

NORDSTROM INC  
Form 10-Q  
December 02, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 2, 2013

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-15059

NORDSTROM, INC.

(Exact name of registrant as specified in its charter)

Washington  
(State or other jurisdiction of  
incorporation or organization)

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

1617 Sixth Avenue, Seattle, Washington  
(Address of principal executive offices)  
206-628-2111

98101  
(Zip Code)

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

YES  NO

Common stock outstanding as of November 27, 2013: 193,357,203 shares



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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited).

## NORDSTROM, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions except per share amounts)

(Unaudited)

	Quarter Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net sales	\$2,791	\$2,713	\$8,552	\$8,166
Credit card revenues	93	92	277	270
Total revenues	2,884	2,805	8,829	8,436
Cost of sales and related buying and occupancy costs	(1,791	) (1,730	) (5,468	) (5,193
Selling, general and administrative expenses	(840	) (798	) (2,498	) (2,396
Earnings before interest and income taxes	253	277	863	847
Interest expense, net	(35	) (38	) (111	) (118
Earnings before income taxes	218	239	752	729
Income tax expense	(81	) (93	) (286	) (278
Net earnings	\$137	\$146	\$466	\$451
Earnings per share:				
Basic	\$0.70	\$0.73	\$2.39	\$2.21
Diluted	\$0.69	\$0.71	\$2.35	\$2.17
Weighted-average shares outstanding:				
Basic	194.3	200.9	195.1	204.5
Diluted	197.3	204.7	198.3	208.2

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

## NORDSTROM, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(Amounts in millions)

(Unaudited)

	Quarter Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net earnings	\$137	\$146	\$466	\$451
Postretirement plan adjustments, net of tax	2	1	5	4
Comprehensive net earnings	\$139	\$147	\$471	\$455

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

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NORDSTROM, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Amounts in millions)  
 (Unaudited)

	November 2, 2013	February 2, 2013	October 27, 2012
Assets			
Current assets:			
Cash and cash equivalents	\$947	\$1,285	\$1,158
Accounts receivable, net	2,146	2,129	2,088
Merchandise inventories	1,795	1,360	1,650
Current deferred tax assets, net	243	227	222
Prepaid expenses and other	122	80	115
Total current assets	5,253	5,081	5,233
Land, buildings and equipment (net of accumulated depreciation of \$4,347, \$4,064 and \$4,013)	2,880	2,579	2,551
Goodwill	175	175	175
Other assets	277	254	306
Total assets	\$8,585	\$8,089	\$8,265
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$1,448	\$1,011	\$1,347
Accrued salaries, wages and related benefits	358	404	320
Other current liabilities	821	804	751
Current portion of long-term debt	407	7	6
Total current liabilities	3,034	2,226	2,424
Long-term debt, net	2,711	3,124	3,129
Deferred property incentives, net	491	485	488
Other liabilities	361	341	340
Commitments and contingencies			
Shareholders' equity:			
Common stock, no par value: 1,000 shares authorized; 193.2, 197.0 and 200.7 shares issued and outstanding	1,794	1,645	1,622
Retained earnings	236	315	303
Accumulated other comprehensive loss	(42	) (47	) (41
Total shareholders' equity	1,988	1,913	1,884
Total liabilities and shareholders' equity	\$8,585	\$8,089	\$8,265

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

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NORDSTROM, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in millions except per share amounts)

(Unaudited)

	Common Stock		Retained	Accumulated	
	Shares	Amount	Earnings	Other	Total
				Loss	
Balance at February 2, 2013	197.0	\$1,645	\$315	\$(47	) \$1,913
Net earnings	—	—	466	—	466
Postretirement plan adjustments, net of tax	—	—	—	5	5
Dividends (\$0.90 per share)	—	—	(176	) —	(176 )
Issuance of common stock under stock compensation plans	2.7	102	—	—	102
Stock-based compensation	0.1	47	—	—	47
Repurchase of common stock (6.6	) —		(369	) —	(369 )
Balance at November 2, 2013	193.2	\$1,794	\$236	\$(42	) \$1,988

	Common Stock		Retained	Accumulated	
	Shares	Amount	Earnings	Other	Total
				Loss	
Balance at January 28, 2012	207.6	\$1,484	\$517	\$(45	) \$1,956
Net earnings	—	—	451	—	451
Postretirement plan adjustments, net of tax	—	—	—	4	4
Dividends (\$0.81 per share)	—	—	(166	) —	(166 )
Issuance of common stock under stock compensation plans	2.9	101	—	—	101
Stock-based compensation	0.1	37	—	—	37
Repurchase of common stock (9.9	) —		(499	) —	(499 )
Balance at October 27, 2012	200.7	\$1,622	\$303	\$(41	) \$1,884

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

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NORDSTROM, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Amounts in millions)  
 (Unaudited)

	Nine Months Ended	
	November 2, 2013	October 27, 2012
<b>Operating Activities</b>		
Net earnings	\$466	\$451
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization expenses	332	314
Amortization of deferred property incentives and other, net	(40)	(47)
Deferred income taxes, net	(45)	(31)
Stock-based compensation expense	47	42
Tax benefit from stock-based compensation	17	19
Excess tax benefit from stock-based compensation	(19)	(20)
Provision for bad debt expense	44	38
Change in operating assets and liabilities:		
Accounts receivable	(59)	(84)
Merchandise inventories	(385)	(449)
Prepaid expenses and other assets	(42)	(28)
Accounts payable	354	339
Accrued salaries, wages and related benefits	(47)	(71)
Other current liabilities	7	(18)
Deferred property incentives	64	43
Other liabilities	24	9
Net cash provided by operating activities	718	507
<b>Investing Activities</b>		
Capital expenditures	(621)	(369)
Change in restricted cash	—	200
Change in credit card receivables originated at third parties	(1)	(10)
Other, net	(9)	(7)
Net cash used in investing activities	(631)	(186)
<b>Financing Activities</b>		
Principal payments on long-term borrowings	(5)	(505)
Increase in cash book overdrafts	29	36
Cash dividends paid	(176)	(166)
Payments for repurchase of common stock	(374)	(506)
Proceeds from issuances under stock compensation plans	85	83
Excess tax benefit from stock-based compensation	19	20
Other, net	(3)	(2)
Net cash used in financing activities	(425)	(1,040)
Net decrease in cash and cash equivalents	(338)	(719)
Cash and cash equivalents at beginning of period	1,285	1,877
Cash and cash equivalents at end of period	\$947	\$1,158

Supplemental Cash Flow Information

Cash paid during the period for:

Interest (net of capitalized interest)	\$ 113	\$ 108
Income taxes paid, net of refunds	\$ 369	\$ 360

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

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NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the balances of Nordstrom, Inc. and its subsidiaries. All intercompany transactions and balances are eliminated in consolidation. The interim condensed consolidated financial statements have been prepared on a basis consistent in all material respects with the accounting policies described and applied in our 2012 Annual Report on Form 10-K ("Annual Report"), and reflect all adjustments of a normal recurring nature that are, in management's opinion, necessary for the fair presentation of the results of operations, financial position and cash flows for the periods presented.

The condensed consolidated financial statements as of and for the periods ended November 2, 2013 and October 27, 2012 are unaudited. The condensed consolidated balance sheet as of February 2, 2013 has been derived from the audited consolidated financial statements included in our 2012 Annual Report. The interim condensed consolidated financial statements should be read together with the consolidated financial statements and related footnote disclosures contained in our 2012 Annual Report.

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

Our business, like that of other retailers, is subject to seasonal fluctuations. Due to our Anniversary Sale in July, the holidays in December and the half-yearly sales that normally occur in our second and fourth quarters, our sales are typically higher in the second and fourth quarters of the fiscal year than in the first and third quarters. In 2013, our Anniversary Sale took place in the second quarter, while in 2012 it occurred during both the second and third quarters. This will impact comparisons of performance to the prior year. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Reclassification

Prior to 2013, we presented bad debt expense associated with finance charges and fees as a part of selling, general and administrative expenses. Beginning in the first quarter of 2013, we reclassified these amounts and now present them as a reduction of credit card revenue. Historical results were also reclassified to match the current period presentation. These reclassifications did not impact net earnings, earnings per share, financial position or cash flows.

See Note 9: Segment Reporting for additional changes in the way we view and measure our business and segment performance. None of these changes impact our condensed consolidated financial statements.

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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

## NOTE 2: ACCOUNTS RECEIVABLE

The components of accounts receivable are as follows:

	November 2, 2013	February 2, 2013	October 27, 2012
Credit card receivables:			
Nordstrom VISA credit card receivables	\$1,317	\$1,348	\$1,315
Nordstrom private label card receivables	831	794	777
Total credit card receivables	2,148	2,142	2,092
Allowance for credit losses	(85	) (85	) (95
Credit card receivables, net	2,063	2,057	1,997
Other accounts receivable <sup>1</sup>	83	72	91
Accounts receivable, net	\$2,146	\$2,129	\$2,088

<sup>1</sup>Other accounts receivable consist primarily of third party credit and debit card receivables.

Activity in the allowance for credit losses is as follows:

	Quarter Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Allowance at beginning of period	\$85	\$105	\$85	\$115
Bad debt provision	14	7	44	38
Write-offs	(19	) (22	) (61	) (76
Recoveries	5	5	17	18
Allowance at end of period	\$85	\$95	\$85	\$95

The allowance for credit losses reflects our best estimate of the losses inherent in our receivables as of the balance sheet date, including uncollectible finance charges and fees. For purposes of determining impairment and recording the associated allowance for credit losses, we evaluate our credit card receivables on a collective basis as they are composed of large groups of smaller-balance homogeneous loans and, therefore, are not individually evaluated for impairment. We record estimated uncollectible principal balances to the bad debt provision while estimated uncollectible finance charges and fees result in a reduction of credit card revenue.

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

	November 2, 2013	February 2, 2013	October 27, 2012
Credit card receivables classified as TDRs	\$40	\$53	\$54
Percent of total credit card receivables classified as TDRs	1.9	% 2.5	% 2.6

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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

## Credit Quality

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

	November 2, 2013		February 2, 2013		October 27, 2012			
	Balance	% of total	Balance	% of total	Balance	% of total		
Current	\$2,028	94.4	% \$2,018	94.2	% \$1,960	93.7	%	
1 – 29 days delinquent	82	3.8	% 84	3.9	% 89	4.2	%	
30 days or more delinquent:								
30 – 59 days delinquent	15	0.7	% 15	0.7	% 17	0.9	%	
60 – 89 days delinquent	10	0.5	% 10	0.5	% 11	0.5	%	
90 days or more delinquent	13	0.6	% 15	0.7	% 15	0.7	%	
Total 30 days or more delinquent	38	1.8	% 40	1.9	% 43	2.1	%	
Total credit card receivables	\$2,148	100.0	% \$2,142	100.0	% \$2,092	100.0	%	
Receivables not accruing finance charges	\$10		\$11		\$10			
Receivables 90 days or more delinquent and still accruing finance charges	\$7		\$8		\$9			

We also evaluate credit quality using FICO credit scores. The following table illustrates the distribution of our credit card receivables across FICO score ranges:

FICO Score Range <sup>1</sup>	November 2, 2013		February 2, 2013		October 27, 2012			
	Balance	% of total	Balance	% of total	Balance	% of total		
801+	\$329	15.3	% \$310	14.5	% \$335	16.0	%	
660 – 800	1,355	63.1	% 1,366	63.8	% 1,326	63.4	%	
001 – 659	368	17.1	% 379	17.7	% 359	17.1	%	
Other <sup>2</sup>	96	4.5	% 87	4.0	% 72	3.5	%	
Total credit card receivables	\$2,148	100.0	% \$2,142	100.0	% \$2,092	100.0	%	

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

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

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NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

## NOTE 3: DEBT AND CREDIT FACILITIES

## Debt

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

	November 2, 2013	February 2, 2013	October 27, 2012
<b>Secured</b>			
Series 2011-1 Class A Notes, 2.28%, due October 2016	\$325	\$325	\$325
Mortgage payable, 7.68%, due April 2020	43	47	48
Other	9	10	10
	377	382	383
<b>Unsecured</b>			
Net of unamortized discount:			
Senior notes, 6.75%, due June 2014	400	400	400
Senior notes, 6.25%, due January 2018	648	648	648
Senior notes, 4.75%, due May 2020	499	498	498
Senior notes, 4.00%, due October 2021	499	499	499
Senior debentures, 6.95%, due March 2028	300	300	300
Senior notes, 7.00%, due January 2038	344	344	344
Unamortized fair value hedge	51	60	63
	2,741	2,749	2,752
<b>Total long-term debt</b>	<b>3,118</b>	<b>3,131</b>	<b>3,135</b>
Less: current portion	(407)	) (7	) (6
<b>Total due beyond one year</b>	<b>\$2,711</b>	<b>\$3,124</b>	<b>\$3,129</b>

## Credit Facilities

As of November 2, 2013, we had total short-term borrowing capacity available for general corporate purposes of \$800. In March 2013, we terminated both our \$600 unsecured revolving credit facility that was scheduled to expire in June 2016, and our \$200 2007-A Variable Funding Note that was scheduled to expire in January 2014. We replaced these with a new five-year \$800 senior unsecured revolving credit facility ("revolver") that expires in March 2018. Under the terms of our new revolver, we pay a variable rate of interest and a commitment fee based on our debt rating. The new revolver is available for working capital, capital expenditures and general corporate purposes and backs our commercial paper program. During the nine months ended November 2, 2013, we had no issuances under our commercial paper program and no borrowings under our new revolver or the \$600 credit facility prior to termination. The new revolver requires that we maintain an adjusted debt to Earnings before Interest, Income Taxes, Depreciation, Amortization and Rent ("EBITDAR") leverage ratio of less than four times. As of November 2, 2013, we were in compliance with this covenant.

Subsequent to the quarter ended November 2, 2013, our wholly owned subsidiary in Puerto Rico entered into a \$52 unsecured borrowing facility to support our expansion into that market. The facility expires in November 2018. Also in March 2013, our wholly owned subsidiary Nordstrom fsb terminated its \$100 variable funding facility. We had no borrowings under this facility prior to termination.

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NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

## NOTE 4: FAIR VALUE MEASUREMENTS

We disclose our financial assets and liabilities that are measured at fair value in our condensed consolidated balance sheets by level within the fair value hierarchy as defined by applicable accounting standards:

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

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

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

We did not have any financial assets or liabilities that were measured at fair value on a recurring basis as of November 2, 2013, February 2, 2013 or October 27, 2012.

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

	November 2, 2013	February 2, 2013	October 27, 2012
Carrying value of long-term debt <sup>1</sup>	\$3,118	\$3,131	\$3,135
Fair value of long-term debt	3,463	3,665	3,746

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

We also measure certain non-financial assets at fair value on a nonrecurring basis, primarily goodwill and long-lived tangible and intangible assets, in connection with periodic evaluations for potential impairment. We recorded no impairment charges for these assets for the nine months ended November 2, 2013 and October 27, 2012. We estimate the fair value of goodwill and long-lived tangible and intangible assets using primarily unobservable inputs, and as such these are considered Level 3 fair value measurements.

## NOTE 5: COMMITMENTS AND CONTINGENT LIABILITIES

As of November 2, 2013, we had approximately \$100 of fee interest in our Manhattan full-line store subject to lien.

We have committed to make future installment payments based on the developer of the property meeting construction and development milestones. Our fee interest in the property is subject to lien until project completion or fulfillment of our existing installment payment commitment.

## NOTE 6: SHAREHOLDERS' EQUITY

In February 2012, our Board of Directors authorized a program to repurchase up to \$800 of our outstanding common stock, through February 1, 2014. In February 2013, our Board of Directors authorized a new program to repurchase up to \$800 of our outstanding common stock, through March 1, 2015, in addition to the remaining amount available for repurchase under our February 2012 authorization. During the nine months ended November 2, 2013, we repurchased 6.6 shares of our common stock for an aggregate purchase price of \$369 and had \$824 in remaining share repurchase capacity. The actual number and timing of future share repurchases, if any, will be subject to market and economic conditions and applicable Securities and Exchange Commission rules.

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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

## NOTE 7: STOCK-BASED COMPENSATION

The following table summarizes our stock-based compensation expense:

	Quarter Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Stock options	\$10	\$8	\$36	\$29
HauteLook stock compensation	2	2	6	7
Performance share units	—	1	1	3
Employee stock purchase plan	—	—	1	1
Other	1	—	3	2
Total stock-based compensation expense, before income tax benefit	13	11	47	42
Income tax benefit	(5	) (3	) (16	) (14
Total stock-based compensation expense, net of income tax benefit	\$8	\$8	\$31	\$28

During the nine months ended November 2, 2013 and October 27, 2012, we granted 3.7 and 2.9 options with estimated weighted-average grant-date fair values per option of \$14 and \$15.

## NOTE 8: EARNINGS PER SHARE

The computation of earnings per share is as follows:

	Quarter Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net earnings	\$137	\$146	\$466	\$451
Basic shares	194.3	200.9	195.1	204.5
Dilutive effect of stock options and other	3.0	3.8	3.2	3.7
Diluted shares	197.3	204.7	198.3	208.2
Earnings per basic share	\$0.70	\$0.73	\$2.39	\$2.21
Earnings per diluted share	\$0.69	\$0.71	\$2.35	\$2.17
Anti-dilutive stock options and other	4.5	2.4	4.6	4.8

## NOTE 9: SEGMENT REPORTING

As discussed in Note 1: Basis of Presentation, beginning in the first quarter of 2013, we reclassified amounts in our financial statements to better reflect the way we view and measure our business. As we continue to execute our long-term growth strategy and make investments across operating segments, aligning expenses with the associated benefits enhances our ability to evaluate segment performance. Historical results were also reclassified to match the current period presentation. These reclassifications did not impact net earnings, earnings per share, financial position or cash flows.

We previously recorded all of our Nordstrom Rewards loyalty program expenses in our Credit segment. We now allocate all of our Nordstrom Rewards expenses to the Retail segment, including the face value of Nordstrom Notes, which customers earn based on their level of spending and which can be redeemed for goods or services. Consistent with our previous segment reporting, our Retail segment net sales include sales from the redemption of Nordstrom Notes. In order to present the consolidated financial results in accordance with generally accepted accounting principles, our Corporate/Other column includes the elimination of net sales when customers used Nordstrom Notes

and also includes an adjustment to reduce the Nordstrom Notes expense from face value to their estimated cost. In addition, certain technology expenses we previously included in Corporate/Other are now allocated to the Retail and Credit segments.

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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

In our Credit segment, we previously presented bad debt expense associated with finance charges and fees as part of selling, general and administrative expenses. We reclassified these amounts and now present them as a reduction of credit card revenue. There was no impact to Credit earnings before income taxes for this reclassification.

The following tables set forth information for our reportable segments:

	Retail	Corporate/Other	Total Retail Business <sup>1</sup>	Credit	Total
Quarter Ended November 2, 2013					
Net sales	\$2,749	\$ 42	\$2,791	\$—	\$2,791
Credit card revenues	—	—	—	93	93
Earnings (loss) before interest and income taxes	274	(66 )	208	45	253
Interest expense, net	—	(29 )	(29 )	(6 )	(35 )
Earnings (loss) before income taxes	274	(95 )	179	39	218
Quarter Ended October 27, 2012					
Net sales	\$2,657	\$ 56	\$2,713	\$—	\$2,713
Credit card revenues	—	—	—	92	92
Earnings (loss) before interest and income taxes	257	(31 )	226	51	277
Interest expense, net	—	(32 )	(32 )	(6 )	(38 )
Earnings (loss) before income taxes	257	(63 )	194	45	239
Nine Months Ended November 2, 2013					
Net sales	\$8,707	\$ (155 )	\$8,552	\$—	\$8,552
Credit card revenues	—	—	—	277	277
Earnings (loss) before interest and income taxes	949	(215 )	734	129	863
Interest expense, net	—	(93 )	(93 )	(18 )	(111 )
Earnings (loss) before income taxes	949	(308 )	641	111	752
Nine Months Ended October 27, 2012					
Net sales	\$8,296	\$ (130 )	\$8,166	\$—	\$8,166
Credit card revenues	—	—	—	270	270
Earnings (loss) before interest and income taxes	923	(202 )	721	126	847
Interest expense, net	—	(99 )	(99 )	(19 )	(118 )
Earnings (loss) before income taxes	923	(301 )	622	107	729

<sup>1</sup>Total Retail Business is not a reportable segment, but represents a subtotal of the Retail segment and Corporate/Other, and is consistent with our presentation in Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table summarizes net sales within our reportable segments:

	Quarter Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Nordstrom full-line stores	\$1,657	\$1,730	\$5,472	\$5,560

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Direct	305	248	1,031	799
Nordstrom	1,962	1,978	6,503	6,359
Nordstrom Rack	709	613	1,970	1,747
HauteLook and Jeffrey	78	66	234	190
Total Retail segment	2,749	2,657	8,707	8,296
Corporate/Other	42	56	(155)	(130)
Total net sales	\$2,791	\$2,713	\$8,552	\$8,166

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CAUTIONARY STATEMENT

Certain statements in this Quarterly Report on Form 10-Q contain or may suggest "forward-looking" information (as defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties, including, but not limited to, anticipated financial outlook for the fiscal year ending February 1, 2014, anticipated annual same-store sales rate, anticipated Return on Invested Capital and trends in our operations. Such statements are based upon the current beliefs and expectations of the company's management and are subject to significant risks and uncertainties. Actual future results may differ materially from historical results or current expectations depending upon factors including, but not limited to:

