# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the Quarterly Period Ended October 27, 2018**

**OR**

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

**For the transition period from to**

**Commission file no. 333-133184-12**

# Neiman Marcus Group LTD LLC

(Exact name of registrant as specified in its charter)

| **Delaware** | **20-3509435** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **1618 Main Street**<br>**Dallas, Texas** | **75201** |
| (Address of principal executive offices) | (Zip code) |

Registrant's telephone number, including area code: **(214) 743-7600**

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

(Note: The registrant is a voluntary filer and not subject to the filing requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934. Although not subject to these filing requirements, the registrant has filed all reports that would have been required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months had the registrant been subject to such requirements.)

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ |
| Non-accelerated filer ☒ | Smaller reporting company ☐ |
| | Emerging growth company ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

**NEIMAN MARCUS GROUP LTD LLC**

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**NEIMAN MARCUS GROUP LTD LLC**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(UNAUDITED)**

| (in thousands, except units) | October 27, 2018 | July 28, 2018 | October 28, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 37,732 | $ 38,510 | $ 41,464 |
| Credit card receivables | 49,242 | 33,689 | 44,345 |
| Merchandise inventories | 1,186,963 | 1,115,839 | 1,342,296 |
| Other current assets | 207,958 | 123,822 | 134,341 |
| Total current assets | 1,481,895 | 1,311,860 | 1,562,446 |
| | | | |
| Property and equipment, net | 1,544,045 | 1,569,904 | 1,559,566 |
| Intangible assets, net | 2,639,293 | 2,735,303 | 2,809,015 |
| Goodwill | 1,753,245 | 1,883,869 | 1,885,391 |
| Other long-term assets | 43,999 | 44,967 | 23,306 |
| Total assets | $ 7,462,477 | $ 7,545,903 | $ 7,839,724 |
| | | | |
| **LIABILITIES AND MEMBER EQUITY** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 336,356 | $ 318,969 | $ 327,930 |
| Accrued liabilities | 501,100 | 511,289 | 514,317 |
| Current portion of long-term debt | 29,426 | 29,426 | 29,426 |
| Total current liabilities | 866,882 | 859,684 | 871,673 |
| | | | |
| Long-term liabilities: | | | |
| Long-term debt, net of debt issuance costs | 4,828,467 | 4,623,152 | 4,783,224 |
| Deferred income taxes | 691,249 | 707,554 | 1,147,182 |
| Other long-term liabilities | 627,128 | 596,332 | 586,086 |
| Total long-term liabilities | 6,146,844 | 5,927,038 | 6,516,492 |
| | | | |
| Membership unit (1 unit issued and outstanding at October 27, 2018, July 28, 2018 and October 28, 2017) | — | — | — |
| Member capital | 1,324,666 | 1,587,350 | 1,587,813 |
| Accumulated other comprehensive loss | (37,317) | (22,297) | (53,034) |
| Accumulated deficit | (838,598) | (805,872) | (1,083,220) |
| Total member equity | 448,751 | 759,181 | 451,559 |
| Total liabilities and member equity | $ 7,462,477 | $ 7,545,903 | $ 7,839,724 |

*See Notes to Condensed Consolidated Financial Statements.*

**NEIMAN MARCUS GROUP LTD LLC**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(UNAUDITED)**

| (in thousands) | Thirteen weeks ended October 27, 2018 | Thirteen weeks ended October 28, 2017 |
|---|---|---|
| Net sales | $ 1,092,784 | $ 1,095,682 |
| Other revenues, net | 11,607 | 11,864 |
| Total revenues | 1,104,391 | 1,107,546 |
| Cost of goods sold including buying and occupancy costs (excluding depreciation) | 700,236 | 698,270 |
| Selling, general and administrative expenses (excluding depreciation) | 276,761 | 294,817 |
| Depreciation expense | 50,694 | 55,228 |
| Amortization of intangible assets | 11,342 | 12,164 |
| Amortization of favorable lease commitments | 12,442 | 12,785 |
| Other expenses | 9,429 | 2,840 |
| Operating earnings | 43,487 | 31,442 |
| Benefit plan expense, net | 873 | 463 |
| Interest expense, net | 80,549 | 76,098 |
| Loss before income taxes | (37,935) | (45,119) |
| Income tax benefit | (9,764) | (18,902) |
| Net loss | $ (28,171) | $ (26,217) |

*See Notes to Condensed Consolidated Financial Statements.*

**NEIMAN MARCUS GROUP LTD LLC**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)**
**(UNAUDITED)**

| (in thousands) | Thirteen weeks ended October 27, 2018 | Thirteen weeks ended October 28, 2017 |
|---|---|---|
| Net loss | $ (28,171) | $ (26,217) |
| Other comprehensive earnings (loss): | | |
| Foreign currency translation adjustments, before tax | (1,835) | 8,607 |
| Change in unrealized gain on financial instruments, before tax | 778 | 5,149 |
| Reclassification of realized loss (gain) on financial instruments to earnings, before tax | (1,922) | 1,239 |
| Change in unrealized loss on unfunded benefit obligations, before tax | (18,531) | 592 |
| Tax effect related to items of other comprehensive loss | 5,429 | (5,190) |
| Total other comprehensive earnings (loss) | (16,081) | 10,397 |
| Total comprehensive loss | $ (44,252) | $ (15,820) |

*See Notes to Condensed Consolidated Financial Statements.*

**NEIMAN MARCUS GROUP LTD LLC**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**

| (in thousands) | Thirteen weeks ended October 27, 2018 | Thirteen weeks ended October 28, 2017 |
|---|---|---|
| **CASH FLOWS - OPERATING ACTIVITIES** | | |
| Net loss | $ (28,171) | $ (26,217) |
| Adjustments to reconcile net loss to net cash used for operating activities: | | |
| Depreciation and amortization expense | 80,599 | 86,294 |
| Deferred income taxes | (1,481) | (14,591) |
| Payment-in-kind interest | — | 14,362 |
| Other | (509) | (1,232) |
| | 50,438 | 58,616 |
| Changes in operating assets and liabilities: | | |
| Merchandise inventories | (209,895) | (185,484) |
| Other current assets | (49,788) | 5,163 |
| Accounts payable and accrued liabilities | 33,832 | 69,359 |
| Deferred real estate credits | 2,239 | (660) |
| Funding of defined benefit pension plan | (5,200) | (4,100) |
| **Net cash used for operating activities** | (178,374) | (57,106) |
| | | |
| **CASH FLOWS - INVESTING ACTIVITIES** | | |
| Capital expenditures | (37,605) | (24,660) |
| **Net cash used for investing activities** | (37,605) | (24,660) |
| | | |
| **CASH FLOWS - FINANCING ACTIVITIES** | | |
| Borrowings under revolving credit facilities | 500,970 | 191,793 |
| Repayment of borrowings under revolving credit facilities | (276,223) | (110,891) |
| Repayment of borrowings under senior secured term loan facility | (7,357) | (7,357) |
| Distribution to Parent | (2,181) | — |
| **Net cash provided by financing activities** | 215,209 | 73,545 |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (8) | 446 |
| | | |
| **CASH AND CASH EQUIVALENTS** | | |
| Decrease during the period | (778) | (7,775) |
| Beginning balance | 38,510 | 49,239 |
| **Ending balance** | $ 37,732 | $ 41,464 |
| | | |
| **Supplemental Schedule of Cash Flow Information** | | |
| Cash paid (received) during the period for: | | |
| Interest | $ 108,040 | $ 73,550 |
| Income taxes | $ (8) | $ (3,552) |
| Non-cash - investing and financing activities: | | |
| Distribution to Parent | $ 271,345 | $ — |
| Property and equipment acquired through developer financing obligations | $ — | $ 2,077 |
| Issuance of PIK Toggle Notes | $ — | $ 28,500 |

*See Notes to Condensed Consolidated Financial Statements.*

**NEIMAN MARCUS GROUP LTD LLC**
**CONDENSED CONSOLIDATED STATEMENTS OF MEMBER EQUITY**
**(UNAUDITED)**

| (in thousands) | Member capital | Accumulated other comprehensive earnings (loss) | Retained earnings (deficit) | Total member equity |
|---|---|---|---|---|
| Balance at July 28, 2018 | $ 1,587,350 | $ (22,297) | $ (805,872) | $ 759,181 |
| Cumulative accounting transition adjustments | — | (7,597) | 14,724 | 7,127 |
| Distribution to Parent | (262,905) | 8,658 | (19,279) | (273,526) |
| Stock option exercises and other | 221 | — | — | 221 |
| Comprehensive loss: | | | | |
| Net loss | — | — | (28,171) | (28,171) |
| Foreign currency translation adjustments, net of tax of ($333) | — | (1,502) | — | (1,502) |
| Adjustments for fluctuations in fair market value of financial instruments, net of tax of $202 | — | 576 | — | 576 |
| Reclassification to earnings, net of tax of ($498) | — | (1,424) | — | (1,424) |
| Change in unfunded benefit obligations, net of tax of ($4,800) | — | (13,731) | — | (13,731) |
| Total comprehensive loss | | | | (44,252) |
| Balance at October 27, 2018 | $ 1,324,666 | $ (37,317) | $ (838,598) | $ 448,751 |

| (in thousands) | Member capital | Accumulated other comprehensive earnings (loss) | Retained earnings (deficit) | Total member equity |
|---|---|---|---|---|
| Balance at July 29, 2017 | $ 1,587,086 | $ (63,431) | $ (1,057,003) | $ 466,652 |
| Stock option exercises and other | 727 | — | — | 727 |
| Comprehensive loss: | | | | |
| Net loss | — | — | (26,217) | (26,217) |
| Foreign currency translation adjustments, net of tax of $2,453 | — | 6,154 | — | 6,154 |
| Adjustments for fluctuations in fair market value of financial instruments, net of tax of $2,019 | — | 3,130 | — | 3,130 |
| Reclassification to earnings, net of tax of $486 | — | 753 | — | 753 |
| Change in unfunded benefit obligations, net of tax of $232 | — | 360 | — | 360 |
| Total comprehensive loss | | | | (15,820) |
| Balance at October 28, 2017 | $ 1,587,813 | $ (53,034) | $ (1,083,220) | $ 451,559 |

**NEIMAN MARCUS GROUP LTD LLC**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(UNAUDITED)**

**1. Basis of Presentation**

Neiman Marcus Group LTD LLC (the "Company") is a luxury omni-channel retailer conducting store and online operations principally under the Neiman Marcus, Bergdorf Goodman and Last Call brand names. References to "we," "our" and "us" are used to refer to the Company or collectively to the Company and its subsidiaries, as appropriate to the context.

The Company is a subsidiary of Mariposa Intermediate Holdings LLC ("Holdings"), which in turn is a subsidiary of Neiman Marcus Group, Inc., a Delaware corporation ("Parent"). Parent is owned by entities affiliated with Ares Management, L.P. and Canada Pension Plan Investment Board (together, the "Sponsors") and certain co-investors. The Sponsors acquired the Company on October 25, 2013 (the "Acquisition"). The Company's operations are conducted through its direct wholly owned subsidiary, The Neiman Marcus Group LLC ("NMG").

In October 2014, we acquired MyTheresa, a luxury retailer headquartered in Munich, Germany. The operations of MyTheresa are conducted primarily through the mytheresa.com website. In September 2018, substantially all of the holdings of NMG International LLC were distributed to NMG, to the Company, to Holdings and, ultimately, to Parent (the "Distribution"). These holdings consisted principally of the entities through which we had conducted the operations of MyTheresa. As a result of the Distribution, MyTheresa is no longer a subsidiary of the Company but rather a subsidiary of our Parent. The assets and liabilities of MyTheresa for periods prior to the Distribution are included in the Condensed Consolidated Balance Sheets. In addition, our Condensed Consolidated Statements of Operations for the first quarter of fiscal year 2019 include the operating results of MyTheresa only for the two months prior to the Distribution and three months of MyTheresa operating results are included in the first quarter of fiscal year 2018.

The accompanying Condensed Consolidated Financial Statements set forth financial information of the Company and its subsidiaries on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

Our fiscal year ends on the Saturday closest to July 31. Like many other retailers, we follow a 4-5-4 reporting calendar, which means that each fiscal quarter consists of thirteen weeks divided into periods of four weeks, five weeks and four weeks. All references to (i) the first quarter of fiscal year 2019 relate to the thirteen weeks ended October 27, 2018 and (ii) the first quarter of fiscal year 2018 relate to the thirteen weeks ended October 28, 2017.

We have prepared the accompanying Condensed Consolidated Financial Statements in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and Rule 10-01 of Regulation S-X of the Securities Act of 1933, as amended. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended July 28, 2018. In our opinion, the accompanying Condensed Consolidated Financial Statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows for the applicable interim periods.

The luxury retail industry is seasonal in nature, with higher sales typically generated in the fall and holiday selling seasons. Due to seasonal and other factors, the results of operations for the first quarter of fiscal year 2019 are not necessarily comparable to, or indicative of, results of any other interim period or for the fiscal year as a whole.

Certain prior period income statement amounts have been reclassified for comparability with the current year presentation related to the inclusion of income from our credit card program within revenues. The reclassifications have no net impact on the presentation of net earnings (loss) in the Condensed Consolidated Financial Statements.

A detailed description of our critical accounting policies is included in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018.

***Use of Estimates.*** We are required to make estimates and assumptions about future events in preparing our financial statements in conformity with GAAP. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses and the disclosure of gain and loss contingencies at the date of the accompanying Condensed Consolidated Financial Statements.

While we believe that our past estimates and assumptions have been materially accurate, the amounts currently estimated are subject to change if different assumptions as to the outcome of future events were made. We evaluate our estimates and assumptions on an

ongoing basis and predicate those estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. We make adjustments to our estimates and assumptions when facts and circumstances dictate. Since future events and their effects cannot be determined with absolute certainty, actual results may differ from the estimates and assumptions used in preparing the accompanying Condensed Consolidated Financial Statements.

We believe the following critical accounting policies, among others, encompass the more significant estimates, assumptions and judgments used in the preparation of the accompanying Condensed Consolidated Financial Statements:

- recognition of revenues;
- valuation of merchandise inventories, including determination of original retail values, recognition of markdowns and vendor allowances, estimation of inventory shrinkage and determination of cost of goods sold;
- determination of impairment of intangible and long-lived assets;
- measurement of liabilities related to our loyalty program;
- recognition of income taxes; and
- measurement of accruals for general liability, workers' compensation and health insurance claims and pension and postretirement health care benefits.

***Segments.*** We conduct our specialty retail store and online operations on an omni-channel basis. As our store and online operations have similar economic characteristics, products, services and customers, our operations constitute a single omni-channel reportable segment.

***Revenue Recognition.*** In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles for revenue recognition. The standard outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers and supersedes previous revenue recognition guidance. We adopted the revenue recognition requirements of this guidance in the first quarter of fiscal year 2019 using the modified retrospective adoption method and applied the ASU only to contracts not completed as of July 29, 2018. The adoption of this guidance did not have a material impact on our Condensed Consolidated Financial Statements, but impacted the presentation of certain revenue transactions. These changes include (i) the gross balance sheet presentation of estimates for sales returns and related recoverable inventories and (ii) the inclusion of income from our credit card program within revenues. Prior to the adoption of this guidance, our estimates of recoverable inventories were netted with our reserves for estimated sales returns. In addition, the adoption of this guidance accelerated the recognition of (i) online sales to the time of shipment versus delivery to coincide with the point in time when control has transferred to the customer and (ii) direct response advertising costs as incurred. Upon adoption, we recorded a net cumulative effect adjustment to reduce beginning accumulated deficit of $7.1 million.

In addition, we have determined that our previous income statement classification of certain reserves for sales returns and promotional programs resulted in the overstatement of previously reported revenues and cost of goods sold by $24.6 million in the first quarter of fiscal year 2018. We evaluated the effects of these overstatements on prior periods' consolidated financial statements, individually and in the aggregate, and concluded that no prior period is materially misstated. However, we have revised our consolidated financial statements for the periods presented herein. The corrections had no impact on net earnings (loss).

We recognize revenues at the point-of-sale or upon shipment of goods to the customer. Shipping and handling costs are expensed as a fulfillment activity at shipping point. Revenues are reduced when our customers return goods previously purchased. We maintain reserves for anticipated sales returns based primarily on our historical trends and our expectations of future returns. Revenues exclude sales taxes collected from our customers.

***Other Newly Adopted Accounting Pronouncements.*** In March 2017, the FASB issued ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires employers to disaggregate and present the service cost component in the same line of the income statement as other compensation costs and present the other components of net benefit costs, primarily interest costs and investment earnings, separately from the service cost component, outside a subtotal of operating earnings. We adopted this guidance in the first quarter of fiscal year 2019 using the retrospective adoption method and reclassified other components of net benefit costs from selling, general and administrative expenses to benefit plan expense, net. The adoption of this guidance did not have a material impact on our Condensed Consolidated Financial Statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows a reclassification from accumulated other comprehensive loss to retained earnings for certain stranded tax effects resulting from the Tax Cuts and Jobs Act ("Tax Reform"), which was signed into law on December 22, 2017. The new guidance may be applied either in the period of adoption or retrospectively to each period in which the effect of the Tax Reform is recognized. We adopted this guidance in the first quarter of fiscal year 2019 and reclassified $7.6 million of stranded tax benefits from accumulated other comprehensive loss to reduce accumulated deficit.

***Recent Accounting Pronouncements.*** In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, that requires a lessee to recognize assets and liabilities arising from leases on the balance sheet. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. Previous GAAP did not require lease assets and liabilities to be recognized for operating leases. Additionally, companies are permitted to make an accounting policy election not to recognize lease assets and liabilities for leases with a term of 12 months or less. For both finance leases and operating leases, the lease liability should be initially measured at the present value of the remaining contractual lease payments. In July 2018, the FASB amended the new leases standard to provide entities with an additional and optional transition method and to provide entities with a practical expedient, whereby entities may elect not to separate lease and non-lease components when certain conditions are met. We do not expect the recognition, measurement and presentation of expenses and cash flows arising from our operating leases to significantly change under this new guidance. However, we expect this adoption to lead to a material increase in the assets and liabilities recorded on our Consolidated Balance Sheets. We are still evaluating the impact on our Consolidated Financial Statements. This new guidance is effective for us as of the first quarter of fiscal year 2020.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, to simplify how hedge accounting arrangements are accounted for and presented in the financial statements, including the assessment of hedge effectiveness. Under the new standard, all changes in the fair value of cash flow hedges included in the assessment of effectiveness will be recorded in other comprehensive earnings (loss) and reclassified to earnings in the same income statement line item when the hedged item affects earnings. This new guidance is effective for us as of the first quarter of fiscal year 2020. We are currently evaluating the impact of adopting this new accounting guidance on our Consolidated Financial Statements.

In June 2018, the FASB issued ASU No. 2018-07—*Compensation—Stock Compensation (Topic 718): Improvements to Non-Employee Share-Based Payment Accounting*, to align accounting for non-employee share-based payment transactions with the guidance for share-based payments to employees. Under the new standard, the measurement of equity-classified non-employee awards will be fixed at the grant date. This new guidance is effective for us as of the first quarter of fiscal year 2020. Early adoption is permitted. We are currently evaluating the impact of adopting this new accounting guidance on our Consolidated Financial Statements.

## 2. Distribution to Parent

In September 2018, substantially all of the holdings of NMG International LLC were distributed to NMG, to the Company, to Holdings and, ultimately, to Parent. These holdings consisted principally of the entities through which we conducted the operations of MyTheresa.

