
Other (1)	2.9	3.7
Corporate expenses	(9.2)	(8.1)
Loss on disposition of Chef s Catalog	(15.3)	
Total	$ 109.9	$ 97.3
OPERATING PROFIT MARGIN		
Specialty Retail Stores	16.3%	13.7%
Direct Marketing	8.1%	8.3%
Total	12.1%	11.9%
COMPARABLE REVENUES (2)		
Specialty Retail Stores (3)	11.1%	9.6%
Direct Marketing (4)	13.1%	13.2%
Total (3), (4)	11.4%	10.9%
STORE COUNT		
Neiman Marcus and Bergdorf Goodman stores:		
Open at beginning of period	37	37
Opened during the period		
Open at end of period	37	37
Clearance centers:		
Open at beginning of period	14	14
Opened during the period		
Open at end of period	14	14

(1) Other includes the operations of the Brand Development Companies.

(2) Comparable revenues include 1) revenues derived from our retail stores open for more than 52 weeks, including stores that have been relocated or expanded, 2) revenues from our Direct Marketing operations and 3) revenues from our Brand Development Companies.

(3) The calculation of the changes in comparable revenues has been adjusted to give recognition to the change in classification of revenues deferred in connection with our loyalty programs, as more fully described in Note 1 to the

The following table summarizes the impact of these restatements in our previously issued financial statements:

Condensed Consolidated Financial Statements.

(4) The calculation of the changes in comparable revenues has been adjusted to exclude the revenues of Chef s Catalog for all periods prior to our sale of these operations in November 2004, as more fully described in Note 2 to the Condensed Consolidated Financial Statements.

The following table summarizes the impact of these restatements in our previously issued financial statements:

Thirteen Weeks Ended October 30, 2004 Compared to Thirteen Weeks Ended November 1, 2003

Revenues. Our revenues for the first quarter of 2005 of $907.9 million increased $89.1 million, or 10.9 percent, from $818.8 million in the first quarter of 2004.

Comparable revenues in the first quarter of 2005 increased 11.4 percent compared to the prior year period. Comparable revenues increased 11.1 percent for Specialty Retail Stores and 13.1 percent for Direct Marketing. Comparable revenues in the first quarter of 2004 increased by 10.9 percent.

Revenues increased in the first quarter of 2005 compared to the prior year at all our operating companies, consistent with a higher level of consumer spending, in general, with a higher increase coming from the affluent luxury customer served by the company. In addition, we believe the increases in comparable revenues were driven by sales events conducted by our Specialty Retail Stores and by the growth of internet sales for Direct Marketing. In the first quarter of 2005, internet sales by Direct Marketing, excluding Chef s Catalog, were $60.7 million, an increase of 42.7 percent from the first quarter of 2004.

Gross margin. Gross margin was 38.9 percent of revenues for the first quarter of 2005 compared to 37.7 percent in the prior year period. The increase in gross margin was primarily due to higher product margins and a decrease in buying and occupancy costs as a percentage of revenues.

We incurred a lower level of net markdowns at both our Specialty Retail Stores and Direct Marketing during the first quarter of 2005 resulting in higher product margins. Net markdowns decreased as a percentage of revenues by 0.2 percent in the first quarter of 2005 compared to the prior year period. For Specialty Retail Stores, full-price sales increased in the first quarter of 2005 compared to the prior year period. We believe the lower level of markdowns was due to the higher level of sales generated during the quarter and our continued emphasis on both inventory management and full-price selling.

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 and/or to support the gross margins earned in connection with the sales of the vendor s merchandise. We recognize these allowances as an increase to gross margin when the allowances are earned and approved by the vendor. Other allowances we receive represent reductions to the amounts paid to acquire the merchandise. We recognize these allowances as a reduction in the cost of the acquired merchandise resulting in an increase to gross margin at the time the goods are sold. The amount of vendor reimbursements we received did not have a significant impact on the year-over-year change in gross margin in the first quarter of 2005.

