NEIMAN MARCUS GROUP INC
Form PREM14A
May 20, 2005
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Rule § 240.14a-12

THE NEIMAN MARCUS GROUP, INC.

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.
x Fee computed below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Class A Common Stock, par value $0.01 per share, of The Neiman Marcus Group, Inc. (Class A Common Stock)
Class B Common Stock, par value $0.01 per share, of The Neiman Marcus Group, Inc. (Class B Common Stock , and together with the Class A Common Stock and the Class C Common Stock, par value $0.01 per share, of The Neiman Marcus Group, Inc., the Company Common Stock)

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(2) Aggregate number of securities to which transaction applies:
48,947,578 shares of Company Common Stock

3,050,855 options to purchase shares of Company Common Stock with exercise price less than $100.00

272,574 shares of restricted Company Common Stock and rights to receive Company Common Stock pursuant to stock unit awards

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
The filing fee was determined based upon the sum of (A) 48,947,578 shares of Company Common Stock multiplied by $100.00 per share, (B) 272,574 shares of restricted Company Common Stock and rights to receive Company Common Stock pursuant to stock unit awards multiplied by $100.00 and (C) options to purchase 3,050,855 shares of Company Common Stock with exercise prices less than $100.00, multiplied by $61.88 per share (which is the difference between $100.00 and the weighted average exercise price per share). In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying $0.0001177 by the sum of the preceding sentence.

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(4) Proposed maximum aggregate value of transaction:
$5,110,802,107

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(5) Total fee paid:
$601,541.41

¨ Fee paid previously with preliminary materials.
¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

(4) Date Filed:

Table of Contents

ONE MARCUS SQUARE

1618 MAIN STREET

DALLAS, TEXAS 75201

[•], 2005

Dear Stockholder:

The board of directors of The Neiman Marcus Group, Inc. (Neiman Marcus or the Company) has unanimously approved a merger providing for the acquisition of the Company by Newton Acquisition, Inc., an entity currently owned indirectly by private equity funds sponsored by TPG Advisors III, Inc., TPG Advisors IV, Inc., Warburg Pincus & Co., Warburg Pincus LLC and Warburg Pincus Partners LLC. If the merger is completed, you will receive $100.00 in cash, without interest, for each share of the Company s common stock you own.

You will be asked, at a special meeting of the Company s stockholders, to adopt the merger agreement. The board of directors has unanimously approved and declared advisable the merger, the merger agreement and the transactions contemplated by the merger agreement and has unanimously declared that the merger, the merger agreement and the transactions contemplated by the merger agreement are fair to, and in the best interests of, the Company s stockholders. **The board of directors unanimously recommends that the Company s stockholders vote FOR the adoption of the merger agreement.**

The time, date and place of the special meeting to consider and vote upon the adoption of the merger agreement are as follows:

[•] a.m. Eastern Time, **[•]**, 2005

[•]

The proxy statement attached to this letter provides you with information about the proposed merger and the special meeting of the Company s stockholders. We encourage you to read the entire proxy statement carefully. You may also obtain more information about the Company from documents we have filed with the Securities and Exchange Commission.

YOUR VOTE IS IMPORTANT REGARDLESS OF THE NUMBER OF SHARES OF THE COMPANY S COMMON STOCK YOU OWN. BECAUSE THE ADOPTION OF THE MERGER AGREEMENT REQUIRES THE AFFIRMATIVE VOTE OF THE HOLDERS OF A MAJORITY OF THE COMBINED VOTING POWER OF THE COMPANY S OUTSTANDING SHARES OF COMMON STOCK ENTITLED TO VOTE THEREON, A FAILURE TO VOTE WILL HAVE THE SAME EFFECT AS A VOTE AGAINST THE MERGER. ACCORDINGLY, YOU ARE REQUESTED TO SUBMIT YOUR PROXY BY PROMPTLY COMPLETING, SIGNING AND DATING THE

ENCLOSED PROXY CARD AND RETURNING IT IN THE ENVELOPE PROVIDED OR TO SUBMIT YOUR PROXY BY TELEPHONE OR INTERNET PRIOR TO THE SPECIAL MEETING, WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING.

Submitting your proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting.

Thank you for your cooperation and continued support.

Very truly yours,

Richard A. Smith

Chairman of the Board

THIS PROXY STATEMENT IS DATED **[•]**, 2005

AND IS FIRST BEING MAILED TO STOCKHOLDERS ON OR ABOUT **[•]**, 2005.

Table of Contents

ONE MARCUS SQUARE

1618 MAIN STREET

DALLAS, TEXAS 75201

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD [•], 2005

Dear Stockholder:

A special meeting of stockholders of The Neiman Marcus Group, Inc., a Delaware corporation (Neiman Marcus or the Company), will be held on **[•]**, 2005, at **[•]** a.m., Eastern Time, at **[•]**, for the following purposes:

1. To consider and vote on the adoption of the Agreement and Plan of Merger, dated as of May 1, 2005 (the merger agreement), among the Company, Newton Acquisition, Inc. (Parent) and Newton Acquisition Merger Sub, Inc., a wholly-owned subsidiary of Parent (Merger Sub), pursuant to which, upon the merger becoming effective, each outstanding share of Class A Common Stock, par value $0.01 per share, of the Company (the Class A common stock), Class B Common Stock, par value $0.01 per share, of the Company (the Class B common stock) and Class C Common Stock, par value $0.01 per share, of the Company (the Class C common stock , and together with the Class A common stock and Class B common stock, the common stock) (other than shares held in the treasury of the Company or owned by Parent, Merger Sub or any direct or indirect wholly-owned subsidiary of Parent or the Company and other than shares held by stockholders who properly demand statutory appraisal rights) will be converted into the right to receive $100.00 in cash, without interest; and

2. To approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the merger agreement.

3. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Only stockholders of record on **[•]**, 2005, are entitled to notice of and to vote at the special meeting and at any adjournment or postponement of the special meeting. All stockholders of record are cordially invited to attend the special meeting in person.

The adoption of the merger agreement requires the approval of the holders of a majority of the combined voting power of the outstanding shares of common stock entitled to vote thereon. Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy in the envelope provided, or submit your proxy by telephone or the Internet prior to the special meeting and thus ensure that your shares will be represented at the special meeting if you are unable to attend. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be voted in favor of the adoption of the merger agreement. If you fail to return your proxy card or fail to submit your proxy by telephone or the Internet and do not attend the special meeting in person, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and, if a quorum is present, will have the same effect as a vote against the adoption of the merger agreement. If you are a stockholder of record and you attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

Stockholders of Neiman Marcus who do not vote in favor of the adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares if the merger is completed, but only if they submit a written demand for appraisal to the Company before the vote is taken on the merger agreement and they comply with all requirements of Delaware law, which are summarized in the accompanying proxy statement.

By order of the board of directors,

Brenda A. Sanders

Corporate Secretary

[•], 2005

Table of Contents

TABLE OF CONTENTS

	Page
QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER	1
SUMMARY	3
CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION	12
THE PARTIES TO THE MERGER	14
THE SPECIAL MEETING	15
Time, Place and Purpose of the Special Meeting	15
Record Date and Quorum	15
Required Vote	15
Proxies; Revocation	16
Voting Via the Internet or by Telephone	16
Adjournments and Postponements	17
Solicitation of Proxies	17
THE MERGER	18
Background of the Merger	18
Reasons for the Merger	26
Recommendation of the Company s Board of Directors	28
Opinion of JPMorgan	29
Financing	35
Interests of the Company s Directors and Executive Officers in the Merger	39
Material United States Federal Income Tax Consequences	44
Regulatory Approvals	46
THE MERGER AGREEMENT	48
Effective Time; The Marketing Period	48
Structure	49
Treatment of Stock and Options	50
Exchange and Payment Procedures	50
Representations and Warranties	51
Conduct of Our Business Pending the Merger	53
Stockholders Meeting	56
No Solicitation of Transactions	56
Employee Benefits	58
Agreement to Take Further Action and to Use Reasonable Best Efforts	58
Parent Financing Commitments; Company Cooperation	59
Conditions to the Merger	60

Termination	61
Fees and Expenses	62
Amendment and Waiver	64

Table of Contents

THE STOCKHOLDER AGREEMENT	65
MARKET PRICE OF THE COMPANY S STOCK	67
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	68
RIGHTS OF APPRAISAL	72
MULTIPLE STOCKHOLDERS SHARING ONE ADDRESS	74
SUBMISSION OF STOCKHOLDER PROPOSALS	75
WHERE YOU CAN FIND ADDITIONAL INFORMATION	75

ANNEX A	Agreement and Plan of Merger, dated as of May 1, 2005, among Newton Acquisition, Inc., Newton Acquisition Merger Sub, Inc. and The Neiman Marcus Group, Inc.
ANNEX B	Stockholder Agreement, dated as of May 1, 2005, among Newton Acquisition, Inc., Newton Acquisition Merger Sub, Inc. and the Neiman Marcus stockholders party thereto
ANNEX C	Opinion of J.P. Morgan Securities Inc.
ANNEX D	Section 262 of the General Corporation Law of the State of Delaware

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers address briefly some questions you may have regarding the special meeting and the proposed merger. These questions and answers may not address all questions that may be important to you as a stockholder of The Neiman Marcus Group, Inc. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to or incorporated by reference in this proxy statement. In this proxy statement, the terms Neiman Marcus, Company, we, our, ours, us refer to The Neiman Marcus Group, Inc. and references to subsidiaries of the Company include the Company s majority-owned subsidiaries, Kate Spade LLC and Gurwitch Products, L.L.C.

Q: What is the proposed transaction?

A: The proposed transaction is the acquisition of the Company by an entity currently owned indirectly by private equity funds sponsored by TPG Advisors III, Inc. and TPG Advisors IV, Inc. (together, TPG) and Warburg Pincus & Co., Warburg Pincus LLC and Warburg Pincus Partners LLC (together, Warburg Pincus , and together with TPG, the Sponsors) pursuant to an Agreement and Plan of Merger, dated as of May 1, 2005 (the merger agreement), among the Company, Newton Acquisition, Inc. (Parent) and Newton Acquisition Merger Sub, Inc., a wholly-owned subsidiary of Parent (Merger Sub). Once the merger agreement has been adopted by the Company s stockholders and the other closing conditions under the merger agreement have been satisfied or waived, Merger Sub will merge with and into Neiman Marcus (the merger). Neiman Marcus will be the surviving corporation in the merger (the surviving corporation) and will become a wholly-owned subsidiary of Parent.

Q: What will I receive in the merger?

A: Upon completion of the merger, whether you hold our Class A or Class B common stock, you will receive $100.00 in cash, without interest and less any required withholding taxes, for each share of our common stock that you own. For example, if you own 100 shares of our common stock, you will receive $10,000.00 in cash in exchange for your shares of common stock, less any required withholding taxes. You will not own shares in the surviving corporation.

Q: Where and when is the special meeting?

A: The special meeting will take place at **[•]**, on **[•]**, at **[•]** Eastern Time.

Q: What vote of our stockholders is required to adopt the merger agreement?

A: For us to complete the merger, stockholders holding at least a majority of the combined voting power of our common stock outstanding at the close of business on the record date must vote FOR the adoption of the merger agreement. Accordingly, failure to vote or an abstention will have the same effect as a vote against adoption of the merger agreement. For the purpose of the vote on the merger, each share of Class A common stock and each share of Class B common stock will have one vote.

Richard A. Smith, the Chairman of our board of directors, and members of his family have entered into a stockholder agreement, pursuant to which they have agreed to vote their shares, which as of the record date represent approximately **[•]**% of the combined voting power of our common stock, in favor of the adoption of the merger agreement and against any competing transaction proposed to the Company s stockholders, unless the merger agreement is terminated in accordance with its terms.

Q: How does the Company s board of directors recommend that I vote?

A: Our board of directors unanimously recommends that our stockholders vote FOR the adoption of the merger agreement. You should read The Merger Reasons for the Merger for a discussion of the factors that our board of directors considered in deciding to recommend the adoption of the merger agreement.

Q: What do I need to do now?

A: We urge you to read this proxy statement carefully, including its annexes, and to consider how the merger affects you. If you are a stockholder of record, then you can ensure that your shares are voted at the special meeting by submitting your proxy via:

telephone, using the toll-free number listed on each proxy card (if you are a registered stockholder, that is if you hold your stock in your name) or vote instruction card (if your shares are held in street name, meaning that your shares are held in the name of a broker, bank or other nominee and your bank, broker or nominee makes telephone voting available);

the Internet, at the address provided on each proxy card (if you are a registered stockholder) or vote instruction card (if your shares are held in street name and your bank, broker or nominee makes Internet voting available); or

mail, by completing, signing, dating and mailing each proxy card or vote instruction card and returning it in the envelope provided.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Yes, but only if you provide instructions to your broker on how to vote. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Without those instructions, your shares will not be voted, which will have the same effect as voting against the merger.

Q: Can I change my vote?

A: Yes, you can change your vote at any time before your proxy is voted at the special meeting. If you are a registered stockholder, you may revoke your proxy by notifying the Company s Corporate Secretary in writing or by submitting a new proxy by telephone, the Internet or mail, in each case, dated after the date of the proxy being revoked. In addition, your proxy may be revoked by attending the special meeting and voting in person (you must vote in person, simply attending the special meeting will not cause your proxy to be revoked).

Please note that if you hold your shares in street name and you have instructed a broker to vote your shares, the above-described options for changing your vote do not apply, and instead you must follow the instructions received from your broker to change your vote.

Q: What does it mean if I get more than one proxy card or vote instruction card?

A: If your shares are registered differently or are in more than one account, you will receive more than one card. Please complete and return all of the proxy cards or vote instruction cards you receive (or submit your proxy by telephone or the Internet, if available to you) to ensure that all of your shares are voted.

Q: Should I send in my stock certificates now?

A: No. Shortly after the merger is completed, you will receive a letter of transmittal with instructions informing you how to send in your stock certificates to the paying agent in order to receive the merger consideration. You should use the letter of transmittal to exchange stock certificates for the merger consideration to which you are entitled as a result of the merger. DO NOT SEND ANY STOCK CERTIFICATES WITH YOUR PROXY.

Q: Who can help answer my other questions?

A: If you have more questions about the merger, please contact Stacie Shirley, our VP, Finance and Treasurer, at (214) 757-2967. If you need assistance in submitting your proxy or voting your shares or need additional copies of the proxy statement or the enclosed proxy card, you should contact Brenda Sanders at (214) 743-7615. You may also contact our proxy solicitation agent, Innisfree M&A Incorporated, toll-free at (877) 456-3507. If your broker holds your shares, you should also call your broker for additional information.

Table of Contents

SUMMARY

The following summary highlights selected information from this proxy statement and may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to or incorporated by reference in this proxy statement. Each item in this summary includes a page reference directing you to a more complete description of that item.

The Parties to the Merger (Page 14)

The Neiman Marcus Group, Inc.

One Marcus Square

1618 Main Street

Dallas, Texas 75201

(214) 743-7600

The Neiman Marcus Group, Inc. is among the leading luxury retailers in the world, focusing on high-end apparel, accessories, jewelry, beauty and decorative home products. At the end of our previous fiscal year, July 31, 2004, we operated 35 Neiman Marcus stores, two Bergdorf Goodman stores and fourteen Last Call clearance centers. We also sell merchandise through Neiman Marcus Direct, our catalog and online operations, and own majority interests in Kate Spade LLC and Gurwitch Products, L.L.C., which produces the Laura Mercier line of cosmetics.

Newton Acquisition, Inc.

c/o Texas Pacific Group

301 Commerce Street, Suite 3300

Fort Worth, TX 76102

(817) 871-4000

and

c/o Warburg Pincus LLC

466 Lexington Avenue

New York, NY 10017

(212) 878-0600

Parent is a Delaware corporation owned in equal parts by the Sponsors through certain investment funds affiliated with the Sponsors. Parent was formed solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. It has not conducted any activities to date other than activities incidental to its formation and in connection with the transactions contemplated by the merger agreement.

Newton Acquisition Merger Sub, Inc.

c/o Texas Pacific Group

301 Commerce Street, Suite 3300

Fort Worth, TX 76102

(817) 871-4000

and

c/o Warburg Pincus LLC

466 Lexington Avenue

New York, NY 10017

(212) 878-0600

Table of Contents

Merger Sub is a Delaware corporation and a wholly-owned subsidiary of Parent. Merger Sub was formed solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. It has not conducted any activities to date other than activities incidental to its formation and in connection with the transactions contemplated by the merger agreement.

Parent and Merger Sub are each entities currently indirectly owned by private equity funds sponsored by TPG Advisors III, Inc., TPG Advisors IV, Inc., Warburg Pincus & Co., Warburg Pincus LLC and Warburg Pincus Partners LLC.

Each of TPG Advisors III, Inc. and TPG Advisors IV, Inc. (together, TPG) is serving as the sole general partner of related entities engaged in making investments in securities of public and private companies.

Warburg Pincus & Co., Warburg Pincus LLC and Warburg Pincus Partners LLC (together, Warburg Pincus) are engaged in making private equity and related investments.

The Special Meeting

Time, Place and Date (Page 15)

The special meeting will be held on **[•]**, starting at **[•]**, Eastern Time, at **[•]**.

Purpose (Page 15)

You will be asked to consider and vote upon adoption of the merger agreement. The merger agreement provides that Merger Sub will be merged with and into the Company, and each outstanding share of the Company s common stock (other than shares held in the treasury of the Company or owned by Parent, Merger Sub or any direct or indirect wholly-owned subsidiary of Parent or the Company and other than shares held by stockholders who properly demand statutory appraisal rights) will be converted into the right to receive $100.00 in cash, without interest.

The persons named in the accompanying proxy card will also have discretionary authority to vote upon other business, if any, that properly comes before the special meeting and any adjournments or postponements of the special meeting.

Record Date and Quorum (Page 15)

You are entitled to vote at the special meeting if you owned shares of the Company s common stock at the close of business on **[•]**, 2005, the record date for the special meeting. You will have one vote for each share of the Company s common stock that you owned on the record date.

As of the record date, there were **[•]** shares of the Company s common stock entitled to be voted, consisting of **[•]** shares of Class A common stock and **[•]** shares of Class B common stock. (There were no outstanding shares of the Company s Class C common stock as of the record date.)

Required Vote (Page 15)

For us to complete the merger, stockholders holding at least a majority in combined voting power of our common stock outstanding at the close of business on the record date must vote FOR the adoption of the merger agreement. All of our stockholders are entitled to one vote per share, and there is no difference in voting power between holders of the Class A common stock and the Class B common stock for purposes of voting to adopt the merger agreement. A failure to vote your shares of the Company s common stock or an abstention will have the same effect as a vote against the merger.

Table of Contents

In connection with the execution of the merger agreement, Richard A. Smith, the Chairman of our board of directors, and members of his family (collectively, the Smith Family Holders), entered into a stockholder agreement pursuant to which they have agreed to vote in favor of the merger and against any competing transaction proposed to the Company s stockholders, unless the merger agreement is terminated in accordance with its terms. As of the record date, the Smith Family Holders beneficially own an aggregate of [•] shares of Neiman Marcus common stock (excluding options), which represents approximately [•]% of the voting power for purposes of voting on the adoption of the merger agreement.

Share Ownership of Directors and Executive Officers (Page 15)

As of the record date, the directors and current executive officers of Neiman Marcus beneficially owned in the aggregate (excluding options) approximately [•]% of the shares of the Company s common stock entitled to vote at the special meeting. Each of them either agreed to vote, or has advised us that he or she plans to vote, all of his or her shares in favor of the adoption of the merger agreement.

Voting and Proxies (Page 16)

Any Neiman Marcus stockholder of record entitled to vote may submit a proxy by telephone, the Internet or returning the enclosed proxy card by mail, or may vote in person by appearing at the special meeting. If your shares are held in street name by your broker, you should instruct your broker on how to vote your shares using the instructions provided by your broker. If you do not provide your broker with instructions, your shares will not be voted and that will have the same effect as a vote against the merger.

Revocability of Proxy (Page 16)

Any Neiman Marcus stockholder of record who executes and returns a proxy card (or submits a proxy via telephone or the Internet) may revoke the proxy at any time before it is voted in any one of the following ways:

- filing with the Company s Corporate Secretary, at or before the special meeting, a written notice of revocation that is dated a later date than the proxy;
- sending a later-dated proxy relating to the same shares to the Company s Corporate Secretary, at or before the special meeting;
- submitting a later-dated proxy by the Internet or by telephone, at or before the special meeting; or
- attending the special meeting and voting in person by ballot.

Simply attending the special meeting will not constitute revocation of a proxy. If you have instructed your broker to vote your shares, the above-described options for revoking your proxy do not apply and instead you must follow the directions provided by your broker to change these instructions.

When the Merger Will be Completed (Page 48)

We are working to complete the merger as soon as possible. We anticipate completing the merger by **[•]** 2005, subject to adoption of the merger agreement by the Company s stockholders and the satisfaction of the other closing conditions. In addition, Merger Sub is not obligated to complete the merger until the expiration of a 40 consecutive calendar day marketing period throughout which Merger Sub shall have the financial information that the Company is required to provide pursuant to the merger agreement to complete its debt financing of the merger. So long as we have provided all required financial information to Merger Sub for

purposes of its completing its offerings of debt securities, the marketing period begins to run on the twentieth day after we first mail this proxy statement to our stockholders. If the marketing period would end on or after August 15, 2005, however, the marketing period would begin to run (so long as we have provided Merger Sub all required financial information) on the later of (i) September 1, 2005 and (ii) the date on which we file our annual report on Form 10-K for the fiscal year ended July 30, 2005 with the Securities and Exchange Commission (SEC). Because we are first mailing this proxy statement to our stockholders on or about **[•]**, 2005, we expect that the marketing period will begin on or about **[•]**, 2005.

Board Recommendation (Page 29)

After careful consideration, our board of directors has unanimously:

- determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable, fair to and in the best interests of the Company and its stockholders;
- approved the merger agreement; and
- recommended that Neiman Marcus stockholders vote FOR the adoption of the merger agreement.

Stockholder Agreement with the Smith Family Holders (Page 65 and Annex B)

The Smith Family Holders, including, among others, Richard A. Smith, the Chairman of our board of directors, and Robert A. Smith and Brian J. Knez, the co-Vice Chairmen of our board, have entered into a stockholder agreement, dated as of May 1, 2005, with Parent and Merger Sub with respect to the 6,055,057 shares of common stock (16,471 shares of Class A common stock and 6,038,586 shares of Class B common stock) owned in the aggregate by the Smith Family Holders as of the date of the stockholder agreement as well as any shares of common stock acquired by the Smith Family Holders after such date. As of the record date, the Smith Family Holders held **[•]** shares of the Company s common stock.

The Smith Family Holders have agreed to vote all of these shares in favor of the adoption of the merger agreement and against any competing transaction proposed to the Company s stockholders, unless the merger agreement is terminated in accordance with its terms, and have delivered an irrevocable proxy to Parent for the purpose of voting such shares. The stockholder agreement will terminate upon the earlier of (i) the termination of the merger agreement and (ii) the effective time of the merger. The full text of the stockholder agreement is attached to this proxy statement as Annex B. We encourage you to read the full text of the stockholder agreement in its entirety.

Opinion of JPMorgan (Page 29 and Annex C)

J.P. Morgan Securities Inc. (JPMorgan) delivered its opinion to the Company s board of directors that, as of the date of its opinion and based upon and subject to the factors and assumptions set forth therein, the merger consideration of $100.00 in cash per share to be received by the Company s Class A and Class B stockholders pursuant to the merger agreement was fair, from a financial point of view, to such stockholders (other than the Smith Family Holders).

The opinion of JPMorgan is addressed to the Company s board of directors, is directed only to the consideration to be paid in the merger and does not constitute a recommendation as to how any of our stockholders should vote with respect to the merger agreement or whether such stockholders should exercise any dissenter s rights or appraisal rights with respect to the merger or any other matter. The full text of the written opinion of JPMorgan, dated May 1, 2005, which sets forth the procedures followed, limitations on the review undertaken, matters considered and assumptions made in connection with such opinion, is attached as Annex C

to this proxy statement. We recommend that you read the opinion carefully in its entirety. Pursuant to the terms of the engagement letter with JPMorgan, the Company has agreed to pay to JPMorgan a fee. Payment of the fee to JPMorgan is not contingent upon consummation of the merger.

Financing (Page 35)

The Company and the Sponsors estimate that the total amount of funds necessary to consummate the merger and related transactions (including payment of the aggregate merger consideration, the repayment or refinancing of some of the Company s currently outstanding debt and all related fees and expenses) will be approximately $5.4 billion. Merger Sub has received commitments from Credit Suisse First Boston and Goldman Sachs Mortgage Company with respect to the financing.

In connection with the execution and delivery of the merger agreement, Merger Sub has obtained commitments to provide up to approximately $3.9 billion in debt financing (not all of which is expected to be drawn at closing) consisting of (1) a senior secured asset-based revolving facility with a maximum availability of $600 million and (2) term and bridge loan facilities and senior secured notes with an aggregate principal amount of up to $3.3 billion to finance, in part, the payment of the merger consideration, the repayment or refinancing of certain debt of the Company outstanding on the closing date of the merger and to pay fees and expenses in connection therewith and, in the case of the revolving facility, for general corporate purposes after the closing date of the merger.

In addition, Merger Sub has obtained a commitment to provide up to $750 million under a limited recourse secured asset-based revolving credit facility relating to the Company s credit card operations to finance the acquisition of such operations on the closing date of the merger in the event that a credit card transaction has not been completed by the closing date of the merger. Parent has agreed to use its reasonable best efforts to arrange the debt financing on the terms and conditions described in the commitments. In addition, Parent and Merger Sub have obtained an aggregate of $1.55 billion in equity commitments from the Sponsors. The facilities and notes contemplated by the debt financing commitments are conditioned on the merger being consummated prior to the merger agreement termination date, as well as other conditions, as described in further detail under The Merger Financing Debt Financing beginning on page 36.

The closing of the merger is not conditioned on the receipt of the debt financing by Merger Sub. Parent, however, is not required to consummate the merger until after the completion of the marketing period as described above under When the Merger Will be Completed and in further detail under The Merger Agreement Effective Time; The Marketing Period beginning on page 48.

Treatment of Stock Options (Page 39)

The merger agreement provides that all outstanding Company stock options issued pursuant to the Company s stock option and incentive plans, whether or not vested or exercisable, will be cashed out and canceled (to the extent permitted under the governing plan documents and related agreements) in connection with the completion of the merger. Each option holder will receive an amount in cash, less applicable withholding taxes and without interest, equal to the product of:

- the number of shares of our common stock subject to each option as of the effective time of the merger, multiplied by

the excess, if any, of $100.00 over the exercise price per share of common stock subject to such option.

