NORDSTROM INC
Form 10-Q
September 08, 2010
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended July 31, 2010**

**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 number 001-15059**

# NORDSTROM, INC.

(Exact name of Registrant as specified in its charter)

| **Washington** | **91-0515058** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| **1617 Sixth Avenue, Seattle, Washington** | **98101** |
| (Address of principal executive offices) | (Zip Code) |

**206-628-2111**

(Registrant s telephone number, including area code)

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 þ NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

YES þ NO ¨

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

| | |
|---|---|
| Large accelerated filer þ | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO þ

Common stock outstanding as of September 3, 2010: 219,177,667 shares of common stock

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# NORDSTROM, INC.

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## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements (Unaudited).

### NORDSTROM, INC.

### CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions except per share amounts)

(Unaudited)

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 31, 2010** | **August 1, 2009** | **July 31, 2010** | **August 1, 2009** |
| Net sales | **$ 2,417** | $ 2,145 | **$ 4,407** | $ 3,851 |
| Credit card revenues | **98** | 87 | **195** | 173 |
| Total revenues | **2,515** | 2,232 | **4,602** | 4,024 |
| Cost of sales and related buying and occupancy costs | **(1,565)** | (1,418) | **(2,808)** | (2,525) |
| Selling, general and administrative expenses: | | | | |
| Retail | **(613)** | (531) | **(1,146)** | (978) |
| Credit | **(65)** | (77) | **(157)** | (169) |
| Earnings before interest and income taxes | **272** | 206 | **491** | 352 |
| Interest expense, net | **(32)** | (36) | **(63)** | (67) |
| Earnings before income taxes | **240** | 170 | **428** | 285 |
| Income tax expense | **(94)** | (65) | **(166)** | (99) |
| **Net earnings** | **$ 146** | $ 105 | **$ 262** | $ 186 |
| Earnings per basic share | **$ 0.67** | $ 0.49 | **$ 1.20** | $ 0.86 |
| Earnings per diluted share | **$ 0.66** | $ 0.48 | **$ 1.18** | $ 0.86 |
| Basic shares | **219.2** | 216.5 | **218.8** | 216.2 |
| Diluted shares | **222.8** | 218.8 | **222.6** | 217.9 |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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## NORDSTROM, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions)

(Unaudited)

| | July 31, 2010 | January 30, 2010 | August 1, 2009 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | **$ 1,137** | $ 795 | $ 519 |
| Accounts receivable, net | **2,153** | 2,035 | 2,102 |
| Merchandise inventories | **1,055** | 898 | 929 |
| Current deferred tax assets, net | **245** | 238 | 234 |
| Prepaid expenses and other | **75** | 88 | 67 |
| Total current assets | **4,665** | 4,054 | 3,851 |
| Land, buildings and equipment (net of accumulated depreciation of $3,465, $3,316 and $3,242) | **2,279** | 2,242 | 2,241 |
| Goodwill | **53** | 53 | 53 |
| Other assets | **299** | 230 | 195 |
| **Total assets** | **$ 7,296** | $ 6,579 | $ 6,340 |
| **Liabilities and Shareholders Equity** | | | |
| Current liabilities: | | | |
| Accounts payable | **$ 1,050** | $ 726 | $ 884 |
| Accrued salaries, wages and related benefits | **273** | 336 | 232 |
| Other current liabilities | **617** | 596 | 541 |
| Current portion of long-term debt | **6** | 356 | 375 |
| Total current liabilities | **1,946** | 2,014 | 2,032 |
| Long-term debt, net | **2,794** | 2,257 | 2,260 |
| Deferred property incentives, net | **486** | 469 | 465 |
| Other liabilities | **260** | 267 | 226 |
| Commitments and contingencies | | | |
| Shareholders equity: | | | |
| Common stock, no par value: 1,000 shares authorized; 219.1, 217.7 and 216.4 shares issued and outstanding | **1,120** | 1,066 | 1,026 |
| Retained earnings | **709** | 525 | 340 |
| Accumulated other comprehensive loss | **(19)** | (19) | (9) |
| Total shareholders equity | **1,810** | 1,572 | 1,357 |
| **Total liabilities and shareholders equity** | **$ 7,296** | $ 6,579 | $ 6,340 |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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## NORDSTROM, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Amounts in millions except per share amounts)

(Unaudited)

| | Common Stock | | Retained | Accumulated Other Comprehensive | |
|---|---|---|---|---|---|
| | Shares | Amount | Earnings | Loss | Total |
| **Balance at January 30, 2010** | 217.7 | $ 1,066 | $ 525 | $ (19) | $ 1,572 |
| Net earnings | | | 262 | | 262 |
| Other comprehensive earnings, net of tax | | | | | |
| Comprehensive net earnings | | | | | 262 |
| Dividends ($0.36 per share) | | | (78) | | (78) |
| Issuance of common stock for: | | | | | |
| Stock option plans | 1.2 | 29 | | | 29 |
| Employee stock purchase plan | 0.2 | 7 | | | 7 |
| Stock-based compensation | | 18 | | | 18 |
| **Balance at July 31, 2010** | **219.1** | **$ 1,120** | **$ 709** | **$ (19)** | **$ 1,810** |

| | Common Stock | | Retained | Accumulated Other Comprehensive | |
|---|---|---|---|---|---|
| | Shares | Amount | Earnings | Earnings (Loss) | Total |
| **Balance at January 31, 2009** | 215.4 | $ 997 | $ 223 | $ (10) | $ 1,210 |
| Net earnings | | | 186 | | 186 |
| Other comprehensive earnings, net of tax | | | | 1 | 1 |
| Comprehensive net earnings | | | | | 187 |
| Dividends ($0.32 per share) | | | (69) | | (69) |
| Issuance of common stock for: | | | | | |
| Stock option plans | 0.5 | 7 | | | 7 |
| Employee stock purchase plan | 0.5 | 7 | | | 7 |
| Stock-based compensation | | 15 | | | 15 |
| **Balance at August 1, 2009** | 216.4 | $ 1,026 | $ 340 | $ (9) | $ 1,357 |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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## NORDSTROM, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

| | Six Months Ended | |
|---|---|---|
| | **July 31, 2010** | **August 1, 2009** |
| **Operating Activities** | | |
| Net earnings | **$ 262** | $ 186 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization of buildings and equipment, net | **162** | 155 |
| Amortization of deferred property incentives and other, net | **(27)** | (21) |
| Deferred income taxes, net | **(34)** | (32) |
| Stock-based compensation expense | **20** | 17 |
| Tax benefit from stock-based compensation | **9** | 1 |
| Excess tax benefit from stock-based compensation | **(9)** | (2) |
| Provision for bad debt expense | **97** | 119 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | **(128)** | (143) |
| Merchandise inventories | **(148)** | (38) |
| Prepaid expenses and other assets | **14** | (13) |
| Accounts payable | **276** | 324 |
| Accrued salaries, wages and related benefits | **(63)** | 18 |
| Other current liabilities | **15** | 39 |
| Deferred property incentives | **50** | 62 |
| Other liabilities | **(7)** | 25 |
| Net cash provided by operating activities | **489** | 697 |
| **Investing Activities** | | |
| Capital expenditures | **(192)** | (196) |
| Change in credit card receivables originated at third parties | **(88)** | (133) |
| Net cash used in investing activities | **(280)** | (329) |
| **Financing Activities** | | |
| Repayments of commercial paper borrowings, net | | (275) |
| Proceeds from long-term borrowings, net of discounts | **498** | 399 |
| Principal payments on long-term borrowings | **(353)** | (3) |
| Increase in cash book overdrafts | **31** | 15 |
| Cash dividends paid | **(78)** | (69) |
| Proceeds from exercise of stock options | **20** | 6 |
| Proceeds from employee stock purchase plan | **7** | 7 |
| Excess tax benefit from stock-based compensation | **9** | 2 |
| Other, net | **(1)** | (3) |
| Net cash provided by financing activities | **133** | 79 |

| | | |
|---|---|---|
| Net increase in cash and cash equivalents | **342** | 447 |
| Cash and cash equivalents at beginning of period | **795** | 72 |
| **Cash and cash equivalents at end of period** | **$ 1,137** | $ 519 |

| **Supplemental Cash Flow Information** | | |
|---|---|---|
| Cash paid during the period for: | | |
| Interest (net of capitalized interest) | **$ 56** | $ 61 |
| Income taxes | **$ 222** | $ 95 |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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# NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share and per option amounts)

(Unaudited)

### NOTE 1: BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the financial statements of Nordstrom, Inc. and its subsidiaries. All intercompany transactions and balances are eliminated in consolidation. The interim condensed consolidated financial statements have been prepared on a basis consistent in all material respects with the accounting policies described and applied in our 2009 Annual Report on Form 10-K, and reflect all adjustments that are, in management s opinion, necessary for the fair presentation of the results of operations, financial position and cash flows for the periods presented.

The condensed consolidated financial statements as of and for the periods ended July 31, 2010 and August 1, 2009 are unaudited. The condensed consolidated balance sheet as of January 30, 2010 has been derived from the audited consolidated financial statements included in our 2009 Annual Report on Form 10-K. The interim condensed consolidated financial statements should be read together with the consolidated financial statements and related footnote disclosures contained in our 2009 Annual Report on Form 10-K.

The preparation of our financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

Our business, like that of other retailers, is subject to seasonal fluctuations. Due to our Anniversary Sale in July, the holidays in December and the half-yearly sales that occur in the second and fourth quarters, our sales are historically higher in the second and fourth quarters of the fiscal year than in the first and third quarters. Accordingly, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

**Recent Accounting Pronouncements**

In July 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires additional disclosures about the credit quality of financing receivables, including credit card receivables, and the allowance for doubtful accounts. The provisions of this ASU, which are effective beginning with our annual report for the year ending January 29, 2011, will not impact our consolidated financial position or statement of operations, as its requirements are disclosure-only in nature.

### NOTE 2: ACCOUNTS RECEIVABLE

The following table illustrates the activity in our allowance for doubtful accounts for the six months ended July 31, 2010 and August 1, 2009:

| | Six Months Ended | |
|---|---|---|
| | **July 31, 2010** | **August 1, 2009** |
| Allowance at beginning of period | **$ 190** | $ 138 |
| Bad debt provision | **97** | 119 |
| Net write-offs | **(112)** | (93) |
| Allowance at end of period | **$ 175** | $ 164 |

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## NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share and per option amounts)

(Unaudited)

### NOTE 3: DEBT AND CREDIT FACILITIES

**Debt**

A summary of our long-term debt is as follows:

| | July 31, 2010 | January 30, 2010 | August 1, 2009 |
|---|---|---|---|
| **Secured** | | | |
| Series 2007-1 Class A Notes, 4.92%, retired April 2010 | **$** | $ 326 | $ 326 |
| Series 2007-1 Class B Notes, 5.02%, retired April 2010 | | 24 | 24 |
| Series 2007-2 Class A Notes, one-month LIBOR plus 0.06% per year, due April 2012 | **454** | 454 | 454 |
| Series 2007-2 Class B Notes, one-month LIBOR plus 0.18% per year, due April 2012 | **46** | 46 | 46 |
| Mortgage payable, 7.68%, due April 2020 | **58** | 60 | 61 |
| Other | **14** | 15 | 16 |
| | **572** | 925 | 927 |
| **Unsecured** | | | |
| Senior notes, 6.75%, due June 2014, net of unamortized discount | **399** | 399 | 399 |
| Senior notes, 6.25%, due January 2018, net of unamortized discount | **647** | 647 | 647 |
| Senior notes, 4.75%, due May 2020, net of unamortized discount | **498** | | |
| Senior debentures, 6.95%, due March 2028 | **300** | 300 | 300 |
| Senior notes, 7.00%, due January 2038, net of unamortized discount | **343** | 343 | 343 |
| Other | **41** | (1) | 19 |
| | **2,228** | 1,688 | 1,708 |
| Total long-term debt | **2,800** | 2,613 | 2,635 |
| Less: current portion | **(6)** | (356) | (375) |
| **Total due beyond one year** | **$ 2,794** | $ 2,257 | $ 2,260 |

On April 15, 2010, we retired our $350 Series 2007-1 Class A & B Notes. On April 23, 2010, we issued $500 of senior unsecured notes at 4.75%, due May 2020. After deducting the original issue discount of $2, net proceeds from the offering were $498. We intend to use the net proceeds from the issuance of the Notes for general corporate purposes.

As of July 31, 2010, the estimated fair value of long-term debt, including current maturities, based on quoted market prices of the same or similar issues, was $3,082. The estimated fair value of associated interest rate swap agreements was a $41 asset as of July 31, 2010. The interest rate swap fair value is included in other assets on the condensed consolidated balance sheet, with an offsetting adjustment to the carrying value of our long-term debt (included in other unsecured debt in the table above).

**Credit Facilities**

As of July 31, 2010, we had total short-term borrowing capacity available for general corporate purposes of $950. Of the total capacity, we had $650 under our commercial paper program, which is backed by our unsecured revolving credit facility ( revolver ) that expires in August 2012 and $300 under our Variable Funding Note facility ( 2007-A VFN ) that expires in January 2011. As of July 31, 2010, we had no outstanding issuances under our commercial paper program and no outstanding borrowings under our revolver or our 2007-A VFN.

The revolver includes certain customary financial covenants. As of July 31, 2010, we were in compliance with these covenants.

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## NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share and per option amounts)

(Unaudited)

### NOTE 4: CONTINGENT LIABILITIES

We are subject from time to time to various claims and lawsuits arising in the ordinary course of business, including lawsuits alleging violations of state and/or federal wage and hour laws. Some of these suits purport or have been determined to be class actions and/or seek substantial damages. While we cannot predict the outcome of these matters with certainty, we do not believe any such claim, proceeding or litigation, either alone or in aggregate, will have a material impact on our results of operations, financial position or cash flows.

### NOTE 5: STOCK COMPENSATION PLANS

On May 18, 2010, our shareholders approved the adoption of the Nordstrom, Inc. 2010 Equity Incentive Plan ( 2010 Plan ), which replaced the 2004 Equity Incentive Plan ( 2004 Plan ). The 2010 Plan authorizes the grant of stock options, performance share units, restricted stock units, stock appreciation rights and both restricted and unrestricted shares of common stock to employees. The aggregate number of shares to be issued under the 2010 Plan may not exceed 11.6 plus any shares currently underlying awards outstanding under the 2004 Plan, which are forfeited or which expire during the term of the 2010 Plan. No future grants will be made under the 2004 Plan.

During the six months ended July 31, 2010 and August 1, 2009 we granted 2.6 and 4.9 options with weighted average grant-date fair values per option of $13 and $7.

### NOTE 6: EARNINGS PER SHARE

The computation of earnings per share is as follows:

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 31, 2010** | **August 1, 2009** | **July 31, 2010** | **August 1, 2009** |
| Net earnings | **$ 146** | $ 105 | **$ 262** | $ 186 |
| Basic shares | **219.2** | 216.5 | **218.8** | 216.2 |
| Dilutive effect of stock options and performance share units | **3.6** | 2.3 | **3.8** | 1.7 |
| Diluted shares | **222.8** | 218.8 | **222.6** | 217.9 |
| Earnings per basic share | **$ 0.67** | $ 0.49 | **$ 1.20** | $ 0.86 |
| Earnings per diluted share | **$ 0.66** | $ 0.48 | **$ 1.18** | $ 0.86 |
| Anti-dilutive stock options and other | **7.1** | 6.6 | **6.9** | 11.7 |

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## NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share and per option amounts)

(Unaudited)

### NOTE 7: SEGMENT REPORTING

Through January 30, 2010, our reportable segments consisted of **Retail Stores**, **Direct** and **Credit**. Our **Retail Stores** segment included our Nordstrom full-line stores and our Nordstrom Rack off-price stores. Our **Direct** segment consisted of our online store, nordstrom.com.

Effective with the first quarter of 2010, we now view our Nordstrom full-line stores and our Nordstrom online store as a single, multi-channel operating segment. Through our multi-channel initiatives, we have substantially integrated the operations, merchandising and technology of our Nordstrom full-line and online stores, consistent with our customers expectations of a seamless shopping experience regardless of channel. As a result, we have also realigned our internal reporting to our chief operating decision maker to be consistent with these multi-channel initiatives. We aggregate our Nordstrom multi-channel and Nordstrom Rack operating segments into a single reportable segment, which we refer to as **Retail**, based on their similar economic characteristics.

Through our **Credit** segment, we offer our customers a variety of payment products and services, including a Nordstrom private label card, two Nordstrom VISA credit cards and a debit card for Nordstrom purchases. Our card products also include a loyalty program that provides benefits to our cardholders based on their level of spending.

Amounts in the **Corporate/Other** column include unallocated corporate expenses and assets, inter-segment eliminations and other adjustments to segment results necessary for the presentation of consolidated financial results in accordance with generally accepted accounting principles.

The segment information for the quarter and six months ended August 1, 2009 presented below has been adjusted to reflect our 2010 reportable segments.

| **Quarter Ended July 31, 2010** | **Retail** | **Credit** | **Corporate/Other** | **Total** |
|---|---|---|---|---|
| Net sales | $ 2,499 | | $ (82) | $ 2,417 |
| Credit card revenues | | $ 98 | | 98 |
| Earnings (loss) before interest and income taxes | 350 | 15 | (93) | 272 |
| Interest expense, net | | (5) | (27) | (32) |
| Earnings (loss) before income taxes | 350 | 10 | (120) | 240 |

| **Quarter Ended August 1, 2009** | **Retail** | **Credit** | **Corporate/Other** | **Total** |
|---|---|---|---|---|
| Net sales | $ 2,219 | | $ (74) | $ 2,145 |
| Credit card revenues | | $ 87 | | 87 |
| Earnings (loss) before interest and income taxes | 307 | (3) | (98) | 206 |
| Interest expense, net | | (10) | (26) | (36) |
| Earnings (loss) before income taxes | 307 | (13) | (124) | 170 |

| **Six Months Ended July 31, 2010** | **Retail** | **Credit** | **Corporate/Other** | **Total** |
|---|---|---|---|---|
| Net sales | $ 4,514 | | $ (107) | $ 4,407 |
| Credit card revenues | | $ 195 | | 195 |
| Earnings (loss) before interest and income taxes | 653 | 4 | (166) | 491 |
| Interest expense, net | | (12) | (51) | (63) |
| Earnings (loss) before income taxes | 653 | (8) | (217) | 428 |

| | | | | |
|---|---|---|---|---|
| Total assets | 3,111 | 2,157 | 2,028 | 7,296 |

| **Six Months Ended August 1, 2009** | **Retail** | **Credit** | **Corporate/Other** | **Total** |
|---|---|---|---|---|
| Net sales | $ 3,951 | | $ (100) | $ 3,851 |
| Credit card revenues | | $ 173 | | 173 |
| Earnings (loss) before interest and income taxes | 538 | (21) | (165) | 352 |
| Interest expense, net | | (20) | (47) | (67) |
| Earnings (loss) before income taxes | 538 | (41) | (212) | 285 |
| Total assets | 2,954 | 2,120 | 1,266 | 6,340 |

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## NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share and per option amounts)

(Unaudited)

**NOTE 7: SEGMENT REPORTING (CONTINUED)**

Within our reportable segments we also monitor sales by channel, as we believe sales are an important measure of our performance. Net sales by channel were as follows:

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 31, 2010** | **August 1, 2009** | **July 31, 2010** | **August 1, 2009** |
| Net sales by channel: | | | | |
| Full-line stores | **$ 1,927** | $ 1,749 | **$ 3,400** | $ 3,045 |
| Direct | **172** | 128 | **316** | 232 |
| Multi-channel | **2,099** | 1,877 | **3,716** | 3,277 |
| Rack and other | **400** | 342 | **798** | 674 |
| Total Retail segment sales | **2,499** | 2,219 | **4,514** | 3,951 |
| Corporate/Other | **(82)** | (74) | **(107)** | (100) |
| Total net sales | **$ 2,417** | $ 2,145 | **$ 4,407** | $ 3,851 |

Online orders fulfilled from our full-line stores are included in Direct sales. Items purchased online and picked up in our full-line stores are included in full-line sales. Prior to February 2010, merchandise purchased from our online store that was later returned to our full-line stores was reported as a deduction from full-line sales. Beginning in February 2010, we now deduct these returns from Direct sales instead of from full-line sales in order to better align sales and sales returns within each channel. For purposes of comparison, 2009 net sales results for both full-line and Direct channels have been revised to reflect this realignment of returns. This realignment of sales returns between channels has no effect on total Retail segment sales.

**NOTE 8: SUBSEQUENT EVENT**

In August 2010, our Board of Directors authorized a program to repurchase up to $500 of our outstanding common stock, through January 28, 2012. We intend to fund the repurchase program using existing cash on-hand. The actual number and timing of future share repurchases, if any, will be subject to market conditions and applicable Securities and Exchange Commission rules.

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## Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

(Amounts in millions except per share and per square foot amounts)

The following discussion should be read in conjunction with the Management s Discussion and Analysis section of our 2009 Annual Report on Form 10-K.

**CAUTIONARY STATEMENT**

Certain statements in this Quarterly Report on Form 10-Q contain forward-looking information (as defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties, including, but not limited to, anticipated financial results (including, but not limited to, our anticipated same-store sales results, credit card revenues, gross profit rate, selling, general and administrative expenses, net interest expense, effective tax rate and earnings per share), anticipated store openings, capital expenditures and dividend yield, and trends in our operations. Such statements are based upon current beliefs and expectations of management and are subject to significant risks and uncertainties. Actual future results may differ materially from historical results or current expectations depending upon factors including but not limited to:

- the impact of deteriorating economic and market conditions and the resultant impact on consumer spending patterns,
- our ability to respond to the business environment and fashion trends,
- our ability to safeguard our brand and reputation,
- effective inventory management,
- efficient and proper allocation of our capital resources,
- successful execution of our store growth strategy including the timely completion of construction associated with newly planned stores, relocations and remodels, all of which may be impacted by the financial health of third parties,
- our compliance with applicable banking and related laws and regulations impacting our ability to extend credit to our customers,
- trends in personal bankruptcies and bad debt write-offs,
- availability and cost of credit,
- impact of the current regulatory environment and financial system reforms,
- changes in interest rates,

disruptions in our supply chain,

our ability to maintain our relationships with vendors and developers who may be experiencing economic difficulties,

the geographic locations of our stores,

our ability to maintain relationships with our employees and to effectively train and develop our future leaders,

our compliance with information security and privacy laws and regulations, employment laws and regulations and other laws and regulations applicable to us,

successful execution of our information technology strategy,

successful execution of our multi-channel strategy,

risks related to fluctuations in world currencies,

public health concerns and the resulting impact on consumer spending patterns, supply chain, and employee health,

weather conditions and hazards of nature that affect consumer traffic and consumers purchasing patterns,

the effectiveness of planned advertising, marketing and promotional campaigns,

our ability to control costs, and

the timing and amounts of share repurchases, if any, by us.

These and other factors including those factors described in Part I, Item 1A. Risk Factors in our 2009 Annual Report on Form 10-K for the fiscal year ended January 30, 2010 and in Part II, Item 1A. Risk Factors on page 26 of this report, could affect our financial results and cause actual results to differ materially from any forward-looking information we may provide. We undertake no obligation to update or revise any forward-looking statements to reflect subsequent events, new information or future circumstances.

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## Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. (Continued)

(Amounts in millions except per share and per square foot amounts)

**OVERVIEW**

We started to experience positive momentum in our business in the second half of 2009. This momentum continued during the second quarter and first half of 2010. This progress is the result of our ongoing efforts in the areas of multi-channel execution, merchandising, new store opportunities and, most importantly, improving the customer experience.

During the second quarter, we hold three of our five annual sales events, consisting of the Half-Yearly Sale for Women and Kids, the Half-Yearly Sale for Men and the Anniversary Sale. During the Anniversary Sale, held in July, we offer a quality mix of merchandise with strong brand names at attractive prices, typically making July our second highest sales month of the year. Multi-channel same-store sales during the Anniversary Sale increased 9.0% this year, benefiting from a shared inventory platform for both our full-line and Direct channels that allowed us to better fulfill customer demand. Our multi-channel inventory capabilities allow us to better serve our customers by offering greater access to our inventory. We are continuing to invest in these capabilities as part of our commitment to improving the customer experience.

We strive to offer our customers compelling, fashionable merchandise in addition to a seamless, multi-channel shopping experience. Our merchandising efforts have also contributed to our recent performance, including sales growth and gross margin expansion. By managing our inventories effectively and flowing more new merchandise into our stores, we have been able to improve regular priced sales, increase inventory turnover and reduce markdowns.

Our strong financial position enables us to continue to invest in our business, through store growth and remodels, technology, merchandising systems and other opportunities. During the first half of 2010, we opened two full-line stores, relocated one full-line store and opened seven Nordstrom Rack stores, including our first store in Manhattan, New York. We have been encouraged by the results from our new store openings thus far this year. Also as part of our 2010 plans, we are investing in areas such as online marketing, social media, a web site redesign and updated merchandise allocation and assortment systems. These long-term investments are focused on improving our customers experience as their shopping habits continue to evolve.

Overall credit trends in our card portfolio have improved throughout the first half of 2010, with delinquency and write-off rates returning to levels comparable with the first half of 2009. Our card portfolio in California, which accounts for a disproportionate share of our credit write-offs, has also improved, although not to the same extent as in other states. We continue to closely monitor these metrics.

Macroeconomic conditions remained challenging throughout the first half of this year. We do not expect significant changes in the foreseeable future. While our business is improving, we remain mindful of lingering economic uncertainty as we plan for the remainder of the year. We believe we are well positioned to take advantage of opportunities to continue to improve our execution and gain market share.

**RESULTS OF OPERATIONS**

Our reportable segments are Retail and Credit. Our Retail segment includes our Nordstrom multi-channel operations and our Rack and Jeffrey stores. For purposes of discussion and analysis of our results of operations, we combine our Retail segment results with revenues and expenses in the Corporate/Other column of our segment reporting footnote (collectively, the Retail Business ). We analyze our results of operations through earnings before interest and income taxes for our Retail Business and Credit while interest expense, income taxes, and net earnings are discussed on a total company basis.

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(Amounts in millions except per share and per square foot amounts)

**Retail Business**

**Summary**

The following tables summarize the results of our Retail Business for the quarter and six months ended July 31, 2010 compared with the quarter and six months ended August 1, 2009:

| | Quarter Ended | | | |
|---|---|---|---|---|
| | July 31, 2010 | | August 1, 2009 | |
| | Amount | % of net sales | Amount | % of net sales |
| Net sales | **$ 2,417** | **100.0%** | $ 2,145 | 100.0% |
| Cost of sales and related buying and occupancy costs | **(1,547)** | **(64.0%)** | (1,405) | (65.5%) |
| Gross profit | **870** | **36.0%** | 740 | 34.5% |
| Selling, general and administrative expenses | **(613)** | **(25.3%)** | (531) | (24.7%) |
| Earnings before interest and income taxes | **$ 257** | **10.7%** | $ 209 | 9.8% |

| | Six Months Ended | | | |
|---|---|---|---|---|
| | July 31, 2010 | | August 1, 2009 | |
| | Amount | % of net sales | Amount | % of net sales |
| Net sales | **$ 4,407** | **100.0%** | $ 3,851 | 100.0% |
| Cost of sales and related buying and occupancy costs | **(2,774)** | **(63.0%)** | (2,500) | (64.9%) |
| Gross profit | **1,633** | **37.0%** | 1,351 | 35.1% |
| Selling, general and administrative expenses | **(1,146)** | **(26.0%)** | (978) | (25.4%) |
| Earnings before interest and income taxes | **$ 487** | **11.1%** | $ 373 | 9.7% |

**Retail Business Net Sales**

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 31, 2010 | August 1, 2009 | July 31, 2010 | August 1, 2009 |
| Net sales by channel: | | | | |
| Full-line stores | **$ 1,927** | $ 1,749 | **$ 3,400** | $ 3,045 |
| Direct | **172** | 128 | **316** | 232 |
| Multi-channel | **2,099** | 1,877 | **3,716** | 3,277 |
| Rack and other | **400** | 342 | **798** | 674 |
| Total Retail segment sales | **2,499** | 2,219 | **4,514** | 3,951 |
| Corporate/Other | **(82)** | (74) | **(107)** | (100) |

| | | | | |
|---|---|---|---|---|
| Total net sales | **$ 2,417** | $ 2,145 | **$ 4,407** | $ 3,851 |
| Net sales increase (decrease) | **12.7%** | (6.2%) | **14.4%** | (7.6%) |
| Same-store sales increase (decrease) by channel: | | | | |
| Full-line stores | **8.2%** | (12.3%) | **9.7%** | (14.2%) |
| Direct | **34.0%** | 3.6% | **36.1%** | 2.0% |
| Multi-channel | **9.9%** | (11.0%) | **11.5%** | (12.7%) |
| Rack | **(0.9%)** | 0.8% | **0.5%** | 1.1% |
| Total company | **8.4%** | (9.8%) | **10.0%** | (11.3%) |
| Sales per square foot | **$ 104** | $ 96 | **$ 190** | $ 173 |

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## Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. (Continued)

(Amounts in millions except per share and per square foot amounts)

Net sales increased 12.7% for the quarter and 14.4% for the six months ended July 31, 2010 compared with the same periods in the prior year. During the six months ended July 31, 2010, we opened two full-line stores, relocated one full-line store and opened seven Rack stores.

Our multi-channel same-store sales increased 9.9% for the quarter and 11.5% for the six months ended July 31, 2010 compared with the same periods in 2009. The number of sales transactions increased for both the quarter and six months ended July 31, 2010 compared with the same periods last year, while the average selling price of our multi-channel merchandise decreased slightly. We continue to drive sales growth through our merchandising efforts, inventory management and multi-channel capabilities.

Multi-channel category highlights for both the quarter and six months ended July 31, 2010 included jewelry, dresses and women s shoes. The Midwest and South were the top-performing geographic regions for both the quarter and six months ended July 31, 2010. Although California showed improving sales trends in the first half of the year, the region ended below the full-line store average.

Rack same-store sales decreased 0.9% for the quarter and increased 0.5% for the six months ended July 31, 2010 compared with the same periods in 2009. The average selling price of Rack merchandise declined for the quarter ended July 31, 2010 compared with the same period last year, partially offset by increases in the number of sales transactions.

We expect 2010 total company same-store sales to increase approximately 4% to 6% over 2009.

**Retail Business Gross Profit**

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 31, 2010** | **August 1, 2009** | **July 31, 2010** | **August 1, 2009** |
| Gross profit[1] | $ 870 | $ 740 | **$ 1,633** | $ 1,351 |
| Gross profit rate[2] | 36.0% | 34.5% | **37.0%** | 35.1% |

[1] Gross profit is calculated as net sales less Retail Business cost of sales and related buying and occupancy costs.

[2] Gross profit rate is calculated as gross profit divided by net sales.

| | **July 31, 2010** | **August 1, 2009** |
|---|---|---|
| Ending inventory per square foot | **$ 45.18** | $ 41.58 |
| Inventory turnover rate[1] | **5.46** | 5.16 |

[1] Inventory turnover rate is calculated as the trailing 12 months cost of sales and related buying and occupancy costs (for all segments) divided by the trailing 4-quarter average inventory.

Retail gross profit increased $130 for the quarter and $282 for the six months ended July 31, 2010 compared with the same periods in 2009. Our retail gross profit rate improved 144 basis points for the quarter and 196 basis points for the six months ended July 31, 2010 compared with the same periods in 2009. Retail gross profit consists of merchandise margin less buying and occupancy costs. For both the quarter and six months ended July 31, 2010 the increase in our gross profit rate was primarily due to improvement in merchandise margin, reflecting reduced markdown rates. As we have continued to improve sell-through rates as a result of our merchandising and multi-channel initiatives, we have been able to increase regular priced selling along with our inventory turnover rate.

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Our ending inventory per square foot as of July 31, 2010 increased 8.7% over the second quarter of 2009 on an 8.3% increase in sales per square foot. As we approached the Anniversary Sale, we made changes to our inventory plans for the event to reflect higher sales projections. While our Anniversary Sale performance was strong, inventory levels at the end of the second quarter were slightly higher than expected. We have made adjustments to our inventory plans and expect to achieve continued improvement in inventory turnover during the second half of the year without adversely impacting our gross profit rate.

In 2010, we expect a 100 to 130 basis point improvement in our total company gross profit rate, which includes both our Retail gross profit and loyalty program costs within our Credit segment. We expect gross profit improvement to slow in the second half of the year when compared with 2009, when our sales and gross margin trends began to improve. The improvement will be partially offset by additional occupancy expense from the opening of three full-line stores and seventeen Rack stores in 2010.

**Retail Business Selling, General and Administrative Expenses**

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 31, 2010** | **August 1, 2009** | **July 31, 2010** | **August 1, 2009** |
| Selling, general and administrative expenses | **$ 613** | $ 531 | **$ 1,146** | $ 978 |
| Selling, general and administrative expense rate | **25.3%** | 24.7% | **26.0%** | 25.4% |

Our Retail selling, general and administrative expenses ( Retail SG&A ) increased $82 for the quarter and $168 for the six months ended July 31, 2010 compared with the same periods in 2009. The increase in expense dollars for both periods was primarily due to variable expenses resulting from the improvement in our sales performance, as well as expenses for the three full-line stores and fifteen Rack stores opened since the second quarter of 2009. The increase in our Retail SG&A rate of approximately 60 basis points for both the quarter and six months ended July 31, 2010 was driven by planned increases in organizational, marketing and technology expenses as we reinvest in the business and expand our capabilities in areas such as online marketing, social media and improved merchandise allocation and assortment. In addition, we incurred increased fulfillment costs as we shipped more items to our customers due to the shared inventory platform between our full-line and on-line stores, particularly during the Anniversary Sale. Our Retail SG&A rate for the six months ended July 31, 2010 additionally was due to the timing of performance-related expenses, reflective of the improvement in our sales and earnings performance relative to our plan, and better visibility into operating trends relative to the first half of 2009.

We anticipate our Retail SG&A expense will increase $215 to $260 for 2010. This increase reflects our expectations for higher variable expenses consistent with the planned increase in sales, and expenses related to new stores and organizational, marketing and technology improvements.

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### Credit

**Summary**

The table below illustrates a detailed view of the operational results of our Credit segment, consistent with the segment disclosure provided in the notes to the condensed consolidated financial statements. In order to view the total economic contribution of our credit card program, intercompany merchant fees are included in the table below. Intercompany merchant fees represent the estimated intercompany income of our credit business from the usage of our cards in the Retail segment. To encourage the use of Nordstrom cards in our stores, the Credit segment does not charge the Retail segment an intercompany interchange merchant fee. On a consolidated basis, we avoid costs that would be incurred if our customers used third-party cards.

Interest expense is assigned to the Credit segment in proportion to the amount of estimated capital needed to fund our credit card receivables, which assumes a mix of 80% debt and 20% equity. The average accounts receivable investment metric included in the following table represents our best estimate of the amount of capital for our credit card program that is financed by equity. As a means of assigning a comparable cost of capital for our credit card business, we believe it is important to maintain a capital structure similar to other financial institutions. Based on our research, debt as a percentage of credit card receivables for other credit card companies ranges from 70% to 90%. We believe that debt equal to 80% of our credit card receivables is appropriate given our overall capital structure goals.

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 31, 2010** | **August 1, 2009** | **July 31, 2010** | **August 1, 2009** |
| Finance charge revenue | **$ 66** | $ 63 | **$ 132** | $ 127 |
| Interchange third party | **19** | 19 | **37** | 35 |
| Late fees and other revenue | **13** | 5 | **26** | 11 |
| Total credit card revenues | **98** | 87 | **195** | 173 |
| Interest expense | **(5)** | (10) | **(12)** | (20) |
| Net credit card income | **93** | 77 | **183** | 153 |
| Cost of sales and related buying and occupancy costs loyalty program | **(18)** | (13) | **(34)** | (25) |
| Selling, general and administrative expenses | **(65)** | (77) | **(157)** | (169) |
| Total expense | **(83)** | (90) | **(191)** | (194) |
| **Credit segment earnings (loss) before income taxes, as presented in segment disclosure** | **10** | (13) | **(8)** | (41) |
| Intercompany merchant fees | **17** | 14 | **29** | 24 |
| **Credit segment contribution (loss) before income taxes** | **$ 27** | $ 1 | **$ 21** | $ (17) |
| Average accounts receivable investment (assuming 80% of accounts receivable is funded with debt) | **$ 432** | $ 419 | **$ 432** | $ 414 |
| Credit segment contribution (loss), net of tax, as a percentage of average accounts receivable investment[1] | **15.2%** | 0.8% | **5.8%** | (4.9%) |

[1] Based on annualized Credit segment contribution (loss), net of tax for the quarter and six months ended July 31, 2010 and August 1, 2009.

**Net Credit Card Income**

Credit card revenues increased to $98 and $195 for the quarter and six months ended July 31, 2010 from $87 and $173 for the quarter and six months ended August 1, 2009. The increases were primarily due to higher late fees and finance charges associated with increased delinquencies compared with the first half of 2009 (especially during the first quarter), growth in our accounts receivable balance and the increase in our annual percentage rate terms implemented during 2009.

We expect credit card revenues to increase $25 to $35 in 2010, due to moderate growth in our accounts receivable.

Interest expense decreased to $5 and $12 for the quarter and six months ended July 31, 2010 from $10 and $20 for the quarter and six months ended August 1, 2009, due to lower variable interest rates.

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**Credit Segment Cost of Sales and Related Buying and Occupancy Costs**

Cost of sales and related buying and occupancy costs, which includes the estimated cost of Nordstrom Notes that will be issued and redeemed under our Fashion Rewards program, increased to $18 and $34 for the quarter and six months ended July 31, 2010 from $13 and $25 for the quarter and six months ended August 1, 2009. The increases were due to additional expenses related to the Fashion Rewards program as a result of increased use of Nordstrom credit cards and increased utilization of program benefits. We provide these benefits to our customers as participation in the Fashion Rewards program generates enhanced customer loyalty and incremental sales in our stores.

