THE NEIMAN MARCUS GROUP ANNUAL REPORT

2000

On the cover: Detail, Judith Leiber handbag in berry alligator.
Featured on page 17.

LUXE IS: MORE

At The Neiman Marcus Group, luxe is more than a designer label or an elegant store. It is an experience matched to each customer's identity, attitude and style. Luxe delights and inspires—offering the very best to affluent consumers who seek fresh ways to express their individuality.

No one connects with the luxe consumer like we do. By adopting strategies that capitalize on our many years of experience serving affluent consumers, we achieved record sales and earnings in fiscal 2000. We are well positioned to build on this performance in the years ahead.

AT A GLANCE

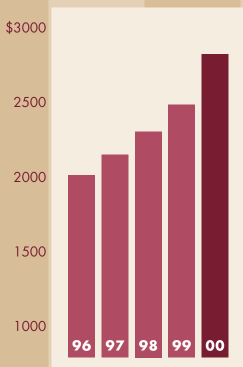
RESULTS FROM OPERATIONS

The Neiman Marcus Group

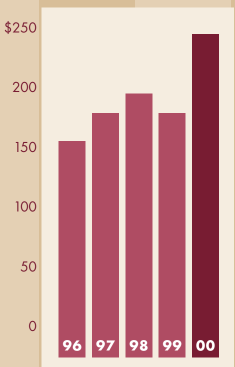
(In Millions, Except for Per Share Amounts)	August 3, 1996[1]	August 2, 1997	August 1, 1998	July 31, 1999	July 29, 2000	Average Compound Annual Growth Rate
Revenues	$ 2,042.4	$ 2,180.6	$ 2,337.7	$ 2,515.0	$ 2,854.6	8.7%
Operating earnings	$ 158.8	$ 182.5	$ 198.6	$ 182.6	$ 248.4	11.8%
Diluted earnings per share applicable to common shareholders[2]	$ 1.25	$ 1.82	$ 2.12	$ 1.93	$ 2.75	21.8%

(1) Fiscal 1996 was a 53-week year.
(2) Before loss on redemption of preferred stock of $.48 per share in fiscal 1997.

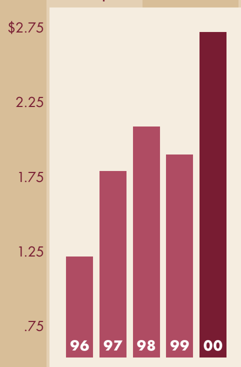
REVENUES
in millions



OPERATING EARNINGS
in millions

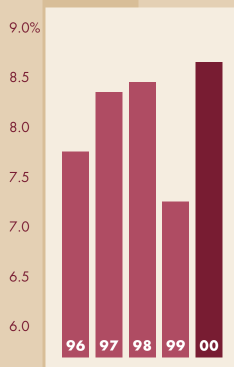


DILUTED EARNINGS PER SHARE*
from operations



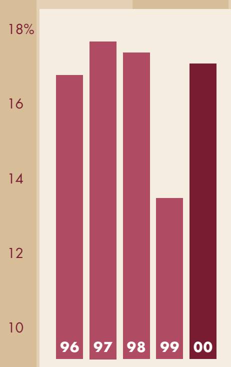
**Before loss on redemption of preferred stock of $.48 per share in fiscal 1997.*

OPERATING PROFIT MARGIN*



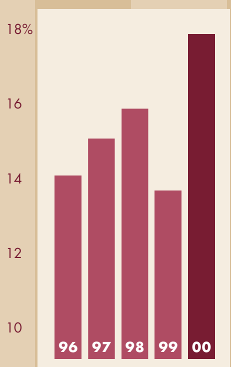
**Operating earnings divided by revenues.*

RETURN ON AVERAGE EQUITY*



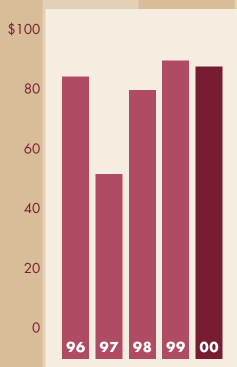
**Net earnings divided by shareholders' equity.*

RETURN ON NET ASSETS*

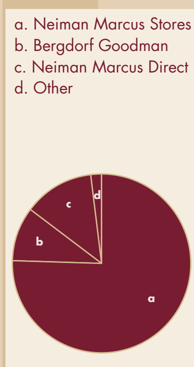


**Operating earnings divided by average total assets (each adjusted for operating leases) less average current liabilities.*

CAPITAL EXPENDITURES
in millions



2000 REVENUE BREAKDOWN



LUXE IS: EXCEEDING EXPECTATIONS

DEAR SHAREHOLDER: Very few retailers can satisfy the growing appetite for luxury. The Neiman Marcus Group thrives on our ability to do so. Neiman Marcus Stores. Bergdorf Goodman. Neiman Marcus Direct. These brands have earned a preeminent position in the luxury retail segment as a result of our unwavering focus on the affluent consumer.

Our customers seek the most exclusive brands and demand an expert interpretation of fashion trends. They value a personalized shopping experience. Fulfilling their expectations is an ongoing challenge, but success yields long-term relationships and drives profitable sales.

Fiscal 2000 was a breakout year for The Neiman Marcus Group. Our operating and investment strategies produced record-breaking financial performance. And these strategies may hold even more significance as we look at growth opportunities in 2001 and beyond.

A RECORD YEAR We are pleased to report that fiscal 2000 was the most successful year in your Company's history. Financial results reached record levels, and diluted earnings per share rose to $2.75, a 42 percent increase over last year's $1.93.

Total revenues increased 13.5 percent to $2.85 billion in fiscal 2000. Comparable revenues rose 11.8 percent with double-digit growth in each quarter, a standout performance. Operating earnings rose 36 percent, and our operating profit margin rose to 8.7 percent. Net earnings reached a record $134.0 million.

FISCAL 2000 WAS A BREAKOUT YEAR FOR NMG, WITH RECORD REVENUES AND EARNINGS.

Our financial performance reflects a healthy external environment for luxury goods, the successful implementation of several growth strategies, and strong execution of those strategies by all of our operating teams.

In the Specialty Retail Stores segment, which includes Neiman Marcus Stores and Bergdorf Goodman, total revenues rose 11.7 percent to $2.4 billion. Comparable revenues at Neiman Marcus Stores increased 10.4 percent, with significant growth in most merchandise categories and across all regions of the country. Six Neiman Marcus stores reached the $100 to $150 million revenue tier, and nine were in the $60 to $100 million tier. Bergdorf Goodman revenues grew by 14.6 percent to $285.5 million, benefiting from a major remodeling that opened a new plaza level in the Main store and a successful remix of Men's Store merchandise. As part of this remix, Bergdorf launched a very successful, high-quality line of private label men's sportswear.

Operating earnings at Specialty Retail Stores increased 37.9 percent to $248.5 million. Gross margins improved as we continued to shift our merchandise mix to more profitable, narrowly distributed brands and away from more promotional, widely distributed lines.

Most of the revenue increase in Neiman Marcus Stores last year occurred in 20 merchandise categories, each with a specific strategy to maximize profitable growth. By targeting key classifications within categories and maintaining appropriate inventory levels, we improved margins as well as sales—and supported our efforts to improve store productivity.

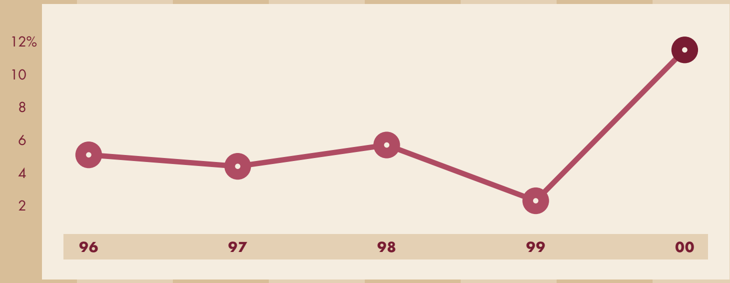
Both Neiman Marcus and Bergdorf improved their percentage of full-price sales in 2000. And Specialty Retail Stores productivity rose significantly, as sales per gross square foot reached an industry leading $490.

Revenues at our direct marketing segment, Neiman Marcus Direct, rose 13.1 percent in 2000 to $363.8 million. Operating earnings increased 67.6 percent to $24.4 million, driven by higher revenues and gross margins, and improved catalogue

OUR KEY INDICATORS SHOWED SIGNIFICANT IMPROVEMENT IN FISCAL 2000.

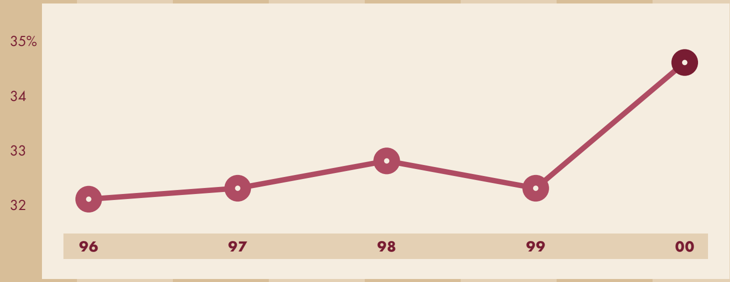
KEY INDICATORS

NMG COMPARABLE SALES



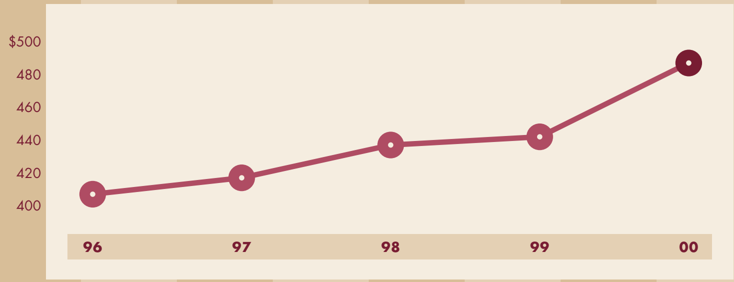
Comparable revenues rose 11.8 percent in fiscal 2000, with double-digit growth in each quarter.

GROSS MARGINS



Gross margins improved as we continued to shift our merchandise mix to more profitable, narrowly distributed brands.

SALES PER GROSS SQUARE FOOT



Specialty Retail Stores sales per gross square foot rose to an industry leading $490.

productivity. Neiman Marcus Direct clearly benefited from shifting its merchandise mix to higher price points, focusing on key classifications, and aligning itself more closely with the stores' high-end positioning.

We were also very gratified by the success of Kate Spade and Laura Mercier, two rapidly growing brands in which we hold majority stakes. Both brands significantly increased their respective market penetration and contributed strong revenues and operating earnings in our first full year of ownership. We believe they are well positioned for further growth as they extend their distribution and product lines, and build value.

STRATEGIES FOR GROWTH Looking ahead, we expect to benefit from continuing to pursue several key growth strategies.

First, our merchandising strategy differentiates us in the market and provides a competitive advantage. As we have traded up our merchandise assortments for finer quality and more style, we have increased our leadership as *the* fashion authority. Not surprisingly, we are attracting a somewhat younger customer, as measured by the three-year drop in median age of today's Neiman Marcus InCircle customer compared to three years ago.

Our core strength in fine apparel allows us to attract the most highly valued customers and build relationships that span multiple merchandise categories. For example, couture and designer apparel grew to more than 50 percent of our women's apparel mix in fiscal 2000 from 40 percent just two years ago. Fine apparel in turn helps maximize sales in our highly profitable accessory, jewelry and beauty businesses, which grew at double-digit rates in fiscal 2000.

Second, our business is focused on a full-price selling strategy founded on deep relationships between customers and sales associates. In 2000, we connected with customers in ways we never have before, and these initiatives hold promise for the future. For example, we launched a customer relationship management program that uses sophisticated predictive modeling techniques to target and market

OUR MERCHANDISING STRATEGY DIFFERENTIATES US AND PROVIDES A COMPETITIVE ADVANTAGE.

to different customer segments. We plan to expand this successful pilot program in 2001.

We also launched NeimanMarcus.com, a new channel of commerce to connect a wider group of affluent consumers to our brand. Introduced in October 1999, it now has 100 e-boutiques and approximately 4,000 products. We expect NeimanMarcus.com to provide both new and current customers with additional opportunities to connect to our catalogues, stores and sales associates. Consistent with our customers' expectations, we are committed to building and maintaining a world-class e-commerce capability, which we expect will increase sales across channels and further enhance customer loyalty.

Third, we continued to invest in our stores and infrastructure. Our fiscal 2001 capital plan of approximately $175 to $200 million includes both new stores and remodeling and expansion programs. These programs should add an average of three percent per year to our square footage over the next few years.

With 31 full-line Neiman Marcus Stores and two Bergdorf Goodman stores, our space exceeds five million gross square feet. By 2003, we plan to open four new Neiman Marcus stores in Florida and a 150,000 square foot replacement store in Texas. And we continue to look at new markets.

We're also investing aggressively in remodeling our most productive stores, such as the Neiman Marcus stores in Las Vegas, Newport Beach and San Francisco. Remodeling is a low-risk, high-return investment strategy to add selling square footage, and improve merchandise adjacencies and total store productivity. For example, Bergdorf Goodman captured about 15,000 square feet of selling space in the new plaza level. It houses an expanded beauty business, which achieved a 30 percent sales increase over 1999.

Reflecting our confidence in the Company's future prospects, in fiscal 2000 we repurchased a total of approximately two million shares of common stock, and we have

IN FISCAL 2000, WE CONNECTED
WITH CUSTOMERS IN WAYS
WE NEVER HAVE BEFORE.

BRIAN J. KNEZ
(left) Co-Chief Executive Officer

ROBERT A. SMITH
Co-Chief Executive Officer

authorization to purchase almost two million additional shares. Further share repurchases will depend upon market conditions.

POSITIVE TRENDS FOR THE FUTURE 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, and to increase our business with current customers as we expand our overall customer base in the years ahead. We believe our current programs and growth strategies can support the achievement of our long-term financial goals of high single-digit revenue growth, operating margins above ten percent, and mid-teens EPS growth.

The following pages focus on the emerging trends that are redefining luxe, and the operating philosophies and strategies that we are employing to capitalize on them.

As we conclude fiscal 2000, we want to recognize the passing of Jean Head Sisco, director of the Company since its inception, and her many contributions over the years. On behalf of our board of directors, we extend our sincere appreciation to those who made this great year happen—the exceptional men and women at Neiman Marcus Stores, Bergdorf Goodman and Neiman Marcus Direct—and to you, our shareholders, for your continuing support.

Sincerely,

ROBERT A. SMITH
Co-Chief Executive Officer

BRIAN J. KNEZ
Co-Chief Executive Officer

STORE LOCATIONS

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	96,000
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	153,000
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
Clearance Centers (11)		257,000
Total		4,729,000

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	1999	12,000
Seattle, Washington	1999	12,000
Total		33,000

PLANNED NEIMAN MARCUS STORES

Locations	Planned Opening Date	Gross Store Sq. Feet
Palm Beach, Florida	2000	50,000
Plano, Texas*	2001	150,000
Tampa, Florida	2001	90,000
Coral Gables, Florida	2002	135,000
Orlando, Florida	2003	90,000
Long Island, New York	TBD	150,000
Total		665,000

* *Replacement store*

REVENUES AND OPERATING EARNINGS SEGMENT INFORMATION*

SPECIALTY RETAIL STORES

(In Millions)	Revenues	Operating Earnings
Fiscal Year 96	$ 1,786.0	$ 149.8
Fiscal Year 97	$ 1,921.2	$ 171.4
Fiscal Year 98	$ 2,053.9	$ 197.6
Fiscal Year 99	$ 2,171.0	$ 180.2
Fiscal Year 00	$ 2,424.9	$ 248.5

DIRECT MARKETING

(In Millions)	Revenues	Operating Earnings
Fiscal Year 96	$ 256.4	$ 22.7
Fiscal Year 97	$ 259.4	$ 25.5
Fiscal Year 98	$ 283.8	$ 15.6
Fiscal Year 99	$ 321.7	$ 14.5
Fiscal Year 00	$ 363.8	$ 24.4

* *Fiscal years 1996 through 1999 are restated. See Note 1 to the Consolidated Financial Statements.*

LUXE IS:

NMG

Luxury retailing is evolving, as the notion of luxury is redefined by growing affluence. Traditional merchandising is no longer enough to satisfy the market's needs. The "luxe" customer seeks a total, individualized experience. While affluent consumers today span generations and demographics as never before, they share many of the same desires. Here are five trends we believe are driving this market, and what we're doing to capitalize on each of them.

LUXE IS: AHEAD OF THE CROWD

Affluent consumers don't wait for what they desire.

Affluent consumers seek to distinguish themselves from the crowd. They expect immediate access to the finest quality and most exclusive brands.

The Neiman Marcus Group is the headquarters for fine apparel and luxury goods—a preeminent position achieved by trading up our assortments in search of the highest levels of quality. Trading up allows us to shift our merchandise mix toward more profitable, narrowly distributed brands and away from widely distributed, more promotional brands. Through our merchants' expertise and strong relationships with designers, we rapidly respond to fashion trends and create dominant assortments that position us as the fashion authority each season.

Presenting a well-edited assortment of the most exclusive brands pays off handsomely in profitable sales. In fiscal 2000, the percentage of full-price sales in the Specialty Retail Stores segment reached the highest level in five years.

Jean Paul Gaultier: Tuxedo halter and flared pants in black wool crêpe. Daniel Swarovski: Cuff bracelet in silver or hematite.

LUXE IS: TOTALLY THRILLING...