Summarized financial information related to the balances and results of operations of the distributed holdings prior to the Distribution is as follows:

| (in thousands) | At Distribution | July 28, 2018 | October 28, 2017 |
|---|---|---|---|
| Total assets (1) | $ 356,520 | $ 351,982 | $ 327,859 |
| Net assets (1) | 273,526 | 266,784 | 256,668 |

(1) Assets at the Distribution include $2.2 million of cash and cash equivalents on hand.

| (in thousands) | Thirteen weeks ended October 27, 2018 | Thirteen weeks ended October 28, 2017 |
|---|---|---|
| Revenues (1) | $ 60,063 | $ 74,094 |
| Net earnings (loss) (1) | (637) | 2,009 |

(1) MyTheresa operating results include only the two months prior to the Distribution in the first quarter of fiscal year 2019 and three months in the first quarter of fiscal year 2018.

As a result of the Distribution, the MyTheresa entities are no longer subsidiaries of the Company but rather subsidiaries of our Parent. The MyTheresa entities are no longer included in the Company's Condensed Consolidated Financial Statements subsequent to September 2018.

## 3. Revenue

***Disaggregation of Revenues.*** The components of disaggregated revenues are as follows:

| | Thirteen weeks ended | | | |
|---|---|---|---|---|
| | October 27, 2018 | | October 28, 2017 | |
| (in thousands, except percentages) | $ | % of revenues | $ | % of revenues |
| Net sales from store operations | $ 726,767 | 65.8% | $ 738,807 | 66.7% |
| Net sales from online operations | 366,017 | 33.1% | 356,875 | 32.2% |
| Total net sales | 1,092,784 | 98.9% | 1,095,682 | 98.9% |
| Other revenues, net | 11,607 | 1.1% | 11,864 | 1.1% |
| Total revenues | $ 1,104,391 | 100.0% | $ 1,107,546 | 100.0% |
| | | | | |
| Net sales from MyTheresa operations (1) | $ 60,063 | 5.4% | $ 74,094 | 6.7% |

(1) MyTheresa operating results include only the two months prior to the Distribution in the first quarter of fiscal year 2019 and three months in the first quarter of fiscal year 2018.

Other revenues, net is principally composed of payments we receive related to our proprietary credit card program pursuant to an agreement (the "Program Agreement") with a third-party credit provider. We have credit cards and non-card payment plans under both the "Neiman Marcus" and "Bergdorf Goodman" brand names. We receive payments based on sales transacted on our proprietary credit cards. These payments are based on the profitability of the credit card portfolio as determined under the Program Agreement and are impacted by a number of factors including credit losses incurred and our allocable share of the profits generated by the credit card portfolio, which in turn may be impacted by credit ratings as determined by various rating agencies. In addition, we receive payments for marketing and servicing activities we provide. We recognize income from our credit card program when earned. The Program Agreement expires July 2020, subject to early termination provisions.

***Contract Liabilities.*** Contract liabilities relate to the transfer of goods or services to customers, consisting principally of unearned revenue, gift cards, loyalty points and other credits outstanding, are included within accrued liabilities. The contract liabilities aggregated $255.3 million at October 27, 2018 and $210.4 million at July 28, 2018.

Revenues recognized from our beginning contract liabilities were $41.9 million during the first quarter of fiscal year 2019.

## 4. Fair Value Measurements

Certain of our assets and liabilities are required to be measured at fair value on a recurring basis. Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. Assets and liabilities are classified using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

- Level 1 — Unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 — Observable market-based inputs or unobservable inputs corroborated by market data.
- Level 3 — Unobservable inputs reflecting management's estimates and assumptions.

The following table shows the Company's financial asset and liability that are required to be measured at fair value on a recurring basis in our Condensed Consolidated Balance Sheets:

| (in thousands) | Fair Value Hierarchy | October 27, 2018 | July 28, 2018 | October 28, 2017 |
|---|---|---|---|---|
| Asset: | | | | |
| Interest rate swaps (included in other long-term assets) | Level 2 | $ 34,880 | $ 35,649 | $ 11,363 |
| Liability: | | | | |
| Stock-based award liability (included in other long-term liabilities) | Level 3 | 8,500 | 8,807 | 5,166 |

The fair value of the interest rate swaps is estimated using industry standard valuation models using market-based observable inputs, including interest rate curves.

Because Parent is privately held and there is no public market for its common stock, the fair market value of Parent's common stock is determined by the Board of Directors of Parent (the "Parent Board") or the Compensation Committee, as applicable. In determining the fair market value of Parent's common stock, the Parent Board or the Compensation Committee, as applicable, considers such factors as any recent transactions involving Parent's common stock, the Company's actual and projected financial results, the principal amount of the Company's indebtedness, valuations of the Company performed by third parties and other factors it believes are material to the valuation process. Significant inputs to the common stock valuation model are updated as applicable and the carrying value of the obligation is adjusted to its estimated fair value at each reporting date.

The carrying values of cash and cash equivalents, credit card receivables and accounts payable approximate fair value due to their short-term nature. We determine the fair value of our long-term debt on a non-recurring basis, which results are summarized as follows:

| | | October 27, 2018 | | July 28, 2018 | | October 28, 2017 | |
|---|---|---|---|---|---|---|---|
| (in thousands) | Fair Value Hierarchy | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Long-term debt: | | | | | | | |
| Asset-Based Revolving Credit Facility | Level 2 | $ 366,000 | $ 366,000 | $ 159,000 | $ 159,000 | $ 339,000 | $ 339,000 |
| mytheresa.com Credit Facilities | Level 2 | — | — | — | — | 4,869 | 4,869 |
| Senior Secured Term Loan Facility | Level 2 | 2,802,850 | 2,583,892 | 2,810,207 | 2,492,316 | 2,832,276 | 2,264,065 |
| Cash Pay Notes | Level 2 | 960,000 | 608,861 | 960,000 | 609,302 | 960,000 | 583,450 |
| PIK Toggle Notes | Level 2 | 658,354 | 415,665 | 658,354 | 420,997 | 628,500 | 342,922 |
| 2028 Debentures | Level 2 | 122,944 | 95,345 | 122,890 | 103,570 | 122,731 | 79,375 |

We estimated the fair value of long-term debt using (i) prevailing market rates for debt of similar remaining maturities and credit risk for the senior secured asset-based revolving credit facility (as amended, the "Asset-Based Revolving Credit Facility") and the senior secured term loan facility (as amended, the "Senior Secured Term Loan Facility" and, together with the Asset-Based Revolving Credit Facility, the "Senior Secured Credit Facilities") and (ii) quoted market prices of the same or similar issues for the $960.0 million aggregate principal amount of 8.00% Senior Cash Pay Notes due 2021 (the "Cash Pay Notes"), the $658.4 million aggregate principal amount of 8.75%/9.50% Senior PIK Toggle Notes due 2021 (the "PIK Toggle Notes") and the $125.0 million aggregate principal amount of 7.125% Debentures due 2028 (the "2028 Debentures" and, together with the Cash Pay Notes and the PIK Toggle Notes, the "Notes").

In connection with purchase accounting, we adjusted the carrying values of our long-lived and intangible assets to their estimated fair values at the acquisition date. The fair value estimates were based upon assumptions related to the future cash flows, discount rates and asset lives utilizing currently available information, and in some cases, valuation results from independent valuation specialists (Level 3 determination of fair value). Subsequent to the Acquisition, we determine the fair value of our long-lived and

intangible assets on a non-recurring basis in connection with our periodic evaluations of such assets for potential impairment and record impairment charges when such fair value estimates are lower than the carrying values of the assets.

**5. Intangible Assets, Net and Goodwill**

| (in thousands) | October 27, 2018 | July 28, 2018 | October 28, 2017 |
|---|---|---|---|
| Favorable lease commitments, net | $ 866,992 | $ 879,434 | $ 917,800 |
| Other definite-lived intangible assets, net | 340,224 | 354,542 | 389,081 |
| Tradenames | 1,432,077 | 1,501,327 | 1,502,134 |
| Intangible assets, net | $ 2,639,293 | $ 2,735,303 | $ 2,809,015 |
| | | | |
| Goodwill | $ 1,753,245 | $ 1,883,869 | $ 1,885,391 |

***Intangible Assets Subject to Amortization.*** Favorable lease commitments are amortized straight-line over the remaining lives of the leases, ranging from five to 55 years (weighted average life of 30 years) from the Acquisition date. Our definite-lived intangible assets, which primarily consist of customer lists, are amortized using accelerated methods which reflect the pattern in which we receive the economic benefit of the asset, currently estimated at ten to 16 years (weighted average life of 14 years) from the Acquisition date.

Total amortization of all intangible assets recorded in connection with acquisitions for the current and next five fiscal years is currently estimated as follows (in thousands):

| | |
|---|---|
| October 28, 2018 through August 3, 2019 | $ 69,785 |
| 2020 | 86,633 |
| 2021 | 82,166 |
| 2022 | 82,394 |
| 2023 | 81,239 |
| 2024 | 64,469 |

At October 27, 2018, accumulated amortization was $260.5 million for favorable lease commitments and $343.3 million for other definite-lived intangible assets.

***Indefinite-lived Intangible Assets and Goodwill.*** Indefinite-lived intangible assets, such as our Neiman Marcus and Bergdorf Goodman tradenames and goodwill, are not subject to amortization. Rather, we assess the recoverability of indefinite-lived intangible assets and goodwill annually in the fourth quarter of each fiscal year and upon the occurrence of certain events. These impairment assessments are performed for each of our two reporting units — Neiman Marcus and Bergdorf Goodman.

**6. Long-term Debt**

The significant components of our long-term debt are as follows:

| (in thousands) | Interest Rate | October 27, 2018 | July 28, 2018 | October 28, 2017 |
|---|---|---|---|---|
| Asset-Based Revolving Credit Facility | variable | $ 366,000 | $ 159,000 | $ 339,000 |
| mytheresa.com Credit Facilities (1) | variable | — | — | 4,869 |
| Senior Secured Term Loan Facility | variable | 2,802,850 | 2,810,207 | 2,832,276 |
| Cash Pay Notes | 8.00% | 960,000 | 960,000 | 960,000 |
| PIK Toggle Notes | 8.75%/9.50% | 658,354 | 658,354 | 628,500 |
| 2028 Debentures | 7.125% | 122,944 | 122,890 | 122,731 |
| Total debt | | 4,910,148 | 4,710,451 | 4,887,376 |
| Less: current portion of Senior Secured Term Loan Facility | | (29,426) | (29,426) | (29,426) |
| Less: unamortized debt issuance costs | | (52,255) | (57,873) | (74,726) |
| Long-term debt, net of debt issuance costs | | $ 4,828,467 | $ 4,623,152 | $ 4,783,224 |

(1) Subsequent to the Distribution, balances of MyTheresa are excluded at October 27, 2018.

***Asset-Based Revolving Credit Facility***. At October 27, 2018, we have an Asset-Based Revolving Credit Facility with a maximum committed borrowing capacity of $900.0 million. The Asset-Based Revolving Credit Facility matures on July 25, 2021 (or July 25, 2020 if our obligations under our Senior Secured Term Loan Facility or any permitted refinancing thereof have not been repaid or the maturity date thereof has not been extended to October 25, 2021 or later). At October 27, 2018, we had outstanding borrowings of $366.0 million under this facility, outstanding letters of credit of $1.3 million and unused commitments of $532.8 million, subject to a borrowing base, of which $90.0 million of such capacity is available to us subject to certain restrictions as more fully described below.

Availability under the Asset-Based Revolving Credit Facility is subject to a borrowing base. The Asset-Based Revolving Credit Facility includes borrowing capacity available for letters of credit (up to $150.0 million, with any such issuance of letters of credit reducing the amount available under the Asset-Based Revolving Credit Facility on a dollar-for-dollar basis) and for borrowings on same-day notice. The borrowing base is equal to at any time the sum of (a) 90% of the net orderly liquidation value of eligible inventory, net of certain reserves, plus (b) 90% of the amounts owed by credit card processors in respect of eligible credit card accounts constituting proceeds from the sale or disposition of inventory, less certain reserves, plus (c) 100% of segregated cash held in a restricted deposit account. To the extent that excess availability is not equal to or greater than the greater of (a) 10% of the lesser of (1) the aggregate revolving commitments and (2) the borrowing base and (b) $50.0 million, we will be required to maintain a minimum fixed charge coverage ratio. Additional restrictions will apply if this condition is not met for five consecutive business days, including increased reporting requirements and additional administrative agent control rights over certain of our accounts. These restrictions will continue until the condition is satisfied and their imposition may limit our operational flexibility.

The Asset-Based Revolving Credit Facility permits us to increase commitments under the Asset-Based Revolving Credit Facility or add one or more incremental term loans to the Asset-Based Revolving Credit Facility by an amount not to exceed $200.0 million. However, the lenders are under no obligation to provide any such additional commitments or loans, and any increase in commitments or incremental term loans will be subject to customary conditions precedent. If we were to request any such additional commitments and the existing lenders or new lenders were to agree to provide such commitments, the size of the Asset-Based Revolving Credit Facility could be increased to $1,100.0 million, but our ability to borrow would still be limited by the amount of the borrowing base. The cash proceeds of any incremental term loans may be used for working capital and general corporate purposes.

At October 27, 2018, borrowings under the Asset-Based Revolving Credit Facility bore interest at a rate per annum equal to, at our option, either (a) a base rate determined by reference to the highest of (1) the prime rate of Deutsche Bank AG New York Branch (the administrative agent), (2) the federal funds effective rate plus ½ of 1.00% and (3) the adjusted one-month LIBOR plus 1.00% or (b) LIBOR, subject to certain adjustments, in each case plus an applicable margin of 0.75% with respect to base rate borrowings and 1.75% with respect to LIBOR borrowings at October 27, 2018. The applicable margin is based on the average historical excess availability under the Asset-Based Revolving Credit Facility, and is up to 1.00% with respect to base rate borrowings and up to 2.00% with respect to LIBOR borrowings, in each case with one 0.25% step down based on achievement and maintenance of a certain senior secured first lien net leverage ratio (as defined in the credit agreement governing the Asset-Based Revolving Credit Facility). The weighted average interest rate on the outstanding borrowings pursuant to the Asset-Based Revolving Credit Facility

was 4.28% at October 27, 2018. In addition, we are required to pay a commitment fee in respect of unused commitments at a rate of up to 0.375% per annum. We must also pay customary letter of credit fees and agency fees.

If at any time the aggregate amount of outstanding revolving loans, unreimbursed letter of credit drawings and undrawn letters of credit under the Asset-Based Revolving Credit Facility exceeds the lesser of (a) the aggregate revolving commitments and (b) the borrowing base, we will be required to repay outstanding loans or cash collateralize letters of credit in an aggregate amount equal to such excess, with no reduction of the commitment amount. If the excess availability under the Asset-Based Revolving Credit Facility is less than the greater of (a) 10% of the lesser of (1) the aggregate revolving commitments and (2) the borrowing base and (b) $50.0 million for a period of five or more consecutive business days, funds held in a collection account maintained with the agent would be applied to repay the loans and other obligations and cash collateralize letters of credit. We would then be required to make daily deposits in the collection account maintained with the agent under the Asset-Based Revolving Credit Facility.

We may voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans at any time without premium or penalty other than customary breakage costs with respect to LIBOR loans. There is no scheduled amortization under the Asset-Based Revolving Credit Facility. The principal amount of the revolving loans outstanding thereunder will be due and payable in full on July 25, 2021 (or July 25, 2020 if our obligations under our Senior Secured Term Loan Facility or any permitted refinancing thereof have not been repaid or the maturity date thereof has not been extended to October 25, 2021 or later).

The Asset-Based Revolving Credit Facility is guaranteed by Holdings and each of our current and future direct and indirect wholly owned subsidiaries (subsidiary guarantors) other than (a) unrestricted subsidiaries, (b) certain immaterial subsidiaries, (c) foreign subsidiaries and any domestic subsidiary of a foreign subsidiary, (d) certain holding companies of foreign subsidiaries, (e) captive insurance subsidiaries, not for profit subsidiaries, or a subsidiary which is a special purpose entity for securitization transactions or like special purposes and (f) any subsidiary that is prohibited by applicable law or contractual obligation from acting as a guarantor or which would require governmental approval to provide a guarantee. At October 27, 2018, the assets of non-guarantor subsidiaries, primarily Nancy Holdings LLC, which holds legal title to certain real property used by us in conducting our operations, aggregated $89.7 million, or 1.2% of consolidated total assets. All obligations under the Asset-Based Revolving Credit Facility, and the guarantees of those obligations, are secured, subject to certain significant exceptions by substantially all of the assets of Holdings, the Company and the subsidiary guarantors.

The Asset-Based Revolving Credit Facility contains covenants limiting, among other things, dividends and other restricted payments, investments, loans, advances and acquisitions, and prepayments or redemptions of other indebtedness. These covenants permit such restricted actions in an unlimited amount, subject to the satisfaction of certain payment conditions, principally that we must have (x) pro forma excess availability under the Asset-Based Revolving Credit Facility for each day of the 30-day period prior to such actions, which exceeds the greater of $90.0 million or 15% of the lesser of (a) the revolving commitments under the Asset-Based Revolving Credit Facility and (b) the borrowing base and (y) a pro forma fixed charge coverage ratio of at least 1.0 to 1.0, unless pro forma excess availability for each day of the 30-day period prior to such actions under the Asset-Based Revolving Credit Facility would exceed the greater of (1) $200.0 million and (2) 25% of the lesser of (i) the aggregate revolving commitments under the Asset-Based Revolving Credit Facility and (ii) the borrowing base. The Asset-Based Revolving Credit Facility also contains customary affirmative covenants and events of default, including a cross-default provision in respect of any other indebtedness that has an aggregate principal amount exceeding $50.0 million.

For a more detailed description of the Asset-Based Revolving Credit Facility, refer to Note 7 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018.

***Senior Secured Term Loan Facility***. We have a credit agreement and related security and other agreements for the $2,950.0 million Senior Secured Term Loan Facility. At October 27, 2018, the outstanding balance under the Senior Secured Term Loan Facility was $2,802.9 million. The principal amount of the loans outstanding is due and payable in full on October 25, 2020.

The Senior Secured Term Loan Facility permits us to increase the term loans or add a separate tranche of term loans by an amount not to exceed $650.0 million plus an unlimited amount that would result (a) in the case of any incremental term loan facility to be secured equally and ratably with the term loans, a senior secured first lien net leverage ratio equal to or less than 4.25 to 1.00, and (b) in the case of any incremental term loan facility to be secured on a junior basis to the term loans, to be subordinated in right of payment to the term loans or unsecured and pari passu in right of payment with the term loans, a total net leverage ratio equal to or less than the total net leverage ratio as of October 25, 2013.

At October 27, 2018, borrowings under the Senior Secured Term Loan Facility bore interest at a rate per annum equal to, at our option, either (a) a base rate determined by reference to the highest of (1) the prime rate of Credit Suisse AG (the administrative agent), (2) the federal funds effective rate plus ½ of 1.00% and (3) the adjusted one-month LIBOR plus 1.00%, or (b) an adjusted

LIBOR (for a period equal to the relevant interest period, and in any event, never less than 1.00%), subject to certain adjustments, in each case plus an applicable margin. The applicable margin is up to 2.25% with respect to base rate borrowings and up to 3.25% with respect to LIBOR borrowings. The applicable margin is subject to adjustment based on our senior secured first lien net leverage ratio. The applicable margin with respect to outstanding LIBOR borrowings was 3.25% at October 27, 2018. The interest rate on the outstanding borrowings pursuant to the Senior Secured Term Loan Facility was 5.53% at October 27, 2018.

Subject to certain exceptions and reinvestment rights, the Senior Secured Term Loan Facility requires that 100% of the net cash proceeds from certain asset sales and debt issuances and 50% (which percentage will be reduced to 25% if our senior secured first lien net leverage ratio, as defined in the credit agreement governing the Senior Secured Term Loan Facility, is equal to or less than 4.0 to 1.0 but greater than 3.5 to 1.0 and will be reduced to 0% if our senior secured first lien net leverage ratio is equal to or less than 3.5 to 1.0) from excess cash flow, as defined in the credit agreement governing the Senior Secured Term Loan Facility, for each of our fiscal years (commencing with the period ended July 26, 2015) must be used to prepay outstanding term loans under the Senior Secured Term Loan Facility at 100% of the principal amount to be prepaid, plus accrued and unpaid interest. We were not required to prepay any outstanding term loans pursuant to the annual excess cash flow requirements for fiscal year 2018.