Treatment of Restricted Stock and Stock Units (Page 40)

The merger agreement provides that:

- each outstanding share of our restricted stock, the restrictions of which have not lapsed immediately prior to the effective time of the merger, will become fully vested and will be converted into the right to receive $100.00 in cash, without interest and less applicable withholding taxes; and

- each outstanding right to receive our common stock, restricted stock or cash equal to or based on the value of our common stock pursuant to a stock unit award under any of our stock or other incentive plans, whether or not vested, will be canceled, and the holder of the stock unit will be entitled to receive $100.00 in cash, without interest and less applicable withholding taxes, for each share of common stock subject to the stock unit award.

Interests of the Company s Directors and Executive Officers in the Merger (Page 39)

Our directors and executive officers may have interests in the merger that are different from, or in addition to, yours, including the following:

- our directors and executive officers will have their vested and unvested stock options, restricted stock and stock unit awards canceled and cashed out in connection with the merger, meaning that they will receive cash payments for each share of common stock subject to such option equal to the excess, if any, of $100.00 per share over the exercise price per share of their options, without interest and less applicable withholding taxes, and they will receive $100.00 per share for their restricted stock and stock unit awards, without interest and less applicable withholding taxes;

- each of our current executive officers has a change of control termination protection agreement that provides certain severance payments and benefits in the case of his or her termination of employment under certain circumstances and, in addition, the agreements provide that in the event any benefit received by the executive officer gives rise to an excise tax for the executive officer, the executive officer is also entitled to a gross-up payment in an amount that would place the executive officer in the same after-tax position that he or she would have been in if no excise tax had applied (except for certain circumstances in which the agreements specify that the benefits payable to the executive will be reduced to eliminate the applicability of such excise taxes);

- at the completion of the merger, the Company will terminate all its non-qualified deferred compensation plans, including the key employee bonus plan, key employee deferred compensation plan and deferred compensation plan for non-employee directors and any other non-qualified deferred compensation plans in which our executive officers or directors participate, and will cause all accounts thereunder to be paid out to participants in cash;

- the merger agreement provides for indemnification arrangements for each of our current and former directors and officers that will continue for six years following the effective time of the merger as well as insurance coverage covering his or her service to the Company as a director or officer; and

- although no agreements have been entered into as of the date of this proxy statement, the Sponsors have informed us that it is their intention to retain members of our existing management team with the surviving corporation after the merger is completed, and in that connection, members of management currently are engaged in discussions with representatives of Parent and we believe that these

persons are likely to enter into new arrangements with Parent, Merger Sub or their affiliates regarding employment with, and the right to purchase or participate in the equity of, the surviving corporation, although such matters are subject to further negotiation and discussion and no terms or conditions have been finalized.

Material United States Federal Income Tax Consequences (Page 44)

If you are a U.S. holder of our common stock, the merger will be a taxable transaction to you. For U.S. federal income tax purposes, your receipt of cash in exchange for your shares of the Company s common stock generally will cause you to recognize a gain or loss measured by the difference, if any, between the cash you receive in the merger and your adjusted tax basis in your shares. If you are a non-U.S. holder of our common stock, the merger will generally not be a taxable transaction to you under U.S. federal income tax laws unless you have certain connections to the United States. You should consult your own tax advisor for a full understanding of how the merger will affect your taxes.

Regulatory Approvals (Page 46)

The Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the Hart-Scott-Rodino Act) provides that transactions such as the merger may not be completed until certain information has been submitted to the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice and certain waiting period requirements have been satisfied. On May 13, 2005 and on May 16, 2005, the Company and Newton Holding, LLC (an affiliate of TPG and Warburg Pincus), respectively, each filed a Notification and Report Form with the Antitrust Division and the Federal Trade Commission and requested an early termination of the waiting period. If the early termination is not granted and a request for additional information by the relevant antitrust authorities is not made, the waiting period will expire at 11:59 p.m. on June 15, 2005.

Except as noted above with respect to the required filings under the Hart-Scott-Rodino Act and the filing of a certificate of merger in Delaware at or before the effective date of the merger, we are unaware of any material federal, state or foreign regulatory requirements or approvals required for the execution of the merger agreement or completion of the merger.

Procedure for Receiving Merger Consideration (Page 50)

As soon as practicable after the effective time of the merger, a paying agent will mail a letter of transmittal and instructions to you and the other Neiman Marcus stockholders. The letter of transmittal and instructions will tell you how to surrender your stock certificates or book-entry shares in exchange for the merger consideration. **You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the paying agent without a letter of transmittal.**

No Solicitation of Transactions (Page 56)

The merger agreement restricts our ability to solicit or engage in discussions or negotiations with a third party regarding specified transactions involving the Company. Notwithstanding these restrictions, under certain limited circumstances required for our board of directors to comply with its fiduciary duties, our board of directors may respond to an unsolicited written bona fide proposal for an alternative acquisition or terminate the merger agreement and enter into an agreement with respect to a superior proposal after paying the termination fee specified in the merger agreement.

Conditions to Closing (Page 60)

Before we can complete the merger, a number of conditions must be satisfied. These include:

- the receipt of Company stockholder approval;
- the absence of governmental orders that have the effect of making the merger illegal or that otherwise prohibit the closing;

Table of Contents

- the expiration or termination of the waiting period under the Hart-Scott-Rodino Act;
- performance by each of the parties of its covenants under the merger agreement in all material respects; and
- the accuracy of the Company s representations and warranties, except to the extent the failure of such representations and warranties to be true and correct would not constitute a material adverse effect.

Termination of the Merger Agreement (Page 61)

Neiman Marcus, Parent and Merger Sub may agree in writing to terminate the merger agreement at any time without completing the merger, even after the stockholders of Neiman Marcus have adopted the merger agreement. The merger agreement may also be terminated at any time prior to the effective time of the merger in certain other circumstances, including:

- by either Parent or the Company if:
  - o the closing has not occurred on or before November 1, 2005, provided that if the marketing period has not ended on or before August 15, 2005, then such date is extended to the earlier of (i) the tenth business day following the final day of the marketing period and (ii) December 16, 2005 (and in certain specified circumstances related to regulatory matters such date may be extended by either Parent or us by three months beyond either applicable date);
  - o a final, non-appealable governmental order prohibits the merger;
  - o the Company stockholders do not adopt the merger agreement at the special meeting or any postponement or adjournment thereof;
  - o there is a material breach by the non-terminating party of its representations, warranties, covenants or agreements in the merger agreement such that the closing conditions would not be satisfied;
- by Parent, if our board of directors withdraws or adversely modifies its recommendation or approval of the merger agreement or recommends or approves another acquisition proposal;
- by the Company, prior to the special meeting, if we receive a superior proposal, but only after we have provided Parent a three business day period to revise the terms and conditions of the merger agreement, negotiate in good faith with Parent with respect thereto and only if we pay the termination fee described below; or
- by the Company, if certain conditions to closing have been satisfied or waived and the closing has not occurred after completion of the marketing period.

Termination Fees and Expenses (Page 62)

Under certain circumstances, in connection with the termination of the merger agreement, the Company will be required to pay Parent $140.3 million in termination fees.

In the event the merger agreement is terminated because the Company s stockholders fail to adopt the merger agreement at the special meeting or any adjournment or postponement thereof, the Company is required to reimburse Parent for expenses incurred in connection with the merger agreement, up to a maximum of $20 million, which amount will be offset against the termination fee described above, if payable.

Table of Contents

In the event that the Company terminates the merger agreement because Parent (i) breaches its obligations to effect the closing and satisfy its obligations with respect to payment of the merger consideration when all conditions to the closing are satisfied and the marketing period has expired and (ii) Parent fails to effect the closing because of a failure to receive the proceeds of one or more of the debt financings contemplated by the debt financing commitments or because of its refusal to accept debt financing on terms materially less beneficial to it than the terms set forth in the debt financing commitments, Merger Sub will be required to pay the Company a $140.3 million termination fee. This termination fee payable to the Company is the exclusive remedy of the Company unless, in general, Parent is otherwise in breach of the merger agreement, in which case the Company may pursue a damages claim. The aggregate liability of Parent and its affiliates arising from any breach of the merger agreement is in any event capped at $500,000,000.

Market Price of Neiman Marcus Stock (Page 67)

Our Class A common stock and Class B common stock are each listed on the New York Stock Exchange (the NYSE) under the trading symbols NMG.A and NMG.B , respectively. On April 29, 2005, which was the last trading day before we announced the merger, the Company s Class A common stock closed at $98.32 per share and the Company s Class B common stock closed at $97.20 per share. On **[•]**, 2005, which was the last trading day before the date of this proxy statement, the Company s Class A common stock closed at $**[•]** per share and the Company s Class B common stock closed at $**[•]** per share.

Rights of Appraisal (Page 72 and Annex D)

Delaware law provides you with appraisal rights in the merger. This means that, if you comply with the procedures for perfecting appraisal rights provided for under Delaware law, you are entitled to have the fair value of your shares determined by the Delaware Court of Chancery and to receive payment based on that valuation in lieu of the merger consideration. The ultimate amount you receive in an appraisal proceeding may be more or less than, or the same as, the amount you would have received under the merger agreement.

To exercise your appraisal rights, you must deliver a written demand for appraisal to the Company before the vote on the merger agreement at the special meeting and you must not vote in favor of the adoption of the merger agreement. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights. A copy of Section 262 of the General Corporation Law of the State of Delaware (DGCL) is attached to this proxy statement as Annex D.

Table of Contents

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement, and the documents to which we refer you in this proxy statement, contain forward-looking statements based on estimates and assumptions. Forward-looking statements include information concerning possible or assumed future results of operations of the Company, the expected completion and timing of the merger and other information relating to the merger. There are forward-looking statements throughout this proxy statement, including, among others, under the headings Summary, The Merger, The Merger Opinion of JPMorgan and in statements containing the words believes, plans, expects, anticipates, intends, estimates or other similar expressions. For each of these statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should be aware that forward-looking statements involve known and unknown risks and uncertainties. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that the actual results or developments we anticipate will be realized, or even if realized, that they will have the expected effects on the business or operations of the Company. These forward-looking statements speak only as of the date on which the statements were made and we undertake no obligation to update or revise any forward-looking statements made in this proxy statement or elsewhere as a result of new information, future events or otherwise. In addition to other factors and matters contained or incorporated in this document, we believe the following factors could cause actual results to differ materially from those discussed in the forward-looking statements:

Considerations Relating to the Merger Agreement and the Merger:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement;
- the outcome of the legal proceedings that have been instituted against us and others following announcement of the merger agreement;
- the failure of the merger to close for any other reason;
- the amount of the costs, fees, expenses and charges related to the merger;

Political and General Economic Conditions:

- current political and general economic conditions or changes in such conditions;
- terrorist activities in the United States;
- political, social, economic, or other events resulting in the short or long-term disruption in business at the Company s 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 that are, or are perceived to be, luxuries ;

changes in consumer preferences or fashion trends;

changes in the Company s relationships with its key customers;

Merchandise Procurement and Supply Chain Considerations:

changes in the Company s relationships with designers, vendors and other sources of merchandise, including adverse changes in their financial viability;

delays in receipt of merchandise ordered by the Company due to work stoppages and/or other causes of delay in connection with either the manufacture or shipment of such merchandise;

changes in foreign currency exchange rates;

significant increases in paper, printing and postage costs;

Industry and Competitive Factors:

competitive responses to the Company s marketing, merchandising and promotional efforts and/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;

Employee Considerations:

changes in key management personnel;

changes in the Company s relationships with certain of its key sales associates;

Legal and Regulatory Issues:

changes in government or regulatory requirements increasing the Company s costs of operations;

litigation that may have an adverse effect on the financial results or reputation of the Company;

Other Factors:

impact of funding requirements related to the Company s noncontributory defined benefit pension plan;

the design and implementation of new information systems as well as enhancements of existing systems; and

risks, uncertainties and factors set forth in our reports and documents filed with the SEC (which reports and documents should be read in conjunction with this proxy statement; see Where You Can Find Additional Information).

13

THE PARTIES TO THE MERGER

The Neiman Marcus Group, Inc.

The Neiman Marcus Group, Inc. is among the leading luxury retailers in the world, focusing on high-end apparel, accessories, jewelry, beauty and decorative home products. At the end of our previous fiscal year, July 31, 2004, we operated 35 Neiman Marcus stores, two Bergdorf Goodman stores and fourteen Last Call clearance centers. We also sell merchandise through Neiman Marcus Direct, our catalog and online operations, including through the Internet sites www.neimanmarcus.com, www.bergdorfgoodman.com and www.horchow.com. In addition, we own majority interests in Kate Spade LLC and Gurwitch Products, L.L.C., which produces the Laura Mercier line of cosmetics.

The Neiman Marcus Group, Inc. is incorporated in the state of Delaware with its principal executive offices at One Marcus Square, 1618 Main Street, Dallas, Texas 75201 and its telephone number is (214) 743-7600.

Newton Acquisition, Inc.

Parent is a Delaware corporation with its principal executive offices at c/o Texas Pacific Group, 301 Commerce Street, Suite 3300, Fort Worth, TX 76102. Parent s telephone number is (817) 871-4000. Parent is indirectly owned in equal parts by the Sponsors through certain investment funds affiliated with the Sponsors. Parent was formed solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. It has not conducted any activities to date other than activities incidental to its formation and in connection with the transactions contemplated by the merger agreement.

Newton Acquisition Merger Sub, Inc.

Merger Sub is a Delaware corporation and a wholly-owned subsidiary of Parent. Merger Sub s principal executive offices are located at c/o Texas Pacific Group, 301 Commerce Street, Suite 3300, Fort Worth, TX 76102 and its telephone number is (817) 871-4000. Merger Sub was organized solely for the purpose of entering into the merger agreement and consummating the transactions contemplated by the merger agreement. It has not conducted any activities to date other than activities incidental to its formation and in connection with the transactions contemplated by the merger agreement. Under the terms of the merger agreement, Merger Sub will merge with and into us. The Company will survive the merger and Merger Sub will cease to exist.

The current indirect owners of Parent, and through Parent, Merger Sub, consist of private equity funds sponsored by TPG Advisors III, Inc. and TPG Advisors IV, Inc., Warburg Pincus & Co., Warburg Pincus LLC and Warburg Pincus Partners LLC.

Each of TPG Advisors III, Inc. and TPG Advisors IV, Inc. (together, TPG) is serving as the sole general partner of related entities engaged in making investments in securities of public and private companies.

Warburg Pincus & Co., Warburg Pincus LLC and Warburg Pincus Partners LLC (together, Warburg Pincus) are engaged in making private equity and related investments.

Table of Contents

THE SPECIAL MEETING

Time, Place and Purpose of the Special Meeting

This proxy statement is being furnished to our stockholders as part of the solicitation of proxies by our board of directors for use at the special meeting to be held on **[•]**, starting at **[•]**, Eastern Time, at **[•]** or at any postponement or adjournment thereof. The purpose of the special meeting is for our stockholders to consider and vote upon the adoption of the merger agreement. Our stockholders must adopt the merger agreement for the merger to occur. If the stockholders fail to adopt the merger agreement, the merger will not occur. A copy of the merger agreement is attached to this proxy statement as Annex A. This proxy statement and the enclosed form of proxy are first being mailed to our stockholders on or about **[•]**, 2005.

Record Date and Quorum

The holders of record of the Company s common stock as of the close of business on **[•]**, 2005, the record date for the special meeting, are entitled to receive notice of, and to vote at, the special meeting. On the record date, there were **[•]** shares of the Company s common stock outstanding (which includes **[•]** shares of our Class A common stock and **[•]** shares of our Class B common stock).

The holders of a majority of the outstanding shares of the Company s common stock on the record date represented in person or by proxy will constitute a quorum for purposes of the special meeting. A quorum is necessary to hold the special meeting. Any shares of the Company s common stock held in treasury by the Company or by any of our subsidiaries are not considered to be outstanding for purposes of determining a quorum. Once a share is represented at the special meeting, it will be counted for the purpose of determining a quorum at the special meeting and any postponement or adjournment of the special meeting. However, if a new record date is set for the adjourned special meeting, then a new quorum will have to be established.

Required Vote

Completion of the merger requires the adoption of the merger agreement by the affirmative vote of the holders of a majority in combined voting power of the Company s common stock outstanding on the record date. Each outstanding share of the Company s common stock on the record date entitles the holder to one vote at the special meeting. For the purpose of voting on the matters at the special meeting there is no difference in voting power between shares of Class A common stock and shares of Class B common stock.

As of **[•]**, 2005, the record date, the directors and current executive officers of Neiman Marcus beneficially owned (excluding options and excluding shares beneficially owned by Richard A. Smith, Robert A. Smith and Brian J. Knez, each of whom is party to the stockholder agreement discussed below), in the aggregate, **[•]** shares of the Company s common stock, or approximately **[•]**% of the outstanding shares of the Company s common stock. The directors and current executive officers have informed Neiman Marcus that they intend to vote all of their shares of the Company s common stock FOR the adoption of the merger agreement and FOR any postponement or adjournment of the special meeting, if necessary or appropriate to solicit additional proxies.

The Smith Family Holders, including, among others, Richard A. Smith, the Chairman of our board of directors, and Robert A. Smith and Brian J. Knez, the co-Vice Chairmen of our board, have entered into a stockholder agreement with Parent and Merger Sub with respect to the 6,055,057 shares of common stock (16,471 shares of Class A common stock and 6,038,586 shares of Class B common stock) owned in the aggregate by the Smith Family Holders as of the date of the stockholder agreement. As of the record date, the aggregate number of shares of the Company s common stock owned by the Smith Family Holders subject to the stockholders agreement is [•] shares, which represents approximately [•]% of the voting power of all outstanding shares of the Company s common stock. The Smith Family Holders have agreed to vote all of these shares in favor of the adoption of the merger agreement and against any competing transaction proposed to the Company s stockholders, unless the merger agreement is terminated in accordance with its terms.

Table of Contents

Proxies; Revocation

If you are a stockholder of record and submit a proxy by telephone or the Internet or by returning a signed proxy card by mail, your shares will be voted at the special meeting as you indicate on your proxy card or by such other method. If no instructions are indicated on your proxy card, your shares of the Company s common stock will be voted FOR the adoption of the merger agreement and FOR any postponement or adjournment of the special meeting, if necessary or appropriate to solicit additional proxies.

If your shares are held in street name by your broker, you should instruct your broker how to vote your shares using the instructions provided by your broker. If you have not received such voting instructions or require further information regarding such voting instructions, contact your broker and they can give you directions on how to vote your shares. Under the rules of the NYSE, brokers who hold shares in street name for customers may not exercise their voting discretion with respect to the approval of non-routine matters such as the merger proposal and thus, absent specific instructions from the beneficial owner of such shares, brokers are not empowered to vote such shares with respect to the adoption of the merger agreement (i.e., broker non-votes). Shares of Company common stock held by persons attending the special meeting but not voting, or shares for which the Company has received proxies with respect to which holders have abstained from voting, will be considered abstentions. Abstentions and properly executed broker non-votes, if any, will be treated as shares that are present and entitled to vote at the special meeting for purposes of determining whether a quorum exists but will have the same effect as a vote AGAINST adoption of the merger agreement.

If you participate in the Company s employee savings plan, you will receive a voting instruction card with respect to those shares of common stock subject to the plan which will provide Fidelity Investments, the plan s record keeper, with instructions on how to vote such shares. You must submit your voting instructions for your shares to Fidelity by the close of business on **[•]** to allow Fidelity time to receive your voting instructions and vote on behalf of the plan. If you hold shares of common stock outside of the employee savings plan, you will receive a separate proxy or voting instruction card for such shares. In order to have all of your shares counted at the meeting, you must complete and submit all cards which you receive.

You may revoke your proxy at any time before the vote is taken at the special meeting. To revoke your proxy, you must either advise our Corporate Secretary in writing, submit a proxy by telephone, the Internet or mail dated after the date of the proxy you wish to revoke or attend the special meeting and vote your shares in person. Attendance at the special meeting will not by itself constitute revocation of a proxy.

Please note that if you have instructed your broker to vote your shares, the options for revoking your proxy described in the paragraph above do not apply and instead you must follow the directions provided by your broker to change these instructions.

Neiman Marcus does not expect that any matter other than the adoption of the merger agreement (and to approve the adjournment of the meeting, if necessary or appropriate to solicit additional proxies) will be brought before the special meeting. If, however, any such other matter is properly presented at the special meeting or any adjournment or postponement of the special meeting, the persons appointed as proxies will have discretionary authority to vote the shares represented by duly executed proxies in accordance with their discretion and judgment.

Submitting Proxies Via the Internet or by Telephone

Stockholders of record and many stockholders who hold their shares through a broker or bank will have the option to submit their proxies or voting instructions via the Internet or by telephone. There are separate arrangements for using the Internet and telephone to submit your proxy depending on whether you are a

Table of Contents

stockholder of record or your shares are held in street name by your broker. If your shares are held in street name, you should check the voting instruction card provided by your broker to see which options are available and the procedures to be followed.

In addition to submitting the enclosed proxy card by mail, Neiman Marcus stockholders of record may submit their proxies:

- via the Internet by visiting a website established for that purpose at **[•]** and following the instructions on the website; or

- by telephone by calling the toll-free number [•] in the United States, Puerto Rico or Canada on a touch-tone phone and following the recorded instructions.

Adjournments and Postponements

Although it is not currently expected, the special meeting may be adjourned or postponed for the purpose of soliciting additional proxies. Any adjournment may be made without notice (if the adjournment is not for more than thirty days), other than by an announcement made at the special meeting of the time, date and place of the adjourned meeting. Whether or not a quorum exists, holders of a majority of the shares of the Company s common stock present in person or represented by proxy at the special meeting and entitled to vote thereat may adjourn the special meeting. Any signed proxies received by the Company in which no voting instructions are provided on such matter will be voted in favor of an adjournment in these circumstances. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow the Company s stockholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed.

Solicitation of Proxies

The Company will pay the cost of this proxy solicitation. In addition to soliciting proxies by mail, directors, officers and employees of Neiman Marcus may solicit proxies personally and by telephone, facsimile or other electronic means of communication. These persons will not receive additional or special compensation for such solicitation services. Neiman Marcus will, upon request, reimburse brokers, banks and other nominees for their expenses in sending proxy materials to their customers who are beneficial owners and obtaining their voting instructions. The Company has retained Innisfree M&A Incorporated to assist it in the solicitation of proxies for the special meeting and will pay Innisfree M&A Incorporated a fee of approximately $15,000, plus reimbursement of out-of-pocket expenses.

Table of Contents

THE MERGER

Background of the Merger

As part of its ongoing evaluation of its business, the Company s board of directors and management regularly evaluates the Company s long-term strategic alternatives and prospects for continued operations as an independent company. The Company s 2000 fiscal year (which ended July 29, 2000) was one of the most successful years in its history in terms of financial results, and these strong results continued into the beginning of the Company s 2001 fiscal year. During the latter part of the Company s 2001 fiscal year and continuing into the Company s 2002 and 2003 fiscal years (which ended on August 3, 2002 and August 2, 2003, respectively), the luxury retail market operated amid substantial economic uncertainty, which adversely affected the operating results of the Company and several other luxury retailers. The Company reported substantially improved operating results for its 2004 fiscal year (which ended on July 31, 2004) as a result of an overall improvement in the economy, in addition to on-going initiatives of the Company relating to, among other things, improved inventory efficiencies and a continued disciplined approach to capital expenditures.

While recognizing the Company s performance for its 2004 fiscal year was greatly improved relative to its 2002 and 2003 fiscal years and the Company s overall business was stronger, the Company s board of directors also understood the cyclical nature of the luxury retail industries in which it operates and the effect these factors have on the Company s financial results and share price. In that connection, the board of directors also noted that the Company s stock price was trading at all-time highs in the latter part of 2004. Moreover, the Company s board of directors recognized that given its improved operating results and the relative strength of the financial markets, an opportunity might exist for the stockholders to realize substantial value through a strategic alternative that might not be available at another time. The board of directors also considered the extent to which the Company could incur more leverage and the desirability of returning cash to stockholders. Accordingly, in the Fall of 2004, the board of directors considered it to be an appropriate time to explore its strategic alternatives. In that context, the Company contacted Goldman, Sachs & Co. to assist the Company in considering all of its available strategic alternatives, including continuing to execute the Company s strategic plan.

Following these initial contacts, representatives of Goldman Sachs met with various members of the Company s management team to discuss strategic alternatives available to the Company, and on December 6, 2004, a meeting of the Company s board of directors was convened to thoroughly review and discuss these strategic alternatives.

At the December 6, 2004 board meeting, Mr. Richard A. Smith, Chairman of the Company s board of directors, opened the meeting by setting forth an agenda for the meeting and explaining the rationale for reviewing the Company s strategic alternatives at that time. Representatives of Simpson Thacher & Bartlett, which had provided legal services to the Company in the past, were also present at this meeting and reviewed with the board of directors the fiduciary duties of directors in the context of considering strategic options relating to the Company. Members of the Company s management then made a presentation concerning the Company s strategy, business, results of operations and prospects, including its current and projected cash needs and capital expenditure requirements. Management responded to questions from the Board. The Company s board of directors discussed the challenges and opportunities that the Company may face in the future. The Board, while considering opportunities (such as growth in the Company s Internet business, favorable demographics and store initiatives designed to increase productivity), also recognized the risks associated with remaining an independent company. Members of the Company s management further outlined various strategic alternatives available to the Company, including the risks and benefits of making changes in its corporate direction, engaging in merger and acquisition activity, expanding the Company s stock buy-back program, engaging in a potential recapitalization of the Company s operations and selling the entire Company. Management also discussed the possibility of selling, financing or outsourcing the Company s credit card portfolio. The board of directors discussed the benefits of pursuing a potential credit card transaction in connection with either a recapitalization or sale. The board of directors discussed the risks associated with engaging in a credit card transaction, particularly given that the Company s credit card holders represent a critical element of the Company s customer base and the need to

carefully select a credit partner in the event that an outsourcing arrangement, pursuant to which the Company would continue to maintain some level of control over how its customers credit card accounts were managed, was entered into as part of any such transaction.

Representatives of Goldman Sachs were present at the December 6, 2004 meeting and provided a preliminary analysis to the Company s board of directors regarding the financial aspects of a recapitalization and a potential sale of the Company. In that connection, Goldman Sachs also presented a detailed analysis of potential buyers, which included the financial implications of a business combination for both strategic and financial buyers. The board of directors discussed the various alternatives and representatives of management, Goldman Sachs and Simpson Thacher & Bartlett each responded to questions. The board of directors also discussed the risks of a potential sale process, including information leaks. Following these discussions, the board of directors authorized Goldman Sachs to refine its analysis and continue its review of the Company (including with respect to the credit card portfolio) in anticipation of a decision by the board at a subsequent meeting as to whether to explore a sale transaction with third parties. The board of directors further authorized Goldman Sachs and management to engage in discussions with credit rating agencies in an effort to gauge the effect that a variety of leveraged capital structures would have on the Company s debt rating, given the possibility that private equity firms could emerge as the candidates most interested in a business combination transaction with the Company and also to help refine judgments regarding a potential recapitalization of the company. This information, along with further information regarding a potential credit card transaction, would also assist any potential purchasers in assessing how much they could pay if preliminary indications of interest were solicited.

On January 14, 2005, following the annual meeting of shareholders of the Company, the board of directors met to receive an update as to the on-going progress of the strategic review and to discuss whether to continue exploring a possible sale of the Company or other alternatives. Representatives of Goldman Sachs and Simpson Thacher & Bartlett were present at this meeting. James E. Skinner, Senior Vice President and Chief Financial Officer of the Company, presented the Company s five-year financial plan. Mr. Skinner responded to questions from the board of directors and the board of directors discussed the risks and opportunities associated with the five-year plan. Following Mr. Skinner s presentation, representatives of Goldman Sachs provided a status update of the various strategic alternatives available to the Company being explored, including a recapitalization, and responded to questions from the board of directors. Goldman Sachs updated the board regarding management s meetings with credit rating agencies, which Goldman Sachs had attended, and discussed the availability of private equity capital and favorable capital markets and the impact these factors could have in terms of generating interest from financial sponsors. Goldman Sachs also addressed the potential pool of strategic buyers, including one potential buyer that the Company might wish to contact at the outset of the process before any other potential purchasers were solicited. In assessing the potential pool of strategic buyers, Goldman Sachs assessed both their willingness and financial ability to acquire the Company. The board of directors discussed the pool of strategic buyers. In the context of the board of directors assessing whether any strategic buyers were likely to be highly interested in and capable of acquiring the Company, the board noted the very limited number of inquiries from strategic buyers in the years following the time that the Company was spun off from its parent company, including when the Company stock price was trading at all-time lows. The board also discussed the minimal cost and revenue synergies that a strategic buyer of the Company could reasonably expect to achieve in connection with a purchase of the Company. The board of directors also considered the increased risk of information leaks (and competitive risks of sharing information) with strategic buyers. The board of directors discussed these alternatives, and management and Goldman Sachs responded to questions.

Also during the course of the January 14, 2005 meeting, the board of directors discussed with Goldman Sachs and management possible next steps in the event the board of directors were to authorize further exploration of a sale transaction. During the course of this discussion, Goldman Sachs expressed its willingness to facilitate the process by offering a financing package for any potential acquisition of the Company that would be available to all potential purchasers. Representatives of Goldman Sachs described the ways in which the availability of financing could enhance confidentiality, speed and certainty in exploring and completing a

Table of Contents

transaction. Following a discussion by Goldman Sachs and the board of directors regarding the risks and benefits relating to Goldman Sachs providing financing, the board of directors discussed the potential conflict of interest that might arise from allowing Goldman Sachs to act as both the Company s financial advisor and a possible financing source in connection with a third-party acquisition of the Company. In connection with this discussion, the board of directors also considered the desirability of obtaining a fairness opinion from a financial advisor other than Goldman Sachs in the event that Goldman Sachs were to enter into a commitment letter in connection with any financing packages it might offer to potential purchasers. Simpson Thacher & Bartlett and Goldman Sachs responded to questions, and the board of directors discussed the risks and benefits relating to Goldman Sachs providing financing. The board of directors discussed the advantage of Goldman Sachs acting in both roles in maintaining confidentiality throughout the initial stage of the process to ensure that a viable sale alternative existed before its strategic review became public knowledge, given the potentially adverse consequences that could result from information leaks prior to such time. The board of directors, in its discussions, noted the extent to which Goldman Sachs willingness to be a potential financing source would, at the outset of the process, provide confidence to potential purchasers as well as additional financing sources that were ultimately contacted by the potential purchasers. In addition, the board of directors believed that in light of Goldman Sachs role as a financial advisor to the Company, Goldman Sachs might be more reluctant relative to other potential financing sources to withdraw any offer to provide financing to prospective purchasers, even if the financing markets worsened.

Goldman Sachs then discussed with the board of directors at the January 14, 2005 meeting various financial aspects of a possible sale transaction, including illustrative leveraged buyout scenarios assuming a transaction were consummated with respect to the Company s credit card portfolio. Representatives of management and Goldman Sachs explained to the board of directors that any transaction relating to the Company s credit card portfolio likely was to take the form of some combination of a sale or financing of the Company s credit card receivables and a strategic alliance with a financial institution for the future marketing and operations of the credit card business (we refer to these financial institutions in this proxy statement as potential credit card partners). To the extent the board of directors chose to pursue a recapitalization, Goldman Sachs noted for the board that a transaction related to the Company s credit card portfolio was a way to generate additional cash to facilitate such a transaction. Goldman Sachs also discussed with the board of directors the extent to which engaging in a credit card transaction might enhance the value of the Company, whether or not a sales process was undertaken. Goldman Sachs reviewed the circumstances under which they would expect that a credit card transaction, or an anticipated credit card transaction, would increase the consideration that a potential buyer would be willing to pay for the Company. Goldman Sachs stated its view that to the extent the board of directors chose to undertake the process of exploring a sale of the Company, the Company should not defer initiating or concluding such a process until the credit card transaction occurred, but rather pursue the two processes concurrently. Goldman Sachs also assessed the financial aspects of a potential recapitalization. Goldman Sachs responded to questions from the board of directors.

Representatives of Goldman Sachs then addressed in more detail a possible staged process of approaching potential purchasers. This staged process contemplated initially approaching a limited number of potential purchasers to maximize confidentiality. The potential purchasers to be approached at this stage were selected primarily on the basis of who would be expected to have the highest likelihood of interest in purchasing the Company. The resulting list of potential purchasers consisted principally of private equity firms, although a potential non-financial buyer was also included within this first group. This process contemplated that additional purchasers would ultimately be contacted when confidentiality became less of a concern. The board of directors recognized that strategic buyers who were contacted at later stages of the process and who expressed interest would generally need less time than financial buyers to conduct due diligence given their familiarity with the Company and the retail industry.

The board of directors discussed the benefits and risks associated with both a sale of the Company and a recapitalization. Simpson Thacher & Bartlett and Goldman Sachs responded to questions from the board of directors. After discussion, the board of directors authorized management to engage Goldman Sachs and authorized Goldman Sachs and management to begin contacting potential purchasers of the Company in

accordance with the staged process described above. In addition, the board of directors, while recognizing the potential conflicts of interest inherent in having Goldman Sachs both act as the Company s financial advisor and provide financing, decided that in the interest of protecting confidentiality and enhancing transaction certainty Goldman Sachs should make available a financing package to all potential purchasers, subject to the implementation of appropriate procedural safeguards designed to mitigate such potential conflicts of interest and ensure transparency throughout the process. The board of directors further decided to address the potential conflict of interest by considering the retention of another financial advisor to evaluate the fairness of any potential transaction, and to assist the Company in considering its strategic alternatives. The board of directors also authorized management to explore strategic alternatives relative to the Company s credit card business with the assistance of Goldman Sachs.

During January 2005, Goldman Sachs and management made an initial approach to the one potential purchaser identified during the course of the January 14, 2005 board meeting that was not a financial buyer. This potential purchaser declined to make an offer. Following this initial solicitation, beginning in late January 2005, confidentiality agreements were provided to a number of prospective purchasers. In accordance with the approach outlined at the January 14, 2005 board meeting, the prospective purchasers selected at this stage were private equity firms who had demonstrated the ability to complete large-scale transactions, the ability to preserve confidentiality and an interest in the retail industry.

Also during January 2005, management of the Company continued to prepare offering materials, and to refine related valuation analyses, with respect to a possible divestiture of the credit card operations in anticipation of contacting a number of parties who could be interested in such a transaction.

Following execution of the confidentiality agreements in respect of a sale of the Company, each of which prohibited the potential purchaser from discussing, at this stage, the proposed transaction with any co-investor or financing source without the prior consent of the Company, confidential presentations were made by the management of the Company to each potential purchaser during the course of February 2005. Presentations were made to seven potential purchasers during this time frame, each of whom expressed a strong interest in pursuing a business combination with the Company and a willingness to begin the due diligence process. During the course of the confidential presentations, Goldman Sachs communicated to each potential purchaser its willingness to provide financing and the parameters of such financing, which in each case was the same for all potential purchasers. This financing reflected the preliminary views of the credit rating agencies as to leverage that could be placed on the Company.

Each of the seven potential purchasers of the Company to whom management presentations were made was invited to submit preliminary indications of interest with respect to a possible acquisition of all of the Company s outstanding stock at the same price per share. On February 22, 2005, the Company received preliminary indications of interest from all seven potential purchasers, which in each case provided for an all cash purchase of all of the Company s outstanding capital stock.

Also in February 2005, the Company separately began the process of exploring strategic alternatives relative to its credit card operations by providing confidentiality agreements to a number of potential credit card partners, each of whom had considerable experience in executing credit card transactions of the type the Company was considering. Following execution of these confidentiality agreements in early March 2005, Goldman Sachs, on behalf of the Company, circulated an information memorandum to each of the potential partners, and later in March 2005, management of the Company made confidential presentations to each of the potential credit card partners.

On February 24, 2005, a meeting of the Company s board of directors was convened. Members of the Company s management presented a review and update relating to various aspects of the Company s business. Management summarized the terms of the engagement letter that had been negotiated with Goldman Sachs following the last board meeting. Representatives of Simpson Thacher & Bartlett reviewed the terms of the

engagement letters with respect to both the sale of the entire Company and the credit card transaction. Simpson Thacher & Bartlett also described the procedures that had been reviewed with Goldman Sachs in light of it serving as financial advisor while also potentially providing financing. Representatives of Simpson Thacher & Bartlett responded to questions from the board of directors. The board of directors then formally authorized the engagement of Goldman Sachs, subject to finalizing the procedures relating to Goldman Sachs providing financing along the lines discussed. Goldman Sachs then joined the meeting and discussed an update on the sale process, an analysis of the preliminary indications of interest received on February 22, 2005 and financial aspects of other alternatives available to the Company. The Company s board of directors discussed, among other things, the key offer provisions included in the indications of interest, including, among other matters, price and the ability of each potential purchaser to finance the proposed transaction. The Company s board of directors discussed various strategic alternatives, and Goldman Sachs and members of the Company s management responded to questions from the directors. As part of the next steps, Goldman Sachs identified to the board of directors a select group of additional potential strategic buyers for solicitation if the board of directors were to continue the process to sell the Company. After further discussions, the Company s board of directors determined, in light of the price ranges set forth in the preliminary indications of interest, to continue the process along the lines of the next steps outlined by Goldman Sachs.

Subsequent to the February board meeting, the Company and Goldman Sachs entered into engagement letters. Pursuant to the first engagement letter, dated as of December 15, 2004, as amended, the Company agreed to pay Goldman Sachs a transaction fee equal to 0.50% of the aggregate consideration paid to stockholders in connection with the merger, less certain agreed upon Company expenses, all of which is payable upon consummation of the merger. In connection with its engagement as financial advisor, Goldman Sachs informed the Company that it has provided and may provide in the future certain investment banking services to, and has had and may have in the future other relationships with, the Company and certain of the potential buyers and their affiliates. Pursuant to a separate engagement letter, also dated as of December 15, 2004, the Company agreed to pay Goldman Sachs a transaction fee of $3,500,000 in connection with the sale or financing of all or a portion of the Company s credit card receivables balances and related credit card accounts, all of which is payable upon the consummation of such a credit card transaction, if any.

In the beginning of March 2005, the Company permitted each of the financial sponsors to begin speaking with a single co-investor and asked Goldman Sachs to work with the financial sponsors in forming teams. The formation of teams, which was considered necessary due to the substantial equity financing that would be required to complete an acquisition of the Company, was done in a manner designed to maximize the likelihood of fostering a competitive group of bidding teams. At the request of one of the financial sponsors, the Company subsequently executed a confidentiality agreement with another potential purchaser and permitted this new party to speak with one of the original seven financial sponsors. As a result, four teams of potential purchasers were formed, each initially consisting of two financial sponsors. At this time, the Company also authorized each potential purchaser to hold discussions with and engage potential debt financing sources. During the three-week period beginning on March 7, 2005, the Company made due diligence materials available to all of the potential purchasers and their advisors and held in-depth management presentations with each bidding group. In late March 2005, one of the bidding groups requested the ability to bring in a third co-investor, which the Company permitted following the execution of a confidentiality agreement by the new co-investor.

During February and March 2005, various news articles indicated that the Company was in the process of potentially considering a business combination transaction. On March 16, 2005, the Company issued a press release announcing that it was exploring various strategic alternatives focused on enhancing stockholder value, including the possible sale of the Company, and that it had retained Goldman Sachs to assist in this effort.

At a meeting of the board of directors on March 22, 2005, management and representatives of Goldman Sachs provided the board of directors with an update on the status of the sale process, due diligence process and management meetings with each of the bidding groups. Goldman Sachs reported on the potential strategic buyers that it had contacted. Goldman Sachs further reported that following the March 16th press release it had been

contacted by a number of additional potential strategic buyers, many of whom were included on the list of parties that Goldman Sachs had intended to contact in the near future in any event in accordance with the staged process described above. Several of the potential strategic buyers with whom Goldman Sachs engaged in discussions at this time were the Company s competitors in the luxury retailing industries in which it operates. The potential purchasers with whom Goldman Sachs spoke were informed that the Company would be prepared to provide them with confidential information regarding the Company and access to management once they expressed a credible indication of interest. No potential strategic buyers expressed any meaningful degree of interest following their initial contact. Goldman Sachs then discussed next steps with the board of directors, and Simpson Thacher & Bartlett discussed the status of the draft merger agreement to be sent to the four bidding groups. Goldman Sachs also discussed with the board of directors the on-going credit card transaction process.

On March 30, 2005, Simpson Thacher & Bartlett circulated to the four bidding groups an initial draft of the merger agreement. During the first week in April one of the bidding groups that had received access to confidential information informed Goldman Sachs that it was not interested in proceeding any further. On April 11, 2005, the three remaining bidding groups each submitted their initial comments on the draft merger agreement.

On April 5, 2005, the Company s board of directors met to discuss the possible engagement of a second financial advisor and to receive a further update regarding the on-going sale process. The board of directors reviewed the role Goldman Sachs might have in the financing of an acquisition due to the financing package that it made available to all of the bidding groups. Simpson Thacher & Bartlett reviewed with the board of directors the procedural safeguards that Goldman Sachs agreed to in connection with its provision of financing, including Goldman Sachs agreement, among other things, to notify the Company of the names of each potential purchaser that engages Goldman Sachs with respect to the financing; to form separate finance teams to negotiate the financing package with potential purchasers with appropriate information barriers being established to restrict communications between these separate teams and the Goldman Sachs team advising the Company with respect to the sale; and not to provide potential purchasers with differing levels of access to information on the basis of the financing source each potential purchaser pursues. Following discussion, the board of directors, while informed that each of the bidding groups had stated that they were pursuing a variety of possible financing sources, authorized management to engage a second financial advisor to evaluate the fairness of any alternative transaction in light of the potential conflict of interest of Goldman Sachs.

Goldman Sachs then joined the meeting and provided an update on the on-going sale process. Goldman Sachs reported that the bidding groups were continuing to engage in an extensive due diligence review and that no inquiries of substance had been received from potential strategic acquirers. Goldman Sachs also updated the board of directors on the status of the potential credit card transaction.

During the week of April 4, 2005 and pursuant to the instructions of the board of directors, management of the Company contacted JPMorgan to assist the Company in considering its financial alternatives and to evaluate the fairness of any potential transaction. On April 15, 2005, the board of directors met to discuss the retention of JPMorgan. Mr. Skinner presented the qualifications of JPMorgan. Representatives of the Company s management and Simpson Thacher & Bartlett described the expected scope of JPMorgan s engagement, noting that JPMorgan was expected to evaluate the fairness of any potential transaction, as well as advise and assist the Company in considering the desirability of effecting, and in identifying and evaluating the relative merits and feasibility of, one or more potential strategic alternatives, including a recapitalization. Following a discussion, the board of directors authorized management of the Company to engage JPMorgan.

During the week of April 11, 2005, on behalf of the Company, representatives of Goldman Sachs and Simpson Thacher & Bartlett contacted the three bidding groups and their advisors to clarify the material terms reflected in their proposals and to identify aspects of their proposals which raised issues for the Company. Each of the bidding groups was requested to improve the non-financial terms and conditions of its proposal.

On or about April 12, 2005, management of the Company and representatives of Goldman Sachs contacted each of the three bidding groups to provide them with an update as to the status of the potential credit

card transaction. At this point, a number of potential credit card partners had submitted their initial proposals to the Company (which was done in late March and early April 2005).

On April 18, 2005, on behalf of the Company, Goldman Sachs sent to the three bidding groups a letter outlining the procedures for submitting a final bid for the Company on April 29, 2005. On April 19, 2005, revised drafts of the merger agreement were circulated to the three bidding groups. Pursuant to the bidding instructions, each bidding group was asked to submit any final comments they might have to the draft merger agreement, along with their debt and equity commitment letters, by April 25, 2005, several days in advance of the final bid date.

On or about April 22, 2005, management of the Company and representatives of Goldman Sachs again contacted each of the three bidding groups to provide them with an update as to the status of the credit card transaction process. The terms of a potential credit card transaction were discussed with each bidding group in an effort to ensure that each group s final bids fully accounted for the value to the Company expected to be created through the credit card transaction. As of the date of this proxy statement, the Company and its representatives continue to pursue the potential credit card transaction.

On or about April 25, 2005, comments to the merger agreement were received from all three bidding groups, along with their respective debt and equity commitment letters. During the week of April 25, 2005, in advance of receipt of revised financial terms of the bid proposals, representatives of Simpson Thacher & Bartlett engaged in negotiations with outside legal counsel to each of the three bidding groups to identify aspects of their proposals which raised issues for the Company and to attempt to narrow the legal issues presented in the revised merger agreement drafts submitted by each bidder. In addition, each of the three bidding groups requested, as part of their response to the draft, that Richard A. Smith, our Chairman, and members of his family who own shares of the Company s common stock enter into a stockholder agreement concurrently with the merger agreement, pursuant to which each of these persons would vote such shares in favor of adoption of the merger agreement and against any competing transaction. In connection with these requests, Simpson Thacher & Bartlett informed each bidding group that the Smith Family was being represented by Goulston & Storrs and that the bidding group should submit a proposed stockholder agreement to Goulston & Storrs for its consideration. On or about April 27, 2005, each bidding group submitted a proposed stockholder agreement to Goulston & Storrs.

At a meeting of the board of directors on April 27, 2005, Mr. Tansky reported to our board of directors that each of the potential purchasers had, in the context of recent management meetings relating to the diligence process, generally confirmed his and other members of management s willingness to remain with the Company following any acquisition and their receptivity to converting some portion of their current equity interests in the Company into equity in the surviving corporation. Mr. Tansky explained that discussions were preliminary in nature. Mr. Tansky and management did not have discussions regarding the terms and conditions of any employment arrangements or equity investment by management in the entity to be formed by the potential purchasers to effect the proposed acquisition, other than to the extent that Mr. Tansky indicated his willingness to extend his employment term and such purchasers explained the general way in which they typically structured the equity investment by management and the options to be granted to management. Mr. Tansky responded to questions and then excused himself from the meeting. The board discussed the matter and subsequently conveyed to Mr. Tansky their desire, which was realized, that no further discussions between the management and any bidding group occur prior to board authorization of a definitive agreement.

On April 29, 2005, the Company received written bid proposals from each of the three bidding groups. At this time the bidding group consisting of TPG and Warburg Pincus submitted a proposal for the entire Company of $100.00 per share. The TPG/Warburg Pincus bid was conditioned on the Smith Family Holders entering into a stockholder agreement on the terms previously described. This group s bid was not conditioned upon its ability to obtain the proceeds from its proposed debt financing, but it was conditioned on the occurrence of a marketing period as described below under The Merger Agreement Effective Time; The Marketing Period . Each of the other two bidding groups submitted proposals for a price per share less than $100.00 and with conditions similar or less favorable to the Company than those proposed by the TPG/Warburg Pincus group.

Later in the day on April 29, 2005, a meeting of the Company s board of directors was convened to discuss the three bid proposals received. Representatives of Goldman Sachs, JPMorgan and Simpson Thacher & Bartlett participated in this meeting. Representatives of Simpson Thacher & Bartlett reviewed for the Company s board of

directors a detailed summary of the material legal terms of the three proposals received, including the equity and debt financing commitment letters submitted by the bidding groups. Simpson Thacher & Bartlett and representatives of Goldman Sachs and JPMorgan further discussed the relative strength of the commitment letters delivered by the TPG/Warburg Pincus group. The Company s board of directors discussed, among other things, the price per share proposed by each bidding group, the conditions to closing proposed by each of the bidders, the execution risks relating to each bid proposal and the other material changes made by each bidder to the draft merger agreement. Simpson Thacher & Bartlett, Goldman Sachs and JPMorgan responded to questions from the board of directors. After further discussions, the Company s board of directors determined to continue negotiations with the TPG/Warburg Pincus group and directed the Company s management and advisors to seek to reduce the conditionality associated with that group s proposed debt commitments and merger agreement terms.

Following the April 29, 2005 board meeting, representatives of Goldman Sachs and Simpson Thacher & Bartlett contacted representatives of TPG/Warburg Pincus and their legal counsel, Cleary Gottlieb Steen & Hamilton LLP, to communicate the need for them to further reduce conditionality inherent in their debt commitments and proposed merger agreement terms. On April 30 and May 1, 2005, these negotiations continued, and the TPG/Warburg Pincus group proposed, in the aggregate, improved terms with respect to both its debt commitments and the merger agreement.

Also on April 30, 2005, each of the other two bidding groups communicated to Goldman Sachs an increase in their bid price per share. Each of the increased bids was still less than the $100 per share price being offered by TPG/Warburg Pincus, and the terms of each bid, including with respect to conditionality, continued to be, on the whole, no more favorable to the Company in any material respect than those terms being proposed by the TPG/Warburg Pincus group. Pursuant to the direction given by the board of directors, Goldman Sachs informed each of the other bidding groups that the Company was currently focusing its attention elsewhere.

On May 1, 2005, the Company s board of directors convened to consider whether to approve the transaction being proposed by the TPG/Warburg Pincus group. Representatives of Simpson Thacher & Bartlett again discussed with the Company s board of directors the legal duties of directors in connection with an extraordinary transaction such as the proposed merger. Representatives of Goldman Sachs provided an update regarding the sale process and the negotiations that had taken place since the board of directors last met on April 29, 2005. Representatives from Goldman Sachs also indicated that it would be providing bridge financing with respect to the proceeds expected to be received in connection with a credit card divestiture in the event that a credit card transaction was not completed prior to the closing of the merger, and that Goldman Sachs further expected to participate in a lead role with respect to the debt financing obtained by the TPG/Warburg Pincus group. Simpson Thacher & Bartlett explained that Goldman Sachs would not be providing an opinion as to the fairness of the transaction given its role as one of the lead financing sources in financing the TPG/Warburg Pincus transaction, but that it would be available following a presentation by JPMorgan to summarize the sale process and respond to questions from the board of directors regarding its discussions with the board at prior meetings in connection with the strategic review process.

Representatives of JPMorgan then reviewed and analyzed, among other matters, the financial aspects of the TPG/Warburg Pincus proposal and, on a comparative basis, the strategic alternative of a recapitalization. Representatives of JPMorgan responded to questions from the Company s board of directors and further discussed, among other things, considerations associated with engaging in a leveraged buyout transaction. The Company s board of directors discussed the JPMorgan presentation and asked additional questions regarding the implications of engaging in a leveraged buyout transaction.

Representatives of Goldman Sachs then summarized for the board of directors the full sale process, indicating that Goldman Sachs had contact with or had otherwise received unsolicited inquiries from approximately 22 parties outside of the financial sponsors that formed the four bidding groups. Nearly all of these parties with whom contact was made were potential strategic acquirers, and Goldman Sachs reported that none of these parties expressed any meaningful level of interest. Goldman then discussed with the board of directors an update on its prior work and responded to questions.

Table of Contents

Representatives of Simpson Thacher & Bartlett reviewed for the board of directors in detail the terms of the merger agreement and other legal aspects of the proposal by the TPG/Warburg Pincus group, including a detailed discussion of their debt financing commitments. The Company s board of directors discussed the TPG/Warburg Pincus group s proposed terms, as well as the risk and benefits of proceeding with a business combination transaction with TPG/Warburg Pincus relative to other alternatives available to the Company. Simpson Thacher & Bartlett, Goldman Sachs and JPMorgan responded to questions from the board of directors.

After further discussions, the Company s board of directors requested that JPMorgan render an opinion as to whether the proposed merger with the TPG/Warburg Pincus group was fair from a financial point of view to the Company s Class A and Class B stockholders (other than members of the Smith Family Holders). JPMorgan delivered to the Company s board of directors an oral opinion, which was subsequently confirmed by delivery of a written opinion dated May 1, 2005, that, as of such date and based upon and subject to the factors and assumptions set forth in the written opinion, the consideration to be received by the holders (other than the Smith Family Holders) of the Company s common stock in the proposed merger, was fair, from a financial point of view, to such holders. The full text of the written opinion of JPMorgan, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with such opinion, is attached as Annex C to this proxy statement. Following additional discussion and deliberation, the board of directors unanimously approved the merger agreement, the stockholder agreement and the transactions contemplated by each agreement and unanimously resolved to recommend that the Company s stockholders vote to adopt the merger agreement.

The merger agreement was executed by the Company, Parent and Merger Sub and the stockholder agreement was executed by Parent, Merger Sub and the stockholders party thereto, in each case, as of May 1, 2005. On May 2, 2005, prior to the opening of trading on the NYSE, the Company, TPG and Warburg Pincus issued a joint press release announcing the transaction.

Reasons for the Merger

In reaching its decision to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement, and to recommend that the Company s stockholders vote to adopt the merger agreement, the board of directors of the Company consulted with management and its financial and legal advisors. The board of directors considered a number of factors and potential benefits of the merger including, without limitation, the following:

- the current and historical market prices of the Company s common stock, and the fact that the $100.00 per share to be paid for each share of the Company s common stock in the merger represents a substantial premium to those historical trading prices, a premium of 33.8% to the closing price on March 15, 2005, the last trading day before the Company announced it was exploring strategic alternatives, and a premium of 41.9% to the average closing price for the three months ended March 15, 2005;

- the possible alternatives to the sale of the Company, including continuing to operate the Company on a stand-alone basis or engage in a recapitalization, and the risks associated with such alternatives, each of which the board of directors determined not to pursue in light of its belief, and the belief of the Company s management, that the merger maximized stockholder value and was more favorable to the stockholders than any other alternative reasonably available to the Company and its stockholders;

- the recent evaluation by the board of directors of the Company s strategic plan, as well as the execution risks related to achieving that plan, compared to the risks and benefits of the transaction;

Table of Contents

the extensive sale process conducted by the Company, with the assistance of Goldman Sachs, which involved engaging in discussions with approximately 30 parties to determine their potential interest in a business combination transaction with the Company, entering into confidentiality agreements with nine parties and the receipt of three definitive proposals to acquire the Company;

the price proposed by the TPG/Warburg Pincus group represented the highest price that the Company had received for the acquisition of the Company;

the fact that the merger consideration is all cash, so that the transaction will allow the Company s stockholders to immediately realize a fair value, in cash, for their investment and will provide such stockholders certainty of value for their shares;

the presentation of JPMorgan, including its opinion that, as of the date of its opinion and based upon and subject to the factors and assumptions set forth in such opinion, the consideration to be received by the holders (other than the Smith Family Holders) of the Company s Class A and Class B common stock in the proposed merger is fair, from a financial point of view, to such holders (see The Merger Opinion of JPMorgan and Annex C to this proxy statement);

the fact that certain stockholders affiliated with the family of Richard A. Smith, Chairman of the Company s board of directors, and collectively, the Company s largest stockholder, supported, and agreed to vote their shares in favor of, the adoption of the merger agreement;

the terms of the merger agreement, including without limitation:

- o the limited number and nature of the conditions to Parent and Merger Sub s obligation to consummate the merger and the limited risk of non-satisfaction of such conditions, including that for purposes of the merger agreement a material adverse effect on the Company does not include circumstances resulting from changes in the general economic conditions or general changes in the industries in which we operate unless, in each case, the changes have a disproportionate effect on us and our subsidiaries taken as a whole relative to other industry participants;

- o the provisions of the merger agreement that allow the board of directors, under certain limited circumstances if required to comply with its fiduciary duties under applicable law, to change its recommendation that the Company s stockholders vote in favor of the adoption of the merger agreement;

- o the provisions of the merger agreement that allow the Company, under certain limited circumstances if required to comply with its board of directors fiduciary duties under applicable law, to furnish information to and conduct negotiations with third parties;

- o the provisions of the merger agreement that provide the board of directors the ability to terminate the merger agreement in order to accept a financially superior proposal (subject to negotiating with Parent in good faith and paying Parent the $140.3 million termination fee);

- o the conclusion of the board of directors that both the $140.3 million termination fee (and the circumstances when such fee is payable) and the requirement to reimburse Parent for certain expenses, up to a limit of $20 million, in the event that the merger agreement is terminated because the Company s stockholders fail to adopt the merger agreement, were reasonable in light of the benefits of the merger, the auction process conducted by the Company with the assistance of Goldman Sachs and commercial practice;

- the obligation of Parent to pay the Company a $140.3 million termination fee if Parent and Merger Sub fail to effect the closing because of a failure to receive the proceeds of one or more of the debt financings contemplated by the debt financing commitments or because of their refusal to accept debt financing on terms materially less beneficial to Merger Sub than the terms set forth in one or more of the debt financing commitments and all other conditions to closing are met; and

- o the ability of the Company to seek up to an aggregate of $500 million in damages from Parent and Merger Sub in certain circumstances in which Parent or Merger Sub breach the merger agreement;

the strength of debt commitment letters obtained by Parent, including the absence of market outs ;

the fact that the non-financial terms of the proposals received by the other two bidding groups were, in the aggregate, no more favorable to the Company than the proposal by the TPG/Warburg Pincus group, including as to conditionality; and

the availability of appraisal rights to holders of our common stock who comply with all of the required procedures under Delaware law, which allows such holders to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery (see Rights of Appraisal and Annex D).

The board of directors also considered and balanced against the potential benefits of the merger a number of potentially adverse factors concerning the merger including, without limitation, the following:

the risk that the merger might not be completed in a timely manner or at all, including the risk that the merger will not occur if the financing contemplated by the debt commitment letters is not obtained;

the interests of the Company s executive officers and directors in the merger (see Interests of the Company s Directors and Executive Officers in the Merger);

the fact that the Company s stockholders will not participate in any future earnings or growth of the Company and will not benefit from any appreciation in value of the Company;

the restrictions on the conduct of the Company s business prior to completion of the merger, requiring the Company to conduct its business only in the ordinary course, subject to specific limitations or Parent consent, which may delay or prevent the Company from undertaking business opportunities that may arise pending completion of the merger;

the merger consideration consists of cash and will therefore be taxable to our stockholders for U.S. federal income tax purposes;

the restrictions on our ability to solicit or engage in discussions or negotiations with a third party regarding specified transactions involving the Company and the requirement that the Company pay Parent a $140.3 million termination fee in order for the board of directors to accept a superior proposal;

the requirement that the Company reimburse Parent for up to $20 million of its expenses incurred in connection with the proposed merger if the Company s stockholders do not adopt the merger agreement and the merger;

the risk of diverting management focus and resources from other strategic opportunities and from operational matters while working to implement the merger; and

the possibility of management and employee disruption associated with the merger.

After taking into account all of the factors set forth above, as well as others, the board of directors agreed that the benefits of the merger outweigh the risks and that the merger agreement and the merger are advisable and fair and in the best interests of the Company and its stockholders. **The board of directors has unanimously approved the merger agreement and the merger and recommends that the Company s stockholders vote to adopt the merger agreement at the special meeting.**

The board of directors did not assign relative weights to the above factors or the other factors considered by it. In addition, the board of directors did not reach any specific conclusion on each factor considered, but conducted an overall analysis of these factors. Individual members of the board of directors may have given different weights to different factors.

Table of Contents

Recommendation of the Company s Board of Directors

After careful consideration, the Company s board of directors, by unanimous vote:

has determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable, fair to and in the best interests of the Company and its stockholders;

has approved the merger agreement; and

recommends that Neiman Marcus stockholders vote FOR the adoption of the merger agreement.

Opinion of JPMorgan

The Company retained JPMorgan as its financial advisor in connection with the proposed merger and to deliver a fairness opinion in connection with the proposed merger.

At the meeting of the board of directors of the Company on May 1, 2005, JPMorgan rendered its oral opinion, which opinion was confirmed by delivery of a written opinion dated May 1, 2005, to the board of directors of the Company that, as of such date and based upon and subject to the factors and assumptions set forth in its opinion, the consideration to be paid to the Company s Class A stockholders and Class B stockholders, other than the Smith Family Holders, in the proposed merger was fair, from a financial point of view, to such stockholders. No limitations were imposed by the Company s board of directors upon JPMorgan with respect to the investigations made or procedures followed by it in rendering its opinion.

The full text of the written opinion of JPMorgan dated May 1, 2005, which sets forth the assumptions made, matters considered and limits on the review undertaken, is attached as Annex C to this proxy statement and is incorporated herein by reference. **The Company s stockholders are urged to read the opinion in its entirety. JPMorgan s written opinion is addressed to the board of directors of the Company, is directed only to the fairness, from a financial point of view, of the consideration to be paid in the merger and does not constitute a recommendation to any stockholder of the Company as to how such stockholder should vote at the Company special meeting, whether such stockholder should exercise any dissenter s rights or appraisal rights with respect to the merger, or any other matter. The summary of the opinion of JPMorgan set forth in this proxy statement is qualified in its entirety by reference to the full text of such opinion.**

In arriving at its opinion, JPMorgan, among other things:

reviewed the merger agreement;

reviewed certain documents provided to it by Parent with respect to its expected sources of equity and debt financing;

reviewed certain publicly available business and financial information concerning the Company and the industries in which it operates;

compared the proposed financial terms of the merger with the publicly available financial terms of certain transactions involving companies JPMorgan deemed relevant and the consideration received for such companies;

compared the financial and operating performance of the Company with publicly available information concerning certain other companies JPMorgan deemed relevant and reviewed the current and historical market prices of the Company s common stock and certain publicly traded securities of such other companies;

reviewed certain internal financial analyses and forecasts prepared by the management of the Company relating to its business; and

performed such other financial studies and analyses and considered such other information as JPMorgan deemed appropriate for the purposes of its opinion.

JPMorgan also held discussions with certain members of the management of the Company with respect to certain aspects of the merger, and the past and current business operations of the Company, the financial condition and future prospects and operations of the Company, and certain other matters JPMorgan believed necessary or appropriate to its inquiry.

JPMorgan relied upon and assumed, without assuming responsibility or liability for independent verification, the accuracy and completeness of all information that was publicly available or was furnished to or discussed with JPMorgan by the Company or otherwise reviewed by or for JPMorgan. JPMorgan did not conduct, and was not provided with, any valuation or appraisal of any assets or liabilities, nor did it evaluate the solvency of the Company or Parent under any state or federal laws relating to bankruptcy, insolvency or similar matters. In relying on financial analyses and forecasts provided to it, JPMorgan assumed that they were reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by management as to the expected future results of operations and financial condition of the Company to which such analyses or forecasts relate, including that if the Company were to sell, outsource or otherwise dispose of the Company s credit card operations prior to the consummation of the merger, such transaction would occur on substantially the terms management had described to JPMorgan. JPMorgan expressed no view as to such analyses or forecasts or the assumptions on which they were based. JPMorgan also assumed that the merger and the other transactions contemplated by the merger agreement will be consummated as described in the merger agreement. JPMorgan relied as to all legal matters relevant to the rendering of its opinion upon the advice of counsel. JPMorgan further assumed that all material governmental, regulatory or other consents and approvals necessary for the consummation of the merger will be obtained without any adverse effect on the Company.

JPMorgan s opinion is based on economic, market and other conditions as in effect on, and the information made available to JPMorgan as of, the date of such opinion. Subsequent developments may affect JPMorgan s opinion, and JPMorgan does not have any obligation to update, revise, or reaffirm such opinion. JPMorgan s opinion is limited to the fairness, from a financial point of view, of the consideration to be received by the Company s Class A stockholders and Class B stockholders, other than the Smith Family Holders, in the proposed merger, and JPMorgan expresses no opinion as to the fairness of the merger to, or any consideration of, the holders of any other class of securities, creditors or other constituencies of the Company or the underlying decision by the Company to engage in the merger. JPMorgan s opinion does not address the allocation of the consideration to be received in the proposed merger among the holders of the Class A common stock and Class B common stock, respectively. JPMorgan expresses no opinion as to the price at which the Company s common stock will trade at any future time.

While management of the Company provided JPMorgan with certain information regarding certain other offers to purchase the Company, JPMorgan was not authorized to and did not solicit any expressions of interest from the parties making those other offers or any other parties with respect to the sale of all or any part of the Company or any other alternative transaction, nor did it participate in negotiations with respect to the terms of the merger and related transactions. JPMorgan expressed no opinion as to the relative merits of the merger as compared to alternative transactions or strategies that might be available to the Company or whether any alternative transaction might produce consideration for the Company s stockholders in an amount in excess of that contemplated by the merger.

In accordance with customary investment banking practice, JPMorgan employed generally accepted valuation methods in reaching its opinion. The following is a summary of the material financial analyses utilized by JPMorgan in connection with providing its opinion. **Some of the summaries of the financial analyses**

include information presented in tabular format. To fully understand the financial analyses, the tables should be read together with the text of each summary. Considering the data set forth in the tables without considering the narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses.

Public Trading Multiples. JPMorgan performed a public trading multiples analysis, which attempts to provide an implied value for the Company by comparing it to other publicly traded companies. Using publicly available information, JPMorgan compared selected financial data of the Company with similar data for selected publicly traded companies engaged in businesses which JPMorgan judged, based on its experience in the retail industry, to be reasonably comparable to the Company. The companies selected by JPMorgan were:

Dillard s, Inc.
Federated Department Stores, Inc.
J. C. Penney Company, Inc.
Kohl s Corporation
The May Department Stores Company
Nordstrom, Inc.
Saks Incorporated
Target Corporation
Wal-Mart Stores, Inc.

The selection process gives weight to several factors, including but not limited to lines of business, relative business risks, growth prospects, size, scale and market positioning. JPMorgan noted that none of the selected companies is either identical or directly comparable to the Company and that any analysis of selected companies necessarily involves complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading of the selected companies. For each selected company, JPMorgan used publicly available information and equity research estimates to calculate firm value as a multiple of estimated 2005 and 2006 earnings before interest, taxes, depreciation and amortization, which is referred to as EBITDA, and to calculate the ratio of stock price as of April 29, 2005 to earnings per share for each selected company. The firm value of each selected company was calculated by JPMorgan as market value as of April 29, 2005 plus net debt (i.e., total debt minus cash) plus the book value of minority interest as of each company s last publicly filed balance sheet. These financial statistics were calendarized for a January 31 year-end and yielded the following reference ranges:

	High	Mean	Median	Low
Firm value/				
2005E EBITDA	9.8x	7.7x	7.6x	5.9x
2006E EBITDA	8.3x	7.1x	7.5x	5.6x
Price/				
2005E EPS	25.9x	18.2x	17.3x	12.5x
2006E EPS	21.5x	15.9x	15.2x	11.8x

Based on various judgments concerning the financial and operating characteristics of, and other factors affecting, the selected companies as compared with the Company, JPMorgan did not rely solely on the quantitative results of the public trading multiples analysis in developing a reference range or otherwise applying its analysis. JPMorgan, based on its experience with mergers and acquisitions and companies in the department store industry and taking into account the ranges expressed above, historical trading and financial data for the Company, and a statistical regression analysis that assesses the relationship between forward price to earnings ratios and total return (i.e, long-term earnings growth rate plus dividend yield) for the selected companies, selected a range of multiples of price to earnings per share that it believed reflected an appropriate range of multiples applicable to the Company. JPMorgan applied a selected range of multiples of price to earnings per share of 11.5x to 14.5x to the Company s financial projections for 2005 earnings per share, as prepared by the management of the Company (including adjustments for the assumed consummation of the sale, outsourcing or disposal of the Company s credit card operations), which yielded implied trading values for the Company s common stock of approximately $66.00 to $81.00 per share. JPMorgan noted that the per share merger consideration for the Company s common stock was $100.00.

Table of Contents

Selected Transaction Analysis. Using publicly available information, JPMorgan examined selected transactions within the department store industry and selected leveraged buyout transactions that JPMorgan, based on its experience with mergers and acquisition analysis, deemed relevant to arriving at its opinion. Specifically, JPMorgan reviewed the following transactions:

Selected Department Store Transactions

Target	Acquirer
The May Department Stores Company	Federated Department Stores, Inc.
Société Anonyme des Galeries Lafayette	BNP Paribas
Barneys New York, Inc.	Jones Apparel Group, Inc.
Marshall Field s	The May Department Stores Company
Debenhams plc	Baroness Retail Limited
Selfridges plc	Omni Whittington Capital Management Ltd
Lands End, Inc.	Sears Holdings Corporation
Saks Incorporated	Proffitt s, Inc.
Mercantile Stores Company, Inc.	Dillard s, Inc.

Selected Leveraged Buyout Transactions

Target	Acquirer
SunGard® Data Systems Inc.	Silver Lake Partners, Bain Capital, LLC, The Blackstone Group, Inc., GS Capital Partners, Kohlberg Kravis Roberts & Co., Providence Equity Partners Inc., Texas Pacific Group
Toys R Us, Inc.	Bain Capital, LLC, Kohlberg Kravis Roberts & Co., Vornado Realty Trust
Warner Chilcott PLC	J.P. Morgan Partners, LLC, DLJ Merchant Banking Partners, Bain Capital, LLC, Thomas H. Lee Partners L.P.
Intelsat, Ltd.	Apax Partners, Inc., Madison Dearborn Partners, LLC, Apollo Advisors, L.P., Permira Advisers Limited
Metro-Goldwyn-Mayer Inc.	Sony Corporation, Providence Equity Partners, Inc., Texas Pacific Group, DLJ Merchant Banking Partners, Comcast Studio Investments Inc.
PanAmSat Holding Corporation	Kohlberg Kravis Roberts & Co.
FTD, Inc.	Leonard Green & Partners, L.P.

Table of Contents

JPMorgan chose the department store transactions used in its analysis based on the relative similarity of the financial and operating characteristics of the target companies to the Company. JPMorgan chose the leveraged buyout transactions used in its analysis based on the nature and relative size of the transactions. JPMorgan calculated latest-twelve-months sales and EBITDA transaction value multiples for the Department Store transactions and latest-twelve-months EBITDA transaction value multiples for the leveraged buyout transactions, which yielded the following reference ranges:

Department Store Transactions

	High	Mean	Median	Low
Transaction value/				
LTM Sales	1.51x	1.09x	1.13x	0.58x
LTM EBITDA	14.8x	10.2x	10.4x	6.8x

Selected Leveraged Buyout Transactions

	High	Mean	Median	Low
Transaction value/				
LTM EBITDA	12.5x	9.6x	9.8x	7.4x

Based on various judgments concerning the relative comparability of each of the selected transactions to the merger, JPMorgan did not rely solely on the quantitative results of the selected transaction analysis in developing a reference range or otherwise applying its analysis. JPMorgan, based on its experience with mergers and acquisitions and the department store industry, and using the department store transaction multiples and the selected leveraged buyout transactions as a general guide, selected a range of multiples of transaction values to last twelve months EBITDA that it believed reflected an appropriate range of transaction multiples applicable to the Company. JPMorgan multiplied a selected range of transaction multiples of 7.5x to 10.0x by the Company s EBITDA for the twelve months ended January 29, 2005, (including adjustments for the assumed consummation of the sale, outsourcing or disposal of the Company s credit card operations) and then subtracted net debt and minority interest and divided that amount by the number of fully diluted shares of the Company to arrive at a range of per share equity values for the Company. This selected transaction analysis indicated an estimated range of equity values for the Company s common stock of between $82.00 and $105.00 per share. JPMorgan noted that the per share merger consideration for the Company s common stock was $100.00.

Discounted Cash Flow Analysis. JPMorgan conducted a discounted cash flow analysis for the purpose of determining the fully diluted equity value per share for the Company s common stock by calculating the sum of the present values of the estimated future cash flows that could be generated by the Company in the future. JPMorgan calculated the unlevered after-tax free cash flows (i.e., unlevered net income plus depreciation, minus total capital expenditures and minus increases in net working capital) that the Company is expected to generate during fiscal years 2006 through 2015 based upon financial projections prepared by the management of the Company through the years ended 2010 and with management guidance through the years ended 2015. The financial projections provided by management to JPMorgan reflected compound annual growth rates in revenues of 8.0% from fiscal years 2005 through 2010 and EBITDA margins varying between 13.8% and 14.3% for fiscal years 2006 through 2010. Management guidance through the fiscal years ended 2015 was consistent with the financial projections prepared by management for the fiscal years 2006 through 2010 subject to modestly declining growth rates during these fiscal years. JPMorgan also calculated a range of terminal asset values of the Company (i.e., the value of unlevered after-tax free cash flows occurring after the end of the 10-year period ending 2015) by applying a perpetual growth rate ranging from 1.25% to 1.75% of the unlevered after-tax free cash flow of the Company during the final year of the 10-year period. The unlevered after-tax free cash flows and the range of terminal asset values were then discounted to present values using a range of discount rates from 9.5% to 10.5%, which were chosen by JPMorgan based upon an analysis of the weighted average cost of capital of the Company. JPMorgan then estimated a range of firm values for the Company by adding the present value

of

the unlevered after-tax free cash flows for fiscal years 2006-2015 and the range of terminal asset values as of 2015 and adjusting for the assumed consummation of the sale, outsourcing or disposal of the Company s credit card operations. After adjusting for net debt and minority interest and dividing by the number of fully diluted shares of the Company, the discounted cash flow analysis indicated a range of equity values for the Company s common stock of approximately $93.00 to $107.00 per share. JPMorgan noted that the per share merger consideration for the Company s common stock was $100.00.

In addition to the financial analyses performed by JPMorgan in connection with providing its opinion, JPMorgan presented the following additional financial analyses at the request of the Company s board of directors:

Recapitalization Analysis. JPMorgan described certain hypothetical recapitalization transactions involving the Company and the value that the Company s shareholders could have received in such transactions. This analysis assumed that the Company used the proceeds of new debt financings to finance a cash tender offer of between $100 to $110 per share for approximately 30-40% of its outstanding shares. The amount of the indebtedness incurred was based upon pro forma leverage to achieve assumed BBB- and mid-BB credit ratings. The post-recapitalization trading value of the shares not purchased in the tender offer was based upon estimated price to earnings ratios of 12.5x to 15x after giving effect to the additional leverage and financial projections prepared by management and adjusted for the assumed consummation of the sale, outsourcing or disposal of the Company s credit card operations. The recapitalization analysis indicated a range of blended equity values of between $86.00 and $94.00 per share of the Company s common stock.

LBO Analysis. JPMorgan analyzed the implied equity returns that a financial buyer paying an offer price of $100 per share might achieve from the transaction over periods of three and five years, based upon financial projections prepared by management and adjusted for the assumed consummation of the sale, outsourcing or disposal of the Company s credit card operations and no adjustments relating to purchasers operation of the business, an assumed capital structure including initial leverage of funded debt to EBITDAR (i.e., earnings before interest, taxes, depreciation, amortization, and rent expense) of 6.5x and the completion of an exit transaction at the end of the applicable period at an exit multiple of 8.0x EBITDA. This analysis implied a 15.0% internal rate of return over three years and a 18.3% internal rate of return over five years.

The summary set forth above does not purport to be a complete description of the analyses or data presented by JPMorgan. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. JPMorgan believes that the summary set forth above and its analyses must be considered as a whole and that selecting portions thereof, without considering all of its analyses, could create an incomplete view of the processes underlying its analyses and opinion.

In arriving at its opinion, JPMorgan did not attribute any particular weight to any analyses or factors considered by it and did not form an opinion as to whether any individual analysis or factor (positive or negative), considered in isolation, supported or failed to support its opinion. Rather, JPMorgan arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole, and believes that the totality of the factors considered and analyses it performed in connection with its opinion operated collectively to support its determination as to the fairness of the merger consideration from a financial point of view.

JPMorgan based its analyses on assumptions that it deemed reasonable, including assumptions concerning general business and economic conditions and industry-specific factors. No company, transaction or business used in JPMorgan s analyses as a comparison is identical to the Company or the proposed merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed. The other principal assumptions upon which JPMorgan based its analyses are set forth above under the description of each such analysis. JPMorgan s analyses are not necessarily indicative of actual values or actual future results that might be achieved, which values may be higher or lower than those indicated. Moreover, JPMorgan s

analyses are not and do not purport to be appraisals or otherwise reflective of the prices at which businesses actually could be bought or sold.

Table of Contents

JPMorgan s opinion and financial analyses were only one of many factors considered by the Company s board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the Company s board of directors or management with respect to the merger or the merger consideration.

As a part of its investment banking business, JPMorgan and its affiliates are continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, investments for passive and control purposes, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for estate, corporate and other purposes. JPMorgan was selected to advise the Company with respect to the merger and deliver an opinion to the Company s board of directors with respect to the merger on the basis of such experience and its familiarity with the Company.

JPMorgan will receive a fee of $3,750,000 from the Company for its services which accrued upon completion of its work necessary to deliver, or advise the board of directors of the Company that it would be unable to render, its opinion and will be paid upon the earlier to occur of the consummation or termination or abandonment of the merger. In addition, the Company has agreed to reimburse JPMorgan for its expenses incurred in connection with its services, including the fees and disbursements of counsel, and will indemnify JPMorgan against certain liabilities, including liabilities arising under the Federal securities laws.

From time to time, JPMorgan and its affiliates have in the past provided, are currently providing and in the future may provide investment banking, commercial banking and other financial services to the Company, as well as the private investment firms whose affiliates are stockholders of Parent, and their respective portfolio companies or other affiliates, for which they have received, and would expect to receive, customary compensation. In particular, one of JPMorgan s commercial banking affiliates is an agent bank for the Company s existing credit facilities. JPMorgan and certain of its affiliates and certain of their respective employees and certain private investment funds affiliated or associated with them have invested in private equity funds managed or advised by the private investment firms whose affiliates are stockholders of Parent. In the ordinary course of its businesses, JPMorgan and its affiliates may actively trade the debt and equity securities of the Company, Parent, affiliates of the stockholders of Parent and any other company that may be involved in the merger, for their own account or for the accounts of customers and, accordingly, they may at any time hold long or short positions in such securities.

Financing

The Company and the Sponsors estimate that the total amount of funds necessary to complete the merger and the related transactions is anticipated to be approximately $5.4 billion, which includes approximately $5.1 billion to be paid out to the Company s stockholders and holders of other equity-based interests in the Company with the remainder to be applied to pay related fees and expenses in connection with the merger, the financing arrangements and the related transactions (including refinancing the Company s 6.65% Senior Notes Due 2008). These payments are expected to be funded by a combination of equity contributions by affiliates of the investors in Parent and debt financing as well as available cash of the Company (including cash available as a result of the completion of a credit card transaction or, alternatively, in the event such credit card transaction has not been completed by the closing date of the merger, borrowings under a bridge loan facility that is described in further detail below under Debt Financing Card Bridge Facility).

Parent has obtained equity and debt financing commitments for the transactions contemplated by the merger agreement, which are generally subject to customary conditions. After giving effect to contemplated draws by the Company under the new debt commitments, and taking into account the $125 million aggregate principal amount of the Company s 7.125% Senior Debentures Due 2028 that the Company and Parent intend to keep outstanding after completion of the merger, Parent currently expects total existing and new debt outstanding at closing of the merger transaction (excluding debt outstanding under the Company s proprietary credit card facility at closing, if any) will be approximately $3.2 billion, which amount may be increased (i) to the extent additional borrowings are available under the debt financing commitments if a specified ratio of adjusted total

debt on the closing date to pro forma EBITDAR (each as defined below under Debt Financing) is satisfied, (ii) in respect of drawings under the Card Bridge Facility described below in the event that a credit card transaction has not been completed by the closing date of the merger and (iii) in respect of certain drawings under the Asset-Based Revolving Facility described below on the closing date for working capital purposes.

Equity Financing

Affiliates of the Sponsors have collectively agreed to cause $1.55 billion of cash to be contributed to Merger Sub, which would constitute the equity portion of the merger financing. Each of TPG (through two of its affiliated funds) and Warburg Pincus (through three of its affiliated funds) has delivered an equity commitment letter for $775,000,000 to Newton Holding, LLC, and Newton Holding, LLC has in turn delivered an equity commitment letter to Merger Sub for $1.55 billion, the aggregate amount of the equity commitments. Each of the Sponsors may assign its commitment to purchase up to 49% of the equity interests in Newton Holding, LLC to other investors, so long as each such investor agrees to be bound by the obligations of the applicable Sponsor.

Each of the equity commitment letters provides that the equity funds will be contributed on or prior to the closing of the merger to fund a portion of the total merger consideration, pursuant to and in accordance with the merger agreement, and to satisfy any liabilities or obligations of Parent or Merger Sub arising out of or in connection with any breach by Parent or Merger Sub of their respective obligations under the merger agreement. Each of the equity commitments is generally subject to the satisfaction of the conditions to Parent and Merger Sub s obligations to effect the closing under the merger agreement. Each of the equity commitment letters will terminate upon termination of the merger agreement unless:

- the merger agreement is terminated by the Company due to a breach by either Parent or Merger Sub of any of its respective representations, warranties, covenants or agreements under the merger agreement such that the conditions to closing would not be satisfied; or

- the merger agreement is otherwise terminated pursuant to a breach by Parent or Merger Sub of their respective obligations under the merger agreement and the Company is not in breach of its obligations under the merger agreement.

In the event the merger agreement is terminated pursuant to a circumstance described in the foregoing two bullet points, then each of the equity commitment letters will terminate three months after the termination of the merger agreement except with respect to any claims arising from or in connection with any lawsuits filed by the Company against Parent or Merger Sub prior to the expiration of such three-month period.

Debt Financing

In connection with the execution and delivery of the merger agreement, Merger Sub has obtained commitments to provide up to $3.9 billion in debt financing (not all of which is expected to be drawn at closing) consisting of (1) a senior secured asset-based revolving facility with a maximum availability of $600 million (the Asset-Based Revolving Facility) and (2) term and bridge loan facilities and senior secured notes with an aggregate principal amount of up to $3.3 billion to finance, in part, the payment of the merger consideration, the repayment or refinancing of certain debt of the Company outstanding on the closing date of the merger and to pay fees and expenses in connection therewith and, in the case of the Asset-Based Revolving Facility, for general corporate purposes after the closing date of the merger. In addition, Merger Sub has obtained a commitment to provide up to $750 million under a limited recourse secured asset-based revolving credit facility relating to the Company s credit card operations to finance the acquisition of such business on the closing date of the merger in the event that the sale of such operations has not been completed on the closing date of the merger (the Card Bridge Facility).

The facilities and notes contemplated by the debt financing commitments are conditioned on the merger being consummated prior to the merger agreement termination date, as well as other customary conditions including:

- the absence of a material adverse change at the Company;
- the creation of security interests;
- the execution of satisfactory definitive documentation;
- receipt of an amount equal to at least 25% of the pro forma total consolidated capitalization of Parent (on the closing date of the merger) in equity or junior capital from equity investors, including affiliates of the Sponsors;
- completion of a borrowing base audit and delivery of appraisals in respect of the Asset-Based Revolving Facility;
- receipt of all required consents and approvals;
- the absence of any amendments or waivers to the merger agreement to the extent adverse to the lenders in any material respect which have not been approved by the agent;
- the reasonable satisfaction of the agent for the Asset-Based Revolving Facility with the cash management systems, blocked account agreements and lockbox agreements of the Company in connection with such facility;
- the absence of any default, event of default or breach of representation;
- certain maximum ratios of adjusted total debt (measured on the closing date and defined to exclude drawings under the Card Bridge Facility and certain drawings under the Asset-Based Revolving Facility on the closing date for working capital purposes but including an amount equal to 8 times annual rental expense and the Company s 7.125% Senior Debentures Due 2028) to pro forma EBITDAR (measured over the most recent four-fiscal quarter period ending at least 45 days prior to the closing date and defined as EBITDA for such period plus consolidated rental expense for such period and to include certain other adjustments), senior secured debt to pro forma EBITDAR and senior debt to pro forma EBITDAR (Parent has the right to reallocate amounts between the facilities in order to achieve compliance with these leverage ratio conditions) and, if the ratio of adjusted total debt to pro forma EBITDAR on the closing date would exceed a specified ratio, borrowings under the facilities and in respect of the notes will be available so long as maximum adjusted total debt shall not exceed $3.752 billion (or $3.768 billion in certain circumstances); and
- Parent having available to it under the Asset-Based Revolving Facility at least $300 million (less amounts drawn to fund the working capital needs at the closing of the merger) of unused borrowing capacity at closing, which requires a borrowing base at closing of at least that amount, determined based on specified percentages of the value of eligible inventory.

The Card Bridge Facility also has conditions requiring (x) the absence of a material adverse effect on the credit card profile or marketability of the credit card receivables and related matters, (y) the implementation of cash management procedures and (z) compliance with certain borrowing base requirements.

Parent has agreed to use its reasonable best efforts to arrange the debt financing on the terms and conditions described in the commitments and the merger agreement. In the event that any portion of the debt financing becomes unavailable on the terms and conditions contemplated in the commitment papers, Parent must

use its reasonable best efforts to arrange to obtain alternative financing from alternative sources in an amount sufficient to consummate the merger and other transactions contemplated by the merger agreement on terms not materially less beneficial to Merger Sub (as determined in the reasonable judgment of Parent) as promptly as practicable following the occurrence of such event but no later than the last day of the marketing period.

Asset-Based Revolving Facility

The commitment to provide the Asset-Based Revolving Facility was issued by Credit Suisse First Boston. Borrowings under the Asset-Based Revolving Facility are limited by a borrowing base, which is calculated periodically based on specified percentages of the value of eligible inventory, subject to adjustments for reserves and other matters. The Asset-Based Revolving Facility will be guaranteed by a direct, holding company parent of the surviving corporation (Holdings) and the U.S. subsidiaries (subject to certain exceptions) of the Company and will be secured by a perfected first priority lien on substantially all personal property of Holdings, the Company and the U.S. subsidiaries consisting of inventory, cash, deposit accounts and proceeds of the foregoing and a second priority lien on capital stock, real estate, accounts receivable (other than credit cards receivables) and other assets. The borrower may borrow under the Asset-Based Revolving Facility on the closing date (i) up to $150.0 million for purposes of financing the merger and related transactions (including payment of the aggregate merger consideration, the repayment or refinancing of some of the Company s currently outstanding debt and all related fees and expenses), but only to the extent that the aggregate principal amount of the term loan facilities and senior secured notes shall have been reduced on a dollar-for-dollar basis by the amount of such borrowing, (ii) to fund certain upfront fees and/or original issue discount in respect of the debt financing, (iii) to fund an amount equal to the excess, if any, of the working capital of the borrower as of the closing date over the working capital of the borrower as of July 31, 2005 (in each case, with working capital to exclude current assets and current liabilities relating to any credit card receivables) and (iv) in respect of certain letters of credit.

Term Loan Facility and the Senior Secured Notes

The commitment to provide the term loan facility and to purchase the senior secured notes was issued by Credit Suisse First Boston. Borrowings under the term loan facility will be made on the closing date, and the senior secured notes will be issued on the closing date. The term loan facility and the senior secured notes will be guaranteed by Holdings and the U.S. subsidiaries (subject to certain exceptions) of the Company and will be secured by a second priority lien on substantially all personal property of Holdings, the Company and the U.S. subsidiaries of the Company consisting of inventory, cash, deposit accounts and proceeds of the foregoing, and a perfected first priority lien on capital stock, real estate, accounts receivable (other than credit cards receivables) and other assets.

Bridge Facilities

The commitment to provide the bridge facilities was issued by Credit Suisse First Boston. Borrowings under the bridge facilities will be used by Parent in a single draw on the closing date in the event that Parent does not complete other contemplated permanent financings at or prior to such time. The bridge facilities will be guaranteed (on a senior subordinated basis, in the case of the senior subordinated bridge facility) by Holdings and the U.S. subsidiaries of the Company.

Card Bridge Facility

The commitment to provide the Card Bridge Facility was issued by Goldman Sachs Mortgage Company. If the credit card transaction is not consummated prior to the closing date, the proceeds of borrowing under the Card Bridge Facility on the closing date will be available for distribution to the Company to finance in part the merger and related transactions. The borrower under the Card Bridge Facility will be Neiman Marcus Funding Corporation, a subsidiary of the Company that currently facilitates the Company s proprietary credit card facility (or,

Table of Contents

alternatively, another special purpose subsidiary of the Company to which will be transferred the retained interest in the Neiman Marcus Group Credit Card Master Trust, the trust that facilitates the Company s current proprietary credit card facility). The Card Bridge Facility will be generally non-recourse to the Company except in the case of a breach by the Company of certain covenants, representations, warranties and undertakings. The Card Bridge Facility will be secured by a first priority security interest in the retained interest in the trust to the extent permitted by the current facility if any obligations thereunder are outstanding on the closing date. Borrowings under the Card Bridge Facility will be limited by a borrowing base, which is calculated based on the value of the outstanding receivables held by the Neiman Marcus Group Credit Card Master Trust minus any outstanding priority liabilities of the trust (or, alternatively, on the value of the retained interest in the trust that is transferred to the special purpose subsidiary borrower), in either case subject to adjustment for reserves and other matters.

Existing Senior Notes and Debentures

In May 1998, the Company issued $250 million of unsecured senior notes and debentures to the public. This debt is comprised of $125 million of 6.65% senior notes, due 2008 and $125 million of 7.125% senior debentures, due 2028. Parent s financing arrangements contemplate that in connection with the merger transactions, the surviving corporation will redeem all of the Company s 6.65% senior notes, due 2008 or otherwise fully satisfy and discharge such indebtedness. The entire principal amount of the existing 7.125% senior debentures, due 2028 will remain outstanding after completion of the merger and will be equally and ratably secured by certain assets constituting the collateral securing obligations under the new Senior Secured Notes described above to the extent required pursuant to the terms of the indenture governing the existing senior debentures.

Interests of the Company s Directors and Executive Officers in the Merger

In considering the recommendation of the Company s board of directors with respect to the merger, you should be aware that some of the Company s directors and executive officers have interests in the merger that are different from, or in addition to, the interests of our stockholders generally. These interests, to the extent material, are described below. The Company s board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement and the merger.

Treatment of Stock Options

As of the record date, there were approximately **[•]** shares of our common stock subject to stock options granted under our equity incentive plans to our current executive officers and directors. Each outstanding stock option that remains unexercised as of the completion of the merger, whether or not the option is vested or exercisable, will be canceled (to the extent permitted under the governing stock plan documents and related award agreements), and the holder of such stock option that has an exercise price of less than $100.00 will be entitled to receive a cash payment, without interest and less applicable withholding taxes, equal to the product of:

- the number of shares of our common stock subject to the option as of the effective time of the merger, multiplied by
- the excess, if any, of $100.00 over the exercise price per share of common stock subject to such option.

Table of Contents

The following table summarizes the vested and unvested options with exercise prices of less than $100.00 per share held by our executive officers and directors as of May 17, 2005 and the consideration that each of them will receive pursuant to the merger agreement in connection with the cancellation of their options:

	No. of Shares Underlying Vested and Unvested Options	Weighted Average Exercise Price of Vested and Unvested Options	Resulting Consideration[1]
Directors:			
John R. Cook			
Gary L. Countryman			
Matina S. Horner			
Brian J. Knez	55,500	$27.25	$4,037,625
Vincent M. O Reilly			
Walter J. Salmon			
Carl Sewell			
Richard A. Smith			
Robert A. Smith	55,500	$27.25	$4,037,625
Paula Stern			
Burton M. Tansky[2]	489,200	$30.55	$33,977,150
Executive Officers:			
Nelson A. Bangs	37,377	$38.77	$2,286,070
Steven P. Dennis	12,497	$57.12	$535,907
Marita O Dea Glodt	31,442	$36.73	$1,989,450
James J. Gold	28,600	$42.85	$1,634,580
Brendan L. Hoffman	100,542	$44.62	$5,568,470
Karen W. Katz	146,500	$34.66	$9,571,694
James E. Skinner	81,100	$33.71	$5,369,270

[1] The amounts set forth in this Resulting Consideration column are calculated based on the actual exercise prices underlying the related options, as opposed to the weighted average exercise price per share of vested and unvested options.

[2] Mr. Tansky also serves as the President and Chief Executive Officer of the Company.

Treatment of Restricted Stock and Stock Units

As of the record date, there were approximately [•] shares of our common stock represented by restricted stock and stock unit awards held by our executive officers and directors under our equity incentive plans. Under the terms of the merger agreement, all such equity awards shall become immediately vested and free of restrictions effective as of the completion of the merger. At the effective time of the merger, any such equity award that is then outstanding will be canceled, and the holder of each such award will receive a cash payment of $100.00 per share of restricted stock or $100.00 per share of common stock subject to a stock unit, without interest and less any applicable withholding taxes.

Table of Contents

The following table summarizes the restricted stock and stock unit awards held by our executive officers and directors as of May 17, 2005 and the consideration that each of them will receive pursuant to the merger agreement in connection with the cancellation of such awards:

	No. of Shares of Restricted Stock and Stock Units	No. of Shares of Purchased Restricted Stock and Purchased Restricted Stock Units[1]	Resulting Consideration[2]
Directors:			
John R. Cook			
Gary L. Countryman			
Matina S. Horner			
Brian J. Knez			
Vincent M. O Reilly			
Walter J. Salmon			
Carl Sewell			
Richard A. Smith			
Robert A. Smith			
Paula Stern			
Burton M. Tansky	64,290	79,090	$11,527,663
Executive Officers:			
Nelson A. Bangs	5,767	4,016	$879,722
Steven P. Dennis	2,777	2,762	$385,888
Marita O Dea Glodt	7,718	4,901	$1,093,995
James J. Gold	17,937	15,155	$2,633,054
Brendan L. Hoffman	7,529	5,265	$1,144,227
Karen W. Katz	35,612	64,580	$7,769,466
James E. Skinner	16,679	34,080	$4,048,678

[1] Unlike the shares of restricted stock and other stock units set forth in the first column to this table, the shares set forth in this column are what we refer to as purchased restricted stock and purchased restricted stock units. Recipients of these shares paid a purchase price for such shares, which price was determined in accordance with the applicable Company plan, but in any event was no less than 50% of the fair market value of the Company s Class A common stock on the grant date.

[2] The amounts set forth in this Resulting Consideration column are shown net of any amount paid in respect of purchased restricted stock and purchased restricted stock units (see the preceding footnote).

Retention/Severance Agreements

Each of our current executive officers and certain other officers have change of control termination protection agreements with us. Under each of the change of control termination protection agreements, unless comparable awards are provided to the officer, upon a change of control (which would include completion of the merger), any time periods, conditions or contingencies relating to the exercise or realization of, or lapse of restrictions under, any outstanding equity incentive award shall be automatically accelerated or waived. In addition, if the officer s employment is terminated by us without cause or by the officer for good reason (which includes in most cases, among other things, a reduction in the officer s base salary or total bonus, a relocation greater than 50 miles from the officer s current principal place of business or a diminution in the officer s title or primary reporting relationship or substantial diminution in duties or responsibilities (other than solely as a result of the Company ceasing to be a publicly held corporation), as those terms are defined in the

Table of Contents

agreement, within two years following, or in some cases before (an anticipatory termination), a change of control), the officer will be entitled to receive a lump sum amount equal to (a) the sum of two times, or, in the case of Mr. Tansky, three times, (1) the officer s annual base salary and (2) his or her annual target bonus for the year of the termination, (b) a pro rata target bonus (provided that if the officer s employment terminates after more than 75% of the Company s fiscal year has elapsed, the officer may be entitled to a pro rata portion of the actual bonus to which he or she would have been entitled if such actual bonus would have been greater than the target bonus; for purposes of calculating the actual bonus it is assumed that all qualitative and subjective performance criteria were achieved) and (c) in the case of an anticipatory termination, an amount equal to the base salary from the date of termination through the date of the change of control and any bonus for the most recently completed fiscal year if not previously paid due to the anticipatory termination.

If an officer becomes entitled to receive these severance amounts, the officer will also be entitled to the following:

- deemed participation in and accelerated vesting of benefits under the Company s Supplemental Executive Retirement Plan (the SERP) and a lump sum cash payment equal to the actuarial equivalent of the incremental benefits payable under the SERP if the officer were credited with enhanced years of service (two or three years) for purposes of eligibility for participation, eligibility for retirement, for early commencement of actuarial subsidies and for purposes of benefit accrual (in addition to three years of enhanced service credit Mr. Tansky s employment agreement provides for enhanced service credit equal to two times his years of service, in each case subject to a 25 year cap);

- accelerated vesting of any outstanding equity awards held by such officer that are not otherwise accelerated pursuant to the terms under which such awards were granted;

- continuing coverage under the Company s group heath, dental and life insurance plans for the officer, their spouse and any dependants for two years (three years in the case of Mr. Tansky) (any such medical and dental benefits will become secondary to coverage provided by a subsequent employer) and certain retiree medical coverage benefits; and

- reimbursement for outplacement expenses and merchandise discounts for the officer, his or her spouse and dependents.

Each agreement also contains a tax gross-up provision whereby if the officer incurs any excise tax by reason of his or her receipt of any payment that constitutes an excess parachute payment as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the Code), the officer will receive a gross-up payment in an amount that would place the officer in the same after-tax position that he or she would have been in if no excise tax had applied. However, under certain conditions, rather than receive a gross-up payment, the payments payable to the officer will be reduced so that no excise tax is imposed. As a condition to receiving any payments or benefits under the agreements, the officers must execute a release of claims in respect of their employment with us.

Termination of Deferred Compensation Plan and Distribution of Accounts

At the completion of the merger, the Company will terminate its non-qualified deferred compensation plans (not including any Supplemental Executive Retirement Plans), including the key employee bonus plan, key employee deferred compensation plan and deferred compensation plan for non-employee directors in which our executive officers or directors participate, and will cause all accounts thereunder to be distributed in cash to participants, less any required withholding taxes.

Store Discounts

In accordance with the Company s historic practice, the Company s and its former parent s, Harcourt General, Inc., directors, former directors and, in some cases, their surviving spouses and certain former employees were entitled to discounts at Company stores (up to a maximum of 50%). In connection with the

merger, Parent has agreed to cause the surviving corporation to provide to a limited number of these persons, including each current director of the Company, a lifetime discount on purchases at Company stores on the same terms as are currently covering that person under the Company s discount program as it existed on the date the merger agreement was entered into.

Indemnification and Insurance

The merger agreement provides that, without limiting any additional rights that any employee may have under any employment agreement or benefit plan, for a period of six years after the effective time of the merger, Parent will, and will cause the surviving corporation to, indemnify and hold harmless each present (as of the effective time of the merger) and former officer, director or employee of the Company or any of our subsidiaries in their capacity as such (and not as stockholders or optionholders of the Company) against all claims, losses, liabilities, damages, judgments, inquiries, fines and reasonable fees, costs and expenses, including attorney s fees and disbursements, incurred in connection with any claim arising out of actions taken by them in their capacity as officers, directors, employees, fiduciaries or agents of the Company or any of our subsidiaries or any actions arising out of or pertaining to matters existing or occurring at or prior to the effective time, to the fullest extent permitted under applicable law. In this regard, the surviving corporation will also be required to advance expenses to an indemnified officer, director or employee, provided that the person to whom expenses are advanced provides an undertaking to repay such advances if it is ultimately determined that this person is not entitled to indemnification. The surviving corporation will not settle, compromise or consent to the entry of any judgment in any action, suit, proceeding, investigation or claim under which indemnification could be sought unless such settlement, compromise or consent includes an unconditional release of the indemnified person or the indemnified person otherwise consents. The surviving corporation will cooperate in the defense of any of the matters described above.

The merger agreement provides that for a period of six years after the effective time of the merger, the certificate of incorporation and bylaws of the surviving corporation will continue to contain provisions with respect to indemnification, advancement of expenses and exculpation of former or present directors and officers that are no less favorable than presently set forth in our current certificate of incorporation and bylaws as of the date of the merger agreement.

The merger agreement provides that prior to the effective time of the merger, we will endeavor to (and if we are unable to, Parent will cause the surviving corporation to after the effective time of the merger) obtain and fully pay (up to a maximum cost of 300% of the current annual premium paid by us for our existing coverage in the aggregate) for tail insurance policies with a claims period of at least six years from the effective time of the merger from an insurance carrier with the same or better credit rating as our current insurance carrier with respect to directors and officers liability insurance in an amount and scope at least as favorable as our existing policies with respect to matters existing or occurring at or prior to the effective time of the merger. In addition, Parent will, and will cause the surviving corporation to, honor and perform under any indemnification agreements entered into by the Company or any of our subsidiaries.

New Management Arrangements

As of the date of this proxy statement, no member of our management has entered into any amendments or modifications to existing employment agreements with us or our subsidiaries in connection with the merger. In addition, as of the date of this proxy statement, no member of our management has entered into any agreement, arrangement or understanding with Parent, Merger Sub or their affiliates regarding employment with, or the right to purchase or participate in the equity of, the surviving corporation except as described under The Merger Background of the Merger beginning on page 18 and immediately below. The Sponsors have informed us that it is their intention to retain members of our existing management team with the surviving corporation after the merger is completed. In that connection during the week of May 9, 2005, the Sponsors presented to management the terms and conditions the Sponsors would be willing to provide in connection with the retention of management by the surviving corporation. Members of management currently are engaged in discussions with

43

representatives of Parent regarding revised terms of employment. In addition to revised terms of employment, the Sponsors have informed us that they have offered members of management the opportunity to convert a portion of their current equity interests in the Company into equity in the surviving corporation, and that they also intend to set up equity-based incentive compensation plans for management of the surviving corporation. Although we believe members of our management team are likely to enter into new arrangements with Parent, Merger Sub or their affiliates regarding employment with, and the right to purchase or participate in the equity of, the surviving corporation, such matters are subject to further negotiations and discussion and no terms or conditions have been finalized. The new arrangements are expected to be entered into prior to the completion of the merger. The board of directors (without Mr. Tansky s participation), in recognizing that management would require legal counsel in connection with discussions and negotiations with representatives of Parent relating to management s retention, had previously authorized reimbursement of management s reasonable out-of-pocket legal expenses.

Material United States Federal Income Tax Consequences

The following is a general discussion of certain material U.S. federal income tax consequences of the merger to holders of our common stock. We base this summary on the provisions of the Code, applicable current and proposed U.S. Treasury Regulations, judicial authority, and administrative rulings and practice, all of which are subject to change, possibly on a retroactive basis.

For purposes of this discussion, we use the term U.S. holder to mean:

- a citizen or individual resident of the U.S. for U.S. federal income tax purposes;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the U.S. or any state or the District of Columbia;
- a trust if it (1) is subject to the primary supervision of a court within the U.S. and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person; or
- an estate the income of which is subject to U.S. federal income tax regardless of its source.

A non-U.S. holder is a person (other than a partnership) that is not a U.S. holder.

This discussion assumes that a holder holds the shares of our common stock as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address all aspects of U.S. federal income tax that may be relevant to a holder in light of its particular circumstances, or that may apply to a holder that is subject to special treatment under the U.S. federal income tax laws (including, for example, insurance companies, dealers in securities or foreign currencies, traders in securities who elect the mark-to-market method of accounting for their securities, stockholders subject to the alternative minimum tax, persons that have a functional currency other than the U.S. dollar, tax-exempt organizations, financial institutions, mutual funds, partnerships or other pass through entities for U.S. federal income tax purposes, controlled foreign corporations, passive foreign investment companies, certain expatriates, corporations that accumulate earnings to avoid U.S. federal income tax, stockholders who hold shares of our common stock as part of a hedge, straddle, constructive sale or conversion transaction, or stockholders who acquired their shares of our common stock through the exercise of employee stock options or other compensation arrangements). In addition, the discussion does not address any tax considerations under state, local or foreign laws or U.S. federal laws other than those pertaining to the U.S. federal income tax that may apply to holders. **Holders are urged to consult their own tax advisors**

to determine the particular tax consequences, including the application and effect of any state, local or foreign income and other tax laws, of the receipt of cash in exchange for our common stock pursuant to the merger.

Table of Contents

If a partnership holds our common stock, the tax treatment of a partner will generally depend on the status of the partners and the activities of the partnership. If you are a partner of a partnership holding our common stock, you should consult your tax advisors.

U.S. Holders

The receipt of cash in the merger (or pursuant to the exercise of dissenters rights) by U.S. holders of our common stock will be a taxable transaction for U.S. federal income tax purposes. In general, for U.S. federal income tax purposes, a U.S. holder of our common stock will recognize gain or loss equal to the difference between:

- the amount of cash received in exchange for such common stock; and
- the U.S. holder s adjusted tax basis in such common stock.

If the holding period in our common stock surrendered in the merger (or pursuant to the exercise of dissenters rights) is greater than one year as of the date of the merger, the gain or loss will be long-term capital gain or loss. The deductibility of a capital loss recognized on the exchange is subject to limitations under the Code. If a U.S. holder acquired different blocks of our common stock at different times and different prices, such holder must determine its adjusted tax basis and holding period separately with respect to each block of our common stock.

Under the Code, a U.S. holder of our common stock may be subject, under certain circumstances, to information reporting on the cash received in the merger (or pursuant to the exercise of dissenters rights) unless such U.S. holder is a corporation or other exempt recipient. Backup withholding will also apply (currently at a rate of 28%) with respect to the amount of cash received, unless a U.S. holder provides proof of an applicable exemption or a correct taxpayer identification number, and otherwise complies with the applicable requirements of the backup withholding rules. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a U.S. holder s U.S. federal income tax liability, if any, provided that such U.S. holder furnishes the required information to the Internal Revenue Service in a timely manner.

Non-U.S. Holders

Any gain realized on the receipt of cash in the merger (or pursuant to the exercise of dissenters rights) by a non-U.S. holder generally will not be subject to United States federal income tax unless:

- the gain is effectively connected with a trade or business of the non-U.S. holder in the United States (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment of the non-U.S. holder);
- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or

we are or have been a United States real property holding corporation for U.S. federal income tax purposes and the non-U.S. holder owned more than 5% of the Company s common stock at any time during the five years preceding the merger.

An individual non-U.S. holder described in the first bullet point immediately above will be subject to tax on the net gain derived from the merger under regular graduated U.S. federal income tax rates. An individual non-U.S. holder described in the second bullet point immediately above will be subject to a flat 30% tax on the gain derived from the merger, which may be offset by U.S. source capital losses, even though the individual is

not considered a resident of the United States. If a non-U.S. holder that is a foreign corporation falls under the first bullet point immediately above, it will be subject to tax on its net gain in the same manner as if it were a United States person as defined under the Code and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

We believe we are not, have not been and do not anticipate becoming a United States real property holding corporation for U.S. federal income tax purposes.

Information reporting and, depending on the circumstances, backup withholding (currently at a rate of 28%) will apply to the cash received in the merger (or pursuant to the exercise of dissenters rights), unless the beneficial owner certifies under penalty of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a United States person as defined under the Code) or such owner otherwise establishes an exemption. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a non-U.S. holder s U.S. federal income tax liability, if any, provided that such non-U.S. holder furnishes the required information to the Internal Revenue Service in a timely manner.

Regulatory Approvals

The Hart-Scott-Rodino Act and related rules provide that transactions such as the merger may not be completed until certain information has been submitted to the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice and specified waiting period requirements have been satisfied. On May 13, 2005 and on May 16, 2005, the Company and Newton Holding, LLC (an affiliate of TPG and Warburg Pincus), respectively, each filed a Notification and Report Form with the Antitrust Division and the Federal Trade Commission and requested an early termination of the waiting period. If the early termination is not granted and a request for additional information by the relevant antitrust authorities is not made, the waiting period will expire at 11:59 p.m. on June 15, 2005.

Under the merger agreement, the Company, Parent and Merger Sub have agreed to use their reasonable best efforts to obtain all required governmental approvals in connection with the execution of the merger agreement and completion of the merger. In addition, the Company, Parent and Merger Sub have agreed to use their reasonable best efforts to take those actions as may be necessary to resolve any objections asserted on antitrust grounds with respect to the merger, including agreeing to hold separate or to divest any of the businesses or assets of Parent, Merger Sub or the Company.

Except as noted above with respect to the required filings under the Hart-Scott-Rodino Act and the filing of a certificate of merger in Delaware at or before the effective date of the merger, we are unaware of any material federal, state or foreign regulatory requirements or approvals required for the execution of the merger agreement or completion of the merger.

Litigation

On May 4, 2005, a purported class action complaint, *NECA-IBEW Pension Fund (The Decatur Plan) v. The Neiman Marcus Group, Inc. et al.* (CA No. 3-05 CV-0898B), was filed by a putative stockholder of Neiman Marcus in federal court in the Northern District of Texas against the Company and its directors challenging the proposed merger.

The complaint alleges a cause of action for breach of fiduciary duty against our directors, claiming, among other things, that the merger consideration to be paid to the Company s stockholders in the merger is grossly inadequate and unfair and that the defendants failed to maximize shareholder value through a proper sale of the Company and its assets. In addition, the complaint alleges that the Company s directors breached their

Table of Contents

fiduciary duties in connection with the approval of the merger by, among other things, tailoring the transaction to serve the interests of defendants and the family of Richard A. Smith, Chairman of our board of directors and the Company s largest stockholder, rather than structuring the merger to obtain the highest price for Neiman Marcus stockholders, depriving public stockholders of the value of certain assets of the Company (primarily the Company s credit card division), failing to realize the financial benefits from a separate sale of the Company s credit card division, not engaging in a fair process or negotiating at arm s length and structuring a preferential deal for Company insiders. The complaint seeks, among other things, injunctive relief to enjoin the consummation of the merger, rescind any actions taken to effect the merger, direct the defendants to sell or auction the Company for the highest possible price, and impose a constructive trust in favor of plaintiff upon any benefits improperly received by defendants.

The lawsuit is in its preliminary stage. The Company believes that the lawsuit is without merit and intends to defend vigorously against it.

Table of Contents

THE MERGER AGREEMENT

The summary of the material terms of the merger agreement below and elsewhere in this proxy statement is qualified in its entirety by reference to the merger agreement, a copy of which is attached to this proxy statement as Annex A and which we incorporate by reference into this document. This summary does not purport to be complete and may not contain all of the information about the merger agreement that is important to you. We encourage you to read carefully the merger agreement in its entirety.

The merger agreement has been included to provide you with information regarding its terms. It is not intended to provide any other factual information about the Company. Such information can be found elsewhere in this proxy statement and in the other public filings the Company makes with the SEC, which are available without charge at www.sec.gov.

The merger agreement contains representations and warranties the Company, Parent and Merger Sub made to each other as of specific dates. The assertions embodied in those representations and warranties were made solely for purposes of the contract between the Company, Parent and Merger Sub and may be subject to important qualifications and limitations agreed by the Company, Parent and Merger Sub in connection with negotiating its terms. Moreover, certain representations and warranties may not be accurate or complete as of any specified date because they are subject to a contractual standard of materiality different from those generally applicable to stockholders or were used for the purpose of allocating risk between the Company, Parent and Merger Sub rather than establishing matters as facts. For the foregoing reasons, you should not rely on the representations and warranties as statements of factual information.

Effective Time; The Marketing Period

The effective time of the merger will occur at the time that we file a certificate of merger with the Secretary of State of the state of Delaware on the closing date of the merger (or such later time as provided in the certificate of merger). So long as the marketing period has expired, the closing date will occur as soon as reasonably practicable after all of the conditions to the merger set forth in the merger agreement have been satisfied or waived (or such other date as Parent and the Company may agree). In the event that all conditions have been satisfied but the marketing period has not expired, then the parties are not required to effect the closing until the earlier of:

- a date during the marketing period specified by Merger Sub on no less than three business days notice to the Company; and

- the final day of the marketing period.

The marketing period is defined in the merger agreement as the first period of 40 consecutive calendar days after the Initiation Date (defined below) throughout which:

- Merger Sub and its financing sources shall have the financial and other pertinent information regarding the Company as may be reasonably requested by Parent, including all financial statements and financial data of the type required by Regulation S-X and Regulation S-K under the Securities Act of 1933, as amended (the Securities Act), and of the type and form customarily included in private placements under Rule 144A under the Securities Act, to consummate the offerings of debt securities contemplated by Merger Sub s debt financing commitments at the time during the Company s fiscal year such offerings will be made; and

nothing has occurred and no condition exists and there is no breach of any of the Company s representations that would result in a material adverse effect and there has been no material breach by the Company of its obligations, agreements and covenants in the merger agreement; and

at the end of which, the Company has received stockholder approval of the merger agreement, no law or order by any governmental entity exists which prohibits or restrains consummation of the merger and the waiting period under the Hart-Scott-Rodino Act has terminated or has expired.

Table of Contents

Pursuant to the merger agreement, the Initiation Date means the twentieth day after the date this proxy statement is first mailed to the Company s stockholders, subject to the following two exceptions:

the twenty-day period will not commence until the Company has provided to Merger Sub the financial information required by the merger agreement that is described above; and

if the marketing period would end on or after August 15, 2005, the Initiation Date shall be the later of (1) September 1, 2005 and (2) the date the Company s Annual Report on Form 10-K for the fiscal year ended July 30, 2005 is filed with the SEC.

For example, assuming that the required financial information has been provided to Merger Sub as of **[•]**, the date this proxy statement is first being mailed to the Company s stockholders, the marketing period would commence on **[•]**, the twentieth day after such mailing. Then, so long as the conditions described above with respect to required financial information and the absence of material adverse changes at the Company remain satisfied for 40 consecutive days following **[•]**, the marketing period would end on **[•]** (assuming that on such date the merger agreement has been adopted by the Company s stockholders, there is no law or order by any governmental entity existing that prohibits or restrains consummation of the merger and the waiting period under the Hart-Scott-Rodino Act has terminated or has expired).

Structure

At the effective time of the merger, Merger Sub will merge with and into us. Neiman Marcus will survive the merger and continue to exist after the merger as a wholly-owned subsidiary of Parent. All of the Company s and Merger Sub s properties, assets, rights, privileges, immunities, powers and franchises, and all of their debts, liabilities and duties, will become those of the surviving corporation. Following completion of the merger, the Company s common stock will be delisted from the NYSE, deregistered under the Securities Exchange Act of 1934, as amended (the Exchange Act), and no longer publicly traded.

Treatment of Stock and Options

Company Common Stock

At the effective time of the merger, each share of our common stock issued and outstanding immediately prior to the effective time of the merger will automatically be canceled and will cease to exist and will be converted into the right to receive $100.00 in cash, without interest and less any required withholding taxes, other than shares of Company common stock:

held in the Company s treasury immediately prior to the effective time of the merger, which shares will be canceled without conversion or consideration;

owned by Merger Sub, Parent or any wholly-owned direct or indirect subsidiary of the Company or Parent immediately prior to the effective time of the merger, which shares will be canceled without conversion or consideration; and

held by stockholders who have properly demanded and perfected their appraisal rights in accordance with Delaware law, which shares shall be entitled to only such rights as are granted by Delaware law.

After the effective time of the merger, each of our outstanding stock certificates or book-entry shares representing shares of common stock converted in the merger will represent only the right to receive the merger consideration without any interest. The merger consideration paid upon surrender of each certificate will be paid in full satisfaction of all rights pertaining to the shares of our common stock represented by that certificate or book-entry share.

Table of Contents

Company Stock Options

At the effective time of the merger, each outstanding option, whether or not vested or exercisable, to acquire our common stock will be canceled (to the extent permitted under the governing plan documents and related agreements), and the holder of each stock option that has an exercise price of less than $100.00 will be entitled to receive from the surviving corporation as promptly as practicable thereafter an amount in cash, without interest and less applicable withholding taxes, equal to the product of:

- the number of shares of our common stock subject to each option as of the effective time of the merger, multiplied by
- the excess of $100.00, if any, over the exercise price per share of common stock subject to such option.

Restricted Shares and Stock Unit Awards

At the effective time of the merger, each outstanding share of our restricted stock, the restrictions of which have not lapsed immediately prior to the effective time of the merger, will become fully vested, free of such restrictions and, unless the subject of a proper demand for appraisal rights under Delaware law, will be converted into the right to receive $100.00 in cash, without interest and less any applicable withholding taxes.

Also, at the effective time of the merger, each outstanding right to receive shares of our common stock pursuant to a stock unit award under any of our stock or other incentive plans, whether or not vested, will be canceled (to the extent permitted by the applicable plan), and the holder of the stock unit will be entitled to receive the product of the number of shares previously subject to the stock unit and $100.00 in cash, without interest and less applicable withholding taxes.

Deferred Compensation Plans

At the Effective Time or as soon as practicable thereafter, and in no event more than five days following the effective time, all account balances under the Company s key employee bonus plan, key employee deferred compensation plan and deferred compensation plan for non-employee directors will be paid out in cash to participants, less any required withholding taxes.

Exchange and Payment Procedures

At or prior to the effective time of the merger, Parent will deposit, or will cause to be deposited, in trust an amount of cash sufficient to pay the merger consideration to each holder of shares of our common stock with Mellon Investor Services LLC or a bank or trust company (the paying agent) reasonably acceptable to us. Promptly after the effective time of the merger, the paying agent will mail a letter of transmittal and instructions to you and the other stockholders. The letter of transmittal and instructions will tell you how to surrender your common stock certificates or shares you may hold represented by book entry in exchange for the merger consideration.

You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the paying agent without a letter of transmittal.

You will not be entitled to receive the merger consideration until you surrender your stock certificate or certificates (or book-entry shares) to the paying agent, together with a duly completed and executed letter of transmittal and any other documents as may be required by the letter of transmittal. The merger consideration may be paid to a person other than the person in whose name the corresponding certificate is registered if the certificate is properly endorsed or is otherwise in the proper form for transfer. In addition, the person who surrenders such certificate must either pay any transfer or other applicable taxes or establish to the satisfaction of the surviving corporation that such taxes have been paid or are not applicable.

No interest will be paid or will accrue on the cash payable upon surrender of the certificates (or book-entry shares). The paying agent will be entitled to deduct and withhold, and pay to the appropriate taxing

authorities, any applicable taxes from the merger consideration. Any sum which is withheld and paid to a taxing authority by the paying agent will be deemed to have been paid to the person with regard to whom it is withheld.

At the effective time of the merger, our stock transfer books will be closed, and there will be no further registration of transfers of outstanding shares of our common stock. If, after the effective time of the merger, certificates are presented to the surviving corporation for transfer, they will be canceled and exchanged for the merger consideration.

None of the paying agent, Parent or the surviving corporation will be liable to any person for any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. Any portion of the merger consideration deposited with the paying agent that remains undistributed to the holders of certificates evidencing shares of our common stock for twelve months after the effective time of the merger, will be delivered, upon demand, to the surviving corporation. Holders of certificates who have not surrendered their certificates prior to the delivery of such funds to Parent may only look to Parent or the surviving corporation for the payment of the merger consideration. Any portion of the merger consideration that remains unclaimed as of a date that is immediately prior to such time as such amounts would otherwise escheat to or become property of any governmental authority will, to the extent permitted by applicable law, become the property of Parent free and clear of any claims or interest of any person previously entitled to the merger consideration.

If you have lost a certificate, or if it has been stolen or destroyed, then before you will be entitled to receive the merger consideration, you will have to comply with the replacement requirements established by the paying agent, including, if necessary, the posting of a bond in a customary amount sufficient to protect the surviving corporation against any claim that may be made against it with respect to that certificate.

Representations and Warranties

We make various representations and warranties in the merger agreement that are subject, in some cases, to specified exceptions and qualifications. Our representations and warranties relate to, among other things:

- our and our subsidiaries proper organization, good standing and qualification to do business;
- our certificate of incorporation and bylaws;
- our capitalization, including in particular the number of shares of our common stock, stock options and other equity-based interests;
- our outstanding indebtedness for borrowed money;
- our corporate power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;
- the required vote of our stockholders in connection with the adoption of the merger agreement;

the approval and recommendation by our board of directors of the merger agreement, the merger and the other transactions contemplated by the merger agreement;

the absence of violations of or conflicts with our and our subsidiaries governing documents, applicable law or certain agreements as a result of entering into the merger agreement and consummating the merger;

the required consents and approvals of governmental entities in connection with the transactions contemplated by the merger agreement;

compliance with applicable legal requirements;

our SEC filings since August 1, 2003, including the financial statements contained therein;

the absence of undisclosed liabilities;

the absence of a material adverse effect and certain other changes or events related to us or our subsidiaries since July 31, 2004;

legal proceedings and governmental orders;

Table of Contents

- employment and labor matters affecting us or our subsidiaries, including matters relating to our and our subsidiaries employee benefit plans;
- our and our subsidiaries insurance policies;
- real property;
- taxes, environmental matters and material contracts;
- accuracy and compliance as to form with applicable securities law of this proxy statement;
- the receipt by us of a fairness opinion from JPMorgan;
- the absence of undisclosed broker s fees;
- the amendment of our stockholders rights plan and the inapplicability of anti-takeover statutes to the merger;
- intellectual property; and
- affiliate transactions.

For the purposes of the merger agreement, material adverse effect means any change, circumstance, effect, event or occurrence that would be materially adverse to the assets, liabilities, business, financial condition or results of operations of the Company and our subsidiaries taken as a whole.

A material adverse effect will not have occurred, however, as a result of any change, circumstance, event or effect resulting from:

- changes in general economic conditions, except if such changes have a disproportionate effect on us and our subsidiaries taken as a whole relative to other industry participants (which for purposes of the merger agreement is deemed to be participants in the luxury retail segments of the apparel, accessories, jewelry, beauty and decorative home products industries);
- general changes or developments in the industries in which we or our subsidiaries operate, except if such changes have a disproportionate effect on us and our subsidiaries taken as a whole relative to other industry participants;
- the announcement of the merger agreement and the transactions contemplated by the merger agreement, including any termination of, reduction in or similar negative impact on relationships with any of our or our subsidiaries customers, suppliers, distributors, partners or employees to the extent due to the announcement and performance of the merger agreement or the identity of the parties to the merger agreement, or the performance of the merger agreement, including compliance with the covenants set forth in the merger

agreement;

any actions required under the merger agreement to obtain any approval or authorization under applicable antitrust or competition laws for the consummation of the merger; or

changes in any tax laws or regulations or applicable accounting regulations or principles.

You should be aware that these representations and warranties are made by the Company to Parent and Merger Sub, may be subject to important limitations and qualifications agreed to by Parent and Merger Sub, may or may not be accurate as of the date they were made and do not purport to be accurate as of the date of this proxy statement. See Where You Can Find Additional Information.

Table of Contents

The merger agreement also contains various representations and warranties made by Parent and Merger Sub that are subject, in some cases, to specified exceptions and qualifications. The representations and warranties relate to, among other things:

- their organization, valid existence and good standing;
- their corporate or other power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;
- the absence of any violation of or conflict with their governing documents, applicable law or certain agreements as a result of entering into the merger agreement and consummating the merger;
- the required consents and approvals of governmental entities in connection with the transactions contemplated by the merger agreement;
- the absence of litigation;
- the absence of undisclosed broker s fees;
- debt and equity financing commitments;
- their purpose of formation and prior activities;
- the minimum initial capitalization of Merger Sub; and
- their lack of ownership of our common stock.

The representations and warranties of each of the parties to the merger agreement will expire upon the effective time of the merger.

Conduct of Our Business Pending the Merger

Under the merger agreement, we have agreed that, subject to certain exceptions and unless Parent gives its prior written consent, between May 1, 2005 and the completion of the merger:

- we and our subsidiaries will conduct business in the ordinary course of business; and

- we will use reasonable best efforts to preserve substantially intact our business organization and to preserve our current relationships with customers, suppliers and other persons with which we have significant business relations.

We have also agreed that during the same time period, and again subject to certain exceptions or unless Parent gives its prior written consent (which consent will not be unreasonably withheld or delayed), we and our subsidiaries will not:

- amend our certificate of incorporation or bylaws or amend or grant any waiver under our stockholders rights plan;
- issue, deliver, sell, pledge, transfer, convey, dispose of, or encumber any of our or our subsidiaries equity interests, or any rights or other securities convertible into or exerciseable or exchangeable for such equity interests, except that we may issue shares of our common stock upon the exercise of options or in connection with other stock-based awards outstanding as of the date of the merger agreement, or as may be required under our stockholders rights plan;

declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of our or our subsidiaries capital stock, except for regular quarterly cash dividends on Company common stock or any dividends or distributions by our subsidiaries to us or one of our direct or indirect wholly-owned subsidiaries;

adjust, recapitalize, reclassify, combine, split, subdivide, redeem, purchase or otherwise acquire any shares of our capital stock (other than the acquisition of shares tendered in connection with a cashless exercise of options or in order to pay taxes in connection with the exercise of options or the lapse of restrictions in respect of restricted stock or stock units), or adjust, recapitalize, reclassify, combine, split or subdivide any of our subsidiaries ownership interests;

acquire or license any, or any of the assets of or equity interests in, any corporation, partnership or other business organization or division, other than:

- o acquisitions and licenses having a value (including the amount of any assumed indebtedness) of less than $20,000,000 in the aggregate;

- o purchases of inventory and other assets in the ordinary course of business consistent with past practice or as required by existing agreements; and

- o pursuant to the exercise of the put provisions set forth in the Gurwitch Products, L.L.C. and Kate Spade LLC operating agreements (provided, that we are limited to a stated cap in respect of any proposed valuation of Kate Spade LLC);

sell, license or subject to a lien (other than those reflected on the consolidated financial statements of the Company) or dispose of any corporation, partnership or other business organization or division or any assets thereof or equity interests therein, other than:

- o pledges, sales, licenses and encumbrances for less than $20,000,000 in the aggregate; and

- o sales or dispositions of inventory and other assets in the ordinary course of business consistent with past practice or as required by existing agreements;

dispose of or enter into any other material transaction outside the ordinary course of business with respect to our credit card operations, other than a transaction (1) that would be treated as a sale under generally accepted accounting principles and (2) the aggregate proceeds from which will equal or exceed the par value of the credit card receivables;

other than in the ordinary course of business consistent with past practice, enter into or renew or amend in any material respect any material contract or any real property lease;

authorize any material new capital expenditures which are in excess of the Company s capital expenditure budget;

enter into any new line of business outside of our existing business segments;

repurchase, incur or otherwise acquire, or modify in any material respect the terms of, any indebtedness for borrowed money, or assume or guarantee the obligations of any person, or make any loans or advances to or investments in, or grant any security interest in any of our assets to, any other person (other than one of our wholly-owned subsidiaries), other than:

- in the ordinary course of business consistent with past practice; or

- o any letter of credit entered into in the ordinary course of business consistent with past practice for an amount less than $10,000,000 individually or in the aggregate;

arrange any issue of debt securities or commercial bank or other credit facilities that could be reasonably expected to compete with or impede or inhibit the debt financing related to the merger;

except as contemplated by the merger agreement or except to the extent required under any Company stock, incentive or benefit plan or arrangement or as required by applicable law,

- o increase or decrease the compensation or fringe benefits of any of our or our subsidiaries directors, officers, employees, independent contractors or consultants (except in the ordinary course of business with respect to independent contractors, consultants and employees who are not directors or officers);
- o grant any severance or termination pay not provided for under existing Company stock, incentive or benefit plans or arrangements;
- o enter into any employment, consulting, change of control or severance arrangement with any of our or our subsidiaries present or former directors, officers or other employees, independent contractors or consultants, enter into any collective bargaining agreement or enter into any new, or amend in any material respect or terminate any existing Company stock, incentive or benefit plan or arrangement,
- o exercise any discretion to accelerate the vesting or payment of any compensation or benefit under any Company stock, incentive or benefit plan or arrangement,
- o materially change any actuarial or other assumption used to calculate funding obligations with respect to any stock, incentive or benefit plan or arrangement or change the manner in which contributions to any Company stock, incentive or benefit plan or arrangement are made or the basis on which such contributions are determined, or
- o hire or terminate any executive officer other than termination for cause;

make any material change in any accounting policies or procedures except to conform to changes in generally accepted accounting principles or regulatory requirements with respect thereto;

other than in the ordinary course of business consistent with past practice or as required by applicable law,

- o make, change or revoke any material tax election or change any method of accounting;
- o enter into any settlement or compromise of any material tax liability;
- o file any amended tax return with respect to any material tax;
- o change any annual tax accounting period;

- o enter into any closing agreement relating to any material tax;
- o surrender any right to claim a material tax refund; or
- o waive or extend the statute of limitations in respect of any material tax (other than pursuant to extensions of time to file tax returns in the ordinary course of business);

settle or compromise any material litigation or claim against us, our subsidiaries or any of our directors or officers other than in the ordinary course of business consistent with past practice which in any event (1) do not exceed, in any individual case, $10,000,000 and (2) would not prohibit or materially restrict us and our subsidiaries from operating our business as we have historically;

adopt or enter into a plan of liquidation, dissolution, merger or other reorganization (other than the merger);

open or close (or commit to do the same) any retail locations other than those previously disclosed in our public filings with the SEC;

enter into or amend any arrangement or agreement with any of our or our subsidiaries executive officers, directors or affiliates or any person beneficially owning 5% or more of our common stock that would be required to be disclosed in our annual report filed with the Securities and Exchange Commission; or

agree to take any of the actions described above or any action which would reasonably be expected to prevent or materially delay or impede the consummation of the merger.

Stockholders Meeting

The merger agreement requires us, as soon as reasonably practicable, to call, give notice of and hold a meeting of our stockholders to adopt the merger agreement. Except to the extent necessary in order to comply with its fiduciary duties under applicable law, our board of directors is required to recommend that our stockholders vote in favor of adoption of the merger agreement and to use its reasonable best efforts to have the merger agreement adopted by our stockholders.

No Solicitation of Transactions

We have agreed that we, our subsidiaries and our respective directors, officers and employees will not, and we are required to use our reasonable best efforts to cause our and our subsidiaries representatives not to, directly or indirectly:

initiate, solicit or knowingly encourage or facilitate any inquiries or the making of any acquisition proposal;

engage in any negotiations or discussions concerning, or provide access to our and our subsidiaries properties, books and records or any confidential information or data to, any person relating to an acquisition proposal;

take any action to render the stockholders rights plan inapplicable to an acquisition proposal or the related transactions, exempt or exclude any person from the applicability of the stockholder rights plan in connection with any acquisition proposal or take any action to exempt any person from the restrictions on business combinations under section 203 of the Delaware General Corporation Law; or

waive, terminate, modify or fail to enforce any provision of any contractual standstill or similar obligation of any person other than Parent or its affiliates unless our board of directors determines that such actions are necessary to comply with its fiduciary duties.

An acquisition proposal is any proposal or offer with respect to a tender offer or exchange offer, proposal for a merger, consolidation, or other business combination involving us and any of our subsidiaries or any proposal or offer to acquire in any manner an equity interest representing a 20% or greater economic or voting interest in the Company, or the assets, securities or other ownership interests of or in the Company or any of our subsidiaries representing 20% or more of the consolidated assets of the Company and our subsidiaries.

Table of Contents

Except as described below, neither we nor our board of directors may recommend any acquisition proposal to our stockholders or approve any agreement with respect to an acquisition proposal. Prior to adoption of the merger agreement by our stockholders, however, we or our board of directors are permitted to provide access to our properties, books and records and provide other information and data in response to a request for such information or data or to engage in discussions or negotiations with, or provide any information to, a third party in connection with an unsolicited bona fide written acquisition proposal, if and only to the extent that before taking any of these actions our board of directors determines in its good faith judgment, after consultation with its outside legal counsel and financial advisors, that:

- such action is required for our board of directors to comply with its fiduciary duties under applicable law; and
- the applicable acquisition proposal will result in, or would reasonably be expected to result in, a superior proposal from the party that made the applicable acquisition proposal.

For purposes of the merger agreement, superior proposal means any acquisition proposal that:

- relates to a proposal or offer to acquire in any manner an equity interest representing more than 50% of the equity interest in, or more than 50% of the consolidated assets of, the Company and our subsidiaries;
- is reasonably capable of being consummated, taking into account all legal, financial, regulatory, timing, and similar aspects of the proposal and the person making the proposal; and
- if consummated, would result in a transaction more favorable to our stockholders from a financial point of view than the transactions contemplated by the merger agreement.

Furthermore, if, at any time prior to the adoption of the merger agreement by our stockholders, our board of directors determines in its good faith judgment, after consultation with its outside legal counsel and financial advisors, that an unsolicited bona fide written acquisition proposal that did not result from a material breach of the provisions described in the previous paragraphs is a superior proposal, we may terminate the merger agreement, our board of directors may approve or recommend the superior proposal to our stockholders, and/or immediately prior to or concurrently with the termination of the merger agreement we may enter into any agreement, understanding, letter of intent or arrangement with respect to such superior proposal, as applicable, but only if:

- we give Parent prior written notice that we have received a superior proposal and the material terms and conditions of such superior proposal;
- Parent does not within three business days following our delivery of the notice of a superior proposal, make an offer that results in the acquisition proposal no longer constituting a superior proposal;
- we negotiate in good faith with Parent regarding an increased offer by Parent; and
- in case we terminate the merger agreement, we concurrently pay to Parent the $140.3 million termination fee. See Termination and Fees and Expenses below.

We have also agreed:

- to terminate immediately any discussions or negotiations regarding acquisition proposals that were being conducted before the merger agreement was signed;
- to notify Parent within 48 hours of our receipt of an acquisition proposal, including the material terms and conditions of the acquisition proposal and the identity of the third party making the proposal;

to keep Parent reasonably informed of the status and material terms and conditions of any proposals or offers; and

to provide a copy of all written materials provided to or by the Company in connection with such acquisition proposal.

Employee Benefits

For a period of two years after the effective time of the merger, Parent will cause the surviving corporation and its subsidiaries to:

maintain the severance-related provisions of existing Company plans and provide 100% of the severance related payments and benefits required thereunder to any Company employee not covered by a collective bargaining agreement and employed by the Company or any of our subsidiaries at the effective time; and

maintain, for any Company employee not covered by a collective bargaining agreement and employed by the Company or any of our subsidiaries at the effective time, salary or hourly wage rate and target cash bonus opportunities, excluding equity and equity equivalents, and benefits that in the aggregate are no less favorable than the compensation and benefits maintained for such employees immediately prior to the effective time.

After completion of the merger, Parent will, for fiscal year 2005, honor the terms and obligations of the Company s fiscal year 2005 annual bonus program and administer the program consistent with our historic annual bonus programs and any individual agreements with our employees.

Parent will also recognize and give effect to:

our employees prior service with the Company for purposes of eligibility and vesting (but not for any benefit accruals, except for vacation and severance, if applicable, under any Company benefit plan) under any employee compensation, incentive or benefit plans that are maintained for the benefit of our employees (other than those operating under a collective bargaining agreement) after the merger to the same extent as that service is recognized by the Company before the merger;

for the fiscal year in which the closing of the merger occurs, any amounts paid by, and amounts reimbursed to, our employees under existing welfare plans for purposes of determining the employee deductible or out-of-pocket limitations under any welfare benefit plans that our employees will be eligible to participate in after the merger and waive any pre-existing condition or eligibility limitations under welfare benefit plans;

Parent will also cause the surviving corporation from and after the effective time of the merger, to honor in accordance with their terms existing employment, change in control, severance and termination, equity-based and bonus arrangements, and all obligations under outstanding restoration plans, equity-based plans, programs or agreements, bonus plans or programs, bonus deferral plans, vested and accrued benefits under any employee benefit plan, program or arrangement of the Company or its subsidiaries in effect as of the effective time of the merger.

Agreement to Take Further Action and to Use Reasonable Best Efforts

Subject to the terms and conditions of the merger agreement, each party has agreed to use its reasonable best efforts to take all actions and to do all things necessary, proper or advisable under applicable law to consummate the transactions contemplated by the merger agreement, including making filings under the Hart-Scott-Rodino Act and under the antitrust laws of foreign jurisdictions for which similar filings are required. In

addition, each party has agreed to cooperate and use reasonable best efforts to resolve any objections or suits brought by any governmental entity or private third party challenging any of the transactions contemplated by the merger agreement as being in violation of any antitrust law. Such efforts include agreeing to sell, hold separate or otherwise dispose of or conduct such party s business in a manner which would resolve such objections or suits.

Without the prior written consent of Parent, we and our subsidiaries are prohibited from paying or committing to pay to any person whose approval or consent (other than a governmental entity) with respect to the merger is being solicited any cash or other consideration or from incurring any liability or other obligation to any such person.

Parent Financing Commitments; Company Cooperation

Parent has agreed to use reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to:

maintain in effect the financing commitments and to satisfy on a timely basis the conditions to obtaining the financing set forth therein, subject to its right to replace or amend the debt financing commitments to add lenders, lead arrangers, bookrunners, syndication agents or similar entities who had not executed the debt financing commitments as of the date of the merger agreement or otherwise, so long as the terms are not materially less beneficial to Merger Sub, including with respect to conditionality, than those in the debt financing commitments in effect on the date of the merger agreement as determined in the reasonable judgment of Parent;

enter into definitive financing agreements with respect to the debt financing as contemplated by the debt financing commitments or on other terms not materially less beneficial to Merger Sub, including with respect to conditionality, as determined in the reasonable judgment of Parent; and

consummate the financing at or prior to the closing.

In the event any portion of the debt financing becomes unavailable on the terms and conditions contemplated in the debt financing commitments, Parent shall use its reasonable best efforts to arrange alternative financing in an amount sufficient to consummate the merger and related transactions on terms not materially less beneficial to Merger Sub (as determined in the reasonable judgment of Parent) as promptly as practicable but in no event later than the last day of the marketing period. In addition, Parent and Merger Sub have agreed that:

in the event that

o any portion of the debt financing structured as high yield financing has not been consummated;

o subject to limited exceptions, all closing conditions contained in the merger agreement have been satisfied; and

o the bridge facilities contemplated by the debt financing commitments or alternative bridge financing is available on terms and conditions described in the debt financing commitments (or replacements thereof contemplated by the merger agreement);

then Merger Sub will use the proceeds of the bridge financing to replace the high yield financing no later than the last day of the marketing period (see Effective Time; The Marketing Period above for a discussion of the marketing period); and

Merger Sub will exercise the reallocation rights provided for under the debt financing commitments to the extent necessary to arrange the debt financing described in the debt financing commitments in order to maximize the borrowing capacity under such commitments.

Table of Contents

Parent is required to keep us informed on a reasonably current basis of the status of its efforts to arrange the debt financing and to provide us with copies of all documents related to the debt financing (other than ancillary documents subject to confidentiality agreements).

We have agreed, and have agreed to cause our subsidiaries (and our and their respective officers, employees, representatives and advisors) to, provide such cooperation as may be requested by Parent that is necessary, proper or advisable in connection with the debt financing, including:

- participation in meetings, presentations, road shows, due diligence sessions and sessions with rating agencies;
- assisting with the preparation of materials for rating agency presentations, offering documents, private placement memoranda, bank information memoranda, prospectuses and similar documents;
- executing and delivering any pledge and security documents, other definitive financing documents, or other certificates, legal opinions or documents as may be reasonably requested by Parent;
- furnishing Parent (and Merger Sub) and their financing sources with the financial and other pertinent information regarding the Company as may be reasonably requested by Parent, including all financial statements and financial data of the type required by Regulation S-X and Regulation S-K under the Securities Act and of the type and form customarily included in private placements under Rule 144A under the Securities Act, to consummate the offerings of debt securities contemplated by Merger Sub s debt financing commitments at the time during the Company s fiscal year such offerings will be made;
- satisfying the conditions in the debt financing commitments relating to the delivery of certain financial projections in customary form, certain audited and unaudited historical financial statements and a preliminary offering memorandum or prospectus (including pro forma financial information) for the offerings of debt securities contemplated by Merger Sub s debt financing commitments, in each case to the extent the satisfaction of such conditions requires the cooperation of the Company;
- using reasonable best efforts to obtain accountants comfort letters, legal opinions, surveys and title insurance as reasonably requested by Parent;
- taking all actions necessary to permit the prospective lenders involved in the financing to evaluate the Company s current assets, cash management and accounting systems, policies and procedures for the purposes of establishing collateral arrangements and to establish bank and other accounts and blocked account agreements and lock box arrangements in connection with the foregoing;
- obtaining any necessary rating agencies confirmations or approvals for the debt financing relating to the Company s existing credit card receivables financing facility; and
- taking all corporate actions necessary to permit the consummation of the debt financing and to permit the proceeds thereof to be made available to the Company.

Conditions to the Merger

The obligations of the parties to complete the merger are subject to the satisfaction or waiver of the following mutual conditions:

Stockholder Approval. The adoption of the merger agreement by our stockholders.

No Law or Orders. No law or order having been enacted or entered by a U.S. or state governmental authority that prohibits, restrains or enjoins the completion of the merger.

Regulatory Approvals. The waiting period under the Hart-Scott-Rodino Act having been terminated or expired.

Table of Contents

The obligations of Parent and Merger Sub to complete the merger are subject to the satisfaction or waiver of the following additional conditions:

Representations and Warranties.

- our representations and warranties regarding certain matters relating to our capitalization, amendment of our stockholder rights plan and the applicability of certain takeover statutes must be true and correct when the merger agreement was entered into and as of the date the merger is completed, except to the extent that a representation or warranty expressly speaks as of a specific date, in which case it need be true only as of that date, and except where the failure of such representations and warranties to be true and correct would be immaterial to Parent and Merger Sub; and

- all other representations and warranties made by us (generally disregarding all materiality qualifications) must be true and correct when the merger agreement was entered into and as of the date the merger is completed, except to the extent that a representation or warranty expressly speaks as of a specific date, in which case it need be true only as of that date, and except where the failure of such representations and warranties to be true and correct would not reasonably be expected to have, individually or in the aggregate, a material adverse effect.

Compliance with Covenants. The performance, in all material respects, by us of our covenants and agreements in the merger agreement.

Closing Certificate. Our delivery to Parent at closing of a certificate with respect to the satisfaction of the conditions relating to our representations, warranties, covenants and agreements.

Our obligation to complete the merger is subject to the following additional conditions:

Representations and Warranties. The truth and correctness in all material respects of Parent s and Merger Sub s representations and warranties as of the date the merger is completed, except to the extent that a representation or warranty expressly speaks as of a specific date, in which case it need be true in all material respects only as of that date.

Compliance with Covenants. The performance, in all material respects, by Parent and Merger Sub of their covenants and agreements in the merger agreement.

Closing Certificate. The delivery at closing by each of Parent and Merger Sub of a certificate with respect to the satisfaction of the conditions relating to Parent s and Merger Sub s representations, warranties, covenants and agreements.

Termination

The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time of the merger, whether before or after stockholder approval has been obtained, as follows:

by mutual written consent of the parties;

by either Parent or the Company, if:

- the Company stockholders do not adopt the merger agreement at the special meeting or any postponement or adjournment thereof;

- a court or other governmental entity located or having jurisdiction within the United States has issued a final order, decree or ruling or taken any other final action permanently restraining, enjoining or otherwise prohibiting the merger and such order or other action is final and non-appealable;

- o the closing has not occurred on or before November 1, 2005, provided that if the marketing period has not ended on or before August 15, 2005, then such date is extended to the earlier of (A) the tenth business day following the final day of the marketing period and (B) December 16, 2005 (and in certain specified circumstances in connection with regulatory issues such date may be extended by either Parent or us by three months beyond either applicable date);

- o if the terminating party is not in breach and there is a material breach by the non-terminating party of any of its representations, warranties, covenants or agreements in the merger agreement such that the closing conditions would not be satisfied and which cannot be cured or has not been cured prior to the earlier of:

  - n 20 business days following notice;

  - n the termination date; and

  - n with respect to a termination by us due to a breach by Parent or Merger Sub in connection with obtaining the proceeds pursuant to the financing arrangements or using such proceeds as contemplated in the merger agreement, the final day of the marketing period;

by Parent, if our board of directors withdraws or adversely modifies its recommendation or approval of the merger agreement or recommends or approves another acquisition proposal;

by the Company, prior to adoption of the merger agreement by the Company stockholders, if we receive an alternative proposal that is a superior proposal, but only after we have provided notice to Parent regarding the superior proposal and provided Parent with at least a three business day period, during which time we must negotiate in good faith with Parent, to enable Parent to make an offer that results in the alternative proposal no longer being a superior proposal, and only if we concurrently pay to Parent the termination fee described below under Fees and Expenses.

Fees and Expenses

Payable by the Company

We have agreed to reimburse Parent s transaction expenses, up to a limit of $20 million, if either the Company or Parent terminates the merger agreement because of the failure to receive Company stockholder approval at the special meeting or any postponement or adjournment thereof.

In addition, we have agreed to pay to Parent a termination fee of $140.3 million if:

the merger agreement is terminated by either party due to the failure to receive Company stockholder approval at the special meeting or any postponement or adjournment thereof; and

- o prior to the stockholder meeting, an acquisition proposal has been made known to us or publicly disclosed and has not been irrevocably withdrawn; and

- o within 12 months after the termination, we enter into an agreement with respect to an acquisition proposal or a transaction pursuant to an acquisition proposal is completed;

the merger agreement is terminated by Parent due to a material breach by us of our representations, warranties, covenants or agreements such that the closing conditions would not be satisfied and such breach has not been cured within the specified time; and

- o prior to such breach, an acquisition proposal has been made known to us or publicly disclosed and has not been irrevocably withdrawn; and
- o within 12 months after the termination, we enter into an agreement with respect to an acquisition proposal or a transaction pursuant to an acquisition proposal is completed;

the merger agreement is terminated by Parent because the merger is not completed prior to November 1, 2005 (or December 16, 2005 or such later date as may be applicable); and

- o prior to termination of the merger agreement, an acquisition proposal has been made known to us or publicly disclosed and has not been irrevocably withdrawn; and
- o within 12 months after the termination, we enter into an agreement with respect to an acquisition proposal or a transaction pursuant to an acquisition proposal is completed;

Parent has terminated the merger agreement because our board of directors has withdrawn, modified or adversely changed its recommendation of the merger or recommended or approved another acquisition proposal; or

the Company has terminated the merger agreement, prior to the stockholders meeting, if we receive an alternative proposal that is a superior proposal, but only after we have provided notice to Parent regarding the superior proposal and provided Parent with at least a three business day period, during which time we must negotiate in good faith with Parent, to enable Parent to make an offer that results in the alternative proposal no longer being a superior proposal.

If we are obligated to pay a termination fee, any amounts previously paid to Parent as expense reimbursement will be credited toward the termination fee amount payable by us. For purposes of determining whether a termination fee is payable by us, an acquisition proposal is any proposal or offer to acquire in any manner an equity interest representing a 50% or greater economic or voting interest in the Company, or the assets, securities or other ownership interests of or in the Company or any of our subsidiaries representing 50% or more of the consolidated assets of the Company and our subsidiaries.

Payable by Parent or Merger Sub

Parent has agreed to pay us a termination fee of $140.3 million if:

we terminate the agreement due to a breach by Parent or Merger Sub of its obligation to effect the closing of the merger, and deposit funds with the paying agent sufficient to pay the merger consideration, once the closing conditions have been satisfied and the marketing period has expired; and

Parent and Merger Sub fail to effect the closing and satisfy such obligations because of a failure to receive the proceeds of one or more of the debt financings contemplated by the debt financing commitments or because of their refusal to accept debt financing on terms materially less beneficial to Merger Sub than the terms set forth in one or more of the debt financing commitments.

This termination fee is our sole and exclusive remedy against Parent, Merger Sub and their affiliates in the event that we terminate the agreement due to a breach by Parent or Merger Sub of its obligation to effect the closing of the merger, and deposit funds with the paying agent sufficient to pay the merger consideration, once the closing conditions have been satisfied and the marketing period has expired, so long as both of the following conditions are satisfied:

Parent and Merger Sub fail to effect the closing and satisfy such obligations because of:

o a failure to receive the proceeds of one or more of the debt financings contemplated by the debt financing commitments (other than as a result of a reduction in such proceeds pursuant to the terms of the debt financing commitments, including for this purpose a failure to satisfy any condition relating to a leverage ratio or other financing test contained in the debt financing commitments) that, together with the amount of equity financing committed pursuant to the equity financing commitments, are sufficient to fund the payment of the merger consideration and related fees and expenses contemplated by the merger agreement; or

- o their refusal to accept debt financing on terms materially less beneficial to Merger Sub than the terms set forth in one or more of their debt financing commitments; and

Parent and Merger Sub are not otherwise in breach of the merger agreement so that our conditions to closing relating to Parent s performance of its covenants would not be satisfied.

In the event these conditions are not satisfied then in addition to the termination fee payable to the Company, we may be able to pursue a damages claim against Parent and Merger Sub. The aggregate liability of Parent and Merger Sub (together with that of their affiliates, stockholders, partners, members, directors, officers and agents) for all losses and damages suffered by us arising from or in connection with breaches by them of the representations, warranties, covenants and agreements contained in the merger agreement, however, is in all events capped at $500 million.

Amendment and Waiver

Subject to applicable law, the merger agreement may be amended by the written agreement of the parties at any time prior to the closing date of the merger, whether before or after the adoption of the merger agreement by our stockholders, unless the merger agreement has already been adopted by our stockholders and under applicable law such amendment would require the further approval of the Company s stockholders.

The merger agreement also provides that, at any time prior to the effective time of the merger, any party may, by written agreement:

extend the time for the performance of any of the obligations or other acts of the other parties to the merger agreement;

waive any inaccuracies in the representations and warranties contained in the merger agreement or in any document delivered pursuant to the merger agreement; or

waive compliance with any of the agreements or conditions contained in the merger agreement which may be legally waived.

Table of Contents

THE STOCKHOLDER AGREEMENT

The following is a summary of the material terms of the stockholder agreement among Parent, Merger Sub and the Smith Family Holders. This summary is qualified in its entirety by reference to the complete text of the stockholder agreement, a copy of which is attached to this proxy statement as Annex B and is incorporated by reference into this document. Neiman Marcus stockholders are urged to read the stockholder agreement in its entirety.

Concurrently with the execution and delivery of the merger agreement, Parent and Merger Sub entered into a stockholder agreement with Richard A. Smith, the Chairman of our board of directors, and members of his family, including Robert A. Smith and Brian J. Knez, the co-Vice Chairmen of our board. As of the date of the stockholder agreement, the Smith Family Holders were the beneficial owners of 6,055,057 shares of Neiman Marcus common stock (consisting of 16,471 shares of Class A common stock and 6,038,586 shares of Class B common stock). As of the date of the stockholder agreement, the aggregate number of shares of Class A common stock and Class B common stock beneficially owned by the Smith Family Holders which are subject to the stockholder agreement represented approximately 12.4% of the voting power and total number of outstanding Company shares. We refer to the Neiman Marcus shares beneficially owned by the Smith Family Holders, together with any shares of common stock issued upon exercise of any of their options and any other Neiman Marcus shares over which the Smith Family Holders acquire beneficial ownership after the date of the stockholder agreement as the Subject Shares.

Pursuant to the stockholder agreement, the Smith Family Holders have agreed that, during the period from and including May 1, 2005 through and including the earliest to occur of (a) the closing of the merger and (b) the termination of the merger agreement in accordance with its terms (the voting period), they will vote or execute consents with respect to the Subject Shares beneficially owned by them on the applicable record date, at any meeting or in connection with any proposed action by written consent of the Company s stockholders, with respect to any of the following matters:

in favor of the adoption of the merger agreement and the transactions contemplated by the merger agreement; and

against:

(1) any alternative transaction offer made prior to the termination of the merger agreement (other than one made by Parent);

(2) any extraordinary dividend or distribution by the Company or any of our subsidiaries;

(3) any change in the capital structure of the Company or any of our subsidiaries (other than pursuant to the merger agreement); and

(4) any other action that would reasonably be expected to, in any material respect, prevent, impede, interfere with, delay, postpone, frustrate the purposes of or attempt to discourage the transactions contemplated by the merger agreement.

In connection with the performance of the obligations of the Smith Family Holders under the stockholder agreement, each Smith Family Holder irrevocably appointed Parent as his, her or its proxy and attorney-in-fact to vote his, her or its Subject Shares to the extent described above and agreed not to grant any other proxy or take any actions that are inconsistent with or that would impede such holder s performance of the stockholder agreement. The proxy and power of attorney granted by the Smith Family Holders pursuant to the stockholder agreement will terminate only upon the expiration of the voting period.

Under the stockholder agreement, each Smith Family Holder has agreed not to transfer or encumber his, her or its Subject Shares, including by:

- granting any proxies or entering into any voting trust or other agreement or arrangement with respect to the voting of any Subject Shares in a manner inconsistent with the terms of the stockholder agreement;

- voluntarily taking any action that would or is reasonably likely to make any representation or warranty contained in the stockholder agreement untrue or incorrect in any material respect or have the effect in any material respect of preventing such Smith Family Holder from performing its obligations under the stockholder agreement; or

- voluntarily selling, assigning, encumbering or otherwise disposing of, or entering into any contract or other arrangement with respect to the direct or indirect sale, assignment, encumbrance or other disposition of, any Subject Shares during the term of the stockholder agreement, except for transfers to any Smith Family Holder or person who becomes bound by the stockholder agreement or to charitable organizations (provided such shares transferred to a charitable organization constitute, in the aggregate not more than a certain cap).

In addition, the Smith Family Holders have agreed that during the voting period, they will not solicit or initiate any alternative acquisition proposal or engage in any negotiations with or furnish any nonpublic information relating to the Company to any person that may be considering making, or has made or agreed to endorse, an alternative acquisition proposal and will provide Parent and Merger Sub with prompt notice of receipt of any alternative acquisition proposal or request for information from any such person.

The stockholder agreement will terminate on the earliest to occur of (i) the effective time of the merger and (ii) the termination of the merger agreement in accordance with its terms.

Table of Contents

MARKET PRICE OF THE COMPANY S STOCK

Our Class A common stock and Class B common stock are traded on the NYSE under the symbols NMG.A and NMG.B , respectively. The following table sets forth the high and low sales prices per share of our common stock on the NYSE for the periods indicated.

Market Information

	Class A Common Stock		Class B Common Stock	
	High	**Low**	**High**	**Low**
Fiscal Year Ended August 2, 2003				
1st Quarter	$31.70	$24.95	$28.79	$22.70
2nd Quarter	$31.58	$28.01	$29.05	$25.61
3rd Quarter	$32.05	$26.05	$30.10	$23.87
4th Quarter	$40.30	$31.75	$37.60	$29.45
Fiscal Year Ended July 31, 2004				
1st Quarter	$48.00	$38.90	$44.25	$36.25
2nd Quarter	$55.78	$48.20	$51.85	$44.20
3rd Quarter	$59.18	$48.55	$55.54	$45.25
4th Quarter	$55.65	$48.00	$52.15	$44.76
Fiscal Year Ending July 30, 2005				
1st Quarter	$60.89	$49.52	$56.80	$46.53
2nd Quarter	$73.40	$60.15	$68.70	$56.16
3rd Quarter	$100.98	$65.96	$100.00	$61.15
4th Quarter (through May 17, 2005)	$95.40	$92.13	$94.80	$91.66

The closing sale price of our Class A common stock and Class B common stock on the NYSE on April 29, 2005, which was the last trading day before we announced the merger, was $98.32 and $97.20 per share, respectively. On **[•]**, 2005, the last trading day before the date of this proxy statement, the closing price for the Company s Class A common stock and Class B common stock on the NYSE was $**[•]** and $**[•]**. You are encouraged to obtain current market quotations for the Company s common stock in connection with voting your shares.

As of **[•]**, 2005, the last trading day before the date of this proxy statement, there were **[•]** registered holders of Neiman Marcus Class A common stock, **[•]** registered holders of Neiman Marcus Class B common stock and no holders of Class C common stock.

The following table sets forth dividends announced and paid in respect of Neiman Marcus common stock, on a per share basis for the periods indicated. No dividends were declared on the Company s common stock during the fiscal year ended August 2, 2003. Holders of the Company s Class A common stock and Class B common stock share equally in any dividends declared by the Company.

	Dividends per Class A Common Stock and Class B Common Stock
Fiscal Year Ended July 31, 2004	
1st Quarter	0
2nd Quarter	$0.13
3rd Quarter	$0.13
4th Quarter	$0.13
Total	$0.39
Fiscal Year Ending July 30, 2005	
1st Quarter	$0.13
2nd Quarter	$0.15
3rd Quarter	$0.15

Table of Contents

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the number of shares of common stock of the Company beneficially owned, as of May 17, 2005, by our Chief Executive Officer and the next four most highly compensated current executive officers, each of our directors, all of our directors and executive officers as a group and any person or group (as defined in Section 13(d)(3) of the Exchange Act) who is known by the Company to be the beneficial owner of more than five percent of any class of the Company s common stock. As of May 17, 2005, 48,947,578 shares of common stock of the Company were outstanding (29,525,199 shares of Class A common stock and 19,422,379 shares of Class B common stock), and the ownership percentages reflected in the table below are based on the number of shares outstanding as of such date.

	Class A Common Stock		Class B Common Stock		
Name of Beneficial Owner	Number (1)	Percentage of Class	Number (1)	Percentage of Class	Percentage of Total Common Stock
Smith Family Holders(2) c/o Richard A. Smith 1280 Boylston Street Chestnut Hill, MA 02467	127,471	*	6,038,586	31.1%	12.6%
Richard A. Smith(1)(2)			3,161,092	16.6%	6.6%
Nancy L. Marks(2) 110 Lyman Rd. Chestnut Hill, MA 02467			2,953,609	15.0%	6.0%
Gabelli Funds, LLC(3) One Corporate Center Rye, NY 10580	887,034	3.0%	2,934,149	15.1%	7.8%
Ariel Capital Management, Inc.(4) 200 E. Randolf Dr. Chicago, IL 60601	3,165,428	10.7%			6.5%
PRIMECAP Management Company(5) 225 South Lake Avenue Pasadena, CA 91101	2,642,239	8.3%	1,341,525	6.9%	7.8%
FMR Corp. (6) 82 Devonshire Street Boston, MA 02109	1,716,600	5.8%			3.5%
Southeastern Asset Management, Inc.(7)	1,789,500	6.1%	1,733,500	8.9%	7.2%

6410 Poplar Avenue Memphis, TN 38119					
Vanguard/Primecap Fund (8) 100 Vanguard Blvd. Malvern, PA 19355	1,800,000	6.1%	1,028,811	5.3%	5.8%
Wellington Management Company, LLP (9) 75 State Street Boston, MA 02109	3,023,400	10.2%			6.2%
The Hartford Series Fund, Inc. (10) 200 Hopmeadow Street Simsbury, CT 06089	1,830,200	6.2%			3.7%
Atticus Capital, L.L.C. (11) 152 West 57th St. New York, NY 10019	1,660,000	5.6%			3.4%
Robert A. Smith (2) (12)	63,480	*	368,177	1.9%	*
Brian J. Knez (2) (13)	63,991	*	136,884	0.7%	*

68

Table of Contents

Name of Beneficial Owner	Class A Common Stock Number (1)	Class A Common Stock Percentage of Class	Class B Common Stock Number (1)	Class B Common Stock Percentage of Class	Percentage of Total Common Stock
Burton M. Tansky (14)	456,980	1.5%			*
Karen W. Katz (15)	151,826	*			*
Brendan L. Hoffman (16)	21,566	*			*
James E. Skinner (17)	66,759	*			*
James J. Gold (18)	33,338	*			*
Matina S. Horner (19)	14,429	*			*
Vincent M. O Reilly (19)	5,899	*	218	*	*
Walter J. Salmon (19)	15,041	*			*
Paula Stern (19)	5,501	*			*
John R. Cook (19)	2,871	*	3,000	*	*
Gary L. Countryman (19)	6,512	*			*
Carl Sewell (19)	2,291	*	5,000	*	*
All current executive officers and directors as a group (18 persons) (20)	953,470	3.2%	3,674,371	18.9%	9.3%

*Less than 1%.

(1) Unless otherwise indicated in the following footnotes, each stockholder referred to above has sole voting and dispositive power with respect to the shares listed. Certain of the shares included in the table have been counted more than once because of certain rules and regulations of the SEC. The total number of shares owned by, or for the benefit of, Richard A. Smith, Nancy L. Marks and members of their families is as shown for the Smith Family Holders. See Note 2 below. Mr. Smith disclaims beneficial ownership of 1,709,486 shares of Class B common stock held by various family trusts, foundations and companies. Mrs. Marks disclaims beneficial ownership of 1,314,516 shares of Class B common stock held by various family trusts, foundations and companies.

(2) The Smith Family Holders include Richard A. Smith, Chairman of the Company; Nancy L. Marks, Mr. Smith s sister; Robert A. Smith, Co-Vice Chairman of the Company, and Brian J. Knez, Co-Vice Chairman of the Company, who are, respectively, the son and son-in-law of Richard A. Smith; other members of their families; and various family trusts, foundations and companies. The Smith Family Holders possess sole or shared voting power over all of the shares shown in the table.

In connection with the merger, the Smith Family Holders filed Amendment No. 1 to Schedule 13D with the SEC which discloses that the Smith Family Holders have entered into the stockholder agreement relating to the merger. See The Stockholder Agreement.

(3) The information reported with respect to the Class A common stock and Class B common stock is based on a Schedule 13F, dated February 11, 2005, filed with the SEC by Gabelli Funds, Inc. and its affiliates. Gabelli Funds, Inc. and its affiliates have shared voting power with respect to 26,400 shares and sole dispositive power with respect to 3,652,460 shares reported in the table.

(4) The information reported with respect to the Class A common stock is based on Amendment No. 12 to Schedule 13G reporting information as of March 31, 2005, filed with the SEC by Ariel Capital Management, Inc., which has sole dispositive power with respect to 3,164,263 of the shares reported in the table and sole voting power with respect to 2,475,023 of the shares reported.

(5)

The information reported with respect to the Class A common stock is based on an Amendment No. 8 to Schedule 13G, dated March 23, 2005, filed with the SEC by PRIMECAP Management Company. PRIMECAP Management Company has sole dispositive power with respect to all of the shares reported in the table and sole voting power with respect to 567,139 shares. With respect to Class B common stock, the

information reported is based on a Schedule 13F, dated March 23, 2005, filed with the SEC by PRIMECAP Management Company. PRIMECAP Management Company has sole voting power with respect to 263,348 shares and sole dispositive power with respect to all shares reported in the table.

(6) The information reported is based on a Schedule 13G, dated February 14, 2005, filed with the SEC by FMR Corp. FMR Corp. has shared voting and sole dispositive power with respect to all the shares reported in the table.

(7) The information reported with respect to the Class A common stock is based on Amendment No. 4 to Schedule 13G, dated February 7, 2005, filed with the SEC by Southeastern Asset Management, Inc. Southeastern Asset Management, Inc. has sole voting power with respect to 1,514,500 shares and sole dispositive power with respect to all of the shares listed in the table. With respect to Class B common stock, the information reported is based on Amendment No. 6 to Schedule 13G, dated April 7, 2005, filed with the SEC by Southeastern Asset Management, Inc. Southeastern Asset Management, Inc. has sole voting and dispositive power with respect to 1,498,000 shares and shared voting and shared dispositive power with respect to 235,500 shares.

(8) The information reported with respect to the Class A common stock is based on Amendment No. 5 to Schedule 13G, dated February 14, 2005, filed with the SEC by Vanguard/Primecap Fund. With respect to Class B common stock, the information reported is based on Amendment No. 8 to Schedule 13G, dated February 14, 2005, filed with the SEC by Vanguard/Primecap Fund Inc. Vanguard/Primecap Fund. has sole voting power with respect to all the shares reported in the table.

(9) The information reported is based on Amendment No. 4 to Schedule 13G, dated February 14, 2005, filed with the SEC by Wellington Management Company, LLP. Wellington Management Company, LLP has shared voting with respect to 3,017,700 shares and shared dispositive power with respect to all of the shares reported in the table.

(10) The information reported is based on Amendment No. 2 to Schedule 13G, dated February 10, 2005, filed with the SEC by The Hartford Series Fund, Inc. The Hartford Series Fund, Inc. has shared voting and shared dispositive power with respect to all the shares reported in the table.

(11) The information reported is based on Schedule 13G, dated May 2, 2005, filed with the SEC by Atticus Capital, L.L.C. Atticus Capital, L.L.C. has sole voting and sole dispositive power with respect to all the shares reported in the table.

(12) Includes 55,500 shares of Class A common stock that are subject to outstanding options exercisable within 60 days of May 17, 2005. All of the shares reported by Mr. Smith are included in the shares owned by the Smith Family Holders. See Note 2. Mr. Smith disclaims beneficial ownership of 55,058 shares of Class B common stock held by various family trusts.

(13) Includes 55,500 shares of Class A common stock that are subject to outstanding options exercisable within 60 days of May 17, 2005. All of the shares owned by Mr. Knez are included in the shares owned by the Smith Family Holders. See Note 2. Mr. Knez disclaims beneficial ownership of 131,597 shares of Class B common stock held by his spouse and by various family trusts and foundations.

(14) Includes 313,600 shares of Class A common stock that are subject to outstanding options exercisable within 60 days of May 17, 2005. Also includes 29,590 shares of restricted Class A common stock over which Mr. Tansky has voting but not dispositive power and 113,790 shares of restricted stock units over which Mr. Tansky has no voting and no dispositive power.

Table of Contents

(15) Includes 40,500 shares of Class A common stock that are subject to outstanding options exercisable within 60 days of May 17, 2005. Also includes 76,980 shares of restricted Class A common stock over which Ms. Katz has voting but not dispositive power, 23,212 shares of restricted stock units over which Ms. Katz has no voting and no dispositive power, and 1,089 shares of Class A common stock allocated to Ms. Katz under the Company s employee savings plan as to which Ms. Katz shares voting power with the trustee.

(16) Includes 7,300 shares of Class A common stock that are subject to outstanding options exercisable within 60 days of May 17, 2005. Also includes 11,055 shares of restricted Class A common stock over which Mr. Hoffman has voting but not dispositive power and 1,739 shares of restricted stock units over which Mr. Hoffman has no voting and no dispositive power.

(17) Includes 16,000 shares of Class A common stock that are subject to outstanding options exercisable within 60 days of May 17, 2005. Also includes 37,703 shares of restricted Class A common stock over which Mr. Skinner has voting but not dispositive power and 13,056 shares of restricted stock units over which Mr. Skinner has no voting and no dispositive power.

(18) Includes 19,955 shares of restricted Class A common stock over which Mr. Gold has voting but not dispositive power and 13,056 shares of restricted stock units over which Mr. Gold has no voting and no dispositive power.

(19) Dr. Horner, Dr. Stern, Mr. O Reilly, Dr. Salmon, Mr. Countryman, Mr. Cook and Mr. Sewell each hold, respectively, 14,429; 5,501; 5,099; 5,099; 5,512; 2,871; and 2,291 common stock-based units which are included in the table. These directors do not have voting or dispositive power with respect to these common stock-based units.

(20) Includes (i) 495,800 shares of Class A common stock that are subject to outstanding options exercisable within 60 days of May 17, 2005, (ii) 187,952 shares of restricted Class A common stock over which individuals in the group have voting but not dispositive power, (iii) 220,927 shares of restricted stock units and stock-based units referred to in Note 18 above over which individuals in the group have no voting and no dispositive power, and (iv) 1,089 shares of Class A common stock allocated to an individual in the group under the Company s employee savings plan as to which such individual shares voting power with the trustee.

Table of Contents

RIGHTS OF APPRAISAL

Under the DGCL, you have the right to demand appraisal in connection with the merger and to receive, in lieu of the merger consideration, payment in cash for the fair value of your common stock of the Company as determined by the Delaware Court of Chancery. The Company s stockholders electing to exercise appraisal rights must comply with the provisions of Section 262 of the DGCL in order to perfect their rights. The Company will require strict compliance with the statutory procedures.

The following is intended as a brief summary of the material provisions of the Delaware statutory procedures required to be followed by a stockholder in order to demand and perfect appraisal rights. This summary, however, is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Section 262 of the DGCL, the full text of which appears in Annex D to this proxy statement.

Section 262 requires that stockholders be notified that appraisal rights will be available not less than 20 days before the special meeting to vote on the adoption of the merger agreement. A copy of Section 262 must be included with such notice. This proxy statement constitutes the Company s notice to its stockholders of the availability of appraisal rights in connection with the merger in compliance with the requirements of Section 262. If you wish to consider exercising your appraisal rights, you should carefully review the text of Section 262 contained in Annex D since failure to timely and properly comply with the requirements of Section 262 will result in the loss of your appraisal rights under Delaware law.

If you elect to demand appraisal of your shares, you must satisfy each of the following conditions:

- You must deliver to the Company a written demand for appraisal of your shares before the vote with respect to the merger agreement is taken at the special meeting. This written demand for appraisal must be in addition to and separate from any proxy or vote abstaining from or voting against the adoption of the merger agreement. Voting against or failing to vote for the adoption of the merger agreement by itself does not constitute a demand for appraisal within the meaning of Section 262.

- You must not vote in favor of the adoption of the merger agreement. A vote in favor of the adoption of the merger agreement, by proxy or in person, will constitute a waiver of your appraisal rights in respect of the shares so voted and will nullify any previously filed written demands for appraisal.

If you fail to comply with either of these conditions and the merger is completed, you will be entitled to receive the cash payment for your shares of the Company s common stock as provided for in the merger agreement, but you will have no appraisal rights with respect to your shares of the Company s common stock. A proxy card which is signed and does not contain voting instructions will, unless revoked, be voted FOR the adoption of the merger agreement and will constitute a waiver of your right of appraisal and will nullify any previous written demand for appraisal.

All demands for appraisal should be in writing and addressed to The Neiman Marcus Group, Inc., One Marcus Square, 1618 Main Street, Dallas, Texas 75201, Attention: General Counsel, before the vote on the merger agreement is taken at the special meeting, and should be executed by, or on behalf of, the record holder of the shares in respect of which appraisal is being demanded. The demand must reasonably inform the Company of the identity of the stockholder and the intention of the stockholder to demand appraisal of his, her or its shares.

To be effective, a demand for appraisal by a holder of the Company s common stock must be made by, or in the name of, such registered stockholder, fully and correctly, as the stockholder s name appears on his or her stock certificate(s). The demand should specify the holder s name and mailing address and the number of shares registered in the holder s name and must state that the person intends thereby to demand appraisal of the holder s shares in connection with the merger. **Beneficial owners who do not also hold the shares of record may not directly make appraisal demands to the Company. The beneficial holder must, in such cases, have the registered owner submit the required demand in respect of those shares.** If shares are owned of record in

72

a fiduciary capacity, such as by a trustee, guardian or custodian, execution of a demand for appraisal should be made in that capacity; and if the shares are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or for all joint owners. An authorized agent, including an authorized agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, he or she is acting as agent for the record owner. A record owner, such as a broker, who holds shares as a nominee for others, may exercise his or her right of appraisal with respect to the shares held for one or more beneficial owners, while not exercising this right for other beneficial owners. In that case, the written demand should state the number of shares as to which appraisal is sought. Where no number of shares is expressly mentioned, the demand will be presumed to cover all shares held in the name of the record owner.

If you hold your shares of the Company s common stock in a brokerage account or in other nominee form and you wish to exercise appraisal rights, you should consult with your broker or the other nominee to determine the appropriate procedures for the making of a demand for appraisal by the nominee.

Within 10 days after the effective time of the merger, the surviving corporation must give written notice that the merger has become effective to each Company stockholder who has properly filed a written demand for appraisal and who did not vote in favor of the merger agreement. At any time within 60 days after the effective time, any stockholder who has demanded an appraisal has the right to withdraw the demand and to accept the cash payment specified by the merger agreement for such stockholder s shares of the Company s common stock. Within 120 days after the effective time, either the surviving corporation or any stockholder who has complied with the requirements of Section 262 may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares held by all stockholders entitled to appraisal. The surviving corporation has no obligation and has no present intention to file such a petition in the event there are dissenting stockholders. Accordingly, it is the obligation of the Company s stockholders to initiate all necessary action to perfect their appraisal rights in respect of shares of the Company s common stock within the time prescribed in Section 262. The failure of a stockholder to file such a petition within the period specified could nullify the stockholder s previously written demand for appraisal.

If a petition for appraisal is duly filed by a stockholder and a copy of the petition is delivered to the surviving corporation, the surviving corporation will then be obligated, within 20 days after receiving service of a copy of the petition, to provide the Chancery Court with a duly verified list containing the names and addresses of all stockholders who have demanded an appraisal of their shares and with whom agreements as to the value of their shares have not been reached. After notice to dissenting stockholders, the Chancery Court is empowered to conduct a hearing upon the petition, and to determine those stockholders who have complied with Section 262 and who have become entitled to the appraisal rights provided thereby. The Chancery Court may require the stockholders who have demanded payment for their shares to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with that direction, the Chancery Court may dismiss the proceedings as to that stockholder.

After determination of the stockholders entitled to appraisal of their shares of the Company s common stock, the Chancery Court will appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. When the value is determined, the Chancery Court will direct the payment of such value, with interest thereon accrued during the pendency of the proceeding, if the Chancery Court so determines, to the stockholders entitled to receive the same, upon surrender by such holders of the certificates representing those shares.

In determining fair value and, if applicable, a fair rate of interest, the Chancery Court is required to take into account all relevant factors. In *Weinberger v. UOP, Inc.*, the Supreme Court of Delaware discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that proof of value

by any techniques or methods that are generally considered acceptable in the financial community and otherwise admissible in court should be considered, and that fair price obviously requires consideration of all relevant factors involving the value of a company. The Delaware Supreme Court stated that, in making this determination of fair value, the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts that could be ascertained as of the date of the merger that throw any light on future prospects of the merged corporation. Section 262 provides that fair value is to be exclusive of any element of value arising from the accomplishment or expectation of the merger. In *Cede & Co. v. Technicolor, Inc.*, the Delaware Supreme Court stated that such exclusion is a narrow exclusion [that] does not encompass known elements of value, but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In *Weinberger*, the Supreme Court of Delaware also stated that elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered. **You should be aware that the fair value of your shares as determined under Section 262 could be more, the same, or less than the value that you are entitled to receive under the terms of the merger agreement.**

Costs of the appraisal proceeding may be imposed upon the surviving corporation and the stockholders participating in the appraisal proceeding by the Chancery Court as the Chancery Court deems equitable in the circumstances. Upon the application of a stockholder, the Chancery Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys fees and the fees and expenses of experts, to be charged pro rata against the value of all shares entitled to appraisal. Any stockholder who had demanded appraisal rights will not, after the effective time, be entitled to vote shares subject to that demand for any purpose or to receive payments of dividends or any other distribution with respect to those shares, other than with respect to payment as of a record date prior to the effective time; however, if no petition for appraisal is filed within 120 days after the effective time of the merger, or if the stockholder delivers a written withdrawal of such stockholder s demand for appraisal and an acceptance of the terms of the merger within 60 days after the effective time of the merger, then the right of that stockholder to appraisal will cease and that stockholder will be entitled to receive the cash payment for shares of his, her or its Company common stock pursuant to the merger agreement. Any withdrawal of a demand for appraisal made more than 60 days after the effective time of the merger may only be made with the written approval of the surviving corporation. Once a petition for appraisal has been filed, the appraisal proceeding may not be dismissed as to any stockholder without the approval of the Chancery Court.

Failure to comply with all of the procedures set forth in Section 262 will result in the loss of a stockholder s statutory appraisal rights. **In view of the complexity of Section 262, the Company s stockholders who may wish to dissent from the merger and pursue appraisal rights should consult their legal advisors.**

MULTIPLE STOCKHOLDERS SHARING ONE ADDRESS

In accordance with Rule 14a-3(e)(1) under the Exchange Act, one proxy statement will be delivered to two or more stockholders who share an address, unless Neiman Marcus has received contrary instructions from one or more of the stockholders. Neiman Marcus will deliver promptly upon written or oral request a separate copy of the proxy statement to a stockholder at a shared address to which a single copy of the proxy statement was delivered. Requests for additional copies of the proxy statement, and requests that in the future separate proxy statements be sent to stockholders who share an address, should be directed to The Neiman Marcus Group, Inc., One Marcus Square, 1618 Main Street, Dallas, Texas 75201, Attention: Brenda Sanders, telephone: (214) 743-7615. In addition, stockholders who share a single address but receive multiple copies of the proxy statement may request that in the future they receive a single copy by contacting Neiman Marcus at the address and phone number set forth in the prior sentence.

Table of Contents

SUBMISSION OF STOCKHOLDER PROPOSALS

If the merger is not completed, you will continue to be entitled to attend and participate in our stockholder meetings and we will hold a 2006 annual meeting of stockholders, in which case stockholder proposals will be eligible for consideration for inclusion in the proxy statement and form of proxy for our 2006 annual meeting of stockholders in accordance with Rule 14a-8 under the Exchange Act. To be eligible for inclusion in the proxy statement and form of proxy for the 2006 annual meeting pursuant to Rule 14a-8, proposals of stockholders must have been received by us no later than July 25, 2005 and must comply with Rule 14a-8. If the date of the 2006 annual meeting, if any, is changed by more than 30 days from January 14, 2006, then in order to be considered for inclusion in the Company s proxy materials, proposals of stockholders intended to be presented at the 2006 annual meeting must be received by us a reasonable time before we begin to print and mail our proxy materials for the 2006 annual meeting. In order to curtail controversy as to the date on which a proposal was received by us, we suggest that proponents submit their proposals by certified mail, return receipt requested, to The Neiman Marcus Group, Inc., One Marcus Square, 1618 Main Street, Dallas, Texas 75201, Attention: Corporate Secretary.

In addition, our bylaws provide that stockholders seeking to nominate candidates for election as directors at an annual meeting of stockholders, must provide timely notice thereof in writing. To be timely, a stockholder s notice must be delivered to or mailed and received at our principal executive offices, not less than 90 days prior to the anniversary date of the immediately preceding annual meeting. We reserve the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

The Company files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, proxy statements or other information that we file with the SEC at the following location of the SEC:

Public Reference Room

100 F Street, N.E.

Washington, D.C. 20549

Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. The Company s public filings are also available to the public from document retrieval services and the Internet website maintained by the SEC at www.sec.gov.

Reports, proxy statements or other information concerning us may also be inspected at the offices of the NYSE at:

20 Broad Street

New York, NY 10005

Any person, including any beneficial owner, to whom this proxy statement is delivered may request copies of reports, proxy statements or other information concerning us, without charge, by written or telephonic request directed to us at The Neiman Marcus Group, Inc., One Marcus Square, 1618 Main Street, Dallas, Texas 75201, Attention: Investor Relations. If you would like to request documents, please do so by **[•]**, in order to receive them before the special meeting.

The SEC allows us to incorporate by reference into this proxy statement documents we file with the SEC. This means that we can disclose important information to you by referring you to those documents. The

information incorporated by reference is considered to be a part of this proxy statement, and later information that we file with the SEC will update and supersede that information. We incorporate by reference the documents listed below and any documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this proxy statement and prior to the date of the special meeting:

Company Filings:	**Periods:**
Annual Report on Form 10-K	Year ended July 31, 2004
Quarterly Reports on Form 10-Q	Quarters ended January 29, 2005 and October 30, 2004
Current Reports on Form 8-K	Filed August 5, 2004, September 2, 2004, September 7, 2004, September 14, 2004, September 21, 2004, September 24, 2004, October 7, 2004, November 4, 2004, November 12, 2004, December 1, 2004, January 6, 2005, January 14, 2005, January 21, 2005, February 3, 2005, March 2, 2005, March 16, 2005, April 1, 2005, April 5, 2005, April 7, 2005, April 8, 2005, April 19, 2005 and May 4, 2005

No persons have been authorized to give any information or to make any representations other than those contained in this proxy statement and, if given or made, such information or representations must not be relied upon as having been authorized by us or any other person. This proxy statement is dated **[•]** 2005. You should not assume that the information contained in this proxy statement is accurate as of any date other than that date, and the mailing of this proxy statement to stockholders shall not create any implication to the contrary.

Table of Contents

ANNEX A

AGREEMENT AND PLAN OF MERGER

among

NEWTON ACQUISITION, INC.,

NEWTON ACQUISITION MERGER SUB, INC.

and

THE NEIMAN MARCUS GROUP, INC.

Dated as of May 1, 2005

TABLE OF CONTENTS

	Page
ARTICLE I THE MERGER	A-1
SECTION 1.1 The Merger	A-1
SECTION 1.2 Closing; Effective Time	A-1
SECTION 1.3 Effects of the Merger	A-2
SECTION 1.4 Certificate of Incorporation; By-Laws	A-2
SECTION 1.5 Directors and Officers	A-2
ARTICLE II EFFECT OF THE MERGER ON THE CAPITAL STOCK OF THE CONSTITUENT CORPORATIONS	A-2
SECTION 2.1 Conversion of Securities	A-2
SECTION 2.2 Treatment of Options, Restricted Shares, Stock Units, and Deferred Compensation Plans	A-3
SECTION 2.3 Dissenting Shares	A-3
SECTION 2.4 Surrender of Shares	A-4
ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE COMPANY	A-5
SECTION 3.1 Organization and Qualification; Subsidiaries	A-6
SECTION 3.2 Certificate of Incorporation and By-laws	A-6
SECTION 3.3 Capitalization	A-6
SECTION 3.4 Authority	A-8
SECTION 3.5 No Conflict; Required Filings and Consents	A-8
SECTION 3.6 Compliance	A-9
SECTION 3.7 SEC Filings; Financial Statements; No Undisclosed Liabilities	A-9
SECTION 3.8 Absence of Certain Changes or Events	A-10
SECTION 3.9 Absence of Litigation	A-11
SECTION 3.10 Employee Benefit Plans	A-11
SECTION 3.11 Labor and Employment Matters	A-12
SECTION 3.12 Insurance	A-12
SECTION 3.13 Properties	A-13
SECTION 3.14 Tax Matters	A-13
SECTION 3.15 Proxy Statement	A-14
SECTION 3.16 Opinion of Financial Advisors	A-14
SECTION 3.17 Brokers	A-15
SECTION 3.18 Takeover Statutes; Rights Plans	A-15
SECTION 3.19 Intellectual Property	A-15
SECTION 3.20 Environmental Matters	A-15
SECTION 3.21 Contracts	A-16
SECTION 3.22 Affiliate Transactions	A-17
SECTION 3.23 No Other Representations or Warranties	A-17
ARTICLE IV REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB	A-18
SECTION 4.1 Organization	A-18
SECTION 4.2 Authority	A-18
SECTION 4.3 No Conflict; Required Filings and Consents	A-18
SECTION 4.4 Absence of Litigation	A-19
SECTION 4.5 Proxy Statement	A-19
SECTION 4.6 Brokers	A-19
SECTION 4.7 Financing	A-19
SECTION 4.8 Parent and Merger Sub	A-20

Table of Contents

SECTION 4.9 Ownership of Shares A-20
SECTION 4.10 Vote/Approval Required A-20
SECTION 4.11 No Other Representations or Warranties A-20

ARTICLE V CONDUCT OF BUSINESS PENDING THE MERGER A-20

SECTION 5.1 Conduct of Business of the Company Pending the Merger A-20
SECTION 5.2 Consultation Rights A-23
SECTION 5.3 Conduct of Business of Parent and Merger Sub Pending the Merger A-23
SECTION 5.4 No Control of Other Party s Business A-23

ARTICLE VI ADDITIONAL AGREEMENTS A-23

SECTION 6.1 Stockholders Meeting A-23
SECTION 6.2 Proxy Statement A-24
SECTION 6.3 Resignation of Directors A-24
SECTION 6.4 Access to Information; Confidentiality A-24
SECTION 6.5 Acquisition Proposals A-25
SECTION 6.6 Employment and Employee Benefits Matters A-26
SECTION 6.7 Directors and Officers Indemnification and Insurance A-27
SECTION 6.8 Further Action; Efforts A-28
SECTION 6.9 Public Announcements A-30
SECTION 6.10 Financing A-30
SECTION 6.11 Notification A-32

ARTICLE VII CONDITIONS OF MERGER A-32

SECTION 7.1 Conditions to Obligation of Each Party to Effect the Merger A-32
SECTION 7.2 Conditions to Obligations of Parent and Merger Sub A-32
SECTION 7.3 Conditions to Obligations of the Company A-33

ARTICLE VIII TERMINATION, AMENDMENT AND WAIVER A-33

SECTION 8.1 Termination A-33
SECTION 8.2 Effect of Termination A-34
SECTION 8.3 Expenses A-36
SECTION 8.4 Amendment A-36
SECTION 8.5 Waiver A-36

ARTICLE IX GENERAL PROVISIONS A-36

SECTION 9.1 Non-Survival of Representations, Warranties, Covenants and Agreements A-36
SECTION 9.2 Notices A-36
SECTION 9.3 Certain Definitions A-37
SECTION 9.4 Severability A-38
SECTION 9.5 Entire Agreement; Assignment A-38
SECTION 9.6 Parties in Interest A-39
SECTION 9.7 Governing Law A-39
SECTION 9.8 Headings A-39
SECTION 9.9 Counterparts A-39
SECTION 9.10 Specific Performance; Jurisdiction A-39
SECTION 9.11 Parent Guarantee A-39
SECTION 9.12 Interpretation A-39

Exhibits:
Exhibit A Certificate of Incorporation of the Surviving Corporation
Exhibit B Bylaws of Merger Sub

Table of Contents

INDEX OF DEFINED TERMS

2005 Bonus Program	A-26
Acquisition Proposal	A-25
Action	A-9
affiliate	A-37
Agreement	A-1
Antitrust Law	A-29
beneficial owner	A-37
beneficially owned	A-37
Book-Entry Shares	A-4
business day	A-37
By-Laws	A-6
Capitalization Date	A-7
Certificate of Incorporation	A-6
Certificate of Merger	A-2
Certificates	A-4
Class A Common Stock	A-2
Class A Shares	A-2
Class B Common Stock	A-2
Class B Shares	A-2
Class C Common Stock	A-2
Class C Shares	A-2
Closing	A-1
Closing Date	A-1
Code	A-11
Company	A-1
Company Common Stock	A-3
Company Disclosure Schedule	A-5
Company Employees	A-11
Company Plans	A-11
Company Requisite Vote	A-8
Company Rights	A-7
Company Securities	A-7
Company Stock Plans	A-7
Compensation	A-27
Confidentiality Agreement	A-25
Contract	A-8
control	A-38
controlled	A-38
controlled by	A-38
corresponding section	A-38
Costs	A-27
Credit Card Business Transaction	A-21
Current Employee	A-27
Debt Financing	A-19
Debt Financing Commitments	A-19
Deferred Compensation Plans	A-3
DGCL	A-1
Dissenting Shares	A-3
DOJ	A-29
Effective Time	A-2
employee benefit plan	A-11
Environmental Laws	A-16
Environmental Permits	A-16
Equity Financing	A-19

Equity Financing Commitments	A-19
ERISA	A-11
Exchange Act	A-8
Expenses	A-34
Financial Advisors	A-14
Financing	A-19
Financing Commitments	A-19
Foreign Antitrust Laws	A-9
Forward Underwriting Commitment Letter	A-19
FTC	A-29
generally accepted accounting principles	A-38
Governmental Entity	A-8
HSR Act	A-8
Indemnified Parties	A-27
industries in which the Company and its subsidiaries operate	A-38
Initiation Date	A-31
Intellectual Property	A-15
Investors	A-19
IRS	A-11
Junior Participating Preferred Stock	A-7
Kate Spade Agreement	A-21
Kate Spade Put	A-21
knowledge	A-38
Law	A-8
Leased Real Property	A-13
Licenses	A-9
Lien	A-7
Marketing Period	A-31
Material Adverse Effect	A-6
Material Contract	A-17
Material Subsidiary	A-6
Materials of Environmental Concern	A-16