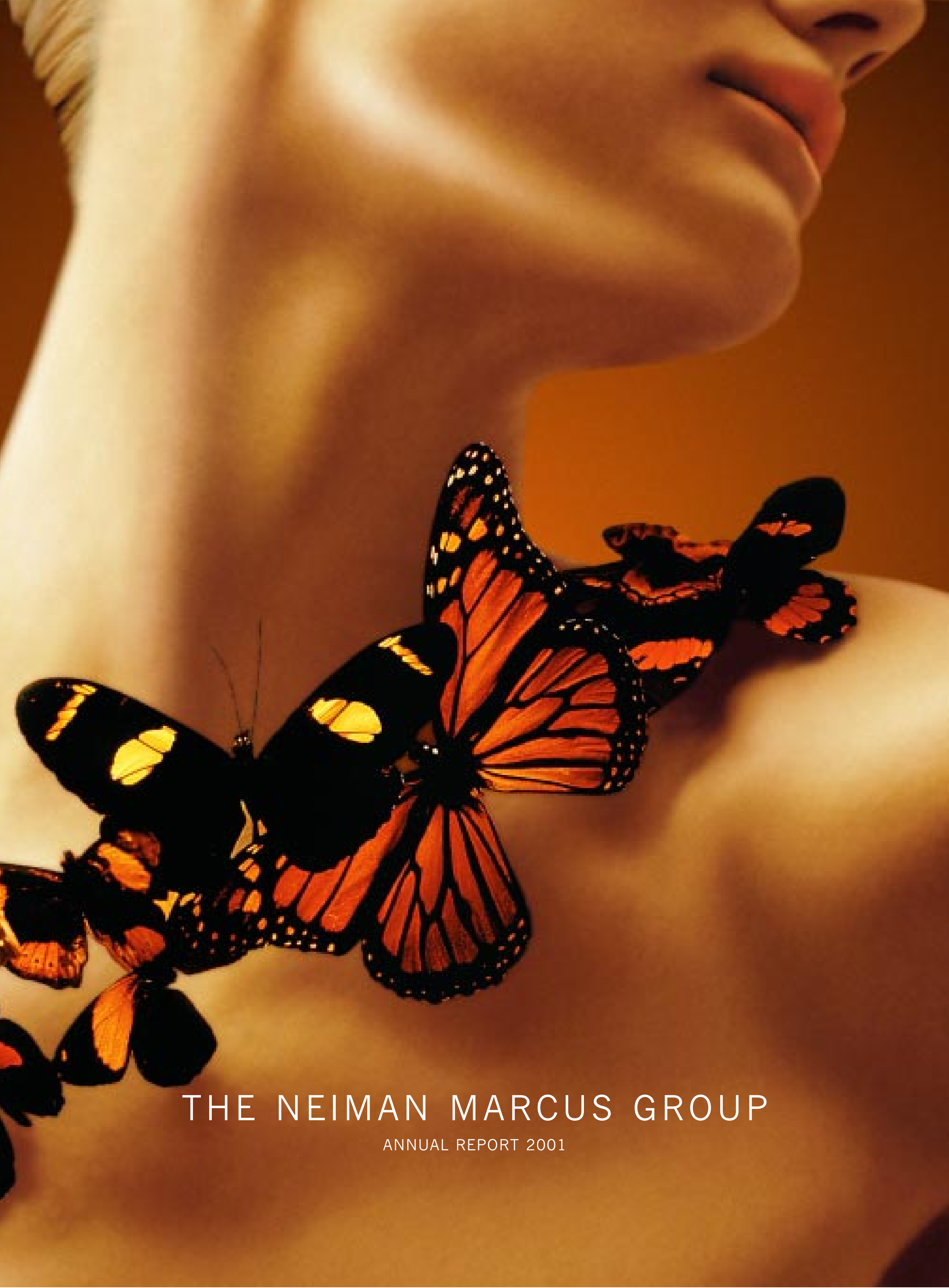


THE NEIMAN MARCUS GROUP

ANNUAL REPORT 2001

THE NEIMAN MARCUS GROUP
AT A GLANCE

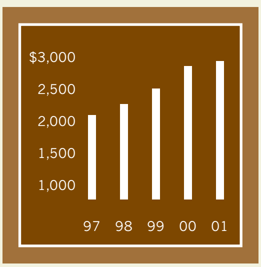
RESULTS FROM OPERATIONS

(in millions, except for per share amounts)	August 2, 1997	August 1, 1998	July 31, 1999[2]	July 29, 2000[2]	July 28, 2001	5-Year Average Compound Annual Growth Rate
Revenues	$2,180.6	$2,337.7	$2,580.4	$2,926.4	$3,015.5	8.1%
Operating earnings	$ 182.5	$ 198.6	$ 182.6	$ 248.4	$ 193.6	4.0%
Diluted earnings per share applicable to common shareholders[1]	$ 1.82	$ 2.12	$ 1.93	$ 2.75	$ 2.26	12.6%

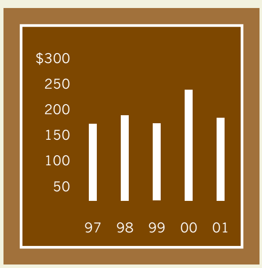
(1) Before loss on redemption of preferred stock of $.48 per share in fiscal 1997.

(2) Revenues reflect reclassifications to include shipping and handling revenues consistent with current presentation.

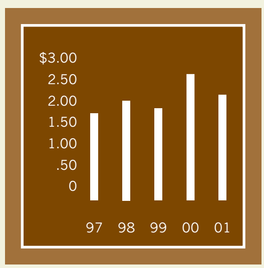
REVENUES
in millions



OPERATING EARNINGS
in millions

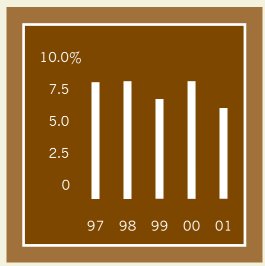


DILUTED EARNINGS PER SHARE*



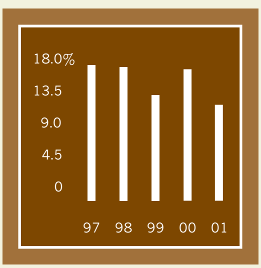
*Before loss on redemption of preferred stock of $.48 per share in fiscal 1997.

OPERATING PROFIT MARGIN*



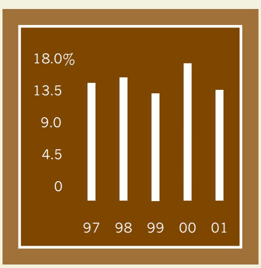
*Operating earnings divided by revenues.

RETURN ON AVERAGE EQUITY*



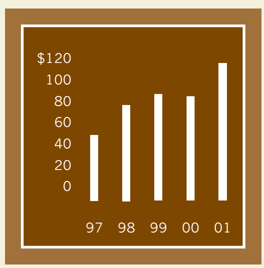
*Net earnings divided by average shareholders' equity.

RETURN ON NET ASSETS*

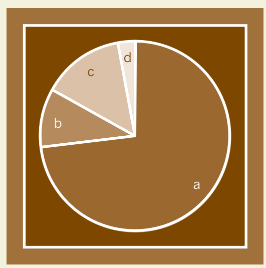


*Operating earnings divided by average total assets (each adjusted for operating leases) less average current liabilities.

CAPITAL EXPENDITURES
in millions



2001 REVENUE BREAKDOWN



a. Neiman Marcus Stores
b. Bergdorf Goodman
c. Neiman Marcus Direct
d. Other

DEAR SHAREHOLDER,

Fiscal 2001 was a challenging year for The Neiman Marcus Group. Despite disappointing financial results, however, we believe we made important strategic gains that position our Company for continuing success in the future.

After a record fiscal 2000, the Company achieved a fifth quarter of double-digit revenue growth in the first quarter of fiscal 2001. As the year unfolded, however, a slowing U.S. economy and uncertainty about the direction of financial markets eroded consumer confidence, and our results fell below expectations. Even in this environment, however, and against last year's tough comparison, we achieved a respectable 3 percent growth in sales in fiscal 2001. This performance reinforces our belief that we continue to increase our share of the luxury retail market — in good times and bad.

We remain confident in our long-term strategy for creating shareholder value. No one connects with the affluent consumer like we do. By maintaining an unwavering focus on this consumer, we will extend our leadership position as the premier U.S. retailer of luxury goods.

BUILDING VALUE OVER TIME

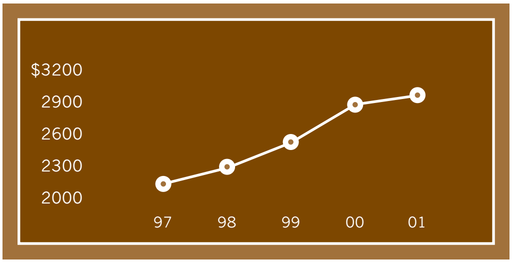
This focus has resulted in an enviable track record despite economic ups and downs. Over the last five years, the Company has recorded average compounded annual growth rates of 8.1 percent in revenues, 4.0 percent in operating earnings, and 12.6 percent in diluted earnings per share.

During this time, we have built even stronger relationships with key designers; developed and deepened customer relationships; and invested in new square footage, new retail channels, and exciting new brands to grow our business. We are confident that over the long term this focus will continue to reward our shareholders.

RECORD REVENUES OF $3 BILLION

In fiscal 2001, total revenues rose 3 percent to a record $3.02 billion. Comparable revenues rose 2.3 percent. However, operating earnings declined 22 percent to $193.6 million, and net earnings were $107.5 million, or $2.26 per diluted share, compared with $134.0 million or $2.75 per diluted share a year ago. Excluding the impact of a non-recurring impairment charge taken in the fourth quarter, operating earnings were $203.4 million and net earnings were $113.5 million, or $2.39 per diluted share.

TOTAL REVENUES
in millions



CAGR: 8.1%

Lower-than-planned sales growth for the full year resulted in higher markdown rates necessary to clear excess inventory, which also resulted in lower operating margins and net earnings.

Specialty Retail Stores revenues, which include results at Neiman Marcus Stores and Bergdorf Goodman, rose 2 percent to $2.5 billion. Neiman Marcus Stores revenues rose 1.5 percent to $2.2 billion, and Bergdorf Goodman revenues rose 4.9 percent to $303 million. Operating earnings in the segment declined 19.1 percent to $201 million, reflecting lower gross margins on higher inventory markdowns compared to the prior year.

Revenues in our direct marketing segment, Neiman Marcus Direct, rose 6 percent to $424 million. Operating earnings declined slightly to $24 million due to lower gross margins than the prior year.

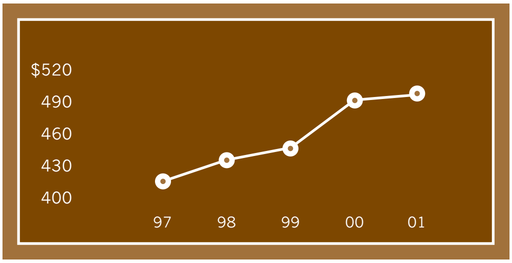
E-commerce revenues exceeded last year by more than 300 percent, as we continued to broaden our online assortments, build out our infrastructure, and expand our customer base in this new channel.

Revenues from the Kate Spade and Laura Mercier brands rose 16.2 percent compared to last year, with lower operating earnings due to investments in the business, including opening new stores.

MANAGING IN A DIFFICULT ENVIRONMENT

While we did not change our long-term strategies during fiscal 2001, we did reduce budgeted expenses and managed the business for future profitable growth without impacting service to our customers. As a result, we made organizational changes and reduced staff; however, we retained our sales and telemarketing associates to fulfill customer expectations. And we believe it paid off. For example, Neiman Marcus Stores increased the sales penetration rate of its proprietary credit card during the year. Also, Specialty Retail Store productivity continued to rise in fiscal 2001, as sales per gross square foot reached an industry-leading $502.

SPECIALTY STORE SALES PER GROSS SQUARE FOOT



CAGR: 4.13%

Finally, we worked in close partnership with vendors to reduce our receipts and merchandise ownership, and bring our inventory in line by the end of the fiscal year.

MOVING FORWARD WITH A FOCUSED STRATEGY

While fiscal 2001 was a difficult environment, fiscal 2002 presents even greater challenges. On September 11, the United States was struck by acts of terrorism on a scale unimagined. This tragedy has profoundly affected all of us. The losses sustained were significant, and we extend our deepest sympathy to the victims and their families.

Given the uncertain worldwide economic and political consequences of this event, we remain very cautious about our prospects for fiscal 2002. Like many businesses affected by this tragedy, we are in the process of adjusting our purchases, examining our marketing activities, reviewing our expense structure, and reconsidering our capital expenditure plans.

At the same time, we are optimistic about our prospects for long-term success. Our long-term revenue growth assumptions are based on more normalized mid-single-digit comparable revenue increases coupled with continuing square footage expansion in new markets, as well as at our most productive existing locations.

The key drivers of our earnings performance over the next few years will be:

- average comparable revenue growth of 4 percent to 6 percent per year,
- improvement in gross margin rate,
- reduction in SG&A expense rate,
- ongoing improvement in the productivity of our asset base, and
- average annual square footage growth of approximately 3 percent.

Our long-term financial goals are to generate high single-digit growth in revenues, low double-digit operating earnings growth, mid-teens percentage growth in earnings per share, and improving returns on invested capital. We continue to believe that these long-term goals are attainable.

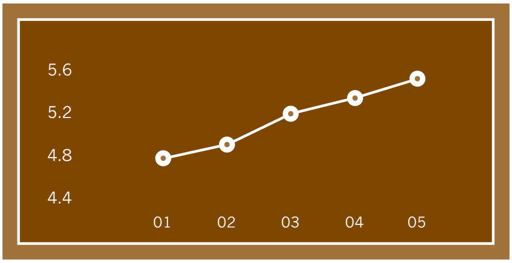
In addition, the Company maintains a strong balance sheet, with the flexibility to invest in its business, in new brands, and in share repurchases when appropriate. Perhaps most importantly, we are positioned to sustain our strategies throughout the retail cycle.

INVESTING IN OUR FUTURE

There are significant long-term value creation opportunities in our operating businesses, and we are committed to exploiting those by disciplined reinvestment in our stores, infrastructure and systems.

Capital expenditures in fiscal 2001 were $120 million, bringing the total for the past five years to over $430 million. Our current fiscal 2002 capital plan of approximately $140 to $150 million includes new stores and major remodeling projects.

PLANNED SPECIALTY STORE SQUARE FOOTAGE GROWTH
in millions



CAGR: 3.13%

In fiscal 2001, we opened the Palm Beach Neiman Marcus store, the first of four Florida stores planned to open over the next two years. In the first quarter of fiscal 2002 we opened a new store in Tampa, and a larger and more luxurious replacement store in suburban Dallas. From fiscal 2002 through fiscal 2005, the Company plans to add 744,000 gross square feet of retail space in six full-line stores and three major remodels. These projects will increase our total retail space to more than five million gross square feet in 37 full-line Neiman Marcus stores and two Bergdorf Goodman stores. And we continue to look at new markets.

Looking ahead, we see positive long-term demographic and economic trends in the luxury retail market segment. We expect to capitalize on these positive trends by attracting new customers as we increase our business with current customers.

We believe we have the team and strategies in place to generate significant growth in earnings per share in the years ahead. A seasoned management team and a skilled merchant and operations organization support thousands of entrepreneurial sales associates in satisfying our customers.

Our growth strategies, which are depicted on the following pages, are premised on our belief that no other retailer connects with the affluent consumer like we do, through:

- well-edited assortments of the finest merchandise,
- complemented by customer service that meets and even anticipates needs,
- supported by creative, value-added marketing and relationship building,
- presented in an elegant shopping atmosphere, and
- enhanced by exciting new brands and expanding channels.

MANAGEMENT LEADERSHIP

Fiscal 2001 marked an important management transition that provided continuity in leadership at the Board level while maintaining a consistent strategic and operating philosophy. In May 2001 Burton M. Tansky was promoted to president and chief executive officer,

RICHARD A. SMITH
CHAIRMAN

ROBERT A. SMITH
VICE CHAIRMAN

BRIAN J. KNEZ
VICE CHAIRMAN

BURTON M. TANSKY
PRESIDENT AND CHIEF EXECUTIVE OFFICER

succeeding Robert A. Smith and Brian J. Knez, who were elevated to vice chairmen of the Board. Dr. Paula Stern and Burton Tansky also joined the Board.

This seamless management transition followed the termination of the Company's management services agreement with Harcourt General, Inc. At the same time, the corporate headquarters moved to Dallas, the birthplace of the Company. With that step, The Neiman Marcus Group has come home with a sense of historic responsibility for providing superior products and service, and a roadmap for building the long-term value of this franchise.

On behalf of our board of directors, we extend our sincere appreciation to you, our shareholders, for your continued support.

SINCERELY,

Richard A. Smith
Chairman

Burton M. Tansky
President and Chief Executive Officer

Robert A. Smith
Vice Chairman

Brian J. Knez
Vice Chairman

THE NEIMAN MARCUS GROUP

STORE LOCATIONS IN FISCAL 2001

NEIMAN MARCUS STORES

Locations	Year Operations Began	Gross Store Sq. Feet
Dallas (Downtown)	1907	269,000
Dallas (NorthPark)	1965	218,000
Houston (Galleria)	1969	224,000
Bal Harbour, Florida	1971	97,000
Atlanta	1972	154,000
St. Louis	1974	145,000
Northbrook, Illinois	1976	144,000
Fort Worth	1977	119,000
Washington, D.C.	1977	130,000
Newport Beach, California	1978	124,000
Beverly Hills	1979	185,000
Dallas (Prestonwood)	1979	123,000
Westchester, New York	1980	138,000
Las Vegas	1981	103,000
Oak Brook, Illinois	1981	119,000
San Diego	1981	106,000
Fort Lauderdale	1982	94,000
San Francisco	1982	195,000
Houston (Town & Country)	1983	142,000
Chicago (Michigan Avenue)	1983	188,000
Boston	1984	111,000
Palo Alto, California	1985	120,000
McLean, Virginia	1989	130,000
Denver	1990	90,000
Minneapolis	1991	119,000
Scottsdale, Arizona	1991	118,000
Troy, Michigan	1992	157,000
Short Hills, New Jersey	1995	138,000
King of Prussia, Pennsylvania	1996	142,000
Paramus, New Jersey	1996	141,000
Honolulu, Hawaii	1998	179,000
Palm Beach, Florida	2000	53,000
Clearance Centers (11)		257,000
Total		**4,772,000**

BERGDORF GOODMAN

New York City	1901	250,000
New York City (Men)	1990	66,000
Total		**316,000**

THE GALLERIES OF NEIMAN MARCUS

Cleveland, Ohio	1998	9,000
Phoenix, Arizona	1998	12,000
Seattle, Washington	1999	12,000
Total		**33,000**

PLANNED NEIMAN MARCUS STORES

Locations	Planned Opening Date	Gross Store Sq. Feet
Plano, Texas*	2001	150,000
Tampa, Florida	2001	96,000
Coral Gables, Florida	2002	135,000
Orlando, Florida	2002	96,000
San Antonio, Texas	2004	120,000
Atlanta, Georgia	2005	120,000
Total		**717,000**

* Replacement store

REVENUES AND OPERATING EARNINGS SEGMENT INFORMATION*

SPECIALTY RETAIL STORES

(in millions)	Revenues	Operating Earnings
Fiscal Year 97	$1,921.2	$171.4
Fiscal Year 98	$2,053.9	$197.6
Fiscal Year 99	$2,202.4	$180.2
Fiscal Year 00	$2,458.1	$248.5
Fiscal Year 01	$2,504.8	$201.0

DIRECT MARKETING

(in millions)	Revenues	Operating Earnings
Fiscal Year 97	$259.4	$25.5
Fiscal Year 98	$283.8	$15.6
Fiscal Year 99	$355.8	$14.5
Fiscal Year 00	$402.1	$24.4
Fiscal Year 01	$424.4	$24.0

* Prior years have been reclassified. See Note 1 to the Consolidated Financial Statements.

NO ONE CONNECTS WITH THE DESIRES OR ASPIRATIONS OF AFFLUENT CONSUMERS LIKE THE NEIMAN MARCUS GROUP.

BY STRENGTHENING OUR LEADERSHIP POSITION IN THIS EXPANDING MARKET, WE ARE CREATING A FOUNDATION FOR LONG-TERM GROWTH.

ONLY THE BEST OF THE BEST

WE DON'T JUST SELECT THE BEST BRANDS. WE SELECT THE BEST OF THE BEST BRANDS.

The Neiman Marcus Group is the source for the finest brands of apparel and luxury goods in the world. We continue to "trade up" our merchandise to the highest levels of quality, and to shift our product mix toward narrowly distributed brands. In addition, our merchants edit the merchandise from well-known and emerging designers to provide the best assortment for our customers.

Affluent consumers have come to rely on us for selecting only "the best of the best brands." When they visit our stores and browse our catalogues and web site, they find the best and most exclusive brands. Our assortments reflect our customers' point of view and help them make the most positive, distinctive statement about their lifestyles.

The expertise of our merchants and the strength of our relationships with designers have enabled us to build a reputation as the fashion authority — not only by responding to emerging trends but by helping to create and drive them.

1

RELATIONSHIPS

YOU WON'T FIND STRONGER OR MORE LOYAL CUSTOMER RELATIONSHIPS.

Distinctive merchandise is only half of The Neiman Marcus Group equation. Our customers know us for equally distinctive service.

Through highly selective hiring and continuous training, we've built a team of sales associates who understand the requirements of affluent consumers. By meeting and even anticipating their customers' needs, our sales associates provide a customer experience that we believe is unequaled in our industry.

Want to know what's new before it appears in the magazines? One of our sales associates will keep you ahead of the curve. A fashion emergency while traveling? Relax. We will solve your problem and send the solution to your destination. A birthday coming up or a need-it-now "thank you" for a business partner? We have the perfect gift, and it will be wrapped for you and delivered on time.

We are trusted consultants to our customers, helping them make the right choices for their lifestyle needs. It's a very personalized service. And it has earned us the lifetime business of many of the best customers in the world.

CONNECTING WITH THE IN CROWD

WE KNOW WHAT IT TAKES TO ATTRACT AND INSPIRE THE AFFLUENT CONSUMER.

The base of affluent consumers continues to grow — fueled by favorable demographics — but so do the marketers vying for their attention. Winning the hearts of these desirable customers requires equal parts art and science. It is a formula that The Neiman Marcus Group has perfected over time.

In many households, the Bergdorf Goodman magazine and "The Book" and catalogues from Neiman Marcus share equal prominence with leading fashion magazines. Although our marketing approach has been imitated, the fresh and contemporary attitude in our publications is distinctive, and we are widely perceived as trend and style advisors.

The rewards programs of Neiman Marcus and Bergdorf Goodman continue to build loyalty and provide added value to our customers. Membership in both programs has grown, and the number of Platinum members in the Neiman Marcus InCircle program increased by double digits in the last calendar year.

Finally, we tailor promotions to customer segments based on their preferences and buying patterns. Fully rolled out in fiscal 2001, our continuous relationship marketing program has had an immediate pay-off by increasing the number of store trips, categories shopped and items purchased by our customers.

LUXURY BY THE SQ. FOOT

THROUGH REMODELING AND EXPANSION, WE'RE DESIGNING OUR STORES AROUND THE NEEDS OF THE AFFLUENT CONSUMER.

12 x 12

Going to a Neiman Marcus or Bergdorf Goodman store is a memorable shopping experience. The décor is sophisticated, and designer merchandise is showcased rather than shoehorned.

Although we have geographic diversity in attractive markets, we continue to look at new markets. Through remodeling and new store openings, we are planning a three percent average annual square footage increase over the next four years. These plans include conveniently located new Neiman Marcus stores in Florida, Texas, and Georgia, and remodels in Las Vegas, Newport Beach, San Francisco, and at Bergdorf Goodman in New York.

Through an aggressive remodeling program, we continue to upgrade and expand our stores. Remodeling is a low-risk, high-return investment strategy, and major remodels are planned in productive markets in the next three years. Our goal is to improve merchandise adjacencies by adding square footage, continuously enhancing customer satisfaction, and lifting total store productivity.

The strategy is working. In 2001, sales per square foot at our 32 full-line Neiman Marcus and two Bergdorf Goodman stores rose to an industry-leading $502.

EXPANDING OUR REACH

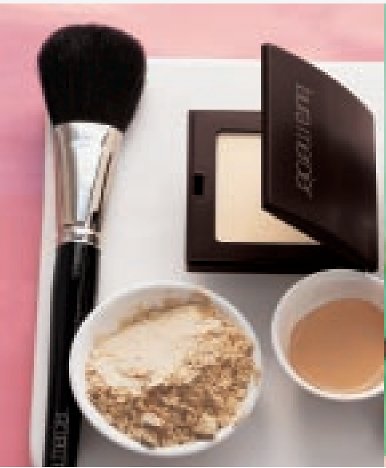
BY REACHING OUT TO CONSUMERS IN NEW WAYS, WE'RE MULTIPLYING THE POWER OF OUR BRANDS.

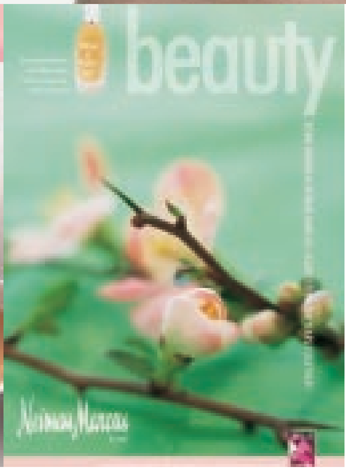
While The Neiman Marcus Group is best known for our leading retail stores, we also continue to invest in and expand our direct-marketing and e-commerce businesses.

We believe this luxury-focused, multi-channel marketing strategy will enable us to strengthen existing customer relationships, attract new customers, and drive future growth.

A key goal in fiscal 2001 was to coordinate the efforts of our three distribution channels and create a single brand experience. For example, we have more closely aligned the merchandising strategies of our stores and direct-marketing channel, increasing the effectiveness of both efforts. Catalogue and online merchandise complements current Neiman Marcus store offerings, helping to drive both retail traffic and direct marketing sales.

We have also expanded our reach to affluent consumers by purchasing majority stakes in the Laura Mercier *(cosmetics)* and Kate Spade *(handbags and accessories)* brands. These exciting brands performed well across channels in 2001.




beauty
Neiman Marcus


Neiman Marcus
Laura Mercier
laura mercier

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW The Neiman Marcus Group, Inc., together with its operating divisions and subsidiaries (the Company), is a high-end specialty retailer. The Company's operations include the Specialty Retail Stores segment, which consists of Neiman Marcus and Bergdorf Goodman stores, and the Direct Marketing segment, which conducts operations through Neiman Marcus Direct.

Approximately 83% of the Company's revenues are generated by its Specialty Retail Stores, with the balance generated primarily by Neiman Marcus Direct. Revenue growth over the last three fiscal years at Specialty Retail Stores can be attributed principally to increases in overall comparable store revenues and new store openings. The Company opened new stores in Palm Beach, Florida in November 2000 and in Tampa, Florida in September 2001 and opened a replacement store in Plano, Texas in August 2001. The Company currently plans to open four new Neiman Marcus stores over the next three fiscal years. In fiscal year 2001, average store revenues per gross square foot reached a record high of $502, representing an increase of 11.1% compared to fiscal year 1999. The Company has consistently focused on renovating and modernizing its stores to improve productivity. The Company's strategy is to improve average transaction amounts and comparable revenue growth with carefully edited assortments and marketing and customer loyalty programs that are designed to increase its customers' awareness of merchandise offerings in the store.

Launched in fiscal year 1999, the Company's brand development initiative is designed to create shareholder value by investing in designer resources that serve affluent customers. In February 1999, the Company acquired a 56% interest in Kate Spade LLC, a manufacturer of high-end designer handbags and accessories, for $33.6 million. In November 1998, the Company acquired a 51% interest in Gurwitch Bristow Products LLC, which manufactures and markets the Laura Mercier cosmetic lines, for $6.7 million.

Set forth in the following table is certain summary information with respect to the Company's operations for the most recent three fiscal years.

OPERATING RESULTS

	Years Ended		
(dollars in millions)	July 28, 2001	July 29, 2000	July 31, 1999
REVENUES[1]			
Specialty Retail Stores	$2,504.8	$2,458.1	$2,202.4
Direct Marketing	424.4	402.1	355.8
Other[2]	86.3	66.2	22.2
Total	$3,015.5	$2,926.4	$2,580.4
OPERATING EARNINGS			
Specialty Retail Stores	$ 201.0	$ 248.5	$ 180.2
Direct Marketing	24.0	24.4	14.5
Other[2]	(31.4)	(24.5)	(12.1)
Total	$ 193.6	$ 248.4	$ 182.6
OPERATING PROFIT MARGIN			
Specialty Retail Stores	8.0%	10.1%	8.2%
Direct Marketing	5.7%	6.1%	4.1%
Total	6.4%	8.5%	7.1%

(1) Prior year revenue amounts have been reclassified to comply with the Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs." As reclassified from selling, general and administrative expenses, shipping and handling revenues are included in revenues and the related costs are included in cost of goods sold. Such reclassifications had no impact on previously reported operating earnings, net earnings, shareholders' equity or cash flows.

(2) Other includes the operations of Kate Spade LLC and Gurwitch Bristow Products LLC, on-line operations of NeimanMarcus.com and corporate expenses. In fiscal year 2001, other operating earnings include a $9.8 million impairment charge of the Company's investment in a third-party internet retailer.

FISCAL YEAR 2001 COMPARED TO FISCAL YEAR 2000 *Revenues.* Revenues in fiscal year 2001 increased $89.2 million to $3.02 billion from $2.93 billion in fiscal year 2000. The 3.0% increase was primarily attributable to increased comparable revenues and revenue generated by one new store added during the fiscal year. The Company believes that its sales growth continues to be influenced by the execution of its merchandising, marketing and store operation strategies of carefully edited product assortments and marketing and customer loyalty programs to increase customers' awareness of merchandise offerings in its stores. Comparable revenues for fiscal year 2001 increased 1.2% for Specialty Retail Stores and 5.9% for Direct Marketing.

The Company began to experience a decline in its comparable revenues beginning in the second quarter of fiscal year 2001. Comparable revenues increased by 10.4% in the first quarter, increased by 1.7% in the second quarter, decreased by 1.4% in the third quarter and decreased by 1.5% in the fourth quarter. The Company believes the comparable revenue decreases were due primarily to economic conditions and a general softening in the retail industry.

Cost of goods sold including buying and occupancy costs. Cost of goods sold including buying and occupancy costs, as a percentage of revenues, was 67.0% for fiscal year 2001 compared to 65.6% for fiscal year 2000. The increase in cost of goods sold including buying and occupancy costs as a percentage of revenues was primarily due to higher inventory markdowns taken in the fourth quarter of fiscal year 2001 as a result of a general decline in retail sales.

Selling, general and administrative expenses. As a percentage of revenues, selling, general and administrative expenses increased to 26.2% for fiscal year 2001 from 26.0% for fiscal year 2000. The increase in selling, general and administrative expenses as a percentage of revenues was primarily the result of higher marketing costs associated with the selling of markdown inventories, transition costs of approximately $3 million related to the corporate headquarters relocation from Chestnut Hill, Massachusetts to Dallas, Texas and the deleveraging of the fixed cost component of selling, general and administrative expenses on lower sales in the third and fourth quarters of fiscal 2001. These increases were partially offset by lower incentive compensation in fiscal year 2001 and lower costs incurred in connection with the Company's on-line operations conducted by NeimanMarcus.com. NeimanMarcus.com was launched in October 1999.

Impairment of investment in third-party internet retailer. During the fourth quarter of fiscal 2001, the Company recorded an impairment charge of $9.8 million, which represents the Company's adjustment to state the carrying value of its cost method investment in WeddingChannel.com, Inc. at its estimated fair value. WeddingChannel.com, Inc. is a bridal registry service that supports the Company's strategic initiative to expand its gift business. At July 28, 2001, the carrying value of the Company's investment in WeddingChannel.com, Inc. was approximately $3 million.

Operating earnings. Operating earnings were $193.6 million for fiscal year 2001 compared to $248.4 million for fiscal year 2000. Operating earnings for Specialty Retail Stores were $201.0 million in fiscal year 2001 compared to $248.5 million in fiscal year 2000. This decrease in operating earnings for Specialty Retail Stores was primarily due to higher inventory markdowns at both Neiman Marcus and Bergdorf Goodman in fiscal year 2001. Operating earnings for Direct Marketing were $24.0 million in fiscal year 2001 compared to $24.4 million in fiscal year 2000.

Interest expense. Interest expense was $15.2 million for fiscal year 2001 compared to $25.4 million for fiscal year 2000. The decrease of $10.2 million is principally due to lower average borrowings and reduced interest rates. In the prior year, the Company had higher average borrowings which resulted primarily from borrowings incurred to repay the Company's securitization upon maturities during the second half of fiscal year 2000.

Income taxes. The Company's effective income tax rate was 38% in both fiscal year 2001 and fiscal year 2000.

FISCAL YEAR 2000 COMPARED TO FISCAL YEAR 1999 *Revenues.* Revenues in fiscal year 2000 increased $345.9 million to $2.93 billion from $2.58 billion in fiscal year 1999. The 13.4% increase was primarily attributable to higher overall comparable revenues. Total comparable revenues increased 11.8%. Comparable revenues increased 10.4% at Neiman Marcus stores, 14.6% at Bergdorf Goodman stores, and 13.1% at Neiman Marcus Direct.

Cost of goods sold including buying and occupancy costs. Cost of goods sold including buying and occupancy costs increased 9.7% to $1.92 billion in fiscal year 2000 from $1.75 billion in fiscal year 1999, primarily due to increased revenues. As a percentage of revenues, cost of goods sold was 65.6% in fiscal year 2000 compared to 67.8% in fiscal year 1999. The proportionate decrease in fiscal year 2000 resulted primarily from higher gross margins at both Neiman Marcus stores and Bergdorf Goodman stores in comparison to the prior year, principally as a result of lower markdowns and, to a lesser extent, higher gross margins at Neiman Marcus Direct.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 17.1% in fiscal year 2000 to $759.7 million from $649.0 million in fiscal year 1999. As a percentage of revenues, selling, general and administrative expenses increased to 26.0% in fiscal year 2000 from 25.2% in fiscal year 1999. The proportionate increase in fiscal year 2000 was primarily due to approximately $24.0 million of costs incurred to launch the Company's e-commerce initiative.

Operating earnings. Operating earnings increased by 36.0% to $248.4 million from $182.6 million in the prior year. This increase was attributable to higher revenues and higher gross margins.

Interest expense. Interest expense increased 1.6% in fiscal year 2000 to $25.4 million from $25.0 million in the prior year. The increase resulted from higher average borrowings which resulted primarily from borrowings incurred to repay the Company's securitization upon maturities during the second half of fiscal year 2000.

Income taxes. The Company's effective income tax rate was 38% in fiscal year 2000 compared to 39% in fiscal year 1999.

RECENT DEVELOPMENTS Comparable revenues decreased by 0.8% in August 2001 and by 19.5% in September 2001. The Company believes comparable revenues in September 2001 were negatively impacted by a pronounced decrease in consumer spending that occurred subsequent to the September 11, 2001 terrorist attacks in the United States of America. In the first two weeks of the September 2001 period, comparable revenues averaged a mid single-digit percent decline as the Company cycled against a double-digit percent increase a year ago. In the three weeks that included and followed September 11, 2001, comparable revenues declined by an average of approximately 25 percent, with some improvement at the end of the period. Sales were soft across all regions, particularly at Manhattan-based Bergdorf Goodman. There can be no assurances that the decreases in sales subsequent to September 11, 2001 will not continue for the remainder of fiscal year 2002 and beyond. Further, the Company's ability to mitigate the impacts of declines in sales in the short-term is negatively impacted by several factors, including but not limited to, the time interval between the ordering and delivery of the Company's seasonal merchandise and the advance production requirements associated with the Company's catalogues. These factors could result in, among other things, a higher level of inventory markdowns being required in the remainder of fiscal 2002 to liquidate fall-season merchandise, both goods currently on-hand as well as goods yet to be delivered, and spring-season merchandise previously ordered pursuant to noncancelable purchase commitments. The Company believes that declines in sales levels will have a negative impact on the Company's earnings and cash flows from operations for fiscal year 2002. The Company is currently reviewing its expense structure, anticipated capital expenditure requirements and inventory purchase commitments in light of current and anticipated sales levels for the remainder of fiscal year 2002. However, the Company is currently unable to quantify the impact of the decreases in sales to date, the impact of future decreases in sales, if any, for the remainder of fiscal 2002 or the impact of other actions the Company may take in response to declines in sales on its earnings, cash flows or liquidity for the remainder of fiscal year 2002.

QUARTERLY DATA AND SEASONALITY The specialty retail industry is seasonal in nature and a disproportionately higher level of the Company's revenues and earnings are generated in the fall and holiday selling seasons. The Company's working capital requirements and inventories increase substantially in the first quarter in anticipation of the holiday selling season.

LIQUIDITY AND CAPITAL RESOURCES The Company's cash requirements consist principally of funding inventory growth, capital expenditures for new store growth and renovations, upgrading its management information systems and debt service. As of July 28, 2001, the Company had cash and equivalents of $97.3 million. The Company's working capital requirements fluctuate during the year, increasing substantially during the fall season as a result of higher planned seasonal inventory levels.

Net cash provided by operating activities was $131.9 million for fiscal year 2001 and $255.1 million for fiscal year 2000. The net cash provided by operating activities in fiscal year 2001 decreased from the prior year primarily due to the decrease in operating earnings and higher cash requirements related to the procurement of merchandise inventories in fiscal 2001. In fiscal year 2000, net cash provided by operating activities increased from fiscal year 1999 principally from an increase in net earnings and a higher than normal ratio of accounts payable to inventory at the end of fiscal year 2000. Merchandise inventories increased by $73.5 million from July 29, 2000 to July 28, 2001. This increase resulted primarily from new store growth, earlier receipt of new fall merchandise in fiscal year 2001 compared to fiscal year 2000 and planned inventory growth in certain merchandise categories such as cosmetics and jewelry.

Net cash used for investing activities was $129.1 million for fiscal year 2001 and $95.3 million for fiscal year 2000. The net cash used for investing activities increased from fiscal year 2000 to fiscal year 2001 principally as a result of increased capital expenditures. The net cash used for investing activities decreased from fiscal year 1999 to fiscal year 2000 principally as a result of decreased capital expenditures for fiscal year 2000 and net cash paid to acquire Kate Spade LLC and Gurwitch Bristow Products LLC in fiscal year 1999.

The Company's capital expenditures in fiscal year 2001 included costs related to the construction of new stores and the renovation of existing stores. Capital expenditures were $120.0 million in fiscal year 2001, $89.0 million in fiscal year 2000 and $91.0 million in fiscal year 1999. During fiscal years 2001, 2000 and 1999, the Company invested approximately $53.8 million in the aggregate to remodel its existing stores. In fiscal year 2001, major projects included store remodels in San Francisco, California; Las Vegas, Nevada; Fashion Island, California and Houston, Texas and the construction of a new store in Tampa Bay, Florida and a replacement store in Plano, Texas. The Company's original capital expenditures budget for fiscal year 2002 was approximately $140 million to $150 million. The Company is currently reviewing its capital expenditure requirements for the remainder of fiscal year 2002 in light of the sales declines that the Company has experienced subsequent to the events of September 11, 2001.

Net cash used for financing activities was $80.9 million in fiscal year 2001 and $13.5 million in fiscal year 2000. The net cash used for financing activities increased from fiscal year 2000 to fiscal year 2001 primarily as a result of the $80 million repayment of borrowings on the Company's revolving credit agreement in fiscal year 2001.

At July 28, 2001, the Company has an unsecured revolving credit facility with 21 banks, pursuant to which the Company may borrow up to $450 million. The rate of interest payable varies according to one of four pricing options selected by the Company. The facility, which expires in October 2002, may be terminated by the Company at any time on three business days' notice. The revolving credit facility contains covenants which require the Company to maintain certain leverage and fixed charge ratios. There were no borrowings outstanding under this facility at July 28, 2001. During September 2001, the Company borrowed $100 million under this facility to fund its seasonal working capital requirements.

Pursuant to a revolving credit card securitization program that expires in April 2008, the Company sold substantially all of the Company's credit card receivables through a subsidiary to the NMG Credit Card Master Trust in exchange for certificates representing undivided interests in such receivables. The Class A Certificates, which have an aggregate principal value of $225 million, were sold to investors.

In May 1998, the Company issued $250 million of unsecured senior notes and debentures to the public, the proceeds from which were used to repay borrowings outstanding on the Company's revolving credit facility. The debt is comprised of $125 million, 6.65% senior notes, due 2008 and $125 million, 7.125% senior debentures, due 2028. Interest on the securities is payable semiannually.

In April 2000, the Company's Board of Directors authorized the repurchase of an additional two million shares under the Company's stock repurchase program. At July 28, 2001, up to 1,924,600 shares may be repurchased by the Company pursuant to the prior authorization of the Board of Directors.

Management believes that operating cash flows, currently available vendor financing and amounts available pursuant to its $450 million revolving credit agreement and its outstanding accounts receivable securitization facility should be sufficient to fund the Company's operations, debt service and currently anticipated capital expenditure requirements through the end of fiscal year 2002.

IMPACT OF INFLATION The Company believes changes in revenues and net earnings that have resulted from inflation and changing prices have not been material during the periods presented. The Company adjusts selling prices to maintain certain profit levels and will continue to do so as economic conditions permit. There is no assurance, however, that inflation will not materially affect the Company in the future.

RECENT ACCOUNTING PRONOUNCEMENTS On June 30, 2001, the Financial Accounting Standards Board finalized and issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method and eliminates the pooling-of-interests method. SFAS No. 142, upon adoption, eliminates goodwill amortization and the amortization of certain other intangible assets. However, goodwill and other certain intangibles will be subject to at least an annual assessment for impairment by applying a fair-value based test. The provisions of SFAS No. 141 apply immediately to all acquisitions completed after June 30, 2001. Unless early adopted by the Company, the provisions of SFAS No. 142 require that goodwill and intangible assets with indefinite lives continue to be amortized until August 3, 2002. Effective August 4, 2002, such amortization will cease as the Company will be required to adopt the new rules on such date.

The Company has not yet determined the ultimate impact of the provisions of SFAS No. 142 on its consolidated financial statements or the period in which the standard will be adopted. Amortization of goodwill for fiscal year 2001 was $0.9 million.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK The market risk inherent in the Company's financial instruments represents the potential loss arising from adverse changes in interest rates and exchange rates. The Company does not enter into financial instruments for trading purposes.

At July 28, 2001 and July 29, 2000, the fair values of the Company's fixed-rate senior notes and debentures were $220.6 million and $215.2 million, respectively, based upon quoted market prices. Such fair values were less than the aggregate carrying values of the notes and debentures by $29.1 million at July 28, 2001 and $34.5 million at July 29, 2000. Market risk is estimated as the potential change in fair value resulting from a hypothetical 10% adverse change in interest rates and amounted to approximately $13.7 million at July 28, 2001.

The Company uses derivative financial instruments to manage foreign currency risk related to the procurement of foreign merchandise inventories. The Company enters into foreign currency contracts denominated in the Euro and British pound. The Company had foreign currency contracts in the form of forward exchange contracts in the amount of approximately $46.2 million as of July 28, 2001 and approximately $52.4 million as of July 29, 2000. The market risk inherent in these instruments was not material to the Company's financial condition, results of operations, or cash flows in either fiscal year 2001 or fiscal year 2000.

FORWARD-LOOKING STATEMENTS This report contains forward-looking statements, including statements regarding the Company's objectives and expectations regarding its merchandising and marketing strategies, store renovation and expansion plans, inventory performance, capital expenditures, liquidity, development of its management information systems and productivity and profitability that are based upon management's beliefs as well as on assumptions made by and data currently available to management. These forward-looking statements are not guarantees of future performance and a variety of factors could cause the Company's actual results to differ materially from the anticipated or expected results expressed in these forward-looking statements. Factors that could affect future performance include, but are not limited to: current political and economic conditions subsequent to the September 11, 2001 terrorist attacks on the United States of America; changes in economic conditions, political conditions or consumer confidence resulting in a reduction of discretionary spending on goods that are, or are perceived to be, "luxuries"; changes in demographic or retail environments; changes in consumer preferences or fashion trends; competitive responses to the Company's marketing, merchandising and promotional efforts; seasonality of the retail business; adverse weather conditions, particularly during peak selling seasons; delays in anticipated store openings; significant increases in paper, printing and postage costs; litigation that may have an adverse effect on the financial results or reputation of the Company; changes in the Company's relationships with designers, vendors and other sources of merchandise; changes in key personnel who have been hired or retained by the Company; changes in the Company's private label credit card arrangement which might adversely impact its ability to provide consumer credit; and changes in government or regulatory requirements increasing the Company's cost of operations. The Company undertakes no obligation to update or revise (publicly or otherwise) any forward-looking statements to reflect subsequent events, new information or future circumstances.

CONSOLIDATED

BALANCE SHEETS

(in thousands, except shares)	July 28, 2001	July 29, 2000
ASSETS		
CURRENT ASSETS		
Cash and equivalents	$ 97,291	$ 175,385
Undivided interests in NMG Credit Card Master Trust	220,717	211,581
Accounts receivable, less allowance for doubtful accounts of $355 and $200	20,707	19,279
Merchandise inventories	648,867	575,344
Deferred income taxes	27,327	26,078
Other current assets	48,420	61,671
TOTAL CURRENT ASSETS	1,063,329	1,069,338
PROPERTY AND EQUIPMENT		
Land, buildings and improvements	547,228	527,153
Fixtures and equipment	438,974	391,714
Construction in progress	122,402	69,440
	1,108,604	988,307
Less accumulated depreciation and amortization	521,986	448,572
PROPERTY AND EQUIPMENT, NET	586,618	539,735
OTHER ASSETS		
Trademarks and other intangible assets, net	122,708	128,581
Other, net	13,215	24,403
TOTAL OTHER ASSETS	135,923	152,984
	$1,785,870	$1,762,057
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable and current maturities of long-term liabilities	$ 858	$ 787
Accounts payable	270,897	270,957
Accrued liabilities	225,805	220,562
TOTAL CURRENT LIABILITIES	497,560	492,306
LONG-TERM LIABILITIES		
Notes and debentures	249,686	329,663
Other long-term liabilities	68,269	73,954
Deferred income taxes	20,975	31,510
TOTAL LONG-TERM LIABILITIES	338,930	435,127
MINORITY INTEREST	6,640	8,882
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKS		
Class A Common Stock – $.01 par value		
Authorized – 100 million shares;		
Issued and outstanding – 27,766,173 shares and 27,531,797 shares	278	275
Class B Common Stock – $.01 par value		
Authorized – 100 million shares;		
Issued and outstanding – 19,941,835 shares and 19,941,432 shares	200	200
ADDITIONAL PAID-IN CAPITAL	432,726	422,186
ACCUMULATED OTHER COMPREHENSIVE LOSS	(1,029)	—
RETAINED EARNINGS	510,565	403,081
TOTAL SHAREHOLDERS' EQUITY	942,740	825,742
	$1,785,870	$1,762,057

See Notes to Consolidated Financial Statements.

CONSOLIDATED

STATEMENTS OF EARNINGS

(in thousands, except per share data)	Years Ended July 28, 2001	July 29, 2000	July 31, 1999
Revenues	$ 3,015,534	$ 2,926,364	$ 2,580,415
Cost of goods sold including buying and occupancy costs	2,020,954	1,918,298	1,748,783
Selling, general and administrative expenses	791,189	759,712	649,018
Impairment of investment in third-party internet retailer	9,763	—	—
Operating earnings	193,628	248,354	182,614
Interest expense	15,188	25,375	24,972
Earnings before income taxes and minority interest	178,440	222,979	157,642
Income taxes	67,807	84,732	61,480
Earnings before minority interest	110,633	138,247	96,162
Minority interest in net earnings of subsidiaries	(3,149)	(4,236)	(1,310)
Net earnings	$ 107,484	$ 134,011	$ 94,852
Weighted average number of common and common equivalent shares outstanding:			
Basic	47,120	48,460	49,129
Diluted	47,586	48,721	49,237
Earnings per share:			
Basic	$ 2.28	$ 2.77	$ 1.93
Diluted	$ 2.26	$ 2.75	$ 1.93

See Notes to Consolidated Financial Statements.

CONSOLIDATED

STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended July 28, 2001	July 29, 2000	July 31, 1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	$107,484	$134,011	$ 94,852
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	79,009	68,878	64,921
Deferred income taxes	(11,784)	(4,791)	3,702
Impairment of investment in third-party internet retailer	9,763	—	—
Minority interest	3,149	4,236	1,310
Other	(211)	4,457	(5,680)
Changes in current assets and liabilities:			
Increase in accounts receivable	(1,428)	(11,103)	(1,999)
Increase in merchandise inventories	(73,523)	(30,092)	(27,842)
Decrease (increase) in other current assets	13,251	(8,569)	8,151
Increase (decrease) in accounts payable and accrued liabilities	6,177	98,035	(18,784)
NET CASH PROVIDED BY OPERATING ACTIVITIES	131,887	255,062	118,631
CASH FLOWS USED FOR INVESTING ACTIVITIES			
Capital expenditures	(119,987)	(89,032)	(91,026)
Purchases of held-to-maturity securities	(997,863)	(969,393)	(641,364)
Maturities of held-to-maturity securities	988,727	963,104	647,080
Acquisition, net of cash acquired	—	—	(36,754)
NET CASH USED FOR INVESTING ACTIVITIES	(129,123)	(95,321)	(122,064)
CASH FLOWS USED FOR FINANCING ACTIVITIES			
Proceeds from borrowings	—	55,000	—
Repayment of debt	(80,000)	—	(10,000)
Repayment of receivables securitization	—	(246,000)	—
Proceeds from receivables securitization	—	225,000	—
Exercises of stock options	6,125	1,181	674
Repurchase of common stock	—	(49,930)	(15,356)
Distributions paid by subsidiary	(7,320)	(2,435)	—
Other equity activities	337	3,637	662
NET CASH USED FOR FINANCING ACTIVITIES	(80,858)	(13,547)	(24,020)
CASH AND EQUIVALENTS			
Increase (decrease) during the year	(78,094)	146,194	(27,453)
Beginning balance	175,385	29,191	56,644
Ending balance	$ 97,291	$175,385	$ 29,191
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 15,772	$ 24,777	$ 26,098
Income taxes	$ 76,462	$ 88,784	$ 62,626

See Notes to Consolidated Financial Statements.

CONSOLIDATED

STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)	Common Stocks Shares	Common Stocks Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
BALANCE – AUGUST 1, 1998	49,760	$ 498	$ 481,295	$ —	$ 174,218	$ 656,011
Repurchase of common stock	(827)	(11)	(15,345)	—	—	(15,356)
Exercises of stock options	47	—	674	—	—	674
Other equity transactions	59	3	659	—	—	662
Comprehensive income:						
Net earnings	—	—	—	—	94,852	94,852
BALANCE – JULY 31, 1999	49,039	490	467,283	—	269,070	736,843
Repurchase of common stock	(2,075)	(21)	(49,909)	—	—	(49,930)
Exercises of stock options	81	1	1,180	—	—	1,181
Other equity transactions	414	5	3,632	—	—	3,637
Comprehensive income:						
Net earnings	—	—	—	—	134,011	134,011
BALANCE – JULY 29, 2000	47,459	475	422,186	—	403,081	825,742
Exercises of stock options	299	3	6,122	—	—	6,125
Other equity transactions	(50)	—	4,418	—	—	4,418
Comprehensive income:						
Net earnings	—	—	—	—	107,484	107,484
Unrealized loss on derivative financial instruments, net of tax	—	—	—	(1,029)	—	(1,029)
Total comprehensive income	—	—	—	—	—	106,455
BALANCE – JULY 28, 2001	47,708	$ 478	$ 432,726	($ 1,029)	$ 510,565	$ 942,740

See Notes to Consolidated Financial Statements.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF REPORTING The Company's businesses consist of specialty retail stores, which include Neiman Marcus Stores and Bergdorf Goodman, and Neiman Marcus Direct, the Company's direct marketing operation. The consolidated financial statements include the accounts of all of the Company's majority-owned subsidiaries. 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 fiscal year 2001 relate to the fifty-two weeks ended July 28, 2001. All references to fiscal year 2000 relate to the fifty-two weeks ended July 29, 2000. All references to fiscal year 1999 relate to the fifty-two weeks ended July 31, 1999.

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

CASH AND EQUIVALENTS Cash and equivalents consist of cash and highly liquid investments with maturities of three months or less from the date of purchase.

PROPRIETARY CREDIT CARD PROGRAM AND CREDIT RISK The Company extends credit to certain of its customers pursuant to its proprietary retail credit card program. Finance charge income 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 the credit card receivables is limited due to the large number of customers to whom the Company extends credit. Ongoing credit evaluation of customers' financial positions is performed and collateral is not required as a condition of extending credit.

UNDIVIDED INTERESTS IN NMG CREDIT CARD MASTER TRUST The Company utilizes a credit card securitization program as part of its overall funding strategy. Under the securitization program, the Company transfers substantially all of its proprietary credit card receivables to a wholly-owned subsidiary, Neiman Marcus Funding Corp., who in turn sells such receivables to the NMG Credit Card Master Trust (Trust). Under generally accepted accounting principles, if the structure of the securitization meets certain requirements, these transactions are accounted for as sales of receivables. The Company's transfers and sales transactions qualify for sale treatment in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

Certificates representing undivided interests in the credit card receivables sold to the Trust are held by both outside investors and the Company. The certificates held by the Company are classified on the balance sheet as Undivided Interests in NMG Credit Card Master Trust. These certificates represent securities that the Company intends to hold to maturity in accordance with the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Due to the short-term revolving nature of the credit card portfolio, the carrying value of the Company's undivided interests in the NMG Credit Card Master Trust approximates fair value.

MERCHANDISE INVENTORIES The Company utilizes the retail method of accounting for substantially all of its merchandise inventories in its specialty retail stores and direct marketing segments. Merchandise inventories are stated at the lower of cost or market on a first-in, first-out (FIFO) basis.

DERIVATIVE FINANCIAL INSTRUMENTS The Company enters into forward exchange contracts to hedge forecasted inventory purchases denominated in foreign currencies for periods and amounts consistent with the Company's identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on cash flows.

On July 30, 2000, the Company adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS No. 133, as amended, requires the recognition of all derivative instruments as either assets or liabilities in the statement of financial position and the measurement of all such assets and liabilities at fair value. Gains and losses related to the Company's foreign currency exchange contracts that qualify as hedges are deferred and recognized in cost of sales in the period the inventory is sold. The impact of the adoption of SFAS No. 133 was not material to the Company's financial statements taken as a whole.

As of July 28, 2001, the Company had foreign currency contracts in the form of forward exchange contracts in the amount of approximately $46.2 million. The contracts have varying maturity dates through August 2002. The settlement terms of the forward contracts, including amount, currency and maturity, correspond with the payment terms for the merchandise inventories. These contracts have been designated and accounted for as cash flow hedges. There were no amounts included in earnings resulting from hedge ineffectiveness in fiscal year 2001.

At July 28, 2001, the fair value of the Company's outstanding foreign currency exchange contracts was a liability of approximately $1.7 million and is recorded in accrued liabilities. This amount, net of taxes, is reflected in other comprehensive loss in the accompanying consolidated statements of shareholders' equity.

DEPRECIATION AND AMORTIZATION Depreciation and amortization are provided on a straight-line basis over the shorter of the estimated useful lives of the related assets or the lease term. Buildings and improvements are depreciated over 10 to 30 years, while fixtures and equipment are depreciated over two to 15 years.

When property and equipment are retired or have been fully depreciated, the cost and the related accumulated depreciation are eliminated from the respective accounts. Gains or losses arising from dispositions are reported as income or expense.

Intangibles, which consist of goodwill, trademarks and customer lists, are amortized on a straight-line basis over their estimated useful lives, ranging from four to 40 years. Amortization expense was $5.9 million in fiscal year 2001, $6.3 million in fiscal year 2000, and $6.4 million in fiscal year 1999.

Upon occurrence of an event or a change in circumstances, the Company compares the carrying value of its long-lived assets against projected undiscounted cash flows to determine whether any impairment exists and evaluates the reasonableness of the depreciation or amortization periods.

INCOME TAXES Income taxes are calculated in accordance with SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires the asset and liability method of accounting for income taxes.

OTHER LONG-TERM LIABILITIES Other long-term liabilities consist primarily of certain employee benefit obligations, postretirement health care benefits and the liability for scheduled rent increases.

REVENUE RECOGNITION The Company recognizes revenue at point-of-sale or upon shipment, net of a provision for estimated sales returns. In fiscal year 2000, the Company began accruing sales returns. Previously, the Company did not record sales returns on the accrual basis since the difference between the cash basis and accrual basis was not material to the Company's results of operations. The cumulative impact of the accounting change of $9.4 million, net of tax, was recorded as a reduction to retained earnings as of the beginning of the fiscal year 1998. In addition, the Company recorded a charge of $4.3 million, or $0.06 per diluted share, in fiscal 2000. Of the fiscal year 2000 charge, $1.9 million or $0.02 per diluted share, related to fiscal years 1999 and 1998. Net income for fiscal years 1999 and 1998 was not restated due to the immaterial impact of the accounting change to previously reported results of operations.

Prior to fiscal year 2001, the Company recorded the excess of shipping and handling revenues over the related expenses as a reduction of its selling, general and administrative expenses. In September 2000, the Emerging Issues Task Force (EITF) 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 Company adopted the consensus in the fourth quarter of fiscal year 2001 and all prior period amounts have been reclassified to comply with the guidelines of the consensus. As reclassified, shipping and handling revenues are included in revenues and the costs incurred for performing such services are included in cost of goods sold. Such reclassifications had no impact on previously reported operating earnings, net earnings, shareholders' equity or cash flows.

PREOPENING EXPENSES Costs associated with the opening of new and replacement stores are expensed as incurred. Preopening expenses were $2.2 million for fiscal year 2001, $1.9 million for fiscal year 2000 and $4.3 million in fiscal year 1999.

ADVERTISING AND CATALOGUE COSTS Direct response advertising relates primarily to the production and distribution of the Company's catalogues and is amortized over the estimated life of the catalogue. The estimated lives of catalogues are based on their expected revenue streams, which range from three to six months. All other advertising costs are expensed in the period incurred. Advertising expenses were $144.6 million in fiscal year 2001, $140.4 million in fiscal year 2000 and $125.0 million in fiscal year 1999. Direct response advertising amounts included in other current assets in the consolidated balance sheets were $9.1 million as of July 28, 2001 and $12.7 million as of July 29, 2000.

STOCK-BASED COMPENSATION The Company accounts for stock-based compensation awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations.

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.

SIGNIFICANT ESTIMATES The Company estimates the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. The primary estimates underlying the Company's consolidated financial statements include allowances for doubtful accounts and sales returns, accruals for pension and postretirement benefits, accruals for loyalty programs, self-insurance reserves and other matters. Actual results could differ from these estimates. Management bases its estimates on historical experience and on various assumptions which are believed to be reasonable under the circumstances.

COMPREHENSIVE INCOME Total comprehensive income amounted to $106.5 million for the fiscal year 2001. Comprehensive income for fiscal years 2000 and 1999 equaled net earnings. Comprehensive income differs from net earnings primarily due to unrealized gains or losses on the Company's forward currency exchange contracts.

RECENT ACCOUNTING PRONOUNCEMENTS In June 2001, the Financial Accounting Standards Board finalized and issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method and eliminates the pooling-of-interests method. SFAS No. 142, upon adoption, eliminates goodwill amortization and the amortization of certain other intangible assets. However, goodwill and other certain intangibles will be subject to at least an annual assessment for impairment by applying a fair-value based test. The provisions of SFAS No. 141 apply immediately to all acquisitions completed after June 30, 2001. Unless early adopted by the Company, the provisions of SFAS No. 142 require that goodwill and intangible assets with indefinite lives continue to be amortized until August 3, 2002. Effective August 4, 2002, such amortization will cease, as the Company will be required to adopt the new rules on such date.

The Company has not yet determined the ultimate impact of the provisions of SFAS No. 142 on its consolidated financial statements or the period in which the standard will be adopted. Amortization of goodwill for fiscal year 2001 was $0.9 million.

NOTE 2 ACQUISITIONS

On February 1, 1999, the Company acquired a 56% interest in Kate Spade LLC for approximately $33.6 million in cash. Kate Spade LLC is a manufacturer and marketer of high-end fabric and leather handbags and accessories. The acquisition has been accounted for by the purchase method of accounting and, accordingly, the results of operations of Kate Spade LLC for the period from February 1, 1999 are included in the accompanying consolidated financial statements. Assets acquired and liabilities assumed have been recorded at their estimated fair values. The excess of cost over the estimated fair value of net assets acquired of $32.7 million was allocated to trademarks which are amortized on a straight-line basis over 25 years. This acquisition did not materially impact consolidated results of operations for fiscal year 1999 and, therefore, no pro forma information is provided.

On November 2, 1998, the Company acquired a 51% interest in Gurwitch Bristow Products LLC for approximately $6.7 million in cash. Gurwitch Bristow Products LLC manufactures and markets the Laura Mercier cosmetics line. The acquisition has been accounted for by the purchase method of accounting and, accordingly, the results of operations of Gurwitch Bristow Products LLC for the period from November 2, 1998 are included in the accompanying consolidated financial statements. Assets acquired and liabilities assumed have been recorded at their estimated fair values. The excess of cost over the estimated fair value of net assets acquired of $5.3 million was allocated to trademarks, which are amortized on a straight-line basis over 25 years. This acquisition did not materially impact consolidated results of operations for fiscal year 1999 and, therefore, no pro forma information is provided.

NOTE 3 SECURITIZATION OF CREDIT CARD RECEIVABLES

Pursuant to a revolving credit card securitization program that expires in April 2008, the Company transfers substantially all of its credit card receivables to a wholly-owned subsidiary, Neiman Marcus Funding Corp., who in turn sells such receivables to the Trust. The Trust sells certificates representing undivided interests in the credit card receivables to both outside investors (Sold Interests) and to the Company (Retained Interests). For a contractually defined servicing fee, the Company manages the credit card portfolio held by the Trust. Servicing fees earned by the Company were $6.3 million in fiscal year 2001, $4.3 million in fiscal year 2000 and $6.0 million in fiscal year 1999. Total credit card receivables held by the Trust and managed by the Company aggregated $444.2 million as of July 28, 2001.

The certificates issued by the Trust represent securities in accordance with the provisions of SFAS No. 115. The Sold Interests are represented by Class A certificates, aggregating $225 million, issued by the Trust to outside investors. The holders of the Class A certificates are entitled to monthly income distributions at the contractually-defined rate of return of one month LIBOR plus 0.27% annually as well as certain other distributions. The distributions to the Class A certificate holders are payable from the finance charge income generated by the credit card receivables held by the Trust. Such distributions aggregated $13.6 million in fiscal year 2001, $13.2 million in fiscal year 2000 and $19.0 million in fiscal year 1999.

The Retained Interests held by the Company are represented by a Class B certificate ($23.8 million), a Class C certificate ($68.2 million) and a Seller's certificate (the excess of the total receivables sold to the Trust over the Sold Interests and the Class B and Class C certificates). Pursuant to the terms of the Class B, Class C, and Sellers' certificates, the Company's rights to the proceeds from the collection of both the principal amount and the earnings on the credit card receivables held by the Trust are subordinated to the rights of the holders of the Class A certificates. As a result, the credit quality of the Class A certificates is enhanced and the Company bears virtually all credit risk with respect to both the Sold Interests and the Retained Interests. However, neither the outside investors holding the Class A certificates nor the Trust have any recourse against the Company beyond Trust assets. Credit losses on the total credit card receivable portfolio, recorded by the Company as a component of selling, general and administrative expenses, were $12.5 million in fiscal year 2001, $12.7 million in fiscal year 2000 and $14.9 million in fiscal year 1999. As of July 28, 2001, there were approximately $9.1 million of total credit card receivables for which the required minimum payments have not been received for more than 90 days and are therefore considered delinquent. The Company is entitled to receive distributions equal to the excess of the finance charge earnings of the credit card receivables held by the Trust over the amounts distributed to the holders of the Class A certificates. Such distributions are recorded as finance charge income by the Company and aggregated $48.2 million in fiscal year 2001, $47.6 million in fiscal year 2000 and $39.8 million in fiscal year 1999.

In order to maintain the committed level of securitized assets, cash collections on securitized accounts are reinvested in additional balances. In fiscal year 2001, aggregate cash collections of both the principal amount of the securitized assets held by the Trust and the related finance charge income on such assets aggregated $1.8 billion. Such proceeds were used by the Trust to purchase new credit card balances from the Company in accordance with the terms of the revolving credit card securitization program.

The Retained Interests are recorded by the Company at the date of the sale to the Trust by allocating the original carrying amounts of the credit card receivables held by the Company between the Sold Interests and the Retained Interests based on their relative fair values. Any gain or loss on the sale of the Sold Interests is dependent upon the allocation of the original carrying amount of the credit card receivables between the Sold Interests and the Retained Interests. The Company recorded gains on the sale of receivables to the Trust of approximately $2 million in each of fiscal year 2001 and fiscal year 2000.

Management uses key value assumptions in determining the fair value of its Retained Interests. Key assumptions relate to the average life of the receivables sold and anticipated credit losses, as well as the appropriate market discount rate. The Company estimates the average lives of receivables and anticipated credit losses using a rolling average of the past twelve months experience. The key assumptions used at the initial securitization were a receivable payment rate (representing the average portion of the credit card portfolio paid each month) of approximately 32%, a discount rate of approximately 7% and a credit loss of approximately 0.7% of net revenues. In fiscal year 2001, the key assumptions used are a receivable payment rate of approximately 30%, a discount rate of 6% and a credit loss of 0.7% of net revenues. The average life of the receivables sold is approximately 3.2 months. A 10% adverse change in the receivable payment rate would impact the value of the Retained Interests by approximately $0.8 million per annum and a 20% adverse change in the receivable payment rate would impact the value of the Retained Interests by approximately $1.6 million per annum. A 10% adverse change in the credit losses would impact the value of the Retained Interests by approximately $1.2 million and a 20% adverse change in the credit losses would impact the value of the Retained Interests by approximately $2.5 million per annum. A 10% and a 20% adverse change in the discount rate would impact the value of the Retained Interests by $0.1 million per annum. These sensitivities are hypothetical in nature and are presented for illustrative purposes only. Changes in fair value based on a change in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. The changes in assumptions presented above were calculated without changing any other assumption. In reality, changes in one assumption may result in changes in another, which may magnify or counteract the sensitivities.

NOTE 4 OTHER ASSETS

Other assets consisted of the following:

(in thousands)	July 28, 2001	July 29, 2000
Trademarks	$126,654	$126,654
Goodwill	33,202	33,202
Customer lists	4,500	4,500
	164,356	164,356
Accumulated amortization	(41,648)	(35,775)
Trademarks and other intangible assets, net	122,708	128,581
Other, net	13,215	24,403
Total	$135,923	$152,984

Trademarks and goodwill are amortized using the straight-line method over their estimated useful lives, ranging from 25 to 40 years. Customer lists are amortized using the straight-line method over a four-year life.

Other, net includes the carrying value of the Company's cost method investment in a third-party internet retailer. During the fourth quarter of fiscal year 2001, the Company recorded a $9.8 million pretax charge that represents the Company's adjustment to reflect this investment at its estimated fair value. The remaining carrying value of this investment is approximately $3 million.

NOTE 5 ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

(in thousands)	July 28, 2001	July 29, 2000
Accrued salaries and related liabilities	$ 31,057	$ 46,314
Self-insurance reserves	29,089	23,472
Income taxes payable	24,559	24,837
Sales returns reserve	21,501	20,469
Amounts due customers	43,658	37,610
Other	75,941	67,860
	$ 225,805	$ 220,562

NOTE 6 NOTES AND DEBENTURES

Notes and debentures consisted of the following:

(in thousands)	Interest Rate	July 28, 2001	July 29, 2000
Revolving credit facility	Variable	$ —	$ 80,000
Senior notes	6.65%	124,894	124,879
Senior debentures	7.125%	124,792	124,784
		$ 249,686	$ 329,663

The Company has an unsecured revolving credit facility with 21 banks pursuant to which the Company may borrow up to $450 million. The rate of interest payable varies according to one of four pricing options selected by the Company. The facility, which expires in October 2002, may be terminated by the Company at any time on three business days' notice. The revolving credit facility contains covenants that require the Company to maintain certain leverage and fixed charge ratios. The Company currently pays a facility fee on the total commitment amount at a rate based on the Company's quarterly fixed charge coverage ratio. This rate was .09% per annum at July 28, 2001 and July 29, 2000. There were no borrowings outstanding under this facility at July 28, 2001.

In May 1998, the Company issued $250 million of unsecured senior notes and debentures to the public. The debt is comprised of $125 million, 6.65% senior notes due 2008 and $125 million, 7.125% senior debentures due 2028. Interest on the securities is payable semiannually.

The aggregate maturities of notes and debentures are $0 in each of fiscal years 2002 through 2006, and $249.7 million thereafter.

Based upon quoted prices, the fair values of the Company's senior notes and debentures were $220.6 million as of July 28, 2001 and $215.2 million as of July 29, 2000.

NOTE 7 COMMON SHAREHOLDERS' EQUITY

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. Harcourt General retained approximately 5.0 million shares.

Each common shareholder of Harcourt General received .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 and Harcourt General were parties to an agreement pursuant to which Harcourt General provided certain management, accounting, financial, legal, tax and other corporate services to the Company. The fees for these services were based on Harcourt General's costs and were subject to the approval of a committee of directors of the Company who were independent of Harcourt General. The agreement with Harcourt General was terminated effective May 14, 2001, and as a result, the Company has established these functions internally. The termination of the agreement with Harcourt General did not have a material effect on the Company's results of operations. Charges to the Company were $5.2 million in fiscal year 2001, $6.2 million in fiscal year 2000 and $6.0 million in fiscal year 1999.

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% 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.

AUTHORIZED CAPITAL On September 15, 1999, 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 and 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.

SHAREHOLDER RIGHTS PLAN On October 6, 1999, the Company's Board of Directors adopted a shareholder rights plan. The rights plan is designed to improve the ability of the Company's Board of Directors to protect and advance the interests of the Company's shareholders in the event of an unsolicited proposal to acquire a significant interest in the Company.

EXECUTIVE STOCK PURCHASE LOAN PLAN In accordance with the provisions of a loan arrangement between the Company and certain of its executive officers (Loan Plan), the Company has made loans to certain executive officers to acquire shares of common stock either in the open market or pursuant to stock option exercises and to discharge certain tax liabilities incurred in connection with the exercise of stock options and the release of restrictions on previous grants of restricted common stock. The loans are secured by a pledge of the purchased shares and bear interest at an annual rate of 5%, payable quarterly. Pursuant to the terms of the Loan Plan, each executive officer's loan will become due and payable seven months after his or her employment with the Company terminates. Loans outstanding were $1.7 million as of July 28, 2001 and July 29, 2000.

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 common stock have no cumulative voting, conversion, redemption or preemptive rights.

COMMON STOCK INCENTIVE PLANS The Company has established common stock incentive plans allowing for the granting of stock options, stock appreciation rights and stock-based awards to its employees. Compensation cost for restricted stock is recognized 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. Upon occurrence, the effect of actual forfeitures is recognized prospectively.

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 28, 2001 were granted under the Company's 1997 Plan and the 1987 Stock Incentive Plan. At July 28, 2001, there were 1.5 million shares of common stock available for grant under the 1997 Plan.

The Company did not make any restricted stock grants in fiscal year 2001. In fiscal year 2000, the Company granted 453,500 restricted shares at a weighted-average grant date fair value of $23.50 and in fiscal year 1999, the Company granted 58,300 restricted shares at a weighted-average grant date fair value of $24.81. Compensation expense related to restricted stock grants was $3.0 million in fiscal year 2001, $2.6 million in fiscal year 2000 and $1.1 million in fiscal year 1999.

A summary of the status of the Company's 1997 and 1987 Stock Incentive Plans as of July 28, 2001, July 29, 2000, and July 31, 1999 and changes during the fiscal years ended on those dates is presented in the following table:

	July 28, 2001 Shares	July 28, 2001 Weighted-Average Exercise Price	July 29, 2000 Shares	July 29, 2000 Weighted-Average Exercise Price	July 31, 1999 Shares	July 31, 1999 Weighted-Average Exercise Price
Options outstanding at beginning of year	2,277,100	$ 24.28	1,179,700	$ 24.36	847,960	$ 23.83
Granted	1,064,500	35.44	1,410,150	23.93	468,000	24.82
Exercised	(299,070)	20.85	(80,800)	15.08	(47,400)	14.62
Canceled	(288,630)	26.17	(231,950)	25.22	(88,860)	26.98
Options outstanding at end of year	2,753,900	$ 28.78	2,277,100	$ 24.28	1,179,700	$ 24.36
Options exercisable at year end	699,480	$ 25.09	515,180	$ 22.06	403,150	$ 19.23

Options outstanding at July 28, 2001 were granted at prices (not less than 100% of the fair market value on the date of the grant) varying from $11.63 to $36.50. Options generally vest ratably over five years and expire after ten years. There were 151 employees with options outstanding at July 28, 2001.

The Company has adopted the disclosure-only provisions of SFAS No. 123, “Accounting for Stock-Based Compensation.” Had the fair-value based method of accounting been applied to awards granted subsequent to July 30, 1995, net earnings and earnings per share would have been reduced to pro forma amounts for fiscal years 2001, 2000 and 1999 as follows:

(in thousands, except per share data)	Years Ended July 28, 2001	July 29, 2000	July 31, 1999
Net earnings:			
As reported	$107,484	$134,011	$ 94,852
Pro forma	$101,147	$129,914	$ 93,028
Basic earnings per share:			
As reported	$ 2.28	$ 2.77	$ 1.93
Pro forma	$ 2.15	$ 2.68	$ 1.89
Diluted earnings per share:			
As reported	$ 2.26	$ 2.75	$ 1.93
Pro forma	$ 2.13	$ 2.67	$ 1.89

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 years due to such factors as the vesting periods of stock options and the potential issuance of additional stock options in future years.

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 fiscal year 2001, fiscal year 2000 and fiscal year 1999:

	Years Ended July 28, 2001	July 29, 2000	July 31, 1999
Expected life (years)	7	7	7
Expected volatility	37.6%	40.8%	45.6%
Risk-free interest rate	5.5%	6.0%	6.0%

The weighted-average fair value of options granted was $17.80 in fiscal year 2001, $12.83 in fiscal year 2000 and $14.17 in fiscal year 1999.

The following summarizes information about the Company's stock options as of July 28, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding At 7/28/01	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares Outstanding At 7/28/01	Weighted-Average Exercise Price
$11.63 – $15.38	135,700	2.3	$ 14.08	135,700	$ 14.08
$22.94 – $24.94	1,051,550	7.6	$ 23.64	209,910	$ 23.89
$25.94 – $32.94	540,350	6.5	$ 29.73	266,970	$ 29.88
$33.38 – $36.50	1,026,300	8.8	$ 35.49	56,900	$ 33.38
$11.63 – $36.50	2,753,900	7.6	$ 28.78	669,480	$ 25.09

NOTE 8 STOCK REPURCHASE PROGRAM

In September 1998, the Company's Board of Directors authorized an increase in the stock repurchase program to 1.5 million shares. In October 1999, the Company's Board of Directors authorized an increase in the stock repurchase program to 2 million shares. In April 2000, the Company's Board of Directors authorized the repurchase of an additional 2 million shares.

During fiscal year 2001, there were no stock repurchases under the stock repurchase program. There were 1,924,600 shares remaining under this program at July 28, 2001. During fiscal year 2000, the Company repurchased 2,075,400 shares at an average price of $24.06 and during fiscal year 1999, the Company repurchased 827,000 shares at an average price of $18.57 per share.

NOTE 9 INCOME TAXES

Income tax expense was as follows:

	Years Ended		
(in thousands)	July 28, 2001	July 29, 2000	July 31, 1999
Current:			
Federal	$ 73,278	$ 82,893	$ 57,174
State	6,313	6,630	7,302
	79,591	89,523	64,476
Deferred:			
Federal	(10,878)	(4,328)	(1,993)
State	(906)	(463)	(1,003)
	(11,784)	(4,791)	(2,996)
Income tax expense	$ 67,807	$ 84,732	$ 61,480

A reconciliation of income tax expense to the amount calculated based on the federal statutory rate is as follows:

	Years Ended		
(in thousands)	July 28, 2001	July 29, 2000	July 31, 1999
Income tax expense at statutory rate	$ 62,454	$ 78,043	$ 55,174
State income taxes, net of federal income tax	5,407	6,167	6,299
Other	(54)	522	7
Total	$ 67,807	$ 84,732	$ 61,480

Significant components of the Company's net deferred income tax asset (liability) were as follows:

(in thousands)	July 28, 2001	July 29, 2000
Gross deferred income tax assets:		
Financial accruals and reserves	$31,312	$26,444
Employee benefits	27,286	26,166
Inventory	2,010	2,238
Deferred lease payments	876	1,658
Other	1,513	572
Total deferred tax assets	62,997	57,078
Gross deferred income tax liabilities:		
Excess tax depreciation	(49,109)	(54,042)
Pension accrual	(1,731)	(1,590)
Other assets previously deducted on tax return	(5,805)	(6,878)
Total deferred tax liabilities	(56,645)	(62,510)
Net deferred income tax asset (liability)	$ 6,352	($ 5,432)
Net deferred income tax asset (liability):		
Current	$27,327	$26,078
Non-current	(20,975)	(31,510)
Net deferred income tax asset (liability)	$ 6,352	($ 5,432)

The Company believes it is more likely than not that it will realize the recorded deferred tax assets through future taxable earnings.

NOTE 10 PENSION PLANS AND POSTRETIREMENT HEALTH CARE BENEFITS

The Company has a noncontributory defined benefit pension plan covering substantially all full-time employees. The Company also sponsors an unfunded supplemental executive retirement plan which provides certain employees additional pension benefits. Benefits under the plans are based on the employees' years of service and compensation over defined periods of employment. When funding is required, the Company's policy is to contribute amounts that are deductible for federal income tax purposes. Pension plan assets consist primarily of equity and fixed income securities.

Components of net pension expense were as follows:

	Years Ended		
(in thousands)	July 28, 2001	July 29, 2000	July 31, 1999
Service cost	$ 7,578	$ 7,696	$ 7,160
Interest cost on projected benefit obligation	14,979	13,760	12,641
Expected return on assets	(15,718)	(13,637)	(11,826)
Net amortization and deferral	406	1,036	1,208
Net pension expense	$ 7,245	$ 8,855	$ 9,183

Retirees and active employees hired prior to March 1, 1989 are eligible for certain limited postretirement health care benefits if they have met 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 fiscal year 2001, $1.6 million during fiscal year 2000 and $1.2 million during fiscal year 1999.

The periodic postretirement health care benefit cost was as follows:

(in thousands)	Years Ended July 28, 2001	July 29, 2000	July 31, 1999
Service cost	$ 65	$ 75	$ 136
Interest cost on accumulated benefit obligation	723	856	1,151
Net amortization and deferral	(447)	(342)	(17)
Net periodic cost	$ 341	$ 589	$ 1,270

The changes in the benefit obligations and the reconciliations of the funded status of the Company's plans to the consolidated balance sheets were as follows:

CHANGE IN BENEFIT OBLIGATIONS:	Pension Benefits		Postretirement Benefits	
(in thousands)	July 28, 2001	July 29, 2000	July 28, 2001	July 29, 2000
Benefit obligations at beginning of year	$ 189,768	$ 183,772	$ 10,964	$ 13,642
Service cost	7,578	7,696	65	75
Interest	14,979	13,760	723	856
Benefits paid	(6,878)	(7,495)	(1,793)	(1,574)
Actuarial loss (gain)	16,178	(7,965)	(837)	(2,035)
Benefit obligations at end of year	$ 221,625	$ 189,768	$ 9,122	$ 10,964
CHANGE IN PLAN ASSETS:			Pension Plans	
(in thousands)			July 28, 2001	July 29, 2000
Fair value of plan assets at beginning of year			$ 179,424	$ 163,665
Actual return on assets			(9,926)	21,011
Company contributions			5,362	2,243
Benefits paid			(6,878)	(7,495)
Fair value of plan assets at end of year			$ 167,982	$ 179,424
FUNDED STATUS:	Pension Plans		Postretirement Plans	
(in thousands)	July 28, 2001	July 29, 2000	July 28, 2001	July 29, 2000
Excess of benefit obligations over fair value of plan assets	($ 53,643)	($ 10,344)	($ 9,122)	($ 10,964)
Unrecognized net actuarial loss (gain)	17,330	(25,027)	(7,427)	(7,036)
Unrecognized prior service cost	4,256	4,794	—	—
Unrecognized net obligation at transition	1,413	1,815	—	—
Liability recognized in the consolidated balance sheets	($ 30,644)	($ 28,762)	($ 16,549)	($ 18,000)

WEIGHTED AVERAGE ASSUMPTIONS:	Pension Benefits 2001	2000	1999
Discount rate	7.25%	7.75%	7.50%
Expected long-term rate of return on plan assets	9.0%	9.0%	9.0%
Rate of future compensation increases	5.0%	5.0%	5.0%

The weighted average assumptions for postretirement health care benefits included a discount rate of 7.25% in fiscal year 2001, 7.75% in fiscal year 2000, and 7.5% in fiscal year 1999. For measurement purposes, a 5% annual rate of increase in the per capita cost of covered care benefits was assumed for fiscal year 2002 and beyond. If the assumed health care trend rate was increased one percentage point, postretirement benefit costs for fiscal year 2001 would have been $0.1 million higher, and the accumulated postretirement benefit obligation as of July 28, 2001 would have been $1.0 million higher. If the assumed health care trend rate was decreased one percentage point, postretirement benefit costs for fiscal year 2001 would have been $0.1 million lower, and the accumulated postretirement benefit obligations as of July 28, 2001 would have been $0.9 million lower.

The Company has a qualified defined contribution 401(k) plan, which covers substantially all employees. Employees make contributions to the plan and the Company previously matched 65% of the first 2% and 25% of the next 4% of an employee's contribution up to a maximum of 6% of the employee's compensation. Effective January 1, 2001, the Company increased its match to 100% of the first 2% and 25% of the next 4% of an employee's contribution up to a maximum of 6% of the employee's compensation. Company contributions were $5.1 million in fiscal year 2001, $4.3 million in fiscal year 2000 and $2.9 million in fiscal year 1999.

NOTE 11 COMMITMENTS AND CONTINGENCIES

OPERATING LEASES The Company's operations are conducted primarily in leased properties, which include retail stores, distribution centers and other facilities. Substantially all leases are for periods of up to thirty years with renewal options at fixed rentals, except that certain leases provide for additional rent based on revenues in excess of predetermined levels.

Rent expense under operating leases was as follows:

	Years Ended		
(in thousands)	July 28, 2001	July 29, 2000	July 31, 1999
Minimum rent	$38,400	$36,100	$34,000
Rent based on revenues	19,200	16,000	14,500
Total rent expense	$57,600	$52 ,100	$48,500

Future minimum lease payments, excluding renewal options, under operating leases are as follows: fiscal year 2002 – $36.5 million; fiscal year 2003 – $36.0 million; fiscal year 2004 – $35.1 million; fiscal year 2005 – $33.0 million; fiscal year 2006 – $31.5 million; all years thereafter – $425.4 million.

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.

LETTERS OF CREDIT The Company had approximately $11.2 million of outstanding irrevocable letters of credit relating to purchase commitments and insurance liabilities at July 28, 2001.

NOTE 12 EARNINGS PER SHARE

Pursuant to the provisions of SFAS No. 128, "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 applicable to common shareholders for the computations of basic and diluted EPS during the periods presented.

Options to purchase 953,500 shares of common stock for the fiscal year ended July 28, 2001, 614,500 shares of common stock for the fiscal year ended July 29, 2000 and 395,910 shares of common stock for the fiscal year ended July 31, 1999 were not included in the computations of diluted EPS because the exercise prices of those options were greater than the average market price of the common shares.

	Years Ended		
(in thousands of shares)	July 28, 2001	July 29, 2000	July 31, 1999
Shares for computation of basic EPS	47,120	48,460	49,129
Effect of dilutive stock options and nonvested stock under common stock incentive plans	466	261	108
Shares for computation of diluted EPS	47,586	48,721	49,237

NOTE 13 SEGMENT REPORTING

In fiscal year 1999, the Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which established reporting and disclosure standards for an enterprise's operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and regularly reviewed by the Company's senior management. 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. Therefore, separate financial information for the Company's assets on a segment basis is not available. Interest expense is not allocated by segment.

In applying the provisions of SFAS No. 131, the Company identified two reportable segments: specialty retail stores and direct marketing. The specialty retail stores segment includes all Neiman Marcus and Bergdorf Goodman retail stores. Direct marketing includes the operations of Neiman Marcus Direct, which publishes NM by Mail, the Horchow catalogues, Chef's Catalogue and the Neiman Marcus Christmas Catalogue. Other includes corporate expenses, on-line operations of NeimanMarcus.com, and operations which do not meet the quantitative thresholds of SFAS No. 131, including Kate Spade LLC and Gurwitch Bristow Products LLC.

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

(in thousands)	Years Ended July 28, 2001	July 29, 2000	July 31, 1999
REVENUES			
Specialty Retail Stores	$2,504,806	$2,458,110	$2,202,360
Direct Marketing	424,359	402,058	355,832
Other	86,369	66,196	22,223
Total	$3,015,534	$2,926,364	$2,580,415
OPERATING EARNINGS			
Specialty Retail Stores	$ 200,986	$ 248,452	$ 180,182
Direct Marketing	23,963	24,369	14,543
Other	(31,321)	(24,467)	(12,111)
Total	$ 193,628	$ 248,354	$ 182,614
CAPITAL EXPENDITURES			
Specialty Retail Stores	$ 105,173	$ 73,234	$ 89,296
Direct Marketing	1,319	3,298	970
Other	13,495	12,500	760
Total	$ 119,987	$ 89,032	$ 91,026
DEPRECIATION EXPENSE			
Specialty Retail Stores	$ 63,098	$ 58,303	$ 55,489
Direct Marketing	3,137	2,266	2,827
Other	6,869	2,167	253
Total	$ 73,104	$ 62,736	$ 58,569

NOTE 14 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Year Ended July 28, 2001				
(in millions, except for per share data)	First Quarter[1][2]	Second Quarter[1]	Third Quarter[1]	Fourth Quarter	Total
Revenues	$ 757.2	$ 924.0	$ 698.5	$ 635.8	$ 3,015.5
Gross profit	$ 298.5	$ 289.8	$ 245.1	$ 161.2	$ 994.6
Net earnings (loss)	$ 50.0	$ 39.9	$ 38.2	($ 20.6)	$ 107.5
Earnings (loss) per share:					
Basic	$ 1.06	$ 0.85	$ 0.81	($ 0.44)	$ 2.28
Diluted	$ 1.05	$ 0.84	$ 0.80	($ 0.44)	$ 2.26
	Year Ended July 29, 2000				
(in millions, except for per share data)	First Quarter[1]	Second Quarter[1]	Third Quarter[1]	Fourth Quarter[1]	Total[1]
Revenues	$ 684.8	$ 900.7	$ 700.2	$ 640.7	$ 2,926.4
Gross profit	$ 256.7	$ 293.7	$ 261.1	$ 196.6	$ 1,008.1
Net earnings	$ 37.4	$ 41.3	$ 45.2	$ 10.1	$ 134.0
Earnings per share:					
Basic	$ 0.76	$ 0.85	$ 0.94	$ 0.22	$ 2.77
Diluted	$ 0.76	$ 0.84	$ 0.94	$ 0.21	$ 2.75

(1) As discussed in Note 1, the Company has made certain reclassifications to its prior financial statements to conform to its current presentation of shipping and handling revenues and expenses in accordance with EITF Issue No. 00-10.

(2) As discussed in Note 1, the Company adopted SFAS No. 133 during the first quarter of fiscal year 2001. Upon further interpretation of the provisions of SFAS No. 133, the Company has reclassified the transition adjustment (previously presented as a cumulative effect of an accounting change) to cost of sales during the first quarter of fiscal year 2001.

INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS AND SHAREHOLDERS
THE NEIMAN MARCUS GROUP, INC.
DALLAS, TEXAS

We have audited the accompanying consolidated balance sheets of The Neiman Marcus Group, Inc. and subsidiaries as of July 28, 2001 and July 29, 2000, and the related consolidated statements of earnings, cash flows, and shareholders' equity for each of the three fiscal years in the period ended July 28, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Neiman Marcus Group, Inc. and subsidiaries as of July 28, 2001 and July 29, 2000, and the results of their operations and their cash flows for each of the three fiscal years in the period ended July 28, 2001, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
New York, New York
September 10, 2001

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of The Neiman Marcus Group, Inc. and its subsidiaries is responsible for the integrity and objectivity of the financial and operating information contained in this Annual Report, including the consolidated financial statements covered by the Independent Auditors' Report. These statements were prepared in conformity with generally accepted accounting principles and include amounts that are based on the best estimates and judgments of management.

The Company maintains a system of internal controls which provides management with reasonable assurance that transactions are recorded and executed in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that records are maintained so as to permit preparation of financial statements in accordance with generally accepted accounting principles. This system includes written policies and procedures, an organizational structure that segregates duties, financial reviews and a comprehensive program of periodic audits by the internal auditors. The Company also has instituted policies and guidelines which require employees to maintain a high level of ethical standards.

In addition, the Audit Committee of the Board of Directors, consisting solely of outside directors, meets periodically with management, the internal auditors and the independent auditors to review internal accounting controls, audit results and accounting principles and practices and annually recommends to the Board of Directors the selection of independent auditors.

JAMES E. SKINNER
Senior Vice President and
Chief Financial Officer

T. DALE STAPLETON
Vice President and Controller

(UNAUDITED)

SELECTED FINANCIAL DATA

The following selected financial data is qualified in its entirety by the Consolidated Financial Statements of the Company (and the related Notes thereto) contained elsewhere in this report and should be read in conjunction with "Management's Discussion and Analysis." The operating results and financial position data for each of the fiscal years ended July 28, 2001, July 29, 2000, July 31, 1999, August 1, 1998, and August 2, 1997 have been derived from the Company's audited Consolidated Financial Statements.

	Years Ended				
(in millions, except for per share data)	July 28, 2001	July 29, 2000(1)	July 31, 1999(1)	August 1, 1998	August 2, 1997
OPERATING RESULTS:					
Revenues	$ 3,015.5	$ 2,926.4	$ 2,580.4	$ 2,337.7	$ 2,180.6
Net earnings	$ 107.5	$ 134.0	$ 94.9	$ 106.0	$ 92.1
Net earnings applicable to common shareholders	$ 107.5	$ 134.0	$ 94.9	$ 106.0	$ 63.6
Earnings per share applicable to common shareholders:					
Basic	$ 2.28	$ 2.77	$ 1.93	$ 2.13	$ 1.35
Diluted	$ 2.26	$ 2.75	$ 1.93	$ 2.12	$ 1.34
FINANCIAL POSITION:					
Total assets	$ 1,785.9	$ 1,762.1	$ 1,518.9	$ 1,459.0	$ 1,309.5
Long-term liabilities	$ 338.9	$ 435.1	$ 381.3	$ 392.8	$ 401.6

(1) As discussed in Note 1 to the Consolidated Financial Statements, the Company has made certain reclassifications to its prior financial statements to conform to its current presentation of shipping and handling revenues and expenses in accordance with EITF Issues No. 00-10.

Requests for general information or published financial information should be made in writing to:

INVESTOR RELATIONS DEPARTMENT

Attn: Investor Relations Department
The Neiman Marcus Group, Inc.
1618 Main Street
Dallas, TX 75201
(214) 743–7625

TRANSFER AGENT AND REGISTRAR

Fleet National Bank
c/o EquiServe
Post Office Box 8040
Boston, MA 02266–8040
(800) 730–4001

FORM 10-K

The Company's Form 10-K as filed with the Securities and Exchange Commission is available upon written request to the Investor Relations Department of the Company.

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on January 21, 2002.

SHARES OUTSTANDING

The Neiman Marcus Group had 27.8 million shares of Class A Common Stock and 19.9 million shares of Class B Common Stock outstanding, and 10,677 and 3,711 common shareholders of record, respectively, at July 28, 2001.

CORPORATE ADDRESS

The Neiman Marcus Group, Inc.
1618 Main Street
Dallas, TX 75201
(214) 741–6911

STOCK INFORMATION

The Company's Class A Common Stock and Class B Common Stock are currently traded on the New York Stock Exchange under the symbols NMG.A and NMG.B, respectively. Class B Common Stock was distributed by Harcourt General to its shareholders in October 1999. Beginning with the third quarter of fiscal year 1995, the Company eliminated the quarterly cash dividend on its Common Stock. The Company currently does not intend to resume paying cash dividends on its Common Stock.

The following table indicates for the past two fiscal years the quarterly stock price ranges:

	NMG.A 2001		NMG.A 2000		NMG.B 2001		NMG.B 2000	
Quarter	High	Low	High	Low	High	Low	High	Low
First	$37.63	$29.69	$25.06	$21.31	$35.13	$26.75	$24.75	$21.06
Second	$39.31	$29.88	$28.69	$23.00	$37.13	$27.81	$27.00	$21.13
Third	$40.18	$29.21	$28.50	$20.00	$37.10	$26.80	$28.31	$19.25
Fourth	$40.10	$31.00	$33.19	$24.00	$36.50	$29.25	$32.00	$23.13

The Neiman Marcus Group is an Equal Opportunity Employer.

Visit The Neiman Marcus Group web site at www.NeimanMarcusGroup.com.

DIRECTORS AND OFFICERS

DIRECTORS

RICHARD A. SMITH
Chairman of the Board
1, 2

ROBERT A. SMITH
Vice Chairman
1, 2

BRIAN J. KNEZ
Vice Chairman
1, 2

BURTON M. TANSKY
President and Chief Executive Officer
2

JOHN R. COOK
Former Senior Vice President and
Chief Financial Officer
Harcourt General, Inc.
2

MATINA S. HORNER, Ph.D.
Executive Vice President
Teachers Insurance and Annuity Association –
College Retirement Equities Fund
2, 3, 4, 5

VINCENT M. O'REILLY
Former Executive Vice Chairman
Coopers & Lybrand, LLP;
Distinguished Senior Lecturer
Carroll School of Management
Boston College
2, 3, 4, 5

WALTER J. SALMON
Roth Professor of Retailing, Emeritus
Graduate School of Business Administration
Harvard University
1, 2, 3, 4, 5

PAULA STERN, Ph.D.
President – The Stern Group
Former Chairwoman
U.S. International Trade Commission;
Director of several corporations
2, 3

(1) EXECUTIVE COMMITTEE
(2) NOMINATING COMMITTEE
(3) AUDIT COMMITTEE
(4) COMPENSATION COMMITTEE
(5) SPECIAL REVIEW COMMITTEE

EXECUTIVE OFFICERS

BURTON M. TANSKY
President and Chief Executive Officer

JAMES E. SKINNER
Senior Vice President and
Chief Financial Officer

NELSON A. BANGS
Senior Vice President,
General Counsel and Secretary

MARITA O'DEA
Vice President – Human Resources

OPERATING OFFICERS

Neiman Marcus Stores

BURTON M. TANSKY
Chairman and Chief Executive Officer

GERALD A. SAMPSON
President and Chief Operating Officer

Bergdorf Goodman

RONALD L. FRASCH
Chairman and Chief Executive Officer

PETER J. RIZZO
President

Neiman Marcus Direct

KAREN W. KATZ
President and Chief Executive Officer

STAFF OFFICERS

W. CRAIG JOHNSON
Vice President – Tax

PHILLIP L. MAXWELL
Senior Vice President and
Chief Information Officer

T. DALE STAPLETON
Vice President and Controller

Our mission is to be the leading specialty retailer of fine merchandise to discerning, fashion-conscious consumers from around the world. We will strive to exceed customer expectations for service, quality and value as we build upon our long-standing tradition of excellence.

As we pursue this mission, we are guided by the following important values. We will maintain an uncompromising commitment to quality and the highest levels of customer service in all of our businesses and endeavors. We will adhere to the highest levels of integrity and ethical standards in dealing with all constituencies, including customers, suppliers and employees. We will aspire to achieve a leadership position in every one of our operating businesses. Our management decisions will emphasize long-term benefits to the value of our businesses, not short-term gains. We will employ capable, motivated people; follow sound management practices; utilize new technology efficiently; and reinvest earnings and additional capital as required to grow our businesses and maintain the corporation's financial health. We will strive to maximize the potential of all employees and maintain a professionally challenging work environment. We will be socially and environmentally responsible and support worthwhile causes, especially in those communities in which we operate.

Design: Sequel Studio, New York

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