NEIMAN MARCUS GROUP INC
Form S-1
August 04, 2006

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As filed with the Securities and Exchange Commission on August 4, 2006

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

THE NEIMAN MARCUS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**5311**	**95-4119509**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

One Marcus Square, 1618 Main Street, Dallas, Texas 75201, (214) 741-6911
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

ADDITIONAL REGISTRANT GUARANTOR

Neiman Marcus, Inc.	**Delaware**	**5311**	**20-3509435**
(Exact name of Registrant as specified in its charter)	(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

Nelson A. Bangs, Esq. **The Neiman Marcus Group, Inc.** **One Marcus Square, 1618 Main Street** **Dallas, Texas 75201** **(214) 741-6911** (Name, address, including zip code, and telephone number, including area code, of agent for service)	**Robert P. Davis, Esq.** **Cleary Gottlieb Steen & Hamilton LLP** **One Liberty Plaza** **New York, New York 10006** **(212) 225-2670** (Copies of all communications, including communications sent to agent for service)

Approximate date of commencement of proposed sale to the public:

As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ý

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Debenture	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
				(2)
7.125% Senior Debentures due 2028	(1)		(1)	
Guarantee of 7.125% Senior Debentures due 2028	(1)		(1)	(4)

(1) This Registration Statement registers an indeterminate number of securities to be offered solely for market-making purposes by an affiliate of the registrant.

(2) Pursuant to Rule 457(a) under the Securities act of 1933, as amended (the "Securities Act"), no filing fee is required.

(3) The 7.125% Debentures due 2028 are guaranteed by Neiman Marcus, Inc.

(4) Pursuant to Rule 457(n) under the Securities act, no separate filing fee is required for the guarantee.

The registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

PRELIMINARY PROSPECTUS

Subject to Completion, , 2006

The Neiman Marcus Group, Inc.

7.125% Senior Debentures due 2028

The 7.125% senior debentures due 2028 ("the 2028 debentures") will mature on June 1, 2028. Interest on the 2028 debentures is payable on each June 1 and December 1. The 2028 debentures are our senior obligations and rank equal in right of payment with all of our existing and future senior indebtedness, senior to all of our existing and future subordinated indebtedness, and effectively junior to all of our existing and future indebtedness that is secured by collateral that does not also secure the 2028 debentures, to the extent of the value of such assets securing such other obligations.

The 2028 debentures were unsecured when originally issued, but were granted security pursuant to the requirements of the negative pledge covenant contained in the indenture governing the 2028 debentures, as a result of our incurrence of secured indebtedness in the Transactions (as defined below). The 2028 debentures are currently equally and ratably secured by a first lien security interest on specified collateral that also secures our senior secured credit facilities. Because the 2028 debentures' security interest on the specified collateral has been granted only for purposes of compliance with the negative pledge covenant contained in the indenture governing the 2028 debentures, the 2028 debentures are secured only for so long as the senior secured credit facilities (or other secured indebtedness subject to the 2028 debentures' negative pledge clause) and the liens thereunder remain in existence and the specified collateral is subject to release under the senior secured credit facilities without the consent of holders of the 2028 debentures.

Neiman Marcus, Inc. (formerly known as Newton Acquisition, Inc.), our parent company ("Parent"), has unconditionally guaranteed the 2028 debentures with a guarantee that ranks equal in right of payment to all of its senior indebtedness.

The 2028 debentures are redeemable, in whole or in part, at our option, at any time, at a redemption price equal to the greater of (a) 100% of the principal amount of such debentures and (b) the sum of the present values of the remaining scheduled payments, discounted on a semiannual basis at the treasury rate determined as described in this prospectus plus 20 basis points, plus accrued interest to the date of redemption.

The 2028 debentures are represented by global debentures registered in the name of The Depository Trust Company.

You should consider carefully the "Risk Factors" beginning on page 15 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

This prospectus will be used by Credit Suisse Securities (USA) LLC in connection with offers and sales in market-making transactions at negotiated prices related to prevailing market prices. There is currently no public market for the securities. We do not intend to list the securities on any securities exchange. Credit Suisse Securities (USA) LLC has advised us that it is currently making a market in the securities; however, it is not obligated to do so and may stop at any time. Credit Suisse Securities (USA) LLC may act as principal or agent in any such transaction. We will not receive the proceeds of the sale of the securities but will bear the expenses of registration. See "Plan of Distribution."

Credit Suisse

The date of this prospectus is , 2006.

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WHERE YOU CAN FIND MORE INFORMATION

We and our Parent have filed with the Securities and Exchange Commission, or the SEC, a registration statement on Form S-1 under the Securities Act with respect to the 2028 debentures. This prospectus, which forms a part of the registration statement, does not contain all of the information set forth in the registration statement. For further information with respect to us and the 2028 debentures, reference is made to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete. We file reports and other information with the SEC. The registration statement, such reports and other information can be read and copied at the Public Reference Room of the SEC located at 100 F Street, N.E., Washington D.C. 20549. Copies of such materials, including copies of all or any portion of the registration statement, can be obtained from the Public Reference Room of the SEC at prescribed rates. You can call the SEC at 1-800-SEC-0330 to obtain information on the operation of the Public Reference Room. Such materials may also be accessed electronically by means of the SEC's home page on the Internet (http://www.sec.gov).

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements based on estimates and assumptions. Forward-looking statements give our current expectations or forecasts of future events. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "plan," "predict," "expect," "estimate," "intend," "would," "could," "should," "anticipate," "believe," "project" or "continue" or the negative thereof or other similar words. Any or all of our forward-looking statements in this prospectus may turn out to be incorrect, possibly to a material degree. Such statements can be affected by inaccurate assumptions we might make or by known or unknown risks or uncertainties. Consequently, no forward-looking statement can be guaranteed. Actual results may vary materially from our forward-looking statements. Investors are cautioned not to place undue reliance on any forward-looking statements.

Investors should also understand that it is not possible to predict or identify all the risks and uncertainties that could affect future events and should not consider the following list to be a complete statement of all potential risks and uncertainties. Important factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to:

Political and General Economic Conditions

- current political and general economic conditions or changes in such conditions including relationships between the United States and the countries from which we source our merchandise;
- terrorist activities in the United States and elsewhere;
- political, social, economic or other events resulting in the short- or long-term disruption in business at our stores, distribution centers or offices;

Customer Demographic Issues

- changes in the demographic or retail environment;
- changes in consumer confidence resulting in a reduction of discretionary spending on goods;
- changes in consumer preferences or fashion trends;
- changes in our relationships with key customers;
- changes in our proprietary credit card arrangement that adversely impact our ability to provide credit to our customers;

Merchandise Procurement and Supply Chain Considerations

- changes in our relationships with designers, vendors and other sources of merchandise, including adverse changes in their financial viability;
- delays in receipt of merchandise ordered due to work stoppages or other causes of delay in connection with either the manufacture or shipment of such merchandise;
- changes in foreign currency exchange or inflation rates;
- significant increases in paper, printing and postage costs;

Industry and Competitive Factors

competitive responses to our loyalty programs, marketing, merchandising and promotional efforts or inventory liquidations by vendors or other retailers;

- seasonality of the retail business;
- adverse weather conditions or natural disasters, particularly during peak selling seasons;
- delays in anticipated store openings and renovations;
- our success in enforcing our intellectual property rights;

Employee Considerations

- changes in key management personnel and our ability to retain key management personnel;
- changes in our relationships with certain of our key sales associates and our ability to retain our key sales associates;

Legal and Regulatory Issues

- changes in government or regulatory requirements increasing our costs of operations;
- litigation that may have an adverse effect on our financial results or reputation;

Issues Relating to the Terms of our Indebtedness

- the effects on us of incurring a substantial amount of indebtedness under our senior secured credit facilities and the notes;
- the effects on us of complying with the covenants contained in our senior secured credit facilities and the indentures governing the notes;
- restrictions the terms and conditions of the notes or our senior secured credit facilities may place on our ability to respond to changes in our business or to take certain actions;

Other Factors

- the design and implementation of new information systems as well as enhancements of existing systems; and
- other risks, uncertainties and factors set forth in this prospectus, including under "Risk Factors," and in our reports and documents filed with the SEC.

The foregoing factors are not exhaustive, and new factors may emerge or changes to the foregoing factors may occur that could impact our business. Except to the extent required by law, we undertake no obligation to update or revise (publicly or otherwise) any forward-looking statements to reflect subsequent events, new information or future circumstances.

You should review carefully the section captioned "Risk Factors" in this prospectus for a more complete discussion of the risks of an investment in the 2028 debentures.

ABOUT THIS PROSPECTUS

Unless the context otherwise indicates or requires, as used in this prospectus:

- the terms "we," "us," "our," "Company" or "Neiman Marcus" refer to The Neiman Marcus Group, Inc., and its consolidated subsidiaries, unless we expressly state otherwise or the context otherwise requires;

- references to the "Parent" are to Neiman Marcus, Inc. (formerly known as Newton Acquisition, Inc.);

- the term "domestic" refers to the United States and the term "international" refers to all countries other than the United States;

- references to the "Neiman Marcus stores" are to our 36 Neiman Marcus full-line stores;

- references to the "Bergdorf Goodman stores" are to our two Bergdorf Goodman full-line stores;

- references to "Specialty Retail" are to the Neiman Marcus stores, the Bergdorf Goodman stores and all clearance centers that the Company operates;

- references to "Neiman Marcus Direct" are to the direct-to-consumer segment of The Neiman Marcus Group, Inc. business, including catalog and online sales through the Neiman Marcus brand, catalog and online sales through the Horchow brand, and online sales through the Bergdorf Goodman brand;

- references to the "Brand Development Companies" are to Kate Spade LLC, in which we currently own a 56% interest, and Gurwitch Products, L.L.C., in which we previously owned a 51% interest;

- references to "comparable revenues" include (a) revenues derived from our Specialty Retail stores open for more than 52 weeks, including stores that have relocated or expanded, (b) revenues from our Neiman Marcus Direct operation and (c) revenues from our Brand Development Companies and exclude the revenues of closed stores and the revenues of our Chef's Catalog operations (sold in November 2004) for all periods prior to the Chef's Catalog Disposition (as defined below);

- references to the "2028 debenture indenture" are to the Indenture dated May 27, 1998 between The Neiman Marcus Group, Inc. and The Bank of New York Trust Company, N.A., as the successor trustee, as amended and supplemented;

- references to the "senior secured asset-based revolving credit facility" are to our $600 million senior secured asset-based revolving credit facility, references to the "senior secured term loan facility" are to our $1,975.0 million senior secured term loan facility and references to the "senior secured credit facilities" are to both such facilities;

- references to the "senior subordinated notes" are to our $10^3/_8$% Senior Subordinated Notes due 2015, references to the senior notes are to our 9%/$9^3/_4$% Senior Notes due 2015 and references to the "notes" are to both such series of notes;

- references to the "subsidiary guarantors" are to the Company's subsidiaries that have issued guaranties in respect of the senior secured facilities and the notes;

references to the "intercreditor agreement" are to the Pledge and Security and Intercreditor Agreement dated as of October 6, 2005 (as amended, the "intercreditor agreement"), among Neiman Marcus, Inc., The Neiman Marcus Group, Inc., the Subsidiaries party thereto and Credit Suisse, as administrative agent and collateral agent, as amended and supplemented;

references to the "collateral agent" are to the collateral agent designated under the intercreditor agreement (initially, Credit Suisse);

references to the "Sponsors" are to the investment funds affiliated with Texas Pacific Group and Warburg Pincus LLC that provided equity investments that funded a portion of the cash consideration paid as part of the merger;

references to "Sponsor Funds" are to investment funds associated with or designated by a Sponsor, including certain other funds which invested directly through a Sponsor Fund to provide equity financing for the Transactions (as defined below under "Summary The Transactions");

references to the "Co-Investors" are to certain investors who agreed to co-invest with the Sponsor Funds or through a vehicle jointly controlled by the Sponsors to provide equity financing for the Transactions;

references to "Management Participants" are to certain of our executive officers and members of our management who contributed equity financing for the Transactions;

references to the "Investors" are to the Sponsor Funds, the Co-Investors and the Management Participants;

the term "pro forma" refers to our financial information, as adjusted to give effect to the Transactions and the redemption after the closing date of the Transactions of our 6.65% senior notes due 2008, (the "2008 notes") and, unless already reflected in our historical financial statements, the Credit Card Sale (as defined below) and the Chef's Catalog Disposition, on the basis described, and subject to the qualifications expressed, under the heading "Unaudited Pro Forma Condensed Consolidated Financial Statements";

the term "CAGR" refers to compound annual growth rate;

references to the "closing date" are to October 6, 2005, the date of the closing of the acquisition of The Neiman Marcus Group, Inc. by Neiman Marcus, Inc. through the merger of Newton Acquisition Merger Sub, Inc. with and into The Neiman Marcus Group, Inc. pursuant to the Agreement and Plan of Merger dated as of May 1, 2005; and

references to any "fiscal year" are to our fiscal year, which ends on the Saturday closest to July 31 (in particular, fiscal year 2005 comprised the 52 weeks ended July 30, 2005, fiscal year 2004 comprised the 52 weeks ended July 31, 2004 and fiscal year 2003 comprised the 52 weeks ended August 2, 2003).

TRADEMARKS

"Neiman Marcus" and our corporate logo set forth on the cover of this prospectus are our registered trademarks in the United States. All other trademarks or service marks used herein are trademarks or service marks of the companies that use them.

MARKET AND INDUSTRY INFORMATION

We take responsibility for compiling and extracting, but neither we nor Credit Suisse Securities (USA) LLC have independently verified, market and industry data provided by third parties or by industry or general publications, and neither we nor Credit Suisse Securities (USA) LLC take further responsibility for these data. Similarly, while we believe our internal estimates are reliable, our estimates have not been verified by any independent sources, and neither we nor Credit Suisse Securities (USA) LLC can assure you that they are accurate.

SUMMARY

The following summary contains selected information about us and about this offering. It likely does not contain all of the information that is important to you. Before you make an investment decision, you should review this prospectus in its entirety, including the risk factors, our financial statements and the related notes and the unaudited pro forma financial statements appearing elsewhere in this prospectus.

The Neiman Marcus Group, Inc.

Overview

We are one of the nation's leading luxury retailers, offering distinctive merchandise and excellent customer service that cater to the needs of the affluent consumer. Since our founding in the early 1900s, we have established ourselves as a leading fashion authority among luxury consumers and have become a premier U.S. retail channel for many of the world's most exclusive designers. Currently, we operate 36 Neiman Marcus full-line stores at prime retail locations in major U.S. markets and two Bergdorf Goodman stores on Fifth Avenue in New York City. We also operate catalogs and e-commerce websites under the brands Neiman Marcus®, Bergdorf Goodman® and Horchow® and own a majority interest in Kate Spade LLC, which designs and markets high-end accessories. On July 27, 2006, we sold our former majority interest in Gurwitch Products, L.L.C., which designs and markets Laura Mercier® cosmetics. During fiscal year 2005 and the first three fiscal quarters of fiscal year 2006, we generated revenues of $3,821.9 million and $3,234.9 million, respectively, and operating earnings of $411.5 million and $309.3 million, respectively.

We operate an integrated, multi-channel retailing model as described below:

Specialty Retail. Our specialty retail store operations ("Specialty Retail") consist primarily of our 36 Neiman Marcus stores and two Bergdorf Goodman stores. We also operate 18 clearance centers to provide an outlet for the sale of end-of-season clearance merchandise. Over our past five fiscal years, Specialty Retail has achieved a compounded annual growth rate, or CAGR, in revenues of 4.9%. During fiscal year 2005 and the first three fiscal quarters of fiscal year 2006, Specialty Retail accounted for 81.2% and 81.3%, respectively, of our total revenues.

Neiman Marcus Stores. Neiman Marcus stores offer distinctive luxury merchandise, including women's couture and designer apparel, contemporary sportswear, handbags, fashion accessories, shoes, cosmetics, men's clothing and furnishings, precious and designer jewelry, decorative home accessories, fine china, crystal and silver, children's apparel and gift items. We locate our Neiman Marcus stores at carefully selected venues that cater to our target customers in major metropolitan markets across the United States, and design our stores to provide a feeling of residential luxury by blending art and architectural details from the communities in which they are located. During fiscal year 2005 and the first three fiscal quarters of fiscal year 2006, our full-line Neiman Marcus stores and clearance centers accounted for 70.4% and 70.3%, respectively, of our total revenues and 86.8% and 86.4%, respectively, of Specialty Retail revenues.

Bergdorf Goodman Stores. Bergdorf Goodman is a premier luxury retailer in New York City well known for its couture merchandise, opulent shopping environment and landmark Fifth Avenue locations. Bergdorf Goodman features high-end apparel, fashion accessories, shoes, traditional and contemporary decorative home accessories, precious and designer jewelry, cosmetics and gift items. During fiscal year 2005 and the first three fiscal quarters of fiscal year 2006, our Bergdorf Goodman stores accounted for 10.7% and 11.0%, respectively, of our total revenues and 13.2% and 13.6%, respectively, of Specialty Retail revenues.

Neiman Marcus Direct. Our upscale direct-to-consumer operation ("Neiman Marcus Direct") conducts catalog and online sales of fashion apparel, accessories and home furnishings through the Neiman Marcus brand, catalog and online sales of home furnishings and accessories through the Horchow brand, and online sales of fashion apparel and accessories through the Bergdorf Goodman brand.

In fiscal year 2005 and the first three fiscal quarters of fiscal year 2006, Neiman Marcus Direct generated revenues of $592.1 million, or 15.5%, and $504.0 million, or 15.6%, respectively, of our total revenues, with over one million customers making a purchase through one of our catalogs or websites in fiscal year 2005. Our catalog business circulated over 100 million catalogs in fiscal year 2005. We regularly send e-mails to over 1.7 million e-mail addresses, alerting our customers to our newest merchandise and the latest fashion trends. Over the last five fiscal years, Neiman Marcus Direct has achieved a CAGR in revenues of 7.9%.

Industry Overview

We operate in the luxury apparel and accessories segment of the U.S. retail industry and have arrangements with luxury-branded fashion vendors, including Chanel, Prada, St. John, David Yurman, Ermenegildo Zegna, Gucci, Giorgio Armani and Manolo Blahnik, to market and sell their merchandise. Luxury-branded fashion vendors typically manage the distribution and marketing of their merchandise to maximize the perception of brand exclusivity and to facilitate the sale of their goods at premium prices, including by limiting the number of retail locations through which they distribute their merchandise. These retail locations typically consist of a limited number of specialty stores, high-end department stores and, in some instances, vendor-owned proprietary boutiques. Retailers that compete with us for the distribution of luxury fashion brands include Saks Fifth Avenue, Nordstrom, Barney's New York and other national, regional and local retailers.

We believe that the following factors benefit well-positioned luxury retailers:

- attractive demographic trends, including increasing wealth concentration and an aging baby boomer population;
- growing consumer demand for prestige brands and exclusive products;
- retail consumption patterns of affluent consumers that are generally less influenced by economic cycles than middle-or-lower-income consumers;
- higher price points and limited distribution of luxury merchandise, which have generally protected high-end specialty retailing from the growth of discounters and mass merchandisers;
- aggressive marketing by luxury brands; and
- consumer trends towards aspirational lifestyles.

Our Competitive Strengths

We compete for customers with specialty retailers, traditional and high-end department stores, national apparel chains, vendor-owned proprietary boutiques, individual specialty apparel stores and direct marketing firms. We believe that the combination of the following competitive strengths differentiates our business:

Premier Luxury Retailer. With a heritage dating back over 100 years, we have established ourselves as a leading fashion authority among consumers seeking fine luxury apparel and accessories. We believe that we have differentiated ourselves in the U.S. luxury retail segment through our overall shopping experience, which includes our distinctive merchandise selection, excellent customer service, elegant shopping environments and prime store locations. Our buyers have developed strong relationships with preeminent luxury-branded fashion vendors around the world, which enhances the breadth and quality of our merchandise selection.

Focus on Customer Service. A key component of our premier shopping experience is our relationship-based customer service model. We have knowledgeable, professional and well-trained sales associates who are paid primarily on a commission basis. We empower all of our sales associates to act as personal shoppers and encourage them to develop long-term sales relationships with our customers rather than merely facilitate individual transactions. In addition, according to the 2005 National Retail Foundation annual compensation and benefits survey, our sales associate turnover rate is significantly below the average for U.S. retailers overall. We believe this low turnover rate further contributes to the quality and experience of our professional sales force.

Industry-Leading Loyalty Program. We also achieve substantial customer loyalty through our InCircle program at Neiman Marcus and Bergdorf Goodman, which focuses on our most active customers. The InCircle program, which we originally developed over 20 years ago for our Neiman Marcus stores and believe to be one of the first preferred customer loyalty programs of its kind, allows customers to accumulate points for qualifying purchases that can be redeemed for a wide variety of gifts, ranging from gift cards to designer merchandise and trips to exotic locations. The program also includes marketing features consisting of private, in-store events, special magazine issues that feature the latest fashion trends and luxury lifestyle articles and additional marketing campaigns. We believe our InCircle programs generate higher than average transaction sizes, repeat visits and overall customer loyalty. For example, using data from our private label credit card holders, we estimate that in calendar years 2004 and 2005, InCircle members visited our Neiman Marcus stores over five times more frequently than non-members, and spent three times as much per visit and almost 20 times as much in total as non-members. Approximately 46% of revenues at Neiman Marcus stores in calendar years 2004 and 2005 were generated by our InCircle members.

Long-Standing Partnerships with Our Vendors. Our highly experienced team of buyers has developed strong relationships with preeminent luxury vendors around the world. Our brand identity, affluent customer base and positioning as a retailer of exclusive or limited distribution luxury merchandise and design collections, coupled with our scale and geographic footprint, together create an attractive distribution channel for luxury-branded fashion vendors. Through each of our channels, our suppliers can showcase their products and reach a broad audience of their target customers. In addition, our vendor base is diverse, with no single vendor representing more than 5% of the cost of our total purchases in fiscal year 2005 or the first three fiscal quarters of fiscal year 2006. The breadth of our sourcing helps mitigate risks associated with a single brand or designer.

Significant Market Penetration From Integrated Multi-Channel Model. We offer products through our complementary Neiman Marcus Direct and Specialty Retail businesses, which enables us to maximize our brand recognition and strengthen our customer relationships across all channels. Our well-established catalog and online operation expands our reach beyond the trading area of our retail stores, as approximately 50% and 46%, respectively, of our Neiman Marcus Direct customers in fiscal year 2005 and the first three fiscal quarters of fiscal year 2006 were located outside of the trade areas of our existing retail locations. We also use our catalogs and e-commerce websites as selling and marketing tools to increase the visibility and exposure of our brand and generate customer traffic within our retail stores. We believe the combination of our retail stores and direct selling efforts is the main reason that our multi-channel customers spend more on average than our single-channel customers (approximately 3.5 times more in fiscal year 2005 and 3.6 times more in the first three fiscal quarters of fiscal year 2006).

Strong Financial Performance with Significant Cash Flow Generation. We have exhibited strong financial performance in recent years, marked by increased comparable revenues, growth in our Neiman Marcus Direct business, margin expansion and steady cash flow generation. Our revenues have grown at a CAGR of 5.6% over the last five fiscal years and Neiman Marcus Direct's revenues have grown at a CAGR of 7.9% over the last five fiscal years. We believe our strong financial performance is driven primarily by the distinctive merchandise assortment we offer our customers, the strong relationship our sales force has with customers whose spending is relatively resistant to economic fluctuations, and our focus on full-price selling.

Our Business Model and Customer Base Provide Consistent Performance Through Business Cycles. We have experienced an annual increase in comparable revenues during nine of the past ten fiscal years. Over this period, the only fiscal year in which we experienced a decline in comparable revenues was fiscal year 2002, which was adversely affected by the difficult economic environment at the time and the impact of the terrorist attacks of September 11, 2001. We believe that our quick recovery and strong financial performance since fiscal year 2002 illustrate the strength of our competitive position and the resilient nature of our business model, which is due in part to the relative affluence of our customer base. In addition, we believe our prudent store expansion policy and operational focus on enhancing the profitability of our existing store base have benefited our financial performance.

Highly Experienced Executive Management Team with a Proven Track Record. We have an experienced and deep management team committed to maintaining operational excellence. Our senior management team is composed of eight seasoned retail executives who average more than 18 years of retail industry experience and more than ten years with our company. Our executive management team is led by Burton Tansky, who has held executive leadership roles in the luxury retail market for over 30 years, including 15 years with our company in a number of different executive positions, such as Chairman and Chief Executive Officer of Bergdorf Goodman, Chairman and Chief Executive Officer of Neiman Marcus Stores and President and Chief Operating Officer of The Neiman Marcus Group, Inc.

Our Business Strategy

We intend to pursue the following key elements of our current business strategy:

Continue to Provide a Premier Luxury Retail Experience. We intend to continue to provide a premier luxury retail experience by executing our strategy of providing customers with an upscale shopping experience and excellent customer service. We have a long history of offering a distinctive selection of merchandise in an opulent setting with superior, relationship-based customer service that caters to the needs of our affluent customers. We believe our retail model has made our stores a destination for high-end consumers and created a loyal customer base and a valuable brand.

Continue to Drive Improved Productivity at Existing Stores. We believe we have historically achieved high sales productivity and strong profitability through our intense focus on full-price selling, disciplined inventory management and expense control. We intend to continue to improve our store operations and profitability by:

- identifying and promoting high-growth merchandise categories, which in the past have included fine apparel, shoes, handbags, contemporary sportswear and precious and designer jewelry; this strategy has, for example, contributed to an increase in contemporary sportswear sales of almost 28% at Neiman Marcus stores during fiscal year 2005 compared to fiscal year 2004 and 13% at Neiman Marcus stores during the first three fiscal quarters of fiscal year 2006 compared to the comparable period in fiscal year 2005;

- identifying and investing in stores that we believe have significant growth potential, including making capital improvements, adding sales associates, increasing our marketing efforts and enhancing the depth and breadth of store inventories; and

- increasing our penetration of select customer segments through targeted sales and marketing programs, including creating relationship managers to help match customers to sales associates who best fit their needs.

Strategically Invest in New Stores and Remodels. We plan to continue our disciplined investment program in opening new stores and remodeling existing stores, targeting on a long-term basis an average annual square footage growth of between 2% and 3%.

New Store Openings. We have gradually increased the number of our stores over the past ten years, growing our full-line Neiman Marcus and Bergdorf Goodman store base from 28 stores at the beginning of fiscal year 1995 to our current 38 stores. Prior to entering a new market, we conduct demographic and lifestyle studies to identify attractive retail markets with a high concentration of our target customers. We believe that additional markets throughout the United States can profitably support our retail stores and we plan to continue our prudent and conservative approach to new store openings in the future. In addition, we believe new store opportunities will continue to emerge as other metropolitan markets develop and mature. We recently opened new stores in San Antonio and Boca Raton and currently plan to open new stores in Charlotte in Fall 2006, Austin in Spring 2007, suburban Boston in Fall 2007, Long Island, the greater Los Angeles area in Fall 2008, Bellevue in Spring 2009 and Princeton in Spring 2010. In total, we expect that these planned new stores will add over 740,000 square feet of new store space over approximately the next four years, representing an almost 14% increase in square footage as compared to the current aggregate square footage of our full-line Neiman Marcus and Bergdorf Goodman stores.

Store Remodels. We plan to continue our successful store remodeling program. We generally experience an increase in comparable revenues and sales per square foot at stores that undergo a remodel or expansion. In addition to improving the overall shopping environment, a large number of our remodels also involve significant growth in the square footage of the store's selling area. In the past three fiscal years, we have added 71,000 square feet to our Las Vegas store, 30,000 square feet to our Newport Beach store and, most recently, 56,000 square feet to our San Francisco store for which the final phases of the renovation are planned to be completed by the spring of 2006. Also, we have major remodels underway at our Houston and Bergdorf Goodman stores.

Continue to Grow our Neiman Marcus Direct Business. Our Neiman Marcus Direct business has achieved significant revenue and profit growth over the last five fiscal years. The revenues and operating margins of Neiman Marcus Direct have grown from $493.5 million and 9.3%, respectively, in fiscal year 2003 to $592.1 million and 12.7%, respectively, in fiscal year 2005. The operating margin of Neiman Marcus Direct was 15.0% in the first three fiscal quarters of fiscal year 2006, compared to 12.2% in the first three fiscal quarters of fiscal year 2005. Our online sales remain the fastest growing component of Neiman Marcus Direct, generating $313.1 million in revenues in fiscal year 2005, as compared to $157.1 million in fiscal year 2003. The average order value of our online sales has also increased by approximately 35% over the same time period. Through continued investment in our catalogs and e-commerce websites, we expect to build on our success in this channel in the future. Some of our recent and upcoming initiatives for Neiman Marcus Direct include:

- our conversion of BergdorfGoodman.com from an information-only to a fully transactional website;

- partnering with vendors to launch co-branded e-commerce capabilities on their websites, utilizing our growing internet infrastructure and order fulfillment expertise; and

- the creation of a separate website, through which we will sell end-of-season and past season clearance merchandise as a way to more efficiently liquidate inventory.

Continue to Invest in Our Employees. Our seasoned management team, our talented buyers and our experienced sales associates are key assets of our business. Our strategy is to continue to invest in our employees as we believe they are the primary driver of our strong financial performance and market status. Consistent with our strategy, we plan to continue to invest in our tailored and intensive employee training programs, in which our sales associates receive extensive training in customer service, selling skills and product knowledge. These programs average over 120 hours per year per employee. In addition, the Company has a 15-week Executive Development Program, which provides the theoretical understanding and practical experience necessary for a career in Neiman Marcus merchandising. The program includes both classroom based learning and on-the-job rotations through different divisions of our business.

Continue to Invest in Our Distribution Facilities, Support Functions and Information Technology. We believe that investment in our distribution facilities, support functions and information technology is a vital component of our long-term business goals and objectives. Our investments in logistics allow us to respond rapidly to changes in sales trends and customer demands while enhancing our inventory management and improving our profitability and cash flow. For example, during fiscal year 2004, we expanded our distribution center in Longview, Texas. As part of this expansion, we realigned the warehouse space, enabling us to strengthen our "locker stock" inventory management program. With this program, we maintain certain key inventory items centrally, allowing us to restock inventory at individual stores more efficiently and to maximize opportunities for full-price selling. In addition, our sales associates can use the program to ship items directly to our customers, thereby improving customer service and increasing productivity.

The Transactions

Neiman Marcus, Inc. (formerly known as Newton Acquisition, Inc.), our Parent, acquired The Neiman Marcus Group, Inc. on October 6, 2005 through a reverse subsidiary merger with Newton Acquisition Merger Sub, Inc., a wholly-owned subsidiary of our Parent. Our Parent was formed for purposes of the acquisition by investment funds affiliated with Texas Pacific Group and Warburg Pincus LLC, which we refer to as the "Sponsors." The acquisition was accomplished through the merger of Newton Acquisition Merger Sub, Inc. with and into The Neiman Marcus Group, Inc., with The Neiman Marcus Group, Inc. being the surviving company. Subsequent to the acquisition, we are a subsidiary of our Parent, which is controlled by Newton Holding, LLC, an entity controlled by the Sponsors and their co-investors.

The Sponsors financed the purchase of the Company and the concurrent redemption of our 6.65% senior notes due 2008, which we refer to as the 2008 notes, through:

- application of the proceeds from the offering of the senior notes and the senior subordinated notes;
- initial borrowings under our senior secured asset-based revolving credit facility and our senior secured term loan facility;
- equity investments funded by direct and indirect equity investments from the Investors; and
- cash on hand at the Company.

Immediately following the merger, The Neiman Marcus Group, Inc. became a wholly-owned subsidiary of Neiman Marcus, Inc. Pursuant to the LLC Agreement (as defined below under "Certain Relationships and Related Party Transactions Newton Holding, LLC Limited Liability Company Operating Agreement") the Sponsors and certain other Investors, including one that is affiliated with Credit Suisse Securities (USA) LLC, are entitled to nominate the members of our board of directors. See "Management Directors and Executive Officers."

The acquisition was completed on October 6, 2005 and occurred simultaneously with:

- the closing of the offering of our senior notes and our senior subordinated notes;

- the closing of our new senior secured asset-based revolving credit facility;
- the closing of our new senior secured term loan facility;
- the call for redemption of, the deposit into a segregated account of the estimated amount of the redemption payment related to, and the ratable provision of security pursuant to the terms thereof for, the 2008 notes;
- the ratable provision of security for the 2028 debentures pursuant to the terms thereof;
- the termination of our existing $350 million unsecured revolving credit facility; and
- the equity investments described above.

We refer to these transactions, including the merger and our payment of any costs related to these transactions and certain related transactions as the "Transactions." See "Description of Other Indebtedness" for a description of our senior secured credit facilities.

In connection with the Transactions, we incurred significant indebtedness and became highly leveraged. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources." In addition, the purchase price paid in connection with the acquisition has been allocated to state the acquired assets and liabilities at fair value. The preliminary purchase accounting adjustments increased the carrying value of our property and equipment and inventory, established intangible assets for our tradenames, customer lists and favorable lease commitments and revalued our long-term benefit plan obligations, among other things. Subsequent to the Transactions, interest expense and non-cash depreciation and amortization charges have significantly increased. As a result, our successor financial statements subsequent to the Transactions are not comparable to our predecessor financial statements.

Ownership and Corporate Structure

Our ownership and corporate structure are described in the diagram below. See "The Transactions," "Principal Stockholders" and "Capitalization."

(1)
Includes (i) approximately $1,225 million of equity contributed by the Sponsor Funds (including credit for the discount attributable to the equity investment of funds associated with one of the

Sponsors) and (ii) approximately $220 million of equity contributed by certain Co-Investors. See "Certain Relationships and Related Party Transactions Management Services Agreement."

(2)

Includes approximately $25.6 million contributed by certain of our executive officers and members of our senior management, who we refer to as the Management Participants, in the form of a combination of cash and rollover of existing equity and equity-based interests in The Neiman Marcus Group, Inc. In connection with the Transactions, Neiman Marcus, Inc. established a management option pool at the closing of up to 7.3% of its common stock on a fully diluted basis in order to grant appropriate equity incentive awards to management and certain key employees. Options in respect of approximately 6.8% of the shares of Neiman Marcus, Inc. on a fully-diluted basis were granted pursuant to this pool after the closing.

(3)

Our senior secured term loan facility is secured, subject to certain exceptions, (i) on a second-priority basis by all of our and our subsidiary guarantors' inventory and related accounts, cash, deposit accounts and payments in respect of credit card charges, and certain related assets, and (ii) on a first-priority basis by a significant portion of our and our subsidiary guarantors' other existing and future assets and our capital stock. At April 29, 2006, the amount outstanding under our senior secured term loan facility was $1,875 million (after giving effect to a $100 million prepayment in the second quarter of fiscal year 2006). See "Description of Other Indebtedness."

(4)

Our senior secured asset-based revolving credit facility provides up to $600 million senior secured financing, subject to borrowing base limitations, and is secured, subject to certain exceptions, (i) on a first-priority basis by all of our and our subsidiary guarantors' inventory and related accounts, cash, deposit accounts and payments in respect of credit card charges, and certain related assets, and (ii) on a second-priority basis by a significant portion of our and our subsidiary guarantors' other existing and future assets and our capital stock. See "Description of Other Indebtedness."

(5)

The 2028 debentures are, to the extent required by the terms of the 2028 debenture indenture, secured on a first-priority basis by certain collateral subject to the liens granted to secure our senior secured credit facilities. See "Description of the 2028 Debentures."

Summary of Terms of the 2028 Debentures

Issuer	The Neiman Marcus Group, Inc.
Securities Offered	$125,000,000 aggregate principal amount of 7.125% Debentures due 2028.
Maturity Date	The 2028 debentures will mature on June 1, 2028.
Interest Payment Dates	June 1 and December 1 of each year.
Optional Redemption	At any time, we may redeem some or all of the 2028 debentures, at a redemption price equal to the greater of (a) 100% of the principal amount of the 2028 debentures to be redeemed and (b) the sum of the present values of the Remaining Scheduled Payments (as defined herein) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis, plus accrued interest on the principal amount being redeemed to the date of redemption. See "Description of the 2028 Debentures Optional Redemption."
Guarantees	The 2028 debentures are guaranteed on an unsecured, senior basis by our Parent.
Ranking	The 2028 debentures are our senior obligations and rank:
	equal in right of payment with all of our existing and future senior indebtedness, including any borrowings under our senior secured credit facilities and the senior notes; and
	senior to all of our existing and future subordinated indebtedness, including the senior subordinated notes.
	The 2028 debentures are structurally subordinated to indebtedness and other liabilities of our subsidiaries (except to the extent of any security interest in the assets of any subsidiaries that may secure the 2028 debentures), including trade payables and subsidiary guarantees of our senior secured credit facilities and the notes. The 2028 debentures effectively rank junior to all of our existing and future indebtedness, including our senior secured credit facilities, that is secured by collateral that does not also secure the 2028 debentures, to the extent of the value of such assets securing such other obligations.

Collateral	The 2028 debentures were unsecured when originally issued, but were granted security pursuant to the requirements of the negative pledge covenant contained in the 2028 debenture indenture as a result of our incurrence of secured indebtedness in the Transactions. The 2028 debentures are currently equally and ratably secured by a first lien security interest on the 2028 Debenture Collateral (as defined under "Description of the 2028 Debentures Collateral"), which also secures our senior secured credit facilities. Because the 2028 debentures' security interest on the 2028 Debenture Collateral has been granted only for purposes of compliance with the negative pledge covenant contained in the 2028 debenture indenture, the 2028 debentures are secured only for so long as the senior secured credit facilities (or other secured indebtedness subject to the 2028 debentures' negative pledge clause) and the liens thereunder remain in existence and the 2028 Debenture Collateral is subject to release under the senior secured credit facilities without the consent of holders of the 2028 debentures. See "Description of the 2028 Debentures Collateral."
Restrictive Covenants	The 2028 debenture indenture contains covenants limiting pledges and sale/leaseback transactions as described under "Description of the 2028 Debentures Certain Covenants." Many of the covenants found in our senior secured credit facilities and the indentures governing our notes, however, are not found in the 2028 debenture indenture. The 2028 debenture indenture does not contain limitations on our or our subsidiaries' ability to: incur additional indebtedness; pay dividends on our capital stock or redeem, repurchase or retire our capital stock or indebtedness; make investments; create restrictions on the payment of dividends or other amounts to us from our restricted subsidiaries; engage in transactions with our affiliates; or sell assets, including capital stock of our subsidiaries.

Risk Factors

Investing in the 2028 debentures involves substantial risk. See "Risk Factors" for a discussion of certain factors that you should consider before investing in the 2028 debentures.

Our Sponsors

Texas Pacific Group

Texas Pacific Group ("TPG"), founded in 1993 and based in Fort Worth, Texas; San Francisco, California; and London, England, is a private equity firm that has raised approximately $14 billion in equity capital. TPG seeks to invest in world-class franchises across a range of industries, including significant investments in luxury and other retail businesses, technology, consumer products, airlines and healthcare. Significant investments include investments in leading retailers (J. Crew, Debenhams (UK), Petco), technology companies (Sungard Data Systems, MEMC Electronic Materials, ON Semiconductor, Paradyne Networks, Seagate Technology), branded consumer franchises (Burger King, Del Monte, Ducati Motorcycles, Metro-Goldwyn-Mayer), airlines (Continental, America West), healthcare companies (Oxford Health Plans, Quintiles Transnational), energy and power generation companies (Denbury Resources, Texas Genco) and others (Punch Taverns (UK)).

Warburg Pincus

Warburg Pincus LLC has been a leading private equity investor since 1971. Throughout its 35-year history in private equity, Warburg Pincus has invested at all stages of a company's life cycle, from founding start-ups to providing growth capital to leading recapitalizations, leveraged buy-outs and special situations. The firm currently has more than $10 billion under management and invests in private equity opportunities in a wide range of industries and sectors, including consumer and industrial, information and communication technology, financial services, healthcare, media and business services, energy and real estate. Warburg Pincus invests globally from offices in New York, Menlo Park, London, Frankfurt, Hong Kong, Tokyo, Beijing and Mumbai. The firm seeks to partner with outstanding management teams to create and build durable companies with sustainable value and has an active portfolio of more than 100 companies including Knoll, Telcordia Technologies, Polypore, Transdigm, UGS and Jarden.

Corporate Information

The Neiman Marcus Group, Inc. is incorporated in the state of Delaware. Our principal executive offices are located at One Marcus Square, 1618 Main Street, Dallas, Texas. Our telephone number is (214) 743-7600. Our website address is www.neimanmarcusgroup.com. The information on our website is not a part of this prospectus.

Recent Developments

On August 3, 2006, we announced preliminary total revenues and comparable revenues of approximately $915 million and $890 million, respectively, for the fourth quarter of fiscal year 2006, representing increases of 9.0% and 6.6%, respectively, compared to the fourth quarter of fiscal year 2005. For the fourth quarter of fiscal year 2006, comparable revenues in the Specialty Retail stores segment, increased 5.8%, including a 4.7% increase at Neiman Marcus stores and a 12.7% increase at Bergdorf Goodman. Neiman Marcus Direct fourth quarter fiscal year 2006 revenues were 13.2% above last year.

We also announced preliminary total revenues and comparable revenues of approximately $4.11 billion and $3.99 billion, respectively, for the fifty-two week fiscal year 2006 ended July 29, 2006, representing increases of 8.8% and 6.8%, respectively, compared to fiscal year 2005. All figures have been adjusted to exclude the revenues of Gurwitch Products, L.L.C., which has been sold.

All the financial data set forth above are preliminary and unaudited and subject to revision based upon our review and an audit by our independent registered public accounting firm of our financial condition and results of operations for the fiscal year ended July 29, 2006. Once we and our independent registered public accounting firm have completed our respective reviews of our financial information for fiscal year 2006, we may report financial results that are materially different from those set forth above.

On July 27, 2006, we sold our former majority interest in Gurwitch Products, L.L.C. to Alticor Inc., for net cash proceeds of approximtely $40.8 million.

Summary Historical and Unaudited Pro Forma Condensed Consolidated Financial and Operating Data

The following table sets forth summary historical consolidated financial data and unaudited pro forma consolidated financial data of Neiman Marcus, Inc. (formerly Newton Acquisition, Inc.) and its predecessor, The Neiman Marcus Group, Inc., as of the dates and for the periods indicated. Neiman Marcus, Inc. acquired The Neiman Marcus Group, Inc. on October 6, 2005 through the merger of Newton Acquisition Merger Sub, Inc., a wholly-owned subsidiary of Neiman Marcus, Inc., with and into The Neiman Marcus Group, Inc., with the latter being the surviving entity. We are required under GAAP to present our operating results separately for predecessor periods preceding the acquisition and the successor periods following the acquisition. The financial statements and operating results identified below as belonging to the "predecessor" are those of The Neiman Marcus Group, Inc. The financial statements and operating results of the "successor" are those of Neiman Marcus, Inc., the newly created parent of The Neiman Marcus Group, Inc.

We derived the summary historical consolidated financial data as of and for the periods ended August 2, 2003, July 31, 2004 and July 30, 2005 from the predecessor's audited consolidated financial statements and related notes and the selected historical consolidated financial data as of and for the nine weeks ended October 1, 2005 and the thirty-nine weeks ended April 30, 2005 from the predecessor's unaudited condensed consolidated financial statements for those periods. We derived the summary historical consolidated financial data as of and for the thirty weeks ended April 29, 2006 from the successor's unaudited condensed consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial information contain all adjustments necessary to present fairly our financial position, results of operations and cash flows for the applicable interim periods.

We derived the summary unaudited pro forma condensed consolidated financial data as of and for the fiscal year ended July 30, 2005 and the thirty-nine week periods ended April 29, 2006 and April 30, 2005 from our unaudited pro forma condensed consolidated financial statements included elsewhere in this prospectus. The summary unaudited pro forma condensed consolidated statements of earnings data for the fiscal year ended July 30, 2005 and the thirty-nine week periods ended April 29, 2006 and April 30, 2005 give effect to the Transactions and the redemption of our 2008 notes, the Credit Card Sale, the Chef's Catalog Disposition and the disposition of Gurwitch Products, L.L.C. as if they had occurred on August 1, 2004.

We are providing the summary unaudited pro forma condensed consolidated financial data for informational purposes only. The summary unaudited pro forma condensed consolidated financial statements do not purport to represent what our results of operations actually would have been if the Transactions and the redemption of our 2008 notes, the Credit Card Sale, the Chef's Catalog Disposition and the disposition of Gurwitch Products, L.L.C. had occurred on the dates indicated, nor do such data purport to project our results of operations for any future period.

The results of operations for any period are not necessarily indicative of the results to be expected for any future period. In connection with the Transactions, we incurred significant indebtedness and became highly leveraged. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources." In addition, the purchase price paid in connection with the acquisition has been preliminarily allocated to state the acquired assets and liabilities at fair value. The preliminary purchase accounting adjustments increased the carrying value of property and equipment and inventory, established intangible assets for tradenames, customer lists and favorable lease commitments and revalued long-term benefit plan obligations, among other things. Subsequent to the Transactions, interest expense and non-cash depreciation and amortization charges have significantly increased. As a result, the successor financial statements are not comparable to the predecessor financial statements. The selected historical consolidated financial data and unaudited pro forma condensed consolidated financial data set forth below should be read in conjunction with, and are qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations," the audited and unaudited consolidated financial statements and related notes and unaudited pro forma condensed consolidated financial statements appearing elsewhere in this prospectus.

	Unaudited			Fiscal Years Ended			Unaudited Pro Forma		
	Thirty weeks ended April 29, 2006	Nine weeks ended October 1, 2005	Thirty-nine weeks ended April 30, 2005	July 30, 2005	July 31, 2004	August 2, 2003	Thirty-nine weeks ended April 29, 2006	Thirty-nine weeks ended April 30, 2005	Fiscal year ended July 30, 2005
	(Successor)	(Predecessor)		(Predecessor)					
	(dollars in millions, except sales per square foot)								
Statement of Operations Data:									
Revenues	$ 2,583.2	$ 651.6	$ 2,970.5	$ 3,821.9	$ 3,524.8	$ 3,080.4	$ 3,190.1	$ 2,921.1	$ 3,760.9
Costs and expenses:									
Cost of goods sold including buying and occupancy costs (excluding depreciation)	1,634.2	378.8	1,816.6	2,390.6	2,230.9	1,997.7	1,970.2	1,847.2	2,424.5
Selling, general and administrative expenses (excluding depreciation)	624.0	168.9	747.4	974.6	901.5	831.0	755.1	712.5	929.8
Income from credit card operations, net	(35.9)	(7.8)	(52.4)	(71.6)	(55.7)	(53.3)	(45.6)	(43.9)	(56.1)
Depreciation expense	78.0	20.0	79.3	107.7	99.0	82.9	97.6	81.6	110.8
Amortization of customer lists	31.7						41.0	41.0	54.7
Amortization of favorable lease commitments	10.4						13.5	13.5	18.0
Operating earnings	240.9	68.3(1)	364.2(2)	411.5(2)	345.2(3)	222.1	334.8	269.1	279.1
Interest expense, net	150.6	(0.9)	10.9	12.4	15.9	16.3	194.0	172.5	232.0
Earnings before income taxes, minority interest and change in accounting principle	90.3	69.2	353.3	399.1	329.3	205.8	140.8	96.7	47.1
Income taxes	34.8	25.6	136.0	146.5(5)	120.9(4)	79.2	53.0	35.4	8.5
Net earnings	$ 54.4	$ 44.2	$ 214.5	$ 248.8(5)	$ 204.8(4)	$ 109.3(6)	$ 87.8	$ 59.0	$ 35.5
Balance Sheet Data (at period end):									
Cash and cash equivalents	$ 109.0	$ 844.3	$ 337.6	$ 853.5	$ 368.4	$ 207.0	$ 149.5		
Total assets	6,660.0	2,846.0	2,839.8	2,660.7	2,617.6	2,104.8	6,633.0		
Total debt (including current portion of long-term debt)	3,215.3	256.2	437.5	251.2	476.3	251.0	3,210.3		
Stockholders' equity	$ 1,468.0	$ 1,638.2	$ 1,581.8	$ 1,573.9	$ 1,370.6	$ 1,137.8	$ 1,466.1		
Cash Flow Data:									
Total capital expenditures	$ 112.2	$ 26.3	$ 150.8	$ 202.5	$ 120.5	$ 129.6			
Capital expenditures for:									
New store openings	44.8	12.5	36.5	60.7	8.4	20.3			
Major store remodels	20.5	7.5	54.4	58.2	39.1	24.5			

	Unaudited					Unaudited Pro Forma
Information technology	23.2	7.0	30.9	41.6	34.5	48.1
Net cash provided by (used for):						
Operating activities	264.5	19.4	190.0	845.4	52.6	164.7
Investing activities	(5,268.6)	(26.3)	(173.9)	(228.8)	(117.3)	(129.6)
Financing activities	4,268.9	(2.3)	(46.9)	(131.5)	226.1	(6.8)
Selected Store Data:						
Comparable revenues increase(7)	6.6%	9.0%	9.9%	9.9%	14.4%	4.1%
Number of Neiman Marcus/Bergdorf Goodman stores (at period end)	38	37	37	36	37	37
Retail sales per square foot	$ 375	$ 103	$ 449	$ 577	$ 528	$ 472

(1) For the nine weeks ended October 1, 2005, operating earnings includes $23.5 million of transaction and other costs incurred in connection with the Transactions. These costs consist primarily of $4.5 million of accounting, investment banking, legal and other costs associated with the Transactions and a $19.0 million non-cash charge for stock compensation resulting from the accelerated vesting of Predecessor stock options and restricted stock in connection with the acquisition.

(2) For 2005 and the thirty-nine weeks ended April 30, 2005, operating earnings include a $15.3 million pretax loss related to the Chef's Catalog Disposition and a $6.2 million pretax gain related to the Credit Card Sale.

(3) For 2004, operating earnings reflect a $3.9 million pretax impairment charge related to the writedown to fair value in the net carrying value of the Chef's Catalog tradename intangible asset.

(4) For 2004, income tax expense reflects a $7.5 million net income tax benefit related to favorable settlements associated with previous state tax filings.

(5) For 2005, net earnings reflect a net income tax benefit adjustment aggregating $7.6 million resulting from favorable settlements associated with previous state tax filings and reductions in previously recorded deferred tax liabilities.

(6) For 2003, net earnings reflect an after-tax charge of $14.8 million for the writedown of certain intangible assets related to prior purchase business combinations as a result of the implementation of a new accounting principle.

(7) Comparable revenues include (a) revenues derived from our Specialty Retail stores open for more than 52 weeks, including stores that have relocated or expanded, (b) revenues from our Neiman Marcus Direct operation and (c) revenues from the Brand Development Companies, one of which was sold on July 27, 2006. Comparable revenues exclude the revenues of closed stores and the revenues of our previous Chef's Catalog operations (sold in November 2004) for all periods prior to the Chef's Catalog Disposition. The calculation of the change in comparable revenues for 2003 is based on revenues for the 52 weeks ended August 2, 2003 compared to revenues for the 52 weeks ended July 27, 2002.

RISK FACTORS

You should carefully consider the risk factors set forth below as well as the other information contained in this prospectus before making an investment decision. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently deem to be immaterial may also materially and adversely affect our business, financial condition or results of operations. Any of the following risks could materially adversely affect our business, financial condition or results of operations. In such a case, you may lose all or part of your original investment in the 2028 debentures.

Risks Related to the 2028 Debentures

We have a substantial amount of indebtedness, which may adversely affect our cash flow and our ability to operate our business, remain in compliance with debt covenants and make payments on our indebtedness, including the 2028 debentures.

As a result of the Transactions, we are highly leveraged. As of April 29, 2006, the principal amount of the Company's total indebtedness was approximately $3,215.3 million, which included the 2028 debentures. The Company's unused borrowing availability under our $600.0 million senior secured asset-based revolving credit facility at that date was approximately $573.2 million, based on a borrowing base at that date of over $600.0 million and after giving effect to $26.8 million of letters of credit outstanding thereunder. Our substantial indebtedness, combined with our lease and other financial obligations and contractual commitments, could have other important consequences to you as a holder of 2028 debentures. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, including the 2028 debentures, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the indentures and agreements governing our indebtedness;

- make us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation;

- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions and other general corporate purposes;

- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

- place us at a competitive disadvantage compared to our competitors that are less highly leveraged and therefore may be able to take advantage of opportunities that our leverage prevents us from exploiting; and

- limit our ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other purposes.

Any of the above listed factors could materially adversely affect our business, financial condition and results of operations.

In addition, our interest expense could increase if interest rates increase because the entire amount of the indebtedness under our senior secured credit facilities will bear interest at floating rates. See "Description of Other Indebtedness Senior Secured Asset-Based Revolving Credit Facility" and " Senior Secured Term Loan Facility." As of April 29, 2006, the Company had approximately $1,875.0 million principal amount of floating rate debt, consisting of outstanding borrowings under our senior secured term loan facility. The Company also had at that date approximately $573.2 million of unused floating rate debt borrowing capacity available under the senior secured asset-based revolving credit facility based on a borrowing base of over $600.0 million at that date and after giving effect to

$26.8 million used for letters of credit. Effective December 6, 2005, the Company entered into floating to fixed interest rate swap agreements for an aggregate notional amount of $1,000.0 million to limit its exposure to interest rate increases related to a portion of its floating rate indebtedness.

Despite current indebtedness levels, we and our subsidiaries may still be able to incur substantially more debt. This could further exacerbate the risks associated with our substantial leverage.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. Although the indentures governing the notes and the senior secured credit facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and any indebtedness incurred in compliance with these restrictions could be substantial. For example, we have the right under our senior secured asset-based revolving credit facility to request up to $200 million of additional commitments under this facility, although the lenders under this facility are not under any obligation to provide any such additional commitments. Any increase in commitments under this facility is subject to customary conditions precedent, and our ability to borrow under this facility as so increased would remain limited by the amount of the borrowing base. Our senior secured term loan facilities and the indentures for the notes allow us to incur this additional indebtedness under our senior secured asset-based revolving credit facility without any restriction. In addition, our senior secured credit facilities and the notes allow us to incur a significant amount of indebtedness in connection with acquisitions (including, in the case of our senior secured term loan facility and the notes, an unlimited amount of debt bearing certain characteristics described in the descriptions of the notes included herein) and a significant amount of purchase money debt. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they face would be increased.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control, and any failure to meet our debt service obligations could harm our business, financial condition and results of operations.

Our ability to pay interest on and principal of the 2028 debentures and to satisfy our other debt obligations will primarily depend upon our future operating performance. As a result, prevailing economic conditions and financial, business and other factors, many of which are beyond our control, will affect our ability to make these payments.

If we do not generate sufficient cash flow from operations to satisfy our debt service obligations, including payments on the 2028 debentures, we may have to undertake alternative financing plans, such as refinancing or restructuring our indebtedness, selling assets, reducing or delaying capital investments or seeking to raise additional capital. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments and indentures may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on acceptable terms.

Contractual limitations on our ability to execute any necessary alternative financing plans could exacerbate the effects of any failure to generate sufficient cash flow to satisfy our debt service obligations. Our senior secured asset-based revolving credit facility permits us to borrow up to $600.0 million; however, our ability to borrow thereunder is limited by a borrowing base, which at any time will equal the lesser of 80% of eligible inventory valued at the lower of cost or market value and 85% of the net orderly liquidation value of the eligible inventory, less certain reserves. In addition, our ability to borrow under this facility is limited by a minimum liquidity condition, providing that, if less than $60.0 million is available at any time, we are not permitted to borrow any additional amounts under the senior secured asset-based revolving credit facility unless our pro forma ratio of consolidated EBITDA to consolidated Fixed Charges (as such terms are defined in the credit agreement for our senior secured asset-based revolving credit facility) is at least 1.1 to 1.0. See "Description of Other Indebtedness Senior Secured Asset-Based Revolving Credit Facility." Our ability to meet this financial ratio may be affected by events beyond our control, and we cannot assure you that we will meet this ratio.

Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance our obligations at all or on commercially reasonable terms, would have an adverse effect, which could be material, on our business, financial condition and results of operations, as well as on our ability to satisfy our obligations in respect of the 2028 debentures.

Repayment of our debt, including the 2028 debentures, is dependent on cash flow generated by our subsidiaries.

Our subsidiaries own a significant portion of our assets and conduct a significant portion of our operations. Accordingly, repayment of our indebtedness, including the 2028 debentures, is dependent, to a significant extent, on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Our subsidiaries do not have any obligation to pay amounts due on the 2028 debentures or to make funds available for that purpose. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness, including the 2028 debentures. Each subsidiary is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. The 2028 debenture indenture does not limit the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness, including the 2028 debentures.

The 2028 debentures are structurally subordinated to all liabilities of our subsidiaries and to claims of creditors of our current and future subsidiaries.

The 2028 debentures are structurally subordinated to indebtedness and other liabilities of our subsidiaries (except to the extent of any security interest in the assets of any such subsidiaries that may secure the 2028 debentures), including subsidiary guarantees of our senior secured credit facilities and the notes. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, these subsidiaries will pay the holders of their debts, holders of preferred equity interests and their trade creditors before they will be able to distribute any of their assets to us (except to the extent of any security interest in the assets of any such subsidiaries that may secure the 2028 debentures).

Investors cannot rely on the earnings and assets of our Brand Development Companies to support payments due under the 2028 debentures.

We hold a majority interest in Kate Spade LLC, and until July 27, 2006 held a majority interest in Gurwitch Products. We refer to those companies as our Brand Development Companies. Accordingly, our historical consolidated financial statements reflect the financial results of those companies, including all of their revenue and operating earnings, even though we own less than 100% of the equity of Kate Spade LLC and do not solely control the distribution of its income and have sold our interest in Gurwitch Products. There are significant limitations on the ability of our Brand Development Companies to distribute their earnings to us, in the form of dividends or otherwise. Accordingly, investors in the 2028 debentures will not be able to rely upon income from or the assets of our Brand Development Companies to support the payment of interest, principal or other amounts owing in respect of the 2028 debentures. Our Brand Development Companies had aggregate revenues of $126.9 million and aggregate operating earnings of $14.1 million during fiscal year 2005 and aggregate revenues of $101.9 million and aggregate operating earnings of $2.0 million during the first three fiscal quarters of fiscal year 2006.

The terms of our senior secured credit facilities and the indentures governing the notes may restrict our current and future operations, particularly our ability to respond to changes in our business or to take certain actions.

The credit agreements governing our senior secured credit facilities and the indentures governing the notes contain, and any future indebtedness of ours would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions, including restrictions on our ability to engage in acts that may be in our best long-term interests. The indentures governing the notes and the credit agreements governing our senior secured credit facilities include covenants that, among other things, restrict our ability to:

- incur additional indebtedness;
- pay dividends on our capital stock or redeem, repurchase or retire our capital stock or indebtedness;
- make investments;
- create restrictions on the payment of dividends or other amounts to us from our restricted subsidiaries;
- engage in transactions with our affiliates;
- sell assets, including capital stock of our subsidiaries;
- consolidate or merge;
- create liens; and
- enter into sale and lease back transactions.

In addition, our ability to borrow under our senior secured asset-based revolving credit facility is limited by a borrowing base and a minimum liquidity condition, as described above under " To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control, and any failure to meet our debt service obligations could harm our business, financial condition and results of operations." See "Description of Other Indebtedness Senior Secured Asset-Based Revolving Credit Facility" for further details.

Moreover, our senior secured asset-based revolving credit facility provides discretion to the agent bank acting on behalf of the lenders to impose additional availability restrictions and other reserves, which could materially impair the amount of borrowings that would otherwise be available to us. There can be no assurance that the agent bank will not impose such reserves or, were it to do so, that the resulting impact of this action would not materially and adversely impair our liquidity.

A breach of any of the restrictive covenants would result in a default under our senior secured credit facilities. If any such default occurs, the lenders under our senior secured credit facilities may elect to declare all outstanding borrowings under such facilities, together with accrued interest and other fees, to be immediately due and payable, which would result in an event of default under the notes and the 2028 debentures. The lenders will also have the right in these circumstances to terminate any commitments they have to provide further borrowings.

The operating and financial restrictions and covenants in these debt agreements and any future financing agreements may adversely affect our ability to finance future operations or capital needs or to engage in other business activities.

The 2028 debentures are secured only for so long as the senior secured credit facilities and the liens thereunder remain in existence and the 2028 Debenture Collateral is subject to release by the senior secured credit facilities without the consent of holders of the 2028 debentures.

The 2028 debentures were unsecured when originally issued, but were granted security pursuant to the requirements of the negative pledge covenant contained in the 2028 debenture indenture as a result of our incurrence of secured indebtedness in the Transactions. The 2028 debentures are currently equally and ratably secured by a first lien security interest on the 2028 Debenture Collateral, which also secures our senior secured credit facilities. Because the 2028 debentures' security interest on the 2028 Debenture Collateral has been granted only for purposes of compliance with the negative pledge covenant contained in the 2028 debenture indenture, the 2028 debentures are secured only for so long as the senior secured credit facilities (or other secured indebtedness subject to the 2028 debentures' negative pledge clause) and the liens thereunder remain in existence and the 2028 Debenture Collateral is subject to release under the senior secured credit facilities without the consent of holders of the 2028 debentures. See "Description of the 2028 Debentures Collateral."

The senior secured credit facilities are scheduled to mature prior to the stated maturity of the 2028 debentures and the 2028 debentures will be unsecured after the senior secured credit facilities mature unless we have other secured indebtedness subject to the 2028 debentures' negative pledge clause at that time.

The 2028 Debenture Collateral will exclude stock with value equal to or greater than 20% of the aggregate principal amount of the 2028 debentures or other secured public debt obligations.

Capital stock and other securities of a subsidiary of the Company that are owned by the Company or any subsidiary guarantor of the senior secured credit facilities does not constitute collateral under our senior secured credit facilities (and, as a result, does not constitute 2028 Debenture Collateral) to the extent that such securities cannot secure the 2028 debentures or other secured public debt obligations of the Company without requiring the preparation and filing of separate financial statements of such subsidiary in accordance with applicable SEC rules. As a result, the collateral under our senior secured credit facilities and the 2028 Debenture Collateral includes shares of capital stock or other securities of subsidiaries of the Company or any subsidiary guarantor only to the extent that the applicable value of such securities (on a subsidiary-by-subsidiary basis) is less than 20% of the aggregate principal amount of the 2028 debentures (or, currently, $25 million) or other secured public debt obligations of the Company. Stock of our Brand Development Companies and their assets also do not constitute collateral under our senior secured credit facilities or 2028 Debenture Collateral. Accordingly, holders of the 2028 debentures should assume that the value of any 2028 Debenture Collateral consisting of capital stock or other securities of a subsidiary of the Company will not be material.

The pro rata share of the 2028 debentures in the 2028 Debenture Collateral may not be sufficient collateral to pay all or any of the 2028 debentures.

The 2028 debentures' security interest in the 2028 Debenture Collateral is shared equally and ratably with the first lien security interest on that collateral of the lenders under our senior secured term loan facility and is senior to the second-priority security interest on that collateral of the lenders under our senior secured asset-based revolving credit facility (although if the lien of the lenders under our senior secured term loan facility were to be released, without replacement, while our senior secured asset-based revolving credit facility remains outstanding, the lien of the lenders under our senior secured asset-based revolving credit facility would become a first priority lien and the 2028 debentures' security interest in the 2028 Debenture Collateral would then be shared equally and ratably with the lenders under our senior secured asset-based revolving credit facility).

No appraisal of the fair market value of the 2028 Debenture Collateral has been prepared in connection with this offering, however we believe that the fair market value of the 2028 Debenture

Collateral is substantially less than the principal amount of our new senior secured term loan facility and our existing 2028 debentures taken together. The actual value of the 2028 Debenture Collateral at any time will depend upon market and other economic conditions. By its nature, the 2028 Debenture Collateral generally will consist of illiquid assets that may have to be sold at a substantial discount in an insolvency situation and may have no readily ascertainable market value.

In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the proceeds from any sale or liquidation of the 2028 Debenture Collateral will likely be insufficient to pay our obligations under the 2028 debentures and our new senior secured term loan facility in full. Moreover, other indebtedness we may incur in the future may be secured on a first priority basis by all or a portion of the 2028 Debenture Collateral, further limiting the amount of 2028 Debenture Collateral that would be available to pay obligations under the 2028 debentures. The 2028 Debenture Collateral also secures our new senior secured asset-based revolving credit facility on a second priority basis (subject to permitted encumbrances).

The intercreditor agreement entered into in connection with collateral arrangements related to the Transactions provides that each holder of 2028 debentures, by accepting the agreement's benefits, is deemed to have:

- agreed that the collateral agent has no duty and owes no obligation or responsibility (fiduciary or otherwise) to the 2028 debenture trustee or such holders, other than the duty to perform its express obligations under the intercreditor agreement in accordance with its terms;

- waived any right it might have, under applicable law or otherwise, to compel the sale or other disposition of any 2028 Debenture Collateral, and any obligation the collateral agent might have, under applicable law or otherwise, to obtain any minimum price for any 2028 Debenture Collateral upon the sale thereof; and

- agreed that the sole right of the holders of the 2028 debentures shall be to receive their ratable share of any proceeds of 2028 Debenture Collateral in accordance with and subject to the provisions of the related documentation.

In the event of a default, including a bankruptcy involving the Company, we will not be able to control or direct the actions that our creditors under our senior secured credit facilities may take with respect to any 2028 Debenture Collateral or assure you that such actions will not be adverse to the interests of the holders of the 2028 debentures.

In the event of our bankruptcy, the ability of the holders of the 2028 debentures to realize upon the 2028 Debenture Collateral will be subject to certain bankruptcy law limitations.

The right of the collateral agent to repossess and dispose of the 2028 Debenture Collateral upon acceleration is likely to be significantly impaired by Federal bankruptcy law if bankruptcy proceedings were commenced by or against us prior to or possibly even after the collateral agent has repossessed and disposed of the 2028 Debenture Collateral. Under the U.S. Bankruptcy Code, a secured creditor, such as the collateral agent, is prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security repossessed from such a debtor, without bankruptcy court approval. Moreover, bankruptcy laws permits the debtor to continue to retain and use collateral, and the proceeds, products, rents or profits of the collateral, even though the debtor is in default under the applicable debt instruments, provided generally that the secured creditor is given "adequate protection." The meaning of the term "adequate protection" may vary according to circumstances, but it is intended in general to protect the value of the secured creditor's interest in the collateral and may include cash payments or the granting of additional security, if and at such times as the court in its discretion determines, for any diminution in the value of the collateral as a result of the stay of repossession or disposition or any use of the collateral by the debtor during the pendency of the bankruptcy case. In view of the lack of a precise definition of the term "adequate protection" and the broad discretionary powers of a bankruptcy court, it is impossible to predict how long payments under the 2028 debentures could be delayed following commencement of and during a bankruptcy case, whether or when the collateral agent would repossess or dispose of the 2028 Debenture Collateral or whether or to what extent holders of 2028 debentures would be compensated for any delay in payment or loss of value of their pro rata share of the 2028 Debenture Collateral through the requirement of "adequate protection." Furthermore, in the event the bankruptcy court were to determine that the value of 2028 debentures' pro rata share of the 2028 Debenture Collateral is insufficient to repay all amounts due on the 2028 debentures, the holders of the 2028 debentures would have "undersecured claims" as to the difference. Federal bankruptcy laws do not permit the payment or accrual of interest, costs and attorneys' fees for "undersecured claims" during the debtor's bankruptcy case.

In the event of our bankruptcy, holders of the 2028 debentures may be deemed to have an unsecured claim to the extent that our obligations in respect of the 2028 debentures exceed the fair value of their pro rata share of the 2028 Debenture Collateral.

In any bankruptcy proceeding with respect to us, it is possible that the bankruptcy trustee, the debtor-in-possession or competing creditors will assert that the fair market value of the 2028 debentures' pro rata share of the 2028 Debenture Collateral on the date of the bankruptcy filing was less than the then-current principal amount of the 2028 debentures. Upon a finding by the bankruptcy court that the 2028 debentures are under-collateralized, the claims in the bankruptcy proceeding with respect to the 2028 debentures would be bifurcated between a secured claim and an unsecured claim, and the unsecured claim would not be entitled to the benefits of security in the 2028 Debenture Collateral. Other consequences of a finding of under-collateralization would be, among other things, a lack of entitlement on the part of the 2028 debentures to receive post-petition interest and a lack of entitlement on the part of the unsecured portion of the 2028 debentures to receive other "adequate protection" under federal bankruptcy laws.

In addition, any payments to the holders of the 2028 debentures that have been made within 90 days prior to the commencement of a bankruptcy proceeding with respect to us (or, if such payments are made by the Guarantor, with respect to the Guarantor) may be treated by the bankruptcy court as a "voidable preference" if the 2028 debentures are under-collateralized and such payments could be required to be returned to be included in the bankruptcy estate. The holders of the 2028 debentures would still have an unsecured claim (to the extent under-collateralized) against the bankruptcy estate in the amount of such payment if the court finds a voidable preference. Additionally, any new collateral included in the 2028 Debenture Collateral within 90 days of a bankruptcy proceeding may be also be avoided by the court as a preference. If the court avoids any payments or pledges of collateral as preferences, it is possible that the holders of the 2028 debentures may not receive full payment of amounts due under the 2028 debentures. Furthermore, if any payments of post-petition interest had been made at the time of such a finding of under-collateralization, those payments might be recharacterized by the bankruptcy court as a reduction of the principal amount of the secured claim with respect to the 2028 debentures.

Federal and state statutes may allow courts, under specific circumstances, to void the security interest in the 2028 Debenture Collateral.

Upon the closing of the Transactions, we and certain of our existing subsidiaries have pledged assets, and certain of our future subsidiaries may pledge assets, to secure the senior credit facilities, and consequently, also to secure the 2028 debentures. Such granting of liens by us and certain of our subsidiaries may be subject to review under state and federal laws if a bankruptcy, liquidation or reorganization case or a lawsuit, including in circumstances in which bankruptcy is not involved, were commenced by us or a subsidiary grantor, or against us or a subsidiary grantor. Under the Federal bankruptcy laws and comparable provisions of state fraudulent transfer and fraudulent conveyance laws, a court may void or otherwise decline to enforce a grantor's security interest. The court may void the equal and ratable pledge of the 2028 Debenture Collateral by us or our subsidiaries either as a result of, or independently from, the court voiding the original pledge of collateral to the lenders of the senior secured credit facilities.

While the relevant laws may vary from state to state, a court might void or otherwise decline to enforce the pledge of the security interest if it found that when the applicable grantor pledged its assets or, in some states, at the time that the trustee for the 2028 debentures made a claim against the pledge, we or the applicable grantor received less than reasonably equivalent value or fair consideration and either:

- we were, or the applicable grantor was, insolvent, or rendered insolvent by reason of such incurrence; or
- we were, or the applicable grantor was, engaged in a business or transaction for which our or the applicable grantor's remaining assets constituted unreasonably small capital; or
- we or the applicable grantor intended to incur, or believed or reasonably should have believed that we or the applicable grantor would incur, debts beyond our or such grantor's ability to pay such debts as they mature; or
- we were, or the applicable grantor was, a defendant in an action for money damages, or had a judgment for money damages docketed against us or such grantor if, in either case, after final judgment, the judgment is unsatisfied.

The court might also void a security interest without regard to the above factors, if the court found that we or the applicable grantor pledged assets with actual intent to hinder, delay or defraud our or its creditors.

A court would likely find that we or a grantor did not receive reasonably equivalent value or fair consideration for a pledge of assets if we or such grantor did not substantially benefit directly or indirectly from the execution of the senior secured credit facility or the applicable pledge. As a general matter, value is given for a loan if, in exchange for the loan, property is transferred or an antecedent debt is satisfied. A debtor will generally not be considered to have received value in connection with a debt offering if the debtor uses the proceeds of that offering to make a dividend payment or otherwise retire or redeem equity securities issued by the debtor. For example, in a leveraged transaction, such as the Transactions, there is increased risk of a determination that the issuer incurred debt obligations for less than reasonably equivalent value or fair consideration as a court may find that the benefit of the transaction went to the former stockholders of The Neiman Marcus Group, Inc., while neither we nor the affiliated grantors benefited substantially or directly from the pledges of assets.

The measures of insolvency applied by courts will vary depending upon the particular fraudulent transfer law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, an entity would be considered insolvent if:

- the sum of its debts, including subordinated and contingent liabilities, was greater than the fair saleable value of its assets; or
- if the present fair saleable value of its assets were less than the amount that would be required to pay the probable liability on its existing debts, including subordinated and contingent liabilities, as they become absolute and mature; or
- it cannot pay its debts as they become due.

In the event of a finding that a fraudulent conveyance or transfer has occurred, the court may void, or hold unenforceable, the pledge of assets to secure the senior secured credit facilities, which could mean that neither the senior secured credit facilities nor the 2028 debentures would be secured by the 2028 Debenture Collateral. Consequently, you may no longer have rights to receive any proceeds from the 2028 Debenture Collateral. Furthermore, the avoidance of a security interest could result in an event of default with respect to our and our guarantors' other debt that could result in acceleration of such debt (if not otherwise accelerated due to our or our guarantors' insolvency or other proceeding).

Rights of holders of 2028 debentures in the collateral may be adversely affected by the failure to perfect security interests in certain collateral acquired in the future.

Applicable law requires that certain property acquired after the grant of a general security interest can only be perfected at the time such property is acquired and identified. There can be no assurance that the trustee or the collateral agent will monitor, or that we will inform the trustee or the collateral agent of, the future acquisition of property that constitutes collateral, and that the necessary action will be taken to properly perfect the security interest in such after-acquired collateral. Such failure may result in the loss of the security interest therein or the priority of the security interest in favor of the 2028 debentures against third parties.

The lenders under our senior secured credit facilities have collateral that is not part of the 2028 Debenture Collateral and are entitled to remedies available to a secured lender, which gives them priority over holders of the 2028 debentures to the extent of such collateral.

The 2028 debentures were unsecured when originally issued, but were granted security pursuant to the requirements of the negative pledge covenant contained in the 2028 debenture indenture as a result of our incurrence of secured indebtedness in the Transactions. The negative pledge covenant contained in the 2028 debenture indenture provides that the Company must secure the 2028 debentures equally and ratably if it creates, assumes or suffers to exist any lien on any Principal Property of the Company or any Restricted Subsidiary or shares of capital stock or indebtedness of any Subsidiary, or permits any Restricted Subsidiary to do so, subject to certain exceptions. Because the negative pledge covenant applies only to pledges of Principal Properties and capital stock or indebtedness of subsidiaries of the Company, the 2028 debentures do not share the senior secured credit facilities' lien over certain collateral (such as capital stock of the Company and our intellectual property, inventory and related accounts and cash) that does not fall within these categories. See "Description of the 2028 Debentures Certain Covenants Certain Definitions" for definitions of the capitalized terms used in this paragraph.

The 2028 debentures are effectively subordinated in right of payment to all of our secured indebtedness to the extent of the value of assets securing such indebtedness that are not included in the 2028 Debenture Collateral. If we become insolvent or are liquidated, or if payment under the senior secured credit facilities or of any other secured indebtedness is accelerated, the lenders under our senior secured credit facilities and holders of other secured indebtedness (or an agent on their behalf) are entitled to exercise the remedies available to a secured lender under applicable law (in addition to any remedies that may be available under documents pertaining to our senior secured credit facilities or other senior debt). For example, the secured lenders could foreclose and sell those of our assets in which they have been granted a security interest to the exclusion of the holders of the 2028 debentures, even if an event of default exists under the 2028 debenture indenture at that time. As a result, upon the occurrence of any of these events, there may not be sufficient funds to pay amounts due on the 2028 debentures.

We cannot assure you that an active trading market for the 2028 debentures exists or will develop.

We do not intend to have the 2028 debentures listed on a national securities exchange or included in any automated quotation system. We cannot assure you as to the liquidity of markets that exists or may develop for the 2028 debentures, your ability to sell the 2028 debentures or the price at which you would be able to sell the 2028 debentures. The liquidity of any market for the 2028 debentures will depend upon the number of holders of the 2028 debentures, our performance, the market for similar securities, the interest of securities dealers in making a market in the 2028 debentures and other factors. If an active market is not maintained, the price and liquidity of the 2028 debentures may be adversely affected. Even if an active market were available, the 2028 debentures could trade at prices lower than their principal amount or purchase price depending on many factors, including prevailing interest rates and the markets for similar securities. Credit Suisse Securities (USA), LLC has informed us that it intends to make a market in the 2028 debentures, but it is not obligated to do so. Credit Suisse Securities (USA), LLC may discontinue any market making in the 2028 debentures at any time, in its sole discretion. As a result, any trading market for the 2028 debentures may not be liquid. You may not be able to sell your 2028 debentures at a particular time or at favorable prices or at all.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the 2028 debentures. We cannot assure holders of the 2028 debentures that the market, if any, for the 2028 debentures will be free from similar disruptions or that any such disruptions may not adversely affect the prices at which the holders of the 2028 debentures may sell their 2028 debentures.

Risks Related to Our Business and Industry

The specialty retail industry is highly competitive.

The specialty retail industry is highly competitive and fragmented. Competition is strong both to attract and sell to customers and to establish relationships with, and obtain merchandise from, key vendors.

We compete for customers with specialty retailers, traditional and high-end department stores, national apparel chains, vendor-owned proprietary boutiques, individual specialty apparel stores and direct marketing firms. We compete for customers principally on the basis of quality and fashion, customer service, value, assortment and presentation of merchandise, marketing and customer loyalty programs and, in the case of Neiman Marcus and Bergdorf Goodman, store ambiance. In our Specialty Retail business, merchandise assortment is a critical competitive factor, and retail stores compete for exclusive, preferred and limited distribution arrangements with key designers. Many of our competitors are larger than we are and have greater financial resources than we do. In addition, certain designers from whom we source merchandise have established competing free-standing retail stores in the same vicinity as our stores. If we fail to successfully compete for customers or merchandise, our business will suffer.

We are dependent on our relationships with certain designers, vendors and other sources of merchandise.

Our relationships with established and emerging designers are a key factor in our position as a retailer of high-fashion merchandise, and a substantial portion of our revenues is attributable to our sales of designer merchandise. Many of our key vendors limit the number of retail channels they use to sell their merchandise and competition among luxury retailers to obtain and sell these goods is intense. Our relationships with our designers have been a significant contributor to our past success. We have no guaranteed supply arrangements with our principal merchandising sources. Accordingly, there can be no assurance that such sources will continue to meet our quality, style and volume requirements. Moreover, nearly all of the brands of our top designers are sold by competing retailers, and many of our top designers also have their own dedicated retail stores. If one or more of our top designers were to cease providing us with adequate supplies of merchandise or, conversely, were to increase sales of merchandise through its own stores or to the stores of our competitors, our business could be adversely affected. In addition, any decline in the popularity or quality of any of our designer brands could adversely affect our business.

If we significantly overestimate our sales, our profitability may be adversely affected.

We make decisions regarding the purchase of our merchandise well in advance of the season in which it will be sold. For example, women's apparel, men's apparel and shoes are typically ordered six to nine months in advance of the products being offered for sale, while handbags, jewelry and other categories of merchandise are typically ordered three to six months in advance. If our sales during any season, particularly a peak season, are significantly lower than we expect for any reason, we may not be able to adjust our expenditures for inventory and other expenses in a timely fashion and may be left with a substantial amount of unsold inventory. If that occurs, we may be forced to rely on markdowns or promotional sales to dispose of excess inventory. This could have an adverse effect on our margins and operating income. At the same time, if we fail to purchase a sufficient quantity of merchandise, we may not have an adequate supply of products to meet consumer demand. This may cause us to lose sales or harm our customer relationships.

Our failure to identify changes in consumer preferences or fashion trends may adversely affect our performance.

Our success depends in large part on our ability to identify fashion trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. If we fail to adequately match our product mix to prevailing customer tastes, we may be required to sell our merchandise at higher average markdown levels and lower average margins. Furthermore, the products we sell often require long lead times to order and must appeal to consumers whose preferences cannot be predicted with certainty and often change rapidly. Consequently, we must stay abreast of emerging lifestyle and consumer trends and anticipate trends and fashions that will appeal to our consumer base. Any failure on our part to anticipate, identify and respond effectively to changing consumer demands and fashion trends could adversely affect our business.

Our business and performance may be affected by our ability to implement our store expansion and remodeling strategies.

Based upon our expansion strategy, we expect that planned new stores will add over 740,000 square feet of new store space over approximately the next four years, representing an almost 14% increase above the current aggregate square footage of our full-line Neiman Marcus and Bergdorf Goodman stores, and that our store remodeling program will add additional new store space from remodels that are already underway. New store openings involve certain risks, including:

- constructing, furnishing and supplying a store in a timely and cost effective manner;
- accurately assessing the demographic or retail environment at a given location, hiring and training quality staff;
- obtaining necessary permits and zoning approvals, obtaining commitments from a core group of vendors to supply the new store;
- integrating the new store into our distribution network; and
- building customer awareness and loyalty.

In undertaking store remodels, we must complete the remodel in a timely, cost effective manner, minimize disruptions to our existing operations, and succeed in creating an improved shopping environment. If we fail to execute on these or other aspects of our store expansion and remodeling strategy, we could suffer harm to our sales, an increase in costs and expenses and an adverse effect on our business.

Acts of terrorism could adversely affect our business.

The economic downturn that followed the terrorist attacks of September 11, 2001 had a material adverse effect on our business. Any further acts of terrorism or other future conflict may disrupt commerce and undermine consumer confidence, cause a downturn in the economy generally, cause consumer spending or shopping center traffic to decline or reduce the desire of our customers to make discretionary purchases. Any of the foregoing factors could negatively impact our sales revenue, particularly in the case of any terrorist attack targeting retail space, such as a shopping center.

Furthermore, an act of terrorism or war, or the threat thereof, could negatively impact our business by interfering with our ability to obtain merchandise from foreign manufacturers. Any future inability to obtain merchandise from our foreign manufacturers or to substitute other manufacturers, at similar costs and in a timely manner, could adversely affect our business.

Deterioration in economic conditions could adversely affect our business.

The merchandise we sell consists in large part of luxury retail goods. The purchase of these goods by customers is discretionary, and therefore highly dependent upon the level of consumer spending, particularly among affluent customers. Accordingly, sales of these products may be adversely affected by an economic downturn, increases in consumer debt levels, uncertainties regarding future economic prospects or a decline in consumer confidence. An economic downturn in the United States generally or in any of the geographic areas in which we have stores, particularly in Texas, California, Florida and the New York City metropolitan area, from which we derive a significant portion of our revenues, could have a material adverse effect on our business and results of operations.

The loss of any of our senior management team or attrition among our buyers or key sales associates could adversely affect our business.

Our success in the specialty retail industry will continue to depend to a significant extent on our senior management team, buyers and key sales associates. We rely on the experience of our senior management, who have specific knowledge relating to us and our industry that would be difficult to replace. If we were to lose a portion of our buyers or key sales associates, our ability to benefit from long-standing relationships with key vendors or to provide relationship-based customer service may suffer. We cannot assure you that we will be able to retain our current senior management team, buyers or key sales associates. The loss of any of these individuals could adversely affect our business.

Inflation may adversely affect our business operations in the future.

In recent years, we have experienced certain inflationary conditions in our cost base due primarily to changes in foreign currency exchange rates that have reduced the purchasing power of the U.S. dollar and increases in selling, general and administrative expenses, particularly with regard to employee benefits. Inflation can harm our margins and profitability if we are unable to increase prices or cut costs enough to offset the effects of inflation in our cost base. If inflation in these or other costs worsens, we cannot assure you that our attempts to offset the effects of inflation and cost increases through control of expenses, passing cost increases on to customers or any other method will be successful. Any future inflation could adversely affect our profitability and our business.

Failure to maintain competitive terms under our loyalty programs could adversely affect our business.

We maintain loyalty programs that are designed to cultivate long-term relationships with our customers and enhance the quality of service we provide to our customers. We must constantly monitor and update the terms of our loyalty programs so that they continue to meet the demands and needs of our customers and remain competitive with loyalty programs offered by other high-end specialty retailers. Given that approximately 46% of our revenues at Neiman Marcus stores in calendar year 2005 were generated by our InCircle loyalty program members, our failure to continue to provide quality service and competitive loyalty programs to our customers through the InCircle loyalty program could adversely affect our business.

Changes in our credit card arrangements, applicable regulations and consumer credit patterns could adversely impact our ability to facilitate the provision of consumer credit to our customers and adversely affect our business.

We maintain a proprietary credit card program through which credit is extended to customers under the "Neiman Marcus" and "Bergdorf Goodman" names. Because a majority of our revenues were transacted through our proprietary credit cards, changes in our proprietary credit card arrangement that adversely impact our ability to facilitate the provision of consumer credit may adversely affect our performance. In July 2005, we sold our approximately three million private label credit card accounts and related assets, as well as the outstanding balances associated with such accounts. See "The Credit Card Sale." Initially, we will continue to handle key customer service functions, including new account processing, most transaction authorization, billing adjustments, collection services and customer inquiries. As part of this transaction, we are changing, and will continue to change, the terms of credit offered to our customers following the Credit Card Sale. In addition, the purchaser of our credit card business will have discretion over certain policies and arrangements with credit card customers and may change these policies and arrangements in ways that affect our relationship with these customers. Any such changes in our credit card arrangements may adversely affect our credit card program and ultimately, our business.

Credit card operations are subject to numerous federal and state laws that impose disclosure and other requirements upon the origination, servicing and enforcement of credit accounts and limitations on the maximum amount of finance charges that may be charged by a credit provider. The purchaser of our credit card business is subject to regulations to which we were not subject prior to the Credit Card Sale. Any effect of these regulations or change in the regulation of credit arrangements that would materially limit the availability of credit to our customer base could adversely affect our business. In addition, changes in credit card use, payment patterns, and default rates may result from a variety of economic, legal, social, and other factors that we cannot control or predict with certainty.

Our business can be affected by extreme or unseasonable weather conditions.

Extreme weather conditions in the areas in which our stores are located could adversely affect our business. For example, heavy snowfall, rainfall or other extreme weather conditions over a prolonged period might make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions. Reduced sales from extreme or prolonged unseasonable weather conditions would adversely affect our business.

We are subject to numerous regulations that could affect our operations.

We are subject to customs, truth-in-advertising and other laws, including consumer protection regulations and zoning and occupancy ordinances that regulate retailers generally and/or govern the importation, promotion and sale of merchandise and the operation of retail stores and warehouse facilities. Although we undertake to monitor changes in these laws, if these laws change without our knowledge, or are violated by importers, designers, manufacturers or distributors, we could experience delays in shipments and receipt of goods or be subject to fines or other penalties under the controlling regulations, any of which could adversely affect our business.

Our revenues and cash requirements are affected by the seasonal nature of our business.

The specialty retail industry is seasonal in nature, with a higher level of sales typically generated in the fall and holiday selling seasons. We have in the past experienced significant fluctuation in our revenues from quarter to quarter with a disproportionate amount of our revenues falling in our second fiscal quarter, which coincides with the holiday season. In addition, we incur significant additional expenses in the period leading up to the months of November and December in anticipation of higher sales volume in those periods, including for additional inventory, advertising and employees.

Our business is affected by foreign currency fluctuations.

We purchase a substantial portion of our inventory from foreign suppliers whose cost to us is affected by the fluctuation of their local currency against the dollar or who price their merchandise in currencies other than the dollar. Accordingly, changes in the value of the dollar relative to foreign currencies may increase our cost of goods sold and, if we are unable to pass such cost increases on to our customers, decrease our gross margins and ultimately our earnings. Fluctuations in the Euro-dollar exchange rate affect us most significantly; however, we source goods from numerous countries and thus are affected by changes in numerous currencies and, generally, by fluctuations in the U.S. dollar relative to such currencies. Although we hedge some exposures to changes in foreign currency exchange rates arising in the ordinary course of business, foreign currency fluctuations may have a material adverse effect on our business, financial condition and results of operations.

Conditions in, and the United States' relationship with, the countries where we source our merchandise could affect our sales.

A substantial majority of our merchandise is manufactured overseas, mostly in Europe. As a result, political instability or other events resulting in the disruption of trade from other countries or the imposition of additional regulations relating to or duties upon imports could cause significant delays or interruptions in the supply of our merchandise or increase our costs, either of which could have a material adverse effect on our business. If we are forced to source merchandise from other countries, those goods may be more expensive or of a different or inferior quality from the ones we now sell. The importance to us of our existing designer relationships could present additional difficulties, as it may not be possible to source merchandise from a given designer from alternative jurisdictions. If we were unable to adequately replace the merchandise we currently source with merchandise produced elsewhere, our business could be adversely affected.

Significant increases in costs associated with the production of catalogs and other promotional material may adversely affect our operating income.

We advertise and promote in-store events, new merchandise and fashion trends through print catalogs and other promotional materials mailed on a targeted basis to our customers. Significant increases in paper, printing and postage costs could affect the cost of producing these materials and as a result, may adversely affect our operating income.

We are indirectly owned and controlled by the Sponsors, and their interests as equity holders may conflict with yours as a creditor.

We are indirectly owned and controlled by the Sponsors and certain other equity investors, and the Sponsors have the ability to control our policies and operations. The interests of the Sponsors may not in all cases be aligned with your interests. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of our equity holders might conflict with your interests as a note holder. In addition, our equity holders may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to holders of our indebtedness. Furthermore, the Sponsors may in the future own businesses that directly or indirectly compete with us. One or more of the Sponsors also may pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. For information concerning our arrangements with the Sponsors following the Transactions, see "Certain Relationships and Related Party Transactions."

If we are unable to enforce our intellectual property rights, or if we are accused of infringing on a third party's intellectual property rights, our net income may decline.

We and our subsidiaries currently own our trademarks and service marks, including the "Neiman Marcus," "Bergdorf Goodman" and "Kate Spade" marks. Our trademarks and service marks are registered in the United States and in various foreign countries, primarily in Europe. The laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. Moreover, we are unable to predict the effect that any future foreign or domestic intellectual property legislation or regulation may have on our existing or future business. The loss or reduction of any of our significant proprietary rights could have an adverse effect on our business.

Additionally, third parties may assert claims against us alleging infringement, misappropriation or other violations of their trademark or other proprietary rights, whether or not the claims have merit. Claims like these may be time consuming and expensive to defend and could result in our being required to cease using the trademark or other rights and selling the allegedly infringing products. This might have an adverse affect on our sales and cause us to incur significant litigation costs and expenses.

Failure to successfully maintain and update information technology systems and enhance existing systems may adversely affect our business.

To keep pace with changing technology, we must continuously provide for the design and implementation of new information technology systems as well as enhancements of our existing systems. Any failure to adequately maintain and update the information technology systems supporting our online operations, sales operations or inventory control could prevent our customers from purchasing merchandise on our websites or prevent us from processing and delivering merchandise, which could adversely affect our business.

Delays in receipt of merchandise in connection with either the manufacturing or shipment of such merchandise can affect our performance.

Substantially all of our merchandise is delivered to us by our vendors as finished goods and is manufactured in numerous locations, including Europe and the United States and, to a lesser extent, China, Mexico and South America. Our vendors rely on third party carriers to deliver merchandise to our distribution facilities. In addition, our success depends on our ability efficiently to source and distribute merchandise to our Specialty Retail stores and Neiman Marcus Direct customers. Events such as U.S. or foreign labor strikes, natural disasters, work stoppages or boycotts affecting the manufacturing or transportation sectors could increase the cost or reduce the supply of merchandise available to us and could adversely affect our results of operations.

USE OF PROCEEDS

This prospectus is being delivered in connection with the sale of 2028 debentures by Credit Suisse Securities (USA) LLC in market-making transactions. We will not receive any proceeds from such transactions.

CAPITALIZATION

The following table sets forth the capitalization of Neiman Marcus, Inc. on a consolidated basis as of April 29, 2006. The information in this table should be read in conjunction with "The Transactions," "Selected Historical Financial and Operating Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the audited and unaudited consolidated financial statements and related notes appearing elsewhere in this prospectus.

	As of April 29, 2006
	(in millions)
Debt	
Senior secured asset-based revolving credit facility(1)	$
Senior secured term loan facility(2)	1,875.0
2028 debentures(3)	120.7
Senior notes(4)	700.0
Senior subordinated notes(5)	500.0
Other debt(6)	19.6
Total debt	3,215.3
Equity(7)	1,468.0
Total capitalization	$ 4,683.3

(1) On the closing date of the Transactions, we entered into a new senior secured Asset-Based Revolving Credit Facility providing for up to $600.0 million of loans and letters of credit, subject to the borrowing base, with a maturity of five years. At the closing of the Transactions, we utilized $150.0 million of the Asset-Based Revolving Credit Facility for loans and approximately $16.5 million for letters of credit. In the second quarter of fiscal year 2006, we repaid all loans under the Asset-Based Revolving Credit Facility. As of April 29, 2006, we had $573.2 million of unused borrowing availability under the Asset-Based Revolving Credit Facility based on a borrowing base of over $600.0 million and after giving effect to $26.8 million used for letters of credit. See "Description of Other Indebtedness Senior Secured Asset-Based Revolving Credit Facility" and "Management's Discussion and Analysis of Financial Conditions and Results of Operations Seasonality."

(2) On the closing date of the Transactions, we entered into a new senior secured term loan facility in an aggregate principal amount of $1,975.0 million, with a maturity of seven and one half years, the full amount of which was borrowed on the closing date. In the second quarter of fiscal year 2006, we repaid $100.0 million principal amount of the loans under the Senior Secured Term Loan Facility.

(3) As of April 29, 2006, we had outstanding $125.0 million aggregate principal amount of 2028 debentures.

(4) On the closing date of the Transactions, we issued $700.0 million aggregate original principal amount of 9%/9$^3/_4$% Senior Notes under a senior indenture (Senior Indenture) with Wells Fargo Bank, National Association, as trustee.

(5) On the closing date of the Transactions, we issued $500.0 million aggregate principal amount of 10$^3/_8$% Senior Subordinated Notes under a senior subordinated indenture (Senior Subordinated Indenture) with Wells Fargo Bank, National Association, as trustee.

(6) As of April 29, 2006, we had $19.6 million of other debt outstanding, primarily consisting of $11.4 million of outstanding borrowings under credit facilities by our Brand Development Companies, one of which was sold on July 27, 2006, and $8.2 million of capital lease

obligations (of which $4.5 million is included in other long-term liabilities).

(7) As of April 29, 2006, Neiman Marcus, Inc. had outstanding 1,012,264 shares of common stock, par value $0.01 per share.

THE TRANSACTIONS

Neiman Marcus, Inc., our Parent, acquired The Neiman Marcus Group, Inc. on October 6, 2005 through a reverse subsidiary merger with Newton Acquisition Merger Sub, Inc., a wholly-owned subsidiary of our Parent. Our Parent was formed for purposes of the acquisition by investment funds affiliated with Texas Pacific Group and Warburg Pincus LLC, which we refer to as the "Sponsors." The acquisition was accomplished through the merger of Newton Acquisition Merger Sub, Inc. with and into The Neiman Marcus Group, Inc., with The Neiman Marcus Group, Inc. being the surviving company. Subsequent to the acquisition, we are a subsidiary of our Parent, which is controlled by Newton Holding, LLC, an entity controlled by the Sponsors and their co-investors.

The Sponsors financed the purchase of the Company and the concurrent redemption of our 6.65% senior notes due 2008, which we refer to as the 2008 notes, through:

- application of the proceeds from the offering of the senior notes and the senior subordinated notes
- initial borrowings under our senior secured asset-based revolving credit facility and our senior secured term loan facility,
- equity investments funded by direct and indirect equity investments from the Investors; and
- cash on hand at the Company.

Immediately following the merger, The Neiman Marcus Group, Inc. became a wholly-owned subsidiary of Neiman Marcus, Inc. Pursuant to the LLC Agreement (as defined below under "Certain Relationships and Related Party Transactions Newton Holding, LLC Limited Liability Company Operating Agreement") the Sponsors and certain other Investors, including one that is affiliated with Credit Suisse Securities (USA) LLC, are entitled to nominate the members of our board of directors. See "Management Directors and Executive Officers."

The acquisition was completed on October 6, 2005 and occurred simultaneously with:

- the closing of the offering of our senior notes and our senior subordinated notes;
- the closing of our new senior secured asset-based revolving credit facility;
- the closing of our new senior secured term loan facility;
- the call for redemption of, the deposit into a segregated account of the estimated amount of the redemption payment related to, and the ratable provision of security pursuant to the terms thereof for, the 2008 notes;
- the ratable provision of security for the 2028 debentures pursuant to the terms thereof;
- the termination of our existing $350 million unsecured revolving credit facility; and
- the equity investments described above.

We refer to these transactions, including the merger and our payment of any costs related to these transactions and certain related transactions as the "Transactions." See "Description of Other Indebtedness" for a description of our senior secured credit facilities.

In connection with the Transactions, we incurred significant indebtedness and became highly leveraged. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources." In addition, the purchase price paid in connection with the acquisition has been allocated to state the acquired assets and liabilities at fair value. The preliminary purchase accounting adjustments increased the carrying value of our property and equipment and inventory, established intangible assets for our tradenames, customer lists and favorable lease commitments and revalued our long-term benefit plan obligations, among other things. Subsequent to the Transactions, interest expense and non-cash depreciation and amortization charges have significantly increased. As a result, our successor financial statements subsequent to the Transactions are not comparable to our predecessor financial statements.

THE CREDIT CARD SALE

On July 7, 2005, HSBC Bank Nevada, National Association ("HSBC") purchased our approximately three million private label Neiman Marcus and Bergdorf Goodman credit card accounts and related assets, as well as the outstanding balances associated with such accounts (we refer to this transaction in this prospectus as the "Credit Card Sale"). The total purchase price was approximately $647 million, consisting of approximately $534 million in net cash proceeds and the assumption of approximately $113 million of outstanding debt under our previous revolving credit card securitization facility (the "Credit Card Facility"). We recognized a gain of $6.2 million in connection with the sale of our credit card portfolio to HSBC in the fourth quarter of fiscal year 2005. You can find unaudited pro forma condensed consolidated statements of earnings giving effect, among other things, to the Credit Card Sale as if it had occurred on August 1, 2004 in this prospectus under the heading "Unaudited Pro Forma Condensed Consolidated Financial Statements."

As a part of the Credit Card Sale, we entered into a long-term marketing and servicing alliance with HSBC. Under the terms of this alliance, HSBC offers credit cards and non-card payment plans bearing our brands and we receive from HSBC ongoing payments related to credit card sales and compensation for marketing and servicing activities ("HSBC Program Income"). In addition, we continue to handle key customer service functions. As part of this transaction, we have changed, and will continue to change, the terms of credit offered to our customers following the Credit Card Sale. In addition, HSBC will have discretion over certain policies and arrangements with credit card customers and may change these policies and arrangements in ways that affect our relationship with these customers. Any such changes in our credit card arrangements may adversely affect our credit card program and ultimately, our business.

In the future, the HSBC Program Income may be either decreased based upon the level of future services we provide to HSBC or increased based upon contemplated changes, which are currently being undertaken by us and HSBC, to our historical credit card program related to, among other things, the interest rates applied to unpaid balances and the assessment of late fees.

The Purchase, Sale and Servicing Transfer Agreement

Under the purchase, sale and servicing transfer agreement, which we refer to as the Purchase Agreement, governing the Credit Card Sale:

- we have sold HSBC our private label Neiman Marcus and Bergdorf Goodman credit card accounts, non-card payment plans, interests in the securitization arrangements relating to the receivables arising under those accounts and certain related assets and

- HSBC, or its designees, have assumed the related obligations under those accounts, including our and our subsidiaries' obligations under prior securitization arrangements.

The Credit Card Program Agreement

Our long-term marketing and servicing alliance with HSBC is governed by a credit card program agreement having an initial term of five years and renewable for three year terms. Under the program agreement, HSBC, or its designee, will offer private label Neiman Marcus and Bergdorf Goodman credit cards and non-card payment plans and, in accordance with the terms of the program agreement, may issue in the future dual-line, card-association branded credit cards. We refer to this arrangement with HSBC as the program.

We have agreed that, other than through the program or pursuant to certain limited exceptions in the program agreement, we will not offer or market in the United States a private label credit card, a co-branded credit card or a non-card payment plan. We have also agreed to limitations, on our ability to accept credit cards, other than program credit cards and other cards currently accepted, in certain of our retail store lines.

A management committee consisting of eight members (four nominated by us and four nominated by HSBC) has been established to oversee the program. Initial operating procedures of the program will be those employed by us prior to the effective date of the program and changes to those procedures will only be made upon review by the management committee in accordance with the program agreement.

We and HSBC will jointly market the program in accordance with the terms of the program agreement. HSBC will contribute money to a marketing fund to be used in our discretion and also to a joint marketing fund to be used in accordance with a mutually agreed upon marketing plan and as directed by the management committee.

We and HSBC have also entered into a servicing agreement, under which we are appointed to service the accounts and cardholder indebtedness on behalf of HSBC. We have transferred certain servicing functions and may elect to transfer additional servicing functions to HSBC, in which case HSBC will be required to perform the services under the program agreement.

Under the program agreement, HSBC has agreed to pay us a daily program fee, equal to a percentage of purchases under all accounts linked to a Neiman Marcus Group credit card used solely for the purpose of purchasing our products and services ("private label accounts") and all revolving credit payment plans or retail installment sale arrangements not associated with a credit card ("non-card payment plans"). The daily program fee will increase if certain changes, which are currently being undertaken by the Company and HSBC, are made to our historical credit card program. These changes relate to, among other things, the interest rates applicable to unpaid balances and the assessment of late fees. In addition, we are paid a daily servicing fee applicable to all private label accounts and non-card payment plans, for the on-going credit services we perform. The daily servicing fee will be decreased if and when HSBC assumes additional servicing responsibilities under the program agreement.

The program agreement contains certain early termination rights held by each party, including termination rights upon default of the other party or upon other specified retail events. If the program agreement is terminated by either party for any reason, we will have the right to purchase, or to arrange for another purchaser to purchase, the program assets, including the accounts and cardholder indebtedness, from HSBC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

We prepared the following unaudited pro forma condensed consolidated financial statements by applying pro forma adjustments to our historical audited consolidated statement of earnings for the fiscal year ended July 30, 2005 and the interim unaudited condensed consolidated statements of earnings for the thirty-nine week periods ended April 29, 2006 and April 30, 2005 and our historical unaudited condensed consolidated balance sheet as of April 29, 2006 appearing elsewhere in this prospectus. The unaudited pro forma condensed consolidated statements of earnings give effect to the following transactions as if each had occurred on August 1, 2004:

- the disposition of Gurwitch Products, L.L.C. (Gurwitch Disposition), which was completed on July 27, 2006,

- the Transactions (which were completed on October 6, 2005) and the redemption of our 2008 notes (which occurred on November 7, 2005),

- the Credit Card Sale, which was completed on July 7, 2005, and

- the Chef's Catalog Disposition, which was completed on November 8, 2004.

The unaudited pro forma condensed consolidated balance sheet gives effect to the Gurwitch Disposition as if it had occurred on April 29, 2006. The impact of the Transactions, the Credit Card Sale and the Chef's Catalog Disposition are reflected in the historical unaudited condensed consolidated balance sheet at April 29, 2006, as these transactions were completed prior to that date.

The merger is accounted for using purchase accounting. Under the purchase method of accounting, the total consideration paid is allocated to the Company's tangible and intangible assets and liabilities based on their estimated fair values as of the date of the Transactions.

We based the unaudited pro forma adjustments upon available information and certain assumptions that we believe are reasonable under the circumstances. Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the unaudited pro forma condensed consolidated financial information. The preliminary allocation of the purchase price to the assets acquired and liabilities assumed used in the preparation of the unaudited pro forma condensed consolidated statements of earnings, as well as the unaudited condensed consolidated balance sheet as of April 29, 2006, appearing elsewhere herein, is based on preliminary estimates of the fair values of assets acquired and liabilities assumed, available information and assumptions and will be revised as additional information becomes available. The final adjustments will depend on a number of factors, including the finalization of asset valuations. Therefore, the actual adjustments will differ from the pro forma adjustments, and the differences may be material.

We are providing the unaudited pro forma condensed consolidated financial statements for informational purposes only. The unaudited pro forma condensed consolidated financial statements do not purport to represent what our results of operations or financial condition would have been had the Gurwitch Disposition, the Transactions, the Credit Card Sale and the Chef's Catalog Disposition actually occurred on the dates assumed, nor do they purport to project our results of operations for any future period or as of any future date. You should read the unaudited pro forma condensed consolidated financial information in conjunction with "Capitalization," "The Transactions," "Selected Historical Financial and Operating Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited and unaudited consolidated financial statements and related notes appearing elsewhere in this prospectus.

NEIMAN MARCUS, INC.
Unaudited Pro Forma Condensed Consolidated Balance Sheet
April 29, 2006

	Historical	Gurwitch Disposition	Pro Forma
		(in thousands)	
ASSETS			
Current assets:			
Cash and cash equivalents	$ 108,982	$ 40,491 (1)	$ 149,473
Accounts receivable, net of allowance	56,744	(12,766)(2)	43,978
Merchandise inventories	854,979	(12,000)(2)	842,979
Other current assets	64,700	(344)(2)	64,356
Total current assets	1,085,405	15,381	1,100,786
Property and equipment, net	1,045,184	(5,008)(2)	1,040,176
Customer lists	554,650	(4,029)(2)	550,621
Favorable lease commitments	469,591		469,591
Tradenames	1,691,155	(6,471)(2)	1,684,684
Goodwill	1,681,021	(26,810)(2)	1,654,211
Debt issuance costs	101,034		101,034
Other assets	31,974	(52)(2)	31,922
Total assets	$ 6,660,014	$ (26,989)	$ 6,633,025
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	$ 251,444	$ (3,080)(2)	$ 248,364
Accrued liabilities	389,756	(7,016)(2)	382,740
Notes payable and current maturities of long-term liabilities	15,129	(5,000)(2)	10,129
Total current liabilities	656,329	(15,096)	641,233
Long-term liabilities			
Senior secured term loan facility	1,875,000		1,875,000
Senior debentures due 2028	120,663		120,663
Senior notes	700,000		700,000
Senior subordinated notes	500,000		500,000
Deferred real estate credits	11,099		11,099
Deferred income taxes	1,129,899	(4,117)(2)	1,125,782
Other long-term liabilities	186,169		186,169
Total long-term liabilities	4,522,830	(4,117)	4,518,713
Minority interest	12,810	(5,828)(2)	6,982
Common stock	10		10
Additional paid-in capital	1,473,129		1,473,129
Carryover basis adjustment for management shareholders	(69,200)		(69,200)
Accumulated other comprehensive income	9,666		9,666
Retained earnings	54,440	(1,948)(2)	52,492
Total shareholders' equity	1,468,045	(1,948)	1,466,097

	Historical	Gurwitch Disposition	Pro Forma
Total liabilities and shareholders' equity	$ 6,660,014	$ (26,989)	$ 6,633,025

NEIMAN MARCUS, INC.
Notes to Unaudited Pro Forma Condensed Consolidated Balance Sheet

(1)
Reflects estimated net cash proceeds from the sale of our 51% majority interest in Gurwitch Products, L.L.C. of approximately $40.8 million, net of cash held at Gurwitch Products, L.L.C.

(2)
To eliminate the assets and liabilities of Gurwitch Products, L.L.C. in connection with the Gurwitch Disposition. The net assets of Gurwitch Products, L.L.C. were sold for their net carrying value (after purchase accounting adjustments made in connection with the Transactions to state such assets at fair value).

THE NEIMAN MARCUS GROUP, INC.
Unaudited Pro Forma Condensed Consolidated Statement of Earnings
For the Fiscal Year Ended July 30, 2005

		Chef's Catalog Disposition		Credit Card Sale		Transactions		Gurwitch Disposition	
	Historical	Adjustments	Pro Forma Subtotal	Adjustments	Pro Forma Subtotal	Adjustments	Pro Forma Subtotal	Adjustments	Pro Forma
	(dollars in thousands)								
Revenues	$ 3,821,924	$ (13,929)(1)	$ 3,807,995	$	$ 3,807,995	$	$ 3,807,995	$ (47,126)(9)	$ 3,760,869
Cost of goods sold including buying and occupancy costs (excluding depreciation)	2,390,584	(10,206)(1)	2,380,378		2,380,378	44,422(3)	2,424,800	(301)(9)	2,424,499
Selling, general and administrative expenses (excluding depreciation)(7)	974,593	(4,746)(1)	969,847		969,847	3,075(4)	972,922	(43,092)(9)	929,830
Income from credit card operations, net	(71,644)		(71,644)	15,591(2)	(56,053)		(56,053)		(56,053)
Depreciation expense	107,687	(129)(1)	107,558		107,558	4,581(5)	112,139	(1,341)(9)	110,798
Amortization of intangible assets						54,867(6)	54,867	(207) (9)	54,660
Amortization of favorable lease commitments						18,007(6)	18,007		18,007
Gain on sale of credit card assets	(6,170)		(6,170)	6,170(2)					
Loss on disposition of Chef's Catalog	15,348	(15,348)(1)							
Operating earnings	411,526	16,500	428,026	(21,761)	406,265	(124,952)	281,313	(2,185)	279,128
Interest expense	12,378		12,378	(5,243)(2)	7,135	224,975(8)	232,110	(76)(9)	232,034
Earnings before income taxes and minority interest	399,148	16,500	415,648	(16,518)	399,130	(349,927)	49,203	(2,109)	47,094
Income taxes	146,487	6,468(10)	152,955	(6,475)(10)	146,480	(137,172)(10)	9,308	(827)(10)	8,481
Earnings before minority interests	252,661	10,032	262,693	(10,043)	252,650	(212,755)	39,895	(1,282)	38,613
Minority interest in net earnings of subsidiaries	(3,837)		(3,837)		(3,837)		(3,837)	730(9)	(3,107)
Net earnings	$ 248,824	$ 10,032	$ 258,856	$ (10,043)	$ 248,813	$ (212,755)	$ 36,058	$ (552)	$ 35,506
Other Financial Data:									
Ratio of earnings to fixed charges									1.2x(11)

NEIMAN MARCUS, INC.
Unaudited Pro Forma Condensed Consolidated Statement of Earnings
For the Thirty-Nine Weeks Ended April 29, 2006

		Credit Card Sale		Transactions		Gurwitch Disposition	
	Historical	Adjustments	Pro Forma Subtotal	Adjustments	Pro Forma Subtotal	Adjustments	Pro Forma
	(dollars in thousands)						
Revenues	$ 3,234,863	$	$ 3,234,863	$	$ 3,234,863	$ (44,724)(9)	$ 3,190,139
Cost of goods sold including buying and occupancy costs (excluding depreciation)	2,012,954		2,012,954	(38,858)(3)	1,974,096	(3,927)(9)	1,970,169
Selling, general and administrative expenses (excluding depreciation)	792,825		792,825	(4)	792,825	(37,714)(9)	755,111
Income from credit card operations, net	(43,712)	(1,868)(2)	(45,580)		(45,580)		(45,580)
Depreciation expense	97,937		97,937	794(5)	98,731	(1,163)(9)	97,568
Amortization of intangible assets	31,652		31,652	9,496(6)	41,148	(156)(9)	40,992
Amortization of favorable lease commitments	10,389		10,389	3,117(6)	13,506		13,506
Transaction and other costs(7)	23,544		23,544		23,544		23,544
Operating earnings	309,274	1,868	311,142	25,451	336,593	(1,764)	334,829
Interest expense	149,760		149,760	44,417(8)	194,177	(144)(9)	194,033
Earnings before income taxes and minority interest	159,514	1,868	161,382	(18,966)	142,416	(1,620)	140,796
Income taxes	60,398	736(10)	61,134	(7,473)(10)	53,661	(638)(10)	53,023
Earnings before minority interests	99,116	1,132	100,248	(11,493)	88,755	(982)	87,773
Minority interest in net earnings of subsidiaries	(522)		(522)		(522)	558(9)	36
Net earnings	$ 98,594	$ 1,132	$ 99,726	$ (11,493)	$ 88,233	$ (424)	$ 87,809
Other Financial Data:							
Ratio of earnings to fixed charges							1.6x(11)

THE NEIMAN MARCUS GROUP, INC.
Unaudited Pro Forma Condensed Consolidated Statement of Earnings
For the Thirty-Nine Weeks Ended April 30, 2005

		Chef's Catalog Disposition		Credit Card Sale		Transactions		Gurwitch Disposition	
	Historical	Adjustments	Pro Forma Subtotal	Adjustments	Pro Forma Subtotal	Adjustments	Pro Forma Subtotal	Adjustments	Pro Forma
	(dollars in thousands)								
Revenues	$ 2,970,533	$ (13,929)(1)	$ 2,956,604	$	$ 2,956,604	$	$ 2,956,604	$ (35,491)(9)	$ 2,921,113
Cost of goods sold including buying and occupancy costs (excluding depreciation)	1,816,602	(10,206)(1)	1,806,396		1,806,396	40,683(3)	1,847,079	145(9)	1,847,224
Selling, general and administrative expenses (excluding depreciation)	747,432	(4,746)(1)	742,686		742,686	2,536(4)	745,222	(32,722)(9)	712,500
Income from credit card operations, net	(52,414)		(52,414)	8,544(2)	(43,870)		(43,870)		(43,870)
Depreciation expense	79,338	(129)(1)	79,209		79,209	3,436(5)	82,645	(1,020)(9)	81,625
Amortization of intangible assets						41,149(6)	41,149	(156)(9)	40,993
Amortization of favorable lease commitments						13,505(6)	13,505		13,505
Loss on disposition of Chef's Catalog	15,348	(15,348)(1)							
Operating earnings	364,227	16,500	380,727	(8,544)	372,183	(101,309)	270,874	(1,738)	269,136
Interest expense	10,948		10,948	(4,109)(2)	6,839	165,693(8)	172,532	(74)(9)	172,458
Earnings before income taxes and minority interest	353,279	16,500	369,779	(4,435)	365,344	(267,002)	98,342	(1,664)	96,678
Income taxes	136,014	6,468(9)	142,482	(1,739)(9)	140,743	(104,665)(9)	36,078	(652)(10)	35,426
Earnings before minority interests	217,265	10,032	227,297	(2,696)	224,601	(162,337)	62,264	(1,012)	61,252
Minority interest in net earnings of subsidiaries	(2,787)		(2,787)		(2,787)		(2,787)	572(9)	(2,215)
Net earnings	$ 214,478	$ 10,032	$ 224,510	$ (2,696)	$ 221,814	$ (162,337)	$ 59,477	$ (440)	$ 59,037
Other Financial Data:									
Ratio of earnings to fixed charges									1.5x(11)

THE NEIMAN MARCUS GROUP, INC.

Notes to Unaudited Pro Forma Condensed Consolidated Statement of Earnings

(tables present dollars in millions)

(1)

To give pro forma effect to the Chef's Catalog Disposition as if it had occurred on August 1, 2004 as follows:

	Year Ended July 30, 2005	Thirty-Nine Weeks Ended April 30, 2005
Eliminate historical results of operations:		
Revenues	$ 13.9	$ 13.9
Cost of goods sold including buying and occupancy costs	10.2	10.2
Selling, general and administrative expenses	4.7	4.7
Depreciation expense	0.1	0.1
Eliminate loss on disposition of Chef's Catalog	15.3	15.3

The pro forma adjustments relate to 1) the direct revenue stream of the Chef's Catalog brand, 2) direct product costs related to items sold through Chef's Catalog (included in costs of goods sold) and 3) other direct expenses associated with the Chef's Catalog brand, primarily the costs of print catalogs circulated under the Chef's Catalog name (included in selling, general and administrative expenses). Other operating costs of the Chef's Catalog brand were not eliminated as a part of the sale and were not removed from the unaudited pro forma presentation as these costs were not clearly distinguishable as costs of the Chef's Catalog brand.

(2)

To give pro forma effect to the Credit Card Sale as if it had occurred on August 1, 2004 as follows:

	Year Ended July 30, 2005	Thirty-Nine Weeks Ended April 29, 2006	Thirty-Nine Weeks Ended April 30, 2005
Adjustment to income from credit card operations, net:			
Eliminate net finance charge income generated by credit card portfolio	$ 75.4	$	$ 52.4
Pro forma HSBC Program Income earned by Company(a):			
Income at initial contractual rate	(42.0)	(34.2)	(32.9)
Net increase for program changes(b)	(14.0)	(11.4)	(11.0)
Pro forma HSBC Program Income earned by Company	(56.0)	(45.6)	(43.9)
Decrease (increase) to earnings	19.4	(45.6)	8.5
Less: amount reflected in historical statements of earnings	(3.8)	43.7	
Pro forma adjustment to decrease (increase) income from credit card operations, net	$ 15.6	$ (1.9)	$ 8.5
Eliminate gain of sale of credit card assets	$ 6.2		
Eliminate interest expense on Credit Card Facility	$ (5.2)		$ (4.1)

(a)

The compensation we receive pursuant to the marketing and servicing agreement with HSBC ("HSBC Program Income") consists of a servicing fee for the on-going credit services we perform and a program fee based on credit sales generated.

(b) Since the inception of the marketing and servicing agreement with HSBC, the HSBC Program Income has been:

- decreased based upon the reduction in the level of services we provide to HSBC; and
- increased based upon changes to our historical credit card program related to, among other things, the interest rates applied to unpaid balances and the assessment of late fees.

For purposes of preparing the unaudited pro forma condensed consolidated statements of earnings, we have recognized HSBC Program Income at the rate we expect to receive based upon changes to the proprietary credit card program implemented by HSBC and the Company after the closing of the Credit Card Sale and on or prior to March 31, 2006.

(3) To give effect to the following changes in costs of goods sold including buying and occupancy costs (excluding depreciation):

	Year Ended July 30, 2005	Thirty-Nine Weeks Ended April 29, 2006	Thirty-Nine Weeks Ended April 30, 2005
Reflect non-cash charges related to step-up in carrying value of inventory(a)	$ 39.6	$	$ 39.6
Eliminate amortization of deferred real estate credits prior to the Transactions(b)	4.8	3.6	1.1
Decrease to earnings	44.4	3.6	40.7
Less: amount reflected in historical statements of earnings		(42.5)	
Pro forma increase (decrease) in costs of goods sold	$ 44.4	$ (38.9)	$ 40.7

(a) In connection with purchase accounting, the carrying value of the acquired inventories was increased by $39.6 million to state the inventories at their estimated fair value at the acquisition date. The step-up in the carrying value of the acquired inventories was charged to cost of goods sold upon sale of the acquired inventories subsequent to the Transactions.

(b) We receive allowances from developers related to the construction of our stores. We record these allowances as deferred real estate credits which are amortized to reduce rent expense on a straight-line basis over the applicable lease term. In connection with purchase accounting, the deferred real estate credits at the acquisition date were eliminated. As a result, the historical amortization of the pre-acquisition deferred lease credits has been eliminated in the preparation of the unaudited pro forma statements of earnings.

(4) To give effect to the following changes in selling, general and administrative expenses (excluding depreciation):

	Year Ended July 30, 2005	Thirty-Nine Weeks Ended April 29, 2006	Thirty-Nine Weeks Ended April 30, 2005
Reflect payment of management fees to Sponsors	$ 9.5	$ 1.7	$ 7.4

	Year Ended July 30, 2005	Thirty-Nine Weeks Ended April 29, 2006	Thirty-Nine Weeks Ended April 30, 2005
Reduction in expenses related to long-term benefit plans(a)	(6.4)	(1.7)	(4.9)
Pro forma increase in expenses	$ 3.1	$	$ 2.5

(a) Prior to the Transactions, a portion of our historical selling, general and administrative expenses represented the amortization of previously unrecognized actuarial losses over future years as permitted by U.S. generally accepted accounting principles. In connection with the allocation of the purchase price paid to the Company's assets and liabilities, our obligations related to our other long-term benefit plans were adjusted to fair value, thereby eliminating the amortization of the previously unrecognized losses as of the acquisition date.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (SFAS No. 123R). This standard is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB No. 25) and its related implementation guidance. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. We adopted SFAS No. 123R as of the beginning of our first quarter of fiscal 2006 using the modified prospective method, which requires companies to record stock compensation for all unvested and new awards as of the adoption date. Prior to the adoption of the provisions of SFAS No. 123R, we accounted for stock-based compensation in accordance with APB No. 25.

Compensation expense recorded with respect to Predecessor restricted stock awards, measured in accordance with the provisions of APB No. 25, was $5.0 million in fiscal year 2005, $0.9 million in the thirty-nine weeks ended April 29, 2006 and $3.6 million in the thirty-nine weeks ended April 30, 2005.

As to the Successor equity-based awards granted subsequent to the Transactions, the estimated annual compensation expense, as measured in accordance with the provisions of SFAS No. 123R, is approximately $9.4 million (of which $2.5 million was recorded in the thirty-nine weeks ended April 29, 2006).

(5) To reflect the increase in depreciation resulting from recording our property and equipment at fair value pursuant to purchase accounting. We computed depreciation expense on a pro forma basis, consistent with our historical accounting policies, principally using the straight-line method over the estimated useful lives of the assets. Buildings and improvements are depreciated over five to 30 years, while fixtures and equipment are depreciated over three to 15 years. Leasehold improvements are amortized over the shorter of the asset life or the lease term. Costs of internally developed computer software are amortized over three to ten years.

(6) To reflect the amortization associated with intangible assets recorded pursuant to the purchase method of accounting as follows:

	Amortization Period	Year Ended July 30, 2005	Thirty-Nine Weeks Ended April 29, 2006	Thirty-Nine Weeks Ended April 30, 2005
Goodwill	Indefinite life			
Tradenames	Indefinite life			
Customer lists and other relationship-based intangibles assets	5 to 26 years	$ 54.9	$ 41.1	$ 41.1
Favorable lease commitments	2 to 49 years	18.0	13.5	13.5
		72.9	54.6	54.6
Less: amount reflected in historical statements of earnings			(42.0)	
Pro forma adjustment to amortization expense		$ 72.9	$ 12.6	$ 54.6

Both goodwill and tradenames are indefinite-lived intangible assets. As a result, goodwill and tradenames will not be amortized but will be evaluated for impairment at least annually.

These unaudited pro forma condensed consolidated financial statements of earnings reflect our preliminary allocation of the purchase price to tangible assets, liabilities, goodwill and other intangible assets. The final purchase price allocation may result in a different allocation for tangible and intangible assets than that presented in these unaudited pro forma condensed consolidated statements of earnings. An increase or decrease in the amount of purchase price allocated to amortizable assets would impact the amount of annual amortization expense. Identifiable intangible assets have been amortized on a straight-line basis in the unaudited pro forma condensed consolidated statements of earnings. The following table shows the decrease to pro forma operating earnings for every $100.0 million of purchase price allocated to amortizable intangibles at a range of weighted-average useful lives:

Weighted Average Life	**Decrease to pro forma earnings**
Four years	$ (25.0)
Six years	(16.7)
Eight years	(12.5)
Ten years	(10.0)
Twelve years	(8.3)

The estimated weighted average life of our customer lists and other relationship-based intangibles and favorable lease commitments is approximately 15 years. The following table shows the (decrease) increase in pro forma operating earnings based on different estimated lives:

Weighted Average Life	**(Decrease) increase in pro forma earnings**
10 years	$ (33.8)
12 years	(16.0)
18 years	13.6
20 years	19.6

(7) During fiscal year 2005, we expensed costs aggregating $6.7 million, consisting primarily of legal and consulting fees, incurred in connection with the Transactions. These costs are included in selling, general and administrative expenses.

During the thirty-nine weeks ended April 29, 2006, we expensed costs consisting of $4.5 million of accounting, investment banking, legal and other costs associated with the Transactions and $19.0 million of non-cash stock compensation resulting from the accelerated vesting of Predecessor stock options and restricted stock.

(8) To reflect interest expense resulting from our new debt structure upon completion of the Transactions (using an applicable weighted-average three-month LIBOR rate):

	Year Ended July 30, 2005	Thirty-Nine Weeks Ended April 29, 2006	Thirty-Nine Weeks Ended April 30, 2005
Senior secured asset-based revolving credit facility(a)	$ 4.0	$ 2.5	$ 3.3
Senior secured term loan facility(b)	101.4	99.8	72.4
2028 debentures	8.9	6.7	6.7
Senior notes(c)	63.0	47.3	47.3
Senior subordinated notes(d)	51.9	38.9	38.9
Total cash interest expense(e)	229.2	195.2	168.6
Amortization of capitalized debt issuance costs(f)	14.0	10.5	10.5
Accretion of discount on existing 2028 debentures to fair value	0.2	0.1	0.1
Elimination of interest on 2008 notes(g)	(9.1)	(2.1)	(6.4)
Elimination of interest on deferred obligations extinguished in connection with the Transactions	(0.4)	(0.1)	(0.4)
	233.9	203.6	172.4
Less: amount reflected in historical statements of earnings	(8.9)	(159.2)	(6.7)
Pro forma adjustment to interest expense	$ 225.0	$ 44.4	$ 165.7

(a) The $600 million senior secured asset-based revolving credit facility, which bears interest at a rate equal to an applicable margin, at our option, over either (a) a base rate determined by reference to the higher of (1) the prime rate of Deutsche Bank Trust Company Americas and (2) the federal funds rate plus 1/2 of 1% or (b) a LIBOR rate for the interest period relevant to such borrowing adjusted for certain additional costs. For purposes of preparing the unaudited pro forma condensed consolidated statements of earnings, we have assumed:

	Year Ended July 30, 2005	Thirty-Nine Weeks Ended April 29, 2006	Thirty-Nine Weeks Ended April 30, 2005
Weighted average outstanding borrowings	$ 50 million	$ 50 million	$ 67 million
Effective interest rate on borrowings (three-month LIBOR plus 1.75%)	4.03%	6.02%	4.03%
Weighted average available unused balance	$ 550 million	$ 550 million	$ 533 million
Commitment fee rate on unused balance	.375%	.375%	.375%

(b) Reflects interest on the senior secured term loan facility that bears at a rate equal to an applicable margin, at our option, over either (a) a base rate determined by reference to the higher of (1) the prime rate of Credit Suisse and (2) the federal funds rate plus 1/2 of 1% or (b) a LIBOR rate for the interest period relevant to such borrowing adjusted for certain additional costs. For purposes of preparing the unaudited pro forma condensed consolidated statements of earnings, we have assumed:

	Year Ended July 30, 2005	Thirty-Nine Weeks Ended April 29, 2006	Thirty-Nine Weeks Ended April 30, 2005
Weighted average outstanding borrowings	$ 1,975 million	$ 1,931 million	$ 1,975 million
Effective interest rate on borrowings (three-month LIBOR plus 2.5%)	5.13%	6.74%	4.89%

(c) Reflects an interest rate of 9% on the senior notes (assuming all interest payments on the senior notes are made in cash).

(d) Reflects an interest rate of $10^3/8$% on the senior subordinated notes.

(e) Each 0.125% increase in estimated interest rates would increase total pro forma annual interest expense for our senior secured asset-based revolving credit facility and our senior secured term loan facility by $2.7 million.

(f) Represents amortization of debt issuance costs incurred in connection with the debt incurred and credit facilities consummated in connection with the Transactions.

(g) Represents the elimination of historical interest expense on the 2008 notes redeemed after the closing of the Transactions and interest on certain other indebtedness extinguished at the closing of the Transactions.

(9) To give pro forma effect to the Gurwitch Disposition as if it had occurred on August 1, 2004 as follows:

	Year Ended July 30, 2005	Thirty-Nine Weeks Ended April 29, 2006	Thirty-Nine Weeks Ended April 30, 2005
Eliminate historical results of operations, net of intercompany transactions:			
Revenues	$ (47.1)	$ (44.7)	$ (35.5)
Cost of goods sold including buying and occupancy costs	(0.3)	(3.9)	0.2
Selling, general and administrative expenses	(43.1)	(37.7)	(32.7)
Depreciation expense	(1.3)	(1.2)	(1.0)
Amortization of intangible assets	(0.2)	(0.2)	(0.2)
Interest expense	(0.1)	(0.1)	(0.1)
Minority interest in net earnings of subsidiaries	0.7	0.6	0.6

(10) To reflect the tax effect of the above adjustments at our statutory income tax rate of 39.2% for fiscal year 2005 and 39.4% for the thirty-nine weeks ended April 29, 2006.

(11) For the purposes of calculating the ratio of earnings to fixed charges, earnings represent income (loss) from continuing operations before income taxes plus fixed charges. Fixed charges consist of interest expense (including capitalized interest) on all indebtedness plus amortization of debt issuance costs and the portion of rental expense that we believe is representative of the interest component of rental expense.

SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The following table sets forth selected historical consolidated financial data of Neiman Marcus, Inc. (formerly Newton Acquisition, Inc.) and its predecessor, The Neiman Marcus Group, Inc., as of the dates and for the periods indicated. Neiman Marcus, Inc. acquired The Neiman Marcus Group, Inc. on October 6, 2005 through the merger of Newton Acquisition Merger Sub, Inc., a wholly-owned subsidiary of Neiman Marcus, Inc., with and into The Neiman Marcus Group, Inc., with the latter being the surviving entity. We are required under GAAP to present our operating results separately for predecessor periods preceding the acquisition and the successor periods following the acquisition. The financial statements and operating results identified below as belonging to the "predecessor" are those of The Neiman Marcus Group, Inc. The financial statements and operating results of the "successor" are those of Neiman Marcus, Inc., the newly created parent of The Neiman Marcus Group, Inc.

We derived the selected historical consolidated financial data as of and for the periods ended August 2, 2003, July 31, 2004 and July 30, 2005 from the predecessor's audited consolidated financial statements and related notes and the selected historical consolidated financial data as of and for the nine weeks ended October 1, 2005 and the thirty-nine weeks ended April 30, 2005 from the predecessor's unaudited condensed consolidated financial statements for those periods. We derived the selected historical consolidated financial data as of and for the thirty weeks ended April 29, 2006 from the successor's unaudited condensed consolidated financial statements. In the opinion of management, the unaudited condensed consolidated financial information contain all adjustments necessary to present fairly our financial position, results of operations and cash flows for the applicable interim periods.

The selected historical consolidated financial data as of July 28, 2001 and August 3, 2002 and for the period ended July 28, 2001 reflect adjustments to the predecessor's audited consolidated financial statements for those specific years to reclassify certain amounts related to the presentation of construction allowances in the balance sheet and statement of cash flows and the retained interests of our previous credit card facility in the statement of cash flows. The selected historical consolidated financial data as of and for the fiscal years ended July 28, 2001 and August 3, 2002 also reflect adjustments to the predecessor's audited consolidated financial statements as of and for those years to reclassify depreciation expense and income from credit card operations, net, as separate line items in the statements of earnings to conform to the presentation for subsequent periods.

The results of operations for any period are not necessarily indicative of the results to be expected for any future period. In connection with the Transactions, we incurred significant indebtedness and became highly leveraged. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources." In addition, the purchase price paid in connection with the acquisition has been preliminarily allocated to state the acquired assets and liabilities at fair value. The preliminary purchase accounting adjustments increased the carrying value of property and equipment and inventory, established intangible assets for tradenames, customer lists and favorable lease commitments and revalued long-term benefit plan obligations, among other things. Subsequent to the Transactions, interest expense and non-cash depreciation and amortization charges have significantly increased. As a result, the successor financial statements are not comparable to the predecessor financial statements. The selected historical consolidated financial data set forth below should be read in conjunction with, and are qualified by reference to, "Management's Discussion and

Analysis of Financial Condition and Results of Operations" and the audited and unaudited consolidated financial statements and related notes appearing elsewhere in this prospectus.

	Unaudited			Fiscal Years Ended				
	Thirty weeks ended April 29, 2006	Nine weeks ended October 1, 2005	Thirty-nine weeks ended April 30, 2005	July 30, 2005	July 31, 2004	August 2, 2003	August 3, 2002	July 28, 2001
	(Successor)	(Predecessor)		(Predecessor)				
	(dollars in millions, except per share data)							
Statement of Operations Data:								
Revenues	$ 2,583.2	$ 651.6	$ 2,970.5	$ 3,821.9	$ 3,524.8	$ 3,080.4	$ 2,932.0	$ 2,997.7
Cost of goods sold including buying and occupancy costs (excluding depreciation)	1,634.2	378.8	1,816.6	2,390.6	2,230.9	1,997.7	1,926.4	1,957.4
Selling, general and administrative expenses (excluding depreciation)	624.0	168.9	747.4	974.6	901.5	831.0	803.0	811.6
Income from credit card operations, net	(35.9)	(7.8)	(52.4)	(71.6)	(55.7)	(53.3)	(49.5)	(48.2)
Depreciation expense	78.0	20.0	79.3	107.7	99.0	82.9	77.8	73.6
Amortization of customer lists	31.7							
Amortization of favorable lease commitments	10.4							
Operating earnings	240.9	68.3(1)	364.2(2)	411.5(2)	345.2(3)	222.1	177.7(4)	193.6(5)
Interest expense, net	150.6	(0.9)	10.9	12.4	15.9	16.3	15.4	15.2
Earnings before income taxes, minority interest and change in accounting principle	90.3	69.2	353.3	399.1	329.3	205.8	162.2	178.4
Income taxes	34.8	25.6	136.0	146.5(6)	120.9(7)	79.2	61.7	67.8
Net earnings	$ 54.4	$ 44.2	$ 214.5	$ 248.8(6)	$ 204.8(7)	$ 109.3(8)	$ 99.6	$ 107.5
Balance Sheet Data (at period end):								
Cash and cash equivalents	$ 109.0	$ 844.3	$ 337.6	$ 853.5	$ 368.4	$ 207.0	$ 178.6	$ 97.3
Merchandise inventories	855.0	922.2	788.9	748.4	720.3	687.1	656.8	648.9
Total current assets	1,085.4	1,881.6	1,880.2	1,708.5	1,706.2	1,246.1	1,127.6	1,063.3
Property and equipment, net	1,045.2	862.3	821.8	855.0	750.5	733.8	687.1	598.9
Total assets	6,660.0	2,846.0	2,839.8	2,660.7	2,617.6	2,104.8	1,941.5	1,799.9
Current liabilities	656.3	730.4	787.2	617.3	727.7	530.4	518.5	497.6
Long-term liabilities	4,522.8	466.2	457.3	457.3	509.1	428.3	361.1	352.9
Basic earnings per share:								
Earnings before change in accounting principle	(9)	$ 0.91	$ 4.44	$ 5.15	$ 4.27	$ 2.61	$ 2.10	$ 2.28
Change in accounting principle	(9)					(0.31)(8)		
Basic earnings per share	(9)	$ 0.91	$ 4.44	$ 5.15	$ 4.27	$ 2.30	$ 2.10	$ 2.28
Diluted earnings per share:								
Earnings before change in accounting principle	(9)	$ 0.89	$ 4.34	$ 5.02	$ 4.19	$ 2.60	$ 2.08	$ 2.26
Change in accounting principle	(9)					(0.31)(8)		
Diluted earnings per share	(9)	$ 0.89	$ 4.34	$ 5.02	$ 4.19	$ 2.29	$ 2.08	$ 2.26
Cash dividends per share	(9)		$ 0.43	$ 0.58	$ 0.39			

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	Unaudited			Fiscal Years Ended				
	Thirty weeks ended April 29, 2006	Nine weeks ended October 1, 2005	Thirty-nine weeks ended April 30, 2005	July 30, 2005	July 31, 2004	August 2, 2003	August 3, 2002	July 28, 2001
	(Successor)	(Predecessor)		(Predecessor)				
	(dollars in millions, except per share data)							
Cash Flow Data:								
Total capital expenditures	$ 112.2	$ 26.3	$ 150.8	$ 202.5	$ 120.5	$ 129.6	$ 171.9	$ 131.1
Capital expenditures for:								
New store openings	44.8	12.5	36.5	60.7	8.4	20.3	34.0	56.0
Major store remodels	20.5	7.5	54.4	58.2	39.1	24.5	60.6	28.2
Information technology	23.2	7.0	30.9	41.6	34.5	48.1	28.2	16.0
Depreciation expense	78.0	20.0	79.3	107.7	99.0	82.9	77.8	73.6
Rent expense	51.9	13.4	59.2	66.1	57.9	53.8	53.4	57.1
Net cash provided by (used for):								
Operating activities	264.5	19.4	190.0	845.4	52.6	164.7	247.2	133.9
Investing activities	(5,268.6)	(26.3)	(173.9)	(228.8)	(117.3)	(129.6)	(171.9)	(131.1)
Financing activities	4,268.9	(2.3)	(46.9)	(131.5)	226.1	(6.8)	6.1	(80.9)
Other Operating Data:								
Ratio of earnings to fixed charges(10)	1.5x	10.2x	10.7x	9.4x	8.8x	6.4x	5.1x	5.5x
Selected Store Data:								
Comparable revenues increase/(decrease)(11)	6.6%	9.0%	9.9%	9.9%	14.4%	4.1%	(4.6)%	2.2%
Number of Neiman Marcus / Bergdorf Goodman stores (at period end)	38	37	37	36	37	37	35	34
Retail sales per square foot	$ 375	$ 103	$ 449	$ 577	$ 528	$ 472	$ 477	$ 508

(1) For the nine weeks ended October 1, 2005, operating earnings includes $23.5 million of transaction and other costs incurred in connection with the Transactions. These costs consist primarily of $4.5 million of accounting, investment banking, legal and other costs associated with the Transactions and a $19.0 million non-cash charge for stock compensation resulting from the accelerated vesting of Predecessor stock options and restricted stock in connection with the acquisition.

(2) For 2005 and the thirty-nine weeks ended April 30, 2005, operating earnings include a $15.3 million pretax loss related to the Chef's Catalog Disposition and a $6.2 million pretax gain related to the sale of our credit card portfolio.

(3) For 2004, operating earnings reflect a $3.9 million pretax impairment charge related to the writedown to fair value in the net carrying value of the Chef's Catalog tradename intangible asset.

(4) For 2002, operating earnings reflect (a) a $16.6 million gain from the change in vacation policy made by the Company and (b) $13.2 million of impairment and other charges, related primarily to the impairment of certain long-lived assets.

(5) For 2001, operating earnings reflect a $9.8 million pretax impairment charge related to our investment in a third-party internet retailer.

(6) For 2005, net earnings reflect a net income tax benefit adjustment aggregating $7.6 million resulting from favorable settlements associated with previous state tax filings and reductions in previously recorded deferred tax liabilities.

(7) For 2004, income tax expense reflects a $7.5 million net income tax benefit related to favorable settlements associated with previous state tax filings.

(8)

For 2003, net earnings reflect an after-tax charge of $14.8 million for the writedown of certain intangible assets related to prior purchase business combinations as a result of the implementation of a new accounting principle.

(9) Earnings per share and dividends per share data are not presented for periods subsequent to the acquisition because there is no public market for the shares of Neiman Marcus, Inc.

(10) For the purposes of calculating the ratio of earnings to fixed charges, earnings represent income (loss) from continuing operations before income taxes plus fixed charges. Fixed charges consist of interest expense (including capitalized interest) on all indebtedness plus amortization of debt issuance costs and the portion of rental expense that we believe is representative of the interest component of rental expense.

(11) Comparable revenues include (a) revenues derived from our Specialty Retail stores open for more than 52 weeks, including stores that have relocated or expanded, (b) revenues from our Neiman Marcus Direct operation and (c) revenues from our Brand Development Companies, one of which was sold on July 27, 2006. Comparable revenues exclude the revenues of closed stores and the revenues of our Chef's Catalog operations (sold in November 2004) for all periods prior to the Chef's Catalog Disposition. The calculation of the change in comparable revenues for 2003 is based on revenues for the 52 weeks ended August 2, 2003 compared to revenues for the 52 weeks ended July 27, 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our audited consolidated financial statements and related notes included elsewhere in this prospectus. Unless otherwise specified, the meanings of all defined terms herein are consistent with the meanings of such terms as defined in our audited consolidated financial statements and related notes appearing elsewhere in this prospectus. This discussion contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements.

Overview

The Neiman Marcus Group, Inc., together with our operating segments and subsidiaries, is a high-end specialty retailer. Our operations include the Specialty Retail Stores segment and the Direct Marketing segment. The Specialty Retail Stores segment consists primarily of Neiman Marcus and Bergdorf Goodman stores. The Direct Marketing segment conducts both online operations and print catalog under the brand names of Neiman Marcus, Bergdorf Goodman, Horchow and Chef's Catalog (prior to its disposition in November 2004). We own a 56% interest in Kate Spade LLC, which designs and markets high-end designer handbags and accessories (the Brand Development Companies). On July 27, 2006, we sold our former 51% interest in Gurwitch Products, L.L.C., which designs and markets the Laura Mercier cosmetic line on July 27, 2006.

Neiman Marcus, Inc. (formerly Newton Acquisition, Inc.) (Parent) acquired The Neiman Marcus Group, Inc. (Company) on October 6, 2005 through a merger transaction with Newton Acquisition Merger Sub, Inc., a wholly-owned subsidiary of Neiman Marcus, Inc. The acquisition was accomplished through the merger of the Newton Acquisition Merger Sub, Inc. with and into the Company, with the Company being the surviving entity (the Acquisition). Subsequent to the Acquisition, we are a subsidiary of the Parent, which is controlled by Newton Holding, LLC (Holding). Both the Parent and Holding were formed by investment funds affiliated with Texas Pacific Group and Warburg Pincus LLC (the Sponsors). Although we continued as the same legal entity after the Acquisition, the accompanying condensed consolidated statements of earnings and cash flows present our results of operations and cash flows for the periods preceding the Acquisition (Predecessor) and the periods succeeding the Acquisition (Successor), respectively. Parent's sole asset is 100% of the capital stock of the Company. Accordingly, a separate discussion of the Parent's financial condition and results of operations is not provided since the Company is representative of the Parent's consolidated operations.

In connection with the Transactions, the Company incurred significant indebtedness and became highly leveraged. See "Liquidity and Capital Resources." In addition, the purchase price paid in connection with the Acquisition has been preliminarily allocated to state the acquired assets and liabilities at fair value. The preliminary purchase accounting adjustments increased the carrying value of our property and equipment and inventory, established intangible assets for our tradenames, customer lists and favorable lease commitments and revalued our long-term benefit plan obligations, among other things. Subsequent to the Transactions, interest expense and non-cash depreciation and amortization charges have significantly increased. As a result, our Successor financial statements subsequent to the Transactions are not comparable to our Predecessor financial statements.

We have prepared our discussion of the results of operations for the nine months (thirty-nine weeks) ended April 29, 2006 by comparing the results of operations of the Predecessor for the thirty-nine weeks ended April 30, 2005 to the combined amounts obtained by adding the earnings and cash flows for the Predecessor nine-week period ended October 1, 2005 and the Successor thirty-week period ended April 29, 2006. Although this combined presentation does not comply with generally accepted accounting principles (GAAP), we believe that it provides a meaningful method of comparison. The combined operating results have not been prepared on a pro forma basis under applicable regulations and may not reflect the actual results we would have achieved absent the Transactions and may not be predictive of future results of operations.

Our fiscal year ends on the Saturday closest to July 31. All references to the year-to-date fiscal year 2006 period relate to the combined thirty-nine weeks ended April 29, 2006 (calculated as described above) and all references to the year-to-date fiscal year 2005 period relate to the thirty-nine weeks ended April 30, 2005. All references to fiscal year 2005 relate to the 52 weeks ended July 30, 2005; all references to fiscal year 2004 relate to the 52 weeks ended July 31, 2004 and all references to fiscal year 2003 relate to the 52 weeks ended August 2, 2003.

Factors Affecting Our Results

Revenues. We generate our revenues primarily from the sale of high-end merchandise through our Specialty Retail Stores and Direct Marketing operation. Components of our revenues include:

Sales of merchandise Revenues from our Specialty Retail Stores are recognized at the later of the point of sale or the delivery of goods to the customer. Revenues from our Direct Marketing operation are recognized when the merchandise is delivered to the customer. We maintain reserves for anticipated sales returns primarily based on our historical trends related to returns by both our retail and direct marketing customers.

Commissions from leased departments A small portion of the sales of our Specialty Retail Stores consist of commissions from certain departments in our stores that we lease to independent companies.

Delivery and processing We generate revenues from delivery and processing charges related to merchandise delivered to our customers from our retail and direct marketing operations.

Our revenues can be affected by the following factors:

changes in the level of consumer spending generally and, specifically, on luxury goods;

changes in the level of full-price sales;

changes in the level of promotional events conducted by our Specialty Retail Stores;

our ability to successfully implement our store expansion and remodeling strategies;

the rate of growth in internet sales by our Direct Marketing operation; and

general economic conditions.

In addition, our revenues are seasonal. For a description of the seasonality of our business, see " Seasonality."

Cost of goods sold including buying and occupancy costs (excluding depreciation) (COGS). COGS consists of the following components:

Inventory costs We utilize the retail method of accounting, which is widely used in the retail industry due to its practicality, for substantially all of our merchandise inventories. Merchandise inventories are stated at the lower of cost or market. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are determined by applying a calculated cost-to-retail ratio, for various groupings of similar items, to the retail value of inventories. The cost of the inventory reflected on the consolidated balance sheet is decreased by charges to cost of goods sold at the time the retail value of the inventory is lowered through the use of markdowns. Hence, earnings are negatively impacted when merchandise is marked down.

- Buying costs Buying costs consist primarily of salaries and expenses incurred by our merchandising and buying operations.

- Occupancy costs Occupancy costs consist primarily of rent, property taxes and operating costs of our retail, distribution and support facilities. A significant portion of our buying and occupancy costs are fixed.

- Delivery and processing costs Delivery and processing costs consist primarily of delivery charges we pay to third-party carriers and other costs related to the fulfillment of customer orders not delivered at the point-of-sale.

With the introduction of new fashions in the first and third quarters and our emphasis on full-price selling in these quarters, a lower level of markdowns and higher margins are characteristic of these quarters.

Consistent with industry business practice, we receive allowances from certain of our vendors in support of the merchandise we purchase for resale. Certain allowances are received to reimburse us for markdowns taken or to support the gross margins that we earn in connection with the sales of the vendor's merchandise. These allowances result in an increase to gross margin when we earn the allowances and they are approved by the vendor. Other allowances we receive represent reductions to the amounts we pay to acquire the merchandise. These allowances reduce the cost of the acquired merchandise and are recognized at the time the goods are sold.

Changes in our COGS as a percentage of revenues are affected primarily by the following factors:

- customer acceptance of and demand for the merchandise we offer in a given season and the related impact of such factors on the level of full-price sales;

- our ability to order an appropriate amount of merchandise to match customer demand and the related impact on the level of net markdowns incurred;

- factors affecting revenues generally;

- changes in occupancy costs primarily associated with the opening of new stores or distribution facilities; and

- the amount of vendor reimbursements we receive during the fiscal year.

Selling, general and administrative expenses (excluding depreciation) (SG&A). SG&A principally consists of costs related to employee compensation and benefits in the selling and administrative support areas, advertising and catalog costs and insurance expense. A significant portion of our selling, general and administrative expenses are variable in nature and are dependent on the sales we generate.

Advertising costs incurred by our Specialty Retail segment consist primarily of print media costs related to promotional materials mailed to our customers, while advertising costs incurred by our Direct Marketing operation relate to the production, printing and distribution of our print catalogs and the production of the photographic content on our websites, as well as online marketing costs. We receive advertising allowances from certain of our merchandise vendors. Substantially all the advertising allowances we receive represent reimbursements of direct, specific and incremental costs that we incur to promote the vendor's merchandise in connection with our various advertising programs, primarily catalogs and other print media. As a result, these allowances are recorded as a reduction of our advertising costs when earned. Vendor allowances earned and recorded as a reduction to selling, general and administrative expenses aggregated approximately $55.8 million in the year-to-date fiscal year 2006 period, $51.9 million in the year-to-date fiscal year 2005 period, $57.5 million in fiscal year 2005, $55.3 million in fiscal year 2004 and $53.2 million in fiscal year 2003.

We also receive allowances from certain merchandise vendors in conjunction with compensation programs for employees who sell the vendor's merchandise. These allowances are netted against the related compensation expense that we incur. Amounts received from vendors related to compensation programs were $45.1 million in the year-to-date fiscal year 2006 period, $40.4 million in the year-to-date fiscal year 2005 period, $53.2 million in fiscal year 2005, $46.3 million in fiscal year 2004 and $41.1 million in fiscal year 2003.

Changes in our selling, general and administrative expenses are affected primarily by the following factors:

- changes in the number of sales associates primarily due to expansion of existing stores and new store openings, including increased health care and related benefits expenses;
- changes in expenses incurred in connection with our advertising and marketing programs; and
- changes in expenses related to insurance and long-term benefits due to general economic conditions such as rising health care costs.

Income from credit card operations, net. Prior to the Credit Card Sale on July 7, 2005, our credit card operations generated finance charge income, net of credit losses, which we recognized as income when earned. As a part of the Credit Card Sale, we entered into a long-term marketing and servicing alliance with HSBC. Under the terms of this alliance, HSBC offers credit card and non-card payment plans bearing our brands and we receive ongoing payments from HSBC based on net credit card sales and compensation for marketing and servicing activities (HSBC Program Income). We recognize HSBC Program Income when earned. Prior to the second quarter of fiscal year 2006, we presented income from credit card operations as a reduction of selling, general and administrative expenses. We now present this income as a separate line item on our statements of earnings and have reclassified prior periods to conform to this presentation.

As a percentage of revenues, the HSBC Program Income is lower than the net finance charge income we earned prior to the Credit Card Sale. However, the resulting decrease in income from credit card operations is mitigated, in part, by 1) decreases in SG&A expenses we incur due to the transfer of certain servicing functions to HSBC after the sale, 2) decreases in our capital investments related to the servicing of the credit card portfolio and 3) decreases in carrying costs related to our previous funding of the seasonal working capital requirements of the credit card portfolio. In tandem with HSBC, we have initiated various changes in our credit card program to alter the credit terms available to our cardholders and to enhance the earnings of the portfolio. These changes have increased the level of HSBC Program Income earned by the Company.

In the future, the HSBC Program Income may be:

- decreased based upon the level of future services we provide to HSBC; and
- increased based upon other changes to our historical credit card program related to, among other things, the interest rates applied to unpaid balances and the assessment of late fees.

Seasonality

We conduct our selling activities in two primary selling seasons Fall and Spring. The Fall season is comprised of our first and second fiscal quarters and the Spring season is comprised of our third and fourth fiscal quarters.

Our first fiscal quarter is generally characterized by a higher level of full-price selling with a focus on the initial introduction of Fall season fashions. Aggressive in-store marketing activities designed to stimulate customer buying, a lower level of markdowns and higher margins are characteristic of this quarter. The second fiscal quarter is more focused on promotional activities related to the December holiday season, the early introduction of resort season collections from certain designers and the sale of Fall season goods on a marked down basis. As a result, margins are typically lower in the second fiscal quarter. However, due to the seasonal increase in sales that occurs during the holiday season, the second fiscal quarter is typically the quarter in which our revenues are the highest and in which expenses as a percentage of revenues are the lowest. Our working capital requirements are also the greatest in the first and second fiscal quarters as a result of higher seasonal requirements.

Similarly, the third fiscal quarter is generally characterized by a higher level of full-price selling with a focus on the initial introduction of Spring season fashions. Aggressive in-store marketing activities designed to stimulate customer buying, a lower level of markdowns and higher margins are again characteristic of this quarter. Revenues are generally the lowest in the fourth fiscal quarter with a focus on promotional activities offering Spring season goods to the customer on a marked down basis, resulting in lower margins during the quarter. Our working capital requirements are typically lower in the third and fourth fiscal quarters than in the other quarters.

A large percentage of our merchandise assortment, particularly in the apparel, fashion accessories and shoe categories, is ordered months in advance of the introduction of such goods. For example, women's apparel, men's apparel and shoes are typically ordered six to nine months in advance of the products being offered for sale while handbags, jewelry and other categories are typically ordered three to six months in advance. As a result, inherent in the successful execution of our business plans is our ability both to predict the fashion trends that will be of interest to our customers and to anticipate future spending patterns of our customer base.

We monitor the sales performance of our inventories throughout each season. We seek to order additional goods to supplement our original purchasing decisions when the level of customer demand is higher than originally anticipated. However, in certain merchandise categories, particularly fashion apparel, our ability to purchase additional goods can be limited. This can result in lost sales in the event of higher than anticipated demand of the fashion goods we offer or a higher than anticipated level of consumer spending. Conversely, in the event we buy fashion goods that are not accepted by the customer or the level of consumer spending is less than we anticipated, we typically incur a higher than anticipated level of markdowns, net of vendor allowances, to sell the goods that remain at the end of the season, resulting in lower operating profits. We believe that the experience of our merchandising and selling organizations helps to minimize the inherent risk in predicting fashion trends.

Recent Developments

On August 3, 2006, we announced preliminary total revenues and comparable revenues of approximately $915 million and $890 million, respectively, for the fourth quarter of fiscal year 2006, representing increases of 9.0% and 6.6%, respectively, compared to the fourth quarter of fiscal year 2005. For the fourth quarter of fiscal year 2006, comparable revenues in the Specialty Retail stores segment, increased 5.8%, including a 4.7% increase at Neiman Marcus stores and a 12.7% increase at Bergdorf Goodman. Neiman Marcus Direct fourth quarter fiscal year 2006 revenues were 13.2% above last year.

We also announced preliminary total revenues and comparable revenues of approximately $4.11 billion and $3.99 billion, respectively, for the fifty-two week fiscal year 2006 ended July 29, 2006, representing increases of 8.8% and 6.8%, respectively, compared to fiscal year 2005. All figures have been adjusted to exclude the revenues of Gurwitch Products, L.L.C., which has been sold.

All the financial data set forth above are preliminary and unaudited and subject to revision based upon our review and an audit by our independent registered public accounting firm of our financial condition and results of operations for the fiscal year ended July 29, 2006. Once we and our independent registered public accounting firm have completed our respective reviews of our financial information for fiscal year 2006, we may report financial results that are materially different from those set forth above.

On July 27, 2006, we sold our former majority interest in Gurwitch Products, L.L.C. to Alticor Inc., for net cash proceeds of approximately $40.8 million.

Results of Operations for the Thirty-Nine Weeks Ended April 29, 2006

Year-to-Date Fiscal Year 2006 Highlights

We believe that our product assortment of luxury, designer and fashion merchandise, coupled with our sales promotion activities and our commitment to superior customer service, have been critical to our success in the past. In addition, we believe these factors are critical to our future growth and success. A summary of the the year-to-date fiscal year 2006 period operating results is as follows:

Revenues We generated revenue growth in the year-to-date fiscal year period ended April 29, 2006 of 8.9%. This increase was attributable to 1) increases in comparable revenues, 2) revenues derived from two new full-line stores and 3) the growth of internet sales.
Comparable revenues increased 7.1% in the year-to-date fiscal period.

For Specialty Retail stores, our sales per square foot for the last twelve trailing months increased to $605 as of April 2006 compared to $567 as of April 2005.

Cost of goods sold including buying and occupancy costs (excluding depreciation) COGS represented 62.2% of revenues in the combined year-to-date fiscal period of 2006 and 61.2% of revenues in the corresponding fiscal period in 2005. This increase was primarily due to purchase accounting adjustments in fiscal year 2006 of $42.5 million, or 1.3% of revenues.

Selling, general and administrative expenses (excluding depreciation) SG&A decreased in the combined year-to-date fiscal period of 2006 to 24.5% of revenues from 25.2% of revenues in the corresponding fiscal period of 2005.

Operating earnings For the combined year-to-date fiscal year 2006, our operating earnings were $309.3 million, or 9.6% of revenues, compared to $364.2 million, or 12.3% of revenues for the year-to-date fiscal year 2005 period.

Operating earnings in the year-to-date period in fiscal year 2006 were negatively impacted by 1) higher depreciation and amortization expenses due to higher asset values resulting from the revaluation of our assets to fair value as of the Acquisition date and 2) costs incurred in connection with the Transactions. These expenses aggregated $104.1 million, or 3.2% of revenues, in the year-to-date fiscal year period of 2006. In addition, operating earnings, as a percentage of revenues, were negatively impacted by 1) higher depreciation charges of $16.0 million, or 0.2% of revenues for the year-to-date fiscal year 2006 period, as a result of higher levels of capital expenditures for new stores and store remodels in recent years and 2) a lower level of income from our credit card operations of $8.7 million, or 0.4% of revenues for the year-to-date fiscal year 2006 period, due to the sale of our credit card operations to HSBC in July 2005.

Performance Summary

The following table sets forth certain items expressed as percentages of net revenues for the periods indicated.

	Year-to-Date			
	Thirty weeks ended April 29, 2006	**Nine weeks ended October 1, 2005**	**Thirty-nine weeks ended April 29, 2006**	**Thirty-nine weeks ended April 30, 2005**
	(Successor)	**(Predecessor)**	**(Combined)**	**(Predecessor)**
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of goods sold including buying and occupancy costs (excluding depreciation)	63.3	58.1	62.2	61.2
Selling, general and administrative expenses (excluding depreciation)	24.2	25.9	24.5	25.2
Income from credit card operations, net	(1.4)	(1.2)	(1.4)	(1.8)
Depreciation expense	3.0	3.1	3.0	2.7
Amortization of customer lists	1.2		1.0	
Amortization of favorable lease commitments	0.4		0.3	
Transaction and other costs		3.6	0.7	
Loss on disposition of Chef's Catalog				0.5
Operating earnings	9.3	10.5	9.6	12.3
Interest expense (income), net	5.8	(0.1)	4.6	0.4
Earnings before income taxes and minority interest	3.5	10.6	5.0	11.9
Income taxes	1.3	3.9	1.9	4.6
Earnings before minority interest	2.2	6.7	3.1	7.3
Minority interest in net (earnings) loss of subsidiaries	(0.1)	0.1	(0.1)	(0.1)
Net earnings	2.1%	6.8%	3.0%	7.2%

In connection with the Transactions, the Company incurred significant indebtedness and became highly leveraged. See "Liquidity and Capital Resources." In addition, the purchase price paid in connection with the Acquisition has been preliminarily allocated to state the acquired assets and liabilities at fair value. The preliminary purchase accounting adjustments increased the carrying value of our property and equipment and inventory, established intangible assets for our tradenames, customer lists and favorable lease commitments and revalued our long-term benefit plan obligations, among other things. Subsequent to the Transactions, interest expense and non-cash depreciation and amortization charges have significantly increased. As a result, our Successor financial statements subsequent to the Transactions are not comparable to our Predecessor financial statements.

Set forth in the following table is certain summary information with respect to our operations for the periods indicated.

	Year-to-Date			
	Thirty weeks ended April 29, 2006	Nine weeks ended October 1, 2005	Thirty-nine weeks ended April 29, 2006	Thirty-nine weeks ended April 30, 2005
	(Successor)	(Predecessor)	(Combined)	(Predecessor)
	(dollars in millions)			
REVENUES				
Specialty Retail stores	$ 2,084.1	$ 544.9	$ 2,629.0	$ 2,415.7
Neiman Marcus Direct	416.5	87.5	504.0	458.5
Other(1)	82.6	19.2	101.9	96.3
Total	$ 2,583.2	$ 651.6	$ 3,234.9	$ 2,970.5
OPERATING EARNINGS				
Specialty Retail stores	$ 281.0	$ 91.4	$ 372.4	$ 343.8
Neiman Marcus Direct	67.3	8.2	75.5	55.9
Other(1)	4.0	(2.0)	2.0	10.2
Subtotal	352.3	97.6	449.9	409.9
Corporate expenses	(30.8)	(5.8)	(36.5)	(30.4)
Amortization of customer lists and favorable lease commitments	(42.0)		(42.0)	
Non-cash charges related to other valuation adjustments made in connection with the Acquisition	(38.6)		(38.6)	
Transaction and other costs		(23.5)	(23.5)	
Loss on disposition of Chef's Catalog				(15.3)
Total	$ 240.9	$ 68.3	$ 309.3	$ 364.2
OPERATING PROFIT MARGIN				
Specialty Retail stores	13.5%	16.8%	14.2%	14.2%
Neiman Marcus Direct	16.2%	9.4%	15.0%	12.2%
Total	9.3%	10.5%	9.6%	12.3%
CHANGE IN COMPARABLE REVENUES(2)				
Specialty Retail stores	5.3%	9.8%	6.2%	9.1%
Neiman Marcus Direct	14.2%	9.6%	13.4%	15.3%
Total	6.6%	9.0%	7.1%	9.9%
SALES PER SQUARE FOOT				
Specialty Retail stores	$ 375	$ 103	$ 478	$ 449
STORE COUNT				
Neiman Marcus and Bergdorf Goodman stores:				
Open at beginning of period	37	36	36	37
Opened during the period	1	1	2	
Open at end of period	38	37	38	37

	Year-to-Date			
Clearance centers:				
Open at beginning of period	17	16	16	14
Opened during the period	1	1	2	1
Open at end of period	18	17	18	15

(1) Other includes the operations of the Brand Development Companies, one of which was sold on July 27, 2006.

(2) Comparable revenues include 1) revenues derived from our retail stores open for more than 52 weeks, including stores that have been relocated or expanded, 2) revenues from our Neiman Marcus Direct operation and 3) revenues from our Brand Development Companies. Comparable revenues exclude the revenues of closed stores and the revenues of our Chef's Catalog operations (sold in November 2004) for all periods prior to the Chef's Catalog Disposition.

Combined Thirty-nine Weeks Ended April 29, 2006 Compared to Thirty-nine Weeks Ended April 30, 2005

Revenues. Our year-to-date fiscal year 2006 revenues of $3,234.9 million increased $264.4 million, or 8.9%, from $2,970.5 million in the year-to-date fiscal year 2005 period, reflecting increases in comparable revenues, revenues from new stores and higher internet sales. Revenues increased in the year-to-date fiscal year 2006 period compared to the prior year period at all our operating companies, except for Kate Spade.

Comparable revenues in the year-to-date fiscal year 2006 period increased 7.1% compared to the prior year-to-date period. Comparable revenues increased 6.2% for Specialty Retail Stores, 13.4% for Direct Marketing and 0.9% for the Brand Development Companies in the year-to-date fiscal year 2006 period.

New stores generated sales of $88.1 million in the year-to-date fiscal year 2006 period. In the year-to-date fiscal year 2006 period, internet sales by Neiman Marcus Direct were $310.0 million, an increase of 33.1% from the year-to-date fiscal year 2005 period, excluding Chef's Catalog. Total revenues of Chef's Catalog (prior to its sale in November 2004) of $13.9 million are included in consolidated revenues for the year-to-date fiscal year 2005 period.

Cost of goods sold including buying and occupancy costs (excluding depreciation). COGS for the year-to-date fiscal year 2006 period and the year-to-date fiscal year 2005 period were:

	Thirty-nine weeks ended April 29, 2006 (Combined)		Thirty-nine weeks ended April 30, 2005 (Predecessor)	
	$	% of revenues	$	% of revenues
	(in millions, except percentages)			
COGS, before purchase accounting adjustments	$ 1,970.5	60.9%	$ 1,816.6	61.2%
Purchase accounting adjustments, primarily non-cash ch				