KIMCO REALTY CORP
Form PRE 14A
March 26, 2007

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
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 o

Check the appropriate box:

x	Preliminary proxy statement
o	Definitive proxy statement
o	Definitive additional materials
o	Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12
o	Confidential, For Use of the Commission Only (as permitted by Rule 14a 6(e)(2))

KIMCO REALTY CORPORATION

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1)	Title of each class of securities to which transaction applies:
(2)	Aggregate number of securities to which transactions applies:
(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):
(4)	Proposed maximum aggregate value of transaction.
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	o Fee paid previously with preliminary materials:
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(1)	Amount previously paid:

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

(3) Filing Party:

(4) Date Filed:

KIMCO REALTY CORPORATION

3333 NEW HYDE PARK ROAD
NEW HYDE PARK, NY 11042-0020

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held on May 17, 2007

Notice is hereby given of, and you are cordially invited to attend, the 2007 Annual Meeting of Stockholders (the Meeting) of Kimco Realty Corporation, a Maryland corporation (the Company), to be held on Thursday, May 17, 2007, at 10 oclock a.m., local time, at 270 Park Avenue, 11th Floor, New York, NY 10017 for the following purposes:

1. To elect nine directors to serve for a term of one year and until their successors are duly elected and qualify;

2. To consider and vote upon a proposal to amend the charter of the Company to (a) increase the number of shares of stock that the Company has the authority to issue to an aggregate of 1,141,100,000 shares, (b) increase the number of authorized shares of Common Stock of the Company, par value $0.01 per share (the Common Stock), from 300,000,000 shares to 750,000,000 shares and (c) increase the number of authorized shares of Excess Stock of the Company, par value $0.01 per share (the Excess Stock), from 153,000,000 shares to 382,500,000 shares;

3. To ratify the appointment of PricewaterhouseCoopers LLP as the Companys independent registered public accounting firm; and

4. To transact such other business as may properly come before the Meeting or any adjournment(s) or postponement(s) thereof.

Only holders of record of the Common Stock of the Company at the close of business on March 23, 2007, the record date for the meeting, will be entitled to vote at the Meeting or any adjournment(s) or postponement(s) thereof. The enclosed proxy is solicited by the Board of Directors of the Company, which recommends that stockholders vote **FOR** the election of the Board of Director nominees named therein, **FOR** the proposal to amend the Companys charter to increase the aggregate number of shares of stock that the Company has the authority to issue and to increase the number of authorized shares of Common Stock and Excess Stock and **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as the Companys independent registered public accounting firm. Please refer to the attached Proxy Statement, which forms a part of this Notice and is incorporated herein by reference, for further information with respect to the business to be transacted at the Meeting.

IF YOU ARE UNABLE TO BE PRESENT AT THE MEETING IN PERSON, PLEASE SIGN AND DATE THE ENCLOSED PROXY, AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE OR, ALTERNATIVELY, YOU MAY AUTHORIZE YOUR PROXY BY TELEPHONE OR BY INTERNET BY FOLLOWING THE INSTRUCTIONS ON THE PROXY CARD.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Bruce M. Kauderer
Bruce M. Kauderer
Secretary

[April 6, 2007].

KIMCO REALTY CORPORATION

3333 NEW HYDE PARK ROAD, NEW HYDE PARK, NY 11042-0020

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PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS

to be held on May 17, 2007

This Proxy Statement is furnished to holders of record of the Common Stock, par value $0.01 per share (the Common Stock), of Kimco Realty Corporation, a Maryland corporation (the Company), in connection with the solicitation of proxies in the form enclosed herewith for use at the 2007 Annual Meeting of Stockholders (the Meeting) of the Company to be held on Thursday, May 17, 2007, at 10 oclock a.m., local time, at 270 Park Avenue, 11th Floor, New York, NY 10017 for the purposes set forth in the Notice of Annual Meeting of Stockholders.

This solicitation is made by the Company on behalf of the Board of Directors of the Company (the Board of Directors or the Board). Costs of this solicitation will be borne by the Company. Directors, officers, employees and agents of the Company and its affiliates may also solicit proxies by telephone, telegraph, fax, e-mail or personal interview. The Company will reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy material to stockholders. The Company will pay fees of approximately $5,375 to The Altman Group, Inc., for soliciting proxies for the Company.

The Companys Annual Report for the calendar year ended December 31, 2006, has been mailed with this Proxy Statement. This Proxy Statement and the enclosed form of proxy were mailed to stockholders on or about [April 9, 2007]. The principal executive offices of the Company are located at 3333 New Hyde Park Road, New Hyde Park, New York 11042-0020; telephone (516) 869-9000; website http://www.kimcorealty.com.

Holders of record of the Common Stock as of the close of business on the record date, March 23, 2007, are entitled to receive notice of, and to vote at, the Meeting. The outstanding Common Stock constitutes the only class of securities entitled to vote at the Meeting and each share of Common Stock entitles the holder thereof to one vote. At the close of business on March 23, 2007, there were [___________] shares of Common Stock issued and outstanding. The presence at the Meeting, in person or by proxy, of holders of a majority of such shares will constitute a quorum for the transaction of business at the Meeting.

Shares represented by proxies in the form enclosed, if such proxies are properly executed and returned and not revoked, will be voted as specified. Where no specification is made on a properly executed and returned form of proxy, the shares will be voted (i) FOR the election of all nominees for Director (See Proposal 1), (ii) FOR approval of the recommendation by the Board of Directors to amend the charter of the Company to (a) increase the number of shares of stock that the Company has authority to issue to an aggregate of 1,141,100,000 shares, (b) increase the number of authorized shares of Common Stock of the Company, par value $0.01 per share, from 300,000,000 shares to 750,000,000 shares and (c) increase the number of authorized shares of Excess Stock of the Company, par value $0.01 per share, from 153,000,000 shares to 382,500,000 shares (See Proposal 2) and (iii) FOR ratification of the appointment of PricewaterhouseCoopers LLP as the Companys independent registered public accounting firm (see Proposal 3). To be voted, proxies must be filed with the Secretary of the Company prior to voting. Proxies may be revoked at any time before exercise (i) by filing a notice of such revocation with the Secretary of the Company, (ii) by filing a later-dated proxy with the Secretary of the Company or (iii) by voting in person at the Meeting. Dissenting stockholders will not have rights of appraisal with respect to any matter to be acted upon at the Meeting.

Under Maryland law, shares represented by proxies that reflect abstentions or broker non-votes (i.e., shares held by a broker or nominee which are represented at the Meeting, but with respect to which such broker or nominee is not empowered by the beneficial owner of the stock to vote on a particular proposal) will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum.

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PROPOSAL 1
Election of Directors

The Company's Bylaws, as amended (the Bylaws), provide that all directors be elected at each annual meeting of stockholders. Pursuant to the Company's charter and such Bylaws, the Board of Directors has fixed the number of directors to be elected at nine. The persons named as proxies in the accompanying form of proxy intend to vote in favor of the election of the nine nominees for director designated below, all of whom are presently directors of the Company, to serve until the next annual meeting of stockholders and until their respective successors are duly elected and qualified. It is expected that each of these nominees will be able to serve, but if any such nominee is unable to serve, the proxies may vote for another person nominated by the Nominating and Corporate Governance Committee and approved by the Board of Directors or the Board may, to the extent permissible by the Bylaws, reduce the number of directors to be elected at the meeting.

Information Regarding Nominees (as of March 23, 2007)

Name	Age	Present Principal Occupation or Employment and Five-Year Employment History
Martin S. Kimmel(1)(2)	91	Chairman (Emeritus) of the Board of Directors of the Company since November 1991; Chairman of the Board of Directors of the Company for more than five years prior to such date. Founding member of the Company's predecessor in 1966.
Milton Cooper	78	Chairman of the Board of Directors and Chief Executive Officer of the Company since November 1991; Director and President of the Company for more than five years prior to such date. Founding member of the Company's predecessor in 1966.
Richard G. Dooley(1)(2)(3)(4)	77	Director of the Company since December 1991. From 1993 to 2003 consultant to, and from 1978 to 1993, Executive Vice President and Chief Investment Officer of Massachusetts Mutual Life Insurance Company.
Michael J. Flynn	71	Vice Chairman of the Board of Directors of the Company since January 1996 and, since January 1997, President and Chief Operating Officer; Director of the Company since December 1991. Chairman of the Board and President of Slattery Associates, Inc. for more than five years prior to joining the Company in 1996.
Joe Grills(1)(2)(3)	72	Director of the Company since January 1997. Chief Investment Officer for the IBM Retirement Funds from 1986 to 1993 and held various positions at IBM for more than five years prior to 1986.
David B. Henry	58	Vice Chairman of the Board of Directors of the Company since May 2001 and, since April 2001, Chief Investment Officer of the Company. Prior to joining the Company, Chief Investment Officer of G.E. Capital Real Estate since 1997 and held various positions at G.E. Capital for more than five years prior to 1997.
F. Patrick Hughes(1)(2)(3)	59	

		Director of the Company since October 2003. President, Hughes & Associates, LLC since October 2003. Previously served as Chief Executive Officer, President and Trustee of Mid-Atlantic Realty Trust from its formation in 1993 to 2003.
Frank Lourenso(1)(2)	66	Director of the Company since December 1991. Executive Vice President of J.P. Morgan Chase Bank (J.P. Morgan, and successor by merger to The Chase Manhattan Bank and Chemical Bank, N.A.) since 1990. Senior Vice President of J.P. Morgan for more than five years prior to 1990.
Richard Saltzman(1)(2)	50	Director of the Company since July 2003. President, Colony Capital LLC, (Colony) since May 2003. Prior to joining Colony, Managing Director and Vice Chairman of Merrill Lynchs investment banking division and held various other positions at Merrill Lynch for more than five years prior to that time.

(1) Member of Executive Compensation Committee.
(2) Member of Nominating and Corporate Governance Committee.
(3) Member of Audit Committee.
(4) Lead Director.

Mr. Cooper is also a director of Getty Realty Corp. and Blue Ridge Real Estate/Big Boulder Corporation.

Mr. Dooley is also a director of Jefferies Group, Inc.

Mr. Flynn is also Chairman of the Board of Directors of Blue Ridge Real Estate/Big Boulder Corporation.

Mr. Grills is also a director and Co-Chairman of the Board of Directors of certain BlackRock Mutual Funds and Director Emeritus of Duke University Management Company. He also serves as a member and Chairman of the Investment Advisory Committee of the Virginia Retirement System. Mr. Grills is a member of the Association of Financial Professionals Committee on Investment of Employee Benefit Assets, its executive committee and is a former chairman of that committee.

