

NORDSTROM INC  
Form 10-Q  
December 01, 2015  
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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 October 31, 2015

or

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

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

Commission File Number: 001-15059

NORDSTROM, INC.

(Exact name of registrant as specified in its charter)

Washington  
(State or other jurisdiction of  
incorporation or organization)

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

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

98101  
(Zip Code)

206-628-2111  
(Registrant's telephone number, including area code)

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

YES  NO

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

YES  NO

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

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

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

YES  NO

Common stock outstanding as of November 25, 2015: 183,867,962 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 |                  |
|--|------------------|------------------|-------------------|------------------|
|  | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |
| Net sales  | \$3,239          | \$3,040          | \$9,953           | \$9,172          |
| Credit card revenues, net                            | 89               | 100              | 291               | 291              |
| Total revenues                                       | 3,328            | 3,140            | 10,244            | 9,463            |
| Cost of sales and related buying and occupancy costs | (2,142)          | (1,961)          | (6,468)           | (5,912)          |
| Selling, general and administrative expenses         | (999)            | (917)            | (3,018)           | (2,693)          |
| Credit transaction and other, net                    | (32)             | —                | 19                | —                |
| Earnings before interest and income taxes            | 155              | 262              | 777               | 858              |
| Interest expense, net                                | (30)             | (34)             | (94)              | (104)            |
| Earnings before income taxes                         | 125              | 228              | 683               | 754              |
| Income tax expense                                   | (44)             | (86)             | (263)             | (289)            |
| Net earnings   | \$81             | \$142            | \$420             | \$465            |
| Earnings per share:                                  |                  |                  |                   |                  |
| Basic  | \$0.43           | \$0.74           | \$2.22            | \$2.45           |
| Diluted  | \$0.42           | \$0.73           | \$2.17            | \$2.40           |

Weighted-average shares outstanding:

|         |       |       |       |       |
|---------|-------|-------|-------|-------|
| Basic   | 187.2 | 190.7 | 189.1 | 190.0 |
| Diluted | 191.3 | 194.7 | 193.2 | 193.4 |

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 |                  |
|---|------------------|------------------|-------------------|------------------|
|   | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |
| Net earnings                                | \$81             | \$142            | \$420             | \$465            |
| Postretirement plan adjustments, net of tax | 2                | 1                | 5                 | 3                |
| Foreign currency translation adjustment     | —                | (3)              | (5)               | (2)              |
| Comprehensive net earnings                  | \$83             | \$140            | \$420             | \$466            |

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)

|   | October 31, 2015 | January 31, 2015 | November 1, 2014 |
|---|------------------|------------------|------------------|
| Assets  |                  |                  |                  |
| Current assets:   |                  |                  |                  |
| Cash and cash equivalents   | \$821            | \$827            | \$433            |
| Accounts receivable, net  | 215              | 2,306            | 2,253            |
| Merchandise inventories   | 2,402            | 1,733            | 2,228            |
| Current deferred tax assets, net  | 247              | 256              | 253              |
| Prepaid expenses and other  | 202              | 102              | 170              |
| Total current assets  | 3,887            | 5,224            | 5,337            |
| Land, property and equipment (net of accumulated depreciation of \$5,020, \$4,698 and \$4,587)            | 3,742            | 3,340            | 3,223            |
| Goodwill  | 447              | 435              | 436              |
| Other assets  | 510              | 246              | 273              |
| Total assets  | \$8,586          | \$9,245          | \$9,269          |
| Liabilities and Shareholders' Equity  |                  |                  |                  |
| Current liabilities:  |                  |                  |                  |
| Accounts payable  | \$1,688          | \$1,328          | \$1,673          |
| Accrued salaries, wages and related benefits  | 417              | 416              | 377              |
| Other current liabilities   | 1,075            | 1,048            | 950              |
| Current portion of long-term debt   | 9                | 8                | 8                |
| Total current liabilities   | 3,189            | 2,800            | 3,008            |
| Long-term debt, net   | 2,800            | 3,123            | 3,119            |
| Deferred property incentives, net   | 568              | 510              | 503              |
| Other liabilities   | 621              | 372              | 365              |
| Commitments and contingencies (Note 7)  |                  |                  |                  |
| Shareholders' equity:   |                  |                  |                  |
| Common stock, no par value: 1,000 shares authorized; 185.4, 190.1 and 190.1 shares issued and outstanding | 2,519            | 2,338            | 2,283            |
| (Accumulated deficit) Retained earnings   | (1,047           | ) 166            | 29               |
| Accumulated other comprehensive loss  | (64              | ) (64            | ) (38            |
| Total shareholders' equity  | 1,408            | 2,440            | 2,274            |
| Total liabilities and shareholders' equity  | \$8,586          | \$9,245          | \$9,269          |

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 |         | (Accumulated<br>Deficit)<br>Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total     |
|--|--------------|---------|--|---|-----------|
|  | Shares       | Amount  |  |   |           |
| Balance at January 31, 2015  | 190.1        | \$2,338 | \$166  | \$(64)  | \$2,440   |
| Net earnings   | —            | —       | 420  | —   | 420       |
| Other comprehensive earnings   | —            | —       | —  | —   | —         |
| Dividends (\$1.11 per share)   | —            | —       | (211)  | ) —   | (211)     |
| Special dividend related to the sale of credit card receivables (\$4.85 per share) | —            | —       | (905)  | ) —   | (905)     |
| Issuance of common stock for Trunk Club acquisition                                | 0.3          | 23      | —  | —   | 23        |
| Issuance of common stock under stock compensation plans                            | 1.9          | 104     | —  | —   | 104       |
| Stock-based compensation   | 0.1          | 54      | —  | —   | 54        |
| Repurchase of common stock   | (7.0)        | ) —     | (517)  | ) —   | (517)     |
| Balance at October 31, 2015  | 185.4        | \$2,519 | \$(1,047)  | ) \$(64)                                      | ) \$1,408 |

|   | Common Stock |         | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total   |
|---|--------------|---------|----------------------|---|---------|
|   | Shares       | Amount  |                      |   |         |
| Balance at February 1, 2014                             | 191.2        | \$1,827 | \$292                | \$(39)  | \$2,080 |
| Net earnings  | —            | —       | 465                  | —   | 465     |
| Other comprehensive earnings                            | —            | —       | —                    | 1   | 1       |
| Dividends (\$0.99 per share)                            | —            | —       | (189)                | ) —   | (189)   |
| Issuance of common stock for Trunk Club acquisition     | 3.6          | 280     | —                    | —   | 280     |
| Issuance of common stock under stock compensation plans | 3.0          | 130     | —                    | —   | 130     |
| Stock-based compensation                                | 0.5          | 46      | —                    | —   | 46      |
| Repurchase of common stock                              | (8.2)        | ) —     | (539)                | ) —   | (539)   |
| Balance at November 1, 2014                             | 190.1        | \$2,283 | \$29                 | \$(38)  | \$2,274 |

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 |                  |
|---|-------------------|------------------|
|   | October 31, 2015  | November 1, 2014 |
| <b>Operating Activities</b>   |                   |                  |
| Net earnings  | \$420             | \$465            |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                   |                  |
| Depreciation and amortization expenses  | 424               | 376              |
| Amortization of deferred property incentives and other, net                         | (61)              | (56)             |
| Deferred income taxes, net  | (78)              | (39)             |
| Stock-based compensation expense  | 57                | 48               |
| Tax benefit from stