Houghton Mifflin Harcourt Co
Form 8-K
February 26, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): February 26, 2015

HOUGHTON MIFFLIN HARCOURT COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**001-36166**	**27-1566372**
(State or other jurisdiction of incorporation)	**(Commission File No.)**	**(IRS Employer Identification No.)**

222 Berkeley Street

Boston, MA **02116**
(Address of principal executive offices) **(Zip Code)**
(617) 351-5000

(Registrant s telephone number, including area code)

NOT APPLICABLE

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On February 26, 2015, Houghton Mifflin Harcourt Company (the Company) issued a press release reporting its financial results for the fourth quarter and full year ended December 31, 2014 and other information. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information in this Item 2.02 of this Current Report on Form 8-K, including the accompanying Exhibit 99.1, shall not be deemed filed for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities under that section. Furthermore, the information in this Item 2.02 of this Current Report on Form 8-K, including the accompanying Exhibit 99.1, shall not be deemed to be incorporated by reference into the filings of the Company under the Securities Act of 1933.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit No.	**Description**
99.1	Press release issued by Houghton Mifflin Harcourt Company on February 26, 2015

SIGNATURES

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

HOUGHTON MIFFLIN HARCOURT COMPANY

By:	/s/ Michael Dolan
Name:	Michael Dolan
Title:	Senior Vice President and Corporate Controller

Dated: February 26, 2015

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press release issued by Houghton Mifflin Harcourt Company on February 26, 2015

4

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$

3,098,124

$

2,948,332

Cost of goods sold including buying and occupancy costs

2,321,110

2,073,579

1,997,378

Selling, general and administrative expenses

875,360

802,435

776,647

Effect of change in vacation policy

(16,576

)

Impairment and other charges

3,853

13,233

Operating earnings

	345,236
	222,110
	177,650
Interest expense, net	
	15,923
	16,270
	15,406
Earnings before income taxes, minority interest and change in accounting principle	
	329,313
	205,840

	162,244
Income taxes	
	120,932
	79,248
	61,653
Earnings before minority interest and change in accounting principle	
	208,381
	126,592
	100,591
Minority interest in net earnings of subsidiaries	
	(3,549)
	(2,488)
	(1,017)

Earnings before change in accounting principle	
	204,832
	124,104
	99,574
Change in accounting principle writedown of intangible assets, net of taxes	
	(14,801

)

Net earnings	$	204,832
	$	109,303
	$	99,574

Weighted average number of common and common equivalent shares outstanding:

Basic	
	47,997
	47,462
	47,444
Diluted	
	48,873
	47,795
	47,835

Basic earnings per share:

Earnings before change in accounting principle	$ 4.27	$ 2.61	$ 2.10
Change in accounting principle			(0.31)
Basic earnings per share	$		

4.27

$

2.30

$

2.10

Diluted earnings per share:

Earnings before change in accounting principle

$

4.19

$	2.60
$	2.08
Change in accounting principle	
	(0.31)
Diluted earnings per share	
$	4.19
$	2.29
$	2.08

See Notes to Consolidated Financial Statements.

THE NEIMAN MARCUS GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)		Years Ended July 31, 2004		August 2, 2003		August 3, 2002
CASH FLOWS - OPERATING ACTIVITIES						
Net earnings	$	204,832	$	109,303	$	99,574
Change in accounting non-cash writedown of intangible assets, net of taxes				14,801		
Earnings before change in accounting principle		204,832		124,104		99,574
Adjustments to reconcile net earnings to net cash provided by operating activities:						
Depreciation		93,801		78,976		76,809
Amortization of intangible assets						5,284
Deferred income taxes		23,274		7,444		(10,335)
Effect of change in vacation policy						(16,576)
Impairment and other charges		3,853				13,233
Minority interest		3,549		2,488		1,017
Other primarily costs related to defined benefit pension and other long-term benefit plans		33,222		24,189		13,987
		362,531		237,201		182,993
Changes in operating assets and liabilities:						
(Increase) decrease in accounts receivable		(529,092)		(2,817)		929
Increase in merchandise inventories		(33,215)		(30,218)		(7,977)
Decrease (increase) in other current assets		12,026		(22,135)		2,402
Increase in accounts payable and accrued liabilities		40,414		17,770		34,047
Funding of defined benefit pension plan		(45,000)		(30,760)		
Net cash (used for) provided by operating activities		(192,336)		169,041		212,394
CASH FLOWS - INVESTING ACTIVITIES						
Capital expenditures		(118,130)		(99,994)		(149,246)
Transactions related to undivided interests in NMG Credit Card Master Trust:						
Purchases of held-to-maturity securities		(240,808)		(956,390)		(946,936)
Maturities of held-to-maturity securities		483,373		922,427		959,051
Proceeds from sale of assets		3,183				
Net cash provided by (used for) investing activities		127,618		(133,957)		(137,131)
CASH FLOWS - FINANCING ACTIVITIES						
Proceeds from borrowings		2,750		81,051		130,240
Repayment of debt		(1,500)		(81,051)		(130,000)
Borrowings under Credit Card Facility		225,000				
Acquisition of treasury stock		(7,553)		(15,020)		
Cash dividends paid		(12,632)				
Distributions paid		(3,727)		(2,432)		(1,688)
Proceeds from exercises of stock options and restricted stock grants		23,797		10,680		7,532
Net cash provided by (used for) financing activities		226,135		(6,772)		6,084
CASH AND CASH EQUIVALENTS						
Increase during the year		161,417		28,312		81,347
Beginning balance		206,950		178,638		97,291
Ending balance	$	368,367	$	206,950	$	178,638
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION						
Cash paid during the year for:						

Interest	$	17,833	$	18,071	$	18,434
Income taxes	$	104,742	$	61,860	$	62,858

See Notes to Consolidated Financial Statements.

THE NEIMAN MARCUS GROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands)	Common Stocks Class A	Common Stocks Class B	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Shareholders Equity
BALANCE AT JULY 28, 2001	$ 278	$ 200	$ 432,726	$ (1,029)	$ 510,565	$	$ 942,740
Issuance of 339 shares under stock option plan	3		8,633				8,636
Other equity transactions	(1)		2,429				2,428
Comprehensive income:							
Net earnings					99,574		99,574
Unrealized gain on financial instruments, net of tax				1,945			1,945
Other, net of tax				(10)			(10)
Total comprehensive income							101,509
BALANCE AT AUGUST 3, 2002	280	200	443,788	906	610,139		1,055,313
Issuance of 392 shares under stock option plan	4		11,840				11,844
Acquisition of treasury stock						(15,020)	(15,020)
Other equity transactions	(2)	(3)	2,892				2,887
Comprehensive income:							
Net earnings					109,303		109,303
Unrealized loss on financial instruments, net of tax				(172)			(172)
Minimum pension liability, net of tax				(26,744)			(26,744)
Other, net of tax				437			437
Total comprehensive income							82,824
BALANCE AT AUGUST 2, 2003	282	197	458,520	(25,573)	719,442	(15,020)	1,137,848
Issuance of 781 shares under stock option plan	8		28,138				28,146
Acquisition of treasury stock						(7,553)	(7,553)
Cash dividends declared ($0.13 per share)					(18,944)		(18,944)
Other equity transactions	3	2	5,191				5,196
Comprehensive income:							
Net earnings					204,832		204,832
Unrealized loss on financial instruments, net of tax				(1,290)			(1,290)
Minimum pension liability, net of tax				22,071			22,071
Other, net of tax				256			256

Total comprehensive income							225,869
BALANCE AT JULY 31, 2004	$ 293	$ 199	$ 491,849	$	(4,536) $	905,330 $	(22,573) $ 1,370,562

See Notes to Consolidated Financial Statements.

THE NEIMAN MARCUS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The Consolidated Financial Statements of The Neiman Marcus Group, Inc. and subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles. The Company s businesses consist of Specialty Retail Stores (Specialty Retail Stores), primarily Neiman Marcus Stores and Bergdorf Goodman, and Neiman Marcus Direct, the Company s direct marketing operation (Direct Marketing).

The Company owns 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 (the Brand Development Companies). All significant intercompany accounts and transactions have been eliminated.

The Company s fiscal year ends on the Saturday closest to July 31. All references to 2004 relate to the fifty-two weeks ended July 31, 2004; all references to 2003 relate to the fifty-two weeks ended August 2, 2003 and all references to 2002 relate to the fifty-three weeks ended August 3, 2002. References to 2005 relate to the fifty-two weeks ending July 30, 2005.

ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events. 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 Consolidated Financial Statements. The amounts currently estimated by the Company are subject to change if different assumptions as to the outcome of future events were made. The Company evaluates its estimates and judgments on an ongoing basis and predicates those estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Management makes adjustments to its 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 by the Company in preparing the accompanying financial statements.

***Cash and Cash Equivalents*.** Cash and cash equivalents primarily consist of cash on hand in the stores, deposits with banks and overnight investments with banks and financial institutions. Cash equivalents are stated at cost, which approximates fair value. The Company s cash management system provides for the reimbursement of all major bank disbursement accounts on a daily basis. Accounts payable includes $53.5 million of outstanding checks not yet presented for payment at July 31, 2004 and $48.9 million at August 2, 2003.

***Accounts Receivable*.** Accounts receivable primarily consist of the Company s proprietary credit card receivables, third-party credit card receivables and the net trade receivables of the Brand Development Companies. The Company extends credit to certain of its customers pursuant to its proprietary retail credit card program. The Company s credit operations generate finance charge income, which is recognized as income when earned and is recorded as a reduction of selling, general and administrative expenses. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers to whom the Company extends credit. Ongoing evaluation of customers credit is performed and collateral is not required as a condition of extending credit.

The Company maintains reserves for potential credit losses. The Company evaluates the collectibility of its accounts receivable based on a combination of factors, including analysis of historical trends, aging of accounts receivable, write-off experience and expectations of future performance.

***Merchandise Inventories and Cost Of Goods Sold*.** The Company utilizes the retail method of accounting for substantially all of its merchandise inventories. Merchandise inventories are stated at the lower of cost or market. The retail inventory method is widely used in the retail industry due to its practicality.

Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are determined by applying a calculated cost-to-retail ratio, for various groupings of similar items, to the retail value of inventories. The cost of the inventory reflected on the consolidated balance sheet is decreased by charges to cost of goods sold at the time the retail value of the inventory is lowered through the use of markdowns. Hence, earnings are negatively impacted when merchandise is marked down.

The Company s sales activities are conducted during two primary selling seasons Fall and Spring. The Fall selling season is conducted primarily in the Company s first and second quarters and the Spring selling season is conducted primarily in the third and fourth quarters. During each season, the Company records markdowns to reduce the retail value of its inventories. Factors considered in determining markdowns include current and anticipated demand, customer preferences, age of merchandise and fashion trends. During the season, the Company records both temporary and permanent markdowns. Temporary markdowns are recorded at the time of sale and reduce the retail value of only the goods sold. Permanent markdowns are designated primarily for clearance activity and reduce the retail value of all goods subject to markdown that are held by the Company. At the end of each selling season, the Company records permanent markdowns for clearance goods remaining in ending inventory.

The areas requiring significant management judgment related to the valuation of the Company s inventories include 1) setting the original retail value for the merchandise held for sale, 2) recognizing merchandise for which the customer s perception of value has declined and appropriately marking the retail value of the merchandise down to the perceived value and 3) estimating the shrinkage that has occurred between physical inventory counts. These judgments and estimates, coupled with the averaging processes within the retail method can, under certain circumstances, produce varying financial results. Factors that can lead to different financial results include 1) setting original retail values for merchandise held for sale incorrectly, 2) failure to identify a decline in perceived value of inventories and process the appropriate retail value markdowns and 3) overly optimistic or conservative shrinkage estimates. The Company believes it has the appropriate merchandise valuation and pricing controls in place to minimize the risk that its inventory values would be materially misstated.

Consistent with industry business practice, the Company receives allowances from certain of its vendors in support of the merchandise purchased by the Company for resale. Certain allowances are received to reimburse the Company for markdowns taken and/or to support the gross margins earned by the Company in connection with the sales of the vendor s merchandise. These allowances result in an increase to gross margin when the allowances are earned by the Company and approved by the vendor. Other allowances received by the Company represent reductions to the amounts paid by the Company to acquire the merchandise. These allowances reduce the cost of the acquired merchandise and are recognized as an increase to gross margin at the time the goods are sold. The amounts of vendor reimbursements received by the Company did not have a significant impact on the year-over-year change in gross margin in 2004, 2003 or 2002.

The Company obtains certain merchandise, primarily precious jewelry, on a consignment basis in order to expand its product assortment. Consignment merchandise with a cost basis of approximately $220.4 million at July 31, 2004 and approximately $214.0 million at August 2, 2003 is not reflected in the consolidated balance sheets.

***Forward Exchange Contracts*.** The Company enters into forward exchange contracts to hedge forecasted inventory purchases denominated in foreign currencies. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on cash flows. The settlement terms of the forward contracts, including amount, currency and maturity, correspond with the payment terms for purchases of merchandise inventories. The forward exchange contracts represent derivative instruments and are recorded at fair value in the accompanying Consolidated Financial Statements. These contracts have been designated and accounted for as cash flow hedges. Gains and losses related to the Company s foreign currency exchange contracts that qualify as hedges are deferred and recognized in cost of goods sold in the period the inventory is sold.

As of July 31, 2004, the Company had foreign currency contracts in the form of forward exchange contracts in the amount of approximately $21.8 million. The contracts have varying maturity dates through February 2005. At July 31, 2004, the fair value of the Company s outstanding foreign currency exchange contracts was a liability of approximately $0.9 million. This amount, net of taxes ($0.5 million), is reflected in other comprehensive income in the accompanying consolidated statements of shareholders equity.

Long-lived Assets. Property and equipment are stated at historical cost less accumulated depreciation. For financial reporting purposes, depreciation is computed principally using the straight-line method over the estimated useful lives of the assets. Buildings and improvements are depreciated over 5 to 30 years while fixtures and equipment are depreciated over 3 to 15 years. Costs incurred for the development of internal computer software are capitalized and amortized using the straight-line method over 3 to 10 years.

The Company receives contributions from developers and merchandise vendors to fund building improvements and the construction of vendor boutiques in the Company s retail stores. Such contributions are netted against the Company s capital expenditures and aggregated $11.1 million in 2004, $35.2 million in 2003 and $25.9 million in 2002.

To the extent the Company remodels or otherwise replaces or disposes of property and equipment prior to the end of the assigned depreciable lives, the Company could realize a loss or gain on the disposition. To the extent assets continue to be used beyond their assigned depreciable lives, no depreciation expense is incurred. The Company reassesses the depreciable lives of its long-lived assets in an effort to reduce the risk of significant losses or gains at disposition and utilization of assets with no depreciation charges. The reassessment of depreciable lives involves utilizing historical remodel and disposition activity and forward-looking capital expenditure plans.

Recoverability of the carrying value of store assets is assessed annually and upon the occurrence of certain events (e.g., opening a new store near an existing store or announcing plans for a store closing). The recoverability assessment requires judgment and estimates of future store generated cash flows. The underlying estimates of cash flows include estimates for future revenues, gross margin rates and store expenses and are based upon the stores past and expected future performance. New stores may require two to five years to develop a customer base necessary to generate the cash flows of the Company s more mature stores. To the extent management s estimates for revenue growth and gross margin improvement are not realized, future annual assessments could result in impairment charges.

Recoverability of goodwill and intangible assets is assessed annually and upon the occurrence of certain events. The recoverability assessment requires management to make judgments and estimates regarding fair values. Fair values are determined using estimated future cash flows, including growth assumptions for future revenues, gross margin rates and other estimates. To the extent that management s estimates are not realized, future assessments could result in impairment charges.

***Benefit Plans*.** The Company sponsors a noncontributory defined benefit pension plan (Pension Plan) covering substantially all full-time employees and an unfunded supplemental executive retirement plan (SERP Plan) which provides certain employees additional pension benefits. In calculating its obligations and related expense, the Company makes various assumptions and estimates, after consulting with outside actuaries and advisors. The annual determination of expense involves calculating the estimated total benefits ultimately payable to plan participants and allocating this cost to the periods in which services are expected to be rendered. The Company uses the projected unit credit method in recognizing pension liabilities. The Pension and SERP Plans are valued annually as of the beginning of each fiscal year.

Significant assumptions related to the calculation of the Company s obligations include the discount rate used to calculate the actuarial present value of benefit obligations to be paid in the future, the expected long-term rate of return on assets held by the Pension Plan and the average rate of compensation increase by plan participants. These actuarial assumptions are reviewed annually based upon currently available information.

Self-insurance and Other Employee Benefit Reserves. Management uses estimates in the determination of the required accruals for general liability, workers compensation and health insurance as well as short-term disability, supplemental executive retirement benefits and postretirement health care benefits. These estimates are based upon an examination of historical trends, industry claims experience and, in certain cases, calculations performed by third-party experts. Projected claims information may change in the future and may require management to revise these accruals.

Other Long-term Liabilities**.** Other long-term liabilities consist primarily of certain employee benefit obligations, postretirement health care benefit obligations and the liability for scheduled rent increases.

Revenues**.** Revenues include sales of merchandise and services, net commissions earned from leased departments in the Company s retail stores and shipping and handling revenues related to merchandise sold. Revenues from the Company s retail operations are recognized at the later of the point of sale or the delivery of goods to the customer. Revenues from the Company s direct marketing operation are recognized when the merchandise is delivered to the customer.

The Company maintains reserves for anticipated sales returns primarily based on the Company s historical trends related to returns by its retail and direct marketing customers.

Buying and Occupancy Costs. The Company s buying costs consist primarily of salaries and expenses incurred by the Company s merchandising and buying operations. Occupancy costs primarily include rent, depreciation, property taxes and operating costs of the Company s retail and distribution facilities.

Selling, General and Administrative Expenses**.** Selling, general and administrative expenses are comprised principally of the costs related to employee compensation and benefits in the selling and administrative support areas, preopening expenses, advertising and catalog costs, loyalty program costs, insurance expense and income and expenses related to the Company s proprietary credit card portfolio.

The Company receives allowances from certain merchandise vendors in conjunction with compensation programs for employees who sell the vendors merchandise. These allowances are netted against the related compensation expense incurred by the Company. Amounts received from vendors related to compensation programs were $46.3 million in 2004, $41.1 million in 2003 and $37.0 million in 2002.

***Preopening Expenses*.** Preopening expenses primarily consist of payroll and related media costs incurred in connection with new and replacement store openings and are expensed when incurred. The Company opened no new stores in 2004 and had no preopening expenses in 2004. Preopening expenses were $8.0 million for 2003 and $5.2 million for 2002.

***Advertising and Catalog Costs*.** The Company incurs costs to advertise and promote the merchandise assortment offered by both Specialty Retail Stores and Direct Marketing. Advertising costs incurred by the Specialty Retail Stores consist primarily of print media costs related to promotional materials mailed to its customers. These costs are expensed at the time of mailing to the customer. Advertising costs incurred by Direct Marketing relate to the production, printing and distribution of its print catalogs and the production of the photographic content on its websites. The costs of print catalogs are amortized during the periods the expected revenues from such catalogs are expected to be generated, generally three to six months. The costs incurred to produce the photographic content on the Company s websites are expensed at the time the images are first loaded onto the website. Website design costs are expensed as incurred.

Deferred direct response advertising amounts included in other current assets in the consolidated balance sheets were $10.3 million as of July 31, 2004 and $11.0 million as of August 2, 2003. Net advertising expenses were $125.0 million in 2004, $113.7 million in 2003 and $110.3 million in 2002.

Consistent with industry practice, the Company receives advertising allowances from certain of its merchandise vendors. Substantially all the advertising allowances received represent reimbursements of direct, specific and incremental costs incurred by the Company to promote the vendor s merchandise in connection with the Company s various advertising programs, primarily catalogs and other print media. As a result, these allowances are recorded as a reduction of the Company s advertising costs included in the selling, general and administrative expenses when earned. Vendor allowances earned and recorded as a reduction to selling, general and administrative expenses aggregated approximately $55.3 million in 2004, $53.2 million in 2003 and $49.8 million in 2002.

Beginning in the third quarter of 2003, the Company began to record the portion of advertising allowances received by the Company not representing the reimbursement of direct, specific and incremental advertising costs as a reduction of the cost of merchandise purchased in accordance with the provisions of Emerging Issues Task Force Issue (EITF) 02-16, Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor. Under these rules, allowances are realized and recorded by the Company as a reduction of cost of goods sold in the periods in which the goods are sold. These allowances were previously recorded as a reduction of selling, general and administrative expenses when received.

The Company believes that the impact of the accounting change related to the implementation of the provisions of EITF 02-16 did not have a material impact on the year-to-year comparison of its operating results for the periods presented.

***Loyalty Programs*.** The Company maintains customer loyalty programs in which customers receive points annually for qualifying purchases. Upon reaching certain levels, customers may redeem their points for gifts. Generally, points earned in a given year must be redeemed no later than ninety days subsequent to the end of the annual program period. The Company accrues the estimated costs of the anticipated redemptions of the points earned by its customers at the time of the initial customer purchase and charges such costs to selling, general and administrative expense. The estimates of the costs associated with the loyalty programs require the Company to make assumptions related to customer purchasing levels, redemption rates and costs of awards to be chosen by its customers.

***Stock-Based Compensation*.** The Company accounts 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. Compensation cost for stock-based awards are recognized in an amount equal to the difference between the exercise price of the award and its fair value at the date of grant. Accordingly, no compensation expense has been recognized for stock options since all options granted had an exercise price equal to the market value of the Company s common stock on the grant date.

The following table illustrates the effect on net earnings and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation using the Black-Scholes option-pricing model for 2004, 2003 and 2002:

(in thousands, except per share data)		**Years Ended**	
	July 31, 2004	**August 2, 2003**	**August 3, 2002**
Net earnings:			
As reported	$ 204,832	$ 109,303	$ 99,574
Less: stock-based employee compensation expense determined under fair value based method, net of related taxes	(8,687)	(7,847)	(6,542)
Pro forma	$ 196,145	$ 101,456	$ 93,032
Basic earnings per share:			
As reported	$ 4.27	$ 2.30	$ 2.10
Pro forma	$ 4.09	$ 2.14	$ 1.96
Diluted earnings per share:			
As reported	$ 4.19	$ 2.29	$ 2.08
Pro forma	$ 4.01	$ 2.12	$ 1.94

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2004, 2003 and 2002:

		Years Ended	
	July 31, 2004	**August 2, 2003**	**August 3, 2002**
Expected life (years)	5	5	7
Expected volatility	32.7%	36.6%	40.7%
Risk-free interest rate	3.1%	3.0%	5.4%

The weighted-average fair value of options granted was $14.79 in 2004, $11.40 in 2003 and $12.73 in 2002.

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.

Income Taxes. The Company is routinely under audit by federal, state or local authorities in the area of income taxes. These audits include questioning the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with various tax filing positions, the Company accrues charges for probable exposures. Based on its annual evaluations of tax positions, the Company believes it has appropriately accrued for probable exposures. To the extent the Company were to prevail in matters for which accruals have been established or be required to pay amounts in excess of recorded reserves, the Company s effective tax rate in a given financial statement period could be materially impacted.

Basic and Diluted Net Income Per Share. Basic net income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding. The dilutive effect of stock options and other common stock equivalents, including contingently returnable shares, is included in the calculation of diluted earnings per share using the treasury stock method.

Recent Accounting Pronouncements. In December 2003, the Financial Accounting Standards Board (FASB), revised SFAS No. 132, Employers Disclosures about Pensions and other Postretirement Benefits, (SFAS No. 132R) which requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132R was effective January 31, 2004 and the Company has provided the revised disclosures.

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. The Company is evaluating the impact of the Act on its Postretirement Plan as well as future actions that the Company might take in response to the Act. As a result, the Company is currently unable to quantify the effects of this legislation on its obligations pursuant to the Postretirement Plan.

NOTE 2. Securitization of Credit Card Receivables

Pursuant to a revolving credit card securitization program (the Credit Card Facility), the Company transfers substantially all of its 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) and to the Company in an aggregate amount 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, cash collections on the securitized receivables are used by the Trust to purchase new credit card balances from the Company in accordance with the terms of the Credit Card Facility.

The Company continues to service the credit card receivables and receives a contractually defined servicing fee. Total credit card receivables held by the Trust and serviced by the Company aggregated $525.7 million as of July 31, 2004. Servicing fees earned by the Company were $6.3 million in each of 2004, 2003 and 2002.

Beginning in April 2005, cash collections will be used by the Trust to repay the $225 million principal balance of the Class A Certificates in six monthly installments of $37.5 million (Amortization Period). As a result of certain provisions in the securitization agreement, the Company holds certain rights to repurchase the Class A Certificates (Repurchase Option) subsequent to the commencement of the Amortization Period and, therefore, has the ability to regain effective control over the credit card receivables held by the Trust at the time the Repurchase Option becomes exercisable. The Company believes that the Repurchase Option will become exercisable in September 2005.

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

Transfers to the Trust ceased to qualify for Off-Balance Sheet Accounting beginning in December 2003 since the contractual life of the receivables transferred after November 2003 is estimated to extend to September 2005 when the Repurchase Option becomes exercisable. Rather, these transfers were recorded as secured borrowings by the Company (Financing Accounting). As a consequence, the credit card receivables generated after November 2003 remained on the Company s balance sheet. 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, cash collections of receivables were allocated to the previous Sold Interests and Retained Interests until such time as those balances were reduced to zero and the Company recorded a liability for its repayment obligation to the holders of the $225 million of certificates representing the Sold Interests.

A reconciliation of the outstanding balance of the Company s accounts receivable to the balances recorded by the Company at July 31, 2004 and August 2, 2003 is as follows:

(in millions)		**July 31, 2004**		**August 2, 2003**
Credit card receivables	$	525.7	$	468.1
Other receivables		26.0		22.6
		551.7		490.7
Less: Sold Interests originally qualifying for Off-Balance Sheet Accounting				(225.0)
Net balance	$	551.7	$	265.7
Amounts reflected in the Company s balance sheet:				
Undivided interests in NMG Credit Card Master Trust	$		$	243.1
Accounts receivable		551.7		22.6
	$	551.7	$	265.7
Current portion of borrowings under Credit Card Facility	$	150.0	$	
Long-term borrowings under Credit Card Facility		75.0		
	$	225.0	$	

At the completion of the Transition Period, the Company s entire credit card portfolio was included in accounts receivable in its consolidated balance sheet and the $225 million repayment obligation was shown as a liability.

As of the start of the Transition Period in December 2003, the carrying value of the Retained Interests exceeded face value by approximately $7.6 million as a result of the application of the provisions of current accounting rules related to the calculation of the gains on sale of the previous Sold Interests and the valuation of both Sold and Retained Interests. During the Transition Period, the $7.6 million premium was amortized as a reduction of the Company s net earnings from its credit card portfolio (recorded as a reduction of selling, general and administrative expenses in the consolidated statements of earnings). Of the $7.6 million premium, $5.3 million was amortized in the second quarter of 2004 and the remaining $2.3 million was amortized in the third quarter of 2004.

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NOTE 3. Goodwill and Intangible Assets

The significant components of goodwill and intangible assets, included in other assets in the accompanying consolidated balance sheets, are as follows:

(in thousands)	**July 31, 2004**	**August 2, 2003**
Goodwill	$ 23,747	$ 23,747
Trademarks	64,945	68,797
	$ 88,692	$ 92,544

The Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets as of the beginning of the first quarter of 2003. SFAS No. 142 established a new fair value-based accounting model for the valuation of goodwill and indefinite-lived intangible assets recorded in connection with business combinations. Pursuant to the provisions of SFAS No. 142, goodwill and indefinite-lived intangible assets are measured for impairment by applying a fair value-based test at least annually and are not amortized.

In connection with the adoption of the provisions of SFAS No. 142, the Company engaged third-party appraisal experts to assist with the determination of the fair value of its goodwill and intangible assets. Fair value was determined using a discounted cash flow methodology. For each of the Company s operating segments, a summary of the intangible assets recorded by the Company as of the beginning of the first quarter of 2003 in accordance with the cost-based accounting model established by previous accounting principles and the adjustments required during 2003 and 2004 in accordance with the fair value model of SFAS No. 142 are as follows:

	Carrying Value at August 4, 2002	**SFAS No. 142 Adjustments**			**Adjusted Carrying Value**
(in thousands)		**At Adoption**	**During 2003**	**During 2004**	
Direct Marketing					
Goodwill	$ 23,747	$	$	$	$ 23,747
Indefinite-lived tradenames	60,732	(24,066)	(813)	(3,853)	32,000
Other					
Indefinite-lived tradenames	32,945				32,945
	$ 117,424	$ (24,066)	$ (813)	$ (3,853)	$ 88,692

The $24.1 million writedown in the carrying value of the indefinite-lived intangible assets of the Company s Direct Marketing segment required upon adoption of SFAS No. 142 is reflected as a change in accounting principle ($14.8 million, net of taxes) in the accompanying consolidated statements of earnings. The additional writedowns of $0.8 million in 2003 (included in selling, general and administrative expenses) and $3.9 million in 2004 were required based upon current estimates of future cash flows.

The Company ceased amortization of its goodwill and indefinite-lived intangible assets as of the beginning of 2003. Amortization expense was approximately $5.3 million in 2002 and reduced diluted earnings per share by $0.07 for the period.

NOTE 4. Accrued Liabilities

The significant components of accrued liabilities are as follows:

(in thousands)		July 31, 2004		August 2, 2003
Accrued salaries and related liabilities	$	63,452	$	43,704
Amounts due customers		40,318		36,770
Self-insurance reserves		39,067		34,897
Sales returns		31,487		26,674
Loyalty program liability		14,283		11,514
Sales tax		12,712		21,341
Income taxes payable		12,519		28,994
Other		72,995		62,365
Total	$	286,833	$	266,259

NOTE 5. Long-term Debt

The significant components of the Company s long-term debt are as follows:

(in thousands)	Interest Rate		July 31, 2004		August 2, 2003
Senior unsecured notes	6.65%	$	124,941	$	124,926
Senior unsecured debentures	7.125%		124,816		124,807
Credit Card Facility	LIBOR + 0.27%		225,000		
			474,757		249,733
Less: current portion			150,000		
Long-term debt		$	324,757	$	249,733

Effective June 9, 2004, the Company entered into a five-year unsecured revolving credit agreement (the Credit Agreement) with a group of seventeen banks that provides for borrowings of up to $350 million. The Company has two types of borrowing options under the Credit Agreement, a committed borrowing and a competitive bid borrowing. The rate of interest payable under a committed borrowing is based on one of two pricing options selected by the Company, the level of outstanding borrowings and the rating of the Company s senior unsecured long-term debt by Moody s and Standard & Poor s. The pricing options available to the Company under a committed borrowing are based on either LIBOR plus 0.40 percent to 1.50 percent or a base rate. The base rate is determined based on the higher of the Prime Rate or the Federal Funds Rate plus 0.50 percent and a base rate margin of up to 0.50 percent. The rate of interest payable under a competitive bid borrowing is based on one of two pricing options selected by the Company. The pricing options are based on either LIBOR plus a competitive bid margin or an absolute rate, both determined in the competitive auction process. Changes in the ratings of the senior unsecured long-term debt do not represent an event of default, accelerate repayment of any outstanding borrowings or alter any other terms of the Credit Agreement. The Credit Agreement contains covenants that require the Company to maintain certain leverage and fixed charge ratios. The Credit Agreement replaces a previous $300 million unsecured credit facility. At July 31, 2004, the Company had no borrowings outstanding under the Credit Agreement.

In May 1998, the Company issued $250 million of unsecured senior notes and debentures to the public. This debt is comprised of $125 million of 6.65 percent senior notes, due 2008 and $125 million of 7.125 percent senior debentures, due 2028. Interest on the securities is payable semiannually. Based upon quoted prices, the fair value of the Company s senior notes and debentures aggregated $268.3 million as of July 31, 2004 and $265.0 million as of August 2, 2003.

At July 31, 2004, the Company has $225.0 million borrowings under its revolving Credit Card Facility. Repayment of this obligation begins in April 2005 in six monthly installments of $37.5 million. Therefore, $150.0 million of this obligation is included in current liabilities and $75.0 million is included in long-term liabilities as of July 31, 2004 in the accompanying consolidated balance sheets. Outstanding borrowings under the Credit Card Facility bear interest at a contractually-defined rate of one-month LIBOR plus 0.27 percent (1.65 percent at July 31, 2004) and are payable monthly to the holders of the Class A Certificates. The interest distributions to the Class A Certificate holders are payable from the finance charge income generated by the credit card receivables. For the periods prior to December 2003 when the borrowings under the Credit Card Facility qualified for Off-Balance Sheet Accounting, the interest distributions to the Class A Certificate holders were charged to selling, general and administrative expenses and aggregated $1.8 million in 2004, $4.2 million in 2003 and $5.9 million in 2002.

The significant components of interest expense are as follows:

(in thousands)		Years Ended July 31, 2004		August 2, 2003		August 3, 2002
Credit Agreement	$	422	$	430	$	1,532
Senior notes		8,308		8,308		8,468
Senior debentures		8,904		8,904		9,075
Credit Card Facility		1,778				
Debt issue cost amortization and other		1,679		1,298		2,008
Total interest expense	$	21,091	$	18,940	$	21,083
Less:						
Interest income	$	2,132	$	1,245	$	2,561
Capitalized interest		3,036		1,425		3,116
Interest expense, net	$	15,923	$	16,270	$	15,406

NOTE 6. Common Shareholders Equity

***Authorized Capital*.** On September 15, 1999, the shareholders of the Company approved a proposal to amend the Company s Restated Certificate of Incorporation to increase the Company s authorized capital to 250 million shares of common stock consisting of 100 million shares of Class A Common Stock, 100 million shares of Class B Common Stock, 50 million shares of a new Class C Common Stock (having one-tenth [1/10] of one vote per share) and 50 million shares of preferred stock.

***Common Stock*.** Common stock is entitled to dividends if and when declared by the Board of Directors and each share of Class A and Class B Common Stock outstanding carries one vote. Holders of Class A Common Stock have the right to elect up to 18 percent of the Board of Directors and holders of Class B Common Stock have the right to elect at least 82 percent of the Board of Directors. The Class A Common Stock and Class B Common Stock are identical in all other respects. Holders of common stock have no cumulative voting, conversion, redemption or preemptive rights.

***Cash dividend program*.** In the second quarter of 2004, the Company s Board of Directors initiated a quarterly cash dividend of $0.13 per share. The Company declared dividends on January 30, 2004, April 30, 2004 and July 30, 2004 aggregating $18.9 million, of which dividends payable of $6.3 million were included in accrued liabilities in the accompanying consolidated balance sheet as of July 31, 2004 and were paid in August 2004.