Mr. Henry is also a director of Health Care Property Investors, Inc. and The Retail Initiative, Inc., an affiliated company of Local Initiatives Support Corporation (LISC).

Mr. Hughes is also a director of Hoffberger Holdings, Inc. He also serves as a trustee of the State Retirement and Pension System of Maryland.

Term of Office. All directors of the Company serve terms of one year and until the election and qualification of their respective successors.

Attendance at Board Meetings and 2006 Annual Meeting. Each of the Directors named above was in attendance at each of the four regular meetings of the Board of Directors held during 2006, which occurred on February 7, April 21, July 21 and October 24, 2006. All of the Directors of the Board were in attendance at the 2006 Annual Meeting of Stockholders held on May 18, 2006.

Stockholder Communications with Directors. Any stockholder may send communications to the Board of Directors, the non-management directors or the Lead Director by sending a letter by mail addressed to the Board of Directors or the non-management directors (or Lead Director) c/o Secretary of the Company, Kimco Realty Corporation, 3333 New Hyde Park Road, New Hyde Park, New York, 11042-0020. The Board named Richard G. Dooley as its Lead Director to review stockholder communications and present them to the entire Board or forward them to the appropriate Directors.

Director Independence

Pursuant to the New York Stock Exchange listing standards, our Board of Directors has adopted a formal set of categorical standards of Director independence. These categorical standards specify the criteria by which the independence of our Directors will be determined, including guidelines for Directors and their immediate families with respect to past employment or affiliation with the Company or its independent registered public accounting firm. These categorical standards meet, and in some areas exceed, the listing standards of the New York Stock Exchange. The Boards categorical standards are attached to this proxy statement as Appendix A.

In accordance with these categorical standards and the listing standards of the New York Stock Exchange, the Board undertook its annual review of the independence of its Directors on February 6, 2007. During this review, the Board considered transactions and relationships between each Director or members of his immediate family and the Company. The Board also considered whether there were any transactions or relationships between Directors or members of their immediate family (or any entity of which a Director or an immediate family member is an executive officer, general partner or significant equity holder). The purpose of this review was to determine whether any such relationships or transactions existed that were inconsistent with a determination that the Director is independent.

As a result of this review, the Board affirmatively determined that the following Directors are independent of the Company and its management under the standards set forth in the categorical standards and the New York Stock Exchange listing requirements:

Martin S. Kimmel	Richard G. Dooley
Joe Grills	F. Patrick Hughes
Frank Lourenso	Richard Saltzman

In making these determinations, the Board considered the relationships and transactions described under the caption Certain Relationships and Related Transactions beginning on page 26.

With respect to all transactions considered by the Board, the amount involved in these transactions in each of the last three years did not approach the thresholds set forth in the categorical standards. In addition, none of the Directors family members served as an executive officer of the Company.

Committees of the Board of Directors

Audit Committee. The Audit Committee currently consists of Mr. Hughes, who is chairman of the Audit Committee, Mr. Dooley and Mr. Grills, all of whom are independent directors. The Board of Directors has established the Audit Committee to appoint and oversee the engagement of independent registered public accountants, review with the independent registered public accountants their plans and results of the audit engagement, approve professional services provided by the independent registered public accountants, review the independence of the independent registered public accountants, consider the range of audit and non-audit fees, review the Companys financial statements, financial reporting issues and review the adequacy of the Companys internal accounting controls. Six meetings of the Audit Committee were held during 2006, on January 6, February 7, April 21, July 21, October 24 and December 11, 2006. In addition to the six meetings held in 2006, the Audit Committee held various telephonic meetings during 2006. In addition, the Audit Committee held a meeting on February 5, 2007 and a telephonic meeting on February 26, 2007. Each of Mr. Hughes, Mr. Dooley and Mr. Grills is an audit committee financial expert, as determined by the Board in accordance with Item 401(h) of Regulation S-K, and are independent from the Company as defined by the current listing standards of the New York Stock Exchange. The Audit Committee operates under a written charter, as amended, adopted by the Board of Directors. A copy of the Audit Committee Charter, as amended, is available through the Investor Relations/Governance Documents section of the Companys website located at www.kimcorealty.com and is available in print to any stockholder who requests it.

Executive Compensation Committee. The Executive Compensation Committee currently consists of Mr. Grills, who is chairman of the Executive Compensation Committee, Mr. Kimmel, Mr. Dooley, Mr. Lourenso, Mr. Hughes and Mr. Saltzman, all of whom are independent directors. The Board of Directors has established an Executive Compensation Committee to (i) establish and maintain a competitive, fair and equitable compensation and benefits policy designed to retain personnel, to stimulate their useful and profitable efforts on behalf of the Company and to attract necessary additions to the staff with appropriate qualifications, (ii) discharge the Boards responsibilities for compensating the Companys executives, and (iii) administer the Companys Equity Participation Plan (as defined herein).

The Executive Compensation Committee also oversees (i) the competence and qualifications of senior management of the Company, (ii) the soundness of the organization structure, (iii) other related matters intended to ensure the effective management of the business and (iv) the review of the Compensation Discussion and Analysis (CD&A) for inclusion in the Companys proxy statement.

More specifically, the Executive Compensation Committee annually reviews and approves corporate goals and objectives relevant to the total direct compensationthat is, changes in base salary, bonus payments and equity awardsof the Chief Executive Officer. For other named executive officers, the Executive Compensation Committee reviews their performance against these goals and objectives, and, based on its evaluation, approves their total direct compensation. The details of the processes and procedures involved are described in the CD&A beginning on page 17.

Four meetings of the Executive Compensation Committee were held during 2006, on February 7, April 21, July 21 and October 24, 2006. In addition, the Executive Compensation Committee held various telephonic meetings during 2006. In addition, the Executive Compensation Committee held a meeting on February 6, 2007. The Executive Compensation Committee operates under a written charter adopted by the Board of Directors. A copy of the Executive Compensation Committee Charter is available through the Investor Relations/Governance Documents section of the Companys website located at www.kimcorealty.com and is available in print to any stockholder who requests it.

Nominating and Corporate Governance Committee. The Board of Directors has established a Nominating and Corporate Governance Committee which currently consists of Mr. Dooley, who is chairman of the Nominating and Corporate Governance Committee, Mr. Kimmel, Mr. Grills, Mr. Lourenso, Mr. Hughes and Mr. Saltzman, all of whom are independent directors as defined by the rules of the New York Stock Exchange. The Nominating and Corporate Governance Committee operates under a written charter adopted by the Board of Directors, a copy of which is available through the Investor Relations/ Governance Documents section of the Companys website located at www.kimcorealty.com and is available in print to any stockholder who requests it. The functions of the Nominating and Corporate Governance Committee include recommending candidates for annual election to the Board of Directors, to fill vacancies on the Board of Directors that may arise from time-to-time and senior management succession. The Nominating and Corporate Governance Committee is not limited to any specific process in identifying candidates and will consider candidates suggested by other members of the Board, as well as candidates recommended by stockholders, provided such recommendations are submitted in writing ninety days in advance of the anniversary of the preceding years annual meeting of stockholders. Such recommendations should include the name and address and other pertinent information about the candidate as is required to be included in the Companys proxy statement. Recommendations should be submitted to the Secretary of the Company. In addition, the Nominating and Corporate Governance Committee is authorized to retain search firms and other consultants to assist it in identifying candidates and fulfilling other duties.

In reviewing possible Board candidates, including candidates recommended by stockholders, the Committee considers a candidates industry expertise, ethical standards, integrity and personal reputation and accounting and finance background. The Committee also considers other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, and the evaluations of other prospective candidates. After completing this evaluation and review, the Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Committee.

The Nominating and Corporate Governance Committee is also responsible for ensuring that the Company is in adherence with good corporate governance principles and is responsible for developing and implementing the Companys (i) corporate governance guidelines that apply to all of its directors and management and (ii) code of business conduct and ethics for all of its directors and employees. The Nominating and Corporate Governance Committee is also charged with the task of ensuring the Companys compliance with all New York Stock Exchange listing requirements. Two meetings of the Nominating and Corporate Governance Committee were held during

2006, on February 7 and October 24, 2006. In addition, the Nominating and Corporate Governance Committee held a meeting on February 6, 2007.

Attendance at Committee Meetings. Each of the Directors comprising these various Committees of the Board of Directors was in attendance at all meetings of such Committees held on the dates indicated.

Meetings of Non-Management Directors. The Non-Management Directors meet in executive session at each regularly-scheduled Board meeting, or more frequently if necessary. Non-Management Directors are all those Directors who are not employees of the Company. The Non-Management Directors consist of Messrs. Kimmel, Dooley, Grills, Hughes, Lourenso and Saltzman. The Board of Directors named Richard G. Dooley as its Lead Director. In this capacity, Mr. Dooley is designated to chair executive sessions of the Companys Non-Management Directors and to act as a liaison between management and other independent directors. Stockholders wishing to communicate with the Lead Director or with the Non-Management Directors as a group may send a letter by mail addressed to the Lead Director c/o Secretary of the Company, Kimco Realty Corporation, 3333 New Hyde Park Road, New Hyde Park, New York, 11042-0020.

Compensation of Directors

Members of the Board of Directors and Committees thereof who are not also employees of the Company (Non-employee Directors) are entitled to receive an annual fee of $38,000, plus fees of $2,000 for attending each regular or special meeting of the full Board. During 2006, the Non-employee Directors, other than Mr. Kimmel, were entitled to receive $2,000 for attending each Executive Compensation Committee and Nominating and Corporate Governance Committee meeting. In addition, each chairman of the Executive Compensation Committee and Nominating and Corporate Governance Committee was entitled to receive an annual fee of $10,000. The Non-employee Directors who are members of the Audit Committee also are entitled to receive an annual fee of $10,000 and $2,000 for attending each Audit Committee meeting. The chairman of the Audit Committee was entitled to an additional annual fee of $10,000. During 2006, the Lead Director received an annual fee of $10,000. In accordance with the Companys Equity Participation Plan (as defined herein), the Non-employee Directors may be granted awards of deferred stock (Deferred Stock) in lieu of directors fees. Unless otherwise provided by the Board, a grantee of Deferred Stock shall have no rights as a Company stockholder with respect to such Deferred Stock until such time as the Common Stock underlying the award has been issued. Employees of the Company who are also Directors are not paid any directors fees.

The following table sets forth the compensation of each Non-employee Director for the calendar year 2006.

Non-employee Director Compensation

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($) (2) (c)	Option Awards ($) (1) (d)	Non-Equity Incentive Plan Compensation ($) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (f)	All Other Compensation ($) (g)	Total ($) (h)
Richard G. Dooley	54,000	38,000	118,600	-	-	-	210,600
Joe Grills	44,000	38,000	118,600	-	-	-	200,600
F. Patrick Hughes	44,000	38,000	118,600	-	-	-	200,600
Martin S. Kimmel	2,000	38,000	118,600	-	-	-	158,600
Frank Lourenso	33,000	19,000	118,600	-	-	-	170,600

Richard Saltzman	14,000	38,000	118,600	-	-	-	170,600

(1) Amounts reflect the dollar amount, without any reduction for risk of forfeiture, recognized for financial reporting purposes for the fiscal year ended December 31, 2006, calculated in accordance with the provision of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), Accounting for Stock-Based Compensation ("SFAS No. 123R"). Portions of awards over several years are included. The fair value of each award is estimated on the date of grant using the Black-Scholes option pricing formula. The assumptions used by the Company in calculating these amounts are incorporated herein by reference to Note 21 to Consolidated Financial Statements in the Company's 2006 Form 10-K. Specifically, the number in the table above includes options granted in August 2006 valued at $5.93.

(2) Amounts reflect the value of deferred stock received in lieu of directors' fees and meeting fees. As of December 31, 2006, Messrs. Kimmel, Dooley, and Grills, each held 13,932 shares of deferred stock. As of December 31, 2006, Messrs. Lourenso, Saltzman and Hughes held 11,724 shares, 5,500 shares and 1,202 shares of deferred stock, respectively.

During each of 2006 and 2005, the Company granted Messrs. Kimmel, Dooley, Grills, Lourenso, Saltzman and Hughes options to acquire 20,000 shares each of Common Stock at $40.09 and $31.62 per share, respectively, the market prices on the dates of such option grants. During 2004, the Company granted Messrs. Kimmel, Dooley, Grills, Lourenso, Saltzman and Hughes options to acquire 22,500 shares of Common Stock at $28.48 per share, respectively, the market price on the date of such option grant. As of December 31, 2006, Messrs. Kimmel, Dooley, Grills, Lourenso, Saltzman and Hughes held options to acquire 175,000 shares, 220,000 shares, 220,000 shares, 197,500 shares, 96,250 shares and 90,626 shares, respectively. See "Compensation Discussion and Analysis" for information concerning stock options granted to Mr. Cooper, Mr. Flynn and Mr. Henry. The Company intends to grant Non-employee Directors options to acquire an additional 20,000 shares during 2007 at the then current market price. Effective for 2007, Non-employee Directors will be paid annual retainer fees based on the committees in which they participate, which will approximate 2006 fees.

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Vote Required

Assuming the presence of a quorum, a plurality of all the votes cast by the holders of shares of Common Stock present, in person or by proxy, and entitled to vote at the Company's Annual Meeting of Stockholders will be sufficient to elect a nominee as a director. Accordingly, abstentions or broker non-votes will not affect the result of the election of directors.

THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS THAT YOU VOTE FOR ALL OF THE NOMINEES SET FORTH IN THIS PROXY STATEMENT.

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Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information available to the Company, as of March 23, 2007, with respect to shares of its Common Stock (i) held by those persons known to the Company to be the beneficial owners (as determined under the rules of the U.S. Securities and Exchange Commission, the "SEC") of more than 5% of such shares and (ii) held, individually and as a group, by the directors and executive officers of the Company; and with respect to shares of its Class F Preferred Stock held, individually and as a group, by the directors and executive officers of the Company:

	Shares Owned Beneficially (#)			Percent of Class (%)	
Name & Address (where required) of Beneficial Owner	Common		Class F	Common	Class F(2)
Vanguard Group Inc. 100 Vanguard Blvd Malvern, PA 19355	[15,307,492]	(1)	-	[6.1]	
Milton Cooper	[14,786,356]	(3)(4)	-	[5.9]	-

c/o Kimco Realty Corporation 3333 New Hyde Park Rd. New Hyde Park, NY 11042					
Stichting Pensioenfonds ABP Oude Lindestraat 70 Postbus 2889 6401 DL Heerlen, The Netherlands	[12,995,347]	(5)	-	[5.2]	-
Martin S. Kimmel	[8,453,070]	(6)	-	[3.4]	-
Michael V. Pappagallo	[844,576]	(7)	-	*	-
David B. Henry	[717,839]	(8)	-	*	-
Michael J. Flynn	[709,288]	(9)	-	*	-
Jerald Friedman	[371,723]	(10)	-	*	-
Richard G. Dooley	[363,206]	(11)	-	*	-
Frank Lourenso	[359,606]	(12)	-	*	-
Joe Grills	[244,432]	(13)	-	*	-
Richard Saltzman	[101,750]	(14)	-	*	-
F. Patrick Hughes	[93,328]	(15)	-	*	-
All Directors and executive officers as a group (including four executive officers not named herein)	[28,084,757]	(4)(16)	[2,111]	[11.2]	*

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* Less than 1%

(1) The Company has received a copy of Schedule 13G as filed with the SEC by Vanguard Group Inc. ("Vanguard") reporting ownership of these shares as of December 31, 2006. As reported in said Schedule 13G Vanguard has sole dispositive power for all of such shares.

(2) Not applicable. The Company's Class F Preferred Stock is not a voting security of the Company.

(3) Includes 3,250,025 shares held by Mr. Cooper as trustee for the benefit of Mr. Kimmel's son. Does not include 771,580 shares held by adult members of Mr. Cooper's family, as to all of which shares Mr. Cooper disclaims beneficial ownership. Includes options or rights to acquire 1,266,628 shares of Common Stock that are exercisable within 60 days of March 23, 2007. Includes 740,000 shares held in a margin account.

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(4) Does not include 3,270,296 shares held by KC Holdings, Inc., a related, private corporation in which Mr. Cooper holds a controlling interest. See "Compensation Committee Interlocks and Insider Participation - KC Holdings".

(5) The Company has received a copy of Schedule 13F as filed with the SEC by Stichting Pensioenfonds ABP ("ABP") reporting ownership of these shares as of December 31, 2006. As reported in said Schedule 13F, ABP has sole voting and dispositive power for all such shares.

(6) Does not include 3,250,025 shares held in trust by Mr. Cooper for Mr. Kimmel's son or 4,803,489 shares held by Mrs. Helen Kimmel, his wife, as to all of which shares Mr. Kimmel disclaims beneficial ownership. Also, does not include 1,345,824 shares held by foundations and trusts for which Mrs. Kimmel is a trustee, as to all of which shares Mr. Kimmel disclaims beneficial ownership. Includes options or rights to acquire 188,932 shares of Common Stock that are exercisable within 60 days of March 23, 2007.

(7) Includes 320,576 shares held by Pappagallo Family Holdings LLC, a limited liability company in which Mr. Pappagallo owns a majority of the equity interest and is a co-managing member with his spouse. Includes options or rights to acquire 494,000 shares of Common Stock that are exercisable within 60 days of March 23, 2007. Includes 320,576 shares held in a margin account.

(8) Includes options or rights to acquire 528,452 shares of Common Stock that are exercisable within 60 days of March 23, 2007. Includes 163,108 shares held in a margin account.

(9) Includes options or rights to acquire 190,750 shares of Common Stock that are exercisable within 60 days of March 23, 2007.

(10) Includes options or rights to acquire 332,128 shares of Common Stock that are exercisable within 60 days of March 23, 2007. Includes 38,330 shares held in a margin account.

(11) Includes options or rights to acquire 233,932 shares of Common Stock that are exercisable within 60 days of March 23, 2007.

(12) Does not include 4,500 shares owned by Mrs. Lourenso, his wife, as to all of which shares Mr. Lourenso disclaims beneficial ownership. Includes options or rights to acquire 209,224 shares of Common Stock that are exercisable within 60 days of March 23, 2007.

(13) Includes options or rights to acquire 211,432 shares of Common Stock that are exercisable within 60 days of March 23, 2007.

(14) Includes options or rights to acquire 101,750 shares of Common Stock that are exercisable within 60 days of March 23, 2007.

(15) Includes options or rights to acquire 91,828 shares of Common Stock that are exercisable within 60 days of March 23, 2007.

(16) Includes options or rights to acquire 801,081 shares of Common Stock that are exercisable within 60 days of March 23, 2007 by three executive officers who are not directors or named executive officers and includes 168,218 shares held in a margin account related to two executive officers who are not directors or named executive officers.

Executive Compensation and Transactions with Management and Others

Executive Officers. Reference should be made to the Company's annual report on Form 10-K for the year ended December 31, 2006, incorporated herein by reference, following Part I, Item 4, for information with respect to the executive officers of the Company.

Executive Compensation. The following table sets forth the summary compensation of the Chief Executive Officer (and Chairman of the Board of Directors), the Chief Financial Officer and the three other most highly paid executive officers, collectively the Named Executive Officers ("NEOs") of the Company for the 2006 calendar year.

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SUMMARY COMPENSATION TABLE

Name and Principal Position (a)
Milton Cooper Chairman of the Board Of Directors and Chief Executive Officer
Michael V. Pappagallo (3) Executive Vice President - Chief Financial Officer
Michael J. Flynn (3)

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With respect to the Specialty Retail stores, the majority of the merchandise is held in our retail stores. We primarily operat

We also maintain certain inventories at the Longview distribution facility. The goods held at the Longview distribution faci

Capital Investments

We make capital investments annually to support our long-term business goals and objectives. We invest capital in new anc

We invest capital in the development and construction of new stores in both existing and new markets. We conduct extensiv

We also believe capital investments for information technology in our stores, distribution facilities and support functions ar

In the past three fiscal years, we have made capital expenditures aggregating $486 million related primarily to:

- the construction of new stores in San Antonio, Boca Raton and Charlotte, as well as a store
- the renovation and expansion of our main Bergdorf Goodman store in New York City and N
- the expansion of our distribution facilities;
- the development and installation of a new point-of-sale system in our retail stores;
- the installation of new warehousing and distribution systems for both Direct Marketing and
- a new human capital management system (including the outsourcing of payroll and benefits

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In fiscal year 2007, we anticipate capital expenditures for planned new stores in Charlotte, Austin, suburban Boston, Long I

We receive allowances from developers related to the construction of our stores thereby reducing our cash investment in th

Competition

The specialty retail industry is highly competitive and fragmented. We compete for customers with specialty retailers, tradi

We believe we are differentiated from other national retailers by our distinctive merchandise assortment, which we believe

Employees

As of September 1, 2006, we had approximately 17,200 employees. Neiman Marcus stores had approximately 14,200 empl

Seasonality

Our business, like that of most retailers, is affected by seasonal fluctuations in customer demand, product offerings and wor

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Regulation

Our operations are affected by numerous federal and state laws that impose disclosure and other requirements upon the orig

Our practices, as well as our competitors, are subject to review in the ordinary course of business by the Federal Trade Com

Investment in Kate Spade LLC

We currently own a 56% interest in Kate Spade LLC, which designs and markets high-end designer handbags and accessor

In April 2005, the minority investor in Kate Spade LLC exercised the put option described above with respect to the full am

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ITEM 1A. RISK FACTORS

Risks Related to Our Structure and NMG s Indebtedness

Because our ownership of NMG accounts for substantially all of our assets and operations, we are subject to all risks

We are a holding company. NMG and its subsidiaries conduct substantially all of our consolidated operations and own sub

NMG has a substantial amount of indebtedness, which may adversely affect NMG s cash flow and its ability to oper

As a result of the Transactions, we are highly leveraged. As of July 29, 2006, the principal amount of NMG s total indebte

- make it more difficult for NMG to satisfy its obligations with respect to its indebtedness and
- make NMG more vulnerable to adverse changes in general economic, industry and competi
- require NMG to dedicate a substantial portion of its cash flow from operations to payments
- limit NMG s flexibility in planning for, or reacting to, changes in NMG s business and the
- place NMG at a competitive disadvantage compared to its competitors that are less highly le
- limit NMG s ability to borrow additional amounts for working capital, capital expenditures

Any of the above listed factors could materially adversely affect NMG s business, financial condition and results of operat

In addition, NMG s interest expense could increase if interest rates increase because the entire amount of the indebtedness

To service NMG s indebtedness, it will require a significant amount of cash. NMG s ability to generate cash depen

NMG s ability to pay interest on and principal of the debt obligations will primarily depend upon NMG s future

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operating performance. As a result, prevailing economic conditions and financial, business and other factors, many of whicl

If NMG does not generate sufficient cash flow from operations to satisfy the debt service obligations, NMG may have to ur

Contractual limitations on NMG s ability to execute any necessary alternative financing plans could exacerbate the effects

NMG s inability to generate sufficient cash flow to satisfy its debt service obligations, or to refinance its obligations at all c

The terms of NMG s Asset-Based Revolving Credit Facility and Senior Secured Term Loan Facilit

The credit agreements governing NMG s Asset-Based Revolving Credit Facility and Senior Secured Term Loan Facility cı

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

In addition, NMG s ability to borrow under the Asset-Based Revolving Credit Facility is limited by a borrowing base and a

Moreover, NMG s Asset-Based Revolving Credit Facility provides discretion to the agent bank acting on behalf of the

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lenders to impose additional availability and other reserves, which could materially impair the amount of borrowings that w

A breach of any of the restrictive covenants would result in a default under the Asset-Based Revolving Credit Facility and S

The operating and financial restrictions and covenants in these debt agreements and any future financing agreements may a

Risks Related to Our Business and Industry

The specialty retail industry is highly competitive.

The specialty retail industry is highly competitive and fragmented. Competition is strong both to attract and sell to custome

We compete for customers with specialty retailers, traditional and high-end department stores, national apparel chains, venc

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

Our relationships with established and emerging designers are a key factor in our position as a retailer of high-fashion merc

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

We make decisions regarding the purchase of our merchandise well in advance of the season in which it will be sold. For ex

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

Our success depends in large part on our ability to identify fashion trends as well as to anticipate, gauge and react to

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changing consumer demands in a timely manner. If we fail to adequately match our product mix to prevailing customer tast

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

Based upon our expansion strategy, we expect that planned new stores will add over 660,000 square feet of new store space

Acts of terrorism could adversely affect our business.

The economic downturn that followed the terrorist attacks of September 11, 2001 had a material adverse effect on our busi

Deterioration in economic conditions could adversely affect our business.

The merchandise we sell consists in large part of luxury retail goods. The purchase of these goods by customers is discretio

The loss of any of our senior management team or attrition among our buyers or key sales associates could adversel

Our success in the specialty retail industry will continue to depend to a significant extent on our senior management team, b

Inflation may adversely affect our business operations in the future.

In recent years, we have experienced certain inflationary conditions in our cost base due primarily to (1) changes in foreign costs worsens, we cannot assure you that our attempts to offset the effects of inflation and cost increases through control of

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

We maintain loyalty programs that are designed to cultivate long-term relationships with our customers and enhance the qu

Changes in our credit card arrangements, applicable regulations and consumer credit patterns could adversely imp

We maintain a proprietary credit card program through which credit is extended to customers under the Neiman Marcus

Credit card operations are subject to numerous federal and state laws that impose disclosure and other requirements upon th

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

Extreme weather conditions in the areas in which our stores are located could adversely affect our business. For example, h

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

We are subject to customs, truth-in-advertising and other laws, including consumer protection regulations and zoning and o

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

The specialty retail industry is seasonal in nature, with a higher level of sales typically generated in the fall and holiday sell

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addition, we incur significant additional expenses in the period leading up to the months of November and December in ant

Our business is affected by foreign currency fluctuations.

We purchase a substantial portion of our inventory from foreign suppliers whose cost to us is affected by the fluctuation of

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

A substantial majority of our merchandise is manufactured overseas, mostly in Europe. As a result, political instability or ot

Significant increases in costs associated with the production of catalogs and other promotional material may advers

We advertise and promote in-store events, new merchandise and fashion trends through print catalogs and other promotiona

We are indirectly owned and controlled by the Sponsors, and their interests as equity holders may conflict with thos

We are indirectly owned and controlled by the Sponsors and certain other equity investors, and the Sponsors have the abilit

If we are unable to enforce our intellectual property rights, or if we are accused of infringing on a third party s inte

We and our subsidiaries currently own our trademarks and service marks, including the Neiman Marcus, Bergdorf Goo

Additionally, third parties may assert claims against us alleging infringement, misappropriation or other violations of their t

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infringing products. This might have an adverse affect on our sales and cause us to incur significant litigation costs and exp

Failure to successfully maintain and update information technology systems and enhance existing systems may adve

To keep pace with changing technology, we must continuously provide for the design and implementation of new informati

Delays in receipt of merchandise in connection with either the manufacturing or shipment of such merchandise can

Substantially all of our merchandise is delivered to us by our vendors as finished goods and is manufactured in numerous lo

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ITEM 2. PROPERTIES

Our corporate headquarters are located at the Downtown Neiman Marcus store location in Dallas, Texas. The operating hea

Properties that we use in our operations include Neiman Marcus stores, Bergdorf Goodman stores, clearance centers and dis

Neiman Marcus Stores. As of September 20, 2006, we operated 37 Neiman Marcus stores, with an aggre

Locations
Dallas, Texas (Downtown)(1)
Dallas, Texas (NorthPark)(2)*
Houston, Texas (Galleria)(3)*
Bal Harbour, Florida(2)
Atlanta, Georgia(2)*
St. Louis, Missouri(2)
Northbrook, Illinois(3)
Fort Worth, Texas(2)
Washington, D.C.(2)*
Newport Beach, California(3)*
Beverly Hills, California(1)*
Westchester, New York(2)*
Las Vegas, Nevada(2)
Oak Brook, Illinois(2)
San Diego, California(2)
Fort Lauderdale, Florida(3)*
San Francisco, California(4)*
Chicago, Illinois (Michigan Ave.)(2)
Boston, Massachusetts(2)
Palo Alto, California(3)*
McLean, Virginia(4)*
Denver, Colorado(3)*
Minneapolis, Minnesota(2)
Scottsdale, Arizona(2)*
Troy, Michigan(3)**
Short Hills, New Jersey(3)*
King of Prussia, Pennsylvania(3)*
Paramus, New Jersey(3)*
Honolulu, Hawaii(3)
Palm Beach, Florida(2)
Plano, Texas (Willow Bend)(4)*
Tampa, Florida(3)*
Coral Gables, Florida(2)*
Orlando, Florida(4)*
San Antonio, Texas(4)*
Boca Raton, Florida(2)**

Charlotte, North Carolina(3)

(1) Owned subject to partial ground lease.

(2) Leased.

(3) Owned subject to ground lease.

(4) Owned.

* Mortgaged to secure our senior secured credit facilities and the 2028 Debentures.

** Expected to be mortgaged to secure our senior secured credit facilities and the 2028

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We recently opened new stores in San Antonio (120,000 square feet) in September 2005, Boca Raton (136,000 square feet)

- Austin in Spring 2007 (80,000 square feet planned),
- suburban Boston in Fall 2007 (100,000 square feet planned),
- Long Island in Fall 2008 (150,000 square feet planned),
- the greater Los Angeles area in Fall 2008 (120,000 square feet planned),
- suburban Seattle in Spring 2009 (120,000 square feet planned), and
- Princeton in Spring 2010 (90,000 square feet planned).

Bergdorf Goodman Stores. We operate two Bergdorf Goodman stores, both of which are located in Manl

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(1) Leased.

* Mortgaged to secure our senior secured credit facilities and the 2028 Debentures.

Clearance Centers. As of September 1, 2006, we operated 18 clearance centers (16 Last Call and 2 Hor

Distribution, support and office facilities. We own approximately 34 acres of land in Longview, Texas, wh

Lease Terms. The terms of the leases for substantially all of our stores, assuming all outstanding renew

For further information on our properties and lease obligations, see Item 7, Management s Discussion and Analysis of Fi

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ITEM 3. LEGAL PROCEEDINGS

We are currently involved in various legal actions and proceedings that arose in the ordinary course of our business. We bel

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

No matters were submitted to a vote of our security holders during the quarter ended July 29, 2006.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is qualified in entirety by our consolidated financial statements (and the related Notes

(in thousands)
OPERATING RESULTS
Revenues
Cost of goods sold including buying and occupancy costs (excluding depreciation)
Selling, general and administrative expenses (excluding depreciation)
Income from credit card operations
Depreciation and amortization
Operating earnings
Earnings from continuing operations before income taxes, minority interest and change in accounting principle
Net earnings

FINANCIAL POSITION
Cash and cash equivalents
Merchandise inventories
Total current assets
Property and equipment, net
Total assets
Current liabilities
Long-term liabilities

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OTHER OPERATING DATA:	
Capital expenditures	
Depreciation expense	
Rent expense	
Change in comparable revenues(9)	
Number of stores open at period end	

(1) For the forty-three weeks ended July 29, 2006, net earnings include a loss from discontinued

(2) For the nine weeks ended October 1, 2005, operating earnings includes $23.5 million of trans

(3) For fiscal year 2005, operating earnings include a $15.3 million pretax loss related to the disp

(4) For fiscal year 2005, net earnings reflect tax benefits aggregating $7.6 million resulting from

(5) For fiscal year 2004, operating earnings include a $3.9 million pretax impairment charge relat

(6) For fiscal year 2004, net income reflects a $7.5 million tax benefit related to favorable settlem

(7) For fiscal year 2003, net earnings reflect an after-tax charge of $14.8 million for the writedow

(8) For fiscal year 2002, operating earnings reflect 1) a $16.6 million gain from the change in vac

(9) Comparable revenues include 1) revenues derived from our retail stores open for more than 5

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION A

The following discussion and analysis of our financial condition and results of operations should be read together with our a

Overview

Neiman Marcus, Inc., (the Company) together with our operating segments and subsidiaries, is a high-end specialty retailer

Neiman Marcus, Inc. (formerly Newton Acquisition, Inc.) acquired The Neiman Marcus Group, Inc. (NMG) on October 6,

Prior to the Acquisition, the Company had no independent assets or operations. After the Acquisition, the Company repres

We have prepared our discussion of the results of operations for the fiscal year ended July 29, 2006 by comparing the result

In connection with the Transactions, we incurred significant indebtedness and became highly leveraged. See Liquidity and

Our fiscal year ends on the Saturday closest to July 31. All references to fiscal year 2006 relate to the combined 52 weeks e

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On July 27, 2006, we sold our former majority interest in Gurwitch Products, L.L.C. to Alticor Inc., for pretax net cash proc

Recent Developments

On August 31, 2006, we announced preliminary total revenues and comparable revenues of approximately $270 million and

All the financial data for the four-week August period of fiscal year 2007 set forth above are preliminary and unaudited and

Factors Affecting Our Results

Revenues. We generate our revenues primarily from the sale of high-end merchandise through our Spe

- Sales of merchandise Revenues from our Specialty Retail stores are recognized at the later
- Commissions from leased departments A small portion of the sales of our Specialty Retail
- Delivery and processing We generate revenues from delivery and processing charges relate

Our revenues can be affected by the following factors:

- changes in the level of consumer spending generally and, specifically, on luxury goods;
- changes in the level of full-price sales;
- changes in the level of promotional events conducted by our Specialty Retail stores;
- our ability to successfully implement our store expansion and remodeling strategies;
- the rate of growth in internet sales by our Direct Marketing operation; and
- general economic conditions.

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

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

- Inventory costs We utilize the retail method of accounting, which is widely used in the reta
- Buying costs Buying costs consist primarily of salaries and expenses incurred by our merch
- Occupancy costs Occupancy costs consist primarily of rent, property taxes and operating c
- Delivery and processing costs Delivery and processing costs consist primarily of delivery c

With the introduction of new fashions in the first and third fiscal quarters and our emphasis on full-price selling in these qu

Consistent with industry business practice, we receive allowances from certain of our vendors in support of the merchandis

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

- customer acceptance of and demand for the merchandise we offer in a given season and the
- our ability to order an appropriate amount of merchandise to match customer demand and th
- factors affecting revenues generally;
- changes in occupancy costs primarily associated with the opening of new stores or distribut
- the amount of vendor reimbursements we receive during the fiscal year.

Selling, general and administrative expenses (excluding depreciation) (SG&A). SG&A principally consists of cos

Advertising costs incurred by our Specialty Retail segment consist primarily of print media costs related to promotional ma

We also receive allowances from certain merchandise vendors in conjunction with compensation programs for employees v

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

- changes in the number of sales associates primarily due to expansion of existing stores and r
- changes in expenses incurred in connection with our advertising and marketing programs; a
- changes in expenses related to insurance and long-term benefits due to general economic co

Income from credit card operations. Prior to the Credit Card Sale on July 7, 2005, our credit card operatio

As a percentage of revenues, the HSBC Program Income is lower than the net finance charge income we earned prior to the

In the future, the HSBC Program Income may be:

- decreased based upon the level of future services we provide to HSBC; and
- increased based upon other changes to our historical credit card program related to, among o

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Fiscal Year 2006 Highlights

We believe that our product assortment of luxury, designer and fashion merchandise, coupled with our sales promotion acti

- Revenues Our revenues for fiscal year 2006 were $4,105.6 million, the highest in our histo

First fiscal quarter	8.3 %
Second fiscal quarter	6.3 %
Third fiscal quarter	6.3 %
Fourth fiscal quarter	6.6 %

For Specialty Retail stores, our sales per square foot increased by 5.9% to $611 in fiscal year 2006 compared to $577 in fisc

- Cost of goods sold including buying and occupancy costs (excluding depreciation) COGS r
- Selling, general and administrative expenses (excluding depreciation) Selling, general and
- Operating earnings For fiscal year 2006, our operating earnings were $328.1 million, or 8.

Seasonality

We conduct our selling activities in two primary selling seasons Fall and Spring. The Fall season is comprised of our first a

Our first fiscal quarter is generally characterized by a higher level of full-price selling with a focus on the initial introductio

Similarly, the third fiscal quarter is generally characterized by a higher level of full-price selling with a focus on the initial i

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A large percentage of our merchandise assortment, particularly in the apparel, fashion accessories and shoe categories, is or

We monitor the sales performance of our inventories throughout each season. We seek to order additional goods to supplem

OPERATING RESULTS

Performance Summary

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

Revenues
Cost of goods sold including buying and occupancy costs (excluding depreciation)
Selling, general and administrative expenses (excluding depreciation)
Income from credit card operations
Depreciation expense
Amortization of customer lists
Amortization of favorable lease commitments
Transaction and other costs
Loss on disposition of Chef s Catalog
Gain on credit card sale
Operating earnings
Interest expense (income), net
Earnings from continuing operations before income taxes and minority interest
Income taxes
Earnings from continuing operations before minority interest
Minority interest in net (earnings) loss of subsidiaries
Earnings from continuing operations
(Loss) earnings from discontinued operation
Net earnings

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In connection with the Transactions, the Company incurred significant indebtedness and became highly leveraged. See Li

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

(dollars in millions)

REVENUES
Specialty Retail stores
Direct Marketing
Other(1)
Total
OPERATING EARNINGS
Specialty Retail stores
Direct Marketing
Other(1)
Subtotal
Corporate expenses
Amortization of customer lists and favorable lease commitments
Non-cash charges related to other valuation adjustments made in connection with the Acquisition
Transaction and other costs
Loss on disposition of Chef s Catalog
Gain on Credit Card Sale
Impairment and other charges
Total
OPERATING PROFIT MARGIN
Specialty Retail stores
Direct Marketing
Total
CHANGE IN COMPARABLE REVENUES(2)
Specialty Retail stores
Direct Marketing
Total
SALES PER SQUARE FOOT
Specialty Retail stores
STORE COUNT
Neiman Marcus and Bergdorf Goodman stores:
Open at beginning of period
Opened during the period
Open at end of period
Clearance centers:
Open at beginning of period
Opened during the period
Open at end of period

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(1) Other includes the operations of Kate Spade, LLC.

(2) Comparable revenues include 1) revenues derived from our retail stores open for more than 52 weeks, including s

Fiscal Year Ended July 29, 2006 Compared to Fiscal Year Ended July 30, 2005

Revenues. Revenues for fiscal year 2006 of $4,105.6 million increased $330.8 million, or 8.8%, from

Comparable revenues for fiscal year 2006 were $3,992.2 million compared to $3,740.6 million in fiscal year 2005, represen

Comparable revenues in fiscal year 2005 increased by 9.8% as compared to fiscal year 2004. Changes in comparable revenu

	Fiscal Year 2006				Fiscal Year 2005	
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Specialty Retail stores	5.8 %	5.7 %	4.5 %	8.8 %	7.4 %	6.5 %
Direct Marketing	13.2 %	16.5 %	13.2 %	10.4 %	19.5 %	16.8 %
Total	6.6 %	6.3 %	6.3 %	8.3 %	9.4 %	7.9 %

In fiscal year 2006, internet sales by Direct Marketing were $405.7 million, an increase of 33.0% from fiscal year 2005, exc

Cost of goods sold including buying and occupancy costs (excluding depreciation). COGS for fiscal year 2006 and

(in millions, except percentages)	Fiscal year ended July 29, 2006 (Combined) $	% of revenues	Fiscal yea July 30, 2 (Predeces $
COGS, before purchase accounting adjustments	$ 2,593.6	63.1 %	$ 2,3
Purchase accounting adjustments, primarily non-cash charges related to step-up in carrying value of acquired inventories	43.8	1.1	
COGS, as reported	$ 2,637.4	64.2 %	$ 2,3

We present the non-GAAP financial measure COGS, before purchase accounting adjustments because we use this measure

The increase in COGS as reported under GAAP to 64.2% of revenues from 63.3% of revenues in the prior fiscal year prima

- a decrease in product costs by approximately 0.1% of revenues primarily due to lower net m
- a decrease in buying and occupancy costs of approximately 0.1% of revenues primarily due

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We incurred a lower level of net markdowns in our Specialty Retail stores in fiscal year 2006 primarily due to:

- higher levels of full-price selling; and
- markdown savings, primarily in the Spring season, related to lower markdown percentages

Consistent with industry business practice, we receive allowances from certain of our vendors in support of the merchandis

Selling, general and administrative expenses (excluding depreciation). SG&A expenses were 23.9% of revenue

The net decrease in SG&A expenses as a percentage of revenues in fiscal year 2006 was primarily due to:

- a decrease in marketing and advertising costs of approximately 0.3% of revenues primarily
- a decrease of approximately 0.3% of revenues in our payroll and employee benefit costs pri
- lower annual incentive compensation costs of approximately 0.1% of revenues;
- a decrease in costs incurred to support our credit card operations subsequent to the Credit C
- a decrease of approximately 0.1% of revenues in professional and legal fees incurred primar

These decreases in SG&A expenses, as a percentage of revenues, were partially offset by:

- management services fees of $8.7 million, or 0.2% of revenues, payable to the Sponsors as
- an increase in preopening expenses and store remodeling expenses primarily incurred in co

Income from credit card operations. We received HSBC Program Income of $57.2 million, or 1.4% of rev

Depreciation expense. Depreciation expense was $130.8 million, or 3.2% of revenues, in fiscal year 200

Amortization expense. Amortization of acquisition related intangibles (customer lists and favorable leas

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Transaction and other costs. During the period July 30, 2005 to October 1, 2005, we expensed $23.5 mil

Segment operating earnings. Segment operating earnings for our Specialty Retail stores and Direct Mark

Operating earnings for our Specialty Retail stores segment were $403.7 million, or 12.0% of Specialty Retail stores revenue

Operating earnings for Direct Marketing increased to $98.2 million, or 15.0% of Direct Marketing revenues, in fiscal year 2

Interest expense, net. Net interest expense was $217.0 million in fiscal year 2006 and $12.3 million for

(in thousands)	**Forty-three weeks ended July 29, 2006 (Successor)**	**Nine weeks Ended October 1, 2005 (Predecessor)**	**Fiscal year ended July 29, 2006 (Combined**
Asset-Based Revolving Credit Facility	$ 1,332	$	$ 1,33
Senior Secured Term Loan Facility	111,662		111,662
2028 Debentures	7,266	1,542	8,808
Senior Notes	51,421		51,421
Senior Subordinated Notes	42,339		42,339
Credit Agreement			
2008 Notes	638	1,439	2,077
Amortization of debt issue costs and other	12,275	322	12,597
Total interest expense	226,933	3,303	230,236
Less:			
Interest income	5,557	3,046	8,603
Capitalized interest	3,446	1,146	4,592
Interest expense, net	$ 217,930	$ (889)	$ 217,

The increase in interest expense is due to the $3.3 billion increase in debt incurred in connection with the Transactions. The

Income taxes. Our effective income tax rate was 35.6% for the forty-three weeks ended July 29, 2006 a

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The Company s federal tax returns for fiscal years 2004 and 2003 are currently under examination by the Internal Revenue

Fiscal Year Ended July 30, 2005 Compared to Fiscal Year Ended July 31, 2004

Revenues. Revenues for fiscal year 2005 of $3,774.8 million increased $290.8 million, or 8.3%, from

Comparable revenues for fiscal year 2005 were $3,740.6 million compared to $3,390.5 million in fiscal year 2004, represen

	Fiscal Year 2005								**Fiscal Year 2004**			
	Fourth Quarter		**Third Quarter**		**Second Quarter**		**First Quarter**		**Fourth Quarter**		**Third Quarter**	
Specialty Retail stores	7.4	%	6.5	%	9.6	%	11.1	%	11.3	%	22.2	%
Direct Marketing	19.5	%	16.8	%	15.8	%	13.1	%	21.7	%	14.4	%
Total	9.4	%	7.9	%	10.4	%	11.4	%	12.8	%	22.0	%

We believe the increases in our comparable revenues in fiscal year 2005 were primarily the result of a higher level of consu

Costs of goods sold including buying and occupancy costs (excluding depreciation). COGS was 63.3% of revenue

- the decrease in product costs by approximately 0.6% as a percentage of revenues; and
- a decrease in buying and occupancy costs by approximately 0.1% as a percentage of revenu

We had lower product costs as a percentage of revenues at both our Specialty Retail stores and our Direct Marketing operat

Buying and occupancy costs decreased by approximately 0.1% as a percentage of revenues during fiscal year 2005 compar

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Selling, general and administrative expenses (excluding depreciation). SG&A expenses were 24.7% of revenue

The net decrease in selling, general and administrative expenses as a percentage of revenues in fiscal year 2005 as compare

- a decrease in marketing and advertising costs by approximately 0.3% as a percentage of rev
- a decrease in incentive compensation by approximately 0.1% as a percentage of revenues.

These decreases in selling, general and administrative expenses as a percentage of revenues were partially offset by:

- costs, consisting primarily of legal and consulting fees, aggregating $6.7 million, or approxi
- an increase in costs, primarily payroll, by approximately 0.1% as a percentage of revenues i
- an increase in employee benefit expenses, including medical and pension expenses, by appr

In addition, selling, general and administrative expenses increased as a percentage of revenues in fiscal year 2005 due to a $

Income from credit card operations. Income from credit card operations, net was $71.6 million, or 1.9% o

Depreciation expense. Depreciation expense was $106.3 million, or 2.8% of revenues, in fiscal year 200

Loss on disposition of Chef s Catalog. In November 2004, we completed the Chef s Catalog Disposition.

Gain on Credit Card Sale. On July 7, 2005, HSBC purchased our approximately three million private lab

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approximately $75.4 million in fiscal year 2005. If the Credit Card Sale had been consummated as of the first day of fiscal y

Segment operating earnings. Operating earnings for our Specialty Retail stores segment were $377.8 mil

Operating earnings for Direct Marketing increased to $75.2 million in fiscal year 2005 from $61.3 million for fiscal year 20

Interest expense, net. Net interest expense was $12.3 million in fiscal year 2005 and $15.9 million in fis

The net decrease in net interest expense was due to:

- increases in interest income of $4.4 million generated by higher cash balances; and
- increases in capitalized interest charges of $2.3 million associated with store construction ar

The net decrease in interest expense was offset by a $3.5 million increase in the interest expense attributable to the monthly

Income taxes. Our effective income tax rate was 36.7% for fiscal year 2005 and 36.7% for fiscal year 2

Inflation and Deflation

We believe changes in revenues and net earnings that have resulted from inflation or deflation have not been material durin

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Our cash requirements consist principally of:

- the funding of our merchandise purchases;
- capital expenditures for new store construction, store renovations and upgrades of our mana
- debt service requirements;
- income tax payments; and
- obligations related to our Pension Plan.

Our primary sources of short-term liquidity are comprised of cash on hand and availability under our Asset-Based Revolvin

Our working capital requirements fluctuate during the fiscal year, increasing substantially during the first and second quarte

We believe that operating cash flows, available vendor financing and amounts available pursuant to our senior secured Ass

At July 29, 2006, cash and equivalents were $224.8 million compared to $853.4 million at July 30, 2005. This $628.6 millio

- higher cash balance at July 30, 2005 as a result of the net cash proceeds of $533.7 million re
- the use of available cash of approximately $666.1 million in connection with the consumma
- higher debt and interest requirements in fiscal year 2006, including a $100 million voluntary
- pretax net cash proceeds of $40.8 million received for the Gurwitch Disposition in July 200

Net cash provided by operating activities was $400.2 million in fiscal year 2006 compared to $845.4 million in fiscal year 2

Net cash used for investing activities was $5,286.1 million fiscal year 2006 which consisted of cash outflows of $5,156.4 m

Chef s Catalog. We incurred capital expenditures in fiscal year 2006 related to the construction of new stores in San Anton

Net cash provided by financing activities was $4,257.6 million in fiscal year 2006 as compared to net cash used for financin

Financing Structure at July 29, 2006

Our major sources of funds are comprised of vendor financing, a $600.0 million Asset-Based Revolving Credit Facility, $1.

Senior Secured Asset-Based Revolving Credit Facility. On October 6, 2005, in connection with the Transactio

The Asset-Based Revolving Credit Facility provides that NMG has the right at any time to request up to $200.0 million of a

Borrowings under the Asset-Based Revolving Credit Facility bear interest at a rate per annum equal to, at NMG s option, e

If at any time the aggregate amount of outstanding loans, unreimbursed letter of credit drawings and undrawn letters of cred

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to LIBOR loans. There is no scheduled amortization under the Asset-Based Revolving Credit Facility; the principal amount

All obligations under the Asset-Based Revolving Credit Facility are guaranteed by the Company and certain of NMG s exi

- a first-priority security interest in personal property consisting of inventory and related acco
- a second-priority pledge of 100% of NMG s capital stock and certain of the capital stock h
- a second-priority security interest in, and mortgages on, substantially all other tangible and

Capital stock and other securities of a subsidiary of NMG that are owned by NMG or any subsidiary guarantor will not con

NMG s Asset-Based Revolving Credit Facility contains a number of covenants that, among other things and subject to cert

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

The covenants limiting dividends and other restricted payments; investments, loans, advances and acquisitions; and prepay

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satisfaction of certain payment conditions, principally that NMG must have at least $75.0 million of pro forma excess avail

Although the credit agreement governing the Asset-Based Revolving Credit Facility does not require NMG to comply with

Senior Secured Term Loan Facility. On October 6, 2005, in connection with the Transactions, NMG enter

Borrowings under the Senior Secured Term Loan Facility bear interest at a rate per annum equal to, at NMG s option, eith

The credit agreement governing the Senior Secured Term Loan Facility requires NMG to prepay outstanding term loans wi

NMG may voluntarily prepay outstanding loans under the Senior Secured Term Loan Facility at any time without premium

All obligations under the Senior Secured Term Loan Facility are unconditionally guaranteed by the Company and each dire

- a first-priority pledge of 100% of NMG s capital stock and certain of the capital stock held
- a first-priority security interest in, and mortgages on, substantially all other tangible and int
- a second-priority security interest in personal property consisting of inventory and related a

Capital stock and other securities of a subsidiary of NMG that are owned by NMG or any subsidiary guarantor will not con

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Debentures or other secured public debt obligations without requiring the preparation and filing of separate financial statem

The credit agreement governing the Senior Secured Term Loan Facility contains a number of negative covenants that are su

2028 Debentures. In May 1998, NMG issued $125.0 million aggregate principal amount of its 7.125%

Senior Notes. On October 6, 2005, Newton Acquisition Merger Sub, Inc. issued $700.0 million aggreg

For any interest payment period through October 15, 2010, NMG may, at its option, elect to pay interest on the Senior Note

The Senior Notes are fully and unconditionally guaranteed on a joint and several unsecured, senior basis, by each of NMG

NMG is not required to make any mandatory redemption or sinking fund payments with respect to the Senior Notes, but un

Except as described below, the Senior Notes are not redeemable at NMG s option prior to October 15, 2010. From and afte

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principal amount, declining annually to 100% of the principal amount on October 15, 2013, plus accrued and unpaid interes

Prior to October 15, 2008, NMG may, at its option, subject to certain conditions, redeem up to 35% of the original aggregat

Upon the occurrence of a change of control (as defined in the Senior Indenture), each holder of the Senior Notes has the rig

The indenture governing the Senior Notes contains covenants that limit NMG s ability and certain of its subsidiaries abili

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

NMG s majority interest in Kate Spade LLC is not subject to the covenants contained in the Senior Indenture. The Senior I

Senior Subordinated Notes. On October 6, 2005, Newton Acquisition Merger Sub, Inc. issued $500.0 mi

The Senior Subordinated Notes are fully and unconditionally guaranteed, on a joint and several unsecured, senior subordina

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NMG is not required to make any mandatory redemption or sinking fund payments with respect to the Senior Subordinated

Except as described below, the Senior Subordinated Notes are not redeemable at NMG s option prior to October 15, 2010.