- successful execution of our growth strategy, including expansion into new markets, acquisitions, investments in our stores and online, our ability to realize the anticipated benefits from such growth initiatives, and the timely completion of construction associated with newly planned stores, relocations and remodels, all of which may be impacted by the financial health of third parties,
- our ability to manage the transformation of our business/financial model as we increase our investments in growth opportunities, including our online business and our ability to manage related organizational changes,
- our ability to maintain relationships with our employees and to effectively attract, develop and retain our future leaders,
- effective inventory management, disruptions in our supply chain and our ability to control costs,
- the impact of any systems failures, cybersecurity and/or security breaches, including any security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or company information or our compliance with information security and privacy laws and regulations in the event of such an incident,
- successful execution of our information technology strategy,
- efficient and proper allocation of our capital resources,
- our ability to safeguard our reputation and maintain our vendor relationships,
- the impact of economic and market conditions and the resultant impact on consumer spending patterns,
- our ability to respond to the business environment, fashion trends and consumer preferences, including changing expectations of service and experience in stores and online,
- the effectiveness of planned advertising, marketing and promotional campaigns in the highly competitive retail industry,
- weather conditions, natural disasters, health hazards, national security or other market disruptions, or the prospects of these events and the impact on consumer spending patterns,
- our compliance with applicable banking-related laws and regulations impacting our ability to extend credit to our customers, employment laws and regulations, certain international laws and regulations, other laws and regulations applicable to us, including the outcome of claims and litigation and resolution of tax matters, and ethical standards,
- impact of the current regulatory environment and financial system and health care reforms,
- compliance with debt covenants, availability and cost of credit, changes in interest rates, and trends in debt repayment patterns, personal bankruptcies, and bad debt write-offs, and
- the timing and amounts of share repurchases by the company, if any, or any share issuances by the company, including issuances associated with option exercises or other matters.

These and other factors, including those factors described in Part I, "Item 1A. Risk Factors" in our 2012 Annual Report on Form 10-K, could affect our financial results and cause actual results to differ materially from any forward-looking information we may provide. We undertake no obligation to update or revise any forward-looking statements to reflect subsequent events, new information or future circumstances.

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OVERVIEW

We continually aspire to improve the customer experience, both in stores and online, and across our regular-price and off-price channels. Over the years, our ability to deliver a compelling service experience has been the biggest driver of our results and ability to create shareholder value. We have focused on improving our multi-channel capabilities, and while each channel represents a meaningful growth opportunity individually, the synergies they create contribute significantly to our ability to attract, retain, and serve customers into the future.

Our performance in the third quarter was consistent with the first half of the year. While our overall sales performance was below our initial expectations, we were encouraged with the momentum in our Direct and Rack businesses. Our continued disciplined execution around inventory and expenses has helped mitigate the sales softness in our full-line stores. Third quarter results were also impacted by a timing shift of our Anniversary Sale, historically our largest sale event of the year, which took place in the second quarter this year, but occurred in both the second and third quarters last year. Combined second and third quarter same-store sales, which eliminates the impact of the Anniversary Sale event shift, yields an increase of 2.4% compared with the same period last year. The estimated impact of the event shift increased earnings per diluted share in the second quarter and reduced earnings per diluted share in the third quarter by approximately \$0.06.

Women's apparel continued its momentum, performing above the Nordstrom average for both the quarter and year-to-date. We successfully executed our strategic changes in Women's apparel through increased focus on key brands, an improved shopping environment and product innovation. We are appealing to new customers with our repositioned Savvy department and with the expansion of Topshop merchandise, now in 41 stores and online, with more planned for next year.

During the third quarter, we relocated our Glendale, California store and incorporated new design concepts that reflect our customers' desire for stores that are easier to shop. We emphasized selling floor flexibility to enable us to quickly adjust and evolve departments over time. We used this approach in our 2013 remodels and plan to incorporate additional new designs in our future renovations and store openings.

Our Direct sales grew 29% year-to-date and is our fastest-growing business. With two consecutive years of at least 30% sales growth, we are on track for a similar increase this year. We continue to make investments to expand our online merchandise selection and personalize the customer experience, and are finalizing plans to add a third fulfillment center on the east coast in 2015 to better meet customers' expectations of fast and reliable delivery.

Rack net sales increased 16% during the quarter compared with the same period last year, reflecting 20 stores opened since the third quarter of 2012. During the first nine months of 2013, we opened 18 Nordstrom Rack stores and relocated one Nordstrom Rack store. Some of these store openings represented new markets for us, including two in new states. We also expanded the services we offer by enabling our mobile point-of-sale devices in the Rack to locate and send merchandise to customers from any of our Rack stores. In addition, our Rack stores can now accept HauteLook merchandise returns, adding convenience for our customers while driving incremental traffic to our Racks and further integrating the customer experience across channels.

Our HauteLook business grew over 25% year-to-date. HauteLook has nearly 15 million members, which has more than tripled since our acquisition in 2011. We recently opened a 900,000 square foot fulfillment center in California that will support significant growth across all of our channels. In addition, we added to HauteLook a persistent selection of Nordstrom Rack merchandise to complement the existing flash sale offering. We are encouraged by both the growth and integration taking place in this part of our business.

Our credit business plays an important role in reaching new customers and strengthening existing customer relationships through our Nordstrom Rewards loyalty program. We now have 3.7 million active members, a 15% increase over last year. Our overall credit card portfolio remains healthy, with delinquency and write-off trends around a five-year low.

Our long-term strategy to improve the customer experience is creating multiple growth opportunities. We continue to make investments in our stores, online and in new markets such as Canada and Manhattan. While we are making improvements within each individual channel, we recognize that our customers view us simply as Nordstrom. Our

customers who shop with us in multiple channels spend three to four times more than other customers. To create a seamless customer experience, we continue to leverage technology, Nordstrom Rewards, inventory access, supply chain, marketing, and merchandise returns across the company.

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## RESULTS OF OPERATIONS

Our reportable segments are Retail and Credit. Our Retail segment includes our Nordstrom branded full-line stores and website, our Nordstrom Rack stores, our Last Chance clearance store and our other retail channels including HauteLook and our Jeffrey stores. For purposes of discussion and analysis of our results of operations, we combine our Retail segment results with revenues and expenses in the "Corporate/Other" column of Note 9: Segment Reporting in the Notes to Condensed Consolidated Financial Statements (collectively, the "Retail Business"). We analyze our results of operations through earnings before interest and income taxes for our Retail Business and Credit segment, while interest expense and income taxes are discussed on a total company basis.

As discussed in Note 1: Basis of Presentation and Note 9: Segment Reporting in the Notes to Condensed Consolidated Financial Statements, beginning in the first quarter of 2013, we reclassified amounts in our financial statements to better reflect the way we view and measure our business. As we continue to execute our long-term growth strategy and make investments across operating segments, aligning expenses with the associated benefits enhances our ability to evaluate segment performance. Historical results were also reclassified to match the current period presentation. These reclassifications did not impact net earnings, earnings per share, financial position or cash flows.

We now allocate Nordstrom Rewards loyalty program expenses to our Retail Business. We previously recorded all Nordstrom Rewards expenses in our Credit segment. In addition, certain technology expenses we previously included in our Retail Business are now allocated to our Credit segment. These changes within our Retail Business and Credit segment did not impact the presentation of expenses in our consolidated financial statements. In our Credit segment, we previously presented bad debt expense associated with finance charges and fees as part of selling, general and administrative expenses. We reclassified these amounts and now present them as a reduction of credit card revenue.

## Retail Business

## Summary

The following table summarizes the results of our Retail Business for the quarter and nine months ended November 2, 2013, compared with the quarter and nine months ended October 27, 2012:

	Quarter Ended					
	November 2, 2013			October 27, 2012		
	Amount	% of net sales <sup>1</sup>		Amount	% of net sales <sup>1</sup>	
Net sales	\$2,791	100.0	%	\$2,713	100.0	%
Cost of sales and related buying and occupancy costs	(1,790)	) (64.1	%)	(1,729)	) (63.7	%)
Gross profit	1,001	35.9	%	984	36.3	%
Selling, general and administrative expenses	(793)	) (28.4	%)	(758)	) (27.9	%)
Earnings before interest and income taxes	\$208	7.5	%	\$226	8.3	%
	Nine Months Ended					
	November 2, 2013			October 27, 2012		
	Amount	% of net sales <sup>1</sup>		Amount	% of net sales <sup>1</sup>	
Net sales	\$8,552	100.0	%	\$8,166	100.0	%
Cost of sales and related buying and occupancy costs	(5,464)	) (63.9	%)	(5,190)	) (63.6	%)
Gross profit	3,088	36.1	%	2,976	36.4	%
Selling, general and administrative expenses	(2,354)	) (27.5	%)	(2,255)	) (27.6	%)
Earnings before interest and income taxes	\$734	8.6	%	\$721	8.8	%

<sup>1</sup>Subtotals and totals may not foot due to rounding.

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## Retail Business Net Sales

	Quarter Ended		Nine Months Ended		
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012	
Net sales by channel:					
Nordstrom full-line stores	\$1,657	\$1,730	\$5,472	\$5,560	
Direct	305	248	1,031	799	
Nordstrom	1,962	1,978	6,503	6,359	
Nordstrom Rack	709	613	1,970	1,747	
HauteLook and Jeffrey	78	66	234	190	
Total Retail segment	2,749	2,657	8,707	8,296	
Corporate/Other	42	56	(155)	(130)	
Total net sales	\$2,791	\$2,713	\$8,552	\$8,166	
Net sales increase	2.9	% 13.8	% 4.7	% 11.4	%
Same-store sales increase (decrease) by channel: <sup>1</sup>					
Nordstrom full-line stores	(4.2	%) 8.1	%) (1.5	%) 4.6	%)
Direct	23.2	%) 38.3	%) 29.0	%) 40.6	%)
Nordstrom	(0.7	%) 11.2	%) 2.3	%) 8.1	%)
Nordstrom Rack	3.7	%) 8.1	%) 2.3	%) 7.5	%)
HauteLook <sup>2</sup>	22.3	%) —	26.4	%) —	%)
Total	0.1	%) 10.7	%) 2.5	%) 7.7	%)
Sales per square foot	\$109	\$109	\$335	\$328	
4-wall sales per square foot <sup>3</sup>	\$92	\$94	\$292	\$294	

<sup>1</sup> Same-store sales include sales from stores that have been open at least one full year at the beginning of the year. Fiscal year 2012 includes an extra week (the 53<sup>rd</sup> week) as a result of our 4-5-4 retail reporting calendar. We report same-store sales by comparing the fiscal 2013 period against the same fiscal period in 2012. The 53<sup>rd</sup> week is not included in same-store sales calculations.

<sup>2</sup> Beginning in 2013, HauteLook is included in our same-store sales calculation.

<sup>3</sup> 4-wall sales per square foot is calculated as net sales for Nordstrom full-line, Nordstrom Rack, and Jeffrey stores divided by their weighted-average square footage. Weighted-average square footage includes a percentage of period-end square footage for new stores equal to the percentage of the period during which they were open.

Total company net sales increased 2.9% for the quarter and 4.7% for the nine months ended November 2, 2013, compared with the same periods in 2012. Overall same-store sales increased 0.1% for the quarter and 2.5% for the nine months ended November 2, 2013. Total company net sales and same-store sales for the third quarter were unfavorably impacted by the Anniversary Sale event shift, which took place in the second quarter in 2013, but occurred during the second and third quarter in the prior year. Combined second and third quarter same-store sales, which eliminates the impact of the Anniversary Sale event shift, increased 2.4% compared with the same period in 2012.

Nordstrom net sales for the third quarter of 2013 were \$1,962, a decrease of 0.8% compared with the same period in 2012, while net sales were \$6,503 for the nine months ended November 2, 2013, an increase of 2.3% compared with the same period in 2012. Nordstrom same-store sales decreased 0.7% for the third quarter and increased 2.3% for the nine months ended November 2, 2013 compared with the same periods in 2012. The average selling price increased on a same-store basis for the quarter and nine months ended November 2, 2013. On a same-store basis, the number of items sold decreased for the quarter ended November 2, 2013 and increased for the nine months ended November 2,

2013. Category highlights for the quarter ended November 2, 2013 included Cosmetics, Women's Apparel, and Women's Shoes, and category highlights for the nine months ended November 2, 2013 included Cosmetics, Men's Shoes, and Men's Apparel.

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Full-line same-store sales decreased 4.2% for the quarter and 1.5% for the nine months ended November 2, 2013, compared with the same periods in 2012. The top-performing geographic regions for full-line stores for the quarter ended November 2, 2013 were the Southwest and Southern California, while the top-performing geographic regions for full-line stores for the nine months ended November 2, 2013 were the Southwest and the Southeast. The Direct channel continued to generate strong sales growth with an increase of 23.2% in the third quarter of 2013 and 29.0% for the nine months ended November 2, 2013. These increases continue to outpace our overall performance and are reflective of how customers are responding to our ongoing e-commerce initiatives.

Nordstrom Rack net sales increased \$95, or 16% for the quarter and \$223, or 13% for the nine months ended November 2, 2013, compared with the same periods in 2012. We opened 18 Nordstrom Rack stores during the first nine months of 2013. Nordstrom Rack same-store sales increased 3.7% for the quarter and 2.3% for the nine months ended November 2, 2013. Both the number of items sold and the average selling price increased on a same-store basis for the quarter and nine months ended November 2, 2013.

## Retail Business Gross Profit

	Quarter Ended		Nine Months Ended		
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012	
Gross profit <sup>1</sup>	\$1,001	\$984	\$3,088	\$2,976	
Gross profit rate	35.9	% 36.3	% 36.1	% 36.4	%
			November 2, 2013	October 27, 2012	
Ending inventory per square foot			\$69.28	\$65.42	
Inventory turnover rate <sup>2</sup>			4.97	5.07	

<sup>1</sup>Retail cost of sales includes the estimated cost of Nordstrom Notes and complimentary alterations credits that are expected to be issued and redeemed under our Nordstrom Rewards program. We provide these benefits to our cardholders, as participation in the Nordstrom Rewards program enhances customer loyalty and drives incremental sales.

<sup>2</sup>Inventory turnover rate is calculated as the trailing 12-months cost of sales and related buying and occupancy costs (for all channels) divided by the trailing 4-quarter average inventory.

Our Retail gross profit rate decreased 40 basis points for the quarter and 33 basis points for the nine months ended November 2, 2013, compared with the same periods in 2012. These decreases were primarily due to higher occupancy costs related to our accelerated Rack store expansion. In addition, for the nine months ended November 2, 2013, the decrease in the Retail gross profit rate when compared with the same period in 2012 was attributable to the growth in the Nordstrom Rewards customer loyalty program. Retail gross profit increased \$17 for the quarter and \$112 for the nine months ended November 2, 2013, compared with the same periods in 2012, due primarily to increased sales and improvements in markdown rates, partially offset by an increase in occupancy costs related to investments in new stores.

For the first three quarters of 2013, our regular-priced selling at Nordstrom was consistent with last year and our inventory turnover rate decreased to 4.97 times for the trailing 12-months ended November 2, 2013, from 5.07 times for the same period in the prior year. The decrease in our inventory turnover rate was primarily due to our increased investment in pack and hold inventory at Nordstrom Rack, which helps us take advantage of strategic buying opportunities to secure top brands and to fuel our Rack new store growth. On a per square foot basis, we ended the quarter with a 0.3% increase in sales on a 5.9% increase in ending inventory primarily due to the impact of the Anniversary Sale event shift and investments in pack-and-hold inventory.



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## Retail Business Selling, General and Administrative Expenses

	Quarter Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Selling, general and administrative expenses	\$793	\$758	\$2,354	\$2,255
Selling, general and administrative expense rate	28.4	% 27.9	% 27.5	% 27.6

Our Retail selling, general and administrative expenses ("Retail SG&A") rate increased 46 basis points for the quarter ended November 2, 2013, compared with the same period in 2012, mostly due to expense deleverage from the impact of the Anniversary Sale event shift and our planned growth-related investments in technology, fulfillment and the Rack and Canada expansion. Our Retail SG&A rate decreased 10 basis points for the nine months ended November 2, 2013, compared with the same period in 2012, primarily due to a reduction in variable expenses correlated with our performance. Our Retail SG&A increased \$35, or 4.6%, for the quarter and \$99, or 4.3% for the nine months ended November 2, 2013, compared with the same periods in 2012. The increases were primarily due to higher sales volume and the incremental costs related to our planned growth-related investments.

## Credit Segment

## Summary

The table below provides a detailed view of the operational results of our Credit segment, consistent with the segment disclosure provided in Note 9: Segment Reporting in the Notes to Condensed Consolidated Financial Statements. In order to better reflect the economic contribution of our credit and debit card program, intercompany merchant fees are also included in the table below, which represents the estimated costs that would be incurred if our cardholders used third party cards.

Interest expense is assigned to the Credit segment in proportion to the amount of estimated debt and equity needed to fund our credit card receivables. Based on our research, debt as a percentage of credit card receivables for other credit card companies ranges from 70% to 90%. As such, we believe a mix of 80% debt and 20% equity is an appropriate estimate.

	Quarter Ended		Quarter Ended	
	November 2, 2013	Annualized %	October 27, 2012	Annualized %
	Amount	of average credit	Amount	of average credit
		card receivables <sup>1</sup>		card receivables <sup>1</sup>
Credit card revenues	\$93	17.6	\$92	17.7
Credit expenses	(48	) (9.1	) (41	) (8.0
Credit segment earnings before interest and income taxes, as presented in segment disclosure	45	8.5	51	9.7
Interest expense	(6	) (1.1	) (6	) (1.2
Intercompany merchant fees	20	3.9	18	3.5
Credit segment contribution, before income taxes	\$59	11.2	\$63	12.0
Credit and debit card volume:				
Outside	\$1,052		\$1,055	
Inside	1,033		936	
Total volume	\$2,085		\$1,991	

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Average credit card receivables	\$2,113	\$2,096
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<sup>1</sup>Subtotals and totals may not foot due to rounding.

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	Nine Months Ended November 2, 2013		Nine Months Ended October 27, 2012	
	Amount	Annualized % of average credit card receivables <sup>1</sup>	Amount	Annualized % of average credit card receivables <sup>1</sup>
Credit card revenues	\$277	17.9 %	\$270	17.6 %
Credit expenses	(148)	(9.6 %)	(144)	(9.4 %)
Credit segment earnings before interest and income taxes, as presented in segment disclosure	129	8.3 %	126	8.2 %
Interest expense	(18)	(1.2 %)	(19)	(1.2 %)
Intercompany merchant fees	68	4.4 %	61	4.0 %
Credit segment contribution, before income taxes	\$179	11.6 %	\$168	11.0 %
Credit and debit card volume:				
Outside	\$3,176		\$3,136	
Inside	3,476		3,111	
Total volume	\$6,652		\$6,247	
Average credit card receivables	\$2,066		\$2,039	

<sup>1</sup>Subtotals and totals may not foot due to rounding.

## Credit Card Revenues

	Quarter Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Finance charge revenue	\$61	\$61	\$181	\$179
Interchange – third party	21	20	64	59
Late fees and other revenue	11	11	32	32
Total credit card revenues	\$93	\$92	\$277	\$270

Credit card revenues include finance charges, interchange fees, late fees and other revenue. Finance charges represent interest earned on unpaid balances while interchange fees are earned from the use of Nordstrom VISA credit cards at merchants outside of Nordstrom. Late fees are assessed when a credit card account becomes past due. We consider an account delinquent if the minimum payment is not received by the payment due date.

Credit card revenues increased \$1 for the quarter and \$7 for the nine months ended November 2, 2013, compared with the same periods in the prior year, due to a 4.7% increase in total quarterly volume and a 6.5% increase in total volume for the nine month period that was partially offset by continued improvements in customer payment rates.

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## Credit Expenses

Credit expenses are summarized in the following table:

	Quarter Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Occupancy expenses	\$1	\$1	\$4	\$3
Operational and marketing expenses	33	33	100	103
Bad debt provision	14	7	44	38
Total Credit expenses	\$48	\$41	\$148	\$144

Total Credit expenses increased \$7 for the quarter and \$4 for the nine months ended November 2, 2013, compared with the same periods in the prior year. The increases were primarily due to decreases to our allowance for credit losses by \$10 in both the first and third quarters of 2012, partially offset by continued improvement in our portfolio delinquencies and write-off results.

## Allowance for Credit Losses and Credit Trends

The following table summarizes activity in the allowance for credit losses:

	Quarter Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Allowance at beginning of period	\$85	\$105	\$85	\$115
Bad debt provision	14	7	44	38
Write-offs	(19)	(22)	(61)	(76)
Recoveries	5	5	17	18
Allowance at end of period	\$85	\$95	\$85	\$95

Annualized net write-offs as a percentage of average credit card receivables	2.6	% 3.3	% 2.8	% 3.8	%
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Annualized net write-offs (including finance charges and fees) as a percentage of average credit card receivables	3.1	% 3.9	% 3.4	% 4.5	%
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	November 2, 2013	October 27, 2012	
30 days or more delinquent as a percentage of ending credit card receivables	1.8	% 2.1	%
Allowance as a percentage of ending credit card receivables	4.0	% 4.5	%

The allowance for credit losses reflects our best estimate of the losses inherent in our receivables as of the balance sheet date, including uncollectible finance charges and fees. For purposes of determining impairment and recording the associated allowance for credit losses, we evaluate our credit card receivables on a collective basis as they are composed of large groups of smaller-balance homogeneous loans and, therefore, are not individually evaluated for impairment. We record estimated uncollectible principal balances to the bad debt provision while estimated uncollectible finance charges and fees result in a reduction of credit card revenue.

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## Total Company Results

## Interest Expense, Net

Interest expense, net was \$35 for the quarter and \$111 for the nine months ended November 2, 2013, compared with \$38 for the quarter and \$118 for the nine months ended October 27, 2012. We capitalized more interest expense due to increased store expansion, including Manhattan, and other capital investments, resulting in lower interest expense for the quarter and nine months ended November 2, 2013.

## Income Tax Expense

	Quarter Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Income tax expense	\$81	\$93	\$286	\$278
Effective tax rate	37.2	% 38.7	% 38.0	% 38.1

The effective tax rate for the quarter and the nine months ended November 2, 2013 decreased compared with the same periods in 2012 primarily due to an increase in the benefit from state tax credits, partially offset by changes in our reserves for state taxes.

## Fiscal 2013 Outlook

Our updated expectations for fiscal 2013, which are shown in comparison to the reclassified 53-week fiscal 2012 where applicable, are as follows:

Total sales	Approximately 3.5 percent increase
Same-store sales <sup>1</sup>	Approximately 2.5 percent increase
Credit card revenues <sup>2</sup>	\$0 to \$5 increase
Gross profit rate <sup>3</sup>	35 to 40 basis point decrease
Selling, general and administrative expenses (% of net sales) <sup>2</sup>	0 to 10 basis point increase
Interest expense, net	\$10 decrease
Effective tax rate	38.3%
Earnings per diluted share <sup>4</sup>	\$3.65 to \$3.70
Diluted shares outstanding <sup>4</sup>	Approximately 198 million

<sup>1</sup>Beginning in 2013, same-store sales include HauteLook. Same-store sales for 2013 are compared with the first 52 weeks of 2012.

<sup>2</sup>Impacted by financial statement reclassifications as described in Note 9: Segment Reporting in the Notes to Condensed Consolidated Financial Statements.

<sup>3</sup>Includes both our Retail gross profit and our Credit segment occupancy costs, as a percentage of net sales.

<sup>4</sup>This outlook does not include the impact of any future share repurchases.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.  
(Continued) (Dollar and share amounts in millions except per share and per square foot amounts)

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

We believe ROIC is a useful financial measure for investors in evaluating the efficiency and effectiveness of our use of capital and believe ROIC is an important component of shareholders' return over the long term. In addition, we incorporate ROIC in our executive incentive measures. For the 12 fiscal months ended November 2, 2013, ROIC increased to 14.0% compared with 12.9% for the 12 fiscal months ended October 27, 2012, primarily due to an increase in our earnings before interest and income tax expense.

ROIC is not a measure of financial performance under generally accepted accounting principles ("GAAP") and should be considered in addition to, and not as a substitute for, return on assets, net earnings, total assets or other financial measures prepared in accordance with GAAP. Our method of determining non-GAAP financial measures may differ from other companies' methods and therefore may not be comparable to those used by other companies. The financial measure calculated under GAAP which is most directly comparable to ROIC is return on assets. The following is a reconciliation of the components of ROIC and return on assets:

	12 Fiscal Months Ended			
	November 2, 2013	October 27, 2012		
Net earnings	\$751	\$687		
Add: income tax expense	458	421		
Add: interest expense	154	157		
Earnings before interest and income tax expense	1,363	1,265		
Add: rent expense	122	97		
Less: estimated depreciation on capitalized operating leases <sup>1</sup>	(65	) (52	)	)
Net operating profit	1,420	1,310		
Estimated income tax expense <sup>2</sup>	(538	) (497	)	)
Net operating profit after tax	\$882	\$813		
Average total assets <sup>3</sup>	\$8,277	\$8,341		
Less: average non-interest-bearing current liabilities <sup>4</sup>	(2,385	) (2,230	)	)
Less: average deferred property incentives <sup>3</sup>	(487	) (500	)	)
Add: average estimated asset base of capitalized operating leases <sup>5</sup>	882	673		
Average invested capital	\$6,287	\$6,284		
Return on assets	9.1	% 8.2		%
ROIC	14.0	% 12.9		%

<sup>1</sup>Capitalized operating leases is our best estimate of the asset base we would record for our leases that are classified as operating if they had met the criteria for a capital lease, or we had purchased the property. Asset base is calculated as described in footnote 5 below.

<sup>2</sup>Based upon our effective tax rate multiplied by the net operating profit for the 12 fiscal months ended November 2, 2013 and October 27, 2012.

<sup>3</sup>Based upon the trailing 12-month average.

<sup>4</sup>Based upon the trailing 12-month average for accounts payable, accrued salaries, wages and related benefits, and other current liabilities.

<sup>5</sup>Based upon the trailing 12-month average of the monthly asset base. The asset base for each month is calculated as the trailing 12-months of rent expense multiplied by eight. The multiple of eight times rent expense is a commonly used method of estimating the asset base we would record for our capitalized operating leases described in footnote 1.



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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.  
(Continued) (Dollar and share amounts in millions except per share and per square foot amounts)

LIQUIDITY AND CAPITAL RESOURCES

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

Over the long term, we manage our cash and capital structure to maximize shareholder return, maintain our financial position, manage refinancing risk and allow flexibility for strategic initiatives. We regularly assess our debt and leverage levels, capital expenditure requirements, debt service payments, interest rate risks, dividend payouts, potential share repurchases and other future investments. We believe that as of November 2, 2013, our existing cash and cash equivalents on-hand of \$947, available credit facilities of \$800 and potential future operating cash flows and borrowings will be sufficient to fund these scheduled future payments and potential long-term initiatives.

For the nine months ended November 2, 2013, cash and cash equivalents decreased by \$338 to \$947, primarily due to payments for capital expenditures of \$621 and repurchases of common stock of \$374, partially offset by cash provided by operations of \$718.

Operating Activities

Net cash provided by operating activities increased \$211 for the nine months ended November 2, 2013, compared with the same period in 2012, due primarily to improvements in working capital.

Investing Activities

Net cash used in investing activities was \$631 for the nine months ended November 2, 2013, compared with net cash used of \$186 for the same period in 2012. The increase is primarily due to the \$200 change in accumulated restricted cash used to pay debt maturing in the first quarter of 2012, as well as increased capital expenditures for the nine months ended November 2, 2013. The increase in capital expenditures relates to payments in the second quarter of 2013 for our Manhattan store and a new fulfillment center, and increased spending in line with our overall capital growth initiatives.

Financing Activities

Net cash used in financing activities was \$425 for the nine months ended November 2, 2013, compared with \$1,040 for the same period in 2012. During the nine months ended November 2, 2013, we made payments of \$374 for repurchases of common stock, compared with \$506 for the same period in 2012. Additionally, we retired our \$500 securitized Series 2007-2 Class A & B Notes upon maturity in April 2012 using accumulated restricted cash described in Investing Activities above.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.  
(Continued) (Dollar and share amounts in millions except per share and per square foot amounts)

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

Free Cash Flow is one of our key liquidity measures, and in conjunction with GAAP measures, provides investors with a meaningful analysis of our ability to generate cash from our business. For the nine months ended November 2, 2013, Free Cash Flow decreased to \$(51) compared with \$(2) for the nine months ended October 27, 2012, primarily due to an increase in capital expenditures related to payments in the second quarter of 2013 for our Manhattan store and a new fulfillment center.