Affluent consumers demand expert advice and total fashion solutions.

Affluent consumers feel unique and special. They seek exciting design and brand identity. They expect us, as their fashion authority, to identify the key fashion trends and "Must Have" accessories of each season to complete a totally thrilling look that matches their successful lifestyles.

Our core strength in women's fine apparel allows us to attract the most highly valued customers and build relationships that span multiple merchandise categories. In fiscal 2000 our couture and designer apparel increased to more than 50 percent of our women's apparel mix, and helped to drive our growing accessory, jewelry and beauty businesses.

Neiman Marcus Stores achieved mid-teens percentage growth in women's fine apparel sales in fiscal 2000. Similar growth rates were achieved in the related, highly profitable categories of women's shoes, designer handbags, fashion accessories, designer jewelry and precious jewelry.

Armani Collezioni: Black/blue wool sharkskin pantsuit. Slate gray matte jersey top of viscose, nylon and elastic.

...FROM HEAD TO TOE.

Sisley: Sisleÿa Beauty Treatment.

John Hardy: Sterling silver and 18-karat gold jewelry from the Batu Collection.

Manolo Blahnik: Mother-of-pearl accented slings in brown leather.

Judith Leiber: Handbag in berry alligator.

LUXE IS: UNIQUELY PERSONAL...

As affluence grows, the universe of affluent consumers is diversifying.

The affluent consumer market that we serve is growing and becoming more diverse, reflecting long-term demographic and economic trends. Baby boomers are entering their peak earning years with more disposable income. Transfers of wealth through inheritance are estimated to reach more than $300 billion per year. And the technology revolution is driving high-income job creation and affluent consumer spending.

As the impulse for luxe expands, so does its definition. To understand the growing diversity of our affluent customers, Neiman Marcus Stores piloted a customer relationship management program in fiscal 2000. By using sophisticated database management techniques, we expect to deepen our connections with individual customers and target promotions with even greater accuracy, resulting in significant additional business.

Through a pilot program launched in all 31 Neiman Marcus Stores, we reached out to more than 75,000 customers with personalized promotional opportunities and succeeded in strengthening relationships.

(above) Brioni: Navy pinstripe wool suit and shirt.
(right) Anne Klein: Sportswear, in cloud—crinkle rayon, steel and nylon top with cotton and viscose lining and leather asymmetric skirt.

...FROM CASUAL TO ELEGANT.

Bergdorf Goodman: Shirt jacket in suede, unlined. Argyle v-neck sweater in cream cotton, silk and nylon.

Badgley Mischka: Embroidered metallic silver calfskin handbag. Embroidered silver napa sandal.

Elie Tahari: Camel-color calfskin coat. Cream merino wool turtleneck. Pumpkin multicolor tie-dyed plaid skirt of wool nylon, microfiber and spandex.

LUXE IS: HANDLED WITH CARE

Affluent consumers want shopping experiences as distinctive as the merchandise they buy.

In the luxury market, high service levels are a given. The key to success is to gain customer loyalty—through a distinctive and personalized shopping experience.

Neiman Marcus and Bergdorf Goodman customers rely on us to help them make the right choices for fashion, accessories and gifts. In return for personal, highly individualized shopping experiences, we earn their loyalty. Fulfilling their expectations creates tremendous value for both our customers and us over the course of our lifetime relationship.

Programs at Bergdorf Goodman and Neiman Marcus recognize and reward our most loyal customers. Neiman Marcus InCircle program membership has grown at a ten percent compound annual growth rate over the past five years.

Narciso Rodriguez: Wool/cashmere and cotton dress in grey stretch tweed, sequin tulle.

LUXE IS: ALWAYS ON THE GO...

The more complicated life becomes, the less time affluent consumers have to shop.

Affluent consumers value their time as much as their money, making convenience fundamental to success in the luxury market.

Through stores, catalogues and the Internet, it's never been easier to shop with The Neiman Marcus Group. Our goal is to create a single, luxury-focused, branded customer experience across multiple channels. NeimanMarcus.com will provide both new and existing customers with new ways to connect to our catalogues, stores and sales associates.

The NeimanMarcus.com site features 100 e-boutiques and approximately 4,000 products, and attracts up to 20,000 visitors per day.

Amicale: Perfect wrap in pure Scottish cashmere.

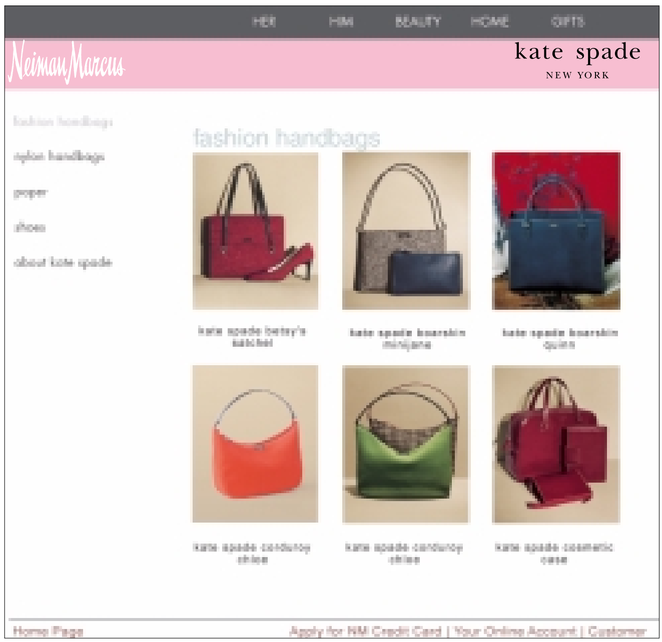
...FROM OFFLINE TO ONLINE.

Bergdorf Goodman Magazine, premiere issue, Fall 2000.

The Book, Neiman Marcus, September 2000.

(top) *Neiman Marcus By Mail* catalogue.
(bottom) *The Christmas Book 2000.*

(top) NeimanMarcus.com homepage.
(bottom) Kate Spade boutique on NeimanMarcus.com.



MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The Company's operations include specialty retail stores, which consist of Neiman Marcus Stores and Bergdorf Goodman, and a direct marketing operation, Neiman Marcus Direct. The Company's revenues rose to $2.85 billion in fiscal 2000, representing a 22.1% increase over revenues of $2.34 billion in fiscal 1998. Net earnings increased 26.4% to $134.0 million in fiscal 2000 from $106.0 million in fiscal 1998.

Approximately 85% of the Company's revenues are generated by its specialty retail stores, Neiman Marcus and Bergdorf Goodman, 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 sales and new store openings. Since August 1996 the Company has opened three new Neiman Marcus stores, including most recently a new store in Honolulu, Hawaii in September 1998. The Company currently also plans to open five new Neiman Marcus stores in the next four years, one of which will be a replacement store. In fiscal 2000, average store sales per gross square foot reached a record high of $490, representing an increase of 11.4% over three years. The Company has consistently focused on renovating and modernizing its stores to improve productivity. The Company also aims to improve average transaction amounts and comparable sales growth with carefully edited assortments and marketing and sales programs which are designed to increase its customers' awareness of merchandise offerings in the stores.

The Company launched its Brand Development Initiative in fiscal 1999, a strategy 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 leather handbags and accessories, for $33.6 million. In November 1998, the Company acquired a 51% interest in Gurwitch Bristow Products, which manufactures and markets the Laura Mercier cosmetic lines, for $6.7 million.

In addition to opening new stores, the Company continues to make significant capital investments in an effort to increase productivity. During fiscal 1998, 1999 and 2000, the Company invested a total of approximately $261.2 million to remodel its existing stores, to construct a new Neiman Marcus store in Hawaii and to purchase a building adjacent to its existing San Francisco store as part of a plan to enlarge and remodel that store. In fiscal 2000, major projects included the commencement of multi-year construction projects to build new stores, to remodel and expand Neiman Marcus stores in San Francisco and Las Vegas, as well as to continue remodeling the plaza level of the main store of Bergdorf Goodman.

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. 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.

OPERATING RESULTS

	Fiscal years ended		
(Dollars in Millions)	July 29, 2000	July 31, 1999	August 1, 1998
REVENUES		(Restated)[3]	(Restated)[3]
Specialty Retail Stores	$ 2,424.9	$ 2,171.0	$ 2,053.9
Direct Marketing	363.8	321.8	283.8
Other [1]	65.9	22.2	—
Total	$ 2,854.6	$ 2,515.0	$ 2,337.7
OPERATING EARNINGS			
Specialty Retail Stores	$ 248.5	$ 180.2	$ 197.6
Direct Marketing	24.4	14.5	15.6
Other [1]	(24.5)	(12.1)	(14.6)
Total	$ 248.4	$ 182.6	$ 198.6
OPERATING PROFIT MARGIN			
Specialty Retail Stores	10.2%	8.3%	9.6%
Direct Marketing	6.7%	4.5%	5.5%
Total [2]	8.7%	7.3%	8.5%

(1) Other includes the operations of Kate Spade LLC and Gurwitch Bristow Products, corporate expenses, and e-commerce expenses incurred to launch the Company's Web site.