A significant portion of our buying and occupancy costs are fixed in nature. Buying and occupancy costs decreased as a percentage of revenues during the first quarter of 2005 compared to the prior year period primarily due to the leveraging of fixed expenses, including payroll expenses, depreciation, rent and related occupancy expenses over the higher level of revenues we generated during the first quarter of 2005.

The following table summarizes the impact of these restatements in our previously issued financial statements:

***Selling, general and administrative expenses*.** SG&A expenses were 25.1 percent of revenues in the first quarter of 2005 compared to 25.8 percent of revenues in the prior year period.

The net decrease in SG&A expenses as a percentage of revenues in the first quarter of 2005 was primarily due to 1) productivity improvements for our Specialty Retail Stores in various expense categories, including payroll and advertising, as a result of the higher level of revenues in the first quarter of 2005, as well as the control and containment of variable expenses, 2) lower costs for incentive compensation compared to the prior year period, 3) a lower level of bad debt expense related to our credit card portfolio and 4) lower costs related to store remodels.

The decreases in SG&A expenses as a percentage of revenues were partially offset by 1) higher catalog and other marketing costs incurred by our Direct Marketing operations in connection with the planned increase in catalog circulation and web-based marketing prior to the holiday season and 2) higher professional fees.

***Loss on disposition of Chef s Catalog*.** In November 2004, we sold our Chef s Catalog direct marketing business to a private equity firm. Chef s Catalog is a multi-channel retailer of professional-quality kitchenware with revenues in 2004 of approximately $73 million. At October 30, 2004, Chef s Catalog had net tangible assets, primarily inventory, of $12.5 million and net intangible assets of $17.2 million. We received proceeds, net of selling costs, of $14.4 million from the sale. As the carrying value of the Chef s Catalog assets exceeded the fair value of such assets as determined by the sale, we incurred a pre-tax loss of $15.3 million in the first quarter of 2005 related to the disposition of Chef s Catalog.

The following table summarizes the impact of these restatements in our previously issued financial statements:

Segment operating earnings. Operating earnings for our Specialty Retail Stores segment were $120.2 million for the first quarter of 2005 compared to $91.1 million for the prior year period. This 31.9 percent increase was primarily the result of increased sales, reduced markdowns and net decreases in both buying and occupancy expenses and SG&A expenses as percentages of revenues.

Operating earnings for Direct Marketing increased to $11.3 million in the first quarter of 2005 from $10.6 million for the prior year period, primarily as a result of increased revenues, reduced markdowns and net decreases in buying and occupancy costs as a percentage of revenues offset, in part, by higher SG&A expenses as a percentage of revenues primarily related to higher catalog production and web-based marketing costs.

***Interest expense, net*.** Net interest expense was $4.0 million in the first quarter of 2005 and $3.5 million for the prior year period.

Income taxes. Our effective income tax rate was 38.7 percent for the first quarter of 2005 and 39.0 percent for the prior year period.

Outlook

Based on current estimates, we anticipate percentage increases in comparable store revenues of 8 to 10 percent for our second quarter ending January 29, 2005. The accuracy of our assumptions and forecasts is subject to uncertainties and circumstances beyond our control. Consequently, actual results could differ materially from the forecasted results. See Factors That May Affect Future Results for a discussion of items and events that could cause our actual results to vary from our expectations.

Inflation and Deflation

The following table summarizes the impact of these restatements in our previously issued financial statements:

The following table summarizes the impact of these restatements in our previously issued financial statements:

We believe changes in revenues and net earnings that have resulted from inflation or deflation have not been material during the periods presented. In recent years, we have experienced certain inflationary conditions related to 1) increases in product costs due primarily to changes in foreign currency exchange rates that have reduced the purchasing power of the U.S. dollar and 2) increases in SG&A. We attempt to offset the effects of inflation through control of expenses and price increases, although our ability to increase prices may be limited by competitive factors. We attempt to offset the effects of merchandise deflation, which has occurred on a limited basis in recent years, through control of expenses. There is no assurance, however, that inflation or deflation will not materially affect our operations in the future.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the impact of these restatements in our previously issued financial statements: