

NORDSTROM INC
Form 10-Q
September 02, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 2, 2014

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
(State or other jurisdiction of
incorporation or organization)

91-0515058
(I.R.S. Employer
Identification No.)

1617 Sixth Avenue, Seattle, Washington
(Address of principal executive offices)

98101
(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 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES 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 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

Common stock outstanding as of August 27, 2014: 192,611,151 shares

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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	
	August 2, 2014	August 3, 2013	August 2, 2014	August 3, 2013
Net sales	\$3,296	\$3,104	\$6,133	\$5,761
Credit card revenues	96	92	190	184
Total revenues	3,392	3,196	6,323	5,945
Cost of sales and related buying and occupancy costs	(2,130)	) (2,004)	) (3,951)	) (3,677)
Selling, general and administrative expenses	(931)	) (857)	) (1,776)	) (1,658)
Earnings before interest and income taxes	331	335	596	610
Interest expense, net	(35)	) (37)	) (70)	) (76)
Earnings before income taxes	296	298	526	534
Income tax expense	(113)	) (114)	) (203)	) (205)
Net earnings	\$183	\$184	\$323	\$329
Earnings per share:				
Basic	\$0.97	\$0.94	\$1.70	\$1.68
Diluted	\$0.95	\$0.93	\$1.68	\$1.66
Weighted-average shares outstanding:				
Basic	189.6	195.5	189.7	195.5
Diluted	192.7	198.8	192.7	198.9

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

NORDSTROM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(Amounts in millions)

(Unaudited)

	Quarter Ended		Six Months Ended	
	August 2, 2014	August 3, 2013	August 2, 2014	August 3, 2013
Net earnings	\$183	\$184	\$323	\$329
Postretirement plan adjustments, net of tax	1	1	2	3
Foreign currency translation adjustment	—	—	1	—
Comprehensive net earnings	\$184	\$185	\$326	\$332

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)

	August 2, 2014	February 1, 2014	August 3, 2013
Assets			
Current assets:			
Cash and cash equivalents	\$772	\$1,194	\$1,128
Accounts receivable, net	2,454	2,177	2,369
Merchandise inventories	1,805	1,531	1,464
Current deferred tax assets, net	260	239	244
Prepaid expenses and other	96	87	89
Total current assets	5,387	5,228	5,294
Land, buildings and equipment (net of accumulated depreciation of \$4,587, \$4,395 and \$4,270)	3,096	2,949	2,810
Goodwill	175	175	175
Other assets	248	222	269
Total assets	\$8,906	\$8,574	\$8,548
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$1,529	\$1,263	\$1,395
Accrued salaries, wages and related benefits	358	395	322
Other current liabilities	944	876	837
Current portion of long-term debt	7	7	407
Total current liabilities	2,838	2,541	2,961
Long-term debt, net	3,111	3,106	2,715
Deferred property incentives, net	498	498	490
Other liabilities	358	349	351
Commitments and contingencies			
Shareholders' equity:			
Common stock, no par value: 1,000 shares authorized; 188.6, 191.2 and 195.5 shares issued and outstanding	1,958	1,827	1,762
Retained earnings	179	292	313
Accumulated other comprehensive loss	(36)	(39)	(44)
Total shareholders' equity	2,101	2,080	2,031
Total liabilities and shareholders' equity	\$8,906	\$8,574	\$8,548

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 February 1, 2014	191.2	\$1,827	\$292	\$(39)	\$2,080
Net earnings	—	—	323	—	323
Other comprehensive earnings	—	—	—	3	3
Dividends (\$0.66 per share)	—	—	(125)	—	(125)
Issuance of common stock under stock compensation plans	2.3	101	—	—	101
Stock-based compensation	—	30	—	—	30
Repurchase of common stock	(4.9)	—	(311)	—	(311)
Balance at August 2, 2014	188.6	\$1,958	\$179	\$(36)	\$2,101

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Loss	Total
Balance at February 2, 2013	197.0	\$1,645	\$315	\$(47)	\$1,913
Net earnings	—	—	329	—	329
Other comprehensive earnings	—	—	—	3	3
Dividends (\$0.60 per share)	—	—	(117)	—	(117)
Issuance of common stock under stock compensation plans	2.3	84	—	—	84
Stock-based compensation	—	33	—	—	33
Repurchase of common stock	(3.8)	—	(214)	—	(214)
Balance at August 3, 2013	195.5	\$1,762	\$313	\$(44)	\$2,031

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	
	August 2, 2014	August 3, 2013
Operating Activities		
Net earnings	\$323	\$329
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization expenses	244	220
Amortization of deferred property incentives and other, net	(40)	(32)
Deferred income taxes, net	(43)	(35)
Stock-based compensation expense	31	34
Tax benefit from stock-based compensation	10	16
Excess tax benefit from stock-based compensation	(11)	(17)
Bad debt expense	22	30
Change in operating assets and liabilities:		
Accounts receivable	(221)	(199)
Merchandise inventories	(263)	(119)
Prepaid expenses and other assets	(11)	(9)
Accounts payable	241	328
Accrued salaries, wages and related benefits	(35)	(82)
Other current liabilities	68	30
Deferred property incentives	48	42
Other liabilities	6	11
Net cash provided by operating activities	369	547
Investing Activities		
Capital expenditures	(376)	(427)
Change in credit card receivables originated at third parties	(77)	(70)
Other, net	(9)	(7)
Net cash used in investing activities	(462)	(504)
Financing Activities		
Proceeds from long-term borrowings	13	—
Principal payments on long-term borrowings	(4)	(3)
Increase in cash book overdrafts	15	56
Cash dividends paid	(125)	(117)
Payments for repurchase of common stock	(326)	(219)
Proceeds from issuances under stock compensation plans	91	68
Excess tax benefit from stock-based compensation	11	17
Other, net	(4)	(2)
Net cash used in financing activities	(329)	(200)
Net decrease in cash and cash equivalents	(422)	(157)
Cash and cash equivalents at beginning of period	1,194	1,285
Cash and cash equivalents at end of period	\$772	\$1,128

Supplemental Cash Flow Information

Cash paid during the period for:

Interest (net of capitalized interest)	\$78	\$81
Income taxes (net of refunds)	219	235

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 balances 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 2013 Annual Report on Form 10-K ("Annual Report"), and reflect all adjustments of a normal recurring nature 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 August 2, 2014 and August 3, 2013 are unaudited. The condensed consolidated balance sheet as of February 1, 2014 has been derived from the audited consolidated financial statements included in our 2013 Annual Report. The interim condensed consolidated financial statements should be read together with the consolidated financial statements and related footnote disclosures contained in our 2013 Annual Report.

The preparation of our financial statements requires management to make estimates and assumptions 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 and assumptions.

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 normally occur in our second and fourth quarters, our sales are typically higher in the second and fourth quarters of the fiscal year than in the first and third quarters. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU raises the threshold for a disposal to qualify as discontinued operations and requires new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. Under the new guidance, companies report discontinued operations when they have a disposal that represents a strategic shift that has or will have a major impact on operations or financial results. We are currently evaluating the impact, if any, the provisions of this ASU would have on our consolidated financial statements. If applicable, this ASU would be effective for us beginning in the first quarter of 2015.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The core principle of this ASU is that companies should recognize revenue when the transfer of promised goods or services to customers occurs in an amount that reflects what the company expects to receive. It requires additional disclosures to describe the nature, amount, timing, and uncertainty of revenue and cash flows from contracts with customers. This ASU is effective for us beginning with the first quarter of 2017. We are currently evaluating the impact the provisions of this ASU would have on our consolidated 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 2: ACCOUNTS RECEIVABLE

The components of accounts receivable are as follows:

	August 2, 2014	February 1, 2014	August 3, 2013
Credit card receivables:			
Nordstrom VISA credit card receivables	\$1,410	\$1,316	\$1,419
Nordstrom private label card receivables	1,010	868	932
Total credit card receivables	2,420	2,184	2,351
Allowance for credit losses	(80	) (80	) (85
Credit card receivables, net	2,340	2,104	2,266
Other accounts receivable ¹	114	73	103
Accounts receivable, net	\$2,454	\$2,177	\$2,369

¹ Other accounts receivable consist primarily of third-party credit and debit card receivables.

Activity in the allowance for credit losses is as follows:

	Quarter Ended		Six Months Ended	
	August 2, 2014	August 3, 2013	August 2, 2014	August 3, 2013
Allowance at beginning of period	\$80	\$85	\$80	\$85
Bad debt expense	7	16	22	30
Write-offs	(19	) (21	) (38	) (42
Recoveries	12	5	16	12
Allowance at end of period	\$80	\$85	\$80	\$85

Under certain circumstances, we may make modifications to payment terms for a customer experiencing financial difficulties in an effort to help the customer avoid a charge-off or bankruptcy, and to maximize our recovery of the outstanding balance. These modifications, which meet the accounting definition of troubled debt restructurings ("TDRs"), include reduced or waived fees and finance charges, and/or reduced minimum payments. Receivables classified as TDRs are as follows:

	August 2, 2014	February 1, 2014	August 3, 2013
Credit card receivables classified as TDRs	\$38	\$43	\$45
Percent of total credit card receivables classified as TDRs	1.6	% 2.0	% 1.9

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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)

Credit Quality

The primary indicators of the credit quality of our credit card receivables are aging and delinquency, particularly the levels of account balances delinquent 30 days or more as these are the accounts most likely to be written off. The following table illustrates the aging and delinquency status of our credit card receivables:

	August 2, 2014		February 1, 2014		August 3, 2013			
	Balance	% of total	Balance	% of total	Balance	% of total		
Current	\$2,301	95.1	% \$2,046	93.7	% \$2,241	95.3	%	
1 – 29 days delinquent	82	3.4	% 99	4.5	% 74	3.2	%	
30 days or more delinquent:								
30 – 59 days delinquent	15	0.6	% 16	0.7	% 14	0.6	%	
60 – 89 days delinquent	9	0.4	% 9	0.4	% 9	0.4	%	
90 days or more delinquent	13	0.5	% 14	0.7	% 13	0.5	%	
Total 30 days or more delinquent	37	1.5	% 39	1.8	% 36	1.5	%	
Total credit card receivables	\$2,420	100.0	% \$2,184	100.0	% \$2,351	100.0	%	

Receivables not accruing finance charges	\$11		\$13		\$10	
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Receivables 90 days or more delinquent and still accruing finance charges			8		7	
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We also evaluate credit quality using FICO credit scores. The following table illustrates the distribution of our credit card receivables across FICO score ranges:

FICO Score Range ¹	August 2, 2014		February 1, 2014		August 3, 2013			
	Balance	% of total	Balance	% of total	Balance	% of total		
801+	\$481	19.8	% \$313	14.3	% \$430	18.3	%	
660 – 800	1,478	61.1	% 1,393	63.8	% 1,455	61.9	%	
001 – 659	365	15.1	% 379	17.4	% 367	15.6	%	
Other ²	96	4.0	% 99	4.5	% 99	4.2	%	
Total credit card receivables	\$2,420	100.0	% \$2,184	100.0	% \$2,351	100.0	%	

¹ Credit scores for our credit cardholders are updated at least every 60 days for active accounts and every 90 days for inactive accounts. Amounts listed in the table reflect the most recently obtained credit scores as of the dates indicated.

² Other consists of amounts not yet posted to customers' accounts and receivables from customers for whom FICO scores are temporarily unavailable.

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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:

	August 2, 2014	February 1, 2014	August 3, 2013
Secured			
Series 2011-1 Class A Notes, 2.28%, due October 2016	\$325	\$325	\$325
Mortgage payable, 7.68%, due April 2020	39	42	44
Other	8	9	9
Total secured debt	372	376	378
Unsecured			
Net of unamortized discount:			
Senior notes, 6.75%, due June 2014	—	—	400
Senior notes, 6.25%, due January 2018	649	648	648
Senior notes, 4.75%, due May 2020	499	499	499
Senior notes, 4.00%, due October 2021	499	499	499
Senior debentures, 6.95%, due March 2028	300	300	300
Senior notes, 7.00%, due January 2038	146	146	344
Senior notes, 5.00%, due January 2044	596	595	—
Unamortized fair value hedge and other	57	50	54
Total unsecured debt	2,746	2,737	2,744
Total long-term debt	3,118	3,113	3,122
Less: current portion	(7	) (7	) (407
Total due beyond one year	\$3,111	\$3,106	\$2,715

Credit Facilities

As of August 2, 2014, we had total short-term borrowing capacity available for general corporate purposes of \$800, which is composed of our \$800 senior unsecured revolving credit facility ("revolver") that expires in March 2018. Under the terms of our revolver, we pay a variable rate of interest and a commitment fee based on our debt rating. The revolver is available for working capital, capital expenditures and general corporate purposes and backs our commercial paper program. During the six months ended August 2, 2014, we had no issuances under our commercial paper program and no borrowings under our revolver.

The revolver requires that we maintain an adjusted debt to earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR") leverage ratio of less than four times. As of August 2, 2014, we were in compliance with this covenant.

In November 2013, our wholly owned subsidiary in Puerto Rico entered into a \$52 unsecured borrowing facility to support our expansion into that market. The facility expires in November 2018 and borrowings on this facility incur interest based upon the one-month LIBOR plus 1.275% per annum. As of August 2, 2014, we had \$15 outstanding on this facility.

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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: FAIR VALUE MEASUREMENTS

We disclose our financial assets and liabilities that are measured at fair value in our Condensed Consolidated Balance Sheets by level within the fair value hierarchy as defined by applicable accounting standards:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Other observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that cannot be corroborated by market data that reflect the reporting entity's own assumptions

We did not have any financial assets or liabilities that were measured at fair value on a recurring basis as of August 2, 2014, February 1, 2014 or August 3, 2013.

Financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable and accounts payable and approximate fair value due to their short-term nature. We estimate the fair value of our long-term debt using quoted market prices of the same or similar issues, and as such this is considered a Level 2 fair value measurement. The following table summarizes the carrying value and fair value estimate of our long-term debt, including current maturities:

	August 2, 2014	February 1, 2014	August 3, 2013
Carrying value of long-term debt ¹	\$3,118	\$3,113	\$3,122
Fair value of long-term debt	3,551	3,511	3,471

¹ The carrying value of long-term debt includes the remaining unamortized adjustment from our previous effective fair value hedge.

We also measure certain non-financial assets at fair value on a nonrecurring basis, primarily goodwill and long-lived tangible and intangible assets, in connection with periodic evaluations for potential impairment. We recorded no material impairment charges for these assets for the six months ended August 2, 2014 and August 3, 2013. We estimate the fair value of goodwill and long-lived tangible and intangible assets using primarily unobservable inputs, and as such these are considered Level 3 fair value measurements.

NOTE 5: COMMITMENTS AND CONTINGENT LIABILITIES

As of August 2, 2014, we had approximately \$126 of fee interest in our Manhattan full-line store subject to lien. We have committed to make future installment payments based on the developer of the property meeting construction and development milestones. Our fee interest in the property is subject to lien until project completion or fulfillment of our existing installment payment commitment.

NOTE 6: SHAREHOLDERS' EQUITY

In February 2013, our Board of Directors authorized a program to repurchase up to \$800 of our outstanding common stock, through March 1, 2015. During the six months ended August 2, 2014, we repurchased 4.9 shares of our common stock for an aggregate purchase price of \$311 and had \$359 in remaining share repurchase capacity as of August 2, 2014. The actual number and timing of future share repurchases, if any, will be subject to market and economic conditions and applicable Securities and Exchange Commission ("Commission") rules.

Subsequent to quarter-end, in August 2014, we declared a quarterly dividend of \$0.33 per share, payable in September 2014.

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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: STOCK-BASED COMPENSATION

The following table summarizes our stock-based compensation expense:

	Quarter Ended		Six Months Ended	
	August 2, 2014	August 3, 2013	August 2, 2014	August 3, 2013
Stock options	\$11	\$13	\$21	\$26
Restricted stock units	4	—	6	—
Employee stock purchase plan	—	—	1	1
Other	3	4	3	7
Total stock-based compensation expense, before income tax benefit	18	17	31	34
Income tax benefit	(7	) (5	) (11	) (11
Total stock-based compensation expense, net of income tax benefit	\$11	\$12	\$20	\$23

Beginning in the quarter ended May 3, 2014, we now grant our employees a combination of options and restricted stock units. The following table summarizes our grants:

	Six Months Ended		August 3, 2013	
	August 2, 2014	Weighted-average grant-date fair value per unit	Units granted	Weighted-average grant-date fair value per unit
Stock options	1.9	\$16	3.7	\$14
Restricted stock units	0.5	62	—	—

NOTE 8: EARNINGS PER SHARE

The computation of earnings per share is as follows:

	Quarter Ended		Six Months Ended	
	August 2, 2014	August 3, 2013	August 2, 2014	August 3, 2013
Net earnings	\$183	\$184	\$323	\$329
Basic shares	189.6	195.5	189.7	195.5
Dilutive effect of stock options and other	3.1	3.3	3.0	3.4
Diluted shares	192.7	198.8	192.7	198.9
Earnings per basic share	\$0.97	\$0.94	\$1.70	\$1.68
Earnings per diluted share	\$0.95	\$0.93	\$1.68	\$1.66
Anti-dilutive stock options and other	1.8	3.4	3.4	4.6

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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 9: SEGMENT REPORTING

The following tables set forth information for our reportable segments:

	Retail	Corporate/Other	Total Retail Business ¹	Credit	Total
Quarter Ended August 2, 2014					
Net sales	\$3,438	\$ (142)	\$3,296	\$—	\$3,296
Credit card revenues	—	—	—	96	96
Earnings (loss) before interest and income taxes	367	(89)	278	53	331
Interest expense, net	—	(30)	(30)	(5)	(35)
Earnings (loss) before income taxes	367	(119)	248	48	296
Quarter Ended August 3, 2013					
Net sales	\$3,245	\$ (141)	\$3,104	\$—	\$3,104
Credit card revenues	—	—	—	92	92
Earnings (loss) before interest and income taxes	375	(80)	295	40	335
Interest expense, net	—	(31)	(31)	(6)	(37)
Earnings (loss) before income taxes					