We may repay all or any portion of the Senior Secured Term Loan Facility at any time, subject to redeployment costs in the case of prepayment of LIBOR borrowings other than the last day of the relevant interest period. The Senior Secured Term Loan Facility amortizes in equal quarterly installments of $7.4 million, less certain voluntary and mandatory prepayments, with the remaining balance due at final maturity.

The Senior Secured Term Loan Facility is guaranteed by Holdings and each of our current and future subsidiary guarantors other than (a) unrestricted subsidiaries, (b) certain immaterial subsidiaries, (c) foreign subsidiaries and any domestic subsidiary of a foreign subsidiary, (d) certain holding companies of foreign subsidiaries, (e) captive insurance subsidiaries, not for profit subsidiaries, or a subsidiary which is a special purpose entity for securitization transactions or like special purposes and (f) any subsidiary that is prohibited by applicable law or contractual obligation from acting as a guarantor or which would require governmental approval to provide a guarantee. At October 27, 2018, the assets of non-guarantor subsidiaries, primarily Nancy Holdings LLC, which holds legal title to certain real property used by us in conducting our operations, aggregated $89.7 million, or 1.2% of consolidated total assets. All obligations under the Senior Secured Term Loan Facility, and the guarantees of those obligations, are secured, subject to certain significant exceptions, by substantially all of the assets of Holdings, the Company and the subsidiary guarantors.

The credit agreement governing the Senior Secured Term Loan Facility contains a number of negative covenants and covenants related to the security arrangements for the Senior Secured Term Loan Facility. The credit agreement also contains customary affirmative covenants and events of default, including a cross-default provision in respect of any other indebtedness that has an aggregate principal amount exceeding $50.0 million.

For a more detailed description of the Senior Secured Term Loan Facility, refer to Note 7 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018.

***Cash Pay Notes***. The Company, along with Mariposa Borrower, Inc. as co-issuer, incurred indebtedness in the form of $960.0 million aggregate principal amount of 8.00% Senior Cash Pay Notes due 2021. Interest on the Cash Pay Notes is payable semi-annually in arrears on each April 15 and October 15. The Cash Pay Notes are guaranteed by the same entities that guarantee the Senior Secured Term Loan Facility, other than Holdings. The Cash Pay Notes are unsecured and the guarantees are full and unconditional. At October 27, 2018, the redemption price at which we may redeem the Cash Pay Notes, in whole or in part, as set forth in the indenture governing the Cash Pay Notes, was 102.000%. The Cash Pay Notes mature on October 15, 2021.

For a more detailed description of the Cash Pay Notes, refer to Note 7 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018.

***PIK Toggle Notes***. The Company, along with Mariposa Borrower, Inc. as co-issuer, incurred indebtedness in the form of $600.0 million aggregate principal amount of 8.75%/9.50% Senior PIK Toggle Notes due 2021. At October 27, 2018, the outstanding balance under the PIK Toggle Notes was $658.4 million. The PIK Toggle Notes are guaranteed by the same entities that guarantee the Senior Secured Term Loan Facility, other than Holdings. The PIK Toggle Notes are unsecured and the guarantees are full and unconditional. At October 27, 2018, the redemption price at which we may redeem the PIK Toggle Notes, in whole or in part, as set forth in the indenture governing the PIK Toggle Notes, was 102.188%. The PIK Toggle Notes mature on October 15, 2021.

Interest on the PIK Toggle Notes is payable semi-annually in arrears on each April 15 and October 15. Prior to October 2018, interest on the PIK Toggle Notes, subject to certain restrictions, was payable (i) entirely in cash ("Cash Interest"), (ii) entirely by

increasing the principal amount of the PIK Toggle Notes by the relevant interest payment amount ("PIK Interest"), or (iii) 50% in Cash Interest and 50% in PIK Interest. Cash Interest on the PIK Toggle Notes accrues at a rate of 8.75% per annum. PIK Interest on the PIK Toggle Notes accrued at a rate of 9.50% per annum. Interest on the PIK Toggle Notes was paid entirely in cash for the first seven interest payments. We elected to pay the October 2017 and April 2018 interest payments in the form of PIK Interest, which resulted in the issuance of additional PIK Toggle Notes of $28.5 million in October 2017 and $29.9 million in April 2018. We did not elect to pay interest in the form of PIK Interest or partial PIK Interest with respect to the interest payment in October 2018. All future interest payments are required to be paid in Cash Interest.

For a more detailed description of the PIK Toggle Notes, refer to Note 7 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018.

***2028 Debentures.*** NMG has outstanding $125.0 million aggregate principal amount of our 7.125% Senior Debentures due 2028. The 2028 Debentures are secured by a first lien security interest on certain collateral subject to liens granted under the Senior Secured Credit Facilities. The 2028 Debentures are guaranteed on an unsecured, senior basis by the Company. The guarantee is full and unconditional. The 2028 Debentures are not guaranteed by any of NMG's subsidiaries. At October 27, 2018, NMG's subsidiaries consisted principally of (i) Bergdorf Goodman, Inc., through which we conduct the operations of our Bergdorf Goodman brand, (ii) NM Nevada Trust, which holds legal title to certain real property and intangible assets used by us in conducting our operations and (iii) Nancy Holdings LLC, which holds legal title to certain real property used by us in conducting our operations. The 2028 Debentures include certain restrictive covenants and a cross-acceleration provision in respect of any other indebtedness that has an aggregate principal amount exceeding $15.0 million. The 2028 Debentures mature on June 1, 2028.
For a more detailed description of the 2028 Debentures, refer to Note 7 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018.

***Maturities of Long-term Debt.*** At October 27, 2018, annual maturities of long-term debt during the current and next five fiscal years and thereafter are as follows (in millions):

| | | |
|---|---|---|
| October 28, 2018 through August 3, 2019 | $ | 22.1 |
| 2020 | | 29.4 |
| 2021 | | 3,117.4 |
| 2022 | | 1,618.4 |
| 2023 | | — |
| 2024 | | — |
| Thereafter | | 122.9 |

The previous table does not reflect future excess cash flow prepayments, if any, that may be required under the Senior Secured Term Loan Facility.

***Interest Expense, net.*** The significant components of interest expense are as follows:

| | Thirteen weeks ended | |
|---|---|---|
| **(in thousands)** | **October 27, 2018** | **October 28, 2017** |
| Asset-Based Revolving Credit Facility | $ 2,625 | $ 2,313 |
| Senior Secured Term Loan Facility | 36,311 | 33,418 |
| Cash Pay Notes | 19,200 | 19,200 |
| PIK Toggle Notes | 14,401 | 14,362 |
| 2028 Debentures | 2,227 | 2,227 |
| Amortization of debt issue costs | 6,121 | 6,117 |
| Capitalized interest | (960) | (1,723) |
| Other, net | 624 | 184 |
| Interest expense, net | $ 80,549 | $ 76,098 |

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## 7. Derivative Financial Instruments

***Interest Rate Swaps.*** At October 27, 2018, we had outstanding floating rate debt obligations of $3,168.9 million. In April and June of 2016, we entered into floating to fixed interest rate swap agreements for an aggregate notional amount of $1,400.0 million to limit our exposure to interest rate increases related to a portion of our floating rate indebtedness. These swap agreements hedge a portion of our contractual floating rate interest commitments related to our Senior Secured Term Loan Facility from December 2016 to October 2020. As a result of the April 2016 swap agreements, our effective interest rate as to $700.0 million of floating rate indebtedness will be fixed at 4.9120% from December 2016 through October 2020. As a result of the June 2016 swap agreements, our effective interest rate as to an additional $700.0 million of floating rate indebtedness will be fixed at 4.7395% from December 2016 to October 2020. The fair value of our interest rate swap agreements was a gain of $34.9 million at October 27, 2018, $35.6 million at July 28, 2018 and $11.4 million at October 28, 2017, which amounts were included in other long-term assets. The interest rate swap agreements expire in October 2020.

We designated the interest rate swaps as cash flow hedges. As cash flow hedges, unrealized gains on our outstanding interest rate swaps are recognized as assets while unrealized losses are recognized as liabilities. Our interest rate swap agreements are highly, but not perfectly, correlated to the changes in interest rates to which we are exposed. As a result, unrealized gains and losses on our interest rate swap agreements are designated as effective or ineffective. The effective portion of such gains or losses will be recorded as a component of other comprehensive earnings (loss) while the ineffective portion of such gains or losses will be recorded as a component of interest expense.

In addition, we realize a gain or loss on our interest rate swap agreements in connection with each required interest payment on our floating rate indebtedness. The realized gains or losses effectively adjust the contractual interest requirements pursuant to the terms of our floating rate indebtedness to the interest requirements at the fixed rates established in the interest rate swap agreements. These realized gains or losses are reclassified to interest expense from accumulated other comprehensive loss.
A summary of the recorded amounts related to our interest rate swaps reflected in our Condensed Consolidated Statements of Operations is as follows:

| | Thirteen weeks ended | |
|---|---|---|
| **(in thousands)** | **October 27, 2018** | **October 28, 2017** |
| Realized hedging loss (gain) related to interest rate swaps – included in net interest expense | $ (1,922) | $ 1,239 |

The amount of net gains recorded in other comprehensive earnings at October 27, 2018 that is expected to be reclassified into net interest expense in the next 12 months, if interest rates remain unchanged, is approximately $14.8 million.

## 8. Income Taxes

Our effective income tax rates are as follows:

| | Thirteen weeks ended | |
|---|---|---|
| | **October 27, 2018** | **October 28, 2017** |
| Effective income tax rate | 25.7% | 41.9% |

Our effective income tax rate of 25.7% on the loss for the first quarter of fiscal year 2019 exceeded the federal statutory rate of 21% due primarily to state income taxes. Our effective income tax rate of 41.9% on the loss for the first quarter of fiscal year 2018 exceeded the previous federal statutory rate of 35% due primarily to state and foreign income taxes.

At October 27, 2018, the gross amount of unrecognized tax benefits was $1.3 million ($1.0 million of which would impact our effective tax rate, if recognized). We classify interest and penalties as a component of income tax expense and our liability for accrued interest and penalties was $0.3 million at October 27, 2018, $0.3 million at July 28, 2018 and $0.4 million at October 28, 2017.

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. The Internal Revenue Service ("IRS") is conducting an audit of our short-year 2014 (subsequent to the Acquisition) and fiscal years 2015 through 2017 federal income tax returns. With respect to state, local and foreign jurisdictions, with limited exceptions, we are no longer subject to income tax audits for fiscal years before 2013. We believe our recorded tax liabilities as of October 27, 2018 are sufficient to cover any potential assessments made by the IRS or other taxing authorities and we will continue to review our recorded tax liabilities for potential audit assessments based upon subsequent events, new information and future circumstances. We believe it is reasonably possible that adjustments to the amounts of our unrecognized tax benefits could occur within the next 12 months as a result of settlements with tax authorities or expiration of statutes of limitations. At this time, we do not believe such adjustments will have a material impact on our Condensed Consolidated Financial Statements.

Subsequent to the Acquisition, Parent and its subsidiaries, including the Company, file U.S. federal income taxes as a consolidated group. The Company has elected to be treated as a corporation for U.S. federal income tax purposes and all operations of Parent are conducted through its subsidiaries, including the Company. Income taxes incurred by Parent with respect to the Company's operations are reflected in the Condensed Consolidated Financial Statements of the Company. The Company's financial statements recognize the current and deferred income tax consequences that result from the Company's activities during the current and preceding periods as if the Company were a separate taxpayer rather than a member of the Parent company's consolidated income tax return group.

## 9. Employee Benefits

***Description of Retirement Benefit Plans.*** We currently maintain defined contribution plans consisting of a retirement savings plan ("RSP") and a defined contribution supplemental executive retirement plan ("Defined Contribution SERP Plan"). In addition, we sponsor a defined benefit pension plan ("Pension Plan") and an unfunded supplemental executive retirement plan ("SERP Plan") that provides certain employees additional pension benefits. As of the third quarter of fiscal year 2010, benefits offered to all participants in our Pension Plan and SERP Plan were frozen. Retirees and active employees hired prior to March 1, 1989 are eligible for certain limited postretirement health care benefits ("Postretirement Plan") if they meet certain service and minimum age requirements. We also sponsor an unfunded key employee deferred compensation plan, which provides certain employees with additional benefits.

Our obligations for employee benefit plans, included in other long-term liabilities, are as follows:

| (in thousands) | October 27, 2018 | July 28, 2018 | October 28, 2017 |
|---|---|---|---|
| Pension Plan | $ 213,950 | $ 202,820 | $ 236,229 |
| SERP Plan | 100,390 | 98,814 | 111,596 |
| Postretirement Plan | 2,933 | 2,935 | 6,537 |
| | 317,273 | 304,569 | 354,362 |
| Less: current portion | (6,550) | (6,441) | (6,679) |
| Long-term portion of benefit obligations | $ 310,723 | $ 298,128 | $ 347,683 |

***Funding Policy and Status.*** Our policy is to fund the Pension Plan at or above the minimum level required by law. As of October 27, 2018, we believe we will be required to contribute $27.6 million to the Pension Plan in fiscal year 2019, of which $5.2 million has been funded as of October 27, 2018. In fiscal year 2018, we were required to contribute $25.2 million to the Pension Plan.

***Cost of Benefits.*** The components of the expenses we incurred under our Pension Plan, SERP Plan and Postretirement Plan are as follows:

| (in thousands) | Thirteen weeks ended October 27, 2018 | Thirteen weeks ended October 28, 2017 |
|---|---|---|
| Pension Plan: | | |
| Interest cost | $ 5,753 | $ 4,973 |
| Expected return on plan assets | (5,488) | (5,396) |
| Net amortization of losses | 199 | 170 |
| Pension Plan expense (income) | $ 464 | $ (253) |
| | | |
| SERP Plan: | | |
| Interest cost | $ 940 | $ 844 |
| SERP Plan expense | $ 940 | $ 844 |
| | | |
| Postretirement Plan: | | |
| Interest cost | $ 25 | $ 51 |
| Net amortization of gains | (556) | (180) |
| Postretirement Plan income | $ (531) | $ (129) |

***Employee Vacation Benefit Liability.*** We enacted changes to our vacation policy effective in fiscal year 2019. Pursuant to the provisions of our new vacation policy, vacation hours earned during each fiscal year must be taken during that fiscal year. Any accrued but unused vacation is forfeited at the end of the fiscal year subject to statutory requirements in certain states precluding such forfeitures. In fiscal year 2018, we recorded a non-cash gain of $19.5 million, of which amount $1.2 million was recorded in the first quarter, within selling, general and administrative expenses, in connection with the reduction of our liability for unused vacation prior to the effective date of our new vacation policy.

## 10. Commitments and Contingencies

***Employment, Benefits, and Consumer Class Actions Litigation.*** In August 2015, the National Labor Relations Board ("NLRB") affirmed an administrative law judge's recommended decision and order finding that the Company's Arbitration Agreement and class action waiver violated the National Labor Relations Act ("NLRA"). We filed our petition for review of the NLRB's order with the U.S. Court of Appeals for the Fifth Circuit. This case has been stayed while another similar case has been pending before the U.S. Supreme Court, which was decided on May 21, 2018 and held that class action waivers in arbitration agreements are lawful under the NLRA and must be enforced under the Federal Arbitration Act. On June 1, 2018, the NLRB filed a motion to remove this case from abeyance, grant our petition for review regarding the class action waiver issue consistent with the U.S. Supreme Court's decision, and remand the remainder of the case to the NLRB. On June 11, 2018, the U.S. Court of Appeals for the Fifth Circuit granted the NLRB's motion, and the remanded portion of the case is pending before the NLRB.

The Company has several wage and hour putative class action matters pending in California. The earliest, filed in December 2015 and amended in February 2016, was filed against The Neiman Marcus Group, Inc. by Holly Attia and seven other named plaintiffs, seeking to certify a class of non-exempt employees for alleged violations for failure to pay overtime wages, failure to provide meal and rest breaks, failure to reimburse business expenses, failure to timely pay wages due at termination and failure to provide accurate itemized wage statements. Plaintiffs also allege derivative claims for restitution under California unfair competition law and a representative claim for penalties under the California Labor Code Private Attorneys General Act ("PAGA"), and all related damages for alleged violations (restitution, statutory penalties under PAGA, and attorneys' fees, interest and costs of suit). The case was removed to the U.S. District Court for the Central District of California in March 2016, and the Company filed a motion to compel arbitration and requested to stay the PAGA claim. In June 2016, the court granted the motion and compelled arbitration of the individual claims. The court retained jurisdiction of the PAGA claim and stayed that claim pending the outcome of arbitration. In October 2016, the court granted the plaintiffs' motion for reconsideration of the arbitration decision based on a recent decision by the Ninth Circuit Court of Appeals in *Morris v. Ernst & Young, LLP*, and reversed its order compelling arbitration. The Company appealed. The parties reached an agreement in principle to settle this case, subject to court approval. The motion for preliminary approval of the settlement was filed with the court on July 24, 2018. On September 5, 2018, the district court preliminarily approved the settlement, and the final approval hearing is scheduled for February 25, 2019. The associated appeal has been administratively closed due to the pending settlement of the underlying action. A PAGA representative action filed by Xuan Hien

Nguyen asserting the same factual allegations as the plaintiff in *Attia* will be resolved in connection with the *Attia* settlement, as Nguyen and her claims have been amended into *Attia*. A PAGA representative action filed by Milca Connolly asserting substantially identical claims and a putative class and representative action filed by Ondrea Roces and Sophia Ahmed seeking to certify a class of current and former sales associates for alleged failure to pay wages for all hours worked, recordkeeping and wage statement violations, and failure to timely pay wages due at termination have been stayed pending the settlement approval process in *Attia*.

On October 24, 2017, a putative class action complaint was filed against The Neiman Marcus Group LLC and the Company's Health and Welfare Benefit Plan in the U.S. District Court for the Western District of Washington by a plan beneficiary alleging violations of the Federal Mental Health Parity Act and the Affordable Care Act through the Employment Retirement Income Security Act of 1974 ("ERISA") in connection with the alleged failure to cover particular treatments for developmental health conditions. The parties have agreed to a settlement with the named plaintiffs, in which they have agreed not to pursue their class claims. On November 6, 2018, the court dismissed the named plaintiffs' claims with prejudice and the claims of the putative class members without prejudice.

On October 27, 2017, a putative class action complaint was filed against Neiman Marcus Group, Inc., The Neiman Marcus Group LLC, and Bergdorf Goodman, Inc. in the U.S. District Court for the Southern District of New York by Victor Lopez, an allegedly visually-impaired and legally blind individual, in connection with his visits to Bergdorf Goodman, Inc.'s website. Mr. Lopez alleges, on behalf of himself and those similarly situated, that Bergdorf Goodman, Inc.'s website is not fully and equally accessible to legally blind individuals, resulting in denial of access to the equal enjoyment of goods and services, in violation of the Americans with Disabilities Act and the New York State and City Human Rights Laws. The defendant Companies have filed a joint answer denying the claims.

On August 7, 2014, a putative class action complaint was filed against The Neiman Marcus Group LLC in Los Angeles County Superior Court by a customer, Linda Rubenstein, in connection with the Company's Last Call stores in California. Ms. Rubenstein alleges that the Company has violated various California consumer protection statutes by implementing a marketing and pricing strategy that suggests that clothing sold at Last Call stores in California was originally offered for sale at full-line Neiman Marcus stores when allegedly, it was not, and that the Company lacks adequate information to support its comparative pricing labels. In September 2014, we removed the case to the U.S. District Court for the Central District of California. After dismissing Ms. Rubenstein's original and first amended complaint, the court dismissed her second amended complaint in its entirety in May 2015, without leave to amend, and Ms. Rubenstein appealed. In April 2017, the Court of Appeal reversed, holding that Ms. Rubenstein's allegations were sufficient to proceed past the pleadings stage of litigation. The case was transferred back to the district court. On September 7, 2017, the district court issued an order permitting Ms. Rubenstein to file a proposed Third Amended Complaint, which modifies the putative class period. Additionally, Ms. Rubenstein filed a motion for class certification, which was fully briefed by both parties. The parties reached an agreement in principle to settle the case, subject to court approval. A notice of settlement was filed, and the hearing on Ms. Rubenstein's motion for class certification was vacated. On October 1, 2018, the court granted final approval of the settlement and entered judgment accordingly. The deadline to appeal the judgment expired with no appeals, and thus the settlement is final. As of October 27, 2018, our recorded reserve related to this matter represents the remaining settlement liability paid in November 2018.

In addition, we are currently involved in various other legal actions and proceedings that arose in the ordinary course of business. With respect to the matters described above as well as all other current outstanding litigation involving us, we believe that any liability arising as a result of such litigation will not have a material adverse effect on our financial condition, results of operations or cash flows.

***Cyber-Attack Class Actions Litigation.*** In January 2014, three class actions relating to a cyber-attack on our computer systems in 2013 (the "Cyber-Attack") were filed and later voluntarily dismissed by the plaintiffs between February and April 2014. The plaintiffs had alleged negligence and other claims in connection with their purchases by payment cards and sought monetary and injunctive relief. Three additional putative class actions relating to the Cyber-Attack were filed in March and April 2014, also alleging negligence and other claims in connection with plaintiffs' purchases by payment cards. Two of the cases were voluntarily dismissed. The third case, Hilary Remijas v. The Neiman Marcus Group, LLC, was filed on March 12, 2014 in the U.S. District Court for the Northern District of Illinois. On June 2, 2014, an amended complaint in the Remijas case was filed, which added three plaintiffs (Debbie Farnoush and Joanne Kao, California residents; and Melissa Frank, a New York resident) and asserted claims for negligence, implied contract, unjust enrichment, violation of various consumer protection statutes, invasion of privacy and violation of state data breach laws. The Company moved to dismiss the Remijas amended complaint, and the court granted the Company's motion on the grounds that the plaintiffs lacked standing due to their failure to demonstrate an actionable injury. Plaintiffs appealed the district court's order dismissing the case to the Seventh Circuit Court of Appeals, and the Seventh Circuit Court of Appeals reversed the district court's ruling, remanding the case back to the district court. The Company filed a petition for rehearing en

banc, which the Seventh Circuit Court of Appeals denied. The Company filed a motion for dismissal on other grounds, which the court denied. The parties jointly requested, and the court granted, an extension of time for filing a responsive pleading, which was due on December 28, 2016. On February 9, 2017, the court denied the parties' request for another extension of time, dismissed the case without prejudice, and stated that plaintiffs could file a motion to reinstate. On March 8, 2017, plaintiffs filed a motion to reinstate, which the court granted on March 16, 2017. On March 17, 2017, plaintiffs filed a motion seeking preliminary approval of a class action settlement resolving this action, which the court granted on June 21, 2017. On August 21, 2017, plaintiffs moved for final approval of the proposed settlement. In September 2017, purported settlement class members filed two objections to the settlement, and plaintiffs and the Company filed responses to the objections on October 19, 2017. At the fairness hearing on October 26, 2017, the Court ordered supplemental briefing on the objections. Objectors filed a supplemental brief in support of their objections on November 9, 2017, and plaintiffs and the Company filed their supplemental responses to the objections on November 21, 2017. On January 16, 2018, an order was issued by the District Court reassigning the case to Judge Sharon Johnson Coleman due to the prior judge’s retirement. On September 17, 2018, Judge Coleman denied final approval of the proposed settlement and decertified the settlement class. Judge Coleman has set a status conference for this matter for December 10, 2018. At this point, we are unable to predict the developments in, outcome of or other consequences related to this matter.

In addition to class actions litigation, payment card companies and associations may require us to reimburse them for unauthorized card charges and costs to replace cards and may also impose fines or penalties in connection with the security incident, and enforcement authorities may also impose fines or seek other remedies against us. We have also incurred other costs associated with this security incident, including legal fees, investigative fees, costs of communications with customers and credit monitoring services provided to our customers. We expect to continue to incur costs associated with maintaining appropriate security measures and otherwise complying with our obligations. We will continue to evaluate these matters based on subsequent events, new information and future circumstances.

***Other.*** We had $1.3 million of irrevocable letters of credit and $3.5 million in surety bonds outstanding at October 27, 2018, relating primarily to merchandise imports and state sales tax and utility requirements.

## 11. Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss by component (amounts are recorded net of related income taxes):

| (in thousands) | Foreign Currency Translation Adjustments | Unrealized Gains on Financial Instruments | Unfunded Benefit Obligations | Total |
|---|---|---|---|---|
| Balance, July 28, 2018 | $ (7,156) | $ 22,253 | $ (37,394) | $ (22,297) |
| Other comprehensive (loss) earnings | (1,502) | 576 | (13,731) | (14,657) |
| Amounts reclassified to earnings, net | — | (1,424) | — | (1,424) |
| Distribution to Parent | 8,658 | — | — | 8,658 |
| Reclassification of stranded tax effects | — | 2,885 | (10,482) | (7,597) |
| Balance, October 27, 2018 | $ — | $ 24,290 | $ (61,607) | $ (37,317) |

The amounts reclassified from accumulated other comprehensive loss to earnings, net are recorded within interest expense on the Condensed Consolidated Statements of Operations.

## 12. Stock-Based Awards

***Incentive Plans.*** Parent established various incentive plans pursuant to which eligible employees, consultants and non-employee directors are eligible to receive stock-based awards. Under the incentive plans, Parent is authorized to grant stock options, restricted stock and other types of awards that are valued in whole or in part by reference to, or are payable or otherwise based on, the shares of common stock of Parent. Charges with respect to options issued by Parent pursuant to the incentive plans are reflected by the Company in the preparation of our Condensed Consolidated Financial Statements.

***Co-Invest Options.*** In connection with the Acquisition, certain executive officers of the Company rolled over a portion of the amounts otherwise payable in settlement of their pre-Acquisition stock options into stock options of Parent representing options to purchase a total of 56,979 shares of common stock of Parent (the "Co-Invest Options").

***Non-Qualified Stock Options.*** Pursuant to the terms of the incentive plans, Parent granted time-vested and performance-vested non-qualified stock options to certain executive officers, employees and non-employee directors of the Company. These non-qualified stock options will expire no later than the tenth anniversary of the grant date.

***Accounting for Stock Options.*** We currently account for stock options issued to certain optionees who will become retirement eligible prior to the expiration of their stock options and certain options held by our former Chief Executive Officer ("Eligible Optionees") as variable awards using the liability method as these optionees could receive a cash settlement of their awards should Parent exercise its repurchase rights with respect to such shares. Under the liability method, we recognize the estimated liability for option awards held by Eligible Optionees over the vesting periods of such awards. In periods in which the estimated fair value of our equity increases, we increase our stock compensation liability. Conversely, in periods in which the estimated fair value of our equity decreases, we reduce our stock compensation liability. These increases/decreases are recorded as stock compensation expense and are included in selling, general and administrative expenses. With respect to time-vested options held by non-Eligible Optionees, such options are effectively forfeited should the optionee voluntarily leave the Company without good reason or be terminated for cause prior to an IPO. As a result, we currently record no expense or liability with respect to such options. With respect to performance-vested options, such options are effectively forfeited should the optionee voluntarily leave the Company without good reason or be terminated for cause prior to achievement of the performance condition. As a result, we currently record no expense or liability with respect to such options. At October 27, 2018, an aggregate of 48,788 Co-Invest Options and time-vested options were held by Eligible Optionees. The recorded liability with respect to such options was $7.5 million at October 27, 2018, $7.8 million at July 28, 2018 and $3.7 million at October 28, 2017.

The following table sets forth certain summary information with respect to our stock options for the periods indicated:

| | Thirteen weeks ended October 27, 2018 | |
|---|---|---|
| **(in actuals)** | **Shares** | **Weighted Average Exercise Price** |
| Outstanding at July 28, 2018 | 183,506 | $ 597 |
| Granted | 12,511 | 744 |
| Forfeited | (3,511) | 813 |
| Expired | (5,160) | 450 |
| Outstanding at October 27, 2018 | 187,346 | $ 607 |

***Restricted Stock.*** At October 27, 2018, 21,486 shares of unvested restricted common stock were outstanding. The recorded liability with respect to such shares was $1.0 million at October 27, 2018, $1.0 million at July 28, 2018 and $1.5 million at October 28, 2017.

| | Thirteen weeks ended October 27, 2018 | |
|---|---|---|
| **(in actuals)** | **Unvested Shares** | **Weighted Average Grant Date Fair Value** |
| Outstanding at July 28, 2018 | 19,823 | $ 482 |
| Granted | 2,359 | 348 |
| Forfeited | (696) | 768 |
| Outstanding at October 27, 2018 | 21,486 | $ 458 |

***Stock Compensation Expense.*** The following table summarizes our stock-based compensation expense:

| | Thirteen weeks ended | |
|---|---|---|
| **(in thousands)** | **October 27, 2018** | **October 28, 2017** |
| Stock compensation expense (benefit): | | |
| Stock options | $ (241) | $ 4,253 |
| Restricted stock | 155 | 306 |
| Total | $ (86) | $ 4,559 |

In September 2017, the Compensation Committee approved grants of non-qualified Co-Invest Options (the "New Co-Invest Options") to certain continuing employees who previously held Co-Invest Options. The New Co-Invest Options have the effect of replacing the previous Co-Invest Options held by those employees, which were cancelled, and extending the expiration date to the tenth anniversary of the grant date. All other terms of the New Co-Invest Options remain unchanged from the terms of the cancelled Co-Invest Options. In the first quarter of fiscal year 2018, we recorded non-cash stock compensation expense aggregating $4.2 million related to the cancellation and replacement of the previous Co-Invest Options with the New Co-Invest Options.

In January 2018, the Compensation Committee determined that the exercise prices of certain time-vested stock options were higher than the current fair market value of Parent's common stock. In order to enhance the retentive value of these options, the Compensation Committee approved a repricing of 43,261 time-vested stock options to an exercise price of $500 per share. In the second quarter of fiscal year 2018, we recorded non-cash stock compensation expense aggregating $0.5 million related to the repricing of the time-vested stock options.

For a more detailed description of our stock-based awards, refer to Note 13 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018.

## 13. Other Expenses

Other expenses consists of the following components:

| | Thirteen weeks ended | |
|---|---|---|
| **(in thousands)** | **October 27, 2018** | **October 28, 2017** |
| Expenses incurred in connection with strategic initiatives | 7,044 | 422 |
| Expenses (benefits) related to store closures | — | 1,318 |
| Expenses related to Cyber-Attack, net of insurance recoveries | — | 1,100 |
| Other expenses | 2,385 | — |
| Total | $ 9,429 | $ 2,840 |

We incurred consulting and professional fees in connection with key strategic operations projects and the implementation of strategic initiatives.

In connection with our assessment of our Last Call footprint, we closed 14 stores in fiscal year 2018. Expenses related to these store closures consisted primarily of severance and store closing costs.

We discovered in January 2014 that malicious software was clandestinely installed on our computer systems (the "Cyber-Attack"). Expenses related to the Cyber-Attack in the first quarter of fiscal year 2018 consisted primarily of legal expenses.

We also incurred other expenses related to an organizational and operational realignment, primarily severance costs, in the first quarter of fiscal year 2019.

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**14. Condensed Consolidating Financial Information (with respect to NMG's obligations under the Senior Secured Credit Facilities, Cash Pay Notes and PIK Toggle Notes)**

All of NMG's obligations under the Senior Secured Credit Facilities are guaranteed by Holdings and our current and future direct and indirect wholly owned subsidiaries, subject to exceptions as more fully described in Note 6. All of NMG's obligations under the Cash Pay Notes and the PIK Toggle Notes are guaranteed by the same entities that guarantee the Senior Secured Credit Facilities, other than Holdings. Currently, the Company's non-guarantor subsidiaries under the Senior Secured Credit Facilities, Cash Pay Notes and PIK Toggle Notes consist principally of Nancy Holdings LLC, which holds legal title to certain real property used by us in conducting our operations and described below under "— Results of Operations and Financial Condition of Unrestricted Subsidiaries". Prior to the Distribution in September 2018, the Company's non-guarantor subsidiaries under the Senior Secured Credit Facilities, Cash Pay Notes and PIK Toggle Notes also included NMG Germany GmbH, through which we conducted the operations of MyTheresa.

The following condensed consolidating financial information represents the financial information of the Company and its non-guarantor subsidiaries under the Senior Secured Credit Facilities, Cash Pay Notes and PIK Toggle Notes prepared on the equity basis of accounting. The information is presented in accordance with the requirements of Rule 3-10 under the SEC's Regulation S-X. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the non-guarantor subsidiaries operated as independent entities.

| | October 27, 2018 | | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Company | NMG | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ — | $ 35,903 | $ 841 | $ 988 | $ — | $ 37,732 |
| Credit card receivables | — | 49,242 | — | — | — | 49,242 |
| Merchandise inventories | — | 1,012,697 | 174,266 | — | — | 1,186,963 |
| Other current assets | — | 193,408 | 15,136 | — | (586) | 207,958 |
| Total current assets | — | 1,291,250 | 190,243 | 988 | (586) | 1,481,895 |
| Property and equipment, net | — | 1,319,009 | 136,366 | 88,670 | — | 1,544,045 |
| Intangible assets, net | — | 447,235 | 2,192,058 | — | — | 2,639,293 |
| Goodwill | — | 1,338,843 | 414,402 | — | — | 1,753,245 |
| Other long-term assets | — | 42,916 | 1,083 | — | — | 43,999 |
| Investments in subsidiaries | 448,751 | 2,902,125 | — | — | (3,350,876) | — |
| Total assets | $ 448,751 | $ 7,341,378 | $ 2,934,152 | $ 89,658 | $ (3,351,462) | $ 7,462,477 |
| **LIABILITIES AND MEMBER EQUITY** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | $ — | $ 336,356 | $ — | $ — | $ — | $ 336,356 |
| Accrued liabilities | — | 386,473 | 114,258 | 955 | (586) | 501,100 |
| Current portion of long-term debt | — | 29,426 | — | — | — | 29,426 |
| Total current liabilities | — | 752,255 | 114,258 | 955 | (586) | 866,882 |
| Long-term liabilities: | | | | | | |
| Long-term debt, net of debt issuance costs | — | 4,828,467 | — | — | — | 4,828,467 |
| Deferred income taxes | — | 691,249 | — | — | — | 691,249 |
| Other long-term liabilities | — | 620,656 | 7,372 | (900) | — | 627,128 |
| Total long-term liabilities | — | 6,140,372 | 7,372 | (900) | — | 6,146,844 |
| Total member equity | 448,751 | 448,751 | 2,812,522 | 89,603 | (3,350,876) | 448,751 |
| Total liabilities and member equity | $ 448,751 | $ 7,341,378 | $ 2,934,152 | $ 89,658 | $ (3,351,462) | $ 7,462,477 |

| (in thousands) | July 28, 2018 Company | NMG | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ — | $ 33,121 | $ 683 | $ 4,706 | $ — | $ 38,510 |
| Credit card receivables | — | 30,551 | — | 3,138 | — | 33,689 |
| Merchandise inventories | — | 844,429 | 145,967 | 125,443 | — | 1,115,839 |
| Other current assets | — | 111,279 | 10,348 | 2,781 | (586) | 123,822 |
| Total current assets | — | 1,019,380 | 156,998 | 136,068 | (586) | 1,311,860 |
| Property and equipment, net | — | 1,327,509 | 138,740 | 103,655 | — | 1,569,904 |
| Intangible assets, net | — | 1,338,843 | 414,402 | 130,624 | — | 1,883,869 |
| Goodwill | — | 459,512 | 2,203,322 | 72,469 | — | 2,735,303 |
| Other long-term assets | — | 43,863 | 1,104 | — | — | 44,967 |
| Investments in subsidiaries | 759,181 | 3,194,802 | — | — | (3,953,983) | — |
| Total assets | $ 759,181 | $ 7,383,909 | $ 2,914,566 | $ 442,816 | $ (3,954,569) | $ 7,545,903 |
| **LIABILITIES AND MEMBER EQUITY** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | $ — | $ 281,488 | $ — | $ 37,481 | $ — | $ 318,969 |
| Accrued liabilities | — | 406,072 | 69,979 | 35,824 | (586) | 511,289 |
| Current portion of long-term debt | — | 29,426 | — | — | — | 29,426 |
| Total current liabilities | — | 716,986 | 69,979 | 73,305 | (586) | 859,684 |
| Long-term liabilities: | | | | | | |
| Long-term debt, net of debt issuance costs | — | 4,623,152 | — | — | — | 4,623,152 |
| Deferred income taxes | — | 694,848 | — | 12,706 | — | 707,554 |
| Other long-term liabilities | — | 589,742 | 7,390 | (800) | — | 596,332 |
| Total long-term liabilities | — | 5,907,742 | 7,390 | 11,906 | — | 5,927,038 |
| Total member equity | 759,181 | 759,181 | 2,837,197 | 357,605 | (3,953,983) | 759,181 |
| Total liabilities and member equity | $ 759,181 | $ 7,383,909 | $ 2,914,566 | $ 442,816 | $ (3,954,569) | $ 7,545,903 |

| (in thousands) | October 28, 2017 Company | NMG | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ — | $ 35,812 | $ 868 | $ 4,784 | $ — | $ 41,464 |
| Credit card receivables | — | 40,836 | — | 3,509 | — | 44,345 |
| Merchandise inventories | — | 1,066,302 | 178,049 | 97,945 | — | 1,342,296 |
| Other current assets | | 120,568 | 8,597 | 5,763 | (587) | 134,341 |
| Total current assets | — | 1,263,518 | 187,514 | 112,001 | (587) | 1,562,446 |
| Property and equipment, net | — | 1,308,927 | 147,231 | 103,408 | — | 1,559,566 |
| Intangible assets, net | — | 496,771 | 2,237,726 | 74,518 | — | 2,809,015 |
| Goodwill | — | 1,338,844 | 414,402 | 132,145 | — | 1,885,391 |
| Other long-term assets | — | 21,922 | 1,384 | — | — | 23,306 |
| Investments in subsidiaries | 451,559 | 3,243,542 | — | — | (3,695,101) | — |
| Total assets | $ 451,559 | $ 7,673,524 | $ 2,988,257 | $ 422,072 | $ (3,695,688) | $ 7,839,724 |
| **LIABILITIES AND MEMBER EQUITY** | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | $ — | $ 313,887 | $ — | $ 14,043 | $ — | $ 327,930 |
| Accrued liabilities | — | 386,853 | 89,690 | 38,361 | (587) | 514,317 |
| Current portion of long-term debt | — | 29,426 | — | — | — | 29,426 |
| Total current liabilities | — | 730,166 | 89,690 | 52,404 | (587) | 871,673 |
| Long-term liabilities: | | | | | | |
| Long-term debt, net of debt issuance costs | — | 4,778,355 | — | 4,869 | — | 4,783,224 |
| Deferred income taxes | — | 1,132,282 | — | 14,900 | — | 1,147,182 |
| Other long-term liabilities | — | 581,162 | 5,397 | (473) | — | 586,086 |
| Total long-term liabilities | — | 6,491,799 | 5,397 | 19,296 | — | 6,516,492 |
| Total member equity | 451,559 | 451,559 | 2,893,170 | 350,372 | (3,695,101) | 451,559 |
| Total liabilities and member equity | $ 451,559 | $ 7,673,524 | $ 2,988,257 | $ 422,072 | $ (3,695,688) | $ 7,839,724 |

