NEIMAN MARCUS GROUP INC
Form 10-Q
March 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 JANUARY 27, 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.)

27 BOYLSTON STREET, CHESTNUT HILL, MA	02467
(Address of principal executive offices)	(Zip Code)

(617) 232-0760
(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 March 6, 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	$27,730,691
Class B Common Stock, $.01 Par Value	$19,941,432

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THE NEIMAN MARCUS GROUP, INC.

I N D E X

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THE NEIMAN MARCUS GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands)

	January 27, 2001	July 29, 2000	January 29, 2000 (Restated)
ASSETS			
Current assets:			
Cash and equivalents	$ 113,404	$ 175,385	$ 58,179
Undivided interests in NMG Credit Card Master Trust	303,061	211,581	241,923
Accounts receivable, net	23,610	19,279	69,586
Merchandise inventories	613,997	575,344	538,138
Deferred income taxes	26,078	26,078	21,815
Other current assets	59,953	61,671	52,767
Total current assets	1,140,103	1,069,338	982,408
Property and equipment, net	551,826	539,735	522,608
Other assets	146,723	152,984	156,716
Total assets	$ 1,838,652	$ 1,762,057	$ 1,661,732
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes payable and current maturities of long-term liabilities	$ 822	$ 787	$ 953
Accounts payable	297,239	270,957	228,407
Accrued liabilities	255,730	220,562	227,676
Total current liabilities	553,791	492,306	457,036
Long-term liabilities:			
Notes and debentures	249,675	329,663	284,651
Other long-term liabilities	75,428	73,954	73,624
Deferred income taxes	31,510	31,510	32,038
Total long-term liabilities	356,613	435,127	390,313
Minority interest	8,156	8,882	6,472
Shareholders' equity:			
Common stock	480	475	488
Additional paid-in capital	427,972	422,186	459,654
Other comprehensive income	(1,364)	--	--
Retained earnings	493,004	403,081	347,769
Total shareholders'equity	920,092	825,742	807,911

Total liabilities and shareholders' equity	$ 1,838,652	$ 1,762,057	$ 1,661,732

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 Twenty-Six Weeks Ended		For the Thirteen Weeks	
	January 27, 2001	January 29, 2000	January 27, 2001	January
		(Restated)		(Res
Revenues	$ 1,640,557	$ 1,546,426	$ 900,836	$ 8
Cost of goods sold, including buying and occupancy costs	1,062,576	1,005,757	613,679	5
Selling, general and administrative expenses	416,151	388,757	213,139	2
Corporate expenses	8,220	7,767	3,933	
Operating earnings	153,610	144,145	70,085	
Interest expense	(8,351)	(12,789)	(4,073)	
Earnings before income taxes, minority interest and cumulative effect of accounting change	145,259	131,356	66,012	
Income taxes	(55,198)	(49,915)	(25,084)	(
Earnings before minority interest and cumulative effect of accounting change	90,061	81,441	40,928	
Minority interest in net earnings of subsidiaries	(1,998)	(2,742)	(994)	

Earnings before cumulative effect of accounting change	88,063	78,699	39,934	
Cumulative effect of accounting change, net	1,860	--	--	
Net earnings	$ 89,923	$ 78,699	$ 39,934	$
Weighted average number of common and common equivalent shares outstanding:				
Basic	47,032	48,844	47,119	
Diluted	47,538	49,035	47,621	
Earnings per share:				
Basic:				
Earnings before accounting change	$ 1.87	$ 1.61	$ 0.85	$
Accounting change	0.04	--	--	
Basic net earnings	$ 1.91	$ 1.61	$ 0.85	$
Diluted:				
Earnings before accounting change	$ 1.85	$ 1.60	$ 0.84	$
Accounting change	0.04	--	--	
Diluted net earnings	$ 1.89	$ 1.60	$ 0.84	$

See Notes to Condensed Consolidated Financial Statements.

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

(In thousands)	Twenty-Six Weeks Ended	
	January 27, 2001	January 29, 2000
		(Restated)

CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 89,923	$ 78,699
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	40,986	36,886
Accounting change, net	(1,860)	--
Minority interest	1,998	2,742
Other items	3,309	(10,549)
Changes in current assets and liabilities:		
Accounts receivable	(4,331)	(10,269)
Merchandise inventories	(35,653)	7,114
Other current assets	1,718	335
Accounts payable and accrued liabilities	61,692	77,507
Net cash provided by operating activities	157,782	182,465
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(50,125)	(42,792)
Purchases of held-to-maturity securities	(595,768)	(444,765)
Maturities of held-to-maturity securities	504,288	373,493
Net cash used for investing activities	(141,605)	(114,064)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	--	10,000
Repayment of debt	(80,000)	--
Repurchase of common stock	--	(10,012)
Distributions paid	(3,949)	(2,435)
Repayment of receivables securitization	--	(37,500)
Other financing activities	5,791	534
Net cash used for financing activities	(78,158)	(39,413)
CASH AND EQUIVALENTS		
Increase (decrease) during the period	(61,981)	28,988
Beginning balance	175,385	29,191
Ending balance	$ 113,404	$ 58,179

See Notes to Condensed Consolidated Financial Statements.

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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 the twenty-six and thirteen weeks ended January 27, 2001, because the exercise price of those options was greater than the average market price of the common shares. Options to purchase 975,080 and 572,230 shares of common stock were not included in the computation of diluted EPS for the twenty-six and thirteen weeks ended January 29, 2000, respectively, because the exercise price of these options was greater than the average market price of the common shares.

	Twenty-Six Weeks Ended		Thirteen Weeks Ended	
(In thousands of shares)	January 27, 2001	January 29, 2000	January 27, 2001	January 29, 2000
Shares for computation of basic EPS	47,032	48,844	47,119	48,610
Effect of assumed option exercises	506	191	502	278
Shares for computation of diluted EPS	47,538	49,035	47,621	48,888

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 January 27, 2001, the Company had contracts outstanding to purchase the equivalent of $49.7 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 $88.6 million for the six months ended January 27, 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)	Twenty-Six Weeks Ended January 27, 2001	Twenty-Six Weeks Ended January 29, 2000	Thirteen Weeks Ended January 27, 2001	Thirte Ended J 2
REVENUES				
Specialty Retail Stores	$ 1,375,388	$ 1,313,168	$ 750,861	$

Direct Marketing	219,075	201,229	125,603	
Other	46,094	32,029	24,372	
Total	$ 1,640,557	$ 1,546,426	$ 900,836	$
OPERATING EARNINGS				
Specialty Retail Stores	$ 148,263	$ 139,840	$ 65,537	$
Direct Marketing	14,102	12,547	7,515	
Other	(8,755)	(8,242)	(2,967)	
Total	$ 153,610	$ 144,145	$ 70,085	$

6. NEW ACCOUNTING STANDARD

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.

7. AGREEMENT WITH HARCOURT GENERAL

On November 14, 2000, Harcourt General notified the Company of the termination of the Amended and Restated Intercompany Services Agreement effective May 14, 2001. Under the agreement, Harcourt General provides certain management, accounting, financial, legal, tax and other corporate services to the Company. The Company is in the process of establishing these functions internally.

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

RESULTS OF OPERATIONS FOR THE TWENTY-SIX WEEKS ENDED JANUARY 27, 2001 COMPARED WITH THE TWENTY-SIX WEEKS ENDED JANUARY 29, 2000

Revenues in the twenty-six weeks ended January 27, 2001 increased $94.1 million or 6.1% over revenues in the twenty-six weeks ended January 29, 2000. The increase in revenues was primarily attributable to overall comparable sales growth of 5.5%. Specialty retail store revenues in the twenty-six weeks ended January 27, 2001 increased $62.2 million or 4.7% over the prior year. Direct marketing revenues in the twenty-six weeks ended January 27, 2001 increased $17.8 million or 8.9% over the prior year.

Cost of goods sold including buying and occupancy costs increased $56.8 million or 5.6% to $1.1 billion compared to the same period last year, primarily due to increased sales. As a percentage of revenues, cost of goods sold decreased to 64.8% from 65.0% in the prior year, due primarily to overall higher markups on goods sold.

Selling, general and administrative expenses increased $27.4 million or 7.0% to

$416.2 million. As a percentage of revenues, selling, general and administrative expenses increased to 25.4% from 25.1% in the prior year. This increase is primarily attributable to expenses incurred in expanding the Brand Development initiative and to a lesser extent, higher selling and sales promotion expenses.

Interest expense decreased 34.7% to $8.4 million in the twenty-six weeks ended January 27, 2001 from $12.8 million in the prior year. The decrease resulted primarily from lower average outstanding borrowings during the period as well as lower interest rates.

On November 14, 2000, Harcourt General notified the Company of the termination, effective May 14, 2001, of the Amended and Restated Intercompany Services Agreement. Under the agreement, Harcourt General provides certain management, accounting, financial, legal, tax and other corporate services to the Company. The Company is in the process of establishing these functions internally. 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 JANUARY 27, 2001 COMPARED WITH THE THIRTEEN WEEKS ENDED JANUARY 29, 2000

Revenues in the thirteen weeks ended January 27, 2001 increased $22.8 million or 2.6% over revenues in the thirteen weeks ended January 29, 2000. The increase in revenues was primarily attributable to comparable sales growth of 9.1% at NM Direct as well as higher sales from the Brand Development Initiative, which includes the Kate Spade and Laura Mercier brands. Specialty retail store revenues in the thirteen weeks ended January 27, 2001 increased $4.2 million or 0.6% over the prior year. Direct marketing revenues in the thirteen weeks ended January 27, 2001 increased $10.5 million or 9.1% over the prior year.

Costs of goods sold including buying and occupancy costs increased $24.3 million to $613.7 million in the thirteen week period ended January 27, 2001 compared to the same period last year, primarily due to increased sales and markdowns. As a percentage of revenues, cost of goods sold increased to 68.1% from 67.1% in the prior year, primarily due to higher markdowns.

Selling, general and administrative expenses increased 1.5% to $213.1 million from $209.9 million in the prior year, primarily due to higher sales volume. As a percentage of revenues, selling, general and administrative expenses decreased to 23.7% from 23.9% from the prior year. The prior year amounts included significantly higher performance-based compensation expenses.

Interest expense decreased 32.2% to $4.1 million in the thirteen weeks ended January 27, 2001. The decrease resulted primarily from lower average outstanding borrowings during the period.

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 twenty-six weeks ended January 27, 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 $157.8 million during the first twenty-six weeks of fiscal 2001 compared to $182.5 million in the same period last year. The primary items affecting working capital in 2001 were increases in merchandise inventories of $35.7 million and accounts payable and accrued liabilities of $61.7 million. The increases in inventories and accounts payable are primarily due to earlier receipts of spring merchandise and the new Palm Beach store, as well as lower than planned sales in the period.

Capital expenditures were $50.1 million during the twenty-six week period ended January 27, 2001 as compared to $42.8 million in the prior year period. Capital expenditures were primarily related to new store openings and major remodels. Capital expenditures are expected to approximate $150.0 million during fiscal 2001.

The Company decreased its bank borrowing by $80.0 million since July 29, 2000. At January 27, 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.

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

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

The Annual Meeting of Stockholders was held on January 19, 2001. The following matters were voted upon at the meeting:

1. Election of two Class I directors.

Richard A. Smith (Class B)	Robert A. Smith (Class B)

For	14,237,924	For	14,232,220
Withheld	240,791	Withheld	246,495

2. Ratification of the appointment by the Board of Directors of Deloitte & Touche LLP as the Company's independent auditors for the 2001 fiscal year.

For	38,602,912
Against	57,577
Abstain	218,391

3. Stockholder proposal concerning cumulative voting in the election of directors.

For	11,369,826
Against	24,030,935
Abstain	328,309
Non-voting	3,155,063

THE NEIMAN MARCUS GROUP, INC.

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

(a) EXHIBITS.

None.

(b) REPORTS ON FORM 8-K.

On November 20, 2000, the Company filed a report on Form 8-K reporting that Harcourt General, Inc. had notified the Company of the termination of the Amended and Restated Intercompany Services Agreement effective May 14, 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	March 12, 2001
/s/ John R. Cook ------------------------- John R. Cook		
Principal Accounting Officer:	Vice President and Controller	March 12, 2001
/s/ Catherine N. Janowski ------------------------- Catherine N. Janowski		