**Credit Segment Selling, General and Administrative Expenses**

Selling, general and administrative expenses for our Credit segment ( Credit SG&A ) are made up of operational and marketing expenses and bad debt expense. These expenses are summarized in the following table:

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 31, 2010** | **August 1, 2009** | **July 31, 2010** | **August 1, 2009** |
| Operational and marketing expenses | **$ 31** | $ 25 | **$ 60** | $ 50 |
| Bad debt expense | **34** | 52 | **97** | 119 |
| Total credit selling, general and administrative expenses | **$ 65** | $ 77 | **$ 157** | $ 169 |

Total Credit SG&A expenses decreased $12 for both the quarter and six months ended July 31, 2010 compared with the quarter and six months ended August 1, 2009 due to lower bad debt expense. The decreases in bad debt expense reflect continued improvements in our credit trends.

The following table illustrates the activity in our allowance for doubtful accounts for the six months ended July 31, 2010 and August 1, 2009:

| | Six Months Ended | |
|---|---|---|
| | **July 31, 2010** | **August 1, 2009** |
| Allowance at beginning of period | **$ 190** | $ 138 |
| Bad debt provision | **97** | 119 |
| Net write-offs | **(112)** | (93) |
| Allowance at end of period | **$ 175** | $ 164 |
| Allowance as a percentage of ending trade accounts receivable | **7.8%** | 7.5% |
| Delinquent balances thirty days or more as a percentage of accounts receivable | **3.5%** | 3.6% |
| Bad debt provision as a percentage of average accounts receivable[1] | **6.2%** | 9.9% |
| Net write-offs as a percentage of average accounts receivable[2] | **9.0%** | 9.4% |

[1] Based upon annualized second quarter bad debt provision.
[2] Based upon annualized second quarter net write-offs.

During the first six months of 2010, our delinquency and write-off results have improved. As of July 31, 2010, our delinquency rate was 3.5%, down from 3.6% as of August 1, 2009 and 4.2% as of May 1, 2010. For the second quarter of 2010, net write-offs were $49, or 9.0% of average receivables on an annualized basis, down from $63, or 11.9% of average receivables in the first quarter of 2010, and $49, or 9.4% of average receivables in the second quarter of 2009. The decrease in write-offs for the second quarter reflects the recent improvement in delinquent accounts. As a result of these and expected continued improvements in our delinquency and write-off results, we reduced our allowance for doubtful accounts by $15 during the quarter ended July 31, 2010.

Net write-offs for the six months ended July 31, 2010, increased to $112 compared with $93 for the six months ended August 1, 2009. This increase reflects the write-off of delinquent accounts that originated during the second half of 2009.

We anticipate that 2010 selling, general and administrative expenses for our Credit segment will decrease by $40 to $50, primarily due to lower bad debt expense relative to 2009 as the unemployment rate stabilizes and our associated write-offs decline.

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**Recent Regulatory Changes**

In May 2009, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the Credit CARD Act ) was passed, resulting in new restrictions on credit card pricing, finance charges and fees, customer billing practices and payment application. These rules required us to make changes to our credit card business practices and systems. We have completed and implemented the necessary changes and new procedures to enable compliance with those rules that are currently effective, including the rules that had a mandatory effective date of August 22, 2010. There are additional Credit CARD Act rules that will be effective in February 2011, and we expect more regulation and interpretations of the new rules to emerge. Depending on the nature and extent of the full impact from these rules, and any interpretations or additional rules, the practices, revenues and profitability of our Credit segment could be adversely affected.

In addition, on July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted. This law significantly restructures regulatory oversight and other aspects of the financial industry. It creates a new federal agency to supervise and enforce consumer lending laws and regulations and expands state authority over consumer lending. Numerous regulations will be issued over the next 12 to 18 months to implement the requirements of this Act. The final regulatory details remain highly uncertain at this time. Depending on the nature and extent of these regulations and the enforcement approach of regulators under the new law, there could be a significantly adverse impact to our Credit segment.

**Total Company Results**

**Interest Expense, Net**

Interest expense, net decreased by $4 to $32 for the quarter ended July 31, 2010 compared with $36 for the same period in 2009. For the six months ended July 31, 2010, interest expense, net, decreased $4 to $63 from $67 for the same period last year. The decreases were driven by lower average interest rates partially offset by higher debt balances.

We anticipate our net interest expense to decrease $5 to $15 in 2010, due to lower interest rates relative to 2009.

**Income Tax Expense**

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 31, 2010** | **August 1, 2009** | **July 31, 2010** | **August 1, 2009** |
| Income tax expense | **$ 94** | $ 65 | **$ 166** | $ 99 |
| Effective tax rate | **39.1%** | 38.2% | **38.7%** | 34.7% |

The increase in our effective tax rate for the quarter ended July 31, 2010 compared with the same period in 2009 is mainly due to the impact of non-taxable investment income in the second quarter of 2009. The increase in the effective tax rate for the six months ended July 31, 2010 compared with the same period in 2009, was primarily due to the impact of a non-recurring benefit of approximately $12 in the first quarter of 2009 related to the closure of our 2007 federal tax return audit.

We expect our effective tax rate to be 38.7% in 2010.

**Net Earnings and Earnings per Diluted Share**

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 31, 2010** | **August 1, 2009** | **July 31, 2010** | **August 1, 2009** |
| Net earnings | **$ 146** | $ 105 | **$ 262** | $ 186 |

| | | | | |
|---|---|---|---|---|
| Earnings per diluted share | **$ 0.66** | $ 0.48 | **$ 1.18** | $ 0.86 |

Net earnings increased by $41 to $146 and earnings per diluted share increased by $0.18 to $0.66 for the quarter ended July 31, 2010, compared with the same period in 2009. Net earnings increased by $76 to $262 and earnings per diluted share increased by $0.32 to $1.18 for the six months ended July 31, 2010. These increases were primarily due to higher sales and higher gross profit rates, partially offset by higher variable and performance-related expenses associated with the improvement in our sales and earnings and planned expenses as we reinvest in the business.

For the 2010 fiscal year, we currently expect earnings per diluted share in the range of $2.50 to $2.65.

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**Return on Invested Capital (ROIC) (Non-GAAP financial measure)**

We define Return on Invested Capital (ROIC) as follows:

$$\text{ROIC} = \frac{\text{Net Operating Profit after Taxes (NOPAT)}}{\text{Average Invested Capital}}$$

We believe that ROIC is a useful financial measure for investors in evaluating our operating performance. When analyzed in conjunction with our net earnings and total assets and compared to return on assets, it provides investors with a useful tool to evaluate our ongoing operations and our management of assets from period to period. ROIC is one of our key financial metrics, and we also incorporate it into our executive incentive measures. We believe that overall performance as measured by ROIC correlates directly to shareholders return over the long term. For the 12 fiscal months ended July 31, 2010, our ROIC increased to 12.7% compared with 9.8% for the 12 fiscal months ended August 1, 2009. ROIC is not a measure of financial performance under GAAP, should not be considered a substitute for return on assets, net earnings or total assets as determined in accordance with GAAP, and may not be comparable with similarly titled measures reported by other companies. The closest measure calculated using GAAP amounts is return on assets, which increased to 7.7% from 5.5% for the 12 fiscal months ended July 31, 2010 compared with the 12 fiscal months ended August 1, 2009. The following is a comparison of return on assets to ROIC:

| | 12 Fiscal Months Ended | |
|---|---|---|
| | **July 31, 2010** | **August 1, 2009** |
| Net earnings | **$ 517** | $ 325 |
| Add: income tax expense | **321** | 177 |
| Add: interest expense, net | **134** | 133 |
| Earnings before interest and income taxes | **972** | 635 |
| Add: rent expense | **54** | 38 |
| Less: estimated depreciation on capitalized operating leases[1] | **(29)** | (20) |
| Net operating profit | **997** | 653 |
| Estimated income tax expense[2] | **(382)** | (230) |
| **Net operating profit after tax (NOPAT)** | **$ 615** | $ 423 |
| Average total assets[3] | **$ 6,689** | $ 5,920 |
| Less: average non-interest bearing current liabilities[4] | **(1,726)** | (1,454) |
| Less: average deferred property incentives[3] | **(475)** | (435) |
| Add: average estimated asset base of capitalized operating leases[5] | **352** | 300 |
| **Average invested capital** | **$ 4,840** | $ 4,331 |
| **Return on Assets** | **7.7%** | 5.5% |
| **ROIC** | **12.7%** | 9.8% |

[1] Capitalized operating leases is our best estimate of the asset base we would record for our operating leases as if we had classified them as capital or purchased the property. Asset base is calculated as described in footnote 5 below.
[2] Based upon our effective tax rate multiplied by the net operating profit for the 12 fiscal months ended July 31, 2010 and August 1, 2009.
[3] Based upon the trailing 12-month average.
[4] Based upon the trailing 12-month average for accounts payable, accrued salaries, wages and related benefits, and other current liabilities.
[5] Based upon the trailing 12-month average of the monthly asset base, which is calculated as the trailing 12 months rent expense multiplied by 8.

Our ROIC increased compared to the prior year primarily due to an increase in our earnings before interest and income taxes, offset by an increase in our average invested capital, attributable primarily to growth in cash and cash equivalents.

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**LIQUIDITY AND CAPITAL RESOURCES**

We maintain a level of liquidity sufficient to allow us to cover our seasonal cash needs and to maintain appropriate levels of short-term borrowings. We believe that our operating cash flows and available credit facilities are sufficient to finance our cash requirements for the next 12 months and beyond.

Over the long term, we manage our cash and capital structure to maximize shareholder return, maintain our solid financial position and allow flexibility for future strategic initiatives. We regularly assess our debt and leverage levels, capital expenditure requirements, debt service payments, dividend payouts, potential share repurchases and future investments or acquisitions. We believe our existing cash on-hand, operating cash flows, available credit facilities and potential future borrowings will be sufficient to fund these scheduled future payments and potential long-term initiatives.

For the six months ended July 31, 2010 cash and cash equivalents increased by $342 to $1,137, primarily due to cash provided by operations of $489, partially offset by capital expenditures of $192. Additionally, we received net proceeds from long-term borrowings of $498, repaid long-term borrowings totaling $353 and paid cash dividends of $78.

In August 2010, our Board of Directors authorized a program to repurchase up to $500 of our outstanding common stock, through January 28, 2012. We intend to fund the repurchase program using existing cash on-hand. The actual number and timing of share repurchases, if any, will be subject to market conditions and applicable Securities and Exchange Commission rules.

**Operating Activities**

Net cash provided by operating activities was $489 for the six months ended July 31, 2010 compared with $697 for the same period in 2009. The decrease was primarily due to the effects of working capital initiatives which increased cash generated from operating activities in 2009. In addition, payments for performance-related incentives and income taxes increased in 2010 as a result of improved operating performance in 2009.

**Investing Activities**

Net cash used in investing activities decreased to $280 for the six months ended July 31, 2010 from $329 for the six months ended August 1, 2009.

Capital expenditures decreased slightly due to the timing of expenditures incurred for store openings. We opened two full-line stores, relocated one full-line store and opened seven Rack stores in the first half of 2010, compared with opening two full-line stores, relocating one full-line store and opening five Rack stores for the same period last year. We also incurred capital expenditures for the opening of one full-line store and ten Rack stores, and relocation of one Rack store, which are scheduled to occur in the second half of 2010 compared with the one full-line store and eight Rack stores we opened in the second half of 2009.

Net cash outflows resulting from customers using their Nordstrom VISA credit cards for merchandise and services outside of Nordstrom stores decreased to $88 for the six months ended July 31, 2010 compared with $133 for the six months ended August 1, 2009. The decrease was a result of improved payment rates.

**Financing Activities**

Net cash provided by financing activities was $133 for the six months ended July 31, 2010 compared with $79 for the six months ended August 1, 2009.

During the first six months of 2010, we issued $500 of senior unsecured notes at 4.75% due May 2020. Net proceeds from the offering were $498. Additionally, we retired $350 of securitized notes in April 2010 using available cash, and paid dividends of $78. In May 2010, we increased our quarterly dividend from $0.16 per share to $0.20 per share.

During the first six months of 2009, our principal financing activities consisted of $399 in long-term borrowings, net, partially offset by repayments of outstanding issuances of commercial paper of $275 and dividends paid of $69.

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## Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. (Continued)

(Amounts in millions except per share and per square foot amounts)

**Free Cash Flow (Non-GAAP financial measure)**

We define Free Cash Flow as:

**Free Cash Flow = Net Cash Provided By Operating Activities Capital Expenditures Change in Credit Card Receivables Originated at Third Parties Cash Dividends Paid +/( ) Increase/(Decrease) in Cash Book Overdrafts**

Free cash flow is one of our key liquidity measures, and, in conjunction with GAAP measures, provides us with a meaningful analysis of our cash flows. We believe that our cash levels are more appropriately analyzed using this measure. Free cash flow is not a measure of liquidity under GAAP and should not be considered a substitute for operating cash flows as determined in accordance with GAAP. In addition, free cash flow does have limitations:

- Free cash flow does not necessarily represent funds available for discretionary use and is not necessarily a measure of our ability to fund our cash needs; and
- Other companies in our industry may calculate free cash flow differently than we do, limiting its usefulness as a comparative measure.

To compensate for these limitations, we analyze free cash flow in conjunction with other GAAP financial and performance measures impacting liquidity, including operating cash flows. The closest GAAP measure is net cash provided by operating activities, which was $489 and $697 for the six months ended July 31, 2010 and August 1, 2009. The following is a reconciliation of our net cash provided by operating activities and free cash flow:

| | Six Months Ended | |
|---|---|---|
| | **July 31, 2010** | **August 1, 2009** |
| Net cash provided by operating activities | **$ 489** | $ 697 |
| Less: Capital expenditures | **(192)** | (196) |
| Change in credit card receivables originated at third parties | **(88)** | (133) |
| Cash dividends paid | **(78)** | (69) |
| Add: Increase in cash book overdrafts | **31** | 15 |
| Free cash flow | **$ 162** | $ 314 |
| Net cash used in investing activities | **$ (280)** | $ (329) |
| Net cash provided by financing activities | **$ 133** | $ 79 |

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## Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. (Continued)

(Amounts in millions except per share and per square foot amounts)

**Credit Capacity and Commitments**

As of July 31, 2010 we had total short-term borrowing capacity available for general corporate purposes of $950. Of the total capacity, we had $650 under our commercial paper program, which is backed by our unsecured revolving credit facility ( revolver ) that expires in August 2012 and $300 under our Variable Funding Note facility ( 2007-A VFN ) that expires in January 2011. As of July 31, 2010, we had no outstanding issuances under our commercial paper program and no outstanding borrowings under our revolver or our 2007-A VFN.

**Impact of Credit Ratings**

Under the terms of our $650 revolver, any borrowings we may incur will accrue interest at a floating rate tied to either:

(i) LIBOR, or
(ii) the higher of:
  a. the federal funds rate plus 50 basis points or
  b. the prime rate.

The rate depends upon the type of borrowing incurred, plus in each case an applicable margin. This applicable margin varies depending upon the credit ratings assigned to our long-term unsecured debt. At the time of this report, our long-term unsecured debt ratings, outlook and resulting applicable margin were as follows:

| | Credit Ratings | Outlook |
|---|---|---|
| Moody s | Baa2 | Stable |
| Standard & Poor s | BBB+ | Positive |

| Base Interest Rate | Applicable Margin |
|---|---|
| LIBOR | 2.125% |
| All other | 1.125% |

Should the ratings assigned to our long-term unsecured debt improve, the applicable margin associated with our borrowings may decrease, resulting in a slightly lower cost of capital under this facility. Should the ratings assigned to our long-term unsecured debt worsen, the applicable margin associated with our borrowings may increase, resulting in a slightly higher cost of capital under this facility.

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## Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. (Continued)

(Amounts in millions except per share and per square foot amounts)

**Adjusted Debt to EBITDAR (Non-GAAP financial measure)**

We define Adjusted Debt to Earnings before Interest, Income Taxes, Depreciation, Amortization and Rent ( EBITDAR ) as follows:

$$\textbf{Adjusted Debt to EBITDAR} = \frac{\textbf{Adjusted Debt}}{\textbf{EBITDAR}}$$

Adjusted Debt to EBITDAR is one of our key financial metrics, and we believe that our debt levels are best analyzed using this measure. Our current goal is to manage debt levels to maintain an investment grade credit rating as well as operate with an efficient capital structure for our size, growth plans and industry. Investment grade credit ratings are important to maintaining access to a variety of short-term and long-term sources of funding, and we rely on these funding sources to continue to grow our business. We believe a higher ratio, among other factors, could result in rating agency downgrades. In contrast, we believe a lower ratio would result in a higher cost of capital and could negatively impact shareholder returns. As of July 31, 2010, our Adjusted Debt to EBITDAR was 2.4 compared with 3.0 as of August 1, 2009. The decrease was primarily the result of an increase in earnings before interest and income taxes for the 12 months ended July 31, 2010 compared with the 12 months ended August 1, 2009.

Adjusted Debt to EBITDAR is not a measure of financial performance under GAAP and should not be considered a substitute for debt to net earnings, net earnings or debt as determined in accordance with GAAP. In addition, Adjusted Debt to EBITDAR does have limitations:

- Adjusted Debt is not exact, but rather our best estimate of the total company debt we would hold if we had purchased the property and issued debt associated with our operating leases;
- EBITDAR does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments, including leases, or the cash requirements necessary to service interest or principal payments on our debt; and
- Other companies in our industry may calculate Adjusted Debt to EBITDAR differently than we do, limiting its usefulness as a comparative measure.

To compensate for these limitations, we analyze Adjusted Debt to EBITDAR in conjunction with other GAAP financial and performance measures impacting liquidity, including operating cash flows, capital spending and net earnings. The closest GAAP measure is debt to net earnings, which was 5.4 and 8.1 for the second quarter of 2010 and 2009. The following is a comparison of debt to net earnings and Adjusted Debt to EBITDAR:

| | **2010[1]** | **2009[1]** |
|---|---|---|
| Debt | **$ 2,800** | $ 2,635 |
| Add: rent expense x 8[2] | **428** | 304 |
| Less: fair value of interest rate swaps included in long-term debt | **(41)** | |
| **Adjusted Debt** | **$ 3,187** | $ 2,939 |
| Net earnings | **517** | 325 |
| Add: income tax expense | **321** | 177 |
| Add: interest expense, net | **134** | 133 |
| Earnings before interest and income taxes | **972** | 635 |
| Add: depreciation and amortization of buildings and equipment, net | **319** | 311 |

| | | | | |
|---|---|---|---|---|
| Add: rent expense | | **54** | | 38 |
| **EBITDAR** | **$** | **1,345** | $ | 984 |
| **Debt to Net Earnings** | | **5.4** | | 8.1 |
| **Adjusted Debt to EBITDAR** | | **2.4** | | 3.0 |

[1] The components of adjusted debt are as of July 31, 2010 and August 1, 2009, while the components of EBITDAR are for the 12 months ended July 31, 2010 and August 1, 2009.

[2] The multiple of eight times rent expense used to calculate adjusted debt is our best estimate of the debt we would record for our leases that are classified as operating if they had met the criteria for a capital lease, or we had purchased the property.

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## Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. (Continued)

(Amounts in millions except per share and per square foot amounts)

**Debt Covenants**

Our $650 revolver requires that we maintain a leverage ratio of not greater than four times Adjusted Debt to EBITDAR, and a fixed charge coverage ratio of at least two times.

The fixed charge coverage ratio is defined as:

$$\frac{\text{EBITDAR less gross capital expenditures}}{\text{Interest expense, net + rent expense}}$$

As of July 31, 2010 we were in compliance with these covenants. We will continue to monitor these covenants to ensure that we make any necessary adjustments to our plans and believe that we will remain in compliance with these covenants during 2010.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We discussed our interest rate risk and our foreign currency exchange risk in Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2009 Annual Report on Form 10-K filed with the Commission on March 22, 2010. There have been no material changes to these risks since that time.

## Item 4. Controls and Procedures.

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company performed an evaluation under the supervision and with the participation of management, including our President and Chief Financial Officer, of the design and effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities and Exchange Act of 1934 (the Exchange Act )). Based upon that evaluation, our President and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective in the timely and accurate recording, processing, summarizing and reporting of material financial and non-financial information within the time periods specified within the Commission s rules and forms. Our President and Chief Financial Officer also concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II - OTHER INFORMATION

### Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our 2009 Annual Report on Form 10-K. We are updating our risk factors as follows:

**Regulatory Environment and Financial System Reforms**

Recent economic developments, particularly in the financial markets, have resulted in increased legislative and regulatory actions. The Credit Card Accountability, Responsibility and Disclosure Act of 2009 (the Credit CARD Act ) included new rules and restrictions on credit card pricing, finance charges and fees, customer billing practices and payment application. These provisions are likely to affect our credit business practices and could have a negative impact on our revenues and profitability.

In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) was enacted July 21, 2010. This law significantly restructures regulatory oversight and other aspects of the financial industry, creates a new federal agency to supervise and enforce consumer lending laws and regulations, and expands state authority over consumer lending. Numerous regulations will be issued over the next 12 to 18 months to implement the requirements of this Act. The final regulatory details remain highly uncertain at this time. Depending on the nature and extent of these regulations and the enforcement approach of regulators under the new law, our credit business could be significantly adversely affected.

The Dodd-Frank Act will also affect a number of changes related to the use of credit ratings in securities offerings and may impact our financing activities in the event we are not able to obtain consent to the use of credit ratings in registered securities offerings.

### Item 6. Exhibits.

Exhibits are incorporated herein by reference or are filed or furnished with this report as set forth in the Index to Exhibits on page 28 hereof.

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## 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.

NORDSTROM, INC.
(Registrant)

/s/ Michael G. Koppel
Michael G. Koppel
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: September 8, 2010

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## NORDSTROM, INC.

## Index to Exhibits

| Exhibit | | Method of Filing |
|---|---|---|
| 10.1 | Revolving Credit Facility Agreement dated August 14, 2009, between Registrant and each of the initial lenders named therein as Lenders; Bank of America, N.A., as Agent; Wells Fargo Bank, N.A., as Syndication Agent; The Royal Bank of Scotland PLC and U.S. Bank National Association, as Co-Documentation Agents; and Banc of America Securities LLC and Wells Fargo Securities, LLC, as Joint Lead Arrangers and Co-Book Managers | Filed herewith electronically |
| 10.2 | Officers Certificate pursuant to Section 5(h) of the Underwriting Agreement, dated May 20, 2009, among Nordstrom, Inc. and several underwriters, in connection with the issuance and sale of $400M 6.75% Notes due 2014 | Filed herewith electronically |
| 10.3 | Officers Certificate pursuant to Section 1.2 of the Indenture, dated as of December 3, 2007, between Nordstrom, Inc. and Wells Fargo Bank, N.A., in connection with the issuance of $400M 6.75% Notes due 2014 | Filed herewith electronically |
| 31.1 | Certification of President required by Section 302(a) of the Sarbanes-Oxley Act of 2002 | Filed herewith electronically |
| 31.2 | Certification of Chief Financial Officer required by Section 302(a) of the Sarbanes-Oxley Act of 2002 | Filed herewith electronically |
| 32.1 | Certification of President and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith electronically |
| 101.INS | XBRL Instance Document | Furnished herewith electronically |
| 101.SCH | XBRL Taxonomy Extension Schema Document | Furnished herewith electronically |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | Furnished herewith electronically |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document | Furnished herewith electronically |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | Furnished herewith electronically |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | Furnished herewith electronically |