Free Cash Flow is not a measure of financial performance under GAAP and should be considered in addition to, and not as a substitute for, operating cash flows or other financial measures prepared in accordance with GAAP. Our method of determining non-GAAP financial measures may differ from other companies' methods and therefore may not be comparable to those used by other companies. The financial measure calculated under GAAP which is most directly comparable to Free Cash Flow is net cash provided by operating activities. The following is a reconciliation of net cash provided by operating activities to Free Cash Flow:

	Nine Months Ended	
	November 2, 2013	October 27, 2012
Net cash provided by operating activities	\$718	\$507
Less: capital expenditures	(621)	(369)
Less: cash dividends paid	(176)	(166)
Less: change in credit card receivables originated at third parties	(1)	(10)
Add: change in cash book overdrafts	29	36
Free Cash Flow	\$(51)	\$(2)
Net cash used in investing activities	\$(631)	\$(186)
Net cash used in financing activities	\$(425)	\$(1,040)

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.  
(Continued) (Dollar and share amounts in millions except per share and per square foot amounts)

## Credit Capacity and Commitments

As of November 2, 2013, we had total short-term borrowing capacity available for general corporate purposes of \$800. In March 2013, we terminated both our \$600 unsecured revolving credit facility that was scheduled to expire in June 2016, and our \$200 2007-A Variable Funding Note that was scheduled to expire in January 2014. We replaced these with a new five-year \$800 senior unsecured revolving credit facility ("revolver") that expires in March 2018. Under the terms of our new revolver, we pay a variable rate of interest and a commitment fee based on our debt rating. The new revolver is available for working capital, capital expenditures and general corporate purposes and backs our commercial paper program. During the nine months ended November 2, 2013, we had no issuances under our commercial paper program and no borrowings under our new revolver or the \$600 credit facility prior to termination. Subsequent to the quarter ended November 2, 2013, our wholly owned subsidiary in Puerto Rico entered into a \$52 unsecured borrowing facility to support our expansion into that market. The facility expires in November 2018. Also in March 2013, our wholly owned subsidiary Nordstrom fsb terminated its \$100 variable funding facility. We had no borrowings under this facility prior to termination.

## Impact of Credit Ratings

Under the terms of our revolver, any borrowings we may enter into will accrue interest for Euro-Dollar Rate Loans at a floating base rate tied to LIBOR, for Canadian Dealer Offer Rate Loans at a floating rate tied to CDOR, and for Base Rate Loans at the highest of: (i) the Euro-Dollar rate plus 100 basis points, (ii) the federal funds rate plus 50 basis points and (iii) the prime rate.

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

	Credit Ratings	Outlook
Moody's	Baa1	Stable
Standard & Poor's	A-	Stable
	Base Interest Rate	Applicable Margin
Euro-Dollar Rate Loan	LIBOR	0.9%
Canadian Dealer Offer Rate Loan	CDOR	0.9%
Base Rate Loan	various	—

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

## Debt Covenant

The new revolver requires that we maintain an adjusted debt to Earnings before Interest, Income Taxes, Depreciation, Amortization and Rent ("EBITDAR") leverage ratio of less than four times (see the following additional discussion of Adjusted Debt to EBITDAR).

As of November 2, 2013, we were in compliance with this covenant. We will continue to monitor this covenant and believe that we will remain in compliance with this covenant during the remainder of fiscal 2013.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.  
(Continued) (Dollar and share amounts in millions except per share and per square foot amounts)

Adjusted Debt to EBITDAR (Non-GAAP financial measure)

Adjusted Debt to EBITDAR is one of our key financial metrics, and we believe that our debt levels are best analyzed using this measure. Our goal is to manage debt levels to maintain our current investment-grade credit rating and operate with an efficient capital structure. In evaluating our debt levels, this measure provides a reflection of our credit worthiness that could impact our credit rating and cost of capital. We also have a debt covenant that requires an adjusted debt to EBITDAR leverage ratio of less than four times. As of November 2, 2013 and October 27, 2012, our Adjusted Debt to EBITDAR was 2.1.

Adjusted Debt to EBITDAR is not a measure of financial performance under GAAP and should be considered in addition to, and not as a substitute for, debt to net earnings, net earnings, debt or other financial measures prepared in accordance with GAAP. Our method of determining non-GAAP financial measures may differ from other companies' methods and therefore may not be comparable to those used by other companies. The financial measure calculated under GAAP which is most directly comparable to Adjusted Debt to EBITDAR is debt to net earnings. The following is a reconciliation of the components of Adjusted Debt to EBITDAR and debt to net earnings:

	2013 <sup>1</sup>	2012 <sup>1</sup>
Debt	\$3,118	\$3,135
Add: estimated capitalized operating lease liability <sup>2</sup>	981	776
Less: fair value hedge adjustment included in long-term debt	(51	) (63
Adjusted Debt	\$4,048	\$3,848
Net earnings	\$751	\$687
Add: income tax expense	458	421
Add: interest expense, net	153	155
Earnings before interest and income taxes	1,362	1,263
Add: depreciation and amortization expenses	448	411
Add: rent expense	122	97
Add: non-cash acquisition-related charges	9	22
EBITDAR	\$1,941	\$1,793
Debt to Net Earnings	4.2	4.6
Adjusted Debt to EBITDAR	2.1	2.1

<sup>1</sup>The components of Adjusted Debt are as of November 2, 2013 and October 27, 2012, while the components of EBITDAR are for the 12 months ended November 2, 2013 and October 27, 2012.

<sup>2</sup>Based upon the estimated lease liability as of the end of the period, calculated as the trailing 12-months of rent expense multiplied by eight. The multiple of eight times rent expense is a commonly used method of estimating the debt we would record for our leases that are classified as operating if they had met the criteria for a capital lease, or we had purchased the property.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We discussed our interest rate risk and our foreign currency exchange risk in Part II, "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2012 Annual Report on Form 10-K filed with the Commission on March 18, 2013. There have been no material changes to these risks since that time.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

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## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings.

We are subject from time to time to various claims and lawsuits arising in the ordinary course of business, including lawsuits alleging violations of state and/or federal wage and hour and other employment laws, privacy and other consumer-based claims. Some of these lawsuits include certified classes of litigants, or purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years. We believe the recorded reserves in our condensed consolidated financial statements are adequate in light of the probable and estimable liabilities. As of the date of this report, we do not believe any currently identified claim, proceeding or litigation, either alone or in the aggregate, will have a material impact on our results of operations, financial position or cash flows. Since these matters are subject to inherent uncertainties, our view of them may change in the future.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

## (c) Repurchases

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

Following is a summary of our third quarter share repurchases:

	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs <sup>1</sup>
August 2013 (August 4, 2013 to August 31, 2013)	0.8	\$57.48	0.8	\$ 935
September 2013 (September 1, 2013 to October 5, 2013)	1.3	\$56.65	1.3	\$ 865
October 2013 (October 6, 2013 to November 2, 2013)	0.7	\$57.56	0.7	\$ 824
Total	2.8		2.8	

<sup>1</sup>In February 2012, our Board of Directors authorized a program to repurchase up to \$800 of our outstanding common stock, through February 1, 2014. In February 2013, our Board of Directors authorized a new program to repurchase up to \$800 of our outstanding common stock, through March 1, 2015, in addition to the remaining amount available for repurchase under our February 2012 authorization. During the nine months ended November 2, 2013, we repurchased 6.6 shares of our common stock for an aggregate purchase price of \$369 and had \$824 in remaining share repurchase capacity. The actual number and timing of future share repurchases, if any, will be subject to market and economic conditions and applicable Securities and Exchange Commission rules.

## Item 6. Exhibits.

Exhibits are incorporated herein by reference or are filed or furnished with this report as set forth in the Index to Exhibits on page 31 hereof.

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SIGNATURES

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

NORDSTROM, INC.  
(Registrant)

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

Date: December 2, 2013

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NORDSTROM, INC.

Index to Exhibits

Exhibit		Method of Filing
31.1	Certification of President required by Section 302(a) of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
31.2	Certification of Chief Financial Officer required by Section 302(a) of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
32.1	Certification of President and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith electronically
101.INS	XBRL Instance Document	Filed herewith electronically
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith electronically
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith electronically
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	Filed herewith electronically
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith electronically
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith electronically

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