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Stock Repurchase Program. In prior years, the Company s Board of Directors authorized various stock repurchase programs and increases in the number of shares subject to repurchase. In 2004, the Company repurchased 175,600 shares at an average purchase price of $40.01 during the first quarter and 10,450 shares at an average price of $50.48 during the fourth quarter. During the second quarter of 2003, the Company repurchased 524,177 shares at an average purchase price of $28.65. During 2002, there were no stock repurchases under the stock repurchase program. As of July 31, 2004, approximately 1.2 million shares remain available for repurchase under the Company s stock repurchase programs.

Shareholder Rights Plan. In October 1999, the Company adopted a shareholder rights plan designed to ensure that its shareholders receive fair and equal treatment in the event of any proposed takeover of the Company and to guard against partial tender offers and other abusive takeover tactics to gain control of the Company without paying all shareholders a fair price. The rights plan was not adopted in response to any specific takeover proposal.

Under the rights plan, one right (Right) is attached to each share of The Neiman Marcus Group, Inc. Class A, Class B and Class C Common Stock. Each Right will entitle the holder to purchase one one-thousandth of a share of a corresponding series of participating preferred stock, with a par value of $.01 per share, at an exercise price of $100.00 per one one-thousandth of a share of such series. The Rights are not currently exercisable and will become exercisable only in the event a person or group acquires beneficial ownership of 15 percent or more of the shares of Class B Common Stock or 15 percent or more of total number of shares of Common Stock outstanding. The Rights expire on October 6, 2009 if not earlier redeemed or exchanged.

Common Stock Incentive Plans. The Company has established common stock incentive plans allowing for the granting of stock options, stock appreciation rights, restricted stock and other stock-based awards to its employees. The Company previously adopted the 1997 Incentive Plan (1997 Plan) which is currently used for grants of equity-based awards to employees. All outstanding equity-based awards at July 31, 2004 were granted under the Company s 1997 Plan and the 1987 Stock Incentive Plan. At July 31, 2004, there were 1.8 million shares of common stock available for grant under the 1997 Plan.

In 2004 and 2003, the Company made stock-based awards in the form of 1) restricted stock awards for which there was no exercise price payable by the employee and 2) purchased restricted stock awards for which the exercise price was equal to 50 percent of the fair value of the Company s common stock on the date of grant. In 2004, the restricted stock and purchased restricted stock awards aggregated 254,757 shares at a weighted-average exercise price of $15.89 as of the grant date. In 2003, the restricted stock and purchased restricted stock awards aggregated 105,110 shares at a weighted-average exercise price of $8.88 as of the grant date. The Company did not make any restricted stock grants in 2002.

Compensation cost for restricted stock and purchased restricted stock awards is recognized in an amount equal to the difference between the exercise price of the award and its fair value at the date of grant. Such expense is recorded on a straight-line basis over the expected life of the award with the offsetting entry to additional paid-in capital. For performance accelerated restricted stock, the expected life is determined based on management s best estimate of the number of years from the grant date to the date at which it is probable that the performance targets will be met (four or five years, depending on the grant). Compensation cost is calculated as if all instruments granted that are subject only to a service requirement will vest. Compensation expense related to restricted stock grants was $3.1 million in 2004, $2.4 million in 2003 and $2.4 million in 2002.

A summary of the status of the Company s 1997 and 1987 Stock Incentive Plans as of July 31, 2004, August 2, 2003 and August 3, 2002 and changes during the fiscal years ended on those dates are presented in the following table:

	July 31, 2004			**August 2, 2003**			**August 3, 2002**		
	Shares		**Weighted-Average Exercise Price**	**Shares**		**Weighted-Average Exercise Price**	**Shares**		**Weighted-Average Exercise Price**
Outstanding at beginning of year	3,079,705	$	29.54	2,894,300	$	28.59	2,753,900	$	28.78
Granted	903,650		43.33	822,525		30.93	542,500		24.50
Exercised	(780,600)		29.34	(392,300)		25.96	(338,550)		23.52
Canceled	(193,600)		35.16	(244,820)		28.93	(63,550)		27.48
Outstanding at end of year	3,009,155	$	33.37	3,079,705	$	29.54	2,894,300	$	28.59
Exercisable at year end	713,110	$	28.68	1,012,790	$	29.39	834,570	$	28.39

Options outstanding at July 31, 2004 were granted at prices (not less than 100 percent of the fair market value on the date of the grant) varying from $14.375 to $53.08. Options granted during 2004 cliff vest on the third anniversary of the grant and expire six years from the grant date. Options granted prior to 2003 vest ratably over five years and expire after ten years. There were 151 employees with options outstanding at July 31, 2004.

The following table summarizes information about the Company s stock options as of July 31, 2004:

	Options Outstanding				**Options Exercisable**		
Range Of Exercise Prices	**Shares Outstanding At July 31, 2004**	**Weighted-Average Remaining Contractual Life (Years)**		**Weighted-Average Exercise Price**	**Shares Outstanding At July 31, 2004**		**Weighted-Average Exercise Price**
$ 14.38 - $ 15.38	6,700	0.6	$	14.85	6,700	$	14.85
$ 23.13 - $ 29.19	833,130	5.9	$	24.44	410,460	$	24.54
$ 30.35 - $ 36.50	1,333,975	4.8	$	32.83	295,950	$	34.75
$ 43.05 - $ 53.08	835,350	5.2	$	43.29		$	
	3,009,155	5.2	$	33.37	713,110	$	28.68

Spin-off from Harcourt General, Inc. On October 22, 1999, Harcourt General, Inc. (Harcourt General) completed the spin-off of its controlling equity position in the Company in a tax-free distribution to its shareholders (Spin-off). Harcourt General distributed approximately 21.4 million of its approximately 26.4 million shares of the Company s common stock and subsequently divested itself entirely of any holdings in the Company s common stock. Each common shareholder of Harcourt General received 0.3013 of a share of Class B Common Stock of the Company for every share of Harcourt General Common Stock and Class B Stock held on October 12, 1999, which was the record date for the distribution. This transaction had no impact on the reported equity of the Company.

The Company is required to indemnify Harcourt General, and each entity of the consolidated group of which Harcourt General is a member, against all federal, state and local taxes incurred by Harcourt General or any member of such group as a result of the failure of the Spin-off to qualify as a tax-free transaction under Section 355(a) of the Internal Revenue Service Code (Code) or the application of Section 355(e). The obligation to indemnify occurs only if the Company takes action which is inconsistent with any representation or statement made to the Internal Revenue Service in connection with the request by Harcourt General for a ruling letter in respect to the Spin-off and as to certain tax aspects of the Spin-off, or if within two years after the date of the Spin-off the Company 1) fails to maintain its status as a company engaged in the active conduct of a trade or business, as defined in Section 355(b) of the Code, 2) merges or consolidates with or into any other corporation, 3) liquidates or partially liquidates, 4) sells or transfers all or substantially all of its assets in a single transaction or a series of related transactions, 5) redeems or otherwise repurchases any Company stock subject to certain exceptions, or 6) takes any other action or actions which in the aggregate would have the effect of causing or permitting one or more persons to acquire, directly or indirectly, stock representing a 50 percent or greater interest in the Company. The Company s obligation to indemnify Harcourt General and its consolidated group shall not apply if, prior to taking any such action the Company has obtained and provided to Harcourt General a written opinion from a law firm acceptable to Harcourt General, or Harcourt General has obtained a supplemental ruling from the Internal Revenue Service, that such action or actions will not result in either (i) the Spin-off failing to qualify under Section 355(a) of the Code, or (ii) the Company s shares failing to qualify as qualified property for purposes of Section 355(c)(2) of the Code by reason of Section 355(e) of the Code.

NOTE 7. Income Taxes

The significant components of income tax expense are as follows:

(in thousands)		July 31, 2004		Years Ended August 2, 2003		August 3, 2002
Current:						
Federal	$	93,963	$	64,758	$	67,015
State		3,328		6,854		4,837
Foreign		367		192		136
		97,658		71,804		71,988
Deferred:						
Federal		21,177		6,944		(9,620)
State		2,097		500		(715)
		23,274		7,444		(10,335)
Income tax expense	$	120,932	$	79,248	$	61,653

A reconciliation of income tax expense to the amount calculated based on the federal and state statutory rates are as follows:

(in thousands)		July 31, 2004		Years Ended August 2, 2003		August 3, 2002
Income tax expense at statutory rate	$	115,260	$	72,044	$	56,785
State income taxes, net of federal income tax benefit		12,925		7,354		4,122
Tax benefit related to favorable state tax settlements		(7,500)				
Other		247		(150)		746

Total	$ 120,932	$ 79,248	$ 61,653

The Company s effective income tax rate was 36.7 percent in 2004, 38.5 percent in 2003 and 38.0 percent in 2002. In the second quarter of 2004, the Company recognized a net income tax benefit of $7.5 million related to favorable settlements associated with previous state tax filings. Excluding this benefit, the effective tax rate was 39.0 percent for 2004.

Significant components of the Company s net deferred income tax asset are as follows:

(in thousands)		**July 31, 2004**		**August 2, 2003**
Deferred income tax assets:				
Accruals and reserves	$	27,618	$	29,096
Employee benefits		42,891		41,079
Other		2,629		1,845
Total deferred tax assets	$	73,138	$	72,020
Deferred income tax liabilities:				
Inventory	$	(10,951)	$	(6,602)
Depreciation and amortization		(49,133)		(36,803)
Pension accrual		(17,517)		
Other		(6,840)		(3,714)
Total deferred tax liabilities		(84,441)		(47,119)
Net deferred income tax (liability) asset	$	(11,303)	$	24,901
Net deferred income tax (liability) asset:				
Current	$	9,078	$	17,586
Non-current		(20,381)		7,315
Total	$	(11,303)	$	24,901

The net deferred tax liability of $11.3 million at July 31, 2004 increased $36.2 million from a net deferred tax asset of $24.9 million at August 2, 2003. This increase was comprised of the deferred tax provision of $23.3 million charged to earnings in 2004 as well as amounts charged directly to other comprehensive loss in the statement of shareholders' equity, primarily related to the increase in the funded position of the Pension Plan in 2004 (as more fully described in Note 8). The Company believes it is more likely than not that it will realize the benefits of its recorded deferred tax assets.

NOTE 8. Employee Benefit Plans

Description of Benefit Plans. The Company sponsors a defined benefit pension plan (Pension Plan) covering substantially all full-time employees. The Company also sponsors an unfunded supplemental executive retirement plan (SERP Plan) which provides certain employees additional pension benefits. Benefits under both plans are based on the employees years of service and compensation over defined periods of employment.

Retirees and active employees hired prior to March 1, 1989 are eligible for certain limited postretirement health care benefits (Postretirement Plan) if they meet certain service and minimum age requirements. The cost of these benefits is accrued during the years in which an employee provides services. The Company paid postretirement health care benefit claims of $1.8 million during 2004, $2.3 million during 2003 and $1.7

million during 2002.

The Company has a qualified defined contribution 401(k) plan, which covers substantially all employees. Employees make contributions to the plan and the Company matches 100 percent of the first 2 percent and 25 percent of the next 4 percent of an employee s contribution up to a maximum of 6 percent of the employee s compensation. The Company also sponsors an unfunded key employee deferred compensation plan, which provides certain employees additional benefits, a profit sharing and a defined contribution retirement plan for employees of Kate Spade LLC and a qualified defined contribution 401(k) plan for employees of Gurwitch Products, LLC. The Company s aggregate contributions to these plans were approximately $9.5 million for 2004, $9.3 million for 2003 and $8.9 million for 2002.

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

(in thousands)	July 31, 2004	Years Ended August 2, 2003	August 3, 2002
Pension Plan:			
Service cost	$ 10,827	$ 9,110	$ 8,422
Interest cost	16,484	15,196	13,571
Expected return on plan assets	(16,527)	(14,591)	(14,389)
Net amortization of losses and prior service costs	3,192	407	283
Pension Plan expense	$ 13,976	$ 10,122	$ 7,887
SERP Plan:			
Service cost	$ 1,345	$ 1,159	$ 961
Interest cost	3,849	3,700	3,199
Net amortization of losses and prior service costs	1,444	1,181	200
SERP Plan expense	$ 6,638	$ 6,040	$ 4,360
Postretirement Plan:			
Service cost	$ 81	$ 92	$ 86
Interest cost	1,570	1,614	1,214
Net amortization of losses	450	322	
Postretirement expense	$ 2,101	$ 2,028	$ 1,300

Benefit Obligations. The Company s obligations for the Pension Plan, SERP Plan and Postretirement Plan are valued annually as of the beginning of each fiscal year. With respect to the Pension Plan and the SERP Plan, the Company s obligations consist of both a projected benefit obligation (PBO) and an accumulated benefit obligation (ABO). The PBO represents the actuarial present value of benefits ultimately payable to plan participants for both past and future services expected to be provided by the plan participants to the Company. The ABO represents the actuarial present value of benefits payable to plan participants for only services rendered at the valuation date. The Company s obligations pursuant to its Pension Plan, SERP Plan and Postretirement Plan are as follows:

(in thousands)	Pension Plan 2004	Pension Plan 2003	SERP Plan 2004	SERP Plan 2003	Postretirement Plan 2004	Postretirement Plan 2003
Projected benefit obligations:						
Beginning of year	$ 244,997	$ 197,599	$ 57,638	$ 46,480	$ 24,907	$ 22,924
Service cost	10,827	9,110	1,345	1,159	81	92
Interest cost	16,484	15,196	3,849	3,700	1,570	1,614
Actuarial loss (gain)	16,829	29,446	4,713	7,665	(4,378)	2,035
Benefits paid, net	(7,714)	(6,354)	(1,681)	(1,366)	(1,186)	(1,758)
End of year	$ 281,423	$ 244,997	$ 65,864	$ 57,638	$ 20,994	$ 24,907
Accumulated benefit obligations:						
Beginning of year	$ 207,834	$ 175,903	$ 49,082	$ 38,689		
End of year	$ 240,082	$ 207,834	$ 56,209	$ 49,082		

A summary of expected benefit payments related to the Company s Pension Plan, SERP Plan and Postretirement Plan is as follows:

(in thousands)	**Pension Plan**	**SERP Plan**	**Postretirement Plan**
Fiscal year 2005	$ 8,800	$ 2,412	$ 1,484
Fiscal year 2006	9,454	2,553	1,535
Fiscal year 2007	10,192	2,733	1,567
Fiscal year 2008	11,039	2,760	1,593
Fiscal year 2009	12,009	3,293	1,614
Fiscal years 2010-2014	$ 78,041	$ 22,337	$ 8,042

Actuarial Assumptions**.** Significant assumptions related to the calculation of the Company s obligations pursuant to its employee benefit plans include the discount rate used to calculate the actuarial present value of benefit obligations to be paid in the future, the expected long-term rate of return on assets held by the Pension Plan, the average rate of compensation increase by Pension Plan and SERP Plan participants and the health care cost trend rate for the Postretirement Plan. These actuarial assumptions are reviewed annually based upon currently available information. The assumptions utilized by the Company in calculating the projected benefit obligations and periodic expense of its Pension Plan, SERP Plan and Postretirement Plan are as follows:

		Years Ended	
	July 31, 2004	**August 1, 2003**	**August 1, 2002**
Pension Plan:			
Discount rate	6.25%	6.50%	7.25%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%
Rate of future compensation increase	4.50%	4.50%	5.00%
SERP Plan:			
Discount rate	6.25%	6.50%	7.25%
Rate of future compensation increase	4.50%	4.50%	5.00%
Postretirement Plan:			
Discount rate	6.25%	6.50%	7.25%
Initial health care cost trend rate	10.00%	11.00%	12.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%

Discount rate. The assumed discount rate utilized is based, in part, upon the Moody s Aa corporate bond yield as of the measurement date. The discount rate is utilized principally in calculating the actuarial present value of the Company s obligations and periodic expense pursuant to its employee benefit plans. At July 31, 2004, the discount rate was 6.25 percent. To the extent the discount rate increases or decreases, the Company s Pension Plan obligation is decreased or increased accordingly.

The estimated effect of a 0.25 percent decrease in the discount rate would increase the Pension Plan obligation by $10.1 million and increase annual Pension Plan expense by $1.1 million. The estimated effect of a 0.25 percent decrease in the discount rate would increase the SERP Plan obligation by $2.2 million and increase the SERP Plan annual expense by $0.2 million. The estimated effect of a 0.25 percent decrease in the discount rate would increase the Postretirement Plan obligation by $0.6 million and increase the Postretirement Plan annual expense by an immaterial amount.

Expected long-term rate of return on plan assets. The assumed expected long-term rate of return on assets is the weighted average rate of earnings expected on the funds invested or to be invested to provide for the pension obligation. During 2004, the Company utilized 8.0 percent as the expected long-term rate of return on plan assets. The Company periodically evaluates the allocation between investment categories of the assets held by the Pension Plan. The expected average long-term rate of return on assets is based principally on the counsel of the Company s outside actuaries and advisors. This rate is utilized primarily in calculating the expected return on plan assets component of the annual pension expense. To the extent the actual rate of return on assets realized over the course of a year is greater than the assumed rate, that year s annual pension expense is not affected. Rather this gain reduces future pension expense over a period of approximately 12 to 18 years. To the extent the actual rate of return on assets is less than the assumed rate, that year s annual pension expense is likewise not affected. Rather this loss increases pension expense over approximately 12 to 18 years.

Rate of future compensation increase. The assumed average rate of compensation increase is the average annual compensation increase expected over the remaining employment periods for the participating employees. The Company utilized a rate of 4.5 percent for the periods beginning July 31, 2004. This rate is utilized principally in calculating the obligation and annual expense for the Pension and SERP Plans. The estimated effect of a 0.25 percent increase in the assumed rate of compensation increase would increase the projected benefit obligation for the Pension Plan by $1.8 million and increase annual pension expense by $0.4 million. The estimated effect of a 0.25 percent increase in the assumed rate of compensation increase would increase the SERP Plan projected benefit obligation by $0.8 million and increase the SERP Plan annual expense by $0.2 million.

Health care cost trend rate. The assumed health care cost trend rate represents the Company s estimate of the annual rates of change in the costs of the health care benefits currently provided by the Postretirement Plan. The health care cost trend rate implicitly considers estimates of health care inflation, changes in health care utilization and delivery patterns, technological advances and changes in the health status of the plan participants. The Company utilized a health care cost trend rate of 10% as of July 31, 2004, trending down over time to an ultimate health care cost trend rate of 5%. If the assumed health care cost trend rate were increased one percentage point, Postretirement Plan costs for 2004 would have been $0.2 million higher and the accumulated postretirement benefit obligation as of July 31, 2004 would have been $1.8 million higher. If the assumed health care trend rate were decreased one percentage point, Postretirement Plan costs for 2004 would have been $0.1 million lower and the accumulated postretirement benefit obligation as of July 31, 2004 would have been $1.5 million lower.

Funding Policy and Plan Assets. The Company s policy is to fund the Pension Plan at or above the minimum required by law. In 2004, the Company made voluntary contributions of $30 million in the second quarter and $15.0 million in the fourth quarter for the plan year ended July 31, 2003. In addition, the Company made contributions of $5.8 million in 2003 for the plan year ended July 31, 2003. In the third quarter of 2003, the Company made a required contribution of $11.5 million and a voluntary contribution of $13.5 million to the Pension Plan for the plan year ended July 31, 2002. Based upon currently available information, the Company will not be required to make contributions to the Pension Plan for the plan year ended July 31, 2004.

NOTE 8. Employee Benefit Plans

Assets held by the Pension Plan are invested in accordance with the provisions of an investment policy approved by the Company. The asset allocation for the Company s Pension Plan at the end of 2004 and the target allocation for 2005, by asset category, are as follows:

	Pension Plan	
	Percentage of Plan Assets at 2004	2005 Target Allocation
Equity Securities	53%	80%
Fixed Income Securities	38%	20%
Cash and Equivalents	8%	
Other	1%	
Total	100%	100%

For 2005, the Company revised its investment policy. The Pension Plan s strategic asset allocation was structured to reduce volatility through diversification and enhance return to approximate the amounts and timing of the expected benefit payments.

Changes in the assets held by the Pension Plan in 2004 and 2003 are as follows:

(in thousands)	2004	2003
Fair value of assets at beginning of year	$ 183,044	$ 145,945
Actual return on assets	22,767	12,693
Company contributions	45,000	30,760
Benefits paid	(7,714)	(6,354)
Fair value of assets at end of year	$ 243,097	$ 183,044

Funded Status. The funded status of the Company s Pension Plan, SERP Plan and Postretirement Plan is as follows:

	Pension Plan		SERP Plan		Postretirement Plan	
(in thousands)	2004	2003	2004	2003	2004	2003
Projected benefit obligation	$ 281,423	$ 244,997	$ 65,864	$ 57,638	$ 20,994	$ 24,907
Fair value of plan assets	243,097	183,044				
Excess of projected benefit obligation over fair value of plan assets	(38,326)	(61,953)	(65,864)	(57,638)	(20,994)	(24,907)
Unrecognized net actuarial loss (gain)	83,599	75,921	17,316	13,285	2,859	7,643
Unrecognized prior service (income) cost	(190)	(223)	3,172	3,934	206	250
Unrecognized net obligation at transition	471	785				
	$ 45,554	$ 14,530	$ (45,376)	$ (40,419)	$ (17,929)	$ (17,014)

Net prepaid (accrued) benefit obligation in the consolidated balance sheets								
Accumulated benefit obligation	$	240,082	$	207,834	$	56,209	$	49,082
Fair value of plan assets		243,097		183,044				
Excess (deficiency) of assets over obligation	$	3,015	$	(24,790)	$	(56,209)	$	(49,082)

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The Company s Pension Plan and SERP Plan obligations and funded status of such plans are recognized in the Company s consolidated balance sheets as follows:

(in thousands)	Pension Plan 2004	Pension Plan 2003	SERP Plan 2004	SERP Plan 2003
Prepaid asset (accrued obligation)	$ 45,554	$ (24,790)	$ (56,209)	$ (49,082)
Intangible asset		562	3,172	3,934
Other comprehensive loss additional minimum liability		38,758	7,661	4,729
Net prepaid (accrued) benefit obligation in the consolidated balance sheet	$ 45,554	$ 14,530	$ (45,376)	$ (40,419)

In 2003, the Company was required to record additional minimum liabilities of $39.3 million related to the Pension Plan and $8.7 million related to the SERP Plan. In recording the additional minimum liabilities, the Company reduced shareholders equity by $43.5 million ($26.7 million, net of tax).

In 2004, the fair value of the assets held by the Pension Plan exceeded the accumulated benefit obligation. As a result, the previously recorded additional minimum liability was reversed and shareholders equity increased by $38.8 million ($23.8 million, net of tax). The additional minimum liability for the SERP Plan increased by $2.2 million and reduced shareholders equity by $1.8 million, net of tax.

The projected benefit obligation of the Pension Plan exceeded the plan s assets by $38.3 million in 2004 and by $62.0 million in 2003. The underfunded status is reflected in the Company s consolidated balance sheet as follows:

	2004	2003
Prepaid pension contribution reflected in the consolidated balance sheet and not yet charged to expense	$ 45,554	$ 14,530
Liability charged to shareholders equity and not yet recognized in expense		(38,758)
Liability reflected in other assets and not yet charged to expense		(562)
Unrecognized liability not yet recognized in expense	(83,880)	(37,163)
Underfunded status	$ (38,326)	$ (61,953)

The unrecognized liability of $83.9 million for the Pension Plan at July 31, 2004 relates primarily to the delayed recognition of differences between the Company s actuarial assumptions and actual results. In addition, the Company had cumulative unrecognized liabilities for the SERP Plan and Postretirement Plan aggregating $23.6 million at July 31, 2004.

NOTE 9. Effect of Change in Vacation Policy

During the third quarter of 2002, the Company terminated its prior vacation plan and the Board of Directors of the Company approved a new policy related to vacation pay for its employees. The new policy was communicated to employees during the third quarter of 2002. Pursuant to the new policy, which was effective as of April 28, 2002, eligible employees earn vacation pay ratably over the course of the year in which the services are rendered.

Pursuant to the previous plan, eligible employees received an annual vacation grant at the beginning of each service year. Such grants were made in anticipation of future service; however, eligible employees were allowed to take vacation time to the extent of the vacation grant as of the grant date. Further, in the event of termination, an employee was entitled to receive cash compensation to the extent of the untaken balance of the annual grant. As a result, the Company recorded vacation expense ratably over the twelve months prior to each annual grant such that the liability for the annual grant was fully recorded as of the grant date.

With the termination of the prior vacation plan, the previously recorded vacation liability of $16.6 million, which amount represented the vacation time that would have been granted to employees on April 28, 2002 pursuant to the previous plan, was eliminated and credited to operating earnings in the third quarter of 2002.

NOTE 10. Impairment and Other Charges

In the fourth quarter of 2004, the Company recorded a $3.9 million pretax impairment charge related to the writedown to fair value of the net carrying value of the Chef s Catalog tradename intangible asset.

In the fourth quarter of 2002, the Company recorded a $3.1 million pretax impairment charge. The charge related to the write-down of the net carrying values of the fixed assets of three Kate Spade LLC stores to estimated fair value.

In the third quarter of 2002, the Company recorded an $8.2 million pretax charge. The charge related to 1) the write-off of the remaining net carrying value of its cost method investment in WeddingChannel.com, Inc. in light of its continued operating losses, 2) the write-down of the carrying values of the fixed assets of two Neiman Marcus Galleries stores to estimated fair value and 3) the accrual of the estimated loss associated with the abandonment of excess warehouse space held by the Company pursuant to a long-term operating lease.

In the second quarter of 2002, the Company incurred expenses of approximately $2.0 million in connection with cost reduction strategies. These expenses consisted primarily of severance costs and lease termination expenses incurred in connection with the closing of the Neiman Marcus Galleries store in Seattle, Washington.

NOTE 11. Commitments and Contingencies

The Company leases certain property and equipment under various non-cancelable capital and operating leases. The leases provide for monthly fixed rentals and/or contingent rentals based upon sales in excess of stated amounts and normally require the Company to pay real estate taxes, insurance, common area maintenance costs and other occupancy costs. Generally, the leases have primary terms ranging from 1 to 99 years and include renewal options ranging from 5 to 80 years.

Rent expense under operating leases are as follows:

	Years Ended		
(in thousands)	**July 31, 2004**	**August 2, 2003**	**August 3, 2002**
Minimum rent	$ 42,800	$ 41,200	$ 37,400
Contingent rent	20,300	16,500	17,000
Total rent expense	$ 63,100	$ 57,700	$ 54,400

Future minimum rental commitments, excluding renewal options, under capital leases and non-cancelable operating leases are as follows: fiscal year 2005 $47.3 million; fiscal year 2006 $45.2 million; fiscal year 2007 $40.3 million; fiscal year 2008 $38.6 million; fiscal year 2009 $36.5 million; all years thereafter $567.0 million.

Common area maintenance costs were $11.9 million for 2004, $12.5 million for 2003 and $10.0 million for 2002.

Litigation. The Company is involved in various suits and claims in the ordinary course of business. Management does not believe that the disposition of any such suits and claims will have a material adverse effect upon the consolidated results of operations, cash flows or the financial position of the Company.

Other. The Company had approximately $15.0 million of outstanding irrevocable letters of credit relating to purchase commitments and insurance and other liabilities at July 31, 2004. The Company had approximately $2.8 million in surety bonds at July 31, 2004 relating primarily to merchandise imports, state sales tax and utility requirements.

NOTE 12. Earnings Per Share

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

		Years Ended	
(in thousands of shares)	**July 31, 2004**	**August 2, 2003**	**August 3, 2002**
Weighted average shares outstanding	48,349	47,750	47,726
Less shares of non-vested restricted stock	(352)	(288)	(282)
Shares for computation of basic EPS	47,997	47,462	47,444
Effect of dilutive stock options and restricted stock	876	333	391
Shares for computation of diluted EPS	48,873	47,795	47,835
Shares represented by antidilutive stock options	8	1,469	1,223

Antidilutive stock options were not included in the computation of diluted EPS because the exercise price of those options was greater than the average market price of the common shares.

NOTE 13. Comprehensive Income

The components of comprehensive income are as follows:

(in thousands)	Years Ended July 31, 2004	August 2, 2003	August 3, 2002
Net earnings	$ 204,832	$ 109,303	$ 99,574
Other comprehensive income (loss):			
Unrealized (loss) gain on financial instruments, net of taxes of ($815), ($96) and $1,193	(1,290)	(172)	1,945
Additional minimum pension liability, net of taxes of $13,755 and ($16,744)	22,071	(26,744)	
Other	256	437	(10)
Total other comprehensive income (loss)	21,037	(26,479)	1,935
Total comprehensive income	$ 225,869	$ 82,824	$ 101,509

NOTE 14. Segment Reporting

The Company has identified two reportable segments: Specialty Retail Stores and Direct Marketing. The Specialty Retail Stores segment includes all 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 Chef s Catalog brand names. Other includes the operations of Kate Spade LLC and Gurwitch Products, LLC and corporate expenses.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Company s senior management evaluates the performance of the Company s assets on a consolidated basis. Interest expense is not allocated by segment.

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

			Years Ended			
(in thousands)		**July 31, 2004**		**August 2, 2003**		**August 3, 2002**
REVENUES						
Specialty Retail Stores	$	2,870,876	$	2,524,816	$	2,433,195
Direct Marketing		570,626		493,473		444,019
Other		104,057		79,835		71,118
Total	$	3,545,559	$	3,098,124	$	2,948,332
OPERATING EARNINGS						
Specialty Retail Stores	$	310,579	$	198,201	$	170,465
Direct Marketing		61,307		45,754		22,835
Other		(22,797)		(21,845)		(18,993)
Subtotal		349,089		222,110		174,307
Effect of change in vacation policy						16,576
Impairment and other charges		(3,853)				(13,233)
Total	$	345,236	$	222,110	$	177,650
CAPITAL EXPENDITURES						
Specialty Retail Stores	$	98,758	$	91,293	$	137,615
Direct Marketing		13,319		6,761		10,118
Other		6,053		1,940		1,513
Total	$	118,130	$	99,994	$	149,246
DEPRECIATION EXPENSE						
Specialty Retail Stores	$	80,946	$	68,153	$	66,168
Direct Marketing		7,691		8,692		8,321
Other		5,164		2,131		2,320
Total	$	93,801	$	78,976	$	76,809

NOTE 15. Quarterly Financial Information (Unaudited)

(in millions, except for per share data)	Year Ended July 31, 2004 First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	$ 824.9	$ 1,054.1	$ 877.6	$ 789.0	$ 3,545.6
Gross profit	$ 316.5	$ 337.0	$ 334.3	$ 236.7	$ 1,224.4
Net earnings	$ 56.2	$ 59.2(1)	$ 68.8	$ 20.6(2)	$ 204.8
Earnings per share:					
Basic	$ 1.18	$ 1.23	$ 1.43	$ 0.43	$ 4.27
Diluted	$ 1.16	$ 1.21	$ 1.40	$ 0.42	$ 4.19

(in millions, except for per share data)	Year Ended August 2, 2003 First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	$ 734.1	$ 938.5	$ 722.9	$ 702.7	$ 3,098.1
Gross profit	280.2	283.9	259.2	201.3	1,024.5
Earnings before change in accounting principle	43.3	32.5	41.1	7.2	124.1
Change in accounting principle	(14.8)				(14.8)
Net earnings	$ 28.5	$ 32.5	$ 41.1	$ 7.2	$ 109.3
Basic earnings per share:					
Earnings before change in accounting principle	$ 0.91	$ 0.68	$ 0.87	$ 0.15	$ 2.61
Change in accounting principle	(0.31)				(0.31)
Basic earnings per share	$ 0.60	$ 0.68	$ 0.87	$ 0.15	$ 2.30
Diluted earnings per share:					
Earnings before change in accounting principle	$ 0.90	$ 0.68	$ 0.87	$ 0.15	$ 2.60
Change in accounting principle	(0.31)				(0.31)
Diluted earnings per share	$ 0.59	$ 0.68	$ 0.87	$ 0.15	$ 2.29

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(1) Net earnings for the second quarter of 2004 reflect a $7.5 million net income tax benefit related to favorable settlements associated with previous state tax filings.

(2) Net earnings for the fourth quarter of 2004 include a $3.9 million pretax impairment charge related to the writedown to fair value in the net carrying value of the Chef s Catalog tradename intangible asset.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE NEIMAN MARCUS GROUP, INC.

By: /s/ Nelson A. Bangs
Nelson A. Bangs
Senior Vice President and General Counsel

Dated: September 29, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the following capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Burton M. Tansky Burton M. Tansky	President and Chief Executive Officer, Director	September 29, 2004
/s/ James E. Skinner James E. Skinner	Senior Vice President and Chief Financial Officer (principal financial officer)	September 29, 2004
/s/ T. Dale Stapleton T. Dale Stapleton	Vice President and Controller (principal accounting officer)	September 29, 2004
/s/ Richard A. Smith Richard A. Smith	Chairman of the Board	September 29, 2004
/s/ Robert A. Smith Robert A. Smith	Vice Chairman	September 29, 2004
/s/ Brian J. Knez Brian J. Knez	Vice Chairman	September 29, 2004
/s/ John R. Cook John R. Cook	Director	September 29, 2004
/s/ Gary L. Countryman Gary L. Countryman	Director	September 29, 2004
/s/ Matina S. Horner Matina S. Horner	Director	September 29, 2004
/s/ Vincent M. O Reilly Vincent M. O Reilly	Director	September 29, 2004

/s/ Walter J. Salmon Walter J. Salmon	Director	September 29, 2004
/s/ Carl Sewell Carl Sewell	Director	September 29, 2004
/s/ Dr. Paula Stern Dr. Paula Stern	Director	September 29, 2004

SCHEDULE II

The Neiman Marcus Group, Inc.

Valuation and Qualifying Accounts and Reserves

(in thousands)

Three years ended July 31, 2004

Column A Description	**Column B Balance at Beginning of Period**	**Column C Additions: Charged to Costs and Expenses**	**Column C Additions: Charged to Other Accounts**	**Column D Deductions (B)**	**Column E Balance at End of Period**
Year ended July 31, 2004					
Allowance for doubtful accounts (deducted from accounts receivable)	$ 424	$ 7,639	$ 11,820(A)	$ (9,805)	$ 10,078
Year ended August 2, 2003					
Allowance for doubtful accounts (deducted from accounts receivable)	$ 398	$ 33	$	$ (7)	$ 424
Year ended August 3, 2002					
Allowance for doubtful accounts (deducted from accounts receivable)	$ 355	$ 43	$	$	$ 398

(A) Reserve established in connection with the transition from Off-Balance Sheet Accounting to Financing Accounting for the Company s borrowings under its revolving credit card securitization program.

(B) Write-off of uncollectible accounts net of recoveries and other miscellaneous deductions.