(2) Includes Other.

(3) Amounts restated for change from last-in, first-out (LIFO) method of accounting for inventories to the first-in, first-out (FIFO) method as well as restated for leased department sales.

FISCAL 2000 COMPARED TO FISCAL 1999

Revenues in fiscal 2000 increased $339.6 million to $2.85 billion from $2.52 billion in fiscal 1999. The 13.5% increase was primarily attributable to higher overall comparable sales. Total comparable sales increased 11.8%. Comparable sales increased 10.4% at Neiman Marcus Stores, 14.6% at Bergdorf Goodman, and 13.1% at Neiman Marcus Direct.

Cost of goods sold including buying and occupancy costs increased 9.7% to $1.87 billion in fiscal 2000 from $1.70 billion in fiscal 1999, primarily due to increased sales. As a percentage of revenues, cost of goods sold was 65.3% in fiscal 2000 compared to 67.6% in fiscal 1999. The proportionate decrease in fiscal 2000 resulted primarily from higher gross margins at both Neiman Marcus Stores and Bergdorf Goodman 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 increased 17.8% in fiscal 2000 to $725.4 million from $615.9 million in fiscal 1999. As a percentage of revenues, selling, general and administrative expenses increased to 25.4% in fiscal 2000 from 24.5% in fiscal 1999. The proportionate increase in fiscal 2000 was primarily due to approximately $24.0 million of costs incurred to launch the Company's e-commerce initiative.

Corporate expenses, which consist primarily of charges for salaries, benefits and overhead for the individuals who provide services under the intercompany services agreement with Harcourt General and professional fees, decreased 3.3% to $15.9 million from $16.4 million in the prior year. The decrease resulted primarily from expenses incurred in the prior year in connection with the Company's recapitalization.

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

Interest expense increased 1.6% in fiscal 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 2000.

The Company's effective income tax rate was 38% in fiscal 2000, as compared to 39% in fiscal 1999.

FISCAL 1999 COMPARED TO FISCAL 1998

Revenues in fiscal 1999 increased $177.3 million to $2.52 billion from $2.34 billion in fiscal 1998. The 7.6% increase was primarily attributable to higher overall comparable sales, sales from Chef's Catalog, acquired in January 1998, and the new Neiman Marcus store in Hawaii which opened in September 1998. Total comparable sales increased 2.6%. Comparable sales increased 3.4% at Neiman Marcus Stores, decreased 2.3% at Bergdorf Goodman, and increased 2.0% at Neiman Marcus Direct.

Cost of goods sold including buying and occupancy costs increased 8.4% to $1.70 billion in fiscal 1999 from $1.57 billion in fiscal 1998, primarily due to increased sales. As a percentage of revenues, cost of goods sold was 67.6% in fiscal 1999 compared to 67.1% in fiscal 1998. The increase in fiscal 1999 resulted primarily from lower gross margins at both Neiman Marcus Stores and Bergdorf Goodman in comparison to the prior year, principally as a result of higher markdowns.

Selling, general and administrative expenses increased 10.8% in fiscal 1999 to $615.9 million from $556.1 million in fiscal 1998. As a percentage of revenues, selling, general and administrative expenses increased to 24.5% in fiscal 1999 from 23.8% in fiscal 1998. The proportionate increase in 1999 was primarily due to higher selling and sales promotion expenses.

Corporate expenses, which consist primarily of charges for salaries, benefits and overhead for the individuals who provide services under the intercompany services agreement with Harcourt General and professional fees, increased 12.2% to $16.4 million from $14.6 million in the prior year. The increase resulted primarily from expenses incurred in connection with the Company's recapitalization.

Operating earnings decreased by 8.0% to $182.6 million from $198.6 million in the prior year. This decrease was attributable to lower gross margins, higher selling and sales promotion costs and Bergdorf Goodman's decline in comparable sales.

Interest expense increased 14.2% in fiscal 1999 to $25.0 million from $21.9 million in the prior year. The increase resulted from higher average borrowings as well as a higher effective interest rate, which resulted from the issuance of fixed rate debt in May 1998.

The Company's effective income tax rate was 39% in fiscal 1999, as compared to 40% in fiscal 1998.

LIQUIDITY AND CAPITAL RESOURCES

In fiscal 2000, the Company had sufficient cash flows from operations and its revolving credit facility to finance its working capital needs, capital expenditures, repayments under the Company's securitization, and stock repurchases. Operating activities provided net cash of $255.1 million in fiscal 2000.

The Company's capital expenditures in fiscal 2000 included the construction of new stores and existing store renovations. Capital expenditures were $89.0 million in fiscal 2000, $91.0 million in fiscal 1999 and $81.2 million in fiscal 1998. The Company opened a new Neiman Marcus store in Honolulu's Ala Moana Center in September 1998. Capital expenditures are currently estimated to approximate $175 million for fiscal 2001.

In February 1999, the Company acquired a 56% interest in Kate Spade LLC for approximately $33.6 million in cash. In November 1998, the Company acquired a 51% interest in Gurwitch Bristow Products for approximately $6.7 million in cash. Both acquisitions were funded primarily through borrowings under the Company's revolving credit facility. In January 1998 the Company acquired Chef's Catalog for approximately $31.0 million in cash, which was also funded primarily through borrowings under the Company's revolving credit facility.

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. During the year ended July 29, 2000, the Company repurchased 2,075,400 shares at an average price of $24.06 per share, and 1,924,600 shares were remaining under this program at July 29, 2000. During the years ended July 31, 1999 and August 1, 1998, the Company repurchased 827,000 and 160,100 shares at average prices of $18.57 and $29.32 per share, respectively.

In May 1998, the Company issued $250 million of 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. At July 29, 2000, the Company had $370.0 million available under its $450.0 million revolving credit facility, which expires in October 2002.

The Company's five year revolving securitization of its accounts receivable matured during fiscal 2000. The Company primarily financed the repayment of the Class A and B certificates, which were sold to investors and had an aggregate principal value of $246 million, with a new securitization. Under the new securitization, the Company sold substantially all of the Neiman Marcus and Bergdorf Goodman credit card receivables through a subsidiary to a 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.

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

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The market risk inherent in the Company's financial instruments represents the potential loss arising from adverse changes in interest rates. The Company does not enter into financial instruments for trading purposes.

At July 29, 2000 and July 31,1999 the fair values of the Company's fixed rate debt were estimated at $215.2 million and $230.4 million, respectively, using quoted market prices and comparable publicly-traded issues. Such fair values were less than carrying value by approximately $34.5 million and $22.3 million at July 29, 2000 and July 31, 1999, respectively. 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 $14.4 million at July 29, 2000.

At July 29, 2000 and July 31, 1999, the Company had $80.0 million and $25.0 million, respectively, of variable rate borrowings outstanding under its revolving credit facility, which approximate fair value. A hypothetical 10% adverse change in interest rates for this variable rate debt would have an approximate $.7 million negative effect on the Company's earnings and cash flows.

The Company uses derivative financial instruments to manage foreign currency risk related to merchandise inventories. The effect of such instruments was not material to the Company's financial condition, results of operations, or cash flows.

SEASONALITY

The specialty retail industry is seasonal in nature, and a disproportionately higher level of the Company's sales 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.

IMPACT OF INFLATION

The Company has adjusted selling prices to maintain certain profit levels and will continue to do so as economic conditions permit. In general, management believes that the impact of inflation or of changing prices has not had a material effect on the Company's results of operations during the last three fiscal years.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), which will require recognition of all derivatives as either assets or liabilities on the balance sheet at fair value. In June 1999, the issuance of SFAS 137, "Accounting for Derivative Instruments and Hedging Activities," delayed the provisions of SFAS 133 to be effective for fiscal 2001. The Company believes that the effect of adopting these new standards relates primarily to its use of forward foreign currency contracts. The Company expects that such contracts, used to manage foreign currency risk related to the purchase of merchandise inventories, will meet the criteria for hedge accounting and, as a result, the changes in fair values of these contracts will be reported in other comprehensive income rather than in results of operations. The Company does not expect such amounts to be material.