Prior to October 15, 2008, NMG may, at its option, subject to certain conditions, redeem up to 35% of the original aggregat

At any time prior to October 15, 2010, NMG also may redeem all or a part of the Senior Subordinated Notes at a redemptio

Upon the occurrence of a change of control (as defined in the Senior Subordinated Indenture), NMG will make an offer to p

The indenture governing the Senior Subordinated Notes contains covenants substantially similar to those applicable to NM

Redemption of 2008 Notes. In May 1998, NMG issued $125.0 million aggregate principal amount of its 2

Interest Rate Swaps. NMG uses derivative financial instruments to help manage its interest rate risk. Ef

At July 29, 2006, the fair value of NMG s interest rate swap agreements was a gain of approximately $20.2 million, which

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Contractual Obligations and Commitments

The following table summarizes our estimated significant contractual cash obligations at July 29, 2006:

(in thousands)	Payments Due By Period Total	Fiscal Year 2007	Fiscal Years 2008-2009
Contractual obligations:			
Senior Secured Term Loan Facility (1)	$ 1,875,000	$	$
Senior Notes	700,000		
Senior Subordinated Notes	500,000		
2028 Debentures	125,000		
Interest requirements (2)	2,124,000	267,000	534,000
Operating lease obligations	808,900	47,800	99,400
Minimum pension funding obligation (3)			
Other long-term liabilities (4)	68,500	8,100	13,500
Construction commitments	235,000	97,800	137,200
Inventory purchase commitments (5)	953,900	953,900	
	$ 7,390,300	$ 1,374,600	$ 784,100

(1) $100.0 million of term loans under this facility were repaid in the second quarter of fiscal year 2006. The above t

(2) The cash obligations for interest requirements reflect 1) interest requirements on our fixed-rate debt obligations at

(3) Minimum pension funding requirements are not included above as such amounts are not currently quantifiable fo

(4) Other long-term liabilities of $192.2 million reflected on our balance sheet at July 29, 2006 include our obligation

(5) In the normal course of our business, we issue purchase orders to vendors/suppliers for merchandise. Our purchas

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The following table summarizes the expiration of our significant commercial commitments outstanding at July 29, 2006:

(in thousands)	Amount of Commitment by Expiration Period Total	Fiscal Year 2007	Fiscal Years 2008-2009
Other commercial commitments:			
Senior secured asset-based revolving credit facility(1)	$ 600,000	$	$
Other lending facilities	7,600	7,600	
Surety bonds	4,000	4,000	
	$ 611,600	$ 11,600	$

(1) As of July 29, 2006, we had no borrowings outstanding under our new senior secured asset-based revolving credit

In addition to the items presented above, our other principal commercial commitments are comprised of common area main

At August 1, 2006 (the most recent measurement date), our actuarially calculated projected benefit obligation for our Pensi

Investment in Kate Spade LLC. We currently own a 56% interest in Kate Spade LLC, which designs and

In April 2005, the minority investor in Kate Spade LLC exercised the put option described above with respect to the full am

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Factors That May Affect Future Results

Matters discussed in MD&A include forward-looking statements. Forward-looking statements generally can be identified b

Political and General Economic Conditions

- current political and general economic conditions or changes in such conditions including re
- terrorist activities in the United States and elsewhere;
- political, social, economic, or other events resulting in the short- or long-term disruption in

Customer Demographic Issues

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

Merchandise Procurement and Supply Chain Considerations

- changes in our relationships with designers, vendors and other sources of merchandise, incl
- delays in receipt of merchandise ordered due to work stoppages or other causes of delay in c
- changes in foreign currency exchange or inflation rates;
- significant increases in paper, printing and postage costs;

Industry and Competitive Factors

- competitive responses to our loyalty programs, marketing, merchandising and promotional e
- seasonality of the retail business;
- adverse weather conditions or natural disasters, particularly during peak selling seasons;
- delays in anticipated store openings and renovations;
- our success in enforcing our intellectual property rights;

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Employee Considerations

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

Legal and Regulatory Issues

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

Leverage Considerations

- the effects of incurring a substantial amount of indebtedness under our senior secured credit
- the effects upon us of complying with the covenants contained in our senior secured credit f
- restrictions the terms and conditions of the indebtedness under our senior secured credit fac

Other Factors

- impact of funding requirements related to our noncontributory defined benefit pension plan
- the design and implementation of new information systems as well as enhancements of exis
- other risks, uncertainties and factors set forth in this Annual Report on Form 10-K, includin

The foregoing factors are not exhaustive, and new factors may emerge or changes to the foregoing factors may occur that c

Critical Accounting Policies

Our accounting policies are more fully described in Note 1 of the notes to our audited consolidated financial statements app

While we believe that our past estimates and assumptions have been materially accurate, the amounts we have currently est

We believe the following critical accounting policies encompass the more significant judgments and estimates used in the p

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Purchase Accounting**.** We have accounted for the Acquisition in accordance with the provisions of State

Revenues. Revenues include sales of merchandise and services, net commissions earned from leased d

Merchandise Inventories and Cost of Goods Sold. We utilize the retail method of accounting for substantiall

Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are determined by ap

The areas requiring significant management judgment related to the valuation of our inventories include (1) setting the orig

Consistent with industry business practice, we receive allowances from certain of our vendors in support of the merchandis

Accounts Receivable and Income from Credit Card Operations. We sold our proprietary credit card accounts to

Prior to the Credit Card Sale, we extended credit to certain of our customers pursuant to our proprietary retail credit card pr

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In connection with a revolving Credit Card Facility (Credit Card Facility) established in September 2000, we transferred su

At the inception of the Credit Card Facility in September 2000, the Trust issued certificates representing undivided interests

Under the Credit Card Facility, we serviced the credit card receivables for a contractually defined servicing fee. We earned

Long-lived Assets. Property and equipment are stated at historical cost less accumulated depreciation. F

To the extent that we remodel or otherwise replace or dispose of property and equipment prior to the end of the assigned de

We assess the recoverability of the carrying values of our store assets annually and upon the occurrence of certain events (e

Goodwill and Intangible Assets. Goodwill and indefinite-lived intangible assets, such as tradenames, are r

Customer lists are amortized using the straight-line method over their estimated useful lives, ranging from 5 to 26 years (we

2007
2008
2009
2010
2011

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Financial Instruments. We use derivative financial instruments to help manage our interest rate risks. A

At July 29, 2006, the fair value of NMG s interest rate swap agreements was a gain of approximately $20.2 million, which

Advertising and Catalog Costs. We incur costs to advertise and promote the merchandise assortment offe

Gift Cards. We sell gift cards at our Specialty Retail stores and through Direct Marketing. Unredeeme

Loyalty Programs. We maintain customer loyalty programs in which customers accumulate points for q

The estimates of the costs associated with the loyalty programs require us to make assumptions related to customer purchas

Pension Plan. We sponsor a noncontributory defined benefit pension plan covering substantially all fu

Significant assumptions related to the calculation of our pension obligation include the discount rate used to calculate the ac

The assumed discount rate utilized is based on a broad sample of Moody s high quality corporate bond yields as of the mea

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The assumed expected long-term rate of return on assets is the weighted average rate of earnings expected on the funds inv

The assumed average rate of compensation increase is the average annual compensation increase expected over the remaini

Self-insurance and Other Employee Benefit Reserves. We use estimates in the determination of the required a

Income Taxes. We are routinely under audit by federal, state or local authorities in the areas of income

Litigation. We are periodically involved in various legal actions arising in the normal course of busine

Recent Accounting Pronouncements

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations,

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretati

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In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 1

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in the Company s financial instruments represents the potential loss arising from adverse changes

As of July 29, 2006, NMG had no borrowings outstanding under its Asset-Based Revolving Credit Facility that bears intere

At July 29, 2006, NMG had $1,875.0 million of debt under its Senior Secured Term Loan Facility issued in connection wit

NMG uses derivative financial instruments to help manage its interest rate risk. Effective December 6, 2005, NMG entere

At July 29, 2006, the fair value of NMG s interest rate swap agreements was a gain of approximately $20.2 million, which

NMG uses derivative financial instruments to manage foreign currency risk related to the procurement of merchandise inve

The effects of changes in the U.S. equity and bond markets serve to increase or decrease the value of pension plan assets, re

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the Company and supplementary data are included as pages F-1 through

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCI

None.

ITEM 9A. CONTROLS AND PROCEDURES

a. Disclosure Controls and Procedures.

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation as of July 29, 2006, under the sup

b. Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as define

c. Changes in Internal Control over Financial Reporting

In the ordinary course of business, we routinely enhance our information systems by either upgrading our current systems o

ITEM 9B. OTHER INFORMATION

None.

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ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth the name, age and position of individuals who currently serve as our directors and executive o

Name
David A. Barr
Ron Beegle
Jonathan Coslet
James Coulter
John G. Danhakl
Sidney Lapidus
Kewsong Lee
Carrie Wheeler
Burton M. Tansky
James E. Skinner
Nelson A. Bangs
Marita O Dea
Steven P. Dennis
Karen W. Katz
Brendan L. Hoffman
James J. Gold

The following biographies describe the business experience of our directors and executive officers.

David A. Barr was appointed to serve as a director following the consummation of the Transactions. M

Ron Beegle was appointed to serve as a director following the consummation of the Transactions. Mr.

Jonathan Coslet was appointed to serve as a director following the consummation of the Transactions.

James Coulter was appointed to serve as a director following the consummation of the Transactions. M

John G. Danhakl was appointed to serve as a director following the consummation of the Transactions.

joining Leonard Green & Partners, L.P., he served as a Managing Director in the Los Angeles office of Donaldson, Lufkin

Sidney Lapidus was appointed to serve as a director following the consummation of the Transactions.

Kewsong Lee was appointed to serve as a director following the consummation of the Transactions. M

Carrie Wheeler was appointed to serve as a director following the consummation of the Transactions.

Burton M. Tansky has served as a director on the Board of Directors and as President and Chief Execut

James E. Skinner has been Senior Vice President and Chief Financial Officer since the consummation

Nelson A. Bangs has been Senior Vice President and General Counsel since the consummation of the T

Marita O Dea has been Senior Vice President, Human Resources since the consummation of the Tran

Steven P. Dennis has been Senior Vice President of Strategy, Business Development and Multi-Channe

Karen W. Katz has been President and Chief Executive Officer of Neiman Marcus Stores since Decem

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Brendan L. Hoffman has been President and Chief Executive Officer of Neiman Marcus Direct since D

James J. Gold has been President and Chief Executive Officer of Bergdorf Goodman since May 2004.

