

NEIMAN MARCUS GROUP INC
Form 10-K
October 02, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended August 2, 2003

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file no. 1-9659

The Neiman Marcus Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4119509
(I.R.S. Employer
Identification No.)

Edgar Filing: NEIMAN MARCUS GROUP INC - Form 10-K

One Marcus Square
1618 Main Street
Dallas, Texas
(Address of principal executive offices)

75201
(Zip code)

Registrant's telephone number, including area code: **(214) 741-6911**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, \$.01 par value	New York Stock Exchange
Class B Common Stock, \$.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of January 31, 2003, the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant was approximately \$1,293,416,324, computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

As of September 15, 2003, the registrant had outstanding 28,244,014 shares of its Class A Common Stock and 19,666,933 shares of its Class B Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE.

Part III of this report incorporates information from the registrant's definitive Proxy Statement relating to the registrant's Annual Meeting of Shareholders to be held on January 16, 2004, which will be filed on or about November 25, 2003.

THE NEIMAN MARCUS GROUP, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED AUGUST 2, 2003

TABLE OF CONTENTS

PART I

- Item 1. Business.
- Item 2. Properties.
- Item 3. Legal Proceedings.
- Item 4. Submission of Matters to a Vote of Security Holders.

PART II

- Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters.
- Item 6. Selected Financial Data.
- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
- Item 7A. Quantitative and Qualitative Disclosures about Market Risk.
- Item 8. Financial Statements and Supplementary Data.
- Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
- Item 9A. Controls and Procedures.

PART III

- Item 10. Directors and Executive Officers of the Registrant.
- Item 11. Executive Compensation.

Edgar Filing: NEIMAN MARCUS GROUP INC - Form 10-K

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Item 13. Certain Relationships and Related Transactions.

Item 14. Principal Accounting Fees and Services.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

Signatures Signatures.

PART I

ITEM 1. BUSINESS

Business Overview

The Neiman Marcus Group, Inc. (the Company) is a high-end specialty retailer operating principally through specialty retail stores, consisting of 35 Neiman Marcus stores, two Bergdorf Goodman stores and fourteen clearance centers and through Neiman Marcus Direct, the Company's direct marketing operation.

The Neiman Marcus stores are in premier retail locations in major markets nationwide and the Bergdorf Goodman stores are located in Manhattan at 58th Street and Fifth Avenue. Both Neiman Marcus and Bergdorf Goodman stores offer high-end fashion apparel and accessories, primarily from leading designers.

Neiman Marcus Direct, the Company's upscale direct marketing operation, conducts catalogue and online sales through three brands—Neiman Marcus, Horchow and Chef's Catalogue. Under the Neiman Marcus brand, Neiman Marcus Direct primarily offers women's apparel, accessories and home furnishings. The Horchow brand offers quality home furnishings, linens, decorative accessories and tabletop items, while the Chef's Catalogue brand offers gourmet cookware and high-end kitchenware. Neiman Marcus Direct also operates the NeimanMarcus.com, Horchow.com and ChefsCatalog.com websites, offering luxury goods, home furnishings and high quality cookware to the online consumer.

For more information about the Company's reportable segments, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 15 to the Consolidated Financial Statements in Item 15.

The Neiman Marcus Group, Inc. is a Delaware corporation that commenced operations in August 1987. Prior to October 22, 1999, Harcourt General, Inc. (Harcourt General), a Delaware corporation based in Chestnut Hill, Massachusetts, owned approximately 54 percent of the outstanding common stock of the Company. On October 22, 1999, Harcourt General distributed to its shareholders approximately 21.4 million of the 26.4 million shares of the Company's common stock held by Harcourt General and subsequently divested itself entirely of any holdings in the Company's stock.

The Company makes its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K available free of charge through its website at www.neimanmarcusgroup.com as soon as reasonably practicable after it electronically files such material with (or furnishes such material to) the Securities and Exchange Commission. The information contained on the Company's website is not incorporated by reference into this Form 10-K and should not be considered to be part of this Form 10-K.

Description of Operations

Specialty Retail Stores. Neiman Marcus stores offer women's and men's apparel, fashion accessories, shoes, cosmetics, furs, precious and fashion jewelry, decorative home accessories, fine china, crystal and silver, epicurean gifts, children's apparel and gift items.

As of September 15, 2003, the Company operated 35 Neiman Marcus stores, located in Arizona (Scottsdale); California (five stores: Beverly Hills, Newport Beach, Palo Alto, San Diego and San Francisco); Colorado (Denver); the District of Columbia; Florida (six stores: Coral Gables, Fort Lauderdale, Orlando, Palm Beach, Tampa and Bal Harbour); Georgia (Atlanta); Hawaii (Honolulu); Illinois (three stores: Chicago, Northbrook and Oak Brook); Missouri (St. Louis); Massachusetts (Boston); Minnesota (Minneapolis); Michigan (Troy); Nevada (Las Vegas); New Jersey (two stores: Short Hills and Paramus); New York (Westchester); Pennsylvania (King of Prussia); Texas (six stores: two in Dallas, one in Plano, one in Fort Worth and two in Houston); and Virginia (McLean). The average size of these 35 stores is approximately 138,000 gross square feet and they range in size from 53,000 gross square feet to 224,000 gross square feet.

The Company plans to open a new Neiman Marcus store in San Antonio, Texas in fiscal year 2006.

The Company has stores operating under the name The Galleries of Neiman Marcus in Cleveland, Ohio and Phoenix, Arizona. The Galleries of Neiman Marcus feature precious and fashion jewelry, gifts and decorative home accessories to extend the Neiman Marcus brand into markets that may not be large enough to support full-line stores.

The Company operates two Bergdorf Goodman stores in Manhattan at 58th Street and Fifth Avenue. The main Bergdorf Goodman store consists of 250,000 gross square feet and features high-end women's apparel and unique fashion accessories from leading designers, traditional and contemporary decorative home accessories, precious and fashion jewelry, cosmetics, gifts and gourmet foods. The Bergdorf Goodman Men's store consists of 66,000 gross square feet and is dedicated to fine men's apparel and accessories.

The Company operates fourteen clearance centers that average approximately 27,000 gross square feet. These stores provide an efficient and controlled outlet for the sale of end-of-season clearance merchandise primarily from Neiman Marcus stores and Neiman Marcus Direct. Additionally, the Company purchases off-price merchandise directly from existing vendors to supplement the assortments of the clearance stores.

Direct Marketing. Neiman Marcus Direct, the Company's upscale direct marketing operation, conducts catalogue and online sales through three brands—Neiman Marcus, Horchow and Chef's Catalogue. Under the Neiman Marcus brand, Neiman Marcus Direct primarily offers women's apparel, accessories and home furnishings. The Horchow brand offers quality home furnishings, linens, decorative accessories and tabletop items, while the Chef's Catalogue brand offers gourmet cookware and high-end kitchenware. Neiman Marcus Direct also operates the NeimanMarcus.com, Horchow.com and ChefsCatalog.com websites, offering luxury goods, home furnishings and high quality cookware to the online consumer.

Brand Development Companies. The Company owns a 51 percent interest in Gurwitch Products, LLC, which distributes and markets the Laura Mercier cosmetic line, and a 56 percent interest in Kate Spade LLC, a manufacturer and retailer of high-end designer handbags and accessories.

Competition

The specialty retail industry is highly competitive and fragmented. The Company competes with large specialty retailers, traditional and upscale department stores, national apparel chains, designer boutiques, individual specialty apparel stores and direct marketing firms. The Company competes for customers principally on the basis of quality and fashion, customer service, value, assortment and presentation of merchandise, marketing and customer loyalty programs and, in the case of Neiman Marcus and Bergdorf Goodman, store ambiance. The Company competes with other retailers for real estate opportunities principally on the basis of its ability to attract customers.

Vendor Relationships

Edgar Filing: NEIMAN MARCUS GROUP INC - Form 10-K

The Company competes for quality merchandise and assortment principally based on relationships and purchasing power with designer resources. The Company's apparel and fashion accessories businesses are especially dependent upon its relationships with these designer resources.

The Company obtains certain merchandise, primarily precious jewelry, on a consignment basis in order to expand its product assortment. As of August 2, 2003, the Company held consigned inventories with a cost basis of approximately \$214.0 million. From time to time, the Company makes advances to certain of its vendors. These advances are typically deducted from amounts paid to vendors at the time merchandise is received or, in the case of advances made for consigned goods, at the time the goods are sold by the Company. The Company had net outstanding advances to vendors of approximately \$30.8 million at August 2, 2003.

Employees

As of September 15, 2003, the Company had approximately 15,100 employees. Neiman Marcus stores had approximately 12,700 employees, Bergdorf Goodman stores had approximately 1,000 employees, Neiman Marcus Direct had approximately 1,300 employees and Neiman Marcus Group had approximately 80 employees. The Company's staffing requirements fluctuate during the year as a result of the seasonality of the retail industry. None of the Company's employees are subject to collective bargaining agreements, except for approximately 16 percent of the Bergdorf Goodman employees. The Company believes that its relations with its employees are good.

Seasonality

For information on seasonality, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

Regulation

The Company's operations are affected by numerous federal and state laws that impose disclosure and other requirements upon the origination, servicing and enforcement of credit accounts and limitations on the maximum amount of finance charges that may be charged by a credit provider. In addition to the Company's proprietary credit cards, credit to the Company's customers is provided primarily through third parties such as American Express®, Visa®, MasterCard®, Diners Club®, Novus® and Carte Blanche®. Any change in the regulation of credit that would materially limit the availability of credit to the Company's customer base could adversely affect the Company's results of operations or financial condition.

The Company's and its competitors' practices are subject to review in the ordinary course of business by the Federal Trade Commission and are subject to numerous federal and state laws. Additionally, the Company is subject to certain customs, truth-in-advertising and other laws, including consumer protection regulations, that regulate retailers generally and/or govern the importation, promotion and sale of merchandise. The Company undertakes to monitor changes in these laws and believes that it is in material compliance with all applicable state and federal regulations with respect to such practices.

Fiscal Year

The Company's fiscal year ends on the Saturday closest to July 31. All references to 2003 relate to the fifty-two weeks ended August 2, 2003; all references to 2002 relate to the fifty-three weeks ended August 3, 2002 and all references to 2001 relate to the fifty-two weeks ended July 28, 2001. All references to 2004 relate to the fifty-two weeks ending on July 31, 2004.

ITEM 2. PROPERTIES

Edgar Filing: NEIMAN MARCUS GROUP INC - Form 10-K

The Company's corporate headquarters are located at the Downtown Neiman Marcus store location in Dallas, Texas. The operating headquarters for Neiman Marcus, Bergdorf Goodman and Neiman Marcus Direct are located in Dallas, Texas; New York, New York; and Irving, Texas, respectively. As of September 15, 2003, the approximate aggregate gross square footage used in the Company's operations was as follows:

	Owned	Owned Subject to Ground Lease	Leased	Total
Specialty Retail Stores	348,000	2,224,000	2,953,000	5,525,000
Distribution, Support and Office Facilities	1,207,000	150,000	866,000	2,223,000

Leases for substantially all of the Company's stores, including renewal options, range from 15 to 99 years. The lease on the Bergdorf Goodman Main Store expires in 2050 and the lease on the Bergdorf Goodman Men's Store expires in 2010, with two 10-year renewal options. Most leases provide for monthly fixed amount rentals or contingent rentals based upon sales in excess of stated amounts and normally require the Company to pay real estate taxes, insurance, common area maintenance costs and other occupancy costs.

The Company owns approximately 34 acres of land in Longview, Texas, where its National Service Center is located. The National Service Center occupies a 502,000 square foot facility and is the principal merchandise processing and distribution facility for Neiman Marcus stores. The Company also owns approximately 50 acres of land in Irving, Texas, where its 705,000 square foot Neiman Marcus Direct operating headquarters and distribution facility is located.

For further information on the Company's properties and lease obligations, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 12 of the Notes to the Consolidated Financial Statements in Item 15. For more information about the Company's plans to open additional stores, see Description of Operations in Item 1.

ITEM 3. LEGAL PROCEEDINGS

The Company presently is engaged in various legal actions that are incidental to the ordinary conduct of its business. The Company believes that any liability arising as a result of these actions and proceedings will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

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

No matters were submitted to a vote of security holders of the Company during the quarter ended August 2, 2003.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's Class A Common Stock and Class B Common Stock are currently traded on the New York Stock Exchange under the symbols NMG.A and NMG.B, respectively. As of September 15, 2003, there were 9,699 record holders of the Company's Class A Common Stock and 3,450 record holders of the Company's Class B Common Stock. The Company currently does not intend to pay cash dividends on its common stock.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Edgar Filing: NEIMAN MARCUS GROUP INC - Form 10-K

The following table indicates the quarterly stock price ranges for 2003 and 2002:

2003 Quarter	NMG.A		NMG.B	
	High	Low	High	Low
First	\$ 31.70	\$ 24.95	\$ 28.79	\$ 22.70
Second	31.58	28.01	29.05	25.61
Third	32.05	26.05	30.10	23.87
Fourth	\$ 40.30	\$ 31.75	\$ 37.60	\$ 29.45

2002 Quarter	NMG.A		NMG.B	
	High	Low	High	Low
First	\$ 33.25	\$ 23.76	\$ 31.75	\$ 22.85
Second	34.05	25.95	31.95	24.80
Third	38.95	32.50	36.87	30.80
Fourth	\$ 39.55	\$ 24.88	\$ 37.33	\$ 22.65

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is qualified in its entirety by the Consolidated Financial Statements of the Company (and the related Notes thereto) contained in Item 15 and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7. The operating results and financial position data for each of the fiscal years ended August 2, 2003, August 3, 2002, July 28, 2001, July 29, 2000 and July 31, 1999 have been derived from the Company's audited Consolidated Financial Statements. Additionally, 2002 included fifty-three weeks of operations while the other years presented consist of fifty-two weeks of operations.

(in millions, except per share data)	Years Ended				
	August 2, 2003	August 3, 2002	July 28, 2001	July 29, 2000	July 31, 1999