| | Thirteen weeks ended October 27, 2018 | | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Company | NMG | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Revenues | $ — | $ 859,186 | $ 185,142 | $ 60,063 | $ — | $ 1,104,391 |
| Cost of goods sold including buying and occupancy costs (excluding depreciation) | — | 540,224 | 117,267 | 42,745 | — | 700,236 |
| Selling, general and administrative expenses (excluding depreciation) | — | 224,903 | 35,064 | 16,794 | — | 276,761 |
| Depreciation expense | — | 45,090 | 3,871 | 1,733 | — | 50,694 |
| Amortization of intangible assets and favorable lease commitments | — | 12,278 | 11,263 | 243 | — | 23,784 |
| Other expenses (income) | — | 9,429 | — | — | — | 9,429 |
| Operating earnings (loss) | — | 27,262 | 17,677 | (1,452) | — | 43,487 |
| Benefit plan expense (income), net | — | 873 | — | — | — | 873 |
| Interest expense (income), net | — | 80,541 | — | 8 | — | 80,549 |
| Intercompany royalty charges (income) | — | 48,951 | (48,951) | — | — | — |
| Equity in loss (earnings) of subsidiaries | 28,171 | (66,054) | — | — | 37,883 | — |
| Earnings (loss) before income taxes | (28,171) | (37,049) | 66,628 | (1,460) | (37,883) | (37,935) |
| Income tax expense (benefit) | — | (8,878) | — | (886) | — | (9,764) |
| Net earnings (loss) | $ (28,171) | $ (28,171) | $ 66,628 | $ (574) | $ (37,883) | $ (28,171) |
| Total other comprehensive earnings (loss), net of tax | (16,081) | (14,579) | — | (1,502) | 16,081 | (16,081) |
| Total comprehensive earnings (loss) | $ (44,252) | $ (42,750) | $ 66,628 | $ (2,076) | $ (21,802) | $ (44,252) |

| | Thirteen weeks ended October 28, 2017 | | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Company | NMG | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Revenues | $ — | $ 837,953 | $ 195,499 | $ 74,094 | $ — | $ 1,107,546 |
| Cost of goods sold including buying and occupancy costs (excluding depreciation) | — | 529,225 | 121,674 | 47,371 | — | 698,270 |
| Selling, general and administrative expenses (excluding depreciation) | — | 236,602 | 35,323 | 22,892 | — | 294,817 |
| Depreciation expense | — | 49,259 | 3,992 | 1,977 | — | 55,228 |
| Amortization of intangible assets and favorable lease commitments | — | 12,985 | 11,564 | 400 | — | 24,949 |
| Other expenses (income) | — | 2,840 | — | — | — | 2,840 |
| Operating earnings (loss) | — | 7,042 | 22,946 | 1,454 | — | 31,442 |
| Benefit plan expense (income), net | — | 463 | — | — | — | 463 |
| Interest expense (income), net | — | 76,130 | — | (32) | — | 76,098 |
| Intercompany royalty charges (income) | — | 39,433 | (39,433) | — | — | — |
| Equity in loss (earnings) of subsidiaries | 26,217 | (64,285) | — | — | 38,068 | — |
| Earnings (loss) before income taxes | (26,217) | (44,699) | 62,379 | 1,486 | (38,068) | (45,119) |
| Income tax expense (benefit) | — | (18,482) | — | (420) | — | (18,902) |
| Net earnings (loss) | $ (26,217) | $ (26,217) | $ 62,379 | $ 1,906 | $ (38,068) | $ (26,217) |
| Total other comprehensive earnings (loss), net of tax | 10,397 | 4,243 | — | 6,154 | (10,397) | 10,397 |
| Total comprehensive earnings (loss) | $ (15,820) | $ (21,974) | $ 62,379 | $ 8,060 | $ (48,465) | $ (15,820) |

| (in thousands) | Company | NMG | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | Thirteen weeks ended October 27, 2018 | | | | | |
| **CASH FLOWS - OPERATING ACTIVITIES** | | | | | | |
| Net earnings (loss) | $ (28,171) | $ (28,171) | $ 66,628 | $ (574) | $ (37,883) | $ (28,171) |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used for) operating activities: | | | | | | |
| Depreciation and amortization expense | — | 63,489 | 15,134 | 1,976 | — | 80,599 |
| Deferred income taxes | — | (1,048) | — | (433) | — | (1,481) |
| Other | — | (743) | 3 | 231 | — | (509) |
| Intercompany royalty income payable (receivable) | — | 48,951 | (48,951) | — | — | — |
| Equity in loss (earnings) of subsidiaries | 28,171 | (66,054) | — | — | 37,883 | — |
| Changes in operating assets and liabilities, net | — | (177,352) | (31,446) | (20,014) | — | (228,812) |
| Net cash provided by (used for) operating activities | — | (160,928) | 1,368 | (18,814) | — | (178,374) |
| **CASH FLOWS - INVESTING ACTIVITIES** | | | | | | |
| Capital expenditures | — | (35,933) | (1,210) | (462) | — | (37,605) |
| Net cash provided by (used for) investing activities | — | (35,933) | (1,210) | (462) | — | (37,605) |
| **CASH FLOWS - FINANCING ACTIVITIES** | | | | | | |
| Borrowings under revolving credit facilities | — | 482,000 | — | 18,970 | — | 500,970 |
| Repayment of borrowings | — | (282,357) | — | (1,223) | — | (283,580) |
| Distribution to Parent | — | — | — | (2,181) | — | (2,181) |
| Net cash provided by (used for) financing activities | — | 199,643 | — | 15,566 | — | 215,209 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | (8) | — | (8) |
| **CASH AND CASH EQUIVALENTS** | | | | | | |
| Increase (decrease) during the period | — | 2,782 | 158 | (3,718) | — | (778) |
| Beginning balance | — | 33,121 | 683 | 4,706 | — | 38,510 |
| Ending balance | $ — | $ 35,903 | $ 841 | $ 988 | $ — | $ 37,732 |

| (in thousands) | Company | NMG | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | Thirteen weeks ended October 28, 2017 | | | | | |
| **CASH FLOWS - OPERATING ACTIVITIES** | | | | | | |
| Net earnings (loss) | $ (26,217) | $ (26,217) | $ 62,379 | $ 1,906 | $ (38,068) | $ (26,217) |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used for) operating activities: | | | | | | |
| Depreciation and amortization expense | — | 68,361 | 15,556 | 2,377 | — | 86,294 |
| Deferred income taxes | — | (14,418) | — | (173) | — | (14,591) |
| Payment-in-kind interest | — | 14,362 | — | — | — | 14,362 |
| Other | — | 1,068 | 324 | (2,624) | — | (1,232) |
| Intercompany royalty income payable (receivable) | — | 39,433 | (39,433) | — | — | — |
| Equity in loss (earnings) of subsidiaries | 26,217 | (64,285) | — | — | 38,068 | — |
| Changes in operating assets and liabilities, net | — | (58,251) | (36,671) | (20,800) | — | (115,722) |
| Net cash provided by (used for) operating activities | — | (39,947) | 2,155 | (19,314) | — | (57,106) |
| **CASH FLOWS - INVESTING ACTIVITIES** | | | | | | |
| Capital expenditures | — | (21,185) | (1,936) | (1,539) | — | (24,660) |
| Net cash provided by (used for) investing activities | — | (21,185) | (1,936) | (1,539) | — | (24,660) |
| **CASH FLOWS - FINANCING ACTIVITIES** | | | | | | |
| Borrowings under revolving credit facilities | — | 186,000 | — | 5,793 | — | 191,793 |
| Repayment of borrowings | — | (117,357) | | (891) | — | (118,248) |
| Net cash provided (used for) by financing activities | — | 68,643 | — | 4,902 | — | 73,545 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | 446 | — | 446 |
| **CASH AND CASH EQUIVALENTS** | | | | | | |
| Increase (decrease) during the period | — | 7,511 | 219 | (15,505) | — | (7,775) |
| Beginning balance | — | 28,301 | 649 | 20,289 | — | 49,239 |
| Ending balance | $ — | $ 35,812 | $ 868 | $ 4,784 | $ — | $ 41,464 |

***Results of Operations and Financial Condition of Unrestricted Subsidiaries.*** On March 10, 2017, the Board of Directors of Parent designated certain of our subsidiaries as "unrestricted subsidiaries" for purposes of the indenture governing the Cash Pay Notes and the indenture governing the PIK Toggle Notes. These subsidiaries were previously or simultaneously designated as "unrestricted subsidiaries" under the Asset-Based Revolving Credit Facility and the Senior Secured Term Loan Facility and consist of (i) the entities through which we conducted the operations of MyTheresa prior to its distribution to Parent in September 2018 and (ii) Nancy Holdings LLC, which holds legal title to certain real property located in McLean, Virginia, San Antonio, Texas and Longview, Texas used by us in conducting our operations.

Pursuant to the terms of the indentures governing the Cash Pay Notes and the PIK Toggle Notes, we are presenting the following financial information with respect to the unrestricted subsidiaries separate from the Company and its restricted subsidiaries. The financial information of NMG Germany GmbH for the thirteen weeks ended October 28, 2017 was substantially the same as the financial information presented for "Non-Guarantor Subsidiaries" for such period included in the tables above in this Note 14. The difference in net earnings (loss) of the unrestricted subsidiaries for the thirteen weeks ended October 27, 2018 compared to the net earnings (loss) of the non-guarantor subsidiaries for such period, as presented in the tables above in this Note 14, consisted primarily of a net interest income of approximately $2.1 million associated with an intercompany note payable by the MyTheresa unrestricted subsidiaries and, prior to the Distribution, held by NMG International LLC, which is a non-guarantor restricted subsidiary.

This information may not necessarily be indicative of the financial condition and results of operations of the unrestricted subsidiaries had they operated as independent entities during the periods presented.

| (in thousands) | October 27, 2018 | July 28, 2018 | October 28, 2017 |
|---|---|---|---|
| Total assets | $ 89,589 | $ 442,748 | $ 422,003 |
| Net assets | 89,534 | 146,300 | 143,593 |

| (in thousands) | Thirteen weeks ended | |
|---|---|---|
| | October 27, 2018 | October 28, 2017 |
| Revenues | $ 60,063 | $ 74,094 |
| Net earnings (loss) | (2,692) | 381 |

**15. <u>Condensed Consolidating Financial Information (with respect to NMG's obligations under the 2028 Debentures)</u>**

All of NMG's obligations under the 2028 Debentures are guaranteed by the Company. The guarantee by the Company is full and unconditional and is subject to automatic release if the requirements for legal defeasance or covenant defeasance of the 2028 Debentures are satisfied, or if NMG's obligations under the indenture governing the 2028 Debentures are discharged. The 2028 Debentures are not guaranteed by any of NMG's subsidiaries. At October 27, 2018, NMG's subsidiaries consisted principally of (i) Bergdorf Goodman, Inc., through which we conduct the operations of our Bergdorf Goodman brand, (ii) NM Nevada Trust, which holds legal title to certain real property and intangible assets used by NMG in conducting its operations and (iii) Nancy Holdings LLC, which holds legal title to certain real property used by NMG in conducting its operations and described in Note 14 under "— Results of Operations and Financial Condition of Unrestricted Subsidiaries". Prior to the Distribution in September 2018, NMG's subsidiaries also included NMG Germany GmbH, through which we conducted the operations of MyTheresa, and which was not a guarantor of the 2028 Debentures.

The following condensed consolidating financial information represents the financial information of the Company and its non-guarantor subsidiaries under the 2028 Debentures, prepared on the equity basis of accounting. The information is presented in accordance with the requirements of Rule 3-10 under the SEC's Regulation S-X. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the non-guarantor subsidiaries operated as independent entities.

| (in thousands) | Company | NMG | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | October 27, 2018 | | | | |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ — | $ 35,903 | $ 1,829 | $ — | $ 37,732 |
| Credit card receivables | — | 49,242 | — | — | 49,242 |
| Merchandise inventories | — | 1,012,697 | 174,266 | — | 1,186,963 |
| Other current assets | — | 193,408 | 15,136 | (586) | 207,958 |
| Total current assets | — | 1,291,250 | 191,231 | (586) | 1,481,895 |
| Property and equipment, net | — | 1,319,009 | 225,036 | — | 1,544,045 |
| Intangible assets, net | — | 447,235 | 2,192,058 | — | 2,639,293 |
| Goodwill | — | 1,338,843 | 414,402 | — | 1,753,245 |
| Other long-term assets | — | 42,916 | 1,083 | — | 43,999 |
| Investments in subsidiaries | 448,751 | 2,902,125 | — | (3,350,876) | — |
| Total assets | $ 448,751 | $ 7,341,378 | $ 3,023,810 | $ (3,351,462) | $ 7,462,477 |
| **LIABILITIES AND MEMBER EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ — | $ 336,356 | $ — | $ — | $ 336,356 |
| Accrued liabilities | — | 386,473 | 115,213 | (586) | 501,100 |
| Current portion of long-term debt | — | 29,426 | — | — | 29,426 |
| Total current liabilities | — | 752,255 | 115,213 | (586) | 866,882 |
| Long-term liabilities: | | | | | |
| Long-term debt, net of debt issuance costs | — | 4,828,467 | — | — | 4,828,467 |
| Deferred income taxes | — | 691,249 | — | — | 691,249 |
| Other long-term liabilities | — | 620,656 | 6,472 | — | 627,128 |
| Total long-term liabilities | — | 6,140,372 | 6,472 | — | 6,146,844 |
| Total member equity | 448,751 | 448,751 | 2,902,125 | (3,350,876) | 448,751 |
| Total liabilities and member equity | $ 448,751 | $ 7,341,378 | $ 3,023,810 | $ (3,351,462) | $ 7,462,477 |

| (in thousands) | Company | NMG | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | July 28, 2018 | | | | |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ — | $ 33,121 | $ 5,389 | $ — | $ 38,510 |
| Credit card receivables | — | 30,551 | 3,138 | — | 33,689 |
| Merchandise inventories | — | 844,429 | 271,410 | — | 1,115,839 |
| Other current assets | — | 111,279 | 13,129 | (586) | 123,822 |
| Total current assets | — | 1,019,380 | 293,066 | (586) | 1,311,860 |
| Property and equipment, net | — | 1,327,509 | 242,395 | — | 1,569,904 |
| Intangible assets, net | — | 1,338,843 | 545,026 | — | 1,883,869 |
| Goodwill | — | 459,512 | 2,275,791 | — | 2,735,303 |
| Other long-term assets | — | 43,863 | 1,104 | — | 44,967 |
| Investments in subsidiaries | 759,181 | 3,194,802 | — | (3,953,983) | — |
| Total assets | $ 759,181 | $ 7,383,909 | $ 3,357,382 | $ (3,954,569) | $ 7,545,903 |
| **LIABILITIES AND MEMBER EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ — | $ 281,488 | $ 37,481 | $ — | $ 318,969 |
| Accrued liabilities | — | 406,072 | 105,803 | (586) | 511,289 |
| Current portion of long-term debt | — | 29,426 | — | — | 29,426 |
| Total current liabilities | — | 716,986 | 143,284 | (586) | 859,684 |
| Long-term liabilities: | | | | | |
| Long-term debt, net of debt issuance costs | — | 4,623,152 | — | — | 4,623,152 |
| Deferred income taxes | — | 694,848 | 12,706 | — | 707,554 |
| Other long-term liabilities | — | 589,742 | 6,590 | — | 596,332 |
| Total long-term liabilities | — | 5,907,742 | 19,296 | — | 5,927,038 |
| Total member equity | 759,181 | 759,181 | 3,194,802 | (3,953,983) | 759,181 |
| Total liabilities and member equity | $ 759,181 | $ 7,383,909 | $ 3,357,382 | $ (3,954,569) | $ 7,545,903 |

| (in thousands) | October 28, 2017 Company | NMG | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ — | $ 35,812 | $ 5,652 | $ — | $ 41,464 |
| Credit card receivables | — | 40,836 | 3,509 | — | 44,345 |
| Merchandise inventories | — | 1,066,302 | 275,994 | — | 1,342,296 |
| Other current assets | — | 120,568 | 14,360 | (587) | 134,341 |
| Total current assets | — | 1,263,518 | 299,515 | (587) | 1,562,446 |
| Property and equipment, net | — | 1,308,927 | 250,639 | — | 1,559,566 |
| Intangible assets, net | — | 1,338,844 | 546,547 | — | 1,885,391 |
| Goodwill | — | 496,771 | 2,312,244 | — | 2,809,015 |
| Other long-term assets | — | 21,922 | 1,384 | — | 23,306 |
| Investments in subsidiaries | 451,559 | 3,243,542 | — | (3,695,101) | — |
| Total assets | $ 451,559 | $ 7,673,524 | $ 3,410,329 | $ (3,695,688) | $ 7,839,724 |
| **LIABILITIES AND MEMBER EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ — | $ 313,887 | $ 14,043 | $ — | $ 327,930 |
| Accrued liabilities | — | 386,853 | 128,051 | (587) | 514,317 |
| Current portion of long-term debt | — | 29,426 | — | — | 29,426 |
| Total current liabilities | — | 730,166 | 142,094 | (587) | 871,673 |
| Long-term liabilities: | | | | | |
| Long-term debt, net of debt issuance costs | — | 4,778,355 | 4,869 | — | 4,783,224 |
| Deferred income taxes | — | 1,132,282 | 14,900 | — | 1,147,182 |
| Other long-term liabilities | — | 581,162 | 4,924 | — | 586,086 |
| Total long-term liabilities | — | 6,491,799 | 24,693 | — | 6,516,492 |
| Total member equity | 451,559 | 451,559 | 3,243,542 | (3,695,101) | 451,559 |
| Total liabilities and member equity | $ 451,559 | $ 7,673,524 | $ 3,410,329 | $ (3,695,688) | $ 7,839,724 |

| (in thousands) | Thirteen weeks ended October 27, 2018 Company | NMG | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues | $ — | $ 859,186 | $ 245,205 | $ — | $ 1,104,391 |
| Cost of goods sold including buying and occupancy costs (excluding depreciation) | — | 540,224 | 160,012 | — | 700,236 |
| Selling, general and administrative expenses (excluding depreciation) | — | 224,903 | 51,858 | — | 276,761 |
| Depreciation expense | — | 45,090 | 5,604 | — | 50,694 |
| Amortization of intangible assets and favorable lease commitments | — | 12,278 | 11,506 | — | 23,784 |
| Other expenses (income) | — | 9,429 | — | — | 9,429 |
| Operating earnings (loss) | — | 27,262 | 16,225 | — | 43,487 |
| Benefit plan expense (income), net | — | 873 | — | — | 873 |
| Interest expense (income), net | — | 80,541 | 8 | — | 80,549 |
| Intercompany royalty charges (income) | — | 48,951 | (48,951) | — | — |
| Equity in loss (earnings) of subsidiaries | 28,171 | (66,054) | — | 37,883 | — |
| Earnings (loss) before income taxes | (28,171) | (37,049) | 65,168 | (37,883) | (37,935) |
| Income tax expense (benefit) | — | (8,878) | (886) | — | (9,764) |
| Net earnings (loss) | $ (28,171) | $ (28,171) | $ 66,054 | $ (37,883) | $ (28,171) |
| Total other comprehensive earnings (loss), net of tax | (16,081) | (14,579) | (1,502) | 16,081 | (16,081) |
| Total comprehensive earnings (loss) | $ (44,252) | $ (42,750) | $ 64,552 | $ (21,802) | $ (44,252) |

| (in thousands) | Thirteen weeks ended October 28, 2017 Company | NMG | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues | $ — | $ 837,953 | $ 269,593 | $ — | $ 1,107,546 |
| Cost of goods sold including buying and occupancy costs (excluding depreciation) | — | 529,225 | 169,045 | — | 698,270 |
| Selling, general and administrative expenses (excluding depreciation) | — | 236,602 | 58,215 | — | 294,817 |
| Depreciation expense | — | 49,259 | 5,969 | — | 55,228 |
| Amortization of intangible assets and favorable lease commitments | — | 12,985 | 11,964 | — | 24,949 |
| Other expenses (income) | — | 2,840 | — | — | 2,840 |
| Operating earnings (loss) | — | 7,042 | 24,400 | — | 31,442 |
| Benefit plan expense (income), net | — | 463 | — | — | 463 |
| Interest expense (income), net | — | 76,130 | (32) | — | 76,098 |
| Intercompany royalty charges (income) | — | 39,433 | (39,433) | — | — |
| Equity in loss (earnings) of subsidiaries | 26,217 | (64,285) | — | 38,068 | — |
| Earnings (loss) before income taxes | (26,217) | (44,699) | 63,865 | (38,068) | (45,119) |
| Income tax expense (benefit) | — | (18,482) | (420) | — | (18,902) |
| Net earnings (loss) | $ (26,217) | $ (26,217) | $ 64,285 | $ (38,068) | $ (26,217) |
| Total other comprehensive earnings (loss), net of tax | 10,397 | 4,243 | 6,154 | (10,397) | 10,397 |
| Total comprehensive earnings (loss) | $ (15,820) | $ (21,974) | $ 70,439 | $ (48,465) | $ (15,820) |

| (in thousands) | Company | NMG | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | Thirteen weeks ended October 27, 2018 | | | | |
| **CASH FLOWS—OPERATING ACTIVITIES** | | | | | |
| Net earnings (loss) | $ (28,171) | $ (28,171) | $ 66,054 | $ (37,883) | $ (28,171) |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used for) operating activities: | | | | | |
| Depreciation and amortization expense | — | 63,489 | 17,110 | — | 80,599 |
| Deferred income taxes | | (1,048) | (433) | — | (1,481) |
| Other | — | (743) | 234 | — | (509) |
| Intercompany royalty income payable (receivable) | — | 48,951 | (48,951) | — | — |
| Equity in loss (earnings) of subsidiaries | 28,171 | (66,054) | — | 37,883 | — |
| Changes in operating assets and liabilities, net | — | (177,352) | (51,460) | | (228,812) |
| Net cash provided by (used for) operating activities | — | (160,928) | (17,446) | — | (178,374) |
| **CASH FLOWS—INVESTING ACTIVITIES** | | | | | |
| Capital expenditures | — | (35,933) | (1,672) | — | (37,605) |
| Net cash provided by (used for) investing activities | — | (35,933) | (1,672) | — | (37,605) |
| **CASH FLOWS—FINANCING ACTIVITIES** | | | | | |
| Borrowings under revolving credit facilities | — | 482,000 | 18,970 | — | 500,970 |
| Repayment of borrowings | — | (282,357) | (1,223) | — | (283,580) |
| Distribution to Parent | — | — | (2,181) | — | (2,181) |
| Net cash provided by (used for) financing activities | — | 199,643 | 15,566 | — | 215,209 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | (8) | — | (8) |
| **CASH AND CASH EQUIVALENTS** | | | | | |
| Increase (decrease) during the period | — | 2,782 | (3,560) | — | (778) |
| Beginning balance | — | 33,121 | 5,389 | — | 38,510 |
| Ending balance | $ — | $ 35,903 | $ 1,829 | $ — | $ 37,732 |

| (in thousands) | Thirteen weeks ended October 28, 2017 Company | NMG | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **CASH FLOWS—OPERATING ACTIVITIES** | | | | | |
| Net earnings (loss) | $ (26,217) | $ (26,217) | $ 64,285 | $ (38,068) | $ (26,217) |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used for) operating activities: | | | | | |
| Depreciation and amortization expense | — | 68,361 | 17,933 | — | 86,294 |
| Deferred income taxes | — | (14,418) | (173) | — | (14,591) |
| Payment-in-kind interest | — | 14,362 | — | — | 14,362 |
| Other | — | 1,068 | (2,300) | — | (1,232) |
| Intercompany royalty income payable (receivable) | — | 39,433 | (39,433) | — | — |
| Equity in loss (earnings) of subsidiaries | 26,217 | (64,285) | — | 38,068 | — |
| Changes in operating assets and liabilities, net | — | (58,251) | (57,471) | — | (115,722) |
| Net cash provided by (used for) operating activities | — | (39,947) | (17,159) | — | (57,106) |
| **CASH FLOWS—INVESTING ACTIVITIES** | | | | | |
| Capital expenditures | — | (21,185) | (3,475) | — | (24,660) |
| Net cash provided by (used for) investing activities | — | (21,185) | (3,475) | — | (24,660) |
| **CASH FLOWS—FINANCING ACTIVITIES** | | | | | |
| Borrowings under revolving credit facilities | — | 186,000 | 5,793 | — | 191,793 |
| Repayment of borrowings | — | (117,357) | (891) | — | (118,248) |
| Net cash provided by (used for) financing activities | — | 68,643 | 4,902 | — | 73,545 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | 446 | — | 446 |
| **CASH AND CASH EQUIVALENTS** | | | | | |
| Increase (decrease) during the period | — | 7,511 | (15,286) | — | (7,775) |
| Beginning balance | — | 28,301 | 20,938 | — | 49,239 |
| Ending balance | $ — | $ 35,812 | $ 5,652 | $ — | $ 41,464 |

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended July 28, 2018. Unless otherwise specified, the meanings of all defined terms in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") are consistent with the meanings of such terms as defined in the Notes to Condensed Consolidated Financial Statements.

**Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements. In many cases, forward-looking statements can generally be identified by the use of forward-looking terminology such as "may," "plan," "predict," "expect," "estimate," "intend," "would," "will," "could," "should," "anticipate," "believe," "project" or "continue" or the negative thereof or other similar expressions.

The forward-looking statements contained in this Quarterly Report on Form 10-Q reflect our views as of the date of this Quarterly Report on Form 10-Q and are based on our expectations and beliefs concerning future events, as well as currently available data as of the date of this Quarterly Report on Form 10-Q. While we believe there is a reasonable basis for our forward-looking statements, they involve a number of risks, uncertainties, assumptions and changes in circumstances that may cause our actual results, performance or achievements to differ significantly from those expressed or implied in any forward-looking statement. Therefore, these statements are not guarantees of future events, results, performance or achievements and you should not rely on them. A variety of factors could cause our actual results to differ materially from the anticipated or expected results expressed in our forward-looking statements. Factors that could cause our actual results to differ from our expectations include, but are not limited to:

- our ability to maintain a relevant, enjoyable and reliable omni-channel experience and to anticipate and meet our customers' evolving shopping preferences, the failure of which could adversely affect our financial performance and brand image;
- the highly competitive nature of the luxury retail industry;
- economic conditions that negatively impact consumer spending and demand for our merchandise;
- our ability to anticipate, identify and respond effectively to changing fashion trends and to accurately forecast merchandise demand, the failure of which could adversely affect our business, financial condition and results of operations;
- our ability to anticipate, identify and address risks related to the complexity of our omni-channel plans, the failure of which could adversely affect our revenues or margins as well as damage our reputation, brands and competitive position;
- the success of our advertising and marketing programs;
- costs associated with our expansion and growth strategies, which could adversely affect our performance and results of operations;
- our ability to drive customer traffic to our retail stores, including through new types of product and service offerings, and the success of the expansion, growth and remodel of our retail stores, which are subject to numerous risks, some of which are beyond our control;
- the significance of the portion of our revenues from our stores in four states, which exposes us to economic circumstances and catastrophic occurrences unique to those states, such as the impact of fluctuations in the global price of crude oil in our Texas markets;
- our dependence on our relationships with certain designers, brand partners and other sources of merchandise as they relate to, among other things: (i) the manner in which goods are available to us, (ii) the levels of merchandise made available to us and (iii) the pricing and payment terms with respect to our purchases;
- a material disruption in our information systems, delays or difficulties in implementing or integrating new systems or enhancing or expanding current systems, or our failure to achieve the anticipated benefits of any new or updated information systems, which could adversely affect our business or results of operations;
- our dependence on positive perceptions of our company, which, if eroded, could adversely affect our customer, employee and brand partner relationships;
- our ability to meet data protection requirements and prevent or identify a breach in information privacy in a timely manner, which could negatively impact our operations;

- inflation and foreign currency fluctuations, primarily fluctuations in the U.S. dollar against the Euro and British pound, which could adversely affect our results of operations;
- our failure to comply with, or developments in, laws, rules or regulations, which could affect our business or results of operations;
- the loss of, or disruption in, one or more of our distribution facilities, which could adversely affect our business and operations;
- our substantial indebtedness, which could adversely affect our business, financial condition, results of operations, credit ratings and ability to obtain additional debt financing, and our ability to fulfill our obligations with respect to such indebtedness;
- the restrictions in our debt agreements that may limit our flexibility in operating our business and our ability to pursue future strategic investments and initiatives; and
- other risks, uncertainties and factors set forth in Part II – Item 1A "Risk Factors" in this report or in Part I - Item 1A "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018 as filed with the Securities and Exchange Commission on September 18, 2018.

The foregoing factors are not exhaustive, and new factors may emerge or changes to the foregoing factors may occur that could impact our business. Each of the forward-looking statements contained in this Quarterly Report on Form 10-Q speaks only as of the date of this Quarterly Report on Form 10-Q. Except to the extent required by law, we undertake no obligation to update or revise (publicly or otherwise) any forward-looking statements to reflect subsequent events, new information or future circumstances.

**Overview**

Neiman Marcus Group LTD LLC (the "Company") is a luxury omni-channel retailer conducting store and online operations principally under the Neiman Marcus, Bergdorf Goodman and Last Call brand names. References to "we," "our" and "us" are used to refer to the Company or collectively to the Company and its subsidiaries, as appropriate to the context.

The Company is a subsidiary of Mariposa Intermediate Holdings LLC ("Holdings"), which in turn is a subsidiary of Neiman Marcus Group, Inc., a Delaware corporation ("Parent"). Parent is owned by entities affiliated with Ares Management, L.P. and Canada Pension Plan Investment Board (together, the "Sponsors") and certain co-investors. The Sponsors acquired the Company on October 25, 2013 (the "Acquisition"). The Company's operations are conducted through its direct wholly owned subsidiary, The Neiman Marcus Group LLC ("NMG").

In October 2014, we acquired MyTheresa, a luxury retailer headquartered in Munich, Germany. The operations of MyTheresa are conducted primarily through the mytheresa.com website. In September 2018, substantially all of the holdings of NMG International LLC were distributed to NMG, to the Company, to Holdings and, ultimately, to Parent (the "Distribution"). These holdings consisted principally of the entities through which we had conducted the operations of MyTheresa. As a result of the Distribution, MyTheresa is no longer a subsidiary of the Company but rather a subsidiary of our Parent. The assets and liabilities of MyTheresa for periods prior to the Distribution are included in the Condensed Consolidated Balance Sheets. In addition, our Condensed Consolidated Statements of Operations for the first quarter of fiscal year 2019 include the operating results of MyTheresa only for the two months prior to the Distribution and three months of MyTheresa operating results are included in the first quarter of fiscal year 2018.

We conduct our specialty retail store and online operations on an omni-channel basis. As our store and online operations have similar economic characteristics, products, services and customers, our operations constitute a single omni-channel reportable segment.

Our fiscal year ends on the Saturday closest to July 31. Like many other retailers, we follow a 4-5-4 reporting calendar, which means that each fiscal quarter consists of thirteen weeks divided into periods of four weeks, five weeks and four weeks. All references to (i) the first quarter of fiscal year 2019 relate to the thirteen weeks ended October 27, 2018 and (ii) the first quarter of fiscal year 2018 relate to the thirteen weeks ended October 28, 2017.

As described in Note 1 to the Condensed Consolidated Financial Statements, the adoption of new accounting guidance in the first quarter of fiscal year 2019 resulted in (i) the inclusion of income from our credit card program within revenues and (ii) the reclassification of net periodic costs associated with certain of our retirement benefit plans from selling, general and administrative expenses to benefit plan expense, net. Additionally, we have determined that our previous income statement classification of certain

reserves for sales returns and promotional programs resulted in the overstatement of previously reported revenues and cost of goods sold by $24.6 million in the first quarter of fiscal year 2018. We evaluated the effects of these overstatements on prior periods' consolidated financial statements, individually and in the aggregate, and concluded that no prior period is materially misstated. However, we have revised the consolidated financial statements for the periods presented herein. The corrections had no impact on net earnings (loss).

Certain amounts presented in tables are subject to rounding adjustments and, as a result, the totals in such tables may not sum.

**Investments and Strategic Initiatives**

We are investing in strategies to grow our revenues and profits. Strategies we have pursued and continue to pursue include:

- ***Deepening customer relationships:*** We continue to make significant enhancements to our customer data platform to improve upon our ability to anticipate and deliver on our customers' needs and desires. These initiatives are focused on leveraging technology to personalize emails, landing pages and product recommendations. We are also working to improve the quality of data provided to our sales associates to strengthen their product recommendations.
- ***Building seamless experiences:*** To enhance our competitive position, we believe it is critical to create one seamless and enriching shopping experience across our physical and digital environments. As a result, we are focused on offering an integrated experience to address our customers' evolving shopping behaviors.
- ***Transforming how we buy and sell:*** We are transforming how we connect emotionally with our customers through our brand story, exceptional and unique luxury merchandise, relevant service model and store of the future.

In addition, we are making capital investments to remodel our existing stores as well as to open new stores in select markets such as New York City (currently scheduled to open in March 2019).

**Summary of Results of Operations**

A summary of our results of operations is as follows:

- **Revenues** — Total revenues for the first quarter of fiscal year 2019 were $1,104.4 million, a decrease of 0.3% from $1,107.5 million compared to the first quarter of fiscal year 2018. Comparable sales for the first quarter of fiscal year 2019 increased 2.8% compared to the first quarter of fiscal year 2018. Sales generated by our online operations were $366.0 million, or 33.1% of revenues, in the first quarter of fiscal year 2019. Comparable sales from our online operations for the first quarter of fiscal year 2019 increased 8.9% from the first quarter of fiscal year 2018. Components of revenue are as follows:
  - ***Net sales generated by U.S. operations*** — In the first quarter of fiscal year 2019, net sales generated by U.S. operations were $1,032.7 million, an increase of 1.1% compared to the first quarter of fiscal year 2018. Comparable sales from U.S. operations for the first quarter of fiscal year 2019 increased 1.7% compared to the first quarter of fiscal year 2018.
  - ***Net sales generated by MyTheresa operations*** — Prior to its Distribution to Parent, MyTheresa generated net sales of $60.1 million, or 5.4% of consolidated revenues. MyTheresa comparable sales for the first quarter of fiscal year 2019 increased 27.3% from the corresponding prior year period.
  - ***Other revenues, net*** — In the first quarter of fiscal year 2019, other revenues, net, which primarily consists of income from our credit card program, were $11.6 million, a decrease of 2.2% compared to the first quarter of fiscal year 2018.
- **Cost of Goods Sold Including Buying and Occupancy Costs (Excluding Depreciation) ("COGS")** — Compared to the corresponding periods of the prior year, COGS, as a percentage of revenues increased approximately 40 basis points in the first quarter of fiscal year 2019. The increase in COGS, as a percentage of revenues, was primarily attributable to lower net product margins related to MyTheresa operations prior to the Distribution. Excluding MyTheresa, U.S. COGS as a percentage of U.S. revenues remained flat in the first quarter of fiscal year 2019 compared to the corresponding prior year period.

  At October 27, 2018, consolidated inventories totaled $1,187.0 million, an 11.6% decrease from October 28, 2017. Merchandise inventories supporting our U.S. operations decreased 4.6% from the corresponding period of the prior year. We have worked aggressively to align our inventory levels and purchases with anticipated future customer demand.

Consolidated inventories at October 28, 2017 included $97.9 million related to MyTheresa operations. Subsequent to the Distribution, the inventory balances of MyTheresa are no longer included in our consolidated inventories.

- **Selling, General and Administrative Expenses (Excluding Depreciation) ("SG&A")** — Compared to the corresponding period of the prior year, SG&A expenses decreased, as a percentage of revenues, by approximately 150 basis points in the first quarter of fiscal year 2019. The lower level of SG&A expense, as a percentage of revenues, was primarily attributable to:
  - lower net incentive compensation costs and other benefits costs;
  - lower corporate expenses, primarily professional fees; and
  - favorable payroll and related costs; partially offset by
  - higher marketing expenses related primarily to the growth of our online operations; and
  - higher pre-opening expenses primarily incurred in connection with the new Hudson Yards store opening in March 2019.

**Liquidity**

Net cash used for our operating activities of $178.4 million in the first quarter of fiscal year 2019 increased by $121.3 million from net cash used for operating activities of $57.1 million in the first quarter of fiscal year 2018. This increase in net cash used for our operating activities was due primarily to (i) higher bonus payments, (ii) higher cash interest requirements due primarily to cash interest payments on the PIK Toggle Notes in the first quarter of fiscal year 2019 compared to PIK interest in the first quarter of fiscal year 2018 and (iii) higher net working capital requirements. At October 27, 2018, we had $366.0 million of borrowings outstanding under our Asset-Based Revolving Credit Facility and $1.3 million letters of credit. Our borrowings under the Asset-Based Revolving Credit Facility fluctuate based on our seasonal working capital requirements, which generally peak in our first and third quarters. At October 27, 2018, we had unused borrowing commitments aggregating $532.8 million, subject to a borrowing base, of which, $90.0 million of such capacity is available to us subject to certain restrictions as more fully described in Note 6 of the Notes to Condensed Consolidated Financial Statements in Part I — Item 1. Additionally, we held cash and cash equivalents and credit card receivables of $87.0 million bringing our available liquidity to $619.7 million at October 27, 2018. We believe that cash generated from our operations along with our existing cash balances and available sources of financing will enable us to meet our anticipated cash obligations during the next 12 months.

**Outlook**

Economic conditions in the luxury retail industry have been and will continue to be impacted by a number of factors, including the rate of economic growth, the volatility and uncertainty in domestic and global economic and political conditions, fluctuations in the exchange rate of the U.S. dollar against international currencies, most notably the Euro and British pound, fluctuations in crude oil and fuel prices, uncertainty regarding governmental policies and overall consumer confidence. We believe such factors could have an adverse impact on our future results of operations. As a result, we intend to operate our business and manage our cash requirements in a way that balances these economic conditions and current business trends with our long-term initiatives and growth strategies.

**Results of Operations**

***Performance Summary***

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

| | Thirteen weeks ended | |
|---|---|---|
| | October 27, 2018 | October 28, 2017 |
| Net sales | 98.9 % | 98.9 % |
| Other revenues, net | 1.1 | 1.1 |
| Total revenues | 100.0 | 100.0 |
| Cost of goods sold including buying and occupancy costs (excluding depreciation) | 63.4 | 63.0 |
| Selling, general and administrative expenses (excluding depreciation) | 25.1 | 26.6 |
| Depreciation expense | 4.6 | 5.0 |
| Amortization of intangible assets | 1.0 | 1.1 |
| Amortization of favorable lease commitments | 1.1 | 1.2 |
| Other expenses | 0.9 | 0.3 |
| Operating earnings | 3.9 | 2.8 |
| Benefit plan expense, net | 0.1 | — |
| Interest expense, net | 7.3 | 6.9 |
| Loss before income taxes | (3.4) | (4.1) |
| Income tax benefit | (0.9) | (1.7) |
| Net loss | (2.6)% | (2.4)% |

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

| | Thirteen weeks ended | |
|---|---|---|
| **(dollars in millions, except sales per square foot and store count)** | October 27, 2018 | October 28, 2017 |
| Change in comparable sales (1) | | |
| Total sales | 2.8% | 3.8 % |
| Online sales | 8.9% | 15.4 % |
| | | |
| Percentage of revenues transacted online | 33.1% | 32.2 % |
| | | |
| Store count | | |
| Neiman Marcus and Bergdorf Goodman full-line stores open at end of period | 44 | 44 |
| Last Call stores open at end of period | 24 | 38 |
| | | |
| Sales per square foot (2) | $ 116 | $ 116 |
| | | |
| Capital expenditures (3) | $ 37.6 | $ 24.7 |
| Depreciation expense | 50.7 | 55.2 |
| Rent expense and related occupancy costs | 27.6 | 28.3 |
| | | |
| Non-GAAP financial measures | | |
| EBITDA (4) | $ 117.1 | $ 111.2 |
| Adjusted EBITDA (4) | $ 135.3 | $ 122.3 |

(1) Comparable sales include (i) sales derived from our retail stores open for more than fifty-two weeks, including stores that have been relocated or expanded, and (ii) sales from our online operations. Comparable sales exclude sales of closed stores.

Comparable sales for the first quarter of fiscal year 2018 exclude sales from MyTheresa in October 2017.

(2) Sales per square foot are calculated as revenues of our Neiman Marcus and Bergdorf Goodman full-line stores for the applicable period divided by weighted average square footage. Weighted average square footage includes a percentage of period-end square footage for new and closed stores equal to the percentage of the period during which they were open.

(3) Amounts represent gross capital expenditures and exclude developer contributions of $2.2 million for the thirteen weeks ended October 27, 2018 and developer contribution repayments of $0.7 million for the thirteen weeks ended October 28, 2017.

(4) For an explanation of EBITDA and Adjusted EBITDA as measures of our operating performance and a reconciliation to net loss, see "— Non-GAAP Financial Measures."

**Key Factors Affecting Our Results**

***Revenues.*** We generate our revenues from the sale of luxury merchandise. Components of our revenues include:

- Sales of merchandise — Revenues are recognized at the point-of-sale or upon shipment of goods to the customer. Revenues are reduced when our customers return goods previously purchased. We maintain reserves for anticipated sales returns based primarily on our historical trends. Revenues exclude sales taxes collected from our customers.
- Delivery and processing — We generate revenues from delivery and processing charges related to certain merchandise deliveries to our customers.
- Other revenues, net — We maintain a proprietary credit card program through which credit is extended to customers and have a related marketing and servicing alliance with a third-party credit provider. We receive payments based on sales transacted on our proprietary credit cards. We recognize income from our credit card program when earned.

Our revenues can be affected by the following factors:

- our ability to anticipate, identify and respond effectively to changing consumer demands, fashion trends and consumer shopping preferences and acquire goods meeting customers' tastes and preferences;
- general domestic and global economic and industry conditions, including inflation, deflation, changes related to interest rates and foreign currency exchange rates, rates of economic growth, current and expected unemployment levels and government fiscal and monetary policies;
- the performance of the financial, equity and credit markets;
- consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt and consumer behaviors towards incurring and paying debt;
- national and global geo-political uncertainty;
- changes in the level of consumer spending generally and, specifically, on luxury goods;
- the strength of the U.S. dollar against international currencies, most notably the Euro and British pound, and a resulting impact on tourism and spending by international customers in the U.S.;
- a significant and sustained decline in the global price for crude oil and the resulting impact on stakeholders in the oil and gas industries, particularly in the Texas markets in which we have a significant presence;
- changes in prices for commodities and energy, including fuel;
- current and expected tax rates and policies;
- a material disruption in our information systems, or delays or difficulties in implementing or integrating new systems or enhancing or expanding current systems, or our failure to achieve the anticipated benefits of any new or updated information systems;
- changes in the level of full-price sales;
- changes in the level and timing of promotional events conducted;

- changes in the level of delivery and processing revenues collected from our customers; and
- changes in the composition and the rate of growth of our sales transacted in store and online.

Our revenues and earnings can also be affected by our relationships with sources of merchandise and the terms on which they are willing to supply to us. Certain of our top designer brand partners have converted or are considering converting from wholesale arrangements to concession arrangements, whereby the designer merchandises its boutique within our store and pays us a pre-determined percentage of revenues derived from the sale of such merchandise.

In addition, our revenues are seasonal, as discussed below under "Seasonality."

***Cost of Goods Sold Including Buying and Occupancy Costs (Excluding Depreciation).*** COGS consists of the following components:

- Inventory costs — We utilize the retail inventory method of accounting. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are determined by applying a calculated cost-to-retail ratio, for various groupings of similar items, to the retail value of our inventories. The cost of the inventory reflected in the Condensed Consolidated Financial Statements is decreased by charges to cost of goods sold at average cost and the retail value of the inventory is lowered through the use of markdowns. Earnings are negatively impacted when merchandise is marked down. With the introduction of new fashions in the first and third fiscal quarters of each fiscal year and our emphasis on full-price selling in these quarters, a lower level of markdowns and higher margins are characteristic of these quarters.

  Inventory costs are also decreased by charges to cost of goods sold for estimates of shrinkage that has occurred between physical count dates.
- Buying costs — Buying costs consist primarily of salaries and expenses incurred by our merchandising and buying operations.
- Occupancy costs — Occupancy costs consist primarily of rent, property taxes and operating costs of our retail, distribution and support facilities. A significant portion of our buying and occupancy costs are fixed in nature and are not dependent on the revenues we generate.
- Delivery and processing costs — Delivery and processing costs consist primarily of delivery charges we pay to third party carriers and other costs related to the fulfillment of customer orders not delivered at the point-of-sale.

Consistent with industry business practice, we receive allowances from certain of our vendors in support of the merchandise we purchase for resale. Certain allowances are received to reimburse us for markdowns taken or to support the gross margins that we earn in connection with the sales of the vendor's merchandise. These allowances result in an increase to gross margin when we earn the allowances and they are approved by the vendor. Other allowances we receive represent reductions to the amounts we pay to acquire the merchandise. These allowances reduce the cost of the acquired merchandise and are recognized at the time the goods are sold. We received vendor allowances of $3.3 million, or 0.3% of revenues, in the first quarter of fiscal year 2019 and $3.4 million, or 0.3% of revenues, in the first quarter of fiscal year 2018. The amounts of vendor allowances we receive fluctuate based partially on the level of markdowns taken and did not have a significant impact on the year-over-year change in gross margin during year-to-date fiscal 2019 and 2018.

Changes in our COGS as a percentage of revenues can be affected by the following factors:

- our ability to order an appropriate amount of merchandise to match customer demand and the related impact on the level of net markdowns and promotions costs incurred;
- customer acceptance of and demand for the merchandise we offer in a given season and the related impact of such factors on the level of full-price sales;
- factors affecting revenues generally, including pricing and promotional strategies, product offerings and actions taken by competitors;
- changes in delivery and processing costs and our ability to pass such costs on to our customers;
- changes in occupancy costs associated primarily with the opening of new stores or distribution facilities; and
- the amount of vendor reimbursements we receive during the reporting period.

***Selling, General and Administrative Expenses (Excluding Depreciation).*** SG&A consists principally of costs related to employee compensation and benefits in the selling and administrative support areas and advertising and marketing costs. A significant portion of our SG&A expenses is variable in nature and is dependent on the revenues we generate.

Advertising costs consist primarily of (i) online marketing costs, (ii) advertising costs incurred related to the production of the photographic content for our websites and (iii) costs incurred related to the production, printing and distribution of our print catalogs and other promotional materials mailed to our customers. We receive advertising allowances from certain of our merchandise vendors. Substantially all the advertising allowances we receive represent reimbursements of direct, specific and incremental costs that we incur to promote the vendor's merchandise in connection with our various advertising programs, primarily catalogs and other print media and digital media. Advertising allowances fluctuate based on the level of advertising expenses incurred and are recorded as a reduction of our advertising costs when earned. Advertising allowances collected were approximately $19.0 million, or 1.7% of revenues, in the first quarter of fiscal year 2019 and $17.1 million, or 1.5% of revenues, in the first quarter of fiscal year 2018.

We also receive allowances from certain merchandise vendors in connection with compensation programs for employees who sell the vendor's merchandise. These allowances are netted against the related compensation expenses that we incur. Amounts received from vendors related to compensation programs were $15.4 million, or 1.4% of revenues, in the first quarter of fiscal year 2019 and $14.5 million, or 1.3% of revenues, in the first quarter of fiscal year 2018.

Changes in our SG&A expenses are affected primarily by the following factors:

- changes in the level of our revenues;
- changes in the number of sales associates, which are due primarily to new store openings and closings and expansion of existing stores, and the health care and related benefits expenses incurred as a result of such changes;
- changes in expenses incurred in connection with our advertising and marketing programs; and
- changes in expenses related to employee benefits due to general economic conditions such as rising health care costs.

***Effective Income Tax Rate.*** Our effective income tax rate may fluctuate from period to period due to a variety of factors, including changes in our assessment of certain tax contingencies, valuation allowances, changes in federal, state and foreign tax laws, outcomes of administrative audits, changes in our corporate structure, the impact of other discrete or non-recurring items and the mix of earnings among our U.S. and foreign operations, where the statutory rates may exceed those in the United States. As a result, our effective income tax rate may vary significantly from the federal statutory tax rate.

**Seasonality**

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

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

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

A large percentage of our merchandise assortment, particularly in the apparel, fashion accessories and shoe categories, is ordered months in advance of the introduction of such goods. For example, women's apparel, men's apparel, shoes and handbags are typically ordered six to nine months in advance of the products being offered for sale while jewelry and other categories are typically ordered three to six months in advance. As a result, our success depends in large part on our ability to anticipate and

identify fashion trends and consumer shopping preferences and to identify and react effectively to rapidly changing consumer demands in a timely manner.

We monitor the sales performance of our inventories throughout each season. We seek to order additional goods to supplement our original purchasing decisions when the level of customer demand is higher than originally anticipated. However, in certain merchandise categories, particularly fashion apparel, our ability to purchase additional goods can be limited. This can result in lost sales opportunities in the event of higher than anticipated demand for the merchandise we offer or a higher than anticipated level of consumer spending. Conversely, in the event we buy merchandise that is not accepted by our customers or the level of consumer spending is less than we anticipated, we could incur a higher than anticipated level of markdowns, net of vendor allowances, resulting in lower operating profits. Any failure on our part to anticipate, identify and respond effectively to these changes could adversely affect our business, financial condition and results of operations.

***Results of Operations for the Thirteen Weeks Ended October 27, 2018 Compared to the Thirteen Weeks Ended October 28, 2017***

***Revenues.*** Total revenues for the first quarter of fiscal year 2019 of $1,104.4 million decreased by $3.2 million, or 0.3%, from $1,107.5 million in the first quarter of fiscal year 2018. The components of our revenues are:

| | Thirteen weeks ended | | | |
|---|---|---|---|---|
| | October 27, 2018 | | October 28, 2017 | |
| **(in millions, except percentages)** | **$** | **Comparable sales** | **$** | **Comparable sales** |
| Net sales from U.S. operations | $ 1,032.7 | 1.7% | $ 1,021.6 | 2.5% |
| Net sales from MyTheresa operations (1) | 60.1 | 27.3% | 74.1 | 28.0% |
| Total net sales | 1,092.8 | 2.8% | 1,095.7 | 3.8% |
| Other revenues, net | 11.6 | | 11.9 | |
| Total revenues | $ 1,104.4 | | $ 1,107.5 | |

(1) MyTheresa operating results include only the two months prior to the Distribution in the first quarter of fiscal year 2019 and three months in the first quarter of fiscal year 2018.

Comparable sales for the first quarter of fiscal year 2019 were $1,092.8 million compared to $1,062.6 million in the first quarter of fiscal year 2018, representing an increase of 2.8%. Revenues generated by our online operations were $366.0 million, or 33.1% of revenues. Comparable sales from our online operations for the first quarter of fiscal year 2019 increased 8.9% from the first quarter of the prior year.

- ***Net sales generated by U.S. operations*** — In the first quarter of fiscal year 2019, net sales generated by U.S. operations were $1,032.7 million, an increase of 1.1% compared to the first quarter of fiscal year 2018. Comparable sales from U.S. operations for the first quarter of fiscal year 2019 increased 1.7% compared to the first quarter of fiscal year 2018. Sales generated by our U.S. online operations were $306.0 million, or 29.3% of our total U.S. revenues, in the first quarter of fiscal year 2019. Comparable sales from our U.S. online operations for the first quarter of fiscal year 2019 increased 5.9% from the first quarter of fiscal year 2018.

- ***Net sales generated by MyTheresa operations*** — Prior to its distribution to Parent, MyTheresa generated net sales of $60.1 million, or 5.4% of consolidated revenues. MyTheresa comparable sales for the first quarter of fiscal year 2019 increased 27.3% from the corresponding prior year period.

- ***Other revenues, net*** — In the first quarter of fiscal year 2019, other revenues, net, which primarily consists of income from our credit card program, were $11.6 million, a decrease of 2.2% compared to the first quarter of fiscal year 2018.

***Cost of Goods Sold Including Buying and Occupancy Costs (Excluding Depreciation).*** COGS as a percentage of revenues increased to 63.4% of revenues in the first quarter of fiscal year 2019 from 63.0% of revenues in the first quarter of fiscal year 2018. The components of COGS consisted of:

| | Thirteen weeks ended | | | |
|---|---|---|---|---|
| | October 27, 2018 | | October 28, 2017 | |
| **(in millions, except percentages)** | **$** | **% of revenues** | **$** | **% of revenues** |
| U.S. COGS (1) | $ 656.1 | 62.8% | $ 649.5 | 62.8% |
| MyTheresa COGS (2) | 44.2 | | 48.8 | |
| Total COGS (3) | $ 700.2 | 63.4% | $ 698.3 | 63.0% |

(1) Presented on the basis of U.S. revenues.
(2) MyTheresa operating results include only the two months prior to the Distribution in the first quarter of fiscal year 2019 and three months in the first quarter of fiscal year 2018.
(3) Presented on the basis of consolidated revenues.

The increase in COGS, as a percentage of revenues, was primarily attributable to lower net product margins related to MyTheresa operations prior to the Distribution. Excluding MyTheresa, COGS as a percentage of U.S. revenues remained flat in the first quarter of fiscal year 2019 compared to the corresponding prior year period.

***Selling, General and Administrative Expenses (Excluding Depreciation).*** SG&A expenses as a percentage of revenues decreased to 25.1% of revenues in the first quarter of fiscal year 2019 compared to 26.6% of revenues in the first quarter of fiscal year 2018. The components of SG&A expense consisted of:

| | Thirteen weeks ended | | | |
|---|---|---|---|---|
| | October 27, 2018 | | October 28, 2017 | |
| **(in millions, except percentages)** | **$** | **% of revenues** | **$** | **% of revenues** |
| Base U.S. SG&A (1) | $ 256.7 | 24.6% | $ 257.1 | 24.9% |
| U.S. net incentive compensation costs and other benefits (1) | 3.3 | 0.3% | 14.8 | 1.4% |
| Total U.S. SG&A expenses (1) | 260.0 | 24.9% | 271.9 | 26.3% |
| MyTheresa SG&A (2) | 16.8 | | 22.9 | |
| Total SG&A (3) | $ 276.8 | 25.1% | $ 294.8 | 26.6% |

(1) Presented on the basis of U.S. revenues.
(2) MyTheresa operating results include only the two months prior to the Distribution in the first quarter of fiscal year 2019 and three months in the first quarter of fiscal year 2018.
(3) Presented on the basis of consolidated revenues.

Base U.S. SG&A expenses decreased, as a percentage of U.S. revenues, approximately 30 basis points compared to the prior year due primarily to:

- lower corporate expenses, primarily professional fees, of approximately 70 basis points; and
- favorable payroll and related costs of approximately 50 basis points; partially offset by
- higher marketing expenses of approximately 60 basis points related primarily to the growth of our online operations; and
- higher pre-opening expenses of approximately 40 basis points primarily incurred in connection with the new Hudson Yards store opening in March 2019.

U.S. net incentive compensation costs and other benefits costs aggregated $3.3 million, or 0.3% of U.S. revenues, in the first quarter of fiscal year 2019 compared to $14.8 million, or 1.4% of U.S. revenues, in the first quarter of fiscal year 2018, a decrease of approximately 110 basis points compared to the prior year. This decrease is due primarily to:

- lower requirements of current and long-term cash incentive costs of approximately 80 basis points in the first quarter of fiscal year 2019; and

- non-recurring non-cash charges related to the modification of certain Co-Invest Options of approximately 40 basis points in the first quarter of fiscal year 2018; partially offset by
- a non-recurring non-cash gain of approximately 10 basis points recorded in the first quarter of fiscal year 2018 related to a change in our vacation policy.

***Depreciation and Amortization Expenses.*** Depreciation expense was $50.7 million, or 4.6% of revenues, in the first quarter of fiscal year 2019 compared to $55.2 million, or 5.0% of revenues, in the first quarter of fiscal year 2018.

Amortization of intangible assets (primarily customer lists and favorable lease commitments) was $23.8 million, or 2.2% of revenues, in the first quarter of fiscal year 2019 compared to $24.9 million, or 2.3% of revenues, in the first quarter of fiscal year 2018.

***Other Expenses.*** Other expenses for the first quarter of fiscal year 2019 were $9.4 million, or 0.9% of revenues, compared to $2.8 million, or 0.3% of revenues, in the first quarter of fiscal year 2018. Other expenses consisted of the following components:

| | Thirteen weeks ended | |
|---|---|---|
| **(in millions)** | **October 27, 2018** | **October 28, 2017** |
| Expenses incurred in connection with strategic initiatives | 7.0 | 0.4 |
| Expenses (benefits) related to store closures | — | 1.3 |
| Expenses related to Cyber-Attack, net of insurance recoveries | — | 1.1 |
| Other expenses | 2.4 | — |
| Total | $ 9.4 | $ 2.8 |

We incurred consulting and professional fees in connection with key strategic operations projects and the implementation of strategic initiatives, including those described above under "Investments and Strategic Initiatives".

In connection with our assessment of our Last Call footprint, we closed 14 stores in fiscal year 2018. Expenses related to these store closures consisted primarily of severance and store closing costs.

We discovered in January 2014 that malicious software was clandestinely installed on our computer systems (the "Cyber-Attack"). Expenses related to the Cyber-Attack in the first quarter of fiscal year 2018 consisted primarily of legal expenses.

We also incurred expenses related to an organizational and operational realignment, primarily severance costs, in the first quarter of fiscal year 2019.

***Interest Expense, net.*** Net interest expense was $80.5 million in the first quarter of fiscal year 2019 and $76.1 million for the first quarter of fiscal year 2018. The significant components of interest expense are as follows:

| | Thirteen weeks ended | |
|---|---|---|
| **(in millions)** | **October 27, 2018** | **October 28, 2017** |
| Asset-Based Revolving Credit Facility | $ 2.6 | $ 2.3 |
| Senior Secured Term Loan Facility | 36.3 | 33.4 |
| Cash Pay Notes | 19.2 | 19.2 |
| PIK Toggle Notes | 14.4 | 14.4 |
| 2028 Debentures | 2.2 | 2.2 |
| Amortization of debt issue costs | 6.1 | 6.1 |
| Capitalized interest | (1.0) | (1.7) |
| Other, net | 0.6 | 0.2 |
| Interest expense, net | $ 80.5 | $ 76.1 |

***Income Tax Benefit.*** Our income tax benefit was $9.8 million for the first quarter of fiscal year 2019 and $18.9 million for the first quarter of fiscal year 2018. Our effective income tax rate of 25.7% on the loss for the first quarter of fiscal year 2019 exceeded the federal statutory rate of 21% due primarily to state income taxes. Our effective income tax rate of 41.9% on the loss for the first quarter of fiscal year 2018 exceeded the previous federal statutory rate of 35% due primarily to state and foreign income taxes.

**Liquidity and Capital Resources**

Our liquidity requirements consist principally of:

- the funding of our merchandise purchases;
- operating expense requirements;
- debt service requirements;
- capital expenditures for expansion and growth strategies, including new store construction, store remodels and upgrades of our management information systems;
- income tax payments; and
- obligations related to our defined benefit pension plan ("Pension Plan").

Our primary sources of short-term liquidity are comprised of cash and cash equivalents, credit card receivables, availability under our Asset-Based Revolving Credit Facility and brand partner payment terms. The amounts of cash and cash equivalents and borrowings under the Asset-Based Revolving Credit Facility are influenced by a number of factors, including revenues, working capital levels, brand partner terms, the level of capital expenditures, cash requirements related to financing instruments and debt service obligations, Pension Plan funding obligations and tax payment obligations, among others.

Our working capital requirements fluctuate during the fiscal year, increasing substantially during the first and third quarters of each fiscal year as a result of higher seasonal levels of inventories. We have typically financed our cash requirements with available cash and cash equivalents, cash flows from operations and, if necessary, with cash provided from borrowings under the Asset-Based Revolving Credit Facility. We had $366.0 million of outstanding borrowings under the Asset-Based Revolving Credit Facility and $1.3 million outstanding letters of credit as of October 27, 2018 compared to $339.0 million of outstanding borrowings and $1.8 million outstanding letters of credit as of October 28, 2017. At October 27, 2018, we had unused borrowing commitments $532.8 million, subject to a borrowing base, of which $90.0 million of such capacity is available to us subject to the maintenance of a minimum fixed charge coverage ratio and to further restrictions described below under "Financing Structure at October 27, 2018." Additionally, we held cash and cash equivalents and credit card receivables of $87.0 million bringing our available liquidity to $619.7 million at October 27, 2018.

Under the Asset-Based Revolving Credit Facility, if "excess availability" falls below 10% of aggregate revolving commitments, we will be required to maintain a minimum fixed charge coverage ratio and we may be subject to further restrictions as discussed below under "Financing Structure at October 27, 2018".

We believe that cash generated from our operations, our existing cash and cash equivalents and available sources of financing will be sufficient to fund our cash requirements during the next 12 months, including merchandise purchases, operating expenses, anticipated capital expenditure requirements, debt service requirements, income tax payments and obligations related to our Pension Plan.

We regularly evaluate our liquidity profile, and various financing, refinancing and other alternatives for opportunities to enhance our capital structure and address maturities under our existing debt arrangements. If opportunities are available on favorable terms, we may seek to refinance, exchange, amend and/or extend the terms of our existing debt or issue or incur additional debt, and have engaged and may continue to engage with existing and prospective holders of our debt in connection with such matters. Although we are actively pursuing opportunities to improve our capital structure, some or all of the foregoing potential transactions or other alternatives may not be available to us or announced in the foreseeable future or at all.

Net cash used for our operating activities of $178.4 million in the first quarter of fiscal year 2019 increased by $121.3 million from net cash used for operating activities of $57.1 million in the first quarter of fiscal year 2018. This increase in net cash used for our operating activities was due primarily to (i) higher bonus payments, (ii) higher cash interest requirements due primarily to cash interest payments on the PIK Toggle Notes in the first quarter of fiscal year 2019 compared to PIK interest in the first quarter of fiscal year 2018 and (iii) higher net working capital requirements.

Net cash used for investing activities, representing capital expenditures, of $37.6 million in the first quarter of fiscal year 2019 increased by $12.9 million from $24.7 million in the first quarter of fiscal year 2018. This increase in capital expenditures in the first quarter of fiscal year 2019 reflects higher spending related to the construction of the new Hudson Yards store opening in March 2019 and the remodeling of existing stores.

Currently, we project capital expenditures for fiscal year 2019 to be approximately $200 to $225 million. Net of developer contributions, capital expenditures for fiscal year 2019 are projected to be approximately $165 to $190 million. We have and will continue to manage the level of capital spending in a manner designed to balance current economic conditions and business trends with our long-term initiatives and growth strategies.

Net cash provided by financing activities of $215.2 million in the first quarter of fiscal year 2019 was comprised primarily of (i) net borrowings of $207.0 million under our Asset-Based Revolving Credit Facility due to (i) lower level of cash flows from operations and higher working capital requirements, (ii) higher capital expenditures and (iii) repayments of borrowings of $7.4 million under our Senior Secured Term Loan Facility. Net cash provided by financing activities of $73.5 million in the first quarter of fiscal year 2018 was comprised primarily of (i) net borrowings of $76.0 million under our Asset-Based Revolving Credit Facility due to seasonal workings capital requirements, partially offset by (ii) repayments of borrowings of $7.4 million under our Senior Secured Term Loan Facility.

Subject to applicable restrictions in our credit agreements and indentures, we or our affiliates, at any time and from time to time, may purchase, redeem or otherwise retire our outstanding debt securities or term loans, including through open market or privately negotiated transactions with third parties or pursuant to one or more tender or exchange offers or otherwise, upon such terms and at such prices, as well as with such consideration, as we, or any of our affiliates, may determine.

**Financing Structure at October 27, 2018**

Our major sources of funds are comprised of the $900.0 million Asset-Based Revolving Credit Facility, the $2,802.9 million Senior Secured Term Loan Facility, $960.0 million Cash Pay Notes, $658.4 million PIK Toggle Notes, $125.0 million 2028 Debentures (each as described in more detail below), vendor payment terms and operating leases.

***Asset-Based Revolving Credit Facility.*** At October 27, 2018, we have an Asset-Based Revolving Credit Facility with a maximum committed borrowing capacity of $900.0 million. The Asset-Based Revolving Credit Facility matures on July 25, 2021 (or July 25, 2020 if our obligations under our Senior Secured Term Loan Facility or any permitted refinancing thereof have not been repaid or the maturity date thereof has not been extended to October 25, 2021 or later). At October 27, 2018, we had outstanding borrowings of $366.0 million under this facility, outstanding letters of credit of $1.3 million and unused commitments of $532.8 million, subject to a borrowing base, of which $90.0 million of such capacity is available to us subject to certain restrictions as more fully described below.

Availability under the Asset-Based Revolving Credit Facility is subject to a borrowing base. The Asset-Based Revolving Credit Facility includes borrowing capacity available for letters of credit (up to $150.0 million, with any such issuance of letters of credit reducing the amount available under the Asset-Based Revolving Credit Facility on a dollar-for-dollar basis) and for borrowings on same-day notice. The borrowing base is equal to at any time the sum of (a) 90% of the net orderly liquidation value of eligible inventory, net of certain reserves, plus (b) 90% of the amounts owed by credit card processors in respect of eligible credit card accounts constituting proceeds from the sale or disposition of inventory, less certain reserves, plus (c) 100% of segregated cash held in a restricted deposit account.

Our excess availability could decrease as a result of, among other things, decreases in inventory or increases in outstanding debt (including letters of credit). Our failure to meet the Excess Availability Condition (as defined below) could limit our operational flexibility and growth. To the extent that excess availability is not equal to or greater than the greater of (a) 10% of the lesser of (1) the aggregate revolving commitments and (2) the borrowing base and (b) $50.0 million (the "Excess Availability Condition"), we will be required to maintain a minimum fixed charge coverage ratio. Additional restrictions will apply if the Excess Availability Condition is not met for five consecutive business days, including increased reporting requirements and additional administrative agent control rights over certain of our accounts. These restrictions will continue until the Excess Availability Condition is satisfied and their imposition may limit our operational flexibility. At October 27, 2018, $90.0 million of the aggregate unused commitments under the Asset-Based Revolving Credit Facility is available to us subject to the foregoing restrictions.

The weighted average interest rate on the outstanding borrowings pursuant to the Asset-Based Revolving Credit Facility was 4.28% at October 27, 2018.

See Note 6 of the Notes to Condensed Consolidated Financial Statements in Part I — Item 1, which contains a further description of the terms of the Asset-Based Revolving Credit Facility.

***Senior Secured Term Loan Facility.*** At October 27, 2018, the outstanding balance under the Senior Secured Term Loan Facility was $2,802.9 million. The principal amount of the loans outstanding is due and payable in full on October 25, 2020.

Depending on our senior secured first lien net leverage ratio (as defined in the credit agreement governing the Senior Secured Term Loan Facility), we could be required to prepay outstanding term loans from a certain portion of our annual excess cash flow (as defined in the credit agreement governing the Senior Secured Term Loan Facility). Required excess cash flow payments commence at 50% of our annual excess cash flow (which percentage will be reduced to (a) 25% if our senior secured first lien net leverage ratio (as defined in the credit agreement governing the Senior Secured Term Loan Facility) is equal to or less than 4.0 to 1.0 but greater than 3.5 to 1.0 and (b) 0% if our senior secured first lien net leverage ratio is equal to or less than 3.5 to 1.0). We also must offer to prepay outstanding term loans at 100% of the principal amount to be prepaid, plus accrued and unpaid interest, with the proceeds of certain asset sales and debt issuances, subject to certain exceptions and reinvestment rights.

The interest rate on the outstanding borrowings pursuant to the Senior Secured Term Loan Facility was 5.53% at October 27, 2018.

See Note 6 of the Notes to Condensed Consolidated Financial Statements in Part I - Item 1, which contains a further description of the terms of the Senior Secured Term Loan Facility.

***Cash Pay Notes***. We have outstanding $960.0 million aggregate principal amount of 8.00% Senior Cash Pay Notes. The Cash Pay Notes mature on October 15, 2021.

See Note 6 of the Notes to Condensed Consolidated Financial Statements in Part I - Item 1, which contains a further description of the terms of the Cash Pay Notes and Note 14 of the Notes to Condensed Consolidated Financial Statements in Part I - Item 1 for a description of certain subsidiaries that we have designated as "Unrestricted Subsidiaries" under the indenture governing the Cash Pay Notes.

***PIK Toggle Notes***. We have outstanding $658.4 million aggregate principal amount of 8.75%/9.50% Senior PIK Toggle Notes. The PIK Toggle Notes mature on October 15, 2021. Interest on the PIK Toggle Notes is payable semi-annually in arrears on each April 15 and October 15. Prior to October 2018, interest on the PIK Toggle Notes, subject to certain restrictions, was payable (i) entirely in cash, (ii) entirely by increasing the principal amount of the PIK Toggle Notes by the relevant interest payment amount, or (iii) 50% in Cash Interest and 50% in PIK Interest. Cash Interest on the PIK Toggle Notes accrues at a rate of 8.75% per annum. PIK Interest on the PIK Toggle Notes accrued at a rate of 9.50% per annum. Interest on the PIK Toggle Notes was paid entirely in cash for the first seven interest payments. We elected to pay the October 2017 and April 2018 interest payments in the form of PIK Interest, which resulted in the issuance of additional PIK Toggle Notes of $28.5 million in October 2017 and $29.9 million in April 2018. We did not elect to pay interest in the form of PIK Interest or partial PIK Interest with respect to the interest payment due in October 2018. All future interest payments are required to be paid in Cash Interest.

See Note 6 of the Notes to Condensed Consolidated Financial Statements in Part I - Item 1, which contains a further description of the terms of the PIK Toggle Notes and Note 14 of the Notes to Condensed Consolidated Financial Statements in Part I - Item 1 for a description of certain subsidiaries that we have designated as "Unrestricted Subsidiaries" under the indenture governing the PIK Toggle Notes.

***2028 Debentures.*** We have outstanding $125.0 million aggregate principal amount of 7.125% Senior Debentures. The 2028 Debentures mature on June 1, 2028.

See Note 6 of the Notes to Condensed Consolidated Financial Statements in Part I - Item 1, which contains a further description of the terms of the 2028 Debentures.

***Interest Rate Swaps.*** At October 27, 2018, we had outstanding floating rate debt obligations of $3,168.9 million. In April and June of 2016, we entered into floating to fixed interest rate swap agreements for an aggregate notional amount of $1,400.0 million to limit our exposure to interest rate increases related to a portion of our floating rate indebtedness. These swap agreements hedge a portion of our contractual floating rate interest commitments related to our Senior Secured Term Loan Facility from December 2016 to October 2020. As a result of the April 2016 swap agreements, our effective interest rate as to $700.0 million of floating rate indebtedness will be fixed at 4.9120% from December 2016 through October 2020. As a result of the June 2016 swap agreements, our effective interest rate as to an additional $700.0 million of floating rate indebtedness will be fixed at 4.7395% from December 2016 to October 2020. The interest rate swap agreements expire in October 2020.

**Non-GAAP Financial Measures**

To supplement our financial information presented in accordance with generally accepted accounting principles ("GAAP"), we use EBITDA and Adjusted EBITDA to monitor and evaluate the performance of our business and believe the presentation of these measures enhances investors' ability to analyze trends in our business and evaluate our performance relative to other companies in our industry. We define (i) EBITDA as earnings before interest, taxes, depreciation and amortization and (ii) Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, further adjusted to eliminate the effects of items management does not believe are representative of our ongoing performance. These financial metrics are not presentations made in accordance with GAAP.

EBITDA and Adjusted EBITDA should not be considered as alternatives to operating earnings (loss) or net earnings (loss) as measures of operating performance. In addition, EBITDA and Adjusted EBITDA are not presented as and should not be considered as alternatives to cash flows as measures of liquidity. EBITDA and Adjusted EBITDA have important limitations as analytical tools and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP.
These limitations include the fact that:

- EBITDA and Adjusted EBITDA:
  - exclude certain tax payments that may represent a reduction in cash available to us;
  - in the case of Adjusted EBITDA, exclude certain adjustments for purchase accounting;
  - do not reflect changes in, or cash requirements for, our working capital needs, capital expenditures or contractual commitments;
  - do not reflect our significant interest expense; and
  - do not reflect the cash requirements necessary to service interest or principal payments on our debt.
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

In calculating these financial measures, we make certain adjustments that are based on assumptions and estimates that may prove inaccurate. In addition, in the future we may incur expenses similar to those eliminated in this presentation. The following table reconciles net earnings (loss) as reflected in our Condensed Consolidated Statements of Operations prepared in accordance with GAAP to EBITDA and Adjusted EBITDA:

| | Thirteen weeks ended | |
|---|---|---|
| **(dollars in millions)** | **October 27, 2018** | **October 28, 2017** |
| Net loss | $ (28.2) | $ (26.2) |
| Income tax benefit | (9.8) | (18.9) |
| Interest expense, net | 80.5 | 76.1 |
| Depreciation expense | 50.7 | 55.2 |
| Amortization of intangible assets and favorable lease commitments | 23.8 | 24.9 |
| EBITDA | $ 117.1 | $ 111.2 |
| EBITDA as a percentage of revenues | *10.6%* | *10.0%* |
| Expenses incurred in connection with strategic initiatives | 7.0 | 0.4 |
| Expenses incurred in connection with openings of new stores / remodels of existing stores | 4.8 | 0.8 |
| Non-cash stock compensation and other long-term cash incentives | 2.1 | 6.5 |
| Non-cash rent expense | 1.9 | 2.3 |
| Expenses related to store closures | — | 1.3 |
| Expenses related to Cyber-Attack, net of insurance recoveries | — | 1.1 |
| Non-cash gain related to change in vacation policy | — | (1.2) |
| Other expenses | 2.4 | — |
| Adjusted EBITDA (1) | $ 135.3 | $ 122.3 |
| Adjusted EBITDA as a percentage of revenues | *12.3%* | *11.0 %* |

(1) Includes Adjusted EBITDA losses related to our MyTheresa operations of $0.9 million for the first quarter of fiscal year 2019 and earnings of $2.4 million for the first quarter of fiscal year 2018.

**Critical Accounting Policies**

The preparation of Condensed Consolidated Financial Statements in conformity with GAAP requires us to make estimates and assumptions about future events. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses and the disclosure of gain and loss contingencies at the date of the accompanying Condensed Consolidated Financial Statements. Our current estimates are subject to change if different assumptions as to the outcome of future events were made. We evaluate our estimates and assumptions on an ongoing basis and predicate those estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. We make adjustments to our estimates and assumptions when facts and circumstances dictate. Since future events and their effects cannot be determined with absolute certainty, actual results may differ from the estimates and assumptions we used in preparing the accompanying Condensed Consolidated Financial Statements.

A complete description of our critical accounting policies is included in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018.

**Newly Adopted and Recent Accounting Pronouncements**

For information with respect to newly adopted and recent accounting pronouncements and the impact of these pronouncements on our Condensed Consolidated Financial Statements, see Note 1 of the Notes to Condensed Consolidated Financial Statements in Part I — Item 1.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We discussed our market risks in Part II — Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018 as filed with the Securities and Exchange Commission on September 18, 2018. There have been no material changes to this risk since that time.

## ITEM 4. 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 October 27, 2018, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, as well as other key members of our management, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, accumulated, processed, summarized, reported and communicated on a timely basis and within the time periods specified in the Securities and Exchange Commission’s rules and forms.

**b. Changes in Internal Control Over Financial Reporting.**

No change occurred in our internal controls over financial reporting during the quarter ended October 27, 2018 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

# PART II

## ITEM 1. LEGAL PROCEEDINGS

The information contained under the subheadings "Employment, Consumer and Benefits Class Actions Litigation" and "Cyber-Attack Class Actions Litigation" in Note 10 of the Notes to Condensed Consolidated Financial Statements in Part I - Item 1 is incorporated herein by reference as if fully restated herein. Note 10 contains forward-looking statements that are subject to the risks and uncertainties discussed in "Management’s Discussion and Analysis of Financial Condition and Results of Operations — Forward-Looking Statements."

## ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors described in Part I - Item 1A "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended July 28, 2018 as filed with the Securities and Exchange Commission on September 18, 2018. These risks are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or results of operations.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

| Exhibit | | Method of Filing |
|---|---|---|
| 3.1 | Certificate of Formation of the Company, dated as of October 28, 2013. | Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended November 2, 2013. |
| 3.2 | Amended and Restated Limited Liability Company Agreement of the Company, dated as of October 28, 2013. | Incorporated herein by reference to the Company's Current Report on Form 8-K filed on October 29, 2013. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith. |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002. | Furnished herewith. |
| 101.INS | XBRL Instance Document | Filed herewith electronically. |
| 101.SCH | XBRL Taxonomy Extension Schema Document | Filed herewith electronically. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | Filed herewith electronically. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | Filed herewith electronically. |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document | Filed herewith electronically. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | Filed herewith electronically. |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NEIMAN MARCUS GROUP LTD LLC
(Registrant)

| Signature | Title | Date |
| --- | --- | --- |
| /s/ T. DALE STAPLETON<br>T. Dale Stapleton | Senior Vice President<br>and Chief Accounting Officer<br>(on behalf of the registrant and<br>as principal accounting officer) | December 6, 2018 |

**EXHIBIT 31.1**

**Certification of Chief Executive Officer**
**Pursuant to Rule 13a-14(a) and Rule 15d-14(a)**

I, Geoffroy van Raemdonck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Neiman Marcus Group LTD LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 6, 2018

/s/ GEOFFROY VAN RAEMDONCK

Geoffroy van Raemdonck
Chief Executive Officer

**EXHIBIT 31.2**

**Certification of Chief Financial Officer**
**Pursuant to Rule 13a-14(a) and Rule 15d-14(a)**

I, Adam Orvos, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Neiman Marcus Group LTD LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 6, 2018

/s/ ADAM ORVOS
Adam Orvos
Executive Vice President, Chief Financial Officer and
Chief Operating Officer

EXHIBIT 32.1

**Certification of Chief Executive Officer and Chief Financial Officer**
**Pursuant to 18 U.S.C. Section 1350**

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, Geoffroy van Raemdonck, as Chief Executive Officer of Neiman Marcus Group LTD LLC (the Company), and Adam Orvos, as Chief Financial Officer of the Company, each hereby certifies, that, to such officer's knowledge:

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended October 27, 2018 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 6, 2018

/s/ GEOFFROY VAN RAEMDONCK
Geoffroy van Raemdonck
Chief Executive Officer

Dated: December 6, 2018

/s/ ADAM ORVOS
Adam Orvos
Executive Vice President, Chief Financial Officer and Chief Operating Officer