FORWARD-LOOKING STATEMENTS

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

CONSOLIDATED BALANCE SHEETS

(Dollar Amounts in Thousands)	July 29, 2000	July 31, 1999
ASSETS		(Restated)
CURRENT ASSETS		
Cash and equivalents	$ 175,385	$ 29,191
Undivided interests in NMG Credit Card Master Trust	211,581	133,151
Accounts receivable, less allowance for doubtful accounts of $200 and $2,300	19,279	59,317
Merchandise inventories	575,344	545,252
Deferred income taxes	26,078	21,815
Other current assets	61,671	53,102
TOTAL CURRENT ASSETS	1,069,338	841,828
PROPERTY AND EQUIPMENT		
Land, buildings and improvements	527,153	486,862
Fixtures and equipment	391,714	364,757
Construction in progress	69,440	47,656
	988,307	899,275
Less accumulated depreciation and amortization	448,572	385,836
PROPERTY AND EQUIPMENT, NET	539,735	513,439
OTHER ASSETS		
Trademarks and other intangible assets, net	128,581	134,853
Other, net	24,403	28,730
	152,984	163,583
	$ 1,762,057	$ 1,518,850
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable and current maturities of long-term liabilities	$ 787	$ 921
Accounts payable	270,957	203,071
Accrued liabilities	220,562	192,188
TOTAL CURRENT LIABILITIES	492,306	396,180
LONG-TERM LIABILITIES		
Notes and debentures	329,663	274,640
Other long-term liabilities	73,954	74,664
Deferred income taxes	31,510	32,038
TOTAL LONG-TERM LIABILITIES	435,127	381,342
MINORITY INTEREST	8,882	4,485
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKS		
Common Stock—$.01 par value	—	490
Class A Common Stock—$.01 par value		
Authorized—100 million shares; issued and outstanding—27,531,797 shares	275	—
Class B Common Stock—$.01 par value		
Authorized—100 million shares; issued and outstanding—19,941,432 shares	200	—
ADDITIONAL PAID-IN CAPITAL	422,186	467,283
RETAINED EARNINGS	403,081	269,070
TOTAL SHAREHOLDERS' EQUITY	825,742	736,843
	$ 1,762,057	$ 1,518,850

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS

(In Thousands, Except for Per Share Data)	Years Ended July 29, 2000	July 31, 1999	August 1, 1998
		(Restated)	(Restated)
Revenues	$ 2,854,629	$ 2,515,008	$ 2,337,684
Cost of goods sold including buying and occupancy costs	1,865,008	1,700,098	1,568,439
Selling, general and administrative expenses	725,399	615,890	556,051
Corporate expenses	15,868	16,406	14,620
Operating earnings	248,354	182,614	198,574
Interest expense	25,375	24,972	21,862
Earnings before income taxes and minority interest	222,979	157,642	176,712
Income taxes	84,732	61,480	70,685
Earnings before minority interest	138,247	96,162	106,027
Minority interest in net earnings of subsidiaries	(4,236)	(1,310)	—
Net earnings	$ 134,011	$ 94,852	$ 106,027
Weighted average number of common and common equivalent shares outstanding:			
Basic	48,460	49,129	49,808
Diluted	48,721	49,237	49,981
Earnings per share:			
Basic	$ 2.77	$ 1.93	$ 2.13
Diluted	$ 2.75	$ 1.93	$ 2.12

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	July 29, 2000	July 31, 1999	August 1, 1998
	Years Ended		
		(Restated)	(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	$ 134,011	$ 94,852	$ 106,027
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	68,878	64,921	60,097
Deferred income taxes	(4,791)	3,702	228
Minority interest	4,236	1,310	—
Other	4,457	(5,680)	1,299
Changes in current assets and liabilities:			
Accounts receivable	(11,103)	(1,999)	2,431
Merchandise inventories	(30,092)	(27,842)	(32,506)
Accounts payable and accrued liabilities	98,035	(18,784)	48,641
Other	(8,569)	8,151	(3,985)
NET CASH PROVIDED BY OPERATING ACTIVITIES	255,062	118,631	182,232
CASH FLOWS USED FOR INVESTING ACTIVITIES			
Additions to property and equipment	(89,032)	(91,026)	(81,176)
Purchases of held-to-maturity securities	(969,393)	(641,364)	(636,342)
Maturities of held-to-maturity securities	963,104	647,080	625,816
Acquisitions, net of cash acquired	—	(36,754)	(31,000)
NET CASH USED FOR INVESTING ACTIVITIES	(95,321)	(122,064)	(122,702)
CASH FLOWS USED FOR FINANCING ACTIVITIES			
Proceeds from borrowings	55,000	—	249,617
Repayment of debt	—	(10,000)	(265,000)
Repayment of receivables securitization	(246,000)	—	—
Proceeds from receivables securitization	225,000	—	—
Repurchase of common stock	(49,930)	(15,356)	(4,694)
Distribution paid	(2,435)	—	—
Other equity activities	4,818	1,336	330
NET CASH USED FOR FINANCING ACTIVITIES	(13,547)	(24,020)	(19,747)
CASH AND EQUIVALENTS			
Increase (decrease) during the year	146,194	(27,453)	39,783
Beginning balance	29,191	56,644	16,861
Ending balance	$ 175,385	$ 29,191	$ 56,644
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 24,777	$ 26,098	$ 20,932
Income taxes	$ 88,784	$ 62,626	$ 59,656

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In Thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings
BALANCE—AUGUST 3, 1997	49,873	$ 499	$ 485,658	$ 68,571
Adjustment for sales returns reserve, net	—	—	—	(9,440)
Adjustment for change of accounting method for inventories, net	—	—	—	9,060
RESTATED BALANCE—AUGUST 3, 1997	49,873	499	485,658	68,191
Net earnings	—	—	—	106,027
Repurchase of common stock	(160)	(2)	(4,692)	—
Other equity transactions	47	1	329	—
BALANCE—AUGUST 1, 1998	49,760	498	481,295	174,218
Net earnings	—	—	—	94,852
Repurchase of common stock	(827)	(11)	(15,345)	—
Other equity transactions	106	3	1,333	—
BALANCE—JULY 31, 1999	49,039	490	467,283	269,070
Net earnings	—	—	—	134,011
Repurchase of common stock	(2,075)	(21)	(49,909)	—
Other equity transactions	495	6	4,812	—
BALANCE—JULY 29, 2000	47,459	$ 475	$ 422,186	$ 403,081

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.

Prior year amounts have been restated and 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.

UNDIVIDED INTERESTS IN NMG CREDIT CARD MASTER TRUST

The Company's five year revolving securitization of its accounts receivable matured in July 2000. During the year ended July 29, 2000, the Company used its credit facility to repay the $246 million of certificates which matured under the 1995 securitization. In July 2000, the Company ultimately financed the repayment of the certificates primarily with the proceeds from a new five year, floating rate securitization transaction.

Under the new securitization, the Company sold substantially all of its Neiman Marcus and Bergdorf Goodman credit card receivables through a subsidiary to The Neiman Marcus Group Master Trust (the "Trust") in exchange for certificates representing undivided interests in such receivables. The undivided interests in the Trust include the interests retained by the Company's subsidiary which are represented by the Class B Certificate ($23.8 million), Class C Certificate ($68.2 million) and the Seller's Certificate (the excess of the total receivables transferred to the Trust over the portion represented by $225 million Class A Certificates sold to investors and the Class B and Class C Certificates). The undivided interests in the Trust represent securities which the Company intends to hold to maturity in accordance with Statement of Financial Accounting Standards 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 Trust approximates fair value.

MERCHANDISE INVENTORIES

In fiscal 2000, the Company changed its method of determining the cost of inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. Management believes that the FIFO method better measures the current value of such inventories and provides a more appropriate matching of revenues and expenses. Under the current low-inflationary environment, the use of the FIFO method more accurately reflects the Company's financial position.

The change to the FIFO method has been applied by retroactively restating the accompanying consolidated financial statements. The effect of this change was to increase merchandise inventories, taxes payable and retained earnings by $15.1 million, $6.0 million and $9.1 million, respectively, as of August 2, 1997. For the years ended July 31, 1999 and August 1, 1998, the effect of the change increased net earnings by $1.3 million and decreased net earnings by $.3 million, respectively. For the years ended July 31, 1999 and August 1, 1998, the effect of the change increased diluted earnings per share by $.03 and decreased diluted earnings per share by $.01.

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.

DERIVATIVES

The Company uses treasury lock agreements (a derivative) as a means of managing interest-rate risk associated with current debt or anticipated debt transactions. The differentials to be received or paid under these contracts designated as hedges are deferred and amortized to interest expense over the remaining life of the associated debt. The Company also enters into forward foreign currency exchange contracts to minimize foreign currency exposure related to purchases of inventory. Gains and losses related to such contracts which qualify as hedges are deferred and recognized in the period the hedge settles. Gains and losses which do not qualify as hedges are marked to market and recognized currently. Derivative financial instruments are not held for trading purposes.

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 are amortized on a straight-line basis over their estimated useful lives, ranging from four to 40 years. Amortization expense was $6.3 million in 2000, $6.4 million in 1999 and $4.8 million in 1998.

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 to evaluate the reasonableness of the depreciation or amortization periods.

INCOME TAXES

Income taxes are calculated in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109) "Accounting for Income Taxes." SFAS 109 requires the asset and liability method of accounting for income taxes.

REVENUE RECOGNITION

The Company recognizes revenue at point-of-sale or upon shipment. Sales from leased departments were previously recorded on a gross basis, with separate presentation of sales and cost of goods sold. In accordance with the provisions of Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements,” the current year presentation has been changed and previous years restated. As restated, commissions from leased departments are included in total revenues. Such restatements had no impact on previously reported gross profit, operating earnings, net earnings, shareholders’ equity or cash flows.

