NEIMAN MARCUS GROUP INC
Form 10-Q
June 12, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarter Ended April 28, 2001

Commission File Number 1-9659

THE NEIMAN MARCUS GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	95-4119509
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1618 Main Street, Dallas, TX	75201
(Address of principal executive offices)	(Zip Code)

(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 X NO

As of June 5, 2001, 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	27,727,837
Class B Common Stock, $.01 Par Value	19,941,432

THE NEIMAN MARCUS GROUP, INC.

I N D E X

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

(In thousands)

	April 28, 2001	July 29, 2000	April 29, 2000 (Restated)
ASSETS			
Current assets:			
Cash and equivalents	$ 76,439	$ 175,385	$ 54,025
Undivided interests in NMG Credit Card Master Trust	277,660	211,581	333,823
Accounts receivable, net	24,215	19,279	72,944
Merchandise inventories	696,191	575,344	622,871
Deferred income taxes	26,078	26,078	21,815
Other current assets	41,830	61,671	36,404
Total current assets	1,142,413	1,069,338	1,141,882

Property and equipment, net	565,396	539,735	524,291
Other assets	144,141	152,984	154,121
Total assets	$ 1,851,950	$ 1,762,057	$ 1,820,294
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes payable and current maturities of long-term liabilities	$ 1,541	$ 787	$ 3,120
Accounts payable	274,065	270,957	260,605
Accrued liabilities	250,783	220,562	244,328
Total current liabilities	526,389	492,306	508,053
Long-term liabilities:			
Notes and debentures	249,680	329,663	379,657
Other long-term liabilities	75,831	73,954	72,642
Deferred income taxes	31,510	31,510	32,038
Total long-term liabilities	357,021	435,127	484,337
Minority interest	9,522	8,882	8,326
Shareholders' equity:			
Common stock	477	475	480
Additional paid-in capital	429,309	422,186	426,149
Other comprehensive income	(1,954)	--	--
Retained earnings	531,186	403,081	392,949
Total shareholders' equity	959,018	825,742	819,578
Total liabilities and shareholders' equity	$ 1,851,950	$ 1,762,057	$ 1,820,294

See Notes to Condensed Consolidated Financial Statements.

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

(In thousands except for per share amounts)	For the thirty-nine weeks ended		For the thirteen w	
	April 28, 2001	April 29, 2000 (Restated)	April 28, 2001	A

Revenues	$ 2,322,102	$ 2,230,255	$ 681,545
Cost of goods sold, including buying and occupancy costs	1,503,757	1,432,877	441,181
Selling, general and administrative expenses	585,569	561,302	169,418
Corporate expenses	12,697	12,169	4,477
Operating earnings	220,079	223,907	66,469
Interest expense	(11,869)	(17,827)	(3,518)
Earnings before income taxes, minority interest and cumulative effect of accounting change	208,210	206,080	62,951
Income taxes	(79,120)	(78,310)	(23,922)
Earnings before minority interest and cumulative effect of accounting change	129,090	127,770	39,029
Minority interest in net earnings of subsidiaries	(2,845)	(3,891)	(847)
Earnings before cumulative effect of accounting change	126,245	123,879	38,182
Cumulative effect of accounting change, net	1,860	--	--
Net earnings	$ 128,105	$ 123,879	$ 38,182
Weighted average number of common and common equivalent shares outstanding:			
Basic	47,077	48,695	47,251
Diluted	47,574	48,907	47,708
Earnings per share:			
Basic:			
Earnings before accounting change	$ 2.68	$ 2.54	$ 0.81
Accounting change	0.04	--	--
Basic net earnings	$ 2.72	$ 2.54	$ 0.81
Diluted:			

Earnings before accounting change	$ 2.65	$ 2.53	$ 0.80
Accounting change	0.04	--	--
Diluted net earnings	$ 2.69	$ 2.53	$ 0.80

See Notes to Condensed Consolidated Financial Statements.

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

(In thousands)	Thirty-nine weeks ended	
	April 28, 2001	April 29, 2000
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$128,105	$ 123,879
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	61,418	54,142
Accounting change, net	(1,860)	--
Minority interest	2,845	3,891
Other items	4,414	(8,944)
Changes in current assets and liabilities:		
Accounts receivable	(4,936)	(13,627)
Merchandise inventories	(117,847)	(77,619)
Other current assets	19,841	16,698
Accounts payable and accrued liabilities	33,873	126,103
Net cash provided by operating activities	125,853	224,523
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(82,650)	(60,364)
Purchases of held-to-maturity securities	(822,458)	(709,170)
Maturities of held-to-maturity securities	756,379	658,498
Net cash used for investing activities	(148,729)	(111,036)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	754	107,150
Repayment of debt	(80,000)	--
Repurchase of common stock	--	(44,611)
Distributions paid	(3,949)	(2,435)
Repayment of receivables securitization	--	(150,000)
Exercises of stock options	5,647	569

Other financing activities	1,478	674
Net cash used for financing activities	(76,070)	(88,653)
CASH AND EQUIVALENTS		
Increase (decrease) during the period	(98,946)	24,834
Beginning balance	175,385	29,191
Ending balance	$ 76,439	$ 54,025

See Notes to Condensed Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements of The Neiman Marcus Group, Inc. (the Company) are submitted in response to the requirements of Form 10-Q and should be read in conjunction with the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K. In the opinion of management, these statements contain all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for the interim periods presented. The retail industry is seasonal in nature, and the results of operations for these periods historically have not been indicative of the results for a full year.

Prior year amounts have been restated to conform with the current presentation.

2. EARNINGS PER SHARE

Pursuant to the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share," the weighted average shares used in computing basic and diluted earnings per share (EPS) are as presented in the table below. No adjustments were made to net earnings for the computations of basic and diluted EPS during the periods presented.

Options to purchase 944,500 shares of common stock were not included in the computation of diluted EPS for both the thirty-nine and thirteen weeks ended April 28, 2001, because the exercise price of those options was greater than the average market price of the common shares. Options to purchase 971,850 shares of common stock were not included in the computation of diluted EPS for both the thirty-nine and thirteen weeks ended April 29, 2000, because the exercise price of those options was greater than the average market price of the common shares.

	Thirty-nine weeks ended		Thirteen weeks ended	
(In thousands of shares)	April 28, 2001	April 29, 2000	April 28, 2001	April 29, 2000
Shares for computation				

of basic EPS	47,077	48,695	47,251	47,908
Effect of diluted stock options and nonvested stock under common stock incentive plans	497	212	457	222
Shares for computation of diluted EPS	47,574	48,907	47,708	48,130

3. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING

In the first quarter of fiscal 2001 the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company's policy is to enter into forward foreign currency exchange contracts to minimize foreign currency exposure related to forecasted purchases of certain of its inventories. Under this standard, such contracts have been designated as and are accounted for as cash flow hedges. The settlement terms of the forward contracts, including amount, currency and maturity, correspond with the payment terms for the merchandise inventories. Consequently, no amounts were included in earnings resulting from hedge ineffectiveness. Changes in the fair value of forward contracts designated as cash flow hedges are recorded as a component of other comprehensive income and are recognized in earnings upon the sale of the hedged inventory. At April 28, 2001, the Company had contracts outstanding to purchase the equivalent of $39.7 million at contract rates, maturing at various dates through February 2002. The cumulative effect of the accounting change resulted in a net gain of $1.9 million or $0.04 per share in the first quarter.

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

4. COMPREHENSIVE INCOME

Total comprehensive income amounted to $126.2 million for the thirty-nine weeks ended April 28, 2001. Comprehensive income differs from net income primarily due to unrealized gains or losses on the Company's forward currency exchange contracts, less reclassification for realized gains or losses included in net earnings.

5. OPERATING SEGMENTS

The Company has two reportable business segments: specialty retail stores and direct marketing. The specialty retail stores segment includes all the operations of Neiman Marcus Stores and Bergdorf Goodman. Direct marketing includes the operations of Neiman Marcus Direct, which publishes NM by Mail, the Horchow catalogues, Chef's Catalog and the Neiman Marcus Christmas Catalogue. Other includes unallocated corporate expenses, costs incurred to launch the Company's e-commerce business and operations which do not meet the quantitative thresholds of Statement of Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company's senior management evaluates the performance of the Company's assets on a consolidated basis. Therefore, separate financial information for the Company's assets on a segment basis is not presented.

The following tables set forth the information for the Company's reportable segments:

(in thousands)	Thirty-nine weeks ended		Thirteen weeks ended	
	April 28, 2001	April 29, 2000	April 28, 2001	April 29, 2000
		(Restated)		(Restated)
REVENUES				
Specialty Retail Stores	$1,948,021	$1,894,142	$572,633	$580,974
Direct Marketing	307,045	286,431	87,970	85,202
Other	67,036	49,682	20,942	17,653
Total	$2,322,102	$2,230,255	$681,545	$683,829
OPERATING EARNINGS				
Specialty Retail Stores	$ 212,094	$ 220,467	$ 63,831	$ 80,627
Direct Marketing	20,845	19,613	6,743	7,066
Other	(12,860)	(16,173)	(4,105)	(7,931)
Total	$ 220,079	$ 223,907	$ 66,469	$ 79,762

6. NEW ACCOUNTING STANDARDS

In September 2000, the Emerging Issues Task Force reached a final consensus on Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs." The Consensus stated that a seller of goods should classify amounts billed to the customer for shipping and handling as revenue and the costs incurred by the seller for performing such services as an element of expense. The consensus is required to be applied in the fourth quarter of fiscal 2001, with all prior periods reclassified to comply with the guidelines of the consensus.

As of April 1, 2001, the Company adopted SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," a replacement of SFAS No. 125 with the same title. SFAS 140 retains most of the provisions of SFAS No. 125 but revises the standards for securitizations and other transfers of financial assets and collateral and requires certain additional disclosures. The Company recognizes gains and losses on transfers of financial assets (the securitization of its credit card portfolio) that qualify as sales and recognizes as assets certain financial components that are retained as a result of such sales. The Company services and administers the credit card portfolio for a servicing fee equal to the contractually specified servicing fee of 2% of the investor interest.

The assets recognized consist primarily of the retained interest in receivables sold and the retained rights to future interest income from the serviced assets in excess of the contractually specified servicing fee (interest-only strips). Such assets are classified on the balance sheet as Undivided Interests in NMG Credit Card Master Trust. The Company retains certain subordinated interests that serve as a credit enhancement to outside investors. The Company reinvests all cash collections on securitized accounts in additional balances, and as such maintains the committed level of securitized assets.

The retained interest in receivables sold is initially recorded at the date of the sale by allocating the previous carrying amount between the assets sold and the retained interests based on their relative fair values. Due to the short term revolving nature of the credit card portfolio, the carrying value of the Company's retained interest approximates its fair value.

The adoption of SFAS 140 did not materially affect the Company's results of operations or financial position.

7. AGREEMENT WITH HARCOURT GENERAL

On May 14, 2001, the Company's Amended and Restated Intercompany Services Agreement with Harcourt General terminated. Under the agreement, Harcourt General provided certain management, accounting, financial, legal, tax and other corporate services to the Company. While the Company is establishing these functions internally, Harcourt General is continuing to provide certain services on a transition basis.

THE NEIMAN MARCUS GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE THIRTY-NINE WEEKS ENDED APRIL 28, 2001 COMPARED WITH THE THIRTY-NINE WEEKS ENDED APRIL 29, 2000

Revenues in the thirty-nine weeks ended April 28, 2001 increased $91.8 million or 4.1% over revenues in the thirty-nine weeks ended April 29, 2000. The increase in revenues was primarily attributable to overall comparable sales growth of 3.4%. Specialty retail store revenues in the thirty-nine weeks ended April 28, 2001 increased $53.9 million or 2.8% over the prior year. Direct marketing revenues in the thirty-nine weeks ended April 28, 2001 increased $20.6 million or 7.2% over the prior year.

Cost of goods sold including buying and occupancy costs increased $70.9 million or 4.9% to $1.5 billion compared to the same period last year, primarily due to increased sales. As a percentage of revenues, cost of goods sold increased to 64.8% from 64.2% in the prior year, due primarily to higher markdowns.

Selling, general and administrative expenses increased $24.3 million or 4.3% to $585.6 million. This increase is primarily due to higher selling and sales promotion expenses and expenses incurred in expanding the Brand Development Initiative. As a percentage of revenues, selling, general and administrative expenses were 25.2%, unchanged from the prior year.

Interest expense decreased 33.4% to $11.9 million in the thirty-nine weeks ended April 28, 2001 from $17.8 million in the prior year. The decrease resulted primarily from lower average outstanding borrowings during the period as well as lower interest rates.

On May 14, 2001, the Amended and Restated Intercompany Services Agreement with Harcourt General was terminated. Under the agreement, Harcourt General provided certain management, accounting, financial, legal, tax and other corporate services to the Company. While the Company is establishing these functions internally, Harcourt General is continuing to provide certain services on a transition basis. The Company does not believe that the termination will have a material effect on results of operations.

RESULTS OF OPERATIONS FOR THE THIRTEEN WEEKS ENDED APRIL 28, 2001 COMPARED WITH THE THIRTEEN WEEKS ENDED APRIL 29, 2000

Revenues in the thirteen weeks ended April 28, 2001 decreased $2.3 million or 0.3% from revenues in the thirteen weeks ended April 29, 2000. Comparable revenues decreased by 1.4%. Specialty retail store revenues in the thirteen weeks ended April 28, 2001 decreased $8.3 million or 1.4% from the prior year. Direct marketing revenues in the thirteen weeks ended April 28, 2001 increased $2.8 million or 3.2% over the prior year.

Costs of goods sold including buying and occupancy costs increased $14.1 million or 3.3% to $441.2 million in the thirteen week period ended April 28, 2001 compared to the same period last year. As a percentage of revenues, cost of goods sold increased to 64.7% from 62.5% in the prior year. This increase was primarily due to higher markdowns.

Selling, general and administrative expenses decreased 1.8% to $169.4 million from $172.5 million in the prior year. As a percentage of revenues, selling, general and administrative expenses decreased to 24.9% from 25.2% in the prior year. This decrease reflects ongoing cost reductions to help offset lower sales growth, lower spending on e-commerce activities and lower performance-based compensation expenses.

Interest expense decreased 30.2% to $3.5 million in the thirteen weeks ended April 28, 2001. The decrease resulted primarily from lower average outstanding borrowings as well as lower interest rates during the period. In the fiscal 2000 quarter, the Company used proceeds from borrowings to repay $150.0 million of certificates sold to third parties under its securitization. Such repayment was ultimately financed with a new securitization in July 2000.

THE NEIMAN MARCUS GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

CHANGES IN FINANCIAL CONDITION AND LIQUIDITY SINCE JULY 29, 2000

During the thirty-nine weeks ended April 28, 2001, the Company financed its working capital needs and capital expenditures primarily with cash from operations and borrowings under its revolving credit facility. The following discussion analyzes liquidity and capital resources by operating, investing and financing activities as presented in the Company's Condensed Consolidated Statements of Cash Flows.

Net cash provided by operating activities was $125.9 million during the first thirty-nine weeks of fiscal 2001 compared to $224.5 million in the same period last year. The primary item affecting working capital in 2001 was an increase in merchandise inventories of $117.8 million. The increase in inventories was primarily due to lower than planned sales and to a lesser extent, the opening of the new Palm Beach store.

Capital expenditures were $82.7 million during the thirty-nine week period ended April 28, 2001 as compared to $60.4 million in the prior year period. Capital expenditures were primarily related to new store openings and major remodels. Capital expenditures are expected to approximate $125.0 million during fiscal 2001.

The Company decreased its bank borrowings by $80.0 million since July 29, 2000.

At April 28, 2001 the Company had $450.0 million available under its revolving credit facility. Also during the period, Kate Spade LLC, a majority-owned subsidiary of the Company, distributed $3.9 million to its minority shareholders.

In the fiscal 2000 period, the Company used proceeds from its credit facility to repay $150.0 million of the $246 million of certificates sold to third parties under its former securitization. The Company's undivided interests in the NMG Credit Card Master Trust increased by such repayment. The Company ultimately financed the repayment of the certificates with a new securitization in July 2000.

The Company believes that it will have sufficient resources to fund its planned capital growth and operating requirements.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2000, the Emerging Issues Task Force reached a final consensus on Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs." The Consensus stated that a seller of goods should classify amounts billed to the customer for shipping and handling as revenue and the costs incurred by the seller for performing such services as an element of expense. The consensus is required to be applied in the fourth quarter of fiscal 2001, with all prior periods reclassified to comply with the guidelines of the consensus.

As of April 1, 2001, the Company adopted SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," a replacement of SFAS No. 125 with the same title. SFAS 140 retains most of the provisions of SFAS No. 125 but revises the standards for securitizations and other transfers of financial assets and collateral and requires certain additional disclosures. The Company recognizes gains and losses on transfers of financial assets (the securitization of its credit card portfolio) that qualify as sales and recognizes as assets certain financial components that are retained as a result of such sales. The Company services and administers the credit card portfolio for a servicing fee equal to the contractually specified servicing fee of 2% of the investor interest.

The assets recognized consist primarily of the retained interest in receivables sold and the retained rights to future interest income from the serviced assets in excess of the contractually specified servicing fee (interest-only strips). Such assets are classified on the balance sheet as Undivided Interests in NMG Credit Card Master Trust. The Company retains certain subordinated interests that serve as a credit enhancement to outside investors. The Company reinvests all cash collections on securitized accounts in additional balances, and as such maintains the committed level of securitized assets.

The retained interest in receivables sold is initially recorded at the date of the sale by allocating the previous carrying amount between the assets sold and the retained interests based on their relative fair values. Due to the short term revolving nature of the credit card portfolio, the carrying value of the Company's retained interest approximates its fair value.

The adoption of SFAS 140 did not materially affect the Company's results of operations or financial position.

FORWARD-LOOKING STATEMENTS

Statements in this report referring to the expected future plans and performance of the Company are forward-looking statements. Actual future results may differ materially from such statements. Factors that could affect future performance include, but are not limited to: changes in economic conditions or consumer confidence; changes in consumer preferences or fashion trends; delays in anticipated store openings; adverse weather conditions, particularly during peak selling seasons; changes in demographic or retail environments; competitive influences; significant increases in paper, printing and postage costs; and changes in the Company's relationships with designers and other resources.

THE NEIMAN MARCUS GROUP, INC.

Part II

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

None.

(b) Reports on Form 8-K.

The Company did not file any reports on Form 8K during the thirteen-week period ended April 28, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

THE NEIMAN MARCUS GROUP, INC.

Signature	Title	Date
Principal Financial Officer:	Senior Vice President and Chief Financial Officer	June 12, 2001
/s/ John R. Cook John R. Cook		
Principal Accounting Officer:	Vice President and Controller	June 12, 2001
/s/ Catherine N. Janowski Catherine N. Janowski		