Code of Ethics

The Board has adopted The Neiman Marcus Group, Inc. Code of Ethics and Conduct which is applicable to all our directors

Board Committees

Our Board of Directors has established an audit committee, an executive committee and a compensation committee. The m

Each of the Sponsors has the right to have at least one of its directors sit on each committee of the Board of Directors, to the

Audit Committee Financial Expert

The Board of Directors has determined that David A. Barr, Chairman of the Audit Committee, meets the criteria set forth in

Director Compensation

In fiscal year 2006 prior to the completion of the Transactions, each independent director of NMG was paid an annual retai

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Pursuant to the Deferred Compensation Plan for Non-Employee Directors, independent directors were offered the right to e

Following the completion of the Transactions, the policies with respect to director compensation were amended to take into

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, required, for periods prior to the completion of the Acqu

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the annual compensation for the Chief Executive Officer and the four other most highly comp

Name and Principal Position
Burton M. Tansky President and Chief Executive Officer
Karen W. Katz President and Chief Executive Officer Neiman Marcus Stores
James E. Skinner Senior Vice President and Chief Financial Officer
Brendan L. Hoffman President and Chief Executive Officer Neiman Marcus Direct
James J. Gold President and Chief Executive Officer Bergdorf Goodman

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(1) Bonus payments are reported with respect to the year in which the related services

Discretionary bonus payments were made in fiscal year 2006 for $86,235 to Burton M. Tansky, $34,555 to Karen W. Katz,

(2) The amount shown for Mr. Tansky is for a car allowance.

(3) The amount shown for Karen Katz is for a clothing allowance.

(4) The amount shown for Jim Gold is for a cost of living adjustment due to his relocation from T

(5) Restricted stock and options awarded the Named Executive Officers in fiscal years 2005 and

(6) Options awarded the Named Executive Officers in fiscal year 2006 were awarded under the N

(7) The amounts reported include the cost of matching contributions under the Key Em

OPTION GRANTS IN LAST FISCAL YEAR

Name
Burton M. Tansky
Karen W. Katz
James E. Skinner
Brendan L. Hoffman
James J. Gold

(1) Options granted during the 2006 fiscal year are nonqualified stock options granted under the N

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accreting exercise price, vesting and expiration of the Options, the grant date was deemed to be October 6, 2005. Mr. Tansl

(2) Based on a total of 74,433.0770 shares subject to options granted to employees und

(3) These amounts represent the estimated present value of these stock options on the d

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

Name
Burton M. Tansky
Karen M. Katz
James E. Skinner
Brendan L. Hoffman
James J. Gold

(1) At the completion of the Transactions, the existing equity incentive plans, including the 1987

(2) There is no established public market for our common stock. Based on customary corporate v

PENSION PLAN TABLE

We maintain a funded, qualified pension plan known as The Neiman Marcus Group, Inc. Retirement Plan (the Retirement

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We also maintain a Supplemental Executive Retirement Plan (the SERP). The SERP is an unfunded, nonqualified plan u

The following table, which includes benefits under the Retirement Plan and the SERP, shows the estimated annual pension

Final Average Pensionable Earnings
$ 400,000
600,000
800,000
1,000,000
1,200,000
1,500,000

The following table shows the pensionable earnings and credited years of service for the Named Executive Officers as of Ju

Name
Burton M. Tansky
Karen M. Katz
James E. Skinner
Brendan L. Hoffman
James J. Gold

(1) In computing the combined benefit under the Retirement Plan and SERP, pension

(2) The credited years of service set forth in the table reflect years of credited service u

(3) For purposes of determining Mr. Tansky s retirement benefits under the SERP, Mr

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Employment Contracts and Termination of Employment and Change-in-Control Arrangements

The Neiman Marcus Group, Inc. has entered into employment agreements with Burton M. Tansky and Karen W. Katz. The

During the period he serves as chairman, Mr. Tansky will be entitled to 75% of the base compensation he earned as Chief E

The employment agreement with Ms. Katz provides that she will act as Chief Executive Officer and President of Neiman M

Once the two-year period under the change of control termination protection agreement summarized below has ended, Ms.

Each of the Named Executive Officers is a party to a change of control termination protection agreement. Under each of th

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If a Named Executive Officer becomes entitled to receive these severance amounts, the Named Executive Officer will also

- Deemed participation in and accelerated vesting of benefits under the SERP and a lump su
- Accelerated vesting of any outstanding equity awards held by such Named Executive Offi
- Continuing coverage under our group health, dental and life insurance plans for the Name
- Reimbursement for outplacement expenses and merchandise discounts for the Named Exe

Each agreement also contains a tax gross-up provision whereby if the Named Executive Officer incurs any excise tax by rea

In addition to the change of control termination protection agreements, each of the Named Executive Officers and certain o

Cash Incentive Plan

Following the consummation of the Transactions, the Newton Acquisition, Inc. Cash Incentive Plan (the Cash Incentive P

Compensation Committee Interlocks and Insider Participation

In fiscal year 2006 prior to the consummation of the Transactions, Walter J. Salmon, Matina S. Horner, Paula Stern, and Jol

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELA

The following table sets forth information regarding equity compensation plans approved by shareholders and equity compe

(1) This number represents options issuable under the Management Equity Incentive P

The following table sets forth information regarding beneficial ownership of our common stock as of September 15, 2006 b

The following table sets forth information regarding beneficial ownership of our common stock as of September 15, 2006 b

Name
Newton Holding, LLC 301 Commerce Street Suite 3300 Fort Worth, Texas 76102
Affiliates of Texas Pacific Group(2) 301 Commerce Street Suite 3300 Fort Worth, Texas 76102
Affiliates of Warburg Pincus, LLC(3) 466 Lexington Avenue New York, NY 10017

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David A. Barr(4)
466 Lexington Avenue
New York, NY 10017

James Coulter(5)
345 California Street, Suite 3300
San Francisco, CA 94104

Sidney Lapidus(4)
466 Lexington Avenue
New York, NY 10017

Kewsong Lee(4)
466 Lexington Avenue
New York, NY 10017

Burton M. Tansky(6)
1618 Main Street
Dallas, TX 75201

Karen W. Katz(7)
1618 Main Street
Dallas, TX 75201

James E. Skinner(8)
1618 Main Street
Dallas, TX 75201

Brendan L. Hoffman(9)
1618 Main Street
Dallas, TX 75201

James J. Gold(10)
754 Fifth Avenue
New York, NY10019

Ron Beegle
150 N. Santa Anita Avenue
Suite 300
Arcadia, CA 91006

Jonathan Coslet(5)
345 California Street
Suite 3300
San Francisco, CA 94104

John G. Danhakl
11111 Santa Monica Boulevard
Suite 2000
Los Angeles, CA 90025

Carrie Wheeler(5)
345 California Street
Suite 3300
San Francisco, CA 94104

All current executive officers and directors as a group (17 persons)

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* Represents less than 1% of the class.

(1) Percentage of class beneficially owned is based on 1,012,264 common shares outst

(2) Includes the 1,000,000 shares owned by Newton Holding, LLC over which TPG Pa

(3) Includes the 1,000,000 shares owned by Newton Holding, LLC over which Warbur

(4) Messrs. Bar, Lapidus and Lee, as partners of WP and managing directors and mem

(5) Mr. Coulter, as managing general partner of Texas Pacific Group, may be deemed t

(6) Includes 10,012 shares not currently owned, but which are issuable upon the exerci

(7) Includes 2,314 shares not currently owned, but which are issuable upon the exercis

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(8) Includes 1,157 shares not currently owned, but which are issuable upon the exercis

(9) Includes 1,157 shares not currently owned, but which are issuable upon the exercis

(10) Includes 1,157 shares not currently owned, but which are issuable upon the exercise

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Newton Holding, LLC Limited Liability Company Operating Agreement

The investment funds associated with or designated by a Sponsor (Sponsor Funds) and certain investors who agreed to co-i

Pursuant to the LLC Agreement, each of Texas Pacific Group and Warburg Pincus has the right, which is freely assignable

The Sponsors have assigned the right to appoint one of our directors to investment funds that are affiliates of Credit Suisse

For purposes of any board action, each director nominated by Texas Pacific Group or Warburg Pincus has three votes and e

Registration Rights Agreement

The Sponsor Funds and the Co-Investors entered into a registration rights agreement with us upon completion of the Transa

Management Services Agreement

In connection with the Transactions, we entered into a management services agreement with affiliates of the Sponsors pursu

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in connection with the provision of services pursuant to the agreement. The management services agreement also provides

Certain Charter and Bylaws Provisions

Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions limiting dire

Loan to Mr. Tansky

In fiscal 2006, Mr. Tansky had an outstanding loan balance under our former Key Executive Stock Purchase Loan Plan (the

Management Stockholders Agreement

Subject to the Management Stockholders Agreement, certain members of management, including Burton M. Tansky, Kar

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The Audit Committee has adopted policies and procedures for pre-approving all audit and permissible non-audit services pe

Other non-audit services of less than $50,000 that are not restricted services may be pre-approved by both the chief financia

Principal Accounting Fees and Services

For the fiscal years ended July 29, 2006 and July 30, 2005, professional services were performed by Deloitte & Touche LLI

Audit Fees. The aggregate fees billed for the audits of the Company s annual financial statements for

Audit-Related Fees. The aggregate fees billed for audit-related services for the fiscal years ended July 2

Tax Fees. The aggregate fees billed for tax services for the fiscal years ended July 29, 2006 and July 3

The Audit Committee has considered and concluded that the provision of permissible non-audit services is compatible with

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ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following documents are filed as part of this report.

1. Financial Statements

The list of financial statements required by this item is set forth in Item 8.

2. Index to Financial Statement Schedules

		Page Number
Report of Independent Registered Public Accounting Firm		F-3
Schedule II Valuation and Qualifying Accounts and Reserves		75

All other financial statement schedules for which provision is made in the applicable accounting regulations of the Securitie

3. Exhibits

Exhibit No.

2.1

2.2

3.1

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We are responsible for the integrity and objectivity of the financial and operating information contained in this Annual Rep

We maintain a system of internal controls which provides management with reasonable assurance that transactions are reco

In addition, the Audit Committee of the Board of Directors meets periodically with management, the internal auditors and t

We are responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13

Deloitte & Touche LLP, the independent registered public accounting firm that audited our consolidated financial statemen

BURTON M. TANSKY

President and Chief Executive Officer

JAMES E. SKINNER

Senior Vice President and Chief Financial Officer

T. DALE STAPLETON

Vice President and Controller

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To the Board of Directors and Shareholders of Neiman Marcus, Inc.

Dallas, Texas

We have audited the accompanying consolidated balance sheets of Neiman Marcus, Inc. and subsidiaries (the Company) as

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United Sta

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or impr

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial p

/S/ DELOITTE & TOUCHE LLP

Dallas, Texas
September 25, 2006

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(in thousands, except shares)
ASSETS
Current assets:
Cash and cash equivalents
Accounts receivable, net of allowance
Merchandise inventories
Deferred income taxes
Other current assets
Current assets of discontinued operation
Total current assets
Property and Equipment:
Land, buildings and improvements
Fixtures and equipment
Construction in progress
Less accumulated depreciation and amortization
Property and equipment, net
Customer lists, net
Favorable lease commitments, net