Prior to fiscal 2000, the Company did not record sales returns on the accrual basis of accounting because the difference between the cash and accrual basis was not material. In fiscal 2000, the Company began accruing sales returns. Accordingly, the Company restated prior periods to adjust the opening balance sheet as of August 2, 1997 to establish a returns reserve of $16.0 million (classified in current liabilities), record a corresponding increase in deferred tax assets of $6.6 million and a decrease in retained earnings of $9.4 million. In fiscal 2000, the Company recorded a charge of $4.3 million or $.06 per share. Such charge included $1.9 million, or $.02 per share, which related to fiscal years 1999 and 1998. The 1999 and 1998 net income was not restated as such amounts were not material.

FINANCE CHARGE INCOME AND CREDIT RISK

The Company’s credit operations generate finance charge income, which is recognized as income when earned and is recorded as a reduction of selling, general and administrative expenses. Finance charge income amounted to $51.9 million in 2000, $45.8 million in 1999 and $47.8 million in 1998. The securitization of the Company’s credit card receivables had the effect of reducing finance change income by $13.2 million in 2000 and $19.0 million in each of 1999 and 1998.

Concentration of credit risk with respect to trade receivables is limited due to the large number of customers to whom the Company extends credit. Ongoing credit evaluation of customers’ financial positions is performed, and collateral is not required as a condition of extending credit. The Company maintains reserves for potential credit losses.

PREOPENING EXPENSES

Costs associated with the opening of new stores are expensed as incurred.

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 $140.4 million, $125.0 million and $114.4 million in 2000, 1999 and 1998, respectively. Direct response advertising amounts included in other current assets in the consolidated balance sheets as of July 29, 2000 and July 31, 1999 were $12.7 million and $10.6 million, respectively.

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 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.

RECENT ACCOUNTING DEVELOPMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which will require recognition and measurement of all derivatives as either assets or liabilities on the balance sheet at fair value. In June 1999, the issuance of SFAS 137, "Accounting for Derivative Instruments and Hedging Activities," delayed the provisions of SFAS 133 to be effective for fiscal 2001. The Company believes that the effect of adopting these new standards relates primarily to its use of forward foreign currency contracts. The Company expects that such contracts, used to manage foreign currency risk related to the purchase of merchandise inventories, will meet the criteria for hedge accounting and, as a result, the changes in fair values of these contracts will be reported in other comprehensive income rather than in results of operations. The Company does not expect such amounts to be material.

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 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 for the period from February 1, 1999 are included in the accompanying consolidated financial statements. 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. Assets acquired and liabilities assumed have been recorded at their estimated fair values.

On November 2, 1998, the Company acquired a 51% interest in Gurwitch Bristow Products for approximately $6.7 million in cash. Gurwitch Bristow Products manufactures and markets the Laura Mercier cosmetic line. The acquisition has been accounted for by the purchase method of accounting and, accordingly, the results of operations of Gurwitch Bristow Products for the period from November 2, 1998 are included in the accompanying consolidated financial statements. The excess of cost over the estimated fair value of net assets acquired of $5.3 million was allocated to trademarks, which is amortized on a straight-line basis over 25 years. Assets acquired and liabilities assumed have been recorded at their estimated fair values.

On January 5, 1998, the Company acquired Chef's Catalog for approximately $31.0 million in cash. Chef's Catalog is a direct marketer of gourmet cookware and high-end kitchenware, and its operations have been integrated with Neiman Marcus Direct. The acquisition has been accounted for by the purchase method of accounting and, accordingly, the results of operations of Chef's Catalog for the period from the date of acquisition are included in the accompanying consolidated financial statements. The excess of cost over the estimated fair value of net assets acquired of $30.3 million was allocated to goodwill, customer lists, and trademarks, which are amortized on a straight-line basis over lives of 30 years, four years and 30 years, respectively.

These acquisitions did not materially impact consolidated results, and therefore no pro forma information is provided.

NOTE 3. Other Assets

(In Thousands)	July 29, 2000	July 31, 1999
Trademarks	$ 126,654	$ 126,654
Goodwill	33,202	33,202
Other	18,600	18,600
	178,456	178,456
Accumulated amortization	(49,875)	(43,603)
Trademarks and other intangible assets, net	$ 128,581	$ 134,853

Trademarks and goodwill are amortized using the straight-line method over their estimated useful lives, ranging from 25 to 40 years. Customer lists (which are included in Other) are amortized using the straight-line method over their estimated useful lives, ranging from four to 11 years.

NOTE 4. Accrued Liabilities

Accrued liabilities consisted of the following:

(In Thousands)	July 29, 2000	July 31, 1999
Accrued salaries and related liabilities	$ 46,314	$ 33,698
Self-insurance reserves	23,472	25,436
Income taxes payable	24,837	27,474
Other	125,939	105,580
	$ 220,562	$ 192,188

NOTE 5. Notes and Debentures

Notes and debentures consisted of the following:

(In Thousands)	Interest Rate	July 29, 2000	July 31, 1999
Revolving credit facility	Variable	$ 80,000	$ 25,000
Senior notes	6.65%	124,879	124,863
Senior debentures	7.125%	124,784	124,777
		$ 329,663	$ 274,640

The Company has a revolving credit facility with 21 banks, pursuant to which the Company may borrow up to $450 million. In September 1999, the Company reduced the revolving credit facility from $650 million to reflect its current and anticipated cash flow requirements. The facility, which expires in October 2002, may be terminated by the Company at any time on three business days' notice. The rate of interest payable (6.9% at July 29, 2000) varies according to one of four pricing options selected by the Company. The revolving credit facility contains covenants which require the Company to maintain certain leverage and fixed charge ratios.

In May 1998, the Company issued $250 million of senior notes and debentures to the public. The proceeds of the debt offering 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.

The aggregate maturities of notes and debentures are $0 in fiscal 2001 and fiscal 2002, $80.0 million in fiscal 2003, $0 in fiscal 2004 and fiscal 2005 and $249.7 million thereafter.

NOTE 6. 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. 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 are parties to an agreement pursuant to which Harcourt General provides certain management, accounting, financial, legal, tax and other corporate services to the Company. The fees for these services are based on Harcourt General's costs and are subject to the approval of a committee of directors of the Company who are independent of Harcourt General. This agreement may be terminated by either party on 180 days' notice. Charges to the Company under this agreement were $6.2 million in 2000, $6.0 million in 1999 and $5.4 million in 1998.

Most of the senior officers of the Company serve in similar capacities with Harcourt General. Three of such officers also serve as directors of both companies.

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.

STOCKHOLDER RIGHTS PLAN

On October 6, 1999, the Company's Board of Directors adopted a stockholder rights plan. The rights plan is designed to improve the ability of the Company's board to protect and advance the interests of the Company's stockholders 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 the Loan Plan, outstanding loans were used 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 as of July 29, 2000 were $1.7 million.

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 (SARs) and stock-based awards to its employees. The Company applies Accounting Principles Board (APB) Opinion No. 25 and related interpretations in accounting for its plans. 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. The effect of actual forfeitures is recognized, prospectively, upon occurrence.

The Company has adopted the disclosure-only provision of the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). Had the fair-value based method of accounting been applied at grant date to the Company's stock incentive plans, net earnings and earnings per share would have been reduced to pro forma amounts for the years ended July 29, 2000, July 31, 1999 and August 1, 1998 as follows:

(In Thousands, Except for Per Share Amounts)	2000	1999	1998
Net earnings:		(Restated)	(Restated)
As reported	$ 134,011	$ 94,852	$ 106,027
Pro forma	$ 129,914	$ 93,028	$ 105,039
Basic earnings per share:			
As reported	$ 2.77	$ 1.93	$ 2.13
Pro forma	$ 2.68	$ 1.89	$ 2.11
Diluted earnings per share:			
As reported	$ 2.75	$ 1.93	$ 2.12
Pro forma	$ 2.67	$ 1.89	$ 2.10

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 period of the stock options and the potential for issuance of additional stock options in future years. In addition, the disclosure requirements of SFAS 123 are applicable only to options granted subsequent to July 30, 1995.

The Company has adopted the 1997 Incentive Plan (the "1997 Plan") which is currently used for grants of equity-based awards to employees. All outstanding equity-based awards at July 29, 2000 were granted under the Company's 1997 Plan and the 1987 Stock Incentive Plan. At July 29, 2000, there were 2.2 million shares of common stock available for grants under the 1997 Plan.

In fiscal years 2000, 1999 and 1998, the Company granted 453,500 restricted shares, 58,300 restricted shares and 46,650 restricted shares, respectively, at weighted-average grant date fair values of $23.50, $24.81 and $32.94. The Company records compensation expense on a straight-line basis over the expected life of the restricted stock granted. Compensation expense related to restricted stock grants was $2.6 million, $1.1 million and $0.8 million in fiscal years 2000, 1999 and 1998, respectively.

Options outstanding at July 29, 2000 were granted at prices (not less than 100% of the fair market value on the date of the grant) varying from $11.63 to $33.38. Options generally vest ratably over five years and expire after ten years. There were 127 employees with options outstanding at July 29, 2000. For all outstanding options at July 29, 2000, the weighted-average exercise price was $24.28 and the weighted -average remaining contractual life was approximately 7.9 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 2000, 1999 and 1998, respectively:

	2000	1999	1998
Expected life (years)	7	7	8
Expected volatility	40.8%	45.6%	29.4%
Risk-free interest rate	6.0%	6.0%	5.5%

A summary of the status of the Company's 1997 and 1987 Stock Incentive Plans as of July 29, 2000, July 31, 1999 and August 1, 1998 and changes during the years ending on those dates is presented below:

	2000		1999		1998	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year	1,179,700	$ 24.36	847,960	$ 23.83	660,780	$ 17.95
Granted	1,410,150	23.93	468,000	24.82	325,800	32.87
SAR Surrenders	—	—	—	—	(107,240)	17.75
Exercised	(80,800)	15.08	(47,400)	14.62	(2,300)	14.90
Canceled	(231,950)	25.22	(88,860)	26.98	(29,080)	24.92
Outstanding at end of year	2,277,100	$ 24.28	1,179,700	$ 24.36	847,960	$ 23.83
Options exercisable at year-end	515,180	$ 22.06	403,150	$ 19.23	286,700	$ 15.53

The weighted-average fair value of options granted in 2000, 1999 and 1998 was $12.83, $14.17 and $15.94, respectively.

The following summarizes information about the Company's stock options as of July 29, 2000.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding At 7/29/00	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares Outstanding At 7/29/00	Weighted-Average Exercise Price
$11.63 – $15.38	275,350	3.1	$ 14.23	260,850	$ 14.17
$22.94 – $24.94	1,384,750	8.9	$ 23.61	89,000	$ 24.82
$25.94 – $29.19	282,100	9.4	$ 27.00	2,200	$ 29.19
$32.94 – $33.38	334,900	6.5	$ 33.05	163,130	$ 33.08
$11.63 – $33.38	2,277,100	7.9	$ 24.28	515,180	$ 22.06

NOTE 7. 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 two million shares. In April 2000, the Company's Board of Directors authorized the repurchase of an additional two million shares.

During the year ended July 29, 2000, the Company repurchased 2,075,400 shares at an average price of $24.06 per share under this stock repurchase program; 1,924,600 shares were remaining under this program at July 29, 2000. During the years ended July 31, 1999 and August 1, 1998, the Company repurchased 827,000 and 160,100 shares at an average price of $18.57 and $29.32 per share, respectively.

NOTE 8. Income Taxes

Income tax expense was as follows:

	Years ended		
(In Thousands)	July 29, 2000	July 31, 1999	August 1, 1998
Current:		(Restated)	(Restated)
Federal	$ 82,371	$ 57,167	$ 61,925
State	7,152	7,309	8,532
	89,523	64,476	70,457
Deferred:			
Federal	(4,328)	(1,993)	(101)
State	(463)	(1,003)	329
	(4,791)	(2,996)	228
Income tax expense	$ 84,732	$ 61,480	$ 70,685

The Company's effective income tax rate was 38% in 2000, 39% in 1999 and 40% in 1998. The difference between the statutory federal tax rate and the effective tax rate is due primarily to state income taxes.

Significant components of the Company's net deferred income tax liability stated on a gross basis were as follows:

(In Thousands)	July 29, 2000	July 31, 1999
Gross deferred income tax assets:		(Restated)
Financial accruals and reserves	$ 26,444	$ 23,871
Employee benefits	26,166	25,640
Inventories	2,238	2,667
Deferred lease payments	1,658	2,003
Other	572	493
Total deferred tax assets	57,078	54,674
Gross deferred income tax liabilities:		
Excess tax depreciation	(54,042)	(55,610)
Pension accrual	(1,590)	(1,273)
Other assets previously deducted on tax return	(6,878)	(8,014)
Total deferred tax liabilities	(62,510)	(64,897)
Net deferred income tax liability	($ 5,432)	($ 10,223)

NOTE 9. 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.

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 $1.6 million during 2000, $1.2 million during 1999 and $1.3 million during 1998.

Components of net pension expense were as follows:

	Years Ended		
(In Thousands)	July 29, 2000	July 31, 1999	August 1, 1998
Service cost	$ 7,696	$ 7,160	$ 5,527
Interest cost on projected benefit obligation	13,760	12,641	10,843
Expected return on assets	(13,637)	(11,826)	(9,270)
Net amortization and deferral	1,036	1,208	1,178
Net pension expense	$ 8,855	$ 9,183	$ 8,278

The periodic postretirement health care benefit cost was as follows:

(In Thousands)	Years Ended July 29, 2000	July 31, 1999	August 1, 1998
Service cost	$ 75	$ 136	$ 155
Interest cost on accumulated benefit obligation	856	1,151	1,282
Net amortization and deferral	(342)	(17)	(30)
Net periodic cost	$ 589	$ 1,270	$ 1,407

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:

(In Thousands)	Pension Benefits 2000	Pension Benefits 1999	Postretirement Benefits 2000	Postretirement Benefits 1999
Benefit obligations at beginning of year	$ 183,772	$ 179,427	$ 13,642	$ 16,942
Service cost	7,696	7,160	75	136
Interest	13,760	12,641	856	1,151
Benefits paid	(7,495)	(5,710)	(1,574)	(1,247)
Actuarial gain	(7,965)	(9,746)	(2,035)	(3,340)
Benefit obligations at end of year	$ 189,768	$ 183,772	$ 10,964	$ 13,642

CHANGE IN PLAN ASSETS:

(In Thousands)	Pension Plans 2000	Pension Plans 1999
Fair value of plan assets at beginning of year	$ 163,665	$ 159,093
Actual return on assets	21,011	9,302
Company contributions	2,243	980
Benefits paid	(7,495)	(5,710)
Fair value of plan assets at end of year	$ 179,424	$ 163,665

FUNDED STATUS:

(In Thousands)	Pension Plans 2000	Pension Plans 1999	Postretirement Plans 2000	Postretirement Plans 1999
Fair value of plan assets less than benefit obligation	($ 10,344)	($ 20,107)	($ 10,964)	($ 13,642)
Unrecognized net actuarial gain	(25,027)	(9,195)	(7,036)	(5,343)
Unrecognized prior service cost	4,794	4,845	—	—
Unrecognized net obligation at transition	1,815	2,305	—	—
Liability recognized in the consolidated balance sheets	($ 28,762)	($ 22,152)	($ 18,000)	($ 18,985)

WEIGHTED-AVERAGE ASSUMPTIONS:

	Pension Benefits 2000	1999	1998
Discount rate	7.75%	7.5%	7.0%
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 7.75% in 2000, 7.5% in 1999 and 7.0% in 1998.

For measurement purposes, a 6.0% annual rate of increase in the per capita cost of covered care benefits was assumed for fiscal 2001, and a 5.0% annual rate was assumed for fiscal 2002 and beyond.

If the health care trend rate was increased one percentage point, postretirement benefit costs for the year ended July 29, 2000 would have been $.1 million higher, and the accumulated postretirement benefit obligation as of July 29, 2000 would have been $1.1 million higher. If the health care trend rate was decreased one percentage point, postretirement benefit costs for the year ended July 29, 2000 would have been $.1 million lower, and the accumulated postretirement benefit obligations as of July 29, 2000 would have been $.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 matches 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. Company contributions for the years ended July 29, 2000, July 31, 1999 and August 1, 1998 were $4.3 million, $2.9 million, and $2.9 million, respectively.

NOTE 10. 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 29, 2000	July 31, 1999	August 1, 1998
Minimum rent	$ 36,100	$ 34,000	$ 31,800
Rent based on revenues	16,000	14,500	13,300
Total rent expense	$ 52,100	$ 48,500	$ 45,100

Future minimum lease payments, excluding renewal options, under operating leases are as follows: fiscal 2001—$38.6 million; fiscal 2002—$38.3 million; fiscal 2003—$36.9 million; fiscal 2004—$40.0 million; fiscal 2005—$39.3 million; all years thereafter—$527.4 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 $12.9 million of outstanding irrevocable letters of credit relating to purchase commitments and insurance liabilities at July 29, 2000.

FORWARD FOREIGN CURRENCY CONTRACTS

At July 29, 2000, the Company had forward foreign currency contracts outstanding, which mature at various dates through August 2001, to buy the equivalent of $52.4 million of inventory. The fair value of such contracts was approximately $3.0 million lower than their contractual value, with such difference included in results of operations in fiscal 2000.

NOTE 11. Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments are as reported and disclosed in the consolidated financial statements, and as discussed below.

DEBT

The fair values of the Company's senior notes and debentures were $215.2 million and $230.4 million, as of July 29, 2000 and July 31, 1999, respectively, and were based upon quoted prices and comparable publicly traded issues. The corresponding book values of the Company's senior notes and debentures were $249.7 million and $249.6 million as of July 29, 2000 and July 31, 1999, respectively.

NOTE 12. Earnings Per Share

Pursuant to the provisions of SFAS 128, 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 614,500 shares and 395,910 shares of common stock were not included in the computations of diluted EPS for the years ended July 29, 2000 and July 31, 1999, respectively, because the exercise price of those options was greater than the average market price of the common shares. All options were included in the computation of diluted EPS for the year ended August 1, 1998 because the exercise price of those options was less than the average market price of the common shares.

	Year Ended		
(In Thousands of Shares)	July 29, 2000	July 31, 1999	August 1, 1998
Shares for computation of basic EPS	48,460	49,129	49,808
Effect of dilutive stock options and nonvested stock under common stock incentive plans	261	108	173
Shares for computation of diluted EPS	48,721	49,237	49,981

NOTE 13. Segment Reporting

In 1999, the Company adopted SFAS 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, and neither interest expense nor depreciation and amortization by segment is regularly reviewed by senior management.

In applying SFAS 131, the Company identified two reportable segments, which are as follows: 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 Catalog and the Neiman Marcus Christmas Catalogue. Other includes corporate expenses, costs incurred to launch the Company's e-commerce business, and operations which do not meet the quantitative thresholds of SFAS 131, including Kate Spade and Gurwitch Bristow Products.

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

	Year ended		
(In Thousands)	July 29, 2000	July 31, 1999	August 1, 1998
REVENUES:		(Restated)	(Restated)
Specialty Retail Stores	$ 2,424,909	$ 2,171,038	$ 2,053,890
Direct Marketing	363,815	321,747	283,794
Other	65,905	22,223	—
Total	$ 2,854,629	$ 2,515,008	$ 2,337,684
OPERATING EARNINGS:			
Specialty Retail Stores	$ 248,452	$ 180,182	$ 197,623
Direct Marketing	24,369	14,543	15,571
Other	(24,467)	(12,111)	(14,620)
Total	$ 248,354	$ 182,614	$ 198,574
CAPITAL EXPENDITURES:			
Specialty Retail Stores	$ 73,234	$ 89,296	$ 79,920
Direct Marketing	3,298	970	1,256
Other	12,500	760	—
Total	$ 89,032	$ 91,026	$ 81,176

NOTE 14. Quarterly Financial Information (unaudited)

(In Millions, Except for Per Share Data)	First Quarter (Restated)	Second Quarter (Restated)	Third Quarter (Restated)	Fourth Quarter	Total
	Year Ended July 29, 2000				
Revenues	$ 668.3	$ 878.1	$ 683.8	$ 624.4	$ 2,854.6
Gross profit	$ 252.0	$ 288.7	$ 256.7	$ 192.2	$ 989.6
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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	Year Ended July 31, 1999 (Restated)				
Revenues	$ 578.7	$ 779.6	$ 602.6	$ 554.1	$ 2,515.0
Gross profit	$ 203.2	$ 242.4	$ 215.3	$ 154.0	$ 814.9
Net earnings	$ 25.6	$ 31.2	$ 35.8	$ 2.3	$ 94.9
Earnings per share:					
Basic	$ 0.52	$ 0.64	$ 0.73	$ 0.05	$ 1.93
Diluted	$ 0.52	$ 0.64	$ 0.73	$ 0.05	$ 1.93

INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS AND SHAREHOLDERS
THE NEIMAN MARCUS GROUP, INC.
CHESTNUT HILL, MASSACHUSETTS

We have audited the accompanying consolidated balance sheets of The Neiman Marcus Group, Inc. and subsidiaries as of July 29, 2000 and July 31, 1999, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three fiscal years in the period ended July 29, 2000. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Neiman Marcus Group, Inc. and subsidiaries as of July 29, 2000 and July 31, 1999, and the results of their operations and their cash flows for each of the three fiscal years in the period ended July 29, 2000, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the accompanying financial statements have been restated to reflect an accrual for sales returns and to change the method of accounting for inventories.

DELOITTE & TOUCHE LLP
Boston, Massachusetts
August 31, 2000

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.

JOHN R. COOK
Senior Vice President and
Chief Financial Officer

CATHERINE N. JANOWSKI
Vice President and Controller

SELECTED FINANCIAL DATA (unaudited)

(In Millions, Except for Per Share Data)	July 29, 2000	July 31, 1999	August 1, 1998	August 2, 1997	August 3, 1996[a]
	Years Ended				
OPERATING RESULTS:		(Restated)	(Restated)	(Restated)	(Restated)
Revenues	$ 2,854.6	$ 2,515.0	$ 2,337.7	$ 2,180.6	$ 2,042.4
Net earnings	$ 134.0	$ 94.9	$ 106.0	$ 92.1	$ 77.0
Net earnings applicable to common shareholders	$ 134.0	$ 94.9	$ 106.0	$ 63.6	$ 47.9
Basic amounts per share applicable to common shareholders:					
Basic net earnings	$ 2.77	$ 1.93	$ 2.13	$ 1.35	$ 1.26
Diluted amounts per share applicable to common shareholders:					
Diluted net earnings	$ 2.75	$ 1.93	$ 2.12	$ 1.34	$ 1.25
FINANCIAL POSITION:					
Total assets	$ 1,762.1	$ 1,518.9	$ 1,459.0	$ 1,309.5	$ 1,272.4
Long-term liabilities	$ 435.1	$ 381.3	$ 392.8	$ 401.6	$ 395.3

The selected financial data should be read in conjunction with the Consolidated Financial Statements contained elsewhere in this report.

(a) Fiscal 1996 was a 53-week year.

SHAREHOLDER INFORMATION

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

CORPORATE RELATIONS DEPARTMENT

The Neiman Marcus Group, Inc.
Post Office Box 9187
Chestnut Hill, MA 02467-9187
(617) 232-0760

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 Corporate Relations Department of the Company.

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on Friday, January 19, 2001 at 10:00 a.m. at the Company's Corporate Headquarters, 27 Boylston Street, Chestnut Hill, Massachusetts.

SHARES OUTSTANDING

The Neiman Marcus Group had 27.5 million shares of Class A Common Stock and 19.9 million shares of Class B Common Stock outstanding, and 11,355 and 4,126 common shareholders of record, respectively, at July 29, 2000.

CORPORATE ADDRESS

The Neiman Marcus Group, Inc.
27 Boylston Street
Post Office Box 9187
Chestnut Hill, MA 02467-9187
(617) 232-0760

STOCK INFORMATION

The Neiman Marcus Group'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.

The following table indicates for the past two fiscal years the quarterly price range of the Common Stock, traded under the symbol NMG prior to the Company's recapitalization during the first quarter of fiscal 2000.

	NMG.A 2000		NMG.B 2000		1999	
Quarter	High	Low	High	Low	High	Low
First	$ 25.06	$ 21.31	$ 24.75	$ 21.06	$ 33.50	$ 16.08
Second	$ 28.69	$ 23.00	$ 27.00	$ 21.13	$ 26.75	$ 22.08
Third	$ 28.50	$ 20.00	$ 28.31	$ 19.25	$ 27.00	$ 22.00
Fourth	$ 33.19	$ 24.00	$ 32.00	$ 23.13	$ 31.00	$ 24.18

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

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

ROBERT A. SMITH
Co-Chief Executive Officer
1, 2

BRIAN J. KNEZ
Co-Chief Executive Officer
1, 2

JOHN R. COOK
Senior Vice President and
Chief Financial Officer
2

EXECUTIVE OFFICERS

RICHARD A. SMITH
Chairman of the Board

ROBERT A. SMITH
Co-Chief Executive Officer

BRIAN J. KNEZ
Co-Chief Executive Officer

BURTON M. TANSKY
President and Chief Operating Officer

JOHN R. COOK
Senior Vice President and
Chief Financial Officer

ERIC P. GELLER
Senior Vice President,
General Counsel and Secretary

OPERATING OFFICERS

Neiman Marcus Stores

H. W. MULLINS
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

PETER FARWELL
Vice President – Corporate Relations

PAUL F. GIBBONS
Vice President and Treasurer

GERALD T. HUGHES
Vice President – Human Resources

CATHERINE N. JANOWSKI
Vice President and Controller

GAIL S. MANN
Vice President – Corporate Law

MICHAEL F. PANUTICH
Vice President – General Auditor

PAUL J. ROBERSHOTTE
Vice President – Strategy and Business Development

KATHI L. HARTMAN
Associate Vice President – Compliance and Business Ethics

SCOTT E. SHAREK
Associate Vice President – Taxes

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

MISSION STATEMENT

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.

27 Boylston Street Chestnut Hill, Massachusetts 02467