NORDSTROM INC
Form DEF 14A
March 26, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.__)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:
Preliminary Proxy Statement
CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to §.240.14a-12

NORDSTROM, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

1617 Sixth Avenue, Seattle, Washington 98101-1707

March 26, 2015

Dear Shareholder,

We are pleased to invite you to join the Nordstrom Board of Directors and leadership team at the 2015 Annual Meeting of Shareholders in our hometown of Seattle. The meeting will take place on Tuesday, May 5, 2015 at 11:00 a.m. Pacific Daylight Time in the John W. Nordstrom Room at 1617 Sixth Avenue, 5th floor, in the downtown Seattle Nordstrom. If you are unable to be with us in person, please join the meeting live online at *investor.nordstrom.com.*

Our strategy is driven by the changing expectations of our customers. As our business evolves with the customer, the way we create value is evolving, too. Over the last several years we have accelerated our investments to support our strategy and to position the Company for continued growth. We are confident we have in place a highly capable management team as well as a diverse group of directors who are well qualified to oversee the success of the business and to represent all shareholders.

Since its founding, our Company's leaders, employees and Board have always sought to achieve the highest ethical standards in every aspect of our business including a commitment to strong corporate governance and financial integrity. We will continue to take a long-term view of our business, including new and existing governance practices and policies guided by our own rigorous Code of Conduct that reflects our commitment to all of our stakeholders. Doing what's right for our customers, employees and shareholders is the cornerstone of our Company that has served us well over the years and will continue to do so in the future.

In addition to this Proxy Statement, we encourage you to view our online Company Review at *nordstrom.com/companyreview* and read our 2014 Annual Report. There you will find a more complete picture of our performance and how we are working to increase shareholder value by improving the customer experience.

Finally, we encourage you to vote — regardless of the size of your share holdings. Every vote is important and your participation helps us do a better job of listening and acting on what matters to you as a shareholder. You can cast your vote online, by telephone, or by using a printed proxy card as outlined in this document.

On behalf of all of us at Nordstrom, we want to thank you for your continued support and ownership of the Company.

Sincerely,

Enrique Hernandez, Jr.	**Blake W. Nordstrom**
Chairman of the Board	*President*

Peter E. Nordstrom	**Erik B. Nordstrom**
Executive Vice President	*Executive Vice President*
and President – Merchandising	*and President – Nordstrom.com*

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1617 Sixth Avenue, Seattle, Washington 98101-1707

**Notice of Annual Meeting
of Shareholders**

Tuesday, May 5, 2015

11:00 a.m. Pacific Daylight Time

John W. Nordstrom Room, Downtown Seattle Nordstrom, 1617 Sixth Avenue, 5th Floor, Seattle, WA 98101

The 2015 Annual Meeting of Shareholders (the "Annual Meeting") of Nordstrom, Inc. (the "Company") will be held for the following purposes:

1. To elect 13 Directors identified in the accompanying Proxy Statement to serve until the 2016 Annual Meeting of Shareholders;
2. To ratify the appointment of Deloitte & Touche LLP ("Deloitte") as the Company's Independent Registered Public Accounting Firm to serve for the 2015 fiscal year;
3. To conduct an advisory vote regarding the compensation of our Named Executive Officers; and
4. To transact any other business that may properly come before the Annual Meeting and any adjournment or postponement thereof.

You are eligible to vote if you were a shareholder of record at the close of business on March 2, 2015 (the "record date"). There were 190,405,729 shares of Common Stock issued and outstanding as of March 2, 2015.

Shareholders are invited to attend the Annual Meeting in person. Those who are hearing impaired or require other assistance should contact the Company at 206-303-3033 so that we may facilitate your participation at the Annual Meeting.

YOUR VOTE IS VERY IMPORTANT. Whether or not you intend to be present at the Annual Meeting, you are encouraged to vote.

Seattle, Washington

March 26, 2015

By order of the Board of Directors,

Robert B. Sari

Secretary

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2015 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 5, 2015

The accompanying Proxy Statement and the 2014 Annual Report on Form 10-K are available at *investor.nordstrom.com*

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PROXY SUMMARY

This summary highlights information described in more detail elsewhere in this Proxy Statement. It does not contain all of the information you should consider, and you should read the entire Proxy Statement carefully before voting. Page references are provided to help you find further information.

2015 Annual Meeting of Shareholders

Date and Time:	May 5, 2015 11:00 a.m. Pacific Daylight Time	**Meeting Webcast:**	*investor.nordstrom.com,* select Webcasts and Presentations and follow the instructions given. The webcast will be archived and available for one year following the Annual Meeting.
Place:	John W. Nordstrom Room Downtown Seattle Nordstrom 1617 Sixth Avenue, 5th Floor Seattle, WA 98101-1707		

Eligibility to Vote

You can vote if you were a shareholder of record at the close of business on March 2, 2015.

How to Cast Your Vote (page 12)

You can vote by any of the following methods:

Internet *(www.proxyvote.com),* until 11:59 p.m. Eastern Daylight Time on May 4, 2015;

Telephone, if you requested printed materials, by using the toll-free number listed on your proxy card until 11:59 p.m. Eastern Daylight Time on May 4, 2015;

Mail, by completing, signing and returning your proxy or voting instruction card on or before May 4, 2015; or

In person, if you are a shareholder of record, by voting your shares at the Annual Meeting. If your shares are held in the name of a broker, nominee or other intermediary, you must obtain a proxy, executed in your favor, to bring to the meeting.

Voting Matters (page 11)

	Board Vote Recommendation	Page Reference (for more detail)
1. Election of Directors	**FOR each Director Nominee**	**23**
2. Ratification of Appointment of Independent Registered Public Accounting Firm	**FOR**	**30**
3. Advisory Vote Regarding Executive Compensation	**FOR**	**57**

Board Nominees (page 24)

Name	Age	Director Since	Occupation	Committee Memberships	Other Public Company Boards
Shellye L. Archambeau*	52	2015	Chief Executive Officer of MetricStream, Inc.	Audit, Technology	Verizon, Inc.
Phyllis J. Campbell*	63	2004	Chairman of the Pacific Northwest Region of JPMorgan Chase & Co.	Audit, Finance	Alaska Air Group, Inc.
Michelle M. Ebanks*	53	2011	President of Essence Communications	Finance, Technology	
Enrique Hernandez, Jr.*	59	1997	President and Chief Executive Officer of Inter-Con Security Systems, Inc.	Compensation, Corporate Governance and Nominating	McDonald's Corporation, Wells Fargo & Company, Chevron Corporation
Robert G. Miller*	70	2005	Chief Executive Officer of Albertsons LLC	Audit, Finance (Chair)	
Blake W. Nordstrom	54	2005	President of Nordstrom, Inc.	N/A	
Erik B. Nordstrom	51	2006	Executive Vice President and President – Nordstrom.com	N/A	
Peter E. Nordstrom	53	2006	Executive Vice President and President – Merchandising	N/A	
Philip G. Satre*	65	2006	Retired Chief Executive Officer of Harrah's Entertainment, Inc.	Compensation, Corporate Governance and Nominating (Chair)	International Game Technology
Brad D. Smith*	50	2013	President and Chief Executive Officer of Intuit, Inc.	Audit, Technology	Intuit, Inc.
B. Kevin Turner*	49	2010	Chief Operating Officer of Microsoft Corporation	Compensation, Technology (Chair)	
Robert D. Walter*	69	2008	Founder and Retired Chairman and Chief Executive Officer of Cardinal Health, Inc.	Compensation (Chair), Corporate Governance and Nominating	American Express Company, YUM! Brands, Inc.
Alison A. Winter*	68	2001	Chief Executive Officer of Braintree Holdings, LLC	Audit (Chair), Corporate Governance and	

Nominating

* *Independent Director.*

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Governance of the Company (page 15)

•10 of 13 Directors are independent.

•Independent Directors meet regularly in executive session.

•The roles of President and Chairman of the Board are separate.

•Only independent Directors are Committee members.

•Director elections have a majority voting standard, and all Directors are elected annually.

•The Board has stock ownership guidelines for Directors and Executive Officers.

•Board, Committee and Director performance evaluations are conducted annually.

•The Board and its Committees are responsible for risk oversight.

•President and management succession planning is one of the Board's highest priorities.

Business Highlights

We consider 2014 a defining year in our Company's history. Over the past 12 months, we successfully entered Canada, expanded our Nordstrom Rack business through store growth and the launch of Nordstromrack.com, and acquired Trunk Club. These milestones are the outcome of our strategy to serve customers on their terms and to deliver the Nordstrom experience they expect. Several years ago, we began to accelerate growth in multiple channels to evolve the personalized customer experience that merges the richness of stores with the convenience of online. In 2014, we delivered tangible results in executing this strategy and some of these highlights are shown below. We look forward to the opportunities ahead as we continue our commitment to a best-in-class customer experience through service, product and capabilities across all channels at Nordstrom.

Achieved a new record for total net sales at over $13 billion, a 7.8% increase over our previous high last year.

Generated earnings of $720M reflecting consistent execution and ongoing investments to drive growth.

Delivered a 4.0% increase in comparable sales, with Nordstrom.com achieving 23% growth.

During the course of the year, we made significant progress in these areas:

- Nearly 4 million customers acquired through Nordstrom Rack, representing our largest source of new customers.
- 5 consecutive years of 20%+ growth in Nordstrom.com sales, representing 15% of total Company net sales in 2014.
- Successful entry into Canada with our first full-line store in Calgary, Alberta.
- 2 U.S. store openings in The Woodlands, Texas and Jacksonville, Florida and 27 new Nordstrom Rack stores.
- Launch of Nordstromrack.com enabled through a seamless integration with HauteLook.
- Acquisition of Trunk Club, a high-growth business offering a new approach to personalized service.
- Over 10 million followers on our social media channels every day.
- 1 million new members added to Nordstrom Rewards program in each of the last three years.
- …continuing to serve each customer in an exceptional way.

For more information, please see our Annual Report on Form 10-K or visit *nordstrom.com/companyreview.*

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Executive Compensation Highlights - Paying For Performance

In accordance with our pay-for-performance philosophy, the compensation program for our Named Executive Officers is straightforward in design and includes four primary elements: base salary, performance-based bonus, long-term incentives and benefits. Within these elements, we emphasize variable pay over fixed pay, with 80% of target compensation linked to our financial or market results. The program also balances the importance of these executives achieving both critical short-term objectives and long-term strategic priorities.

Our Variable Pay Reflects Company Performance

Under our pay-for-performance design, payouts to the Named Executive Officers in fiscal year 2014 were closely aligned with results for their variable pay components:

- **Performance-based bonuses** paid out at approximately 83% of target Earnings Before Interest and Income Taxes ("EBIT"), as our Incentive ROIC achievement of 13.6% exceeded the established threshold of 12.5% and Incentive EBIT results of $1,391 million exceeded the minimum performance milestone. These outcomes reflected total sales growth of 7.8% adding just under $1 billion to our top line, partially offset by lower than expected gross profit performance. See page 37 to learn more about the performance-based bonus pay element including Incentive ROIC and Incentive EBIT results for 2014.
- **Performance share units granted under the long-term incentive plan** paid out at 75% as our Total Shareholder Return ("TSR") of approximately 19% over the 2012-2014 fiscal year performance cycle outpaced more than half of our retail peers, surpassing the minimum threshold of greater than 50th percentile rank. See page 38 to learn more about the long-term incentive pay element and results for 2014.

Payouts for these variable compensation elements in prior years have been closely aligned with Company results as well. The following graphs show performance-based payouts to President Blake Nordstrom relative to EBIT and TSR for fiscal year 2014 and the four prior years. This pattern of pay for performance is consistent for the Named Executive Officers during these periods.

Annual EBIT Results are used to determine bonus payout and, as in 2014, may reflect related adjustments under the Executive Management Bonus Plan. Beginning in 2013, Blake Nordstrom's target bonus opportunity was increased resulting in a higher payout for similar levels of performance. *See page 37 to learn more about performance-based bonus including Incentive ROIC and Incentive EBIT.*

3-Year TSR Results reflect payout when performance surpasses the minimum threshold relative to our peers. *See page 38 to learn more about long-term incentive pay.*

Based on these and other outcomes, the Committee believes that total direct compensation for our Named Executive Officers reflects our pay-for-performance objective, is well-aligned with shareholder interests and compares favorably relative to our peers.

For more information on executive compensation, please see the Compensation Discussion and Analysis starting on page 32.

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FREQUENTLY ASKED QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

1. Why am I receiving these materials?

The Company has made these materials available to you on the Internet or, upon your request, delivered printed versions of these materials to you by mail, because you were a shareholder of Nordstrom, Inc. as of March 2, 2015, the record date, and were entitled to receive notice of the 2015 Annual Meeting of Shareholders and to vote on matters that will be presented at the Annual Meeting.

2. What items will be voted on at the Annual Meeting?

Shareholders will vote on the following matters at the Annual Meeting:		**Board Recommendation:**	**Page Reference (for more detail)**
Proposal 1	To elect the 13 nominees to the Board of Directors (the “Board”) named in this Proxy Statement	**FOR each Director Nominee**	**23**
Proposal 2	To ratify the appointment of Deloitte & Touche as our Independent Registered Public Accounting Firm	**FOR**	**30**
Proposal 3	To conduct an advisory vote regarding the compensation of our Named Executive Officers	**FOR**	**57**
Other	Such other business as may properly come before the Annual Meeting and any adjournments or postponements thereof		

3. How can I view the webcast? Where is the Annual Meeting being held?

You can view the live webcast of the Annual Meeting at *investor.nordstrom.com.* Select Webcasts and Presentations and follow the instructions given. If you would like to attend the Annual Meeting in person, it is being held in the John W. Nordstrom Room, which is located in the Downtown Seattle Nordstrom, 1617 Sixth Avenue, 5th Floor, Seattle, Washington, 98101-1707.

4. Why did I receive a Notice instead of a full set of proxy materials? How can I access the proxy materials online?

We are furnishing proxy materials to our shareholders primarily via the Internet as many of our shareholders prefer that method. By doing so, we increase the convenience of our proxy materials and reduce the environmental impact of our Annual Meeting, as well as save costs. On March 26, 2015, we mailed a Notice of Internet Availability of Proxy Materials (the “Notice”) to our shareholders who had not previously requested printed materials. The Notice contains instructions about how to access our proxy materials and vote online. If you would like to receive a paper copy of our

proxy materials, please follow the instructions included in the Notice. If you have previously chosen to receive our proxy materials electronically, you will receive access to these materials via email unless you elect otherwise.

5. What is a proxy and what is the purpose of this Proxy Statement?

If you designate another person to vote your stock, that other person is called a proxy. If you designate someone as your proxy in a written document, that document is also called a proxy or a proxy card. If you vote online or complete the proxy card enclosed with the materials sent by mail to give us your proxy, you will have designated Blake W. Nordstrom, our President, and Robert B. Sari, an Executive Vice President and our General Counsel and Secretary, as your proxies to vote your shares as you have directed. This Proxy Statement provides information about the matters to be voted on by shareholders at the Annual Meeting, along with other information regarding the governance of Nordstrom, including our Board Committee structure and executive compensation.

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6. What is the difference between a shareholder of record and a street name shareholder?

Many Nordstrom shareholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own names. As summarized below, there are some distinctions between shares held as a shareholder of record and those held in street name.

- ***Shareholders of record:*** If your shares are registered directly in your name with Nordstrom's transfer agent, Computershare, you are considered the "shareholder of record" or a "registered shareholder," and the Notice or proxy materials are being sent directly to you by the Company. As the shareholder of record, you have the right to grant your voting proxy directly to Nordstrom or to vote in person at the Annual Meeting.
- ***Street name shareholders:*** If your shares are held in a stock brokerage account or by a bank, trustee or nominee, you are considered the beneficial owner of shares held in "street name," and the Notice or proxy materials are being forwarded to you by your broker, bank or other holder of record who is considered the shareholder of record. As the street name shareholder you have the right to direct your broker, bank or other holder of record on how to vote your shares and you are invited to attend the Annual Meeting. Your broker, bank, trustee or nominee is obligated to provide you with a voting instruction form for you to use.

7. How do I cast my vote?

We encourage you to vote on the Internet or by telephone. It is convenient, and it saves us significant postage and processing costs. In addition, when you vote on the Internet or by telephone, your vote is recorded immediately and there is no risk that postal delays will cause your vote to arrive late and therefore not be counted. The method by which you vote your proxy will not limit your right to vote at the Annual Meeting if you decide to attend in person.

Shareholders of record: The Internet and telephone voting procedures are designed to verify that you are a shareholder of record by using a control number and allowing you to confirm that your voting instructions have been properly recorded. Internet and telephone voting for shareholders of record are available 24 hours a day and will close at 11:59 p.m. Eastern Daylight Time on May 4, 2015.

Voting on the Internet. You may vote on the Internet by using the voting portal found at *www.proxyvote.com.* You can then confirm that your instructions have been properly recorded.

Voting by Telephone. If you request printed materials, you may vote by telephone using the toll-free number listed on your proxy card. Voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded.

Voting by Mail. If you request printed materials, you may vote by signing, dating and returning your proxy card.

Voting in Person. You may vote your shares at the Annual Meeting.

Street name shareholders: You may vote by the method explained on the proxy card or the information you receive from the bank, broker or other record holder. If you are a street name shareholder, you must obtain a proxy, executed in your favor, from the bank, broker or other holder of record to be able to vote in person at the Annual Meeting.

Shareholders holding shares invested in the Company's 401(k) Plan: If you participate in the Company's 401(k) Plan, the number of shares of Common Stock in your account as of the record date are reflected on your proxy notice and may be voted as described above for shareholders of record. However, if your vote on those shares is not received by 11:59 p.m. Eastern Daylight Time on April 30, 2015, then the Nordstrom, Inc. Retirement Committee will vote those shares in the same proportion as all other 401(k) Plan shares that have been voted.

Shareholders holding shares purchased through the Company's Employee Stock Purchase Plan: If you hold Common Stock that you acquired through the Company's Employee Stock Purchase Plan, you are the beneficial owner of those shares and your shares may be voted as described above for street name shareholders.

8. What does it mean if I receive more than one Notice or package of proxy materials?

This means that you have multiple accounts holding Nordstrom shares. These may include: accounts with our transfer agent, Computershare; shares held in the Nordstrom 401(k) Plan or purchased through the Employee Stock Purchase Plan; and accounts with a broker, bank or other holder of record. Please vote all Notices, voting instruction forms and proxy cards that you receive to ensure that all of your shares are voted.

9. What is a quorum and what is the voting requirement to approve each of the proposals?

We will have a quorum and will be able to conduct the business of the Annual Meeting if at least 95,202,865 shares, a majority of the outstanding shares of Common Stock as of the record date, are present at the Annual Meeting, either in person or by proxy. Your shares will be counted toward the number needed for a quorum if you: (i) vote on the Internet or by telephone; (ii) submit a valid proxy card or voting instruction form; or (iii) in the case of a shareholder of record, attend the Annual Meeting and vote your shares in person.

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To elect directors and adopt the other proposals, the following votes are required:

Proposal	Vote Required	Discretionary Voting Allowed?
Election of Directors	Majority of Votes Cast	No
Ratification of the Appointment of Independent Registered Public Accounting Firm	Majority of Votes Cast	Yes
Advisory Vote Regarding Executive Compensation	Majority of Votes Cast	No

Under Washington corporation law and our Articles of Incorporation and Bylaws, the approval of any corporate action taken at a shareholder meeting is based on votes cast. "Votes cast" means votes actually cast "for" or "against" a particular proposal, whether by proxy or in person. Broker nonvotes (broker nonvotes and discretionary voting are explained in the answer to Question 12) and abstentions are not considered "votes cast" and have no effect on the proposals.

- ***Election of Directors; Majority Vote Policy:*** In the election of Directors, the Company has adopted a majority voting standard as described in more detail on page 17 under Director Elections. Because this is an uncontested election, an incumbent director nominee will be elected if the votes cast "for" the nominee's election exceed the votes cast "against" the nominee. If a director nominee does not receive the requisite votes, that Director's term will end on the date on which an individual is selected by the Board to fill the position held by such Director or ninety (90) days after the date the election results are determined, whichever occurs first. You may vote "for," "against" or "abstain" with respect to the election of each nominee.

- ***Ratification of the Appointment of Independent Registered Public Accounting Firm:*** Under the Company's Bylaws, the votes cast "for" must exceed the votes cast "against" to ratify the appointment of Deloitte as the Company's independent registered public accounting firm for the fiscal year ending January 30, 2016. You may vote "for," "against" or "abstain" on this proposal.

- ***Advisory Vote Regarding Executive Compensation:*** The votes cast "for" must exceed the votes cast "against" to approve, on an advisory basis, the Company's executive compensation program. You may vote "for," "against" or "abstain" on this proposal.

10. Can I change my mind after I vote?

Yes, if you vote by proxy, you may revoke that proxy at any time before it is voted at the Annual Meeting. You may do this by:

- voting again on the Internet or by telephone prior to the Annual Meeting;
-

signing another proxy card with a later date and mailing it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717, prior to the Annual Meeting; or

- attending the Annual Meeting in person and delivering your proxy or casting a ballot.

11. What if I do not return my proxy card or voting instruction form or do not provide voting instructions?

- ***Shareholders of record:*** If you are a registered shareholder and do not vote by Internet or phone or return your voted proxy card, your shares will not be voted. If you submit your proxy card with an unclear voting designation or no voting designation at all, your shares will be voted for the ratification of Deloitte, but not on any of the other proposals.

- ***Street name shareholders:*** If you are a beneficial owner whose shares are held by a broker, your broker has discretionary voting authority under New York Stock Exchange ("NYSE") rules to vote your shares for the ratification of Deloitte even if the broker does not receive voting instructions from you. However, your broker does not have discretionary authority to vote on the election of Directors, the advisory vote regarding executive compensation or on any shareholder proposal without instructions from you, in which case a broker nonvote will occur. Since shares that constitute broker nonvotes will not be included in vote totals and have no effect on the outcome of the election of Directors or the advisory vote regarding executive compensation, it is important that you instruct your broker on how to vote your shares.

- ***Shareholders with shares invested in the Company's 401(k) Plan:*** If your vote of shares held through the Company's 401(k) Plan is not received by 11:59 p.m. Eastern Daylight Time on April 30, 2015, then the Company's Retirement Committee will vote your shares in the same proportion as shares that have been voted in the 401(k) Plan. If you submit your proxy card with an unclear voting designation or no voting designation at all, your shares will be voted by the Retirement Committee "FOR" all proposals. If any additional proposals are properly presented at the Annual Meeting and any adjournment thereof, the Retirement Committee will vote on the additional proposals in accordance with its discretion.

12. Will abstentions or broker nonvotes affect the voting results?

If you abstain from voting on a proposal, or if a broker or bank indicates it does not have discretionary authority to vote on a proposal, the shares will be counted for the purpose of determining if a quorum is present, but will have no effect on the other proposals to be considered at the Annual Meeting since these actions do not represent votes cast by shareholders.

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13. Who will count the vote?

Broadridge Investor Communication Services (“Broadridge”) was appointed by the Board to tabulate the vote and act as Inspector of Election. Information about Broadridge is available at *broadridge.com.* Proxies and ballots that identify the votes of individual shareholders are kept confidential from the Company’s management and Directors. Only Broadridge, as the proxy tabulator and the Inspector of Election, has access to the ballots, proxy forms and voting instructions. Broadridge will disclose information taken from the ballots, proxy forms and voting instructions only in the event of a proxy contest or as otherwise required by law.

14. Where can I find the voting results of the Annual Meeting?

We intend to announce preliminary voting results at the Annual Meeting and publish final results on a current report on Form 8-K within four business days of the Annual Meeting. The Form 8-K will be available online under the “SEC Filings” tab at *investor.nordstrom.com*.

15. Who will bear the cost of this proxy solicitation?

Nordstrom will bear the cost of this proxy solicitation, including reimbursing banks and brokers for reasonable expenses of sending out proxy materials to street name shareholders.

16. What if I have additional questions that are not addressed here?

You may call Nordstrom Investor Relations at 206-303-3200, e-mail Investor Relations at *invrelations@nordstrom.com,* or call the Corporate Secretary’s Office at 206-303-2542.

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CORPORATE GOVERNANCE

Our Corporate Governance Framework

Since its founding, our Company's leaders and employees have always sought to maintain the highest ethical standards in every aspect of our business. Our corporate governance framework is designed to support this tradition of integrity, trust and unyielding commitment to do the right thing, which has served our customers and shareholders well over the years. We continue to strengthen existing governance practices and develop new policies that make us a better company. Our corporate governance framework, more fully discussed on the following pages, includes the following highlights:

Board Responsibilities, Leadership Structure and Role in Risk Oversight

The Board oversees, counsels and directs management in the long-term interests of the Company and our shareholders. The Board's responsibilities include:

- selecting and evaluating the performance of the President, President -Nordstrom.com and President - Merchandising;
- planning for succession with respect to the position of the President and monitoring management's succession planning for other senior executives;
- reviewing and approving our major financial objectives and strategic and operational plans and other significant actions;
- monitoring the conduct of our business and the assessment of our business risks to evaluate whether the business is being properly managed; and
- overseeing the processes for maintaining our integrity with regard to our financial statements and other public disclosures, and compliance with laws and our ethics.

At this time, the Board believes that different people should hold the positions of Chairman of the Board and President, as this may strengthen corporate governance and aid in the Board's oversight of management. Currently, Enrique Hernandez, Jr. serves as Chairman of the Board and Blake Nordstrom serves as President. The President, President - Nordstrom. com and President - Merchandising are responsible for day-to-day leadership and performance of the Company, while the Chairman of the Board provides guidance to these Presidents and presides over the full

Board. The duties of our Chairman of the Board are more fully described in the Chairman of the Board and Presiding Director section on page 16. The Board believes that this leadership structure also aids in the Board's oversight of risk and strengthens risk management.

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The full Board has primary responsibility for oversight of risk management, and has assigned to the Board's standing Committees the specific focus of the risks inherent in their respective areas of oversight. The full Board:

- considers and reviews the Company's risk appetite, which is the amount of risk the organization is willing and able to accept;
- oversees management's implementation of an appropriate system to manage risks (i.e., to identify, assess, mitigate, monitor, and communicate these risks) and monitors improvements in this process as the business environment changes;
- provides risk oversight through the Board's committee structure and processes; and
- manages directly certain risks, in particular, the risks associated with the Company's strategic direction, which are reviewed at an annual strategy planning meeting and periodically throughout the year.

The Company has a comprehensive, structured approach to managing risks, which are identified, assessed, prioritized and managed at all levels within the Company through an enterprise risk management process which is aligned with the Company's strategy. Under this framework, management is responsible for assessing and managing the Company's exposure to risks. Management regularly reports on risks to the relevant Committee or the Board. The Board and its Committees discuss the various risks confronting the Company throughout the year, particularly when reviewing operating and strategic plans and when considering specific actions for approval. The risks are classified into four major categories: Strategic, Compliance, Operational and Financial, and mapped for the appropriate management and Board (and Committee) oversight.

Through the risk oversight process, the Board: (i) obtains an understanding of the risks inherent in the Company's strategy and management's execution of the strategy within the agreed risk appetite; (ii) accesses useful information from internal and external sources about the critical assumptions underlying the strategy; (iii) is alert for possible dysfunctional behavior within the organization which might lead to excessive risk taking; (iv) provides input to executive management regarding critical risk issues on a timely basis; and (v) encourages open communication and appropriate escalation of reporting of risk throughout the enterprise, striving to ensure that risk management is part of the corporate culture. The Board's leadership structure and the collective knowledge and experience of its members promotes a broad perspective, open dialogue and useful insights regarding risk, thereby increasing the effectiveness of the Board's role in risk oversight.

Director Independence

A Director is considered independent when our Board affirmatively determines that he or she has no material relationship with the Company, other than as a Director. Our Board makes this determination in accordance with the standards set forth in our Corporate Governance Guidelines, which are consistent with the listing standards of the NYSE and Securities and Exchange Commission ("SEC") rules. In making this determination, the Board considers existing relationships between the Company and Directors, whether directly or as a partner, shareholder or officer of

an organization that has a relationship with the Company. The Board has affirmatively determined that the following Director nominees are independent within the meaning of the listing standards of the NYSE and the Company's Corporate Governance Guidelines, and that none of these Director nominees have a material relationship with the Company other than as a Director.

Shellye L. Archambeau
Phyllis J. Campbell
Michelle M. Ebanks
Enrique Hernandez, Jr.
Robert G. Miller
Philip G. Satre
Brad D. Smith
B. Kevin Turner
Robert D. Walter
Alison A. Winter

Chairman of the Board and Presiding Director

The Company has a Chairman of the Board who is also an independent Director and who serves as the Presiding Director within the meaning of the listing standards of the NYSE. Currently, Enrique Hernandez, Jr. serves as the Company's Chairman of the Board.

The Chairman of the Board is appointed annually by the Board. As described in the Company's Bylaws, Corporate Governance Guidelines and Charter of the Corporate Governance and Nominating Committee, the Chairman of the Board:

- presides at meetings of the Board;
- assists in establishing the agenda for each Board and Board Committee meeting;
- serves as the Presiding Director to lead regular executive sessions of the Board in which only independent Directors participate;
- calls special meetings of the Board and/or the shareholders;
- provides input and support to the Chair of the Corporate Governance and Nominating Committee on nominees to fill vacant Board seats and the selection of Committee Chairs and membership on Board Committees;
- advises the President, President - Nordstrom.com and President -Merchandising, and other members of the Executive Team, on such matters as strategic direction, corporate governance and overall risk assessment; and

- performs other duties that the Board may from time to time delegate to assist the Board in the fulfillment of its responsibilities.

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Director Elections

The Company's Bylaws provide that, in an uncontested election, a Director nominee will be elected if the number of votes cast for the nominee's election exceeds the number of votes cast against the nominee's election. An incumbent Director nominee who fails to receive the requisite votes for election will continue to serve as a Director until the earlier of: (i) 90 days from the date on which the voting results of the election are determined; or (ii) the date on which an individual is selected by the Board to fill the position held by such Director. In any election which is a contested election (meaning that the number of director nominees exceeds the number of directors to be elected), the standard for election of directors is a plurality of the votes cast by holders of shares entitled to vote in the election at a meeting at which a quorum is present.

Management Succession Planning

The Board and management believe that one of their primary responsibilities is to ensure that the Company has the appropriate leadership capability to effectively deliver upon its business commitments. The Company's management is actively engaged and involved in leadership development, having regular discussions of the leadership capabilities of the organization and the attraction, development and retention of critical talent to promote future success. In addition to the Company's regular review of leadership capabilities, the Board annually conducts a detailed review of the talent strategies for the entire organization and reviews succession plans for senior leadership positions, including that of the President. The Board reviews high-potential employees, evaluates plans to develop their management and leadership capabilities and sanctions the strategies used to deploy these individuals most effectively. In addition to the annual review, succession is regularly discussed in executive sessions of the Board and in Board Committee meetings, as applicable. Directors become familiar with potential successors for key leadership positions through various means, including the comprehensive annual talent and succession review, Board meeting presentations and less formal interactions throughout the course of the year.

Our entire Board, with the oversight of our Corporate Governance and Nominating Committee, is responsible for implementing succession procedures for the President. We believe that the Board, led by our Chairman, should collaborate with the President on the critical aspects of the succession planning process, including establishing selection criteria, identifying and evaluating candidates and making management succession decisions. The Board has procedures in place to respond to an unexpected vacancy in the President's position, including a detailed review of the succession plan annually by the Corporate Governance and Nominating Committee. It is the Board's practice to be prepared for a planned or unplanned change in leadership in order to ensure the stability of the Company.

Communications with Directors

Shareholders and other interested parties may communicate with Directors by contacting the Corporate Secretary's Office at:

Telephone: 206-303-2542

Internet: *board@nordstrom.com*

Mail: Nordstrom, Inc.
1700 Seventh Avenue
Seattle, Washington 98101-4407
Attn. Corporate Secretary

The Secretary will relay the question or message to the specific Director with whom the shareholder or interested party wishes to communicate. If no specific Director is requested, the Secretary will relay the question or message to the Chairman of the Board. Certain items that are unrelated to the duties and responsibilities of the Board, such as business solicitations, advertisements, junk mail and other mass mailings will not be relayed to Directors.

The Audit Committee has established procedures to respond to possible concerns about ethics and accounting-related practices. To report your concerns, you may use the Company's confidential Whistleblower Hotline at:

Telephone: 1-888-832-8358

Internet: *ethicspoint.com*

Your concerns will be investigated and communicated to the Audit Committee, as necessary.

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Board Committees and Charters

The Board has a standing Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee, Finance Committee and Technology Committee. Each Committee has a Board-approved Charter which is reviewed annually by the respective Committee. Recommended changes, if any, are submitted to the Corporate Governance and Nominating Committee and the Board for approval. The Board makes Committee and Committee Chair assignments annually at its meeting immediately following the Annual Meeting of Shareholders, although further changes to Committee assignments may be made from time to time as deemed appropriate by the Board. The Board has determined that the Chairs and all Committee members are independent under the applicable NYSE rules. Committee Charters and current Committee membership are posted on our website at *investor.nordstrom.com* and may be viewed by selecting Corporate Governance. The Chairs and members of the Committees as of the date of this Proxy Statement are identified in the following table.

Director	Audit Committee	Compensation Committee	Corporate Governance and Nominating Committee	Finance Committee	Technology Committee
Shellye L. Archambeau					
Phyllis J. Campbell					
Michelle M. Ebanks					
Enrique Hernandez, Jr.					
Robert G. Miller					
Philip G. Satre					
Brad D. Smith					
B. Kevin Turner					
Robert D. Walter					
Alison A. Winter					

Chair

Audit Committee

As more fully described in its Charter, the primary responsibility of the Audit Committee is to assist the Board in fulfilling its oversight responsibility by reviewing and appraising:

- the integrity of the Company’s financial statements;
- the accounting, auditing and financial reporting processes of the Company;
- the management of business and financial risk and the internal controls environment;
- the Company’s compliance with legal and regulatory requirements and ethics programs as established by management and the Board, which shall be in conjunction with any recommendations by the Corporate Governance and Nominating Committee with respect to the corporate governance standards;
- the reports resulting from the performance of audits by the independent auditor and the internal audit team;
- the qualifications, independence and performance of the Company’s independent auditors; and
- the performance of the Company’s internal audit team.

The Audit Committee meets regularly with the independent registered public accounting firm and management, including the Vice President – Internal Audit, to review accounting, auditing and financial reporting processes, enterprise risk management, and compliance with laws and regulations. The Audit Committee also meets privately and separately with the independent registered public accounting firm, the Executive Vice President and Chief Financial Officer and the Vice President – Internal Audit.

In addition to meeting the independence requirement for audit committee members, each current member of the Audit Committee also meets the financial literacy and experience requirements contained in the corporate governance listing standards of the NYSE. The Board has determined that all Audit Committee members qualify as “audit committee financial experts” under the regulations of the SEC. Although all members of the Audit Committee meet the current regulatory requirements for accounting or related financial management expertise and the Board has determined that each of them qualifies as an “audit committee financial expert,” members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are not technical experts in auditing or accounting.

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Compensation Committee

As more fully described in its Charter, the primary responsibilities of the Compensation Committee are to:

- approve an overall compensation philosophy for the Company's Executive Officers in light of the Company's goals and objectives. The Executive Officers are referenced on page 31 and include the Named Executive Officers shown in the Compensation Discussion and Analysis on page 32 and other business unit presidents and Company executives over major organizational functions reporting to the President or other senior executives;
- select performance measures aligned with the Company's business strategy;
- review and approve the Company's executive cash and equity-based compensation plans;
- review and approve any benefit plans, retirement and deferred compensation or other perquisites offered to the Executive Officers and other eligible employees; and
- review the Company's compensation practices so that they do not encourage imprudent risk taking.

The Committee has the sole authority to retain such consultants and advisors as it may deem appropriate and to approve related fees and other retention terms. The Committee has retained Semler Brossy Consulting Group, LLC, an independent compensation consulting firm, to advise the Committee on executive compensation and benefit matters. Semler Brossy reports directly to the Committee, provides services only as directed by the Committee or other Committees of the Board and has no other relationship with the Company. During 2014, all fees paid to Semler Brossy for services were related exclusively to executive or Director compensation. The Compensation Committee has assessed the independence of Semler Brossy pursuant to NYSE rules and determined that Semler Brossy is independent and its work for the Compensation Committee does not raise any conflict of interest.

A consultant from Semler Brossy attends Committee meetings in person or by phone and supports the Committee by providing independent expertise on market practices and trends in executive compensation within the general industry and the peer group defined for such purposes. Additionally, the consultant provides advice regarding the composition of the Company's peer group and management's analysis of peer group practices for base salary, performance-based bonus, long-term incentives and other compensation elements, including advice on management's proposed levels of executive compensation. Semler Brossy also advises the Committee on compensation program design including incentive structure, stock ownership guidelines, regulatory requirements related to executive compensation, plans submitted to shareholders for approval, governance responsibilities, and such other matters as assigned by the Committee from time to time as necessary to carry out its responsibilities under its Charter.

Corporate Governance and Nominating Committee

As more fully described in its Charter, the primary responsibilities of the Corporate Governance and Nominating Committee are to:

- review and recommend individuals to the Board for nomination as members of the Board and its Committees;
- review possible conflicts of interest of Board members and the Company's Executive Officers;
- develop and review the Company's Corporate Governance Guidelines;
- review and consider revisions to the corporate governance standards contained in the Company's Codes of Business Conduct and Ethics;
- review and recommend approval of the policies and practices of the Company in the area of corporate governance;
- review the Committee's new director orientation program and continuing director education programs;
- produce and provide to the Board an annual performance evaluation of the Board, the Directors, Committee Chairs and each Committee of the Board;
- establish succession procedures in the case of an emergency or the retirement of the President;
- recommend to the Board the form and amount of director compensation; and
- review the overall performance of the Presidents on an annual basis.

Finance Committee

As more fully described in its Charter, the primary responsibilities of the Finance Committee are to:

- assist the Board in fulfilling its oversight responsibilities with respect to the Company's capital structure, financial policies, capital investments, business and financial planning and related matters;
- review and appraise the Company's tax strategies and the implications of actual or proposed tax law changes;
- review and appraise the Company's dividend payment and share repurchase strategies, banking relationships and borrowing facilities and cash management; and
- monitor the rating assigned by rating agencies to the Company's long-term debt.

Additionally, in conjunction with the Technology Committee, the Committee makes recommendations to the Board with respect to investments in technology.

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Technology Committee

As more fully described in its Charter, the primary responsibilities of the Technology Committee are to:

- assist the Board in its oversight with respect to the Company's technology strategy;
- review and appraise the Company's technology acquisition and development process to assure ongoing business growth;
- review and appraise the Company's data management and automation processes, and measurement and tracking systems; and
- review and appraise the Company's policies and safeguards for information technology and data security.

Additionally, in conjunction with the Finance Committee, the Committee makes recommendations to the Board with respect to investments in technology.

Board Meetings and Attendance

The Board held six meetings during the past fiscal year, one of which was devoted principally to Company strategy. During the past fiscal year, the Audit Committee held eleven meetings, the Compensation Committee held five meetings, the Corporate Governance and Nominating Committee held four meetings, the Finance Committee held four meetings and the Technology Committee held three meetings. Each Director attended at least 75% of the aggregate of all meetings of the Board and the Committees on which he or she served during the year and overall attendance at the meetings, on a combined basis, was 97%. Independent members of the Board met at each quarterly meeting of the Board in executive session without management present.

Attendance at the Annual Meeting of Shareholders

Although all members of the Board are expected to attend each Annual Meeting of Shareholders, the Company has not adopted a formal policy on Board member attendance. All Directors attended the 2014 Annual Meeting of Shareholders, and all Director nominees have indicated their intent to attend the Annual Meeting. Shareholders are encouraged to direct any questions that they may have to the Directors or management at that time.

Director Compensation

The Company's pay-for-performance philosophy for Director compensation reflects the Board's belief that payment of a majority of the Director fees in the form of Common Stock aligns the interests of Directors with the interests of the Company's shareholders and enhances Director compensation when the Company performs well. The Board believes that the Director fees paid by the Company should be competitive with other companies of similar characteristics.

Employee Directors of the Company are not paid any fees for serving as members of the Board or any Board Committee. Nonemployee Director compensation consists of the following elements:

Annual Compensation Elements for 2014	**Amount ($)[(a)]**
Cash Retainer	85,000
Chairman of the Board Retainer	200,000
Audit Committee Chair Retainer	20,000
Compensation Committee Chair Retainer	20,000
Corporate Governance and Nominating Committee Chair Retainer	15,000
Finance Committee Chair Retainer	15,000
Technology Committee Chair Retainer	15,000
Audit Committee Liaison to Nordstrom fsb Board Retainer	20,000
Director Equity Grant of Common Stock Award having a value of	140,000
Chairman of the Board Equity Grant of Common Stock having a value of	250,000

(a) Directors may elect to take some or all of their cash retainer fees in Common Stock.

Under the Director Stock Ownership Guidelines, Directors are currently required to own Common Stock having a value of at least $425,000 by their fifth anniversary of joining the Board. As of March 2, 2015, each Director nominated for election at the Annual Meeting had either satisfied these ownership guidelines or had time remaining to do so.

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Director Summary Compensation Table

During the fiscal year ended January 31, 2015, nonemployee Directors of the Company received the following compensation for their services:

Name	Fees Earned or Paid in Cash ($)(a)(b)	Stock Awards ($)(b)(c)	All Other Compensation ($)(d)	Total ($)
Shellye L. Archambeau[1]	—	—	—	—
Phyllis J. Campbell	85,000	139,966	7,876	232,842
Michelle M. Ebanks	85,000	139,966	4,130	229,096
Enrique Hernandez, Jr.	285,000	389,926	5,445	680,371
Robert G. Miller	100,000	139,966	8,127	248,093
Philip G. Satre	100,000	139,966	2,303	242,269
Brad D. Smith	85,000	139,966	316	225,282
B. Kevin Turner	99,984	139,966	24,603	264,553
Robert D. Walter	105,000	139,966	6,154	251,120
Alison A. Winter	125,000	139,966	1,833	266,799

(1) Ms. Archambeau joined the Board of Directors in February 2015, following the end of the fiscal year.

(a) Fees Earned or Paid in Cash

The amounts reported reflect the cash fees paid to each nonemployee Director, whether or not such fees were deferred or taken as Common Stock. In addition to the $85,000 annual retainer, Mr. Hernandez received $200,000 for service as Chairman of the Board; Mr. Miller and Mr. Satre each received $15,000 for service as the Finance Committee Chair and Corporate Governance and Nominating Committee Chair, respectively. Mr. Turner received $15,000 for service as the Technology Committee Chair and elected to take his cash fees in Common Stock. Mr. Walter received $20,000 for service as the Compensation Committee Chair, and Ms. Winter received $20,000 for service as the Audit Committee Chair and $20,000 for service as Audit Committee Liaison.

(b) Deferred Compensation Program

Nonemployee Directors may elect to defer all or a part of their cash retainers and stock awards under the Nordstrom Directors Deferred Compensation Plan (“Directors Plan”). Directors are required to make advance elections to defer the receipt of fees or stock awards, and all deferral elections generally are irrevocable. Directors are also required to make advance elections about the form and timing of distribution of their deferred cash fees or stock awards.

Cash deferrals may be directed among 19 deemed investment alternatives and gains and losses for cash deferrals are posted to the Director's account daily based on their investment elections. In addition, plan participants are offered a fixed rate option of 5%, which is not subsidized by the Company, but rather is a rate based on guaranteed contractual returns from a third-party insurance company provider. Deferred stock awards are credited to the Director's account as units. Each unit in the Directors Plan is equal in value to the price of one share of Common Stock. Each deferred unit is credited with dividends, in the form of additional units, to the same extent as a share of Common Stock.

During the fiscal year ended January 31, 2015, Mr. Walter deferred 100% of his stock award into the Directors Plan.

(c) Stock Award

The amounts reported reflect the grant date fair value associated with each Director's stock awards. Fractional shares are not awarded or paid in cash. In recognition of the significant time and attention in performing the duties required of the position, our Chairman of the Board is annually awarded, on the date of the Company's Annual Meeting, an additional stock award having a value of $250,000.

(d) All Other Compensation

All Directors, their spouses and eligible children may participate in the Company's merchandise discount program. The program provides discounts ranging from 20% for eligible nonmanagement employees up to 33% for eligible management and high-performing nonmanagement employees and Directors. A 40% discount is available at certain times of the year on specified merchandise. These discounts vary somewhat by source and type of merchandise or service. During the fiscal year ended January 31, 2015, All Other Compensation consisted only of merchandise discounts.

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended January 31, 2015, no member of the Compensation Committee was an employee, officer or former officer of the Company or any of its subsidiaries, and no Executive Officer of the Company served on the board of directors or compensation committee of any entity that has one or more directors, or compensation committee of any entity that has one or more Executive Officers, serving as a member of the Company's Board or Compensation Committee.

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Codes of Business Conduct and Ethics and Other Policies

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions.

We have also adopted a Directors' Code of Business Conduct and Ethics that applies to all of our Directors. A grant of a waiver from a provision of the codes requiring disclosure under applicable SEC rules, if any, will be disclosed on our website at *investor.nordstrom.com* under Corporate Governance.

We have a policy that prohibits Directors and Executive Officers (as well as other key insiders and their immediate family members) from engaging in hedging or short sale transactions with respect to the Company's Common Stock. We also have a policy with respect to pledging of Common Stock, which subjects Directors and Executive Officers to a preclearance requirement and restrictions, including that pledged shares may not be counted toward the Company's stock ownership guidelines. As a group, our Executive Officers, in the aggregate, have less than 0.5% of the Company's outstanding shares pledged to third parties and are compliant with our policy.

Corporate Social Responsibility

Our goal is to operate our business with the utmost integrity and serve our customers, employees and shareholders in a way that is deserving of their support and trust. Social responsibility is something we take pride in ensuring every day. We actively pursue solutions to reduce our environmental impact, contribute to the communities we serve, and respect the rights of workers who create our products. We believe that both transparency and collaboration are key to progress in all of these areas. As such, we will continue to work with and learn from interested parties. More information can be found on this and other subjects at *nordstrom.com* under Nordstrom Cares.

Website Access to Corporate Governance Documents

The Charters for each of the standing Committees of the Board, the Company's Corporate Governance Guidelines, the Employee Code of Business Conduct and Ethics, and the Directors' Code of Business Conduct and Ethics, as well as all Company filings made with the SEC, may be accessed through our website at *investor.nordstrom.com*, under Corporate Governance and SEC Filings

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PROPOSAL 1 ELECTION OF DIRECTORS

The Board recommends a vote FOR each nominee.

Thirteen nominees, recommended by the Company's Board of Directors, will be elected at the Annual Meeting, each to hold office until the 2016 Annual Meeting of Shareholders and until their successors have been duly elected and qualified. All of the nominees, who are listed in this Proposal 1, are currently Directors of the Company.

Director Qualifications and Experience

The Board, acting through the Corporate Governance and Nominating Committee, seeks a Board that, as a whole, possesses the experience, skills, backgrounds and qualifications appropriate to function effectively in light of the Company's current and evolving business circumstances. The Committee reviews the size of the Board, the tenure of our Directors and their skills, backgrounds and experiences in determining the slate of nominees and whether to seek one or more new candidates. The Committee seeks directors with established records of significant accomplishments in business and areas relevant to our strategies. With respect to the nomination of continuing Directors for re-election, the individual's prior contributions to the Board are also considered.

All of our Directors bring to our Board a wealth of executive leadership experience derived from their service as executives and, in most cases, chief executive officers of large corporations. As a group, they also bring extensive board experience. The process undertaken by the Committee in recommending qualified director candidates is described in the Director Nominating Process below.

Director Nominating Process

The Corporate Governance and Nominating Committee is responsible for identifying and recommending to the Board the nominees to stand for election as directors at each Annual Meeting of Shareholders or, if applicable, at a special meeting of shareholders.

In nominating director candidates, the Committee considers such factors as it deems appropriate, including whether there are any evolving needs of the Board with respect to a particular field, skill or experience. These factors may include judgment, skill, experience with businesses and other organizations, the candidate's experience relative to the experience of other members of the Board and the extent to which the candidate would be a desirable addition to the Board and any Committees of the Board. In addition to these factors, the Committee may also consider a director

candidate's diversity of background during the evaluation and selection process of director candidates. In this context, diversity is broadly construed to mean varied skills, backgrounds and experiences, which include gender and ethnicity, as well as other differentiating characteristics, all in the context of the requirements and needs of the Board at that point in time. The Committee, however, does not have a formal policy regarding how diversity of background should be applied in identifying or evaluating director candidates, and, depending on the current needs of the Board, the Committee may weigh certain factors more or less heavily. The goal of the Committee is to assist the Board in attracting competent individuals with the requisite management, financial and other expertise who will act as directors in the best interests of the Company and its shareholders.

The Committee will consider the qualifications of director candidates recommended by shareholders, and evaluate each of them using the same criteria the Committee uses for incumbent candidates. Shareholders who wish to submit nominees for election as directors should follow the procedures described on page 64.

No director candidates were recommended by our shareholders for election at the Annual Meeting.

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Our Director Nominees

Information related to the Director nominees as of March 26, 2015 is set forth below, including age, and the particular experience, qualifications, attributes or skills that led the Board to conclude that the person should serve as a Director for the Company.

Shellye L. Archambeau

Director since 2015
Age 52

Specific qualifications, experience, skills and expertise:

•Operating and senior management experience, including experience as a chief executive officer

•Core business, management and enterprise risk skills

•Expertise in e-commerce, marketing and emerging technologies

•Public company director and committee experience

Chief Executive Officer of MetricStream, Inc., a global provider of governance, risk, compliance and quality management solutions to corporations across diverse industries, since 2002. Prior to joining MetricStream, Ms. Archambeau was Chief Marketing Officer and Executive Vice President of Sales for Loudcloud, Inc., a provider of Internet infrastructure services, from 2001 to 2002; Chief Marketing Officer of NorthPoint Communications from 2000 to 2001; and President of Blockbuster Inc.'s e-commerce division from 1999 to 2000. Before joining Blockbuster, Ms. Archambeau held domestic and international executive positions during a 15-year career at IBM. Ms. Archambeau has been a director of Verizon, Inc. since December 2013. She served as a director of Arbitron, Inc. from 2005 to 2013.

Ms. Archambeau brings to the Board, among other skills and qualifications, leadership experience in technology, e-commerce, digital media and communications, as well as financial and accounting skills. Her technology and international experience uniquely positions her to advise the Board and senior management on global operations and on technology innovations to elevate the customer experience.

Phyllis J. Campbell

Director since 2004
Age 63

Specific qualifications, experience, skills and expertise:

•Operating and senior management experience, including in the financial sector and its retail applications

•Core business, management and leadership skills

•Expertise in accounting, risk management and marketing

•Public company director and committee experience

Chairman of the Pacific Northwest Region of JPMorgan Chase & Co., a global financial services firm, since 2009. President and Chief Executive Officer of The Seattle Foundation, a community-based philanthropic organization, from 2003 to 2009. President and Chief Executive Officer of US Bank of Washington, a division of US Bancorp, from 1993 to 2001. Ms. Campbell held various other management positions of increasing responsibility with US Bank of Washington from 1989 to 1993. Ms. Campbell has been a director of Alaska Air Group, Inc. since 2002 and Lead Independent Director since 2010. She served as a director of Puget Energy, Inc. from 1999 to 2009 and as a director of its subsidiary, Puget Sound Energy, Inc. from 1993 to 2009.

Ms. Campbell brings to the Board her extensive experience in the financial sector and her senior leadership skills developed in her executive role with a national bank and prior role as chief executive officer of a large philanthropic organization, as well as her public company board experience.

Michelle M. Ebanks

Director since 2011
Age 53

Specific qualifications, experience, skills and expertise:

•Operating and senior management experience at a global media and communications company

•Core business, management and leadership skills

•Expertise in media, publishing and communications

•Authority on marketing to multicultural audiences

President of Essence Communications, a media and communications company and subsidiary of Time Inc., since 2005, and Group Publisher since 2001. Prior to that, Ms. Ebanks served as Senior Vice President and Chief Operating Officer of Time and Essence Magazines Partnership from 1999 to 2001. Ms. Ebanks was General Manager of Time, Inc.'s Money Magazine from 1998 to 1999 and Financial Director from 1996 to 1998. From 1985 to 1996, Ms. Ebanks held a number of management and financial positions of increasing responsibility with Condé Nast Publications, including Corporate Business Manager from 1993 to 1996.

Ms. Ebanks brings to the Board her key executive management, finance and operations experience in the media and communications arena, and a unique perspective on marketing to multicultural audiences.

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Enrique Hernandez, Jr.

Director since 1997
Age 59

Specific qualifications, experience, skills and expertise:

- Operating and senior management experience, including experience as chief executive officer of a regulated global corporation
- Core business, management and leadership skills, and legal expertise
- Expertise in communication and consumer marketing
- Public company director and committee experience, including experience as chairman of the board

President and Chief Executive Officer of Inter-Con Security Systems, Inc., a worldwide security and facility support services provider, since 1986 and Executive Vice President and Assistant General Counsel from 1984 to 1986. Prior to joining Inter-Con Security Systems, Mr. Hernandez, who is a licensed attorney, practiced law with the firm of Brobeck, Phleger & Harrison in Los Angeles. Mr. Hernandez has been a director of McDonald's Corporation since 1996, Wells Fargo & Company since 2003 and Chevron Corporation since 2008. Mr. Hernandez served as a director of the Tribune Company from 2001 to 2007.

Mr. Hernandez brings to the Board executive, operational, executive compensation and legal experience with a regulated business with a large number of employees in the United States and abroad, as well as key marketing skills, experience in corporate governance matters and working with diverse boards of directors, management oversight, risk assessment and expertise in responding to complex financial, operational and strategic challenges.

Robert G. Miller

Director since 2005
Age 70

Specific qualifications, experience, skills and expertise:

- Operating and senior management experience, including experience as a chief executive officer of a national retail business

•Core business, management and leadership skills

•Financial, investment and strategic expertise

•Public company director and committee experience, including experience as chairman of the board

Chief Executive Officer of Albertsons LLC, a retail grocery chain, since 2006. Prior to joining Albertsons, Mr. Miller was Chief Executive Officer of Rite Aid Corporation, a retail pharmacy chain, from 1999 to 2003, and Chairman of the Board from 1999 to 2007. Mr. Miller was Vice Chairman and Chief Operating Officer of The Kroger Co., a grocery supermarket company, during 1999, Vice Chairman of the Board and Chief Executive Officer of Fred Meyer, Inc., a grocery supermarket company, from 1998 to 1999 and Chairman of the Board and Chief Executive Officer of Fred Meyer, Inc. from 1991 to 1998. He served as a director of SuperValu, Inc. from March 2013 to December 2013, Rite Aid Corporation from 1999 to 2011, and Harrah's Entertainment, Inc. from 1999 to 2008.

Mr. Miller's experiences at Fred Meyer, Rite Aid and Albertsons, which operate multi-store retail businesses in a highly competitive marketplace, provide him with financial, accounting, strategic and operational skills and experience acquiring and divesting assets. Mr. Miller's extensive experience in the consumer products and retail industries enables him to provide insights that are invaluable to the Board. Further, Mr. Miller's broad board experience at SuperValu, Rite Aid, Kroger, Fred Meyer and Harrah's has provided him key skills in working with directors, understanding board processes and functions, responding to complex financial, operational and strategic challenges and overseeing management.

Blake W. Nordstrom

Director since 2005[(a)]
Age 54

Specific qualifications, experience, skills and expertise:

- Unique perspective and retail insights into the business, including competitive and financial positioning, senior leadership and strategic opportunities and challenges
- Operating, business and senior management experience at a national retail corporation
- Financial expertise
- Core business, management and leadership skills

President of Nordstrom, Inc. since August 2000. Mr. Nordstrom previously served as Executive Vice President and President of Nordstrom Rack from February 2000 to August 2000, and as Co-President of the Company from 1995 to

February 2000. Mr. Nordstrom has held various other management and sales positions of increasing responsibility since joining the Company in 1975. He served as a director of the Federal Reserve Bank of San Francisco, Seattle Branch, from 2004 to 2006 and as a director of the Federal Reserve Bank of San Francisco from 2007 to 2012. Mr. Nordstrom served as a director of Whole Foods, Inc. from 2011 to 2012.

Mr. Nordstrom's positions of increasing responsibility with the Company over more than 35 years, including diverse executive and operational roles, give him a customer-centric perspective in retailing and supporting the business of the Company.

(a) Blake, Erik and Peter Nordstrom are brothers, great grandsons of the Company's founder and the second cousins of James F. Nordstrom, Jr., an Executive Vice President of the Company. Erik and Peter Nordstrom's biographical information is on the following page.

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Erik B. Nordstrom

Director since 2006
Age 51

Specific qualifications, experience, skills and expertise:

- Unique retail insights into the business of the Company, including competitive positioning and strategic opportunities and challenges
- Operating and senior management experience at a national retail corporation
- Core business, management and leadership skills
- Store and e-commerce management and retail expertise

Executive Vice President and President – Nordstrom.com since May 2014. From February 2006 to May 2014, Mr. Nordstrom was Executive Vice President and President – Stores of Nordstrom, Inc. From August 2000 to February 2006, Mr. Nordstrom served as Executive Vice President – Full-Line Stores. Mr. Nordstrom previously served as Executive Vice President and Northwest General Manager from February 2000 to August 2000, and as Co-President of the Company from 1995 to February 2000. He has held various other management and sales positions of increasing responsibility since joining the Company in 1979.

Mr. Nordstrom's positions of increasing responsibility with the Company over more than 35 years, including executive and operational roles, give him a customer-centric perspective in retailing and supporting the business of the Company.

Peter E. Nordstrom

Director since 2006
Age 53

Specific qualifications, experience, skills and expertise:

- Unique retail insights into the business of the Company, including competitive merchandising and strategic opportunities and challenges

•Operating and senior management experience at a national retail corporation

•Core business, management and leadership skills

•Merchandising and retail expertise

Executive Vice President and President – Merchandising of Nordstrom, Inc. since February 2006. From September 2000 to February 2006, Mr. Nordstrom served as Executive Vice President and President – Full-Line Stores. Mr. Nordstrom previously served as Executive Vice President and Director of Full-Line Store Merchandise Strategy from February 2000 to September 2000, and as Co-President of the Company from 1995 to 2000. He has held various other management and sales positions of increasing responsibility since joining the Company in 1978.

Mr. Nordstrom's positions of increasing responsibility with the Company over more than 35 years, including executive and operational roles, give him a customer-centric perspective in retailing and supporting the business of the Company.

Philip G. Satre

Director since 2006
Age 65

Specific qualifications, experience, skills and expertise:

•Operating and senior management experience, including experience as chief executive officer of a highly regulated corporation

•Core business, management and leadership skills, and legal expertise

•Expertise in customer loyalty and service programs, and complex financial, operational and strategic matters

•Public company director and committee experience, including experience as chairman of the board

Retired Chief Executive Officer of Harrah's Entertainment, Inc., a provider of branded casino entertainment, from 1994 to 2003 and a director of Harrah's from 1988 to 2005, serving as Chairman of the Board from 1997 to 2005. Mr. Satre held various other positions of increasing responsibility with Harrah's beginning in 1980, when he joined the company as Vice President, General Counsel and Secretary, until his retirement in 2005. Prior to joining Harrah's, Mr. Satre practiced law in Reno, Nevada. He has been a director of International Game Technology since January 2009 and its Chairman since December 2009. Mr. Satre served as a director of NV Energy from 2005 through 2013, Rite Aid Corporation from 2005 to 2011 and Tabcorp Holdings, Ltd. (Australia) from 2000 to 2007.

Mr. Satre's roles at Harrah's Entertainment provide him legal experience, senior leadership skills as chief executive officer and experience overseeing customer loyalty and service programs. Further, Mr. Satre's substantial board experience at International Game Technology, Rite Aid, NV Energy, Tabcorp and his role as Chairman of Harrah's Entertainment, which under his leadership became one of the world's largest casino gaming companies, provide him with extensive experience responding to complex financial, operational and strategic challenges, experience with corporate governance matters and key skills in working with directors, understanding board processes and functions, assessing risk and overseeing management.

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Brad D. Smith

Director since 2013
Age 50

Specific qualifications, experience, skills and expertise:

- Operating and senior management experience, including experience as a chief executive officer
- Core business, management and leadership skills
- Expertise in online worldwide sales and global operations
- Merchandising, branding and information technology expertise

President and Chief Executive Officer of Intuit, Inc., a global provider of business and financial management solutions since 2008. Mr. Smith has served on Intuit's board of directors since 2008. Mr. Smith joined Intuit in 2003 and served as Senior Vice President and General Manager, Small Business division from 2006 to 2007, Senior Vice President and General Manager, QuickBooks from 2005 to 2006, Senior Vice President and General Manager, Consumer Tax Group from 2004 to 2005 and as Vice President and General Manager of Intuit's Accountant Central and Developer Network from 2003 to 2004. Before joining Intuit, Mr. Smith was Senior Vice President of Marketing and Business Development of ADP, where he held several executive positions from 1996 to 2003. Mr. Smith served on the board of directors of Yahoo! Inc. from 2010 until 2013.

Mr. Smith brings to the Board digital expertise, brand marketing, innovation and entrepreneurial experience, as well as financial and accounting skills, from his position at Intuit. He provides unique insights related to technology innovation and marketing of products and services to broad audiences throughout the world. Mr. Smith's service on the boards of Yahoo! and Intuit provide him with experience in corporate governance matters and key skills in working with directors, understanding board processes and functions, assessing risk and overseeing management.

B. Kevin Turner

Director since 2010
Age 49

Specific qualifications, experience, skills and expertise:

- Operating and senior management experience, including experience as a chief executive officer of a global corporation

- Core business, management and leadership skills

- Expertise in online worldwide sales and global operations

- Merchandising, branding and information technology expertise

Chief Operating Officer of Microsoft Corporation, a worldwide software, services and solutions provider, since 2005. In his capacity as Chief Operating Officer, Mr. Turner's areas of responsibility include global/worldwide sales, marketing, services, operations, customer service and support, worldwide licensing and pricing, corporate public relations, corporate information technology, worldwide partner channel management and the retail stores division. Mr. Turner served as Chief Executive Officer and President of Sam's Club, a Wal-Mart subsidiary corporation from 2002 to 2005. Between 1985 and 2002, Mr. Turner held a number of positions of increasing responsibility with Wal-Mart Stores, Inc., including Executive Vice President and Global Chief Information Officer from 2001 to 2002.

Mr. Turner's experience at Microsoft and Wal-Mart have provided him with strategic and operational leadership skills and expertise in online worldwide sales, global operations, supply chain, merchandising, branding, marketing, information technology and public relations.

Robert D. Walter

Director since 2008
Age 69

Specific qualifications, experience, skills and expertise:

- Operating and senior management experience, including experience as chief executive officer of a global corporation

- Core business, management and leadership skills

- Executive compensation, financial, and strategic expertise

- Public company director and committee experience, including experience as chairman of the board

Founder and retired Chairman and CEO of Cardinal Health, Inc., a health care services company. Mr. Walter retired from Cardinal Health in June 2008. Prior to his retirement, he served as Executive Director from November 2007 to June 2008; Executive Chairman of the Board from April 2006 to November 2007; and Chairman and Chief Executive Officer from 1971 to April 2006. Mr. Walter has been a director of American Express Company since 2002 and YUM! Brands, Inc. since 2008. He served as a director of Cardinal Health (and its predecessors) from 1971 to

November 2008.

Mr. Walter’s roles at Cardinal Health, which under his leadership grew from a small regional business to become one of the largest distributors of pharmaceuticals, health and beauty products and hospital supplies in the United States, provide him executive, operational, accounting and executive compensation experience, leadership and strategic skills and significant experience acquiring and developing businesses and building management teams. Further, Mr. Walter’s proven financial and business acumen and significant board experience at American Express and YUM! Brands give him background and experience working with directors, overseeing management and assessing risk.

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Alison A. Winter

Director since 2001
Age 68

Specific qualifications, experience, skills and expertise:

- Operating and senior management experience, including experience as chief executive officer of a private banking service firm
- Core business, management and leadership skills
- Expertise in the financial sector and its retail applications
- Financial expertise and unique understanding in the area of technology and the consumer

Chief Executive Officer of Braintree Holdings, LLC, a private investments and consulting services firm, which she founded in 2003. Ms. Winter served as a senior advisor and consultant to Northern Trust Corporation, a provider of banking and trust services for individuals, institutions and corporations, from 2007 to 2010. Ms. Winter, who is a Chartered Financial Analyst, was Northern Trust Corporation's Founding President and Chief Executive Officer for Personal Financial Services – Northeast from 2003 to 2006, Co-President, Personal Financial Services from 2002 to 2003 and a member of the Management Committee from 2002 to 2006. She held various other positions of increasing responsibility with Northern Trust Corporation beginning in 1971 when she joined the company.

Ms. Winter's roles at Northern Trust, which is a consumer- and business-facing financial service company, have provided her significant executive and operational experience, leadership skills, an understanding of the consumer and financial experience.

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AUDIT COMMITTEE REPORT

The following Report of the Company's Audit Committee of the Board (the "Audit Committee") does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference.

The Audit Committee operates under a written Charter adopted by the Board. The Charter contains a detailed description of the scope of the Audit Committee's responsibilities and how they will be carried out. The Audit Committee's Charter is available on our website at *investor.nordstrom.com,* under Corporate Governance.

The Board determined that each member of the Audit Committee is independent from the Company as such term is defined in Sections 303.01(B)(2)(a) and (3) of the NYSE's listing standards at all times during the fiscal year and that each member was an "audit committee financial expert" within the meaning of Item 407 of Regulation S-K under the Securities Exchange Act of 1934.

The Audit Committee serves in an oversight capacity and is not part of the Company's managerial or operational decision-making process. As part of its responsibilities for oversight of the Company's Enterprise Risk Management process, the Audit Committee reviews and discusses Company policies and processes with respect to risk assessment and risk management, including discussions of individual risk areas. Management is responsible for the Company's internal controls and the financial reporting process. Deloitte, the Company's independent registered public accounting firm, reports to the Company's Audit Committee, and is responsible for performing an integrated audit of the Company's consolidated financial statements and internal control over financial reporting in accordance with auditing standards generally accepted in the United States of America.

Deloitte and the Company's internal auditors have full access to the Audit Committee. The auditors meet with the Audit Committee at each of the Audit Committee's regularly scheduled meetings, with and without management being present, to discuss appropriate matters. The Audit Committee has the sole authority to engage, evaluate and terminate the Company's independent auditors. The Audit Committee also pre-approves all auditing services, internal control-related services and permitted nonaudit services to be performed by the Company's independent auditors.

The Audit Committee recommended to the Board that the audited consolidated financial statements for the fiscal year ended January 31, 2015 be included in the Company's Annual Report on Form 10-K for such fiscal year, based on the following actions by the Committee:

•review and discussion of the Company's audited consolidated financial statements with management;

- review of the unaudited interim financial statements and Forms 10-Q prepared each quarter by the Company;
- review of the Company's Disclosure Committee practices and the certifications prepared each quarter in accordance with Sections 302 and 906 of the Sarbanes-Oxley Act of 2002;
- discussions with management regarding the critical accounting estimates on which the financial statements are based, as well as its evaluation of alternative accounting treatments;
- receipt of management representations that the Company's financial statements were prepared in accordance with accounting principles generally accepted in the United States of America;
- discussions with management, the internal auditors, and Deloitte regarding management's assessment of the effectiveness of the Company's internal control over financial reporting and Deloitte's evaluation of the Company's internal control over financial reporting;
- discussions with legal counsel and management regarding contingent liabilities;
- receipt of the written disclosures and letter from Deloitte required by the Public Company Accounting Oversight Board Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence; and
- discussions with Deloitte regarding their independence, the audited consolidated financial statements, the matters required to be discussed by *Statement on Auditing Standards ("SAS") No. 61 Communication with Audit Committees,* as amended, and other matters, including Rule 2-07 of SEC Regulation S-X.

AUDIT COMMITTEE

Shellye L. Archambeau
Phyllis J. Campbell
Robert G. Miller
Brad D. Smith
Alison A. Winter, *Chair*

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PROPOSAL 2 RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board recommends a vote FOR this proposal.

The Audit Committee, consistent with NYSE and SEC rules, has appointed Deloitte to be the Company's independent registered public accounting firm for the fiscal year ending January 30, 2016. Deloitte and its predecessors have served as the Company's independent registered public accounting firm for over forty years, including the fiscal year ended January 31, 2015.

As a matter of good corporate practice to provide shareholders an avenue to express their views on this matter, the Board has determined to seek shareholder ratification of Deloitte's appointment at this time. If the shareholders do not ratify the appointment of Deloitte, the Board will reconsider the appointment of the independent registered public accounting firm. A representative of Deloitte will be present at the Annual Meeting, will have the opportunity to make a statement if he or she so desires, and will be available to respond to questions.

Audit Fees

The following table summarizes fees billed or expected to be billed to the Company by Deloitte in connection with services for the fiscal years ended January 31, 2015 and February 1, 2014:

	Fiscal Year Ended January 31, 2015		Fiscal Year Ended February 1, 2014	
Type of Fee	($)	(%)	($)	(%)
Audit Fees[(a)]	2,510,000	81	2,265,000	88
Audit-Related Fees[(b)]	519,000	17	261,000	10
Tax Fees[(c)]	50,000	2	45,000	2
TOTAL	3,079,000	100	2,571,000	100

(a) Audit Fees

Audit Fees primarily include services for (i) auditing the consolidated financial statements of the Company and the separate financial statements of one of the Company's wholly-owned subsidiaries, Nordstrom fsb; (ii) reviewing the interim financial information of the Company included in its Form 10-Qs; (iii) auditing the Company's 401(k) Plan; and (iv) auditing the Company's internal control over financial reporting. Substantially all of Deloitte's work on these audits was performed by full-time, regular employees and partners of Deloitte and its affiliates.

(b) Audit-Related Fees

Audit-Related Fees are fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and internal control over financial reporting. The increase in audit-related fees for the fiscal year ended January 31, 2015 was primarily due to the acquisition of Trunk Club and the potential transaction related to our credit card receivables. Also included are accounting research tool subscription fees of $2,847 for each of the fiscal years ended January 31, 2015 and February 1, 2014.

(c) Tax Fees

Tax Fees include various tax planning projects and miscellaneous compliance matters.

Pre-Approval Policy

Consistent with SEC policies regarding auditor independence, the services performed by Deloitte for the fiscal years ended January 31, 2015 and February 1, 2014 were pre-approved in accordance with the pre-approval policy and procedures adopted by the Audit Committee. This policy is periodically reviewed and updated. It describes the permitted audit, audit-related, tax and other services that Deloitte may perform. Normally, pre-approval is provided at regularly scheduled Audit Committee meetings. However, the authority to grant specific pre-approval between meetings, as necessary, has been assigned to the Chair of the Audit Committee. The Chair is responsible for updating the Audit Committee at the next regularly scheduled meeting of any services that were pre-approved between meetings.

The Audit Committee approves fees up to a specified amount associated with each proposed service. Providing for fees up to a specified amount for a service incorporates appropriate oversight and control of the Deloitte relationship, while permitting the Company to receive immediate assistance from Deloitte when time is of the essence.

The Committee also reviews on a regular basis:

- a listing of approved services since its last review;
- a report summarizing the year-to-date services provided by Deloitte, including fees paid for those services; and
- a projection for the current fiscal year of estimated fees.

The policy prohibits the Company from engaging the independent registered public accountants for services billed on a contingent fee basis and from hiring current or former employees of the independent auditor who have not satisfied the statutory cooling-off period for certain positions.

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EXECUTIVE OFFICERS

The Executive Officers of the Company are appointed annually by the Board following each year's Annual Meeting of Shareholders and serve at the discretion of the Board. In addition to Blake Nordstrom, Erik Nordstrom and Peter Nordstrom, whose biographical information is provided under Election of Directors on pages 25 and 26, the following are the other Executive Officers of the Company.

Brian K. Dennehy

Employee since 2013
Age 49

Brian K. Dennehy was named Chief Marketing Officer upon joining the Company in January 2013, and was named Executive Vice President in February 2013. Prior to joining the Company, Mr. Dennehy served as Chief Marketing Officer of Silicon Valley Bank Financial Group from March 2011 until December 2012. From 2001 to 2011, Mr. Dennehy was employed at Intuit, Inc., serving as Vice President of Business Intelligence, Data and Analytics from 2009 to 2011, Vice President of Marketing, Small Business Division from 2005 to 2009, as well as other positions in management from 2001 to 2005.

James A. Howell

Employee since 2007
Age 49

James A. Howell was named Executive Vice President – Finance and Treasurer in November 2014. From 2007 to 2014, he served as Vice President – Finance. Mr. Howell also functions as the Company's Principal Accounting Officer. From July 2003 to August 2007, Mr. Howell was employed at Blockbuster Inc., most recently as Senior Vice President and Corporate Controller. From 2002 to 2003, Mr. Howell worked for CAE SimuFlite, Inc., a provider of training for the civil aviation industry, after spending 12 years with PricewaterhouseCoopers serving clients in both the retail and financial services industries.

Michael G. Koppel

Employee since 1999
Age 58

Michael G. Koppel was named Executive Vice President and Chief Financial Officer in May 2001. From 1999 to 2001, he served as Vice President, Corporate Controller and Principal Accounting Officer. Mr. Koppel previously served as Chief Operating Officer of CML Group, a specialty retail holding company, and as Chief Financial Officer of Lids Corporation, a specialty retailer from 1997 through 1998. Prior to that, Mr. Koppel spent 13 years with the May Department Stores Company in a variety of financial and operating roles.

Daniel F. Little

Employee since 2002
Age 53

Daniel F. Little was named Executive Vice President and Chief Information Officer in February 2014. From 2003 to 2014, he served as Executive Vice President and Chief Administrative Officer and from July 2002 until March 2003, he served as Vice President – Supply Chain Strategy. Prior to joining the Company in July 2002, Mr. Little held various positions with Colgate-Palmolive from April 1993 through June 2002, most recently as Manufacturing General Manager for Personal Care Products in Europe.

James F. Nordstrom, Jr.

Employee since 1986
Age 42

James F. Nordstrom, Jr. was named Executive Vice President and President – Stores in May 2014. From 2005 to 2014, he served as Executive Vice President and President – Nordstrom Direct. He previously served as Corporate Merchandise Manager – Children's Shoes, from May 2002 to February 2005, and as a project manager for the design and implementation of the Company's inventory management system from 1999 to May 2002. Mr. Nordstrom is a great-grandson of the Company founder.

Robert B. Sari

Employee since 2009
Age 58

Robert B. Sari was named Executive Vice President, General Counsel and Secretary upon joining the Company in April 2009. Prior to joining the Company, he served as Executive Vice President, General Counsel and Secretary of Rite Aid Corporation since October 2005. Mr. Sari also served as Rite Aid's Senior Vice President, General Counsel and Secretary from 2002 to 2005 and as Senior Vice President, Deputy General Counsel and Secretary from 2000 to 2002. Mr. Sari served in other roles for Rite Aid beginning in 1997.

Geevy S. K. Thomas

Employee since 1983
Age 50

Geevy S. K. Thomas was named Executive Vice President and President – Nordstrom Rack, in February 2010. He previously served as Executive Vice President and South Regional Manager from November 2001 to February 2010, as Executive Vice President and General Merchandise Manager – Full-Line Stores from February 2001 to November 2001, and as Executive Vice President – Full-Line Stores and Director of Merchandising Strategy from February 2000 to February 2001. Prior to February 2000, Mr. Thomas held various merchandise strategy, store and regional

management positions with the Company.

Kenneth J. Worzel

Employee since 2010
Age 50

Kenneth J. Worzel was named Executive Vice President – Strategy and Development upon joining the Company in March 2010. Prior to joining the Company, he was a partner with McKinsey & Company, a global management consulting firm, from 2009 to 2010. While at McKinsey, Mr. Worzel provided the Company and other clients with management strategy and organizational services. Prior to joining McKinsey, Mr. Worzel was a managing partner at Marakon Associates, an international strategy consulting firm, from 1992 to 2008. As a partner at Marakon Associates, Mr. Worzel provided consulting services to the Company from 1997 to 2008.

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COMPENSATION OF EXECUTIVE OFFICERS

Compensation Discussion and Analysis

This section describes our executive compensation program and the compensation decisions made for our fiscal year 2014 Named Executive Officers:

Blake W. Nordstrom	President
Peter E. Nordstrom	Executive Vice President and President – Merchandising
Erik B. Nordstrom	Executive Vice President and President – Nordstrom.com
Michael G. Koppel	Executive Vice President and Chief Financial Officer
Kenneth J. Worzel	Executive Vice President – Strategy and Development

2014 Snapshot

We Enhanced the Customer Experience through Investments for Growth

We consider 2014 a defining year in our Company's history. Over the past 12 months, we successfully entered Canada, expanded our Nordstrom Rack business through store growth and the launch of Nordstromrack.com, and acquired Trunk Club. These milestones are the outcome of our strategy to serve customers on their terms and to deliver the Nordstrom experience they expect. Several years ago, we began to accelerate growth in multiple channels to evolve the personalized customer experience that merges the richness of stores with the convenience of online. In 2014, we delivered tangible results in executing this strategy and some of these highlights are shown below. We look forward to the opportunities ahead as we continue our commitment to a best-in-class customer experience through service, product and capabilities across all channels at Nordstrom.

Shareholders Support our Compensation Program

Our shareholders approved our Board's recommendation to hold Say-on-Pay advisory votes on an annual basis so that we may communicate frequently and openly about the compensation of our Named Executive Officers. Each year, shareholders demonstrate strong support for our fundamental objective of pay for performance as we continue to apply these guiding principles:

- **Motivate and reward** our people to achieve meaningful results that support our strategic goals and shareholder interests, while avoiding encouragement of excessive risk taking;
- **Attract and keep** the best talent through programs that reflect our values and consider, but are not dictated by, market practice;
- **Ensure the cost** of our programs best serve a balance of employee and shareholder business interests;
- **Keep things simple** to promote understanding for our employees and transparency for our shareholders; and
- **Be attuned to** trends and new ideas to support our programs and diverse workforce.

2014 Highlights Reflect Dynamics of Our Business Model

Achieved a new record for total net sales at over $13 billion, a 7.8% increase over our previous high last year.

Generated earnings of $720M reflecting consistent execution and ongoing investments to drive growth.

Delivered a 4.0% increase in comparable sales, with Nordstrom.com achieving 23% growth.

		2013	2014
Measures and results used for bonus payout	•Incentive Return on Invested Capital (“Incentive ROIC”)	13.8%	13.6%
	•Incentive Earnings Before Interest and Income Taxes (“Incentive EBIT”)	$1,376M	$1,391M

See page 37 and Appendix A to learn more about the performance-based bonus pay element including Incentive ROIC and Incentive EBIT results for 2014.

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We Emphasize Variable Pay and Balance Short- and Long-Term Incentives

In accordance with our pay-for-performance philosophy, the compensation program for our Named Executive Officers is straightforward in design and includes four primary elements: base salary, performance-based bonus, long-term incentives and benefits. Within these elements, we emphasize variable pay over fixed pay, with 80% of target compensation linked to our financial or market results. The program also balances the importance of these executives achieving both critical short-term objectives and long-term strategic priorities.

Our Variable Pay Reflects Company Performance

Under our pay-for-performance design, payouts to the Named Executive Officers in fiscal year 2014 were closely aligned with results for their variable pay components:

- **Performance-based bonuses** paid out at approximately 83% of target Earnings Before Interest and Income Taxes ("EBIT"), as our Incentive ROIC achievement of 13.6% exceeded the established threshold of 12.5% and Incentive EBIT results of $1,391 million exceeded the minimum performance milestone. Results reflected total sales growth of 7.8% adding just under $1 billion to our top line, partially offset by lower than expected gross profit performance. See page 37 to learn more about the performance-based bonus pay element including Incentive ROIC and Incentive EBIT results for 2014.
- **Performance share units granted under the long-term incentive plan** paid out at 75% as our total shareholder return ("TSR") of approximately 19% over the 2012-2014 fiscal year performance cycle outpaced more than half of our retail peers, surpassing the minimum threshold of greater than 50th percentile rank. See page 38 to learn more about the long-term incentive pay element and results for 2014.

Payouts for these variable compensation elements in prior years have been closely aligned with Company results as well. The following graphs show performance-based payouts to President Blake Nordstrom relative to EBIT and TSR for fiscal year 2014 and the four prior years. This pattern of pay for performance is consistent for the Named Executive Officers during these periods.

Annual EBIT Results are used to determine bonus payout and, as in 2014, may reflect related adjustments under the Executive Management Bonus Plan. Beginning in 2013, Blake Nordstrom's target bonus opportunity was increased resulting in a higher payout for similar levels of performance. See page 37 to

3-Year TSR Results reflect payout when performance surpasses the minimum threshold relative to our peers. See page 38 to learn more

learn more about the performance-based bonus pay element including Incentive ROIC and Incentive EBIT.

about the long-term incentive pay element.

The Compensation Committee reviews these results and other analyses to ensure the Named Executive Officers' aggregate compensation aligns with shareholder interests. Based on these and other outcomes, the Committee believes that total direct compensation for our Named Executive Officers reflects our pay-for-performance objective, is well-aligned with shareholder interests and compares favorably relative to our peers.

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Effective Corporate Governance Reinforces Our Compensation Program

Our executive compensation philosophy is reflected in governance practices that support the needs of our business, drive performance and align with our shareholders' long-term interests. Below is a summary of what we do and don't do in that regard.

WHAT WE DO

Pay for performance: Our compensation program for Named Executive Officers emphasizes variable pay over fixed pay, with 80% of their collective target compensation linked to our financial or market results.

Receive strong shareholder support: Each year since 2011, we have received 94% or more of the votes cast in favor of our Say-on-Pay proposal.

Retain meaningful stock ownership guidelines: Our expectations for ownership align executives' interests with those of our shareholders, and the Named Executive Officers have exceeded their targets.

Mitigate undue risk: We have caps on potential bonus payments, a clawback policy on performance-based compensation, and active and engaged oversight and risk management systems, including those related to compensation-related risk.

Engage an independent compensation consulting firm: The Compensation Committee's consultant does not provide any other services to the Company.

Apply conservative post employment and change in control provisions: Executive officers are subject to provisions in the same manner as those for our broader employee population.

Limit accelerated vesting: Our equity plan provides for accelerated vesting of equity awards after a change in control only if an executive is involuntarily terminated, a provision referred to as a "double trigger."

Restrict pledging activity: All Executive Officers are subject to pre-clearance requirements and restrictions.

WHAT WE DON'T DO

Provide employment agreements.

Offer separation benefits to Named Executive Officers who are Nordstrom family members.

Offer special perquisites to our Named Executive Officers.

Maintain separate change in control agreements.

Gross up excise taxes upon change in control.

Gross up taxes, except selected relocation expenses.

Reprice underwater stock options.

Allow grants below 100% fair market value.

Pay dividends on unearned performance share units.

Permit hedging or short-sale transactions.

Count pledged shares towards stock ownership targets.

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Context for Understanding Our Compensation Program and Decisions

This section provides background on the roles involved in determining compensation for our Named Executive Officers, our use of market data and the companies selected for our peer group.

Our Roles in Determining Compensation are Well Defined

Compensation Committee

Our Compensation Committee oversees the development and delivery of our guiding principles and compensation plans for the Named Executive Officers and other executives as described in the Committee Charter on our website at *investor.nordstrom.com.*

As part of that oversight, the Committee ensures the Named Executive Officers' aggregate compensation aligns with shareholder interests by reviewing analyses that can include:

- **Cash alignment** to evaluate the year-over-year change in payout relative to the year-over-year growth in EBIT.
- **Relative pay and performance** to compare the percentile rankings of our total direct compensation (base salary + performance-based bonus + long-term incentives) with financial performance metrics of our peer group.
- **Pay productivity** to assess EBIT generated per dollar of total direct compensation compared to our peer group when adjusted for size.

Compensation Committee Consultant

The Committee's independent executive compensation consulting firm, Semler Brossy Consulting Group, LLC, is retained by, and reports directly to, the Committee. A consultant from that firm attends the Committee meetings and supports the Committee's role by providing independent expertise on market practices, compensation program design and related subjects as described on page 19. Semler Brossy provides services only as directed by the Committee and has no other relationship with the Company. There were no fees paid to Semler Brossy for services that were not related exclusively to executive or Director compensation during fiscal year 2014.

Management

Our President provides input to the Committee on the level and design of compensation elements for the Named Executive Officers and other Executive Officers. Our Executive Vice President and Chief Financial Officer and Executive Vice President – Human Resources join the President in Compensation Committee meetings to provide perspective and expertise relevant to the agenda. Management supports the Committee’s activity by providing analyses and recommendations developed internally or with the assistance of external consulting firms other than the Committee’s consulting firm. During fiscal year 2014, technical guidance to management on executive compensation matters came primarily from the professional services firm Towers Watson.

Market Data Provides a Reference Point for Compensation

The Committee believes that knowledge of market practices, particularly those of our peers listed on the following page, is helpful in assessing the design and targeted level of our executive compensation package. In reviewing peer group information, the Committee uses a customized survey prepared by external consultants, monitors general market movement for executive pay and references proxy statements for specific roles.

During the year, the Committee also reviews general information from other published and private surveys to keep current on trends and practices while recognizing the differences across company philosophies and plan designs.

When the Committee reviews market data, they consider the 50th percentile (median) of our peer group as a reference point, rather than a policy, for positioning target total direct compensation. Target opportunities for individual pay elements vary by executive role based on scope of responsibilities and expected contributions.

Blake, Peter and Erik Nordstrom’s target total direct compensation for 2014 was somewhat below our peer group median. Michael Koppel and Kenneth Worzel’s target total direct compensation was within a competitive range of our peer group median. Actual pay for the Named Executive Officers can exceed our established targets or peer group actual pay through the variable compensation elements when pre-determined performance milestones are achieved.

Peer Group Companies Represent Our Business

Each year, the Committee reviews the appropriateness of our peer group for comparison on pay and related practices. While the companies represent prominent brands and specialty retailers that are relevant to Nordstrom, they may not always have a direct match to our product offerings or annual revenue. However, the peer group companies meet the following selection criteria:

- **collective representation of our primary business areas** including our Nordstrom full-line and Rack stores, online business and private label products;
- **some overlap with our industry group** as defined by institutional shareholders and shareholder service organizations;
- **general compatibility with our compensation strategy** through a competitive offering of the primary pay elements of base salary, performance-based bonus and long-term incentives; and
- **subject to similar market pressures** with a track record of sustainability.

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Our peer group for fiscal year 2014 was as follows:

Abercrombie & Fitch Co.	Kohl's Corporation	Starbucks Corporation
Bed Bath & Beyond, Inc.	L. Brands, Inc.	Tiffany & Co.
Coach, Inc.	Macy's, Inc.	The TJX Companies, Inc.
Dillard's, Inc.	Neiman Marcus, Inc.	Urban Outfitters, Inc.
Foot Locker, Inc.	Nike, Inc.	VF Corporation
Gap, Inc.	Ralph Lauren Corporation	Williams-Sonoma, Inc.
J.C. Penney Company, Inc.	Ross Stores, Inc.	

Each Element of Compensation Has its Own Purpose

Our compensation program for Named Executive Officers is made up of four primary elements outlined below. Each element has its own purpose based on our fundamental premise of pay for performance and our guiding principles. Learn more about these elements where noted.

Compensation Element	Purpose	2014 Changes in Element Features or Potential Value
Base Salary (Page 37)	Reflect scope of the role and individual performance through base-line cash compensation.	Base salary: We increased pay for Michael Koppel and Kenneth Worzel to reward performance and maintain market competitiveness.
Performance-Based Bonus (Page 37)	Motivate and reward contributions to annual operating performance and long-term business strategy with cash that varies based on results.	None
Long-Term Incentives (Page 38)	Promote alignment of executive decisions with Company goals and shareholder interests through stock options, performance share units and restricted stock units where value varies with Company stock performance.	Performance share units: We changed the peer group from selected retail companies to the S&P 500 to create a broader market against which to measure our performance. We also provided the opportunity for vesting when relative performance of TSR exceeds peers in both up and down markets. Equity mix: We introduced restricted stock units to improve the relevancy of our total compensation package and balance our objectives for awarding value through both absolute and relative stock performance.
Benefits (Page 39)	Enhance total compensation with meaningful and competitive broad-based, leadership and retirement benefits that support healthy lifestyles and contribute to financial security.	401(k) match and profit sharing: In 2014, the Plan design was updated to replace the profit sharing portion with a new profit-based 401(k) matching contribution which takes effect in 2015. Supplemental Executive Retirement Plan: The annual benefit awarded upon retirement was capped at $700,000.

Only Base Pay Element Values Changed for 2014

On an annual basis, the Compensation Committee reviews base salary, performance-based bonus target opportunity and long-term incentive grant value for each of the Named Executive Officers in consideration of the upcoming fiscal year. Committee decisions for fiscal year 2014 are summarized below. The Committee believes these elements and the overall compensation program are meeting the expectations for our pay-for-performance philosophy and guiding principles.

	Base Salary ($)		Performance-Based Annual Cash Bonus (Target Opportunity as % of Base Salary)		Long-Term Incentives Annual Grant (Grant Value as % of Base Salary)	
Name	**FY 2013**	**FY 2014**	**FY 2013**	**FY 2014**	**FY 2013**	**FY 2014**
Blake W. Nordstrom	725,000	same	200	same	250	same
Peter E. Nordstrom	725,000	same	200	same	250	same
Erik B. Nordstrom	725,000	same	200	same	250	same
Michael G. Koppel	720,000	748,800	90	same	175	same
Kenneth J. Worzel	520,000	540,800	80	same	150	same

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About Our Compensation Elements, What We Paid in 2014 and Why

Base Salary

The Committee begins its annual review of base salary for the Named Executive Officers through discussion with the President on the previous year's expectations and achievements of each executive, their pay history and pay equity with other internal roles. The Committee then references our pay levels to similar roles in peer companies to ensure they are within a competitive range of peer group median.

Named Executive Officers do not necessarily receive increases in base salary every year. When they do, the changes are effective April 1st following their annual performance review, which includes a discussion about individual results against defined expectations.

For 2014, Michael Koppel and Kenneth Worzel received increases in base pay to acknowledge their performance and maintain market competitiveness.

Performance-Based Annual Cash Bonus

The opportunity for annual performance-based cash awards under our shareholder-approved Executive Management Bonus Plan is designed to focus the Named Executive Officers on the alignment between annual operating performance and long-term business strategy. In support of our guiding principles, the performance-based bonus awards pay out only when pre-determined performance milestones are achieved. The Committee establishes the following criteria in developing the annual bonus arrangements:

- **Target bonus opportunity:** In determining the target percentage of base salary shown on page 36, the Committee takes into account the mix of pay elements, market pay information for similar roles within our peer group and the internal relationship between roles within the Company.

  In support of our pay-for-performance philosophy, the maximum bonus payout, which is associated with superior performance, is 2.5 times an executive's target bonus opportunity. This maximum is higher than is common among our retail peers because we believe it is important to continue encouraging and paying rewards when we achieve truly superior results.

- **Performance measures:** The Committee establishes the performance measures to focus executives on the most important annual and long-term strategic goals. For fiscal year 2014, the Named Executive Officers all had the following measures:

- **ROIC** to ensure our overall performance aligns directly with shareholder returns over the long term. The measure is expressed as a threshold that must be met before any payout can be made on EBIT results to ensure our executives are rewarded after earnings generate a meaningful return for our shareholders.
- **EBIT** to emphasize the importance of earnings improvement and its role in driving shareholder value. Each executive's performance-based bonus was weighted 100% on this measure, subject to the ROIC threshold.

- **Performance measure milestones:** The Committee defines financial milestones for ROIC (as a threshold) and EBIT (as a range) that relate to varying percentages of bonus payout. The difficulty level in achieving the milestones reflects the Committee's belief that there should be a balance between executive pay opportunity, reinvestment in the Company and return to shareholders.

In accordance with our bonus plan, ROIC and EBIT achievement used to determine bonus payout may differ from ROIC and EBIT reported in our financial statements due to the exclusion of certain one-time gains or losses. In this situation, we refer to the measure achievements as Incentive ROIC and Incentive EBIT. This is the case for 2014 where achievements reflect nonoperating related adjustments not included in the financial plan.

- The ROIC threshold was set at a level consistent with the minimum EBIT performance to ensure that an appropriate return on our invested capital was achieved before any bonus was paid out. The 2014 Incentive ROIC achievement of 13.6% exceeded the established threshold of 12.5%.
- The minimum EBIT performance was established at a likely, but not certain, level of attainment and was based on growth assumptions for sales and earnings. The minimum performance ensures no payout is earned until a defined level of EBIT is achieved. The target performance represents stretch results relative to growth in the annual operating plan, our historical performance trends, market conditions and current external projections for the Company. The superior performance indicates breakthrough results and considers earlier periods of strong earnings growth. The 2014 Incentive EBIT achievement of $1,391 million exceeded the minimum performance milestone of $1,322 million required for payout.

- The 2014 achievements in Incentive ROIC and Incentive EBIT resulted in a bonus payout of 83% of each executive's target bonus opportunity. These results reflected total sales growth of 7.8% adding just under $1 billion to our top line, partially offset by lower than expected gross profit performance. The fiscal year 2014 EBIT performance milestones, Incentive EBIT achievement and related bonus payout levels are shown below. Incentive ROIC and Incentive EBIT are not measures of financial performance under Generally Accepted Accounting Principles ("GAAP") and should be considered in addition to, and not a substitute for, return on assets, net earnings, total assets and other financial measures prepared in accordance with GAAP. See Appendix A for a reconciliation of GAAP and non-GAAP financial measures.

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The bonus payout calculation for each Named Executive Officer is shown below. The payout amounts are also shown in the Summary Compensation Table on page 42 in column (e) "Non-Equity Incentive Plan Compensation." The range of possible payouts for fiscal year 2014 performance under the Executive Management Bonus Plan is shown in the Grants of Plan-Based Awards in Fiscal Year 2014 table, column (b), on pages 45 and 46.

Name	**Target Bonus Opportunity (%)**		**Base Salary ($)**		**Target Bonus Payout ($)**		**Payout of Target Bonus Opportunity (%)**		**Bonus Payout ($)**
Blake W. Nordstrom	200	x	725,000	=	1,450,000	x		=	1,197,990
Peter E. Nordstrom	200	x	725,000	=	1,450,000	x		=	1,197,990
Erik B. Nordstrom	200	x	725,000	=	1,450,000	x	82.62%	=	1,197,990
Michael G. Koppel	90	x	748,800	=	673,920	x		=	556,793
Kenneth J. Worzel	80	x	540,800	=	432,640	x		=	357,447

Long-Term Incentives

Annual grants of equity under the shareholder-approved 2010 Equity Incentive Plan provide the Named Executive Officers with an incentive to create shareholder value and receive financial rewards. The long-term incentive value that determines the size of the annual grant to Named Executive Officers is expressed as a percentage of base salary as shown on page 36.

In establishing the long-term incentive value at grant for each Named Executive Officer, the Committee considers the mix of pay elements, market pay information for similar roles within our peer group, our annual share usage and dilution, and internal equity of grant size by role. The grant value of the equity awarded to Named Executive Officers in the fiscal year 2014 annual grant consisted of 50% stock options, 25% performance share units and 25% restricted stock units. In addition to the 2014 annual grant, Kenneth Worzel received a grant of restricted stock units to recognize his contributions to strategic priorities across the Company as reported on page 46.

The Committee typically approves grants of equity awards on an annual basis during the February Compensation Committee meeting, which is scheduled at least a year in advance. Scheduling decisions are made without regard to anticipated earnings or other major announcements by the Company. The February meeting occurs after performance results are known which allows the Committee to align compensation elements with our performance and business goals.

Stock Options, Performance Share Units and Restricted Stock Units Create the Right Balance

The Committee believes the relationship between our equity vehicles represents the right balance of absolute and relative performance.

- **Stock options** provide motivation for creating increased value while aligning management and shareholder interests in our growth. The options vest and become exercisable in four equal annual installments beginning one year from the date of grant and have a 10-year term. None of our equity incentive plans permit repricing, grant prices below 100% of the fair market value of Common Stock on the date of grant or cash dividend payments on options.
- **Performance share units** focus the executives on relative performance compared to companies in Standard & Poor's 500. The units are earned after a three-year performance cycle only when the Company's growth in TSR outperforms more than 50% of the companies identified for that grant. The Committee believes relative TSR is a meaningful measure for performance share units as it aligns with shareholder interests and complements the measures established for executives under the performance-based bonus plan.

For purposes of determining the TSR percentile rank, the share price of our Common Stock and the share prices of the companies in the peer group are based on a 30 trading-day closing price average that is established both prior to the beginning of the performance cycle and prior to the end of the performance cycle. These parameters recognize the importance of relative performance while balancing against volatility within the peer group.

In keeping with our pay-for-performance philosophy, our approach to performance share units requires a high standard of performance before any payout may be earned. Given the potential leverage that we offer through the performance-based bonus plan and the value that could be realized from stock options and restricted stock units, the Committee believes this is the appropriate way to balance rewards.

The performance share units are earned on the last day of the three-year cycle if performance criteria have been met, and become vested when the results have been certified by the Compensation Committee. The Named Executive Officers may elect to defer their vested units into the Executive Deferred Compensation Plan described on page 51.

- **Restricted stock units** were added to the equity mix in our annual grant beginning in 2014. This change improved the relevancy of our compensation package and complemented our objectives for balancing award value through both absolute and relative stock performance. The units vest in four equal annual installments beginning one year from the date of grant.

2012 Performance Share Units Paid Out at 75%

Performance share units for the 2012-2014 fiscal year performance cycle were granted based on the vesting schedule shown below. At the end of the performance cycle, our total shareholder return of 18.78% outpaced more than half of our retail peers, meeting the minimum threshold of greater than 50th percentile, which is required for payout. The value realized on vesting is shown in the Option Exercises and Stock Vested in Fiscal Year 2014 table on page 50.

Required Percentile Rank for Vesting	% of Granted Performance Share Units Paid Out at Vesting
>90th	175
>80th	150
>75th	125
>65th	100
>50th	75
≤50th	0

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At the time of grant in 2012, our peer group for performance share units included the companies listed below. Talbots was removed from the peer group in 2012 after they were taken private. Saks was removed from the peer group in 2013 after they were acquired.

Abercrombie & Fitch Co.	Macy's, Inc.
ANN, INC.	Saks Incorporated
Chico's FAS, Inc.	Sears Holdings Corporation
Coach, Inc.	The Talbots, Inc.
Dillard's, Inc.	Target Corporation
Gap, Inc.	Tiffany & Co.
J.C. Penney Company, Inc.	The TJX Companies, Inc.
Kohl's Corporation	Urban Outfitters, Inc.
L. Brands, Inc.	VF Corporation

2014 Performance Share Units are Still in Cycle

The 3-year performance cycle for the 2014 performance share units runs February 2, 2014 through January 28, 2017. The related vesting schedule is the same as shown on page 38 and the peer group is comprised of companies in the Standard & Poor's 500 as of the first day of the performance cycle.

Stock Ownership Guidelines Align Executives and Shareholders

Ownership of Common Stock by our Named Executive Officers is encouraged by management and the Board to align executives' interests with those of our shareholders. As a result, stock ownership guidelines were formally established in 2004. Ownership shares are made up of all forms of Common Stock including vested performance share units that are either deferred or paid out in Common Stock, and unvested and vested restricted stock units. Ownership shares do not include unvested or vested stock options, unvested performance share units or pledged shares.

The Named Executive Officers have an annual share target defined as base salary on each April 1 multiplied by their ownership multiple of base salary divided by the 52-week average closing stock price set each April 1. The ownership multiples of base salary depend on the executive's role in the Company and are shown below. The Committee has assigned these particular multiples to match or exceed market practice, and to represent a significant portion of the overall compensation package to reinforce the alignment of management's decision making with shareholder interests.

Position	**Multiple of Base Salary Used to Establish Ownership Target**
President	10x

Executive Vice President and President – Merchandising	10x
Executive Vice President and President – Nordstrom.com	10x
Executive Vice President and Chief Financial Officer	4x
Executive Vice President – Strategy and Development	3x

Under our guidelines, Named Executive Officers and other select executives are required to arrange for stock transactions in accordance with an SEC Rule 10b5-1 trading plan. These plans predetermine the timing, number of shares and price at which an executive may buy or sell Company shares. These executives must also achieve and retain a minimum holding of 100% of their ownership targets before they may sell Nordstrom stock.

The Committee regularly reviews stock ownership status for the Named Executive Officers. All of the Named Executive Officers have exceeded their ownership targets.

Benefits

Nordstrom offers the Named Executive Officers a comprehensive program of broad-based, leadership and retirement benefits. Their purpose varies by benefit, but in general enhances total compensation with meaningful and competitive offerings that support healthy lifestyles and contribute to financial security. These benefits are regularly reviewed for consistency with our guiding principles, organizational culture and market practices. Additional information on 2014 benefits is provided as noted below.

	Benefit	**Where to Learn More**
Broad-Based	•Company contribution to medical, dental and vision coverage; short- and long-term disability; life insurance; adoption assistance; and employee referral assistance. Employee access to accident insurance, health savings account and flexible spending accounts. Employee Stock Purchase Plan. Merchandise discount.	For merchandise discount, see All Other Compensation in Fiscal Year 2014, page 43.
Leadership	•Salary continuance; long-term disability coverage; life insurance	For life insurance, see All Other Compensation in Fiscal Year 2014, page 43.
	•Executive Deferred Compensation Plan	See Nonqualified Deferred Compensation on page 51.
	•Leadership Separation Plan	See Potential Payments Upon Termination or Change in Control at Fiscal Year-End 2014 on page 56.
Retirement	•401(k) match and profit sharing (modified in 2014)	See All Other Compensation in Fiscal Year 2014 on page 44.
	•Retiree health care (closed to new entrants in 2013)	See Potential Payments Upon Termination or Change in Control at Fiscal Year-End 2014 on page 56.

• Supplemental Executive Retirement Plan (closed to new entrants in 2012)	See Pension Benefits on page 50.

Changes for 2015

Each year, the Committee reviews the design of our total compensation elements and makes changes as needed to improve alignment with our guiding principles. There are no planned changes for 2015 other than the update to the 401(k) Plan outlined on page 36.

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Compensation Risk Assessment Supports Integrity of the Pay Program

The Compensation Committee oversees an extensive review of the Company's pay-for-performance philosophy, the composition and balance of elements in the compensation package and the alignment of plans with shareholder interests to ensure these practices do not pose a material adverse risk to the organization.

The review is conducted every other year as underlying programs and practices are generally consistent over time. The last review, for fiscal year 2014, concluded with the following perspectives:

- The goals of the Company's compensation programs are to attract and retain the best talent and to motivate and reward our people in ways that are aligned with the long-term interests of our shareholders. This has been a long-standing objective of our pay-for-performance philosophy. We believe that the strong alignment of our employee compensation plans with performance has served our stakeholders, and in particular, our shareholders, well. The strength of this alignment is regularly reviewed and monitored by the Committee.
- As a fashion specialty retailer, the Company's compensation-related risks are generally more straightforward than other business sectors. We have systems in place to identify, monitor and control risks, making it difficult for a single individual or a group of individuals to expose the Company to material risk.
- Our compensation program rewards both short- and long-term performance. Company results are team oriented rather than individually focused and tied to measurable factors that are both transparent to shareholders and drivers of their returns.
- The compensation program balances the importance of achieving critical short-term objectives with a focus on realizing long-term strategic priorities. Strong stock ownership guidelines are in place for Company leaders, and mechanisms, such as an executive clawback policy, exist to address inappropriate rewards.
- The Committee is actively engaged in establishing compensation plans, monitoring these plans during the year and using discretion in making rewards, as necessary.
- The Company has active and engaged oversight systems in place. The entire Board is aware of the compensation program, as established and approved by the Committee. The Audit Committee and the full Board closely monitor and certify the performance that drives employee rewards through detailed and transparent financial reporting, which is in place to provide strong, timely insight into the performance of the Company.

As a result of this review, the Committee believes that the Company's compensation plans do not encourage risk taking that is reasonably likely to have a material adverse effect on the Company.

Executive Compensation Clawback Policy Applies to Performance-Based Pay

In February 2008, the Board adopted a formal executive compensation clawback policy that applies to any performance-based bonus, equity, equity equivalent or other incentive compensation awarded to an Executive Officer, beginning in that fiscal year. Under that policy, in the event of a material restatement of the Company's financial results, the Board will review the circumstances that caused the restatement and consider accountability to determine whether an Executive Officer was negligent or engaged in misconduct. If so, and the amount or vesting of an award would have been less had the financial statements been correct, the Board will seek to recover compensation from the Executive Officer as it deems appropriate. This policy is in addition to any requirements which might be imposed pursuant to applicable law.

Termination and Change in Control Provisions are Committee Directed

Under our Leadership Separation Plan, the eligible Named Executive Officers receive severance benefits upon involuntary termination of employment by the Company, other than for cause, to assist in the transition from active employment. Separation benefits are described in the Potential Payments Upon Termination or Change in Control section on page 56.

As described in the same section, the Named Executive Officers are generally not entitled to any payment or accelerated benefit in connection with a change in control of the Company. However, the Named Executive Officers are entitled to accelerated vesting of equity if they experience a qualifying termination within 12 months following a change in control.

Tax and Accounting Considerations Underlie the Compensation Elements

The Committee recognizes the tax and regulatory factors that can influence the structure of executive compensation programs, including:

- **Section 162(m) of the Internal Revenue Code** which disallows a tax deduction to public corporations for compensation over $1 million paid to any Named Executive Officer except the Chief Financial Officer, who is not subject to Section 162(m). The statute exempts qualifying performance-based compensation from the deduction limit if certain requirements are met.

  The Company's shareholder-approved 2004 and 2010 Equity Incentive Plans and Executive Management Bonus Plan are intended to comply with those requirements. In some years, there may be limited circumstances, such as an element within a new hire package, that do not allow for deductibility.

- **Financial Accounting Standards Board ("FASB") Accounting Standards Codification 718, Stock Compensation ("ASC 718"),** where stock options, performance share units and restricted stock units are accounted for based on their grant date fair value (see Note 1: Nature of Operations and Summary of Significant Accounting Policies and Note 13: Stock-based Compensation of the Company's Form 10-K filed with the SEC on March 16, 2015). The Committee regularly considers the accounting implications of our equity-based awards, including the variable accounting treatment of the performance share units.

- **Section 409A of the Internal Revenue Code,** the limitations of which primarily relate to the deferral and payment of benefits under the Executive Deferred Compensation Plan and Supplemental Executive Retirement Plan. The Committee continues to consider the impact of Section 409A and in general, the evolving tax and regulatory landscape in which its compensation decisions are made.

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Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis included in this Proxy Statement. As a result, the Committee believes the Compensation Discussion and Analysis represents the intent and actions of the Committee with regard to executive compensation and has recommended to the Board that it be included in this Proxy Statement for filing with the SEC.

COMPENSATION COMMITTEE

Enrique Hernandez, Jr.
Philip G. Satre
B. Kevin Turner
Robert D. Walter, *Chair*

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Summary Compensation Table

The following table summarizes the total compensation paid or accrued by the Company for services provided by the Named Executive Officers for fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013.

Name and Principal Position	Fiscal Year	Salary ($)(a)	Bonus ($)(b)	Stock Awards ($)(c)	Option Awards ($)(d)	Non-Equity Incentive Plan Compensation ($)(e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(f)	All C Con ($)(g
Blake W. Nordstrom	2014	722,986	—	906,152	906,481	1,197,990	—	55,6
President	2013	718,958	—	438,099	1,312,779	921,330	—	43,5
	2012	709,722	—	340,081	1,049,992	892,080	879,469	47,3
Michael G. Koppel	2014	742,000	—	629,974	630,155	556,793	1,916,126	30,6
Executive Vice President and	2013	710,750	—	295,749	886,115	411,739	737,203	28,1
Chief Financial Officer	2012	671,250	—	218,624	674,985	458,784	822,197	45,0
Peter E. Nordstrom	2014	722,986	—	906,152	906,481	1,197,990	318,071	40,1
Executive Vice President	2013	718,958	—	438,099	1,312,779	921,330	—	34,1
and President – Merchandising	2012	700,972	—					
Deferred rent, net of current portion	-		6,977		4,539		-	
Deferred taxes	-		-		277		-	
Line of credit	-		25,700		-		-	
Notes payable, net of current portion	-		474,881		4,094		-	
Obligations under capital leases, net of current portion	-		1,978		1,304		615	
Other non-current liabilities	-		8,444		7,398		-	

Total liabilities		-		422,007		184,833		41,298
EQUITY DEFICIT								
Total Radnet, Inc.'s equity deficit		(77,206)		(77,206)		232,720		9,291
Noncontrolling interests		-		-		-		139
Total equity deficit		(77,206)		(77,206)		232,720		9,430
Total liabilities and equity deficit	$	(77,206)	$	344,801	$	417,553	$	50,728

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RADNET, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
December 31, 2010
(in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$ -	$ 205	$ -	$ 422	$ -	$ 627
Accounts receivable, net	-	-	52,493	43,601	-	96,094
Prepaid expenses and other current assets	-	8,481	5,543	280	-	14,304
Total current assets	-	8,686	58,036	44,303	-	111,025
PROPERTY AND EQUIPMENT, NET	-	46,893	145,770	1,567	-	194,230
OTHER ASSETS						
Goodwill	-	41,768	101,585	-	-	143,353
Other intangible assets	-	137	57,211	-	-	57,348
Deferred financing costs, net	-	15,486	-	-	-	15,486
Investment in subsidiaries	(82,530)	218,393	9,223	-	(145,086)	-
Investment in joint ventures	-	-	15,444	-	-	15,444
Deposits and other	-	1,320	1,308	-	-	2,628
Total assets	$ (82,530)	$ 332,683	$ 388,577	$ 45,870	$ (145,086)	$ 539,514
LIABILITIES AND EQUITY DEFICIT						
CURRENT LIABILITIES						
Intercompany	$ -	$ (133,637)	$ 107,258	$ 26,379	$ -	$ -
Accounts payable and accrued expenses	-	44,450	30,997	7,172	-	82,619
Due to affiliates	-	-	1,082	1,893	-	2,975
Deferred revenue	-	-	1,568	-	-	1,568
Current portion of notes payable	-	3,082	5,136	-	-	8,218
Current portion of deferred rent	-	321	424	-	-	745
Obligations under capital leases	-	5,640	3,150	349	-	9,139
Total current liabilities	-	(80,144)	149,615	35,793	-	105,264

LONG-TERM LIABILITIES						
Deferred rent, net of current portion	-	6,086	4,293	-	-	10,379
Deferred taxes	-	-	277	-	-	277
Notes payable, net of current portion	-	475,231	6,347	-	-	481,578
Obligations under capital leases, net of current portion	-	3,535	1,307	797	-	5,639
Other non-current liabilities	-	10,505	8,345	-	-	18,850
Total liabilities	-	415,213	170,184	36,590	-	621,987
EQUITY DEFICIT						
Total Radnet, Inc.'s equity deficit	(82,530)	(82,530)	218,393	9,223	(145,086)	(82,530)
Noncontrolling interests	-	-	-	57	-	57
Total equity deficit	(82,530)	(82,530)	218,393	9,280	(145,086)	(82,473)
Total liabilities and equity deficit	$ (82,530)	$ 332,683	$ 388,577	$ 45,870	$ (145,086)	$ 539,514

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RADNET, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For The Three Months Ended June 30, 2011
(in thousands)
(unaudited)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$-	$31,298	$107,935	$ 16,398	$-	$155,631
OPERATING EXPENSES						
Operating expenses	-	27,166	76,877	15,070	-	119,113
Depreciation and amortization	-	3,513	10,672	111	-	14,296
Provision for bad debts	-	1,154	6,894	700	-	8,748
Loss (gain) on sale and disposal of equipment	-	(2,150)	294	-	-	(1,856)
Severance costs	-	120	389	-	-	509
Total operating expenses	-	29,803	95,126	15,881	-	140,810
INCOME FROM OPERATIONS	-	1,495	12,809	517	-	14,821
OTHER EXPENSES						
Interest expense	-	7,601	5,532	17	-	13,150
Other income	-	(189)	-	-	-	(189)
Total other expenses	-	7,412	5,532	17	-	12,961
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURES	-	(5,917)	7,277	500	-	1,860
Provision for income taxes	-	(18)	(315)	(4)	-	(337)
Equity in earnings (losses) of consolidated subsidiaries	3,521	9,456	411	-	(13,388)	-
Equity in earnings of joint ventures	-	-	2,083	-	-	2,083

NET INCOME	3,521	3,521	9,456	496	(13,388)	3,606
Net income attributable to noncontrolling interests	-	-	-	85	-	85
NET INCOME ATTRIBUTABLE TO RADNET, INC.COMMON STOCKHOLDERS	$3,521	$3,521	$9,456	$ 411	$(13,388)	$3,521

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RADNET, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For The Three Months Ended June 30, 2010
(in thousands)
(unaudited)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$-	$30,528	$93,988	$14,435	$-	$138,951
OPERATING EXPENSES						
Operating expenses	-	26,643	65,962	13,600	-	106,205
Depreciation and amortization	-	3,465	10,377	34	-	13,876
Provision for bad debts	-	1,310	6,526	632	-	8,468
Loss on sale of equipment	-	-	51	-	-	51
Severance costs	-	283	152	-	-	435
Total operating expenses	-	31,701	83,068	14,266	-	129,035
INCOME (LOSS) FROM OPERATIONS	-	(1,173)	10,920	169	-	9,916
OTHER EXPENSES						
Interest expense	-	6,966	5,760	3	-	12,729
Loss on extinguishment of debt		9,871	-	-	-	9,871
Other expenses	-	1,150	-	-	-	1,150
Total other expenses	-	17,987	5,760	3	-	23,750
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURES	-	(19,160)	5,160	166	-	(13,834)
Benefit from income taxes	-	-	128	-	-	128
Equity in earnings (losses) of consolidated	(11,756)	7,404	145		4,207	-

subsidiaries										
Equity in earnings of joint ventures	-		-		1,971	-	-	1,971	
NET INCOME (LOSS)	(11,756	)	(11,756	)	7,404	166	4,207	(11,735	)
Net income attributable to noncontrolling interests	-		-		-	21	-	21	
NET INCOME (LOSS) ATTRIBUTABLE TO RADNET, INC.COMMON STOCKHOLDERS	$(11,756	)	$(11,756	)	$7,404	$145	$4,207	$(11,756	)

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RADNET, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For The Six Months Ended June 30, 2011
(in thousands)
(unaudited)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$-	$62,414	$207,896	$ 31,538	$-	$301,848
OPERATING EXPENSES						
Operating expenses	-	53,894	151,989	29,058	-	234,941
Depreciation and amortization	-	7,009	20,987	221	-	28,217
Provision for bad debts	-	2,145	13,244	1,264	-	16,653
Loss (gain) on sale and disposal of equipment	-	(2,063)	466	-	-	(1,597)
Severance costs	-	189	465	-	-	654
Total operating expenses	-	61,174	187,151	30,543	-	278,868
INCOME FROM OPERATIONS	-	1,240	20,745	995	-	22,980
OTHER EXPENSES						
Interest expense	-	14,920	11,110	35	-	26,065
Other income	-	(2,060)	-	-	-	(2,060)
Total other expenses	-	12,860	11,110	35	-	24,005
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURES	-	(11,620)	9,635	960	-	(1,025)
Provision for income taxes	-	(31)	(447)	(6)	-	(484)
Equity in earnings (losses) of consolidated subsidiaries	2,645	14,296	801		(17,742)	-
Equity in earnings of joint ventures	-	-	4,307	-	-	4,307

NET INCOME	2,645	2,645	14,296	954	(17,742	) 2,798
Net income attributable to noncontrolling interests	-	-	-	153	-	153
NET INCOME ATTRIBUTABLE TO RADNET, INC.COMMON STOCKHOLDERS	$2,645	$2,645	$14,296	$ 801	$(17,742	) $2,645

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RADNET, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For The Six Months Ended June 30, 2010
(in thousands)
(unaudited)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET REVENUE	$-	$59,207	$175,864	$ 28,058	$-	$263,129
OPERATING EXPENSES						
Operating expenses	-	52,091	126,389	26,364	-	204,844
Depreciation and amortization	-	6,648	20,433	70	-	27,151
Provision for bad debts	-	2,607	12,307	1,231	-	16,145
Loss on sale of equipment	-	72	83	-	-	155
Severance costs	-	365	202	-	-	567
Total operating expenses	-	61,783	159,414	27,665	-	248,862
INCOME (LOSS) FROM OPERATIONS	-	(2,576)	16,450	393	-	14,267
OTHER EXPENSES						
Interest expense	-	11,084	11,606	6	-	22,696
Loss on extinguishment of debt		9,871	-	-	-	9,871
Other expenses	-	1,150	-	-	-	1,150
Total other expenses	-	22,105	11,606	6	-	33,717
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURES	-	(24,681)	4,844	387	-	(19,450)
Provision for income taxes	-	(19)	(185)	(2)	-	(206)
Equity in earnings (losses) of	(15,867)	8,833	342		6,692	-

consolidated subsidiaries											
Equity in earnings of joint ventures	-		-		3,832		-		-		3,832
NET INCOME (LOSS)	(15,867	)	(15,867	)	8,833		385		6,692		(15,824	)
Net income attributable to noncontrolling interests	-		-		-		43		-		43
NET INCOME (LOSS) ATTRIBUTABLE TO											
RADNET, INC.COMMON STOCKHOLDERS	$(15,867	)	$(15,867	)	$8,833		$ 342		$6,692		$(15,867	)

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RADNET, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Six Months Ended June 30, 2011
(in thousands)
(unaudited)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income	$ 2,645	$ 2,645	$ 14,296	$ 954	$ (17,742)	$ 2,798
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation and amortization	-	7,009	20,987	221	-	28,217
Provision for bad debts	-	2,145	13,244	1,264	-	16,653
Equity in (earnings) loss of consolidated subsidiaries	(2,645)	(14,296)	(801)	-	17,742	-
Distributions from consolidated subsidiaries	-	-	732	-	(732)	-
Equity in earnings of joint ventures	-	-	(4,307)	-	-	(4,307)
Distributions from joint ventures	-	-	3,926	-	-	3,926
Deferred rent amortization	-	985	325	-	-	1,310
Amortization of deferred financing cost	-	1,467	-	-	-	1,467
Amortization of bond discount	-	119	-	-	-	119
Loss (gain) on sale and disposal of equipment	-	(2,063)	466	-	-	(1,597)
Amortization of cash flow hedge	-	612	-	-	-	612
Stock-based compensation	-	448	1,342	-	-	1,790
Changes in operating assets and liabilities, net of assets acquired and liabilities						

assumed in purchase transactions:						
Accounts receivable	-	-	(27,150)	(9,315)	-	(36,465)
Other current assets	-	(114)	(1,163)	(86)	-	(1,363)
Other assets	-	(230)	3	-	-	(227)
Deferred revenue	-	-	(230)	-	-	(230)
Accounts payable and accrued expenses	-	(14,574)	16,435	8,303	-	10,164
Net cash provided by (used in) operating activities	-	(15,847)	38,105	1,341	(732)	22,867
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of imaging facilities	-	-	(11,529)	-	-	(11,529)
Purchase of property and equipment	-	(5,315)	(18,989)	(611)	-	(24,915)
Proceeds from insurance claims on damaged equipment	-	2,151	318	-	-	2,469
Proceeds from sale of equipment	-	-	291	-	-	291
Purchase of equity interest in joint ventures	-	-	(1,500)	-	-	(1,500)
Net cash used in investing activities	-	(3,164)	(31,409)	(611)	-	(35,184)
CASH FLOWS FROM FINANCING ACTIVITIES						
Principal payments on notes and leases payable	-	(3,700)	(6,731)	(171)	-	(10,602)
Deferred financing costs	-	(217)	-	-	-	(217)
Distributions to noncontrolling interests	-	-	-	(803)	732	(71)
Proceeds from, net of payments, on line of credit	-	25,700	-	-	-	25,700
Payments to counterparties of interest rate swaps, net of amounts received	-	(3,219)	-	-	-	(3,219)
Proceeds from issuance of common stock	-	242	-	-	-	242
	-	18,806	(6,731)	(974)	732	11,833

Net cash provided by (used in) financing activities						
EFFECT OF EXCHANGE RATE CHANGES ON CASH	-	-	35	-	-	35
NET DECREASE IN CASH AND CASH EQUIVALENTS	-	(205)	-	(244)	-	(449)
CASH AND CASH EQUIVALENTS, beginning of period	-	205	-	422	-	627
CASH AND CASH EQUIVALENTS, end of period	$ -	$ -	$ -	$ 178	$ -	$ 178

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RADNET, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Six Months Ended June 30, 2010
(in thousands)
(unaudited)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income (loss)	$ (15,867)	$ (15,867)	$ 8,833	$ 385	$ 6,692	$ (15,824)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	-	6,648	20,433	70	-	27,151
Provision for bad debts	-	2,607	12,307	1,231	-	16,145
Equity in (earnings) loss of consolidated subsidiaries	15,867	(8,833)	(342)	-	(6,692)	-
Distributions from consolidated subsidiaries	-	-	394	-	(394)	-
Equity in earnings of joint ventures	-	-	(3,832)	-	-	(3,832)
Distributions from joint ventures	-	-	5,758	-	-	5,758
Deferred rent amortization	-	892	645	-	-	1,537
Amortization of deferred financing cost	-	1,365	-	-	-	1,365
Amortization of bond discount	-	51	-	-	-	51
Loss on sale and disposal of equipment	-	72	83	-	-	155
Loss on extinguishment of debt	-	9,871	-	-	-	9,871
Stock-based compensation	-	507	1,520	-	-	2,027
Changes in operating assets and liabilities, net of assets acquired and liabilities						

assumed in purchase transactions:						
Accounts receivable	-	-	(9,873)	(9,094)	-	(18,967)
Other current assets	-	(2,334)	(357)	(299)	-	(2,990)
Other assets	-	968	(1,354)	-	-	(386)
Accounts payable and accrued expenses	-	(23,735)	15,998	8,172	-	435
Net cash provided by (used in operating activities	-	(27,788)	50,213	465	(394)	22,496
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of imaging facilities	-	(1,260)	(28,549)	-	-	(29,809)
Purchase of property and equipment	-	(5,853)	(14,945)	(20)	-	(20,818)
Net cash used in investing activities	-	(7,113)	(43,494)	(20)	-	(50,627)
CASH FLOWS FROM FINANCING ACTIVITIES						
Principal payments on notes and leases payable	-	(4,615)	(6,719)	-	-	(11,334)
Repayment of debt	-	(412,000)	-	-	-	(412,000)
Proceeds from borrowings	-	482,360	-	-	-	482,360
Deferred financing costs	-	(17,239)	-	-	-	(17,239)
Distributions to noncontrolling interests	-	-	-	(445)	394	(51)
Payments to counterparties of interest rate swaps, net of amounts received	-	(3,272)	-	-	-	(3,272)
Proceeds from issuance of common stock	-	49	-	-	-	49
Net cash provided by (used in) financing activities	-	45,283	(6,719)	(445)	394	38,513
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	10,382	-	-	-	10,382
CASH AND CASH EQUIVALENTS, beginning of period	-	10,094	-	-	-	10,094
	$ -	$ 20,476	$ -	$ -	$ -	$ 20,476

CASH AND CASH EQUIVALENTS, end of period

NOTE 3 – RECENT ACCOUNTING STANDARDS

There are no recently issued accounting standards that are expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

NOTE 4 – FACILITY ACQUISITIONS

On January 3, 2011, we completed our acquisition of Imaging On Call, LLC, a provider of teleradiology services to radiology groups, hospitals and imaging centers located in Poughkeepsie, New York, for $5.5 million cash plus an earn-out of up to an additional $2.5 million. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities. Approximately $1.6 million of accounts receivable and other current assets, $785,000 of fixed assets, $850,000 of intangible assets related to the value of customer relationships and trade name, and $3.8 million of goodwill was recorded with respect to this transaction. We also assumed approximately $1.5 million of accrued liabilities of which approximately $790,000 related to our estimated fair value of the earn-out mentioned above.

On February 16, 2011, we acquired the diagnostic imaging practice of Stuart London, MD in Oakland, CA for $600,000. Upon acquisition, we relocated the practice to a nearby existing Oakland center. We have made a preliminary purchase price allocation and have allocated the full purchase price of $600,000 to goodwill.

On February 18, 2011, we completed our acquisition of Team Radiology, Inc. from Team Health, Inc. for approximately $243,000. A provider of teleradiology services, Team Radiology will complement our teleradiology operations acquired from Imaging on Call, LLC. We have made a preliminary purchase price allocation of the acquired assets and liabilities and approximately $93,000 of other current assets, $126,000 of fixed assets and $24,000 of intangible assets related to the value of customer relationships and trade name was recorded with respect to this transaction.

On April 4, 2011, we completed our acquisition of five multi-modality imaging centers in Maryland from Diagnostic Health Corporation for an aggregate of $5.2 million in cash and the assumption of approximately $1.6 million in certain liabilities. The facilities located in Bowie, Chevy Chase, Frederick, Rockville and Waldorf operate a combination of MRI, CT, ultrasound, mammography, x-ray and other related modalities. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities. Approximately $25,000 of other current assets, $4.9 million of fixed assets and $1.8 million of goodwill was recorded with respect to this transaction. We also assumed approximately $1.5 million of capital lease debt and $102,000 of accrued liabilities.

NOTE 5 – EARNINGS PER SHARE

Earnings per share is based upon the weighted average number of shares of common stock and common stock equivalents outstanding, net of common stock held in treasury, as follows (in thousands except share and per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss) attributable to Radnet, Inc.'s common stockholders	$3,521	$(11,756)	$2,645	$(15,867)

BASIC INCOME (LOSS) PER SHARE ATTRIBUTABLE TO RADNET, INC.'S COMMON STOCKHOLDERS				
Weighted average number of common shares outstanding during the year	37,357,840	36,916,905	37,308,038	36,641,953
Basic income (loss) per share attributable to RadNet, Inc.'s common stockholders	$0.09	$(0.32)	$0.07	$(0.43)
DILUTED LOSS PER SHARE ATTRIBUTABLE TO RADNET, INC.'S COMMON STOCKHOLDERS				
Weighted average number of common shares outstanding during the year	37,357,840	36,916,905	37,308,038	36,641,953
Add additional shares issuable upon exercise of stock options and warrants	2,462,323	-	2,068,920	-
Weighted average number of common shares used in calculating diluted income (loss) per share	39,820,163	36,916,905	39,376,958	36,641,953
Diluted income (loss) per share attributable to RadnNet, Inc.'s common stockholders	$0.09	$(0.32)	$0.07	$(0.43)

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For the three and six months ended June 30, 2010, we excluded all options and warrants in the calculation of diluted loss per share because their effect is antidilutive.

NOTE 6 – DERIVITIVE INSTRUMENTS

We are exposed to certain risks relating to our ongoing business operations. The primary risk managed by us using derivative instruments is interest rate risk. We have in the past entered into interest rate swap agreements to manage interest rate risk exposure. The interest rate swap agreements utilized by us effectively modified our exposure to interest rate risk by converting our floating-rate debt to a fixed rate basis during the period of the interest rate swap, thus reducing the impact of interest-rate changes on future interest expense.

At inception, we designated our interest rate swaps as cash flow hedges of floating-rate borrowings. In accordance with ASC Topic 815, derivatives that have been designated and qualify as cash flow hedging instruments are reported at fair value. The gain or loss on the effective portion of the hedge (i.e., change in fair value) is initially reported as a component of accumulated other comprehensive loss in the consolidated statement of equity deficit. The remaining gain or loss, if any, is recognized currently in earnings. Unrealized gain or loss on the change in fair value of interest rate swaps that do not qualify as hedges are recognized in earnings.

As a result of our refinancing and the New Credit Agreement and the issuance of the Notes completed on April 6, 2010, our interest rate swaps do not match the terms of our current bank debt and so accordingly, we have determined that they are no longer designated as cash flow hedges. Accordingly, all changes in their fair value after April 6, 2010 are, and will continue to be recognized in earnings.

The related Accumulated Other Comprehensive Loss (AOCL) of $3.1 million associated with the negative fair values of these interest rate swaps on April 6, 2010, the date of our refinancing, is being amortized on a straight-line basis to interest expense through November 15, 2012, the maturity date of these cash flow hedges. From April 6, 2010 to June 30, 2011, approximately $1.5 million of AOCL was amortized to interest expense bringing the remaining balance of AOCL to $1.6 million at June 30, 2011. As of April 6, 2010, the fair value of the interest rate swaps was a negative $10.4 million.

At June 30, 2011 the negative fair value of these interest rate swaps was $8.4 million and was classified as other non-current liabilities in our condensed consolidated balance sheet. For the six months ended June 30, 2011, we recognized approximately $2.1 million in other income related to the change in fair value of these interest rate swaps.

A tabular presentation of the fair value of derivative instruments as of December 31, 2010 is as follows (amounts in thousands):

Derivatives	Balance Sheet Location		Fair Value – Asset (Liability) Derivatives
Interest rate contracts	Other non-current liabilities	$	(10,505)

A tabular presentation of the fair value of derivative instruments as of June 30, 2011 is as follows (amounts in thousands):

	Balance Sheet Location	Fair Value – Asset (Liability) Derivatives

Derivatives

Interest rate contracts	Other non-current liabilities	$	(8,445)

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A tabular presentation of the effect of derivative instruments on our statement of operations is as follows (amounts in thousands):

For the Three Months Ended June 30, 2011

Ineffective Interest Rate Swap	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Interest rate contracts	None	$690	Other income/ (expense)	*	($306)	Interest income/(expense)

For the Three Months Ended June 30, 2010

Ineffective Interest Rate Swap	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Interest rate contracts	None	($1,150)	Other income/ (expense)	*	($306)	Interest income/(expense)

For the Six Months Ended June 30, 2011

Ineffective Interest Rate Swap	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Interest rate contracts	None	$2,060	Other income/ (expense)	*	($612)	Interest income/(expense)

For the Six Months Ended June 30, 2010

Ineffective Interest Rate Swap	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Interest rate contracts	($1,472)	($1,150)	Other income/ (expense)	* ($306)	Interest income/(expense)

* Amortization of OCI associated with the cash flow hedges through April 6, 2010 (see discussion above).

NOTE 7 – INVESTMENT IN JOINT VENTURES

We have eight unconsolidated joint ventures with ownership interests ranging from 22% to 50%. These joint ventures represent partnerships with hospitals, health systems or radiology practices and were formed for the purpose of owning and operating diagnostic imaging centers. Professional services at the joint venture diagnostic imaging centers are performed by contracted radiology practices or a radiology practice that participates in the joint venture. Our investment in these joint ventures is accounted for under the equity method. Investment in joint ventures increased $2.5 million to $17.9 million at June 30, 2011 compared to $15.4 million at December 31, 2010. This increase is primarily related to our recording of equity earnings of $4.3 million as well as additional equity contributions of $1.5 million offset by distributions received during the six months ended June 30, 2011 of $3.9 million, of which $610,000 relates to a declared dividend distribution recorded as other receivables as of December 31, 2010.

We received management service fees from the centers underlying these joint ventures of approximately $1.7 million and $1.8 million for the three months ended June 30, 2011 and 2010, respectively, and approximately $3.4 million and $3.4 million for the six months ended June 30, 2011 and 2010 and eliminated the portion of the fees earned associated with our ownership from our net revenue with an offsetting increase to our equity earnings.

The following table is a summary of key financial data for these joint ventures as of June 30, 2011 and for the six months ended June 30, 2011 and 2010 (in thousands):

Balance Sheet Data:	June 30, 2011	
Current assets	$16,129	
Noncurrent assets	25,740	
Current liabilities	(7,013)	
Noncurrent liabilities	(6,766)	
Total net assets	$28,090	
Book value of Radnet joint venture interests	$14,275	
Cost in excess of book value of acquired joint venture interests	3,383	
Elimination of intercompany profit remaining on Radnet's consolidated balance sheet	277	
Total value of Radnet joint venture interests	$17,935	
Total book value of other joint venture partner interests	$13,815	
Income Statement Data for the six months ended June 30,	2011	2010
Net revenue	$38,038	$36,640
Net income	$6,524	$5,815

NOTE 8 – STOCK-BASED COMPENSATION

Stock Incentive Plans

We have two long-term incentive plans that currently have outstanding stock options which we refer to as the 2000 Plan and the 2006 Plan. The 2000 Plan was terminated as to future grants when the 2006 Plan was approved by the stockholders in 2006. As of June 30, 2011, we have reserved for issuance under the 2006 Plan 11,000,000 shares of

common stock. Certain options granted under the 2006 Plan to employees are intended to qualify as incentive stock options under existing tax regulations. In addition, we may issue non-qualified stock options and warrants under the 2006 Plan from time to time to non-employees, in connection with acquisitions and for other purposes and we may also issue stock under the 2006 Plan. Stock options and warrants generally vest over two to five years and expire five to ten years from date of grant.

As of June 30, 2011, 4,449,917, or approximately 71.0%, of all the outstanding stock options and warrants under our option plans are fully vested. During the six months ended June 30, 2011, we granted options and warrants to acquire 700,000 shares of common stock.

We have issued warrants outside the 2006 Plan under various types of arrangements to employees, and in exchange for outside services. All warrants issued to employees or consultants after our February 2007 listing on the NASDAQ Global Market have been characterized as awards under the 2006 Plan. All warrants outside the 2006 Plan have been issued with an exercise price equal to the fair value of the underlying common stock on the date of grant. The warrants expire from five to seven years from the date of grant. Vesting terms are determined by the board of directors or the compensation committee of the board of directors at the date of grant.

As of June 30, 2011, 2,316,232, or approximately 92.5%, of all the outstanding warrants outside the 2006 Plan are fully vested. During the six months ended June 30, 2011, we did not grant warrants outside of our 2006 Plan.

The following summarizes all of our option and warrant transactions during the six months ended June 30, 2011:

Outstanding Options and Warrants Under the 2006 Plan and 2000 Plan	Shares	Weighted Average Exercise price Per Common Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Balance, December 31, 2010	5,661,000	$3.65		
Granted	700,000	3.05		
Exercised	(51,250)	1.38		
Canceled or expired	(43,500)	0.85		
Balance, June 30, 2011	6,266,250	3.62	$3.25	$8,670,150
Exercisable at June 30, 2011	4,449,917	3.69	$2.94	5,971,483

Non-Plan Outstanding Warrants	Shares	Weighted Average Exercise price Per Common Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Balance, December 31, 2010	2,717,898	$2.24		
Granted	-	-		
Exercised	(215,000)	2.24		
Canceled or expired	-	-		
Balance, June 30, 2011	2,502,898	2.58	$1.53	$4,822,905
Exercisable at June 30, 2011	2,316,232	2.43	$1.58	4,780,373

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between our closing stock price on June 30, 2011 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holder had all option holders exercised their options on June 30, 2011. Total intrinsic value of options and warrants exercised during the six months ended June 30, 2011 and 2010 was approximately $605,650 and $923,000, respectively. As of June 30, 2011, total unrecognized stock-based compensation expense related to non-vested employee awards was approximately $3.0 million, which is expected to be recognized over a weighted average period of approximately 1.6 years.

The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model which takes into account as of the grant date the exercise price and expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock and the risk-free interest rate for the term of the option. The following is the average of the data used to calculate the fair value:

	Risk-free Interest Rate	Expected Life	Expected Volatility	Expected Dividends
June 30, 2011	2.03%	3.3 years	92.07%	-
June 30, 2010	2.26%	3.2 years	89.92%	-

Because we lack detailed information about exercise behavior at this time, we have determined the expected term assumption under the "Simplified Method" as defined in ASC Topic 718, originally issued as SAB No. 110. The expected stock price volatility is based on the historical volatility of our stock. The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant with an equivalent remaining term. We have not paid dividends in the past and do not currently plan to pay any dividends in the near future.

The weighted-average grant date fair value of stock options and warrants granted during the six months ended June 30, 2011 and 2010 was $1.86 and $1.51, respectively.

NOTE 9 – FAIR VALUE MEASUREMENTS

We utilize a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Our condensed consolidated balance sheets include the following financial instruments: cash and cash equivalents, receivables, trade accounts payable, capital leases, long-term debt and other liabilities. We consider the carrying amounts of cash and cash equivalents, receivables, other current assets and current liabilities to approximate their fair value because of the relatively short period of time between the origination of these instruments and their expected realization or payment. Additionally, we consider the carrying amount of our capital lease obligations to approximate their fair value because the weighted average interest rate used to formulate the carrying amounts approximates current market rates.

At June 30, 2011, based on Level 2 inputs primarily related to comparable market prices, we determined the fair values of our senior secured term loan and our senior unsecured notes, both issued on April 6, 2010, to be $280.7 million and $199.5 million, respectively. The carrying amount of the senior secured term loan and the senior unsecured notes at June 30, 2011 was $281.4 million and $200.0 million, respectively.

The Company maintains interest rate swaps which are required to be recorded at fair value on a recurring basis. At June 30, 2011 the fair value of these swaps of a liability of $8.4 million was determined using Level 2 inputs. More specifically, the fair value was determined by calculating the value of the difference between the fixed interest rate of the interest rate swaps and the counterparty's forward LIBOR curve, which would be the input used in the valuations. The forward LIBOR curve is readily available in the public markets or can be derived from information available in the public markets.

On January 1, 2009, the Company adopted, without material impact on its consolidated financial statements, the provisions of FASB ASC Topic 820 related to nonfinancial assets and nonfinancial liabilities that are not required or permitted to be measured at fair value on a recurring basis, which include those measured at fair value including goodwill impairment testing, indefinite-lived intangible assets measured at fair value for impairment assessment, nonfinancial long-lived assets measured at fair value for impairment assessment, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements reflect, among other things, management's current expectations and anticipated results of operations, all of which are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to differ materially from those expressed or implied by such forward-looking statements. Therefore, any statements contained herein that are not statements of historical fact may be forward-looking statements and should be evaluated as such. Without limiting the foregoing, the words "believes," "anticipates," "plans," "intends," "will," "expects," "should" and similar words and expressions are intended to ide forward-looking statements.

Statements in this report relating to the following are forward looking statements:

- future revenues;
- expected performance and cash flows;
- the timing and impact of changes in regulations affecting the Company;
- anticipated and potential changes in third-party reimbursement rates;
- the outcome of litigation;
- the availability of radiologists at BRMG and our other contracted radiology practices;
- our expectations concerning competition;
- the success, timing and impact of potential acquisitions and divestitures of businesses, including our ability to properly integrate newly acquired centers with our current operations;
- our intentions with respect to joint ventures and other business arrangements;
- access to capital and the terms relating thereto;
- the nature and impact of technological changes in our industry;
- our ability to successfully implement and achieve our internal plans;
- our ability to maintain compliance with our debt covenants; and
- anticipated costs of capital investments.

The factors included in "Risks Relating to Our Business," in our annual report on Form 10-K for the fiscal year ended December 31, 2010 or supplemented by the information, if any, in Part II – Item 1A below, among others, could cause our actual results to differ materially from those expressed in, or implied by, the forward-looking statements. You should consider the inherent limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. These forward-looking statements speak only as of the date when they are made. Except as required under the federal securities laws or by the rules and regulations of the Securities and Exchange Commission, we do not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements. Moreover, in the future, the Company, through senior management, may make forward-looking statements that involve the risk factors and other matters described in this Form 10-Q as well as other risk factors subsequently identified, including, among others, those identified in the Company's filings with the SEC on Form 10-K, Form 10-Q and Form 8-K.

Overview

With 206 centers, as of June 30, 2011, located in six states including California, Delaware, Maryland, New Jersey, Florida, and New York, we are the leading national provider of freestanding, fixed-site outpatient diagnostic imaging

services in the United States based on number of locations and annual imaging revenue. Our centers provide physicians with imaging capabilities to facilitate the diagnosis and treatment of diseases and disorders and may reduce unnecessary invasive procedures, often minimizing the cost and amount of care for patients. Our services include magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, diagnostic radiology (X-ray), fluoroscopy and other related procedures. The vast majority of our centers offer multi-modality imaging services, a key point of differentiation from our competitors. Our multi-modality strategy diversifies revenue streams, reduces exposure to reimbursement changes and provides patients and referring physicians one location to serve the needs of multiple procedures.

We seek to develop leading positions in regional markets in order to leverage operational efficiencies. Our scale and density within selected geographies provides close, long-term relationships with key payors, radiology groups and referring physicians. Each of our facility managers is responsible for managing relationships with local physicians and payors, meeting our standards of patient service and maintaining profitability. We provide corporate training programs, standardized policies and procedures and sharing of best practices among the physicians in our regional networks.

We derive substantially all of our revenue, directly or indirectly, from fees charged for the diagnostic imaging services performed at our facilities. For the six months ended June 30, 2011, we performed 1,811,466 diagnostic imaging procedures and generated net revenue from continuing operations of $301.8 million.

The consolidated financial statements include the accounts of Radnet Management and BRMG. The consolidated financial statements also include Radnet Management I, Inc., Radnet Management II, Inc., Radiologix, Inc., Radnet Management Imaging Services, Inc., Delaware Imaging Partners, Inc., New Jersey Imaging Partners, Inc. and Diagnostic Imaging Services, Inc. (DIS), all wholly owned subsidiaries of Radnet Management. All of these affiliated entities are referred to collectively as “RadNet”, “we”, “us,” “our” or the “Company” in this report.

Accounting Standards Codification Section 810-10-15-14 stipulates that generally any entity with (a) insufficient equity to finance its activities without additional subordinated financial support provided by any parties, or (b) equity holders that, as a group, lack the characteristics specified in the Codification which evidence a controlling financial interest, is considered a Variable Interest Entity (VIE). We consolidate all voting interest entities in which we own a majority voting interest and all VIEs for which we are the primary beneficiary. We determine whether we are the primary beneficiary of a VIE through a qualitative analysis that identifies which variable interest holder has the controlling financial interest in the VIE. The variable interest holder who has both of the following has the controlling financial interest and is the primary beneficiary: (1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. In performing our analysis, we consider all relevant facts and circumstances, including: the design and activities of the VIE, the terms of the contracts the VIE has entered into, the nature of the VIE’s variable interests issued and how they were negotiated with or marketed to potential investors, and which parties participated significantly in the design or redesign of the entity.

Critical Accounting Policies

Use of Estimates

Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements that were prepared in accordance with U.S. generally accepted accounting principles, or GAAP. Management makes estimates and assumptions when preparing financial statements. These estimates and assumptions affect various matters, including:

- our reported amounts of assets and liabilities in our consolidated balance sheets at the dates of the financial statements;
- our disclosure of contingent assets and liabilities at the dates of the financial statements; and
- our reported amounts of net revenue and expenses in our consolidated statements of operations during the reporting periods.

These estimates involve judgments with respect to numerous factors that are difficult to predict and are beyond management's control. As a result, actual amounts could differ materially from these estimates.

The Securities and Exchange Commission, or SEC, defines critical accounting estimates as those that are both most important to the portrayal of a company's financial condition and results of operations and require management's most difficult, subjective or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. In Note 2 to our consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2010, we discuss our significant accounting policies, including those that do not require management to make difficult, subjective or complex judgments or estimates. The most significant areas involving management's judgments and estimates are described below.

During the period covered in this report, there were no material changes to the critical accounting estimates we use, and have described in our annual report on Form 10-K for the fiscal year ended December 31, 2010.

Revenue Recognition

Our consolidated net revenue consists of net patient fee for service revenue and revenue from capitation arrangements, or capitation revenue. Net patient service revenue is recognized at the time services are provided net of contractual adjustments based on our evaluation of expected collections resulting from the analysis of current and past due accounts, past collection experience in relation to amounts billed and other relevant information. The amount of expected collection is continually adjusted as more information is received and such adjustments are recorded in current operations. Contractual adjustments result from the differences between the rates charged for services performed and reimbursements by government-sponsored healthcare programs and insurance companies for such services. Capitation revenue is recognized as revenue during the period in which we were obligated to provide services to plan enrollees under contracts with various health plans. Under these contracts, we receive a per-enrollee amount each month covering all contracted services needed by the plan enrollees.

Accounts Receivable

Substantially all of our accounts receivable are due under fee-for-service contracts from third party payors, such as insurance companies and government-sponsored healthcare programs, or directly from patients. Services are generally provided pursuant to one-year contracts with healthcare providers. We continuously monitor collections from our payors and maintain an allowance for bad debts based upon specific payor collection issues that we have identified and our historical experience.

Depreciation and Amortization of Long-Lived Assets

We depreciate our long-lived assets over their estimated economic useful lives with the exception of leasehold improvements where we use the shorter of the assets useful lives or the lease term of the facility for which these assets are associated.

Deferred Tax Assets

We evaluate the realizability of the net deferred tax assets and assess the valuation allowance periodically. If future taxable income or other factors are not consistent with our expectations, an adjustment to our allowance for net deferred tax assets may be required. For net deferred tax assets we consider estimates of future taxable income, including tax planning strategies in determining whether our net deferred tax assets are more likely than not to be realized.

Valuation of Goodwill and Long-Lived Assets

Goodwill at June 30, 2011 totaled $149.7 million. Goodwill is recorded as a result of business combinations. Management evaluates goodwill, at a minimum, on an annual basis and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable in accordance with Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) Topic 350, Intangibles – Goodwill and Other. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of a reporting unit is estimated using a combination of the income or discounted cash flows approach and the market approach, which uses comparable market data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. We tested goodwill for impairment on

October 1, 2010. Based on our test, we noted no impairment related to goodwill as of October 1, 2010. However, if estimates or the related assumptions change in the future, we may be required to record impairment charges to reduce the carrying amount of goodwill. No indications of impairment were noted at June 30, 2011.

We evaluate our long-lived assets (property and equipment) and definite-lived intangibles for impairment whenever indicators of impairment exist. The accounting standards require that if the sum of the undiscounted expected future cash flows from a long-lived asset or definite-lived intangible is less than the carrying value of that asset, an asset impairment charge must be recognized. The amount of the impairment charge is calculated as the excess of the asset's carrying value over its fair value, which generally represents the discounted future cash flows from that asset or in the case of assets we expect to sell, at fair value less costs to sell. No indicators of impairment were identified with respect to our long-lived assets as of June 30, 2011.

Recent Accounting Standards

There are no recently issued accounting standards that are expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

Recent Developments and Facility Acquisitions

On January 3, 2011, we completed our acquisition of Imaging On Call, LLC, a provider of teleradiology services to radiology groups, hospitals and imaging centers located in Poughkeepsie, New York, for $5.5 million cash plus an earn-out of up to an additional $2.5 million. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities. Approximately $1.6 million of accounts receivable and other current assets, $785,000 of fixed assets, $850,000 of intangible assets related to the value of customer relationships and trade name, and $3.8 million of goodwill was recorded with respect to this transaction. We also assumed approximately $1.5 million of accrued liabilities of which approximately $790,000 related to our estimated fair value of the earn-out mentioned above.

On February 16, 2011, we acquired the diagnostic imaging practice of Stuart London, MD in Oakland, CA for $600,000. Upon acquisition, we relocated the practice to a nearby existing Oakland center. We have made a preliminary purchase price allocation and have allocated the full purchase price of $600,000 to goodwill.

On February 18, 2011, we completed our acquisition of Team Radiology, Inc. from Team Health, Inc. for approximately $243,000. A provider of teleradiology services, Team Radiology will complement our teleradiology operations acquired from Imaging on Call, LLC. We have made a preliminary purchase price allocation of the acquired assets and liabilities and approximately $93,000 of other current assets, $126,000 of fixed assets and $24,000 of intangible assets related to the value of customer relationships and trade name was recorded with respect to this transaction.

On April 4, 2011, we completed our acquisition of five multi-modality imaging centers in Maryland from Diagnostic Health Corporation for an aggregate of $5.2 million in cash and the assumption of approximately $1.6 million in certain liabilities. The facilities located in Bowie, Chevy Chase, Frederick, Rockville and Waldorf operate a combination of MRI, CT, ultrasound, mammography, x-ray and other related modalities. We have made a preliminary purchase price allocation of the acquired assets and assumed liabilities. Approximately $25,000 of other current assets, $4.9 million of fixed assets and $1.8 million of goodwill was recorded with respect to this transaction. We also assumed approximately $1.5 million of capital lease debt and $102,000 of accrued liabilities.

Industry Trends

For services for which we bill Medicare directly, we are paid under the Medicare Physician Fee Schedule, which is updated on an annual basis. Under the Medicare statutory formula, payments under the Physician Fee Schedule would have decreased for the past several years if Congress failed to intervene. For example, for 2008, the fee schedule rates were to be reduced by approximately 10.1%. The Medicare, Medicaid and SCHIP Extension Act of 2007 eliminated the 10.1% reduction for 2008 and increased the annual payment rate update by 0.5%. This increase to the annual Medicare Physician Fee Schedule payment update was effective only for Medicare claims with dates of service between January 1, 2008 and June 30, 2008. Beginning July 1, 2008, under the Medicare Improvement for Patients and Providers Act of 2008 (MIPPA), the 0.5% increase was continued for the rest of 2008. In addition, MIPPA established a 1.1% increase to the Medicare Physician Fee Schedule payment update for 2009.

For 2010, CMS projected a rate reduction of 21.2% in the absence of Congressional intervention. However, over the course of the first six months of 2010, various temporary solutions were enacted by Congress which resulted in

delaying any such change to the physician fee schedule. Ultimately, a 2.2% increase in the conversion factor was passed by Congress effective June 1, 2010, further delaying the pending 21.2% conversion factor reduction to November 30, 2010. On November 29, 2010, the calendar year 2011 physician fee schedule final rule with comment period was published in the Federal Register. The rule updates payment policies and Medicare payment rates under the Medicare physician fee schedule for physicians' services and would have significantly reduced physician fee schedule payments in 2011 had Congress not acted by passing the Physician Payment and Therapy Relief Act of 2010 and the Medicare and Medicaid Extenders Act of 2010, which together continue the 2.2% update from June 2010 through December 31, 2011. While Congress has historically provided temporary relief from the formula-driven reductions in the conversion factor, it cannot be guaranteed that Congress will act to provide relief in the future. The failure of Congress to act could adversely impact our revenues and results of operation.

MIPPA also modified the methodology by which the budget neutrality formula was applied to the 2009 physician fee schedule payment rates, resulting in an overall reduction in payment rates for services performed by many specialties, including an estimated 1% reduction for nuclear medicine. The impact of the payment rates on specific companies depends on their service mix. Also with respect to MIPPA, the legislation requires all suppliers that provide the technical component of diagnostic MRI, PET/CT, CT, and nuclear medicine to be accredited by an accreditation organization designated by CMS (which currently include the ACR, the IAC and The Joint Commission) by January 1, 2012. Our MRI, CT, nuclear medicine, ultrasound and mammography facilities are currently accredited by the ACR.

A number of other legislative changes impact our retail business. For example, beginning on January 1, 2007, the Deficit Reduction Act of 2005 (DRA) imposed caps on Medicare payment rates for certain imaging services furnished in physician's offices and other non-hospital based settings. Under the cap, payments for specified imaging services cannot exceed the hospital outpatient payment rates for those services. The limitation is applicable to the technical components of the diagnostic imaging services only, which is the payment we receive for the services for which we bill directly under the Medicare Physician Fee Schedule. CMS issues on an annual basis the hospital outpatient prospective payment rates, which are used to develop the caps. If the technical component of the service established under the Physician Fee Schedule (without including geographic adjustments) exceeds the hospital outpatient payment amount for the service (also without including geographic adjustments), then the payment is to be reduced. In other words, in those instances where the technical component for the particular service is greater for the non-hospital site, the DRA directs that the hospital outpatient payment rate be substituted for the otherwise applicable Physician Fee Schedule payment rate.

The DRA also codified the reduction in reimbursement for multiple images on contiguous body parts, which was previously announced by CMS. The DRA mandated payment at 100% of the technical component of the higher priced imaging procedure and 50% for the technical component of each additional imaging procedure for multiple images of contiguous body parts within a family of codes performed in the same session. Initially, CMS announced that it would phase in this reimbursement reduction over a two-year period, to include a 25% reduction for each additional imaging procedure on contiguous body parts in 2006 and an additional 25% reduction in 2007. CMS did not implement the additional 25% reduction scheduled for 2007, but for services furnished on or after July 1, 2010, the Patient Protection and Affordable Care Act of 2010 (PPACA) requires the full 50% reduction to be implemented.

Regulatory updates to payment rates for which we bill the Medicare program directly are published annually by CMS. For payments under the Physician Fee Schedule for calendar year 2010, CMS changed the way it calculates components of the Medicare Physician Fee Schedule. First, CMS reduced payment rates for certain diagnostic services using equipment costing more than $1 million through revisions to usage assumptions from the current 50% usage rate to a 90% usage rate. This change applied to MRI and CT scans. However, for certain diagnostic services performed on or after January 1, 2011, the Health Care and Education Reconciliation Act of 2010 reduces the assumed usage rate for such equipment from CMS's current rate of 90% to a rate of 75%, resulting in an increase in payment rates for such services.

Recent global market and economic conditions have been unprecedented. Concerns about the potential long-term and widespread recession, inflation, energy costs, geopolitical issues, the availability and cost of credit, the United States mortgage market and a declining real estate market in the United States have contributed to increased market volatility and diminished expectations for the United States economy. These conditions, combined with declining business and consumer confidence and increased unemployment, have contributed to unusual volatility. At this time, it is unclear what impact this might have on our future revenues or business.

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and

the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. If market conditions continue, they may limit our ability to timely access the capital markets to meet liquidity needs, resulting in adverse effects on our financial condition, results of operations or cash flows.

Results of Operations

The following table sets forth, for the periods indicated, the percentage that certain items in the statements of operations bears to net revenue.

RADNET, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
NET REVENUE	100.0	%	100.0	%	100.0	%	100.0	%
OPERATING EXPENSES								
Cost of operations	76.5	%	76.4	%	77.8	%	77.8	%
Depreciation and amortization	9.2	%	10.0	%	9.3	%	10.3	%
Provision for bad debts	5.6	%	6.1	%	5.5	%	6.1	%
Loss (gain) on sale and disposal of equipment	-1.2	%	0.0	%	-0.5	%	0.1	%
Severance costs	0.3	%	0.3	%	0.2	%	0.2	%
Total operating expenses	90.5	%	92.9	%	92.4	%	94.6	%
INCOME FROM OPERATIONS	9.5	%	7.1	%	7.6	%	5.4	%
OTHER EXPENSES								
Interest expense	8.4	%	9.2	%	8.6	%	8.6	%
Loss on extinguishment of debt	0.0	%	7.1	%	0.0	%	3.8	%
Other expenses (income)	-0.1	%	0.8	%	-0.7	%	0.4	%
Total other expenses	8.3	%	17.1	%	8.0	%	12.8	%
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF JOINT VENTURES	1.2	%	-10.0	%	-0.3	%	-7.4	%
Benefit from (provision for) income taxes	-0.2	%	0.1	%	-0.2	%	-0.1	%
Equity in earnings of joint ventures	1.3	%	1.3	%	1.4	%	1.5	%
NET INCOME (LOSS)	2.3	%	-8.6	%	0.9	%	-6.0	%
Net income attributable to noncontrolling interests	0.1	%	0.0	%	0.1	%	0.0	%
NET INCOME (LOSS) ATTRIBUTABLE TO RADNET, INC. COMMON STOCKHOLDERS	2.3	%	-8.6	%	0.9	%	-6.0	%

Three Months Ended June 30, 2011 Compared to the Three Months Ended June 30, 2010

Net Revenue

Net revenue for the three months ended June 30, 2011 was $155.6 million compared to $139.0 million for the three months ended June 30, 2010, an increase of $16.7 million, or 12.0%.

Net revenue, including only those centers which were in operation throughout the second quarters of both 2011 and 2010, increased $3.7 million, or 2.7%. This 2.7% increase is primarily the result of a similar percentage increase in procedure volumes. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to April 1, 2010. For the three months ended June 30, 2011, net revenue from centers that were acquired or divested subsequent to April 1, 2010 and excluded from the above comparison was $15.2 million. For the three months ended June 30, 2010, net revenue from centers that were acquired or divested subsequent to April 1, 2010 and excluded from the above comparison was $2.2 million.

Operating Expenses

Cost of operations for the three months ended June 30, 2011 increased approximately $12.9 million, or 12.2%, from $106.2 million for the three months ended June 30, 2010 to $119.1 million for the three months ended June 30, 2011. The following table sets forth our operating expenses for the three months ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended June 30,			
		2011		2010
Salaries and professional reading fees, excluding stock-based compensation	$	66,949	$	58,429
Stock-based compensation		742		1,208
Building and equipment rental		13,177		11,996
Medical supplies		8,741		8,107
Other operating expenses *		29,504		26,465
Cost of operations		119,113		106,205
Depreciation and amortization		14,296		13,876
Provision for bad debts		8,748		8,468
Loss (gain) on sale and disposal of equipment, net		(1,856)		51
Severance costs		509		435
Total operating expenses	$	140,810	$	129,035

* Includes billing fees, office supplies, repairs and maintenance, insurance, business tax and license, outside services, utilities, marketing, travel and other expenses.

Salaries and professional reading fees, excluding stock-based compensation and severance

Salaries and professional reading fees, excluding stock-based compensation and severance, increased $8.5 million, or 14.6%, to $66.9 million for the three months ended June 30, 2011 compared to $58.4 million for the three months ended June 30, 2010.

Salaries and professional reading fees, including only those centers which were in operation throughout the second quarters of both 2011 and 2010, increased $2.9 million, or 5.0%. This 5.0% increase is primarily due to expansion of our existing Breastlink centers. This comparison excludes contributions from centers that were acquired or divested subsequent to April 1, 2010. For the three months ended June 30, 2011, salaries and professional reading fees from centers that were acquired or divested subsequent to April 1, 2010 and excluded from the above comparison was $6.5 million. For the three months ended June 30, 2010, salaries and professional reading fees from centers that were acquired or divested subsequent to April 1, 2010 and excluded from the above comparison was $878,000.

Stock-based compensation

Stock-based compensation decreased $466,000, or 38.6%, to $742,000 for the three months ended June 30, 2011 compared to $1.2 million for the three months ended June 30, 2010. The decrease is primarily due to a larger number of options granted during the first half of 2010 that vested on date of grant compared to the same period of 2011.

Building and equipment rental

Building and equipment rental expenses increased $1.2 million, or 9.8%, to $13.2 million for the three months ended June 30, 2011 compared to $12.0 million for the three months ended June 30, 2010.

Building and equipment rental expenses, including only those centers which were in operation throughout the second quarters of both 2011 and 2010, increased $84,000, or 0.72%. This comparison excludes contributions from centers that were acquired or divested subsequent to April 1, 2010. For the three months ended June 30, 2011, building and equipment rental expenses from centers that were acquired or divested subsequent to April 1, 2010 and excluded from the above comparison was $1.5 million. For the three months ended June 30, 2010, building and equipment rental expenses from centers that were acquired or divested subsequent to April 1, 2010 and excluded from the above comparison was $370,000.

Medical supplies

Medical supplies expense increased $634,000, or 7.8%, to $8.7 million for the three months ended June 30, 2011 compared to $8.1 million for the three months ended June 30, 2010.

Medical supplies expense, including only those centers which were in operation throughout the second quarters of both 2011 and 2010, increased $319,000, or 4.0%. This 4.0% increase is in line with the increase in our procedure volumes. This comparison excludes contributions from centers that were acquired or divested subsequent to April 1, 2010. For the three months ended June 30, 2011, medical supplies expense from centers that were acquired or divested subsequent to April 1, 2010 and excluded from the above comparison was $423,000. For the three months ended June 30, 2010, medical supplies expense from centers that were acquired or divested subsequent to April 1, 2010 and excluded from the above comparison was $108,000.

Depreciation and amortization

Depreciation and amortization increased $420,000, or 3.0%, to $14.3 million for the three months ended June 30, 2011 compared to the same period last year. The increase is primarily due to property and equipment additions for existing centers as well as newly acquired centers.

Provision for bad debts

Provision for bad debts increased $280,000, or 3.3%, to $8.7 million, or 5.6% of net revenue, for the three months ended June 30, 2011 compared to $8.5 million, or 6.1% of net revenue, for the three months ended June 30, 2010.

Loss (gain) on sale and disposal of equipment

We recorded a net gain on disposal of equipment of approximately $1.9 million for the three months ended June 30, 2011 primarily related to the difference between the net book value of certain equipment damaged in a fire at one of our imaging facilities and insurance proceeds we received from claims filed on this damaged equipment.

Interest expense

Interest expense increased approximately $421,000, or 3.3%, to $13.1 million for the three months ended June 30, 2011 compared to $12.7 million for the three months ended June 30, 2010. Interest expense for the three months ended June 30, 2011 included $719,000 of amortization of deferred loan costs as well as $306,000 of amortization of Accumulated Other Comprehensive Loss associated with fair value adjustments to our interest rate swaps accumulated prior to April 6, 2010, the date of our debt refinancing. Interest expense for the three months ended June 30, 2010 included $695,000 of amortization of deferred loan costs as well as $306,000 of amortization of Accumulated Other Comprehensive Loss associated with fair value adjustments to our interest rate swaps accumulated prior to April 6, 2010, the date of our debt refinancing. See "Liquidity and Capital Resources" below for more details on our debt refinancing.

Loss on extinguishment of debt

For the three months ended June 30, 2010, we recorded a $9.9 million loss on extinguishment of debt related to our debt refinancing completed on April 6, 2010. This loss included $7.6 million write-off of deferred loan costs associated with our GE debt settled on April 6, 2010 as well as approximately $2.3 million to settle a call premium associated with our prior credit facilities and for interest rate swap related expenses.

Other expenses (income)

For the three months ended June 30, 2011 we recorded approximately $189,000 of other income related to fair value adjustments on our interest rate swaps. For the three months ended June 30, 2010, we recorded approximately $1.2 million of other expenses related to fair value adjustments on our interest rate swaps.

Equity in earnings from unconsolidated joint ventures

For the three months ended June 30, 2011, we recognized equity in earnings from unconsolidated joint ventures of $2.1 million compared to $2.0 million for the three months ended June 30, 2010.

Six Months Ended June 30, 2011 Compared to the Six Months Ended June 30, 2010

Net Revenue

Net revenue for the six months ended June 30, 2011 was $301.8 million compared to $263.1 million for the six months ended June 30, 2010, an increase of $38.7 million, or 14.7%.

Net revenue, including only those centers which were in operation throughout the first half of both 2011 and 2010, increased $6.4 million, or 2.5%. This 2.5% increase is primarily the result of a similar percentage increase in procedure volumes. This comparison excludes revenue contributions from centers that were acquired or divested subsequent to January 1, 2010. For the six months ended June 30, 2011, net revenue from centers that were acquired or divested subsequent to January 1, 2010 and excluded from the above comparison was $41.4 million. For the six months ended June 30, 2010, net revenue from centers that were acquired or divested subsequent to January 1, 2010 and excluded from the above comparison was $9.1 million.

Operating Expenses

Cost of operations for the six months ended June 30, 2011 increased approximately $30.1 million, or 14.7%, from $204.8 million for the six months ended June 30, 2010 to $234.9 million for the six months ended June 30, 2011. The following table sets forth our operating expenses for the six months ended June 30, 2011 and 2010 (in thousands):

	Six Months Ended June 30,			
		2011		2010
Salaries and professional reading fees, excluding stock-based compensation	$	131,607	$	113,249
Stock-based compensation		1,790		2,027
Building and equipment rental		25,837		23,248
Medical supplies		16,317		14,870
Other operating expenses *		59,390		51,446

Cost of operations		234,941		204,840
Depreciation and amortization		28,217		27,151
Provision for bad debts		16,653		16,145
Loss (gain) on sale and disposal of equipment, net		(1,597)		155
Severance costs		654		567
Total operating expenses	$	278,868	$	248,858

* Includes billing fees, office supplies, repairs and maintenance, insurance, business tax and license, outside services, utilities, marketing, travel and other expenses.

Salaries and professional reading fees, excluding stock-based compensation and severance

Salaries and professional reading fees increased $18.4 million, or 16.2%, to $131.6 million for the six months ended June 30, 2011 compared to $113.2 million for the six months ended June 30, 2010.

Salaries and professional reading fees, including only those centers which were in operation throughout the first half of both 2011 and 2010, increased $3.0 million, or 2.8%. This 2.8% increase is primarily due to expansion of our existing Breastlink centers. This comparison excludes contributions from centers that were acquired or divested subsequent to January 1, 2010. For the six months ended June 30, 2011, salaries and professional reading fees from centers that were acquired of divested subsequent to January 1, 2010 and excluded from the above comparison was $19.8 million. For the six months ended June 30, 2010, salaries and professional reading fees from centers that were acquired or divested subsequent to January 1, 2010 and excluded from the above comparison was $4.4 million.

Stock-based compensation

Stock-based compensation decreased $237,000, or 11.7%, to $1.8 million for the six months ended June 30, 2011 compared to $2.0 million for the six months ended June 30, 2010. The decrease is primarily due to a larger number of options granted during the first half of 2010 that vested on the date of grant compared to the same period of 2011.

Building and equipment rental

Building and equipment rental expenses increased $2.6 million, or 11.1%, to $25.8 million for the six months ended June 30, 2011 compared to $23.2 million for the six months ended June 30, 2010.

Building and equipment rental expenses, including only those centers which were in operation throughout the first half of both 2011 and 2010, decreased $26,000, or 0.12%. This comparison excludes contributions from centers that were acquired or divested subsequent to January 1, 2010. For the six months ended June 30, 2011, building and equipment rental expenses from centers that were acquired or divested subsequent to January 1, 2010 and excluded from the above comparison was $3.6 million. For the six months ended June 30, 2010, building and equipment rental expenses from centers that were acquired or divested subsequent to January 1, 2010 and excluded from the above comparison was $1.0 million.

Medical supplies

Medical supplies expense increased $1.4 million, or 9.7%, to $16.3 million for the six months ended June 30, 2011 compared to $14.9 million for the six months ended June 30, 2010.

Medical supplies expenses, including only those centers which were in operation throughout the first half of both 2011 and 2010, increased $407,000, or 2.8%. This 2.8% increase is in line with the increase in our procedure volumes. This comparison excludes contributions from centers that were acquired or divested subsequent to January 1, 2010. For the six months ended June 30, 2011, medical supplies expense from centers that were acquired or divested subsequent to January 1, 2010 and excluded from the above comparison was $1.4 million. For the six months ended June 30, 2010, medical supplies expense from centers that were acquired or divested subsequent to January 1, 2010 and excluded from the above comparison was $355,000.

Depreciation and amortization

Depreciation and amortization increased $1.1 million, or 3.9%, to $28.2 million for the six months ended June 30, 2011 compared to the same period last year. The increase is primarily due to property and equipment additions for existing centers as well as newly acquired centers.

Provision for bad debts

Provision for bad debts increased $508,000, or 3.2%, to $16.7 million, or 5.5% of net revenue, for the six months ended June 30, 2011 compared to $16.2 million, or 6.1% of net revenue, for the six months ended June 30, 2010.

Interest expense

Interest expense increased approximately $3.4 million, or 14.8%, to $26.1 million for the six months ended June 30, 2011 compared to $22.7 million for the six months ended June 30, 2010. Interest expense for the six months ended June 30, 2011 included $1.5 million of amortization of deferred loan costs as well as $612,000 of amortization of Accumulated Other Comprehensive Loss associated with fair value adjustments to our interest rate swaps accumulated prior to April 6, 2010, the date of our debt refinancing. Interest expense for the six months ended June 30, 2010 included $1.4 million of amortization of deferred loan costs as well as $306,000 of amortization of Accumulated Other Comprehensive Loss associated with fair value adjustments to our interest rate swaps accumulated prior to April 6, 2010, the date of our debt refinancing. See "Liquidity and Capital Resources" below for more details on our debt refinancing. Excluding these adjustments to interest expense for each period, interest expense increased $3.0 million. This increase was primarily due to interest expense on the additional borrowings under the debt refinancing completed April 6, 2010.

Loss on extinguishment of debt

For the six months ended June 30, 2010, we recorded a $9.9 million loss on extinguishment of debt related to our debt refinancing completed on April 6, 2010. This loss included $7.6 million write-off of deferred loan costs associated with our GE debt settled on April 6, 2010 as well as approximately $2.3 million to settle a call premium associated with our prior credit facilities and for interest rate swap related expenses.

Other expenses (income)

For the six months ended June 30, 2011 we recorded approximately $2.1 million of other income related to fair value adjustments on our interest rate swaps. For the six months ended June 30, 2010, we recorded approximately $1.2 million of other expenses related to fair value adjustments on our interest rate swaps.

Income tax expense

For the six months ended June 30, 2011 and 2010, we recorded $484,000 and $206,000, respectively, for income tax expense primarily related to taxable income generated in the states of Maryland and Delaware.

Equity in earnings from unconsolidated joint ventures

For the six months ended June 30, 2011, we recognized equity in earnings from unconsolidated joint ventures of $4.3 million compared to $3.8 million for the six months ended June 30, 2010.

Adjusted EBITDA

We use both GAAP and non-GAAP metrics to measure our financial results. We believe that, in addition to GAAP metrics, these non-GAAP metrics assist us in measuring our cash generated from operations and ability to service our debt obligations. We believe this information is useful to investors and other interested parties because we are highly leveraged and our non-GAAP metrics removes non-cash and certain other charges that occur in the affected period and provides a basis for measuring the Company's financial condition against other quarters.

One non-GAAP measure we believe assists us is Adjusted EBITDA. We define Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, each from continuing operations and exclude losses or gains on the disposal of equipment, other income or loss, loss on debt extinguishments, bargain purchase gains and non-cash equity

compensation. Adjusted EBITDA includes equity earnings in unconsolidated operations and subtracts allocations of earnings to non-controlling interests in subsidiaries, and is adjusted for non-cash or extraordinary and one-time events taking place during the period.

Adjusted EBITDA is reconciled to its nearest comparable GAAP financial measure, net income (loss) attributable to RadNet, Inc. common stockholders. Adjusted EBITDA is a non-GAAP financial measure used as an analytical indicator by us and the healthcare industry to assess business performance, and is a measure of leverage capacity and ability to service debt. Adjusted EBITDA should not be considered a measure of financial performance under GAAP, and the items excluded from Adjusted EBITDA should not be considered in isolation or as alternatives to net income, cash flows generated by operating, investing or financing activities or other financial statement data presented in the consolidated financial statements as an indicator of financial performance or liquidity. As Adjusted EBITDA is not a measurement determined in accordance with GAAP and is therefore susceptible to varying methods of calculation, this metric, as presented, may not be comparable to other similarly titled measures of other companies.

The following is a reconciliation of GAAP net income (loss) to Adjusted EBITDA for the three and six months ended June 30, 2011 and 2010, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net Income (Loss) Attributable to RadNet, Inc. Common Stockholders	$3,521	$(11,756)	$2,645	$(15,867)
Plus Provision (Benefit) for Income Taxes	337	(128)	484	206
Plus Other Expenses (Income)	(189)	1,150	(2,060)	1,150
Plus Interest Expense	13,150	12,729	26,065	22,696
Plus Severence Costs	509	435	654	567
Plus Loss (Gain) on Sale and Disposal of Equipment	(1,856)	51	(1,597)	155
Plus Loss on Extinguishment of Debt	-	9,871	-	9,871
Plus Depreciation and Amortization	14,296	13,876	28,217	27,151
Plus Non Cash Employee Stock Based Compensation	742	1,208	1,790	2,027
Adjusted EBITDA	$30,510	$27,436	$56,198	$47,956

Liquidity and Capital Resources

We had a working capital balance of $20.5 million and $5.8 million at June 30, 2011 and December 31, 2010, respectively. We had net income attributable to RadNet, Inc.'s common stockholders of $2.6 million for the six months ended June 30, 2011. We had a net loss attributable to RadNet, Inc.'s common stockholders of $15.9 million for the six months ended June 30, 2010. We also had an equity deficit of $77.1 million and $82.5 million at June 30, 2011 and December 31, 2010, respectively.

We operate in a capital intensive, high fixed-cost industry that requires significant amounts of capital to fund operations. In addition to operations, we require a significant amount of capital for the initial start-up and development expense of new diagnostic imaging facilities, the acquisition of additional facilities and new diagnostic imaging equipment, and to service our existing debt and contractual obligations. Because our cash flows from operations have been insufficient to fund all of these capital requirements, we have depended on the availability of financing under credit arrangements with third parties.

Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our credit agreement, will be adequate to meet our short-term and long-term liquidity needs. Our future liquidity requirements will be for working capital, capital expenditures, debt service and general corporate purposes. Our ability to meet our working capital and debt service requirements, however, is subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. If we are not able to meet such requirements, we may be required to seek additional financing. There can be no assurance that we will be able to obtain financing from other sources on terms acceptable to us, if at all.

From time to time, we may pursue acquisitions, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted. We expect to fund any future acquisitions primarily with cash flow from operations and borrowings, including borrowing from amounts available under our current credit agreement or

through new equity or debt issuances. There can be no assurance that acquisition funds will be available on terms acceptable to us, or at all.

We and our subsidiaries or affiliates may from time to time, in our or their sole discretion, continue to purchase, repay, redeem or retire any of our outstanding debt or equity securities in privately negotiated or open market transactions, by tender offer or otherwise. However, we have no formal plan of doing so at this time.

Our business strategy with regard to operations focuses on the following:

- maximizing performance at our existing facilities;
- focusing on profitable contracting;
- expanding MRI, CT and PET applications;
- optimizing operating efficiencies; and
- expanding our networks.

On April 6, 2010, we completed a series of transactions which we refer to as our "debt refinancing plan" for an aggregate of $585 million. As part of the debt refinancing plan, our wholly owned subsidiary Radnet Management, Inc. issued and sold $200,000,000 in 10 3/8% senior notes due 2018 (the "senior notes"). All payments of the senior notes, including principal and interest, are guaranteed jointly and severally on a senior unsecured basis by RadNet, Inc. and all of Radnet Management's current and future domestic wholly owned restricted subsidiaries. The senior notes were issued under an indenture, dated April 6, 2010, by and among Radnet Management, as issuer, RadNet, Inc., as parent guarantor, the subsidiary guarantors thereof and U.S. Bank National Association, as trustee, in a private placement that was not subject to the registration requirements of the Securities Act. The senior notes initially issued on April 6, 2010 in a private placement were subsequently publicly offered for exchange enabling holders of the outstanding senior notes to exchange the outstanding notes for publicly registered exchange notes with nearly identical terms. The exchange offer was completed on February 14, 2011.

In addition to the issuance of senior notes, Radnet Management entered into a new Credit and Guaranty Agreement with a syndicate of lenders (the "New Credit Agreement"), whereby Radnet Management obtained $385,000,000 in senior secured first-lien bank financing, consisting of (i) a $285,000,000, six-year term loan facility and (ii) a $100,000,000, five-year revolving credit facility, including a swing line subfacility and a letter of credit subfacility (collectively, the “New Credit Facilities”). Radnet Management's obligations under the New Credit Agreement are unconditionally guaranteed by RadNet, Inc., all of Radnet Management's current and future wholly owned domestic subsidiaries as well as certain affiliates, including Beverly Radiology Medical Group III and its equity holders (Beverly Radiology Medical Group, Inc., BreastLink Medical Group, Inc. and ProNet Imaging Medical Group, Inc.). These New Credit Facilities created by the New Credit Agreement are secured by a perfected first-priority security interest in all of Radnet Management's and the guarantors' tangible and intangible assets, including, but not limited to, pledges of equity interests of Radnet Management and all of our current and future wholly owned domestic subsidiaries.

In connection with the issuance of the outstanding notes and entering into the New Credit Agreement, Radnet Management used the net proceeds from the issuance of the outstanding notes and the New Credit Facilities created by the New Credit Agreement to repay in full its existing first lien term loan for $242.0 million in aggregate principal amount outstanding, which would have matured on November 15, 2012, and its second lien term loan for $170.0 million in aggregate principal amount outstanding, which would have matured on November 15, 2013.

At June 30, 2011, Radnet Management had $200.0 million aggregate principal amount of senior notes outstanding, $281.4 million of senior secured term loan debt outstanding and $25.7 million outstanding under the revolving credit facility. For a detailed discussion of the relevant terms and restrictive covenants of the senior notes and the New Credit Facilities, see “Liquidity and Capital Resources” section of our annual report filed on Form 10-K for the year ended December 31, 2010. As of June 30, 2011, we were in compliance with all covenants under the notes and the New Credit Facilities.

Sources and Uses of Cash

Cash provided by operating activities was $22.9 million for the six months ended June 30, 2011 and $22.5 million for the six months ended June 30, 2010.

Cash used in investing activities was $35.2 million and $50.6 million for the six months ended June 30, 2011 and 2010, respectively. For the six months ended June 30, 2011, we purchased property and equipment for approximately $24.9 million and acquired the assets and businesses of additional imaging facilities for approximately $11.5 million. Also, for the six months ended June 30, 2011, we received insurance proceeds of approximately $2.5 million for equipment damaged in a fire at one of our imaging centers.

Cash provided by financing activities was $11.8 million and $38.5 million for the six months ended June 30, 2011 and 2010, respectively. The cash provided by financing activities for the six months ended June 30, 2011 was primarily related to proceeds from borrowings on our line of credit offset in part by payments we made toward our term loans, capital leases and line of credit balances, as well as $3.2 million of cash payments, net of cash receipts, related to our modified cash flow hedges.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk. We sell our services exclusively in the United States and receive payment for our services exclusively in United States dollars. As a result, our financial results are unlikely to be affected by factors such as changes in foreign currency, exchange rates or weak economic conditions in foreign markets.

After the completion of the acquisition of Image Medical Corporation, the parent of eRAD, Inc. on October 1, 2010, we maintain research and development facilities in Prince Edward Island, Canada and Budapest, Hungary for which expenses are paid in the local currency. Accordingly, we do have currency risk resulting from fluctuations between such local currency and the United States Dollar. At the present time, we do not have any foreign exchange currency contracts to mitigate this risk. Fluctuations in foreign exchange rates could impact future operating results.

Interest Rate Sensitivity. A large portion of our interest expense is not sensitive to changes in the general level of interest in the United States because much of our indebtedness has interest rates that were fixed when we entered into the note payable or capital lease obligation. Our credit facility however, which is classified as a long-term liability on our financial statements, is interest expense sensitive to changes in the general level of interest in the United States because it is priced at a 3.75% spread to the greater of 2% ("LIBOR Floor") or 3 month LIBOR. At June 30, 2011, we had $307.1 million outstanding under our credit facilities. Because the LIBOR Floor exceeds the current spot rate of 3 month LIBOR (currently at about 25 basis points), the spot rate of 3 month LIBOR would have to increase by more than 175 basis points before we would recognize any increase in our interest expense. The LIBOR rate would have to increase by 275 basis points for us to realize a 1% increase in our borrowing rate under our current credit facility and for us to experience an annual increase of $3.1 million in our interest expense.

ITEM 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information is: (1) gathered and communicated to our management, including our principal executive and financial officers, on a timely basis; and (2) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934, as amended.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2011. Based on such evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective for their intended purpose described above.

Changes in Internal Control over Financial Reporting

No changes were made in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recent fiscal quarter that has materially affected, or is likely to materially affect, our internal control over financial reporting.

Limitations on Disclosure Controls and Procedures.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource

constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II – OTHER INFORMATION

ITEM 1 Legal Proceedings

We are engaged from time to time in the defense of lawsuits arising out of the ordinary course and conduct of our business. We believe that the outcome of our current litigation will not have a material adverse impact on our business, financial condition and results of operations. However, we could be subsequently named as a defendant in other lawsuits that could adversely affect us.

ITEM 1A Risk Factors

In addition to the other information set forth in this report, we urge you to carefully consider the factors discussed in Part I, “Item 1A Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2010 which could materially affect our business, financial condition and results of operations. The risks described in our annual report on Form 10-K are not the only risks facing our Company and include additional risks and uncertainties not currently known to us or that we currently deem to be immaterial as of the date of this report on Form 10-Q.

ITEM 2Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 3Defaults Upon Senior Securities

None

ITEM 4Removed and Reserved

ITEM 5Other Information

None

ITEM 6Exhibits

The list of exhibits filed as part of this report is incorporated by reference to the Index to Exhibits at the end of this report.

SIGNATURES

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

	RADNET, INC. (Registrant)	
Date: August 9, 2011	By:	/s/ Howard G. Berger, M.D. Howard G. Berger, M.D., President and Chief Executive Officer (Principal Executive Officer)
Date: August 9, 2011	By:	/s/ Mark D. Stolper Mark D. Stolper, Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Description
10.1*	2006 Equity Incentive Plan, amended and restated as of April 19, 2011 (incorporated by reference to Exhibit A to the Registrant's Proxy Statement on Schedule 14A for the 2011 Annual Meeting of Stockholders filed on April 29, 2011, SEC File No. 001-33307).
31.1	Certification of Howard G. Berger, M.D. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Mark D. Stolper pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Howard G. Berger, M.D.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Mark D. Stolper.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Schema Document
101.CAL**	XBRL Calculation Linkbase Document
101.DEF **	XBRL Definition Linkbase Document
101.LAB**	XBRL Label Linkbase Document
101.PRE**	XBRL Presentation Linkbase Document

* Indicates management contract or compensatory plan.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.