ENTERRA ENERGY TRUST
Form 6-K
January 18, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
under the Securities Exchange Act of 1934

For the month of January 2006

Commission File Number: 0-32115

Enterra Energy Trust

(Translation of registrant's name into English)

2600, 500-4th Avenue S.W.

Calgary, Alberta T2P 2V6

Canada
(Address of principal executive offices)
Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F __X__ Form 40-F _____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _

Yes _____ No __X__

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _

Yes _____ No __X__

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes _____ No__X__

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

The Issuer is filing material documents not previously filed.

TABLE OF CONTENTS

The following documents are filed as part of this Form 6-K:

SIGNATURES

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, thereunto duly authorized.

Date: January 18, 2006

Enterra Energy Trust

By: /s/ John Kalmn

Name:

John Kalman

Title

Chief Financial Officer

EXHIBIT INDEX

Exhibit	Description
99.1	News Release Dated January 18, 2006

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61,653

A reconciliation of income tax expense to the amount calculated based on the federal and state statutory rates are as follows:

(in thousands)		July 31, 2004	Years Ended August 2, 2003			August 3, 2002
Income tax expense at statutory rate	$	115,260	$	72,044	$	56,785
State income taxes, net of federal income tax benefit		12,925		7,354		4,122
Tax benefit related to favorable state tax settlements		(7,500)				
Other		247		(150)		746
Total	$	120,932	$	79,248	$	61,653

F-22

The Company s effective income tax rate was 36.7 percent in 2004, 38.5 percent in 2003 and 38.0 percent in 2002. In the second quarter of 2004, the Company recognized a net income tax benefit of $7.5 million related to favorable settlements associated with previous state tax filings. Excluding this benefit, the effective tax rate was 39.0 percent for 2004.

Significant components of the Company s net deferred income tax asset are as follows:

(in thousands)		**July 31, 2004**		**August 2, 2003**
Deferred income tax assets:				
Accruals and reserves	$	27,618	$	29,096
Employee benefits		42,891		41,079
Other		2,629		1,845
Total deferred tax assets	$	73,138	$	72,020
Deferred income tax liabilities:				
Inventory	$	(10,951)	$	(6,602)
Depreciation and amortization		(49,133)		(36,803)
Pension accrual		(17,517)		
Other		(6,840)		(3,714)
Total deferred tax liabilities		(84,441)		(47,119)
Net deferred income tax (liability) asset	$	(11,303)	$	24,901
Net deferred income tax (liability) asset:				
Current	$	9,078	$	17,586
Non-current		(20,381)		7,315
Total	$	(11,303)	$	24,901

The net deferred tax liability of $11.3 million at July 31, 2004 increased $36.2 million from a net deferred tax asset of $24.9 million at August 2, 2003. This increase was comprised of the deferred tax provision of $23.3 million charged to earnings in 2004 as well as amounts charged directly to other comprehensive loss in the statement of shareholders equity, primarily related to the increase in the funded position of the Pension Plan in 2004 (as more fully described in Note 8). The Company believes it is more likely than not that it will realize the benefits of its recorded deferred tax assets.

NOTE 8. Employee Benefit Plans

Description of Benefit Plans. The Company sponsors a defined benefit pension plan (Pension Plan) covering substantially all full-time employees. The Company also sponsors an unfunded supplemental executive retirement plan (SERP Plan) which provides certain employees additional pension benefits. Benefits under both plans are based on the employees years of service and compensation over defined periods of employment.

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. The cost of these benefits is accrued during the years in which an employee provides services. The Company paid postretirement health care benefit claims of $1.8 million during 2004, $2.3 million during 2003 and $1.7 million during 2002.

The Company has a qualified defined contribution 401(k) plan, which covers substantially all employees. Employees make contributions to the plan and the Company matches 100 percent of the first 2 percent and 25 percent of the next 4 percent of an employee s contribution up to a maximum of 6 percent of the employee s compensation. The Company also sponsors an unfunded key employee deferred compensation plan, which provides certain employees additional benefits, a profit sharing and a defined contribution retirement plan for employees of Kate Spade LLC and a qualified defined contribution 401(k) plan for employees of Gurwitch Products, LLC. The Company s aggregate contributions to these plans were approximately $9.5 million for 2004, $9.3 million for 2003 and $8.9 million for 2002.

Costs of Benefits. The components of the expenses incurred by the Company under its Pension Plan, SERP Plan and Postretirement Plan are as follows:

(in thousands)		July 31, 2004		Years Ended August 2, 2003		August 3, 2002
Pension Plan:						
Service cost	$	10,827	$	9,110	$	8,422
Interest cost		16,484		15,196		13,571
Expected return on plan assets		(16,527)		(14,591)		(14,389)
Net amortization of losses and prior service costs		3,192		407		283
Pension Plan expense	$	13,976	$	10,122	$	7,887
SERP Plan:						
Service cost	$	1,345	$	1,159	$	961
Interest cost		3,849		3,700		3,199
Net amortization of losses and prior service costs		1,444		1,181		200
SERP Plan expense	$	6,638	$	6,040	$	4,360
Postretirement Plan:						
Service cost	$	81	$	92	$	86
Interest cost		1,570		1,614		1,214
Net amortization of losses		450		322		
Postretirement expense	$	2,101	$	2,028	$	1,300

Benefit Obligations. The Company s obligations for the Pension Plan, SERP Plan and Postretirement Plan are valued annually as of the beginning of each fiscal year. With respect to the Pension Plan and the SERP Plan, the Company s obligations consist of both a projected benefit obligation (PBO) and an accumulated benefit obligation (ABO). The PBO represents the actuarial present value of benefits ultimately payable to plan participants for both past and future services expected to be provided by the plan participants to the Company. The ABO represents the actuarial present value of benefits payable to plan participants for only services rendered at the valuation date. The Company s obligations pursuant to its Pension Plan, SERP Plan and Postretirement Plan are as follows:

(in thousands)		Pension Plan 2004		2003		SERP Plan 2004		2003		Postretirement Plan 2004		2003
Projected benefit obligations:												
Beginning of year	$	244,997	$	197,599	$	57,638	$	46,480	$	24,907	$	22,924
Service cost		10,827		9,110		1,345		1,159		81		92
Interest cost		16,484		15,196		3,849		3,700		1,570		1,614
Actuarial loss (gain)		16,829		29,446		4,713		7,665		(4,378)		2,035
Benefits paid, net		(7,714)		(6,354)		(1,681)		(1,366)		(1,186)		(1,758)
End of year	$	281,423	$	244,997	$	65,864	$	57,638	$	20,994	$	24,907
Accumulated benefit obligations:												
Beginning of year	$	207,834	$	175,903	$	49,082	$	38,689				
End of year	$	240,082	$	207,834	$	56,209	$	49,082				

A summary of expected benefit payments related to the Company s Pension Plan, SERP Plan and Postretirement Plan is as follows:

(in thousands)	Pension Plan	SERP Plan	Postretirement Plan
Fiscal year 2005	$8,800	$2,412	$1,484
Fiscal year 2006	9,454	2,553	1,535
Fiscal year 2007	10,192	2,733	1,567
Fiscal year 2008	11,039	2,760	1,593
Fiscal year 2009	12,009	3,293	1,614
Fiscal years 2010-2014	$78,041	$22,337	$8,042

***Actuarial Assumptions*.** Significant assumptions related to the calculation of the Company s obligations pursuant to its employee benefit plans include the discount rate used to calculate the actuarial present value of benefit obligations to be paid in the future, the expected long-term rate of return on assets held by the Pension Plan, the average rate of compensation increase by Pension Plan and SERP Plan participants and the health care cost trend rate for the Postretirement Plan. These actuarial assumptions are reviewed annually based upon currently available information. The assumptions utilized by the Company in calculating the projected benefit obligations and periodic expense of its Pension Plan, SERP Plan and Postretirement Plan are as follows:

		Years Ended	
	July 31, 2004	August 1, 2003	August 1, 2002
Pension Plan:			
Discount rate	6.25%	6.50%	7.25%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%
Rate of future compensation increase	4.50%	4.50%	5.00%
SERP Plan:			
Discount rate	6.25%	6.50%	7.25%
Rate of future compensation increase	4.50%	4.50%	5.00%
Postretirement Plan:			
Discount rate	6.25%	6.50%	7.25%
Initial health care cost trend rate	10.00%	11.00%	12.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%

Discount rate. The assumed discount rate utilized is based, in part, upon the Moody s Aa corporate bond yield as of the measurement date. The discount rate is utilized principally in calculating the actuarial present value of the Company s obligations and periodic expense pursuant to its employee benefit plans. At July 31, 2004, the discount rate was 6.25 percent. To the extent the discount rate increases or decreases, the Company s Pension Plan obligation is decreased or increased accordingly.

The estimated effect of a 0.25 percent decrease in the discount rate would increase the Pension Plan obligation by $10.1 million and increase annual Pension Plan expense by $1.1 million. The estimated effect of a 0.25 percent decrease in the discount rate would increase the SERP Plan obligation by $2.2 million and increase the SERP Plan annual expense by $0.2 million. The estimated effect of a 0.25 percent decrease in the discount rate would increase the Postretirement Plan obligation by $0.6 million and increase the Postretirement Plan annual expense by an immaterial amount.

Expected long-term rate of return on plan assets. The assumed expected long-term rate of return on assets is the weighted average rate of earnings expected on the funds invested or to be invested to provide for the pension obligation. During 2004, the Company utilized 8.0 percent as the expected long-term rate of return on plan assets. The Company periodically evaluates the allocation between investment categories of the assets held by the Pension Plan. The expected average long-term rate of return on assets is based principally on the counsel of the Company s outside actuaries and advisors. This rate is utilized primarily in calculating the expected return on plan assets component of the annual pension expense. To the extent the actual rate of return on assets realized over the course of a year is greater than the assumed rate, that year s annual pension expense is not affected. Rather this gain reduces future pension expense over a period of approximately 12 to 18 years. To the extent the actual rate of return on assets is less than the assumed rate, that year s annual pension expense is likewise not affected. Rather this loss increases pension expense over approximately 12 to 18 years.

Rate of future compensation increase. The assumed average rate of compensation increase is the average annual compensation increase expected over the remaining employment periods for the participating employees. The Company utilized a rate of 4.5 percent for the periods beginning July 31, 2004. This rate is utilized principally in calculating the obligation and annual expense for the Pension and SERP Plans. The estimated effect of a 0.25 percent increase in the assumed rate of compensation increase would increase the projected benefit obligation for the Pension Plan by $1.8 million and increase annual pension expense by $0.4 million. The estimated effect of a 0.25 percent increase in the assumed rate of compensation increase would increase the SERP Plan projected benefit obligation by $0.8 million and increase the SERP Plan annual expense by $0.2 million.

Health care cost trend rate. The assumed health care cost trend rate represents the Company s estimate of the annual rates of change in the costs of the health care benefits currently provided by the Postretirement Plan. The health care cost trend rate implicitly considers estimates of health care inflation, changes in health care utilization and delivery patterns, technological advances and changes in the health status of the plan participants. The Company utilized a health care cost trend rate of 10% as of July 31, 2004, trending down over time to an ultimate health care cost trend rate of 5%. If the assumed health care cost trend rate were increased one percentage point, Postretirement Plan costs for 2004 would have been $0.2 million higher and the accumulated postretirement benefit obligation as of July 31, 2004 would have been $1.8 million higher. If the assumed health care trend rate were decreased one percentage point, Postretirement Plan costs for 2004 would have been $0.1 million lower and the accumulated postretirement benefit obligation as of July 31, 2004 would have been $1.5 million lower.

Funding Policy and Plan Assets. The Company s policy is to fund the Pension Plan at or above the minimum required by law. In 2004, the Company made voluntary contributions of $30.0 million in the second quarter for the plan year ended July 31, 2003 and $15.0 million in the fourth quarter for the plan year ended July 31, 2004. In addition, the Company made contributions of $5.8 million in 2003 for the plan year ended July 31, 2003. In the third quarter of 2003, the Company made a required contribution of $11.5 million and a voluntary contribution of $13.5 million to the Pension Plan for the plan year ended July 31, 2002. Based upon currently available information, the Company will not be required to make contributions to the Pension Plan for the plan year ended July 31, 2004.

NOTE 8. Employee Benefit Plans

Assets held by the Pension Plan are invested in accordance with the provisions of an investment policy approved by the Company. The asset allocation for the Company s Pension Plan at the end of 2004 and the target allocation for 2005, by asset category, are as follows:

	Pension Plan Percentage of Plan Assets at 2004	2005 Target Allocation
Equity Securities	53%	80%
Fixed Income Securities	38%	20%
Cash and Equivalents	8%	
Other	1%	
Total	100%	100%

For 2005, the Company revised its investment policy. The Pension Plan s strategic asset allocation was structured to reduce volatility through diversification and enhance return to approximate the amounts and timing of the expected benefit payments.

Changes in the assets held by the Pension Plan in 2004 and 2003 are as follows:

(in thousands)	**2004**	**2003**
Fair value of assets at beginning of year	$ 183,044	$ 145,945
Actual return on assets	22,767	12,693
Company contributions	45,000	30,760
Benefits paid	(7,714)	(6,354)
Fair value of assets at end of year	$ 243,097	$ 183,044

Funded Status. The funded status of the Company s Pension Plan, SERP Plan and Postretirement Plan is as follows:

	Pension Plan		**SERP Plan**		**Postretirement Plan**	
(in thousands)	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Projected benefit obligation	$ 281,423	$ 244,997	$ 65,864	$ 57,638	$ 20,994	$ 24,907
Fair value of plan assets	243,097	183,044				
Excess of projected benefit obligation over fair value of plan assets	(38,326)	(61,953)	(65,864)	(57,638)	(20,994)	(24,907)
Unrecognized net actuarial loss (gain)	83,599	75,921	17,316	13,285	2,859	7,643
Unrecognized prior service (income) cost	(190)	(223)	3,172	3,934	206	250
Unrecognized net obligation at transition	471	785				
Net prepaid (accrued) benefit obligation in the	$ 45,554	$ 14,530	$ (45,376)	$ (40,419)	$ (17,929)	$ (17,014)

consolidated balance sheets								
Accumulated benefit obligation	$	240,082	$	207,834	$	56,209	$	49,082
Fair value of plan assets		243,097		183,044				
Excess (deficiency) of assets over obligation	$	3,015	$	(24,790)	$	(56,209)	$	(49,082)

F-27

The Company s Pension Plan and SERP Plan obligations and funded status of such plans are recognized in the Company s consolidated balance sheets as follows:

(in thousands)	Pension Plan 2004	Pension Plan 2003	SERP Plan 2004	SERP Plan 2003
Prepaid asset (accrued obligation)	$ 45,554	$ (24,790)	$ (56,209)	$ (49,082)
Intangible asset		562	3,172	3,934
Other comprehensive loss additional minimum liability		38,758	7,661	4,729
Net prepaid (accrued) benefit obligation in the consolidated balance sheet	$ 45,554	$ 14,530	$ (45,376)	$ (40,419)

In 2003, the Company was required to record additional minimum liabilities of $39.3 million related to the Pension Plan and $8.7 million related to the SERP Plan. In recording the additional minimum liabilities, the Company reduced shareholders equity by $43.5 million ($26.7 million, net of tax).

In 2004, the fair value of the assets held by the Pension Plan exceeded the accumulated benefit obligation. As a result, the previously recorded additional minimum liability was reversed and shareholders equity increased by $38.8 million ($23.8 million, net of tax). The additional minimum liability for the SERP Plan increased by $2.2 million and reduced shareholders equity by $1.8 million, net of tax.

The projected benefit obligation of the Pension Plan exceeded the plan s assets by $38.3 million in 2004 and by $62.0 million in 2003. The underfunded status is reflected in the Company s consolidated balance sheet as follows:

	2004	2003
Prepaid pension contribution reflected in the consolidated balance sheet and not yet charged to expense	$ 45,554	$ 14,530
Liability charged to shareholders equity and not yet recognized in expense		(38,758)
Liability reflected in other assets and not yet charged to expense		(562)
Unrecognized liability not yet recognized in expense	(83,880)	(37,163)
Underfunded status	$ (38,326)	$ (61,953)

The unrecognized liability of $83.9 million for the Pension Plan at July 31, 2004 relates primarily to the delayed recognition of differences between the Company s actuarial assumptions and actual results. In addition, the Company had cumulative unrecognized liabilities for the SERP Plan and Postretirement Plan aggregating $23.6 million at July 31, 2004.

NOTE 9. Effect of Change in Vacation Policy

During the third quarter of 2002, the Company terminated its prior vacation plan and the Board of Directors of the Company approved a new policy related to vacation pay for its employees. The new policy was communicated to employees during the third quarter of 2002. Pursuant to the new policy, which was effective as of April 28, 2002, eligible employees earn vacation pay ratably over the course of the year in which the services are rendered.

Pursuant to the previous plan, eligible employees received an annual vacation grant at the beginning of each service year. Such grants were made in anticipation of future service; however, eligible employees were allowed to take vacation time to the extent of the vacation grant as of the grant date. Further, in the event of termination, an employee was entitled to receive cash compensation to the extent of the untaken balance of the annual grant. As a result, the Company recorded vacation expense ratably over the twelve months prior to each annual grant such that the liability for the annual grant was fully recorded as of the grant date.

With the termination of the prior vacation plan, the previously recorded vacation liability of $16.6 million, which amount represented the vacation time that would have been granted to employees on April 28, 2002 pursuant to the previous plan, was eliminated and credited to operating earnings in the third quarter of 2002.

NOTE 10. Impairment and Other Charges

In the fourth quarter of 2004, the Company recorded a $3.9 million pretax impairment charge related to the writedown to fair value of the net carrying value of the Chef s Catalog tradename intangible asset.

In the fourth quarter of 2002, the Company recorded a $3.1 million pretax impairment charge. The charge related to the write-down of the net carrying values of the fixed assets of three Kate Spade LLC stores to estimated fair value.

In the third quarter of 2002, the Company recorded an $8.2 million pretax charge. The charge related to 1) the write-off of the remaining net carrying value of its cost method investment in WeddingChannel.com, Inc. in light of its continued operating losses, 2) the write-down of the carrying values of the fixed assets of two Neiman Marcus Galleries stores to estimated fair value and 3) the accrual of the estimated loss associated with the abandonment of excess warehouse space held by the Company pursuant to a long-term operating lease.

In the second quarter of 2002, the Company incurred expenses of approximately $2.0 million in connection with cost reduction strategies. These expenses consisted primarily of severance costs and lease termination expenses incurred in connection with the closing of the Neiman Marcus Galleries store in Seattle, Washington.

NOTE 11. Commitments and Contingencies

The Company leases certain property and equipment under various non-cancelable capital and operating leases. The leases provide for monthly fixed rentals and/or contingent rentals based upon sales in excess of stated amounts and normally require the Company to pay real estate taxes, insurance, common area maintenance costs and other occupancy costs. Generally, the leases have primary terms ranging from 1 to 99 years and include renewal options ranging from 5 to 80 years.

Rent expense under operating leases are as follows:

		Years Ended	
(in thousands)	**July 31, 2004**	**August 2, 2003**	**August 3, 2002**
Minimum rent	$ 42,800	$ 41,200	$ 37,400
Contingent rent	20,300	16,500	17,000
Amortization of deferred real estate credits	(5,200)	(3,900)	(1,000)
Total rent expense	$ 57,900	$ 53,800	$ 53,400

F-29

Future minimum rental commitments, excluding renewal options, under capital leases and non-cancelable operating leases are as follows: fiscal year 2005 $47.3 million; fiscal year 2006 $45.2 million; fiscal year 2007 $40.3 million; fiscal year 2008 $38.6 million; fiscal year 2009 $36.5 million; all years thereafter $567.0 million.

Common area maintenance costs were $11.9 million for 2004, $12.5 million for 2003 and $10.0 million for 2002.

Litigation. The Company is involved in various suits and claims in the ordinary course of business. Management does not believe that the disposition of any such suits and claims will have a material adverse effect upon the consolidated results of operations, cash flows or the financial position of the Company.

Other. The Company had approximately $15.0 million of outstanding irrevocable letters of credit relating to purchase commitments and insurance and other liabilities at July 31, 2004. The Company had approximately $2.8 million in surety bonds at July 31, 2004 relating primarily to merchandise imports, state sales tax and utility requirements.

NOTE 12. Earnings Per Share

The weighted average shares used in computing basic and diluted earnings per share (EPS) are presented in the table below. No adjustments were made to net earnings for the computations of basic and diluted EPS during the periods presented.

		Years Ended	
(in thousands of shares)	**July 31, 2004**	**August 2, 2003**	**August 3, 2002**
Weighted average shares outstanding	48,349	47,750	47,726
Less shares of non-vested restricted stock	(352)	(288)	(282)
Shares for computation of basic EPS	47,997	47,462	47,444
Effect of dilutive stock options and restricted stock	876	333	391
Shares for computation of diluted EPS	48,873	47,795	47,835
Shares represented by antidilutive stock options	8	1,469	1,223

Antidilutive stock options were not included in the computation of diluted EPS because the exercise price of those options was greater than the average market price of the common shares.

NOTE 13. Accumulated Other Comprehensive Income (Loss)

The following table shows the components of accumulated other comprehensive income (loss):

(in thousands)		July 31, 2004		August 2, 2003		August 3, 2002
Unrealized (loss) gain on financial instruments:						
Foreign currency contracts	$	(546)	$	387	$	502
IO Strip				357		414
Minimum pension liability adjustments		(4,673)		(26,744)		
Other		683		427		(10)
Total accumulated other comprehensive (loss) income	$	(4,536)	$	(25,573)	$	906

NOTE 14. Segment Reporting

The Company has identified two reportable segments: Specialty Retail Stores and Direct Marketing. The Specialty Retail Stores segment includes all Neiman Marcus and Bergdorf Goodman retail stores, including Neiman Marcus clearance stores. The Direct Marketing segment conducts both print catalog and online operations under the Neiman Marcus, Horchow and Chef s Catalog brand names. Other includes the operations of Kate Spade LLC and Gurwitch Products, LLC.

Both the Specialty Retail Stores and Direct Marketing segments, as well as Kate Spade LLC and Gurwitch Products, LLC, derive their revenues from the sales of high-end fashion apparel, accessories, cosmetics and fragrances from leading designers, precious and fashion jewelry and decorative home accessories.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Company s senior management evaluates the performance of the Company s assets on a consolidated basis. Interest expense is not allocated by segment.

The following tables set forth the information for the Company s reportable segments:

	Years Ended		
(in thousands)	**July 31, 2004**	**August 2, 2003**	**August 3, 2002**
REVENUES			
Specialty Retail Stores	$ 2,850,088	$ 2,507,045	$ 2,416,833
Direct Marketing	570,626	493,473	444,019
Other	104,057	79,835	71,118
Total	$ 3,524,771	$ 3,080,353	$ 2,931,970
OPERATING EARNINGS			
Specialty Retail Stores	$ 310,579	$ 198,201	$ 170,465
Direct Marketing	61,307	45,754	22,835
Other	12,989	9,011	4,848
Subtotal	384,875	252,966	198,148
Corporate expenses	(35,786)	(30,856)	(23,841)
Effect of change in vacation policy			16,576
Impairment and other charges	(3,853)		(13,233)
Total	$ 345,236	$ 222,110	$ 177,650
CAPITAL EXPENDITURES			
Specialty Retail Stores	$ 101,101	$ 120,867	$ 160,268
Direct Marketing	13,319	6,761	10,118
Other	6,053	1,940	1,513
Total	$ 120,473	$ 129,568	$ 171,899
DEPRECIATION EXPENSE			
Specialty Retail Stores	$ 88,265	$ 72,055	$ 67,126
Direct Marketing	8,058	8,692	8,321
Other	2,719	2,131	2,320
Total	$ 99,042	$ 82,878	$ 77,767

NOTE 15. Quarterly Financial Information (Unaudited)

(in millions, except for per share data)	Year Ended July 31, 2004 First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	$ 818.8	$ 1,048.4	$ 873.2	$ 784.5	$ 3,524.8
Gross profit	$ 308.4	$ 329.4	$ 328.5	$ 231.2	$ 1,197.5
Net earnings	$ 56.2	$ 59.2(1)	$ 68.8	$ 20.6(2)	$ 204.8
Earnings per share:					
Basic	$ 1.18	$ 1.23	$ 1.43	$ 0.43	$ 4.27
Diluted	$ 1.16	$ 1.21	$ 1.40	$ 0.42	$ 4.19

(in millions, except for per share data)	Year Ended August 2, 2003 First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	$ 727.8	$ 934.8	$ 718.6	$ 699.1	$ 3,080.4
Gross profit	272.5	279.4	253.4	196.6	1,001.9
Earnings before change in accounting principle	43.3	32.5	41.1	7.2	124.1
Change in accounting principle	(14.8)				(14.8)
Net earnings	$ 28.5	$ 32.5	$ 41.1	$ 7.2	$ 109.3
Basic earnings per share:					
Earnings before change in accounting principle	$ 0.91	$ 0.68	$ 0.87	$ 0.15	$ 2.61
Change in accounting principle	(0.31)				(0.31)
Basic earnings per share	$ 0.60	$ 0.68	$ 0.87	$ 0.15	$ 2.30
Diluted earnings per share:					
Earnings before change in accounting principle	$ 0.90	$ 0.68	$ 0.87	$ 0.15	$ 2.60
Change in accounting principle	(0.31)				(0.31)
Diluted earnings per share	$ 0.59	$ 0.68	$ 0.87	$ 0.15	$ 2.29

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(1) Net earnings for the second quarter of 2004 reflect a $7.5 million net income tax benefit related to favorable settlements associated with previous state tax filings.

(2) Net earnings for the fourth quarter of 2004 include a $3.9 million pretax impairment charge related to the writedown to fair value in the net carrying value of the Chef s Catalog tradename intangible asset.

NOTE 16. Restatements

Subsequent to the issuance of the 2004 financial statements, the Company corrected errors in its previously issued financial statements related to 1) the classification of construction allowances in its balance sheets and statements of cash flows and 2) the classification of changes in the Retained Interests held by the Company in connection with the Credit Card Facility in its statements of cash flows. Previously reported operating earnings, net income, earnings per share and shareholders equity were not impacted by these corrections.

Construction Allowances. On February 7, 2005, the Chief Accountant of the Securities and Exchange Commission (SEC) released a letter regarding various lease accounting issues and the application of generally accepted accounting principles to such issues. Following the issuance of the letter by the SEC, the Company reviewed its accounting policies related to construction allowances and determined that its classification of construction allowances in its balance sheets and statements of cash flows was not in accordance with generally accepted accounting principles.

The Company periodically receives allowances from developers related to the construction of its stores. Historically, the Company recorded these allowances as a reduction of capital expenditures and, as result, the carrying values of property and equipment. After its review related to the accounting for construction allowances, the Company has corrected the classification of these construction allowances from a reduction of property and equipment to deferred real estate credits on its balance sheets. These deferred real estate credits are amortized over the lease term which is consistent with the amortization period for the constructed assets.

In addition, capital expenditures, as presented in the statements of cash flows, were previously presented net of the construction allowances received. The Company has corrected the error in the classification of the cash receipts of construction allowances to cash flows from operating activities and, as a result, restated the statements of cash flows.

Retained Interests. Pursuant to the terms of the Credit Card Facility, as more fully described in Note 2, the Company s Retained Interests fluctuate monthly based on the underlying balance of the Company s credit card receivables. The Company has previously reflected the changes in its Retained Interests in the determination of cash flows from investing activities. The Company has determined that such presentation is not in accordance with generally accepted accounting principles and has corrected such error by restating its statements of cash flows to include the changes in its Retained Interests in the determination of cash flows from operating activities.

The following table summarizes the impact of these restatements on the Company s previously issued financial statements:

	As Originally Reported	Restatements Construction Allowances	Restatements Changes in Retained Interests	As Restated
Fiscal Year 2004				
Consolidated Balance Sheet:				
Property and equipment, net	$ 693,772	$ 56,711	$	$ 750,483
Other assets, net	145,812	15,187		160,999
Total assets	2,545,750	71,898		2,617,648
Deferred real estate credits		71,898		71,898
Total long-term liabilities	437,212	71,898		509,110
Consolidated Statement of Cash Flows:				
Net cash (used for) provided by operating activities	$ (192,336)	$ 2,343	$ 242,565	$ 52,572
Net cash provided by (used for) investing activities	127,618	(2,343)	(242,565)	(117,290)
Fiscal Year 2003				
Consolidated Balance Sheet:				
Property and equipment, net	$ 674,185	$ 59,608	$	$ 733,793
Other assets, net	114,124	10,734		124,858
Total assets	2,034,430	70,342		2,104,772
Deferred real estate credits		70,342		70,342
Total long-term liabilities	357,967	70,342		428,309
Consolidated Statement of Cash Flows:				
Net cash (used for) provided by operating activities	$ 169,041	$ 29,574	$ (33,963)	$ 164,652
Net cash provided by (used for) investing activities	(133,957)	$ (29,574)	33,963	(129,568)
Fiscal Year 2002				
Consolidated Statement of Cash Flows:				
Net cash provided by (used for) operating activities	$ 212,394	$ 22,653	$ 12,115	$ 247,162
Net cash used for investing activities	(137,131)	(22,653)	(12,115)	(171,899)

F-34

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE NEIMAN MARCUS GROUP, INC.

By: /s/ Nelson A. Bangs
Nelson A. Bangs
Senior Vice President and General Counsel

Dated: May 27, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the following capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Burton M. Tansky Burton M. Tansky	President and Chief Executive Officer, Director	May 27, 2005
/s/ James E. Skinner James E. Skinner	Senior Vice President and Chief Financial Officer (principal financial officer)	May 27, 2005
/s/ T. Dale Stapleton T. Dale Stapleton	Vice President and Controller (principal accounting officer)	May 27, 2005
/s/ Richard A. Smith Richard A. Smith	Chairman of the Board	May 27, 2005
/s/ Robert A. Smith Robert A. Smith	Vice Chairman	May 27, 2005
/s/ Brian J. Knez Brian J. Knez	Vice Chairman	May 27, 2005
/s/ John R. Cook John R. Cook	Director	May 27, 2005
/s/ Gary L. Countryman Gary L. Countryman	Director	May 27, 2005
/s/ Matina S. Horner Matina S. Horner	Director	May 27, 2005
/s/ Vincent M. O Reilly	Director	May 27, 2005

Vincent M. O Reilly

/s/ Walter J. Salmon Walter J. Salmon	Director	May 27, 2005
/s/ Carl Sewell Carl Sewell	Director	May 27, 2005
/s/ Dr. Paula Stern Dr. Paula Stern	Director	May 27, 2005

37

SCHEDULE II

The Neiman Marcus Group, Inc.

Valuation and Qualifying Accounts and Reserves

(in thousands)

Three years ended July 31, 2004

Column A	**Column B**	**Column C Additions**		**Column D**	**Column E**
Description	**Balance at Beginning of Period**	**Charged to Costs and Expenses**	**Charged to Other Accounts**	**Deductions**	**Balance at End of Period**
Year ended July 31, 2004					
Allowance for doubtful accounts (deducted from accounts receivable)	$ 424	$ 7,639	$ 11,820(A)	$ (9,805)(B)	$ 10,078
Reserve for estimated sales returns	$ 26,674	$ 388,357	$	$ (383,544)(C)	$ 31,487
Year ended August 2, 2003					
Allowance for doubtful accounts (deducted from accounts receivable)	$ 398	$ 33	$	$ (7)(B)	$ 424
Reserve for estimated sales returns	$ 24,162	$ 327,580	$	$ (325,068)(C)	$ 26,674
Year ended August 3, 2002					
Allowance for doubtful accounts (deducted from accounts receivable)	$ 355	$ 43	$	$	$ 398
Reserve for estimated sales returns	$ 21,501	$ 296,470	$	$ (293,809)(C)	$ 24,162

(A) Reserve established in connection with the transition from Off-Balance Sheet Accounting to Financing Accounting for the Company s borrowings under its revolving credit card securitization program.

(B) Write-off of uncollectible accounts net of recoveries and other miscellaneous deductions.

(C) Gross margin on actual sales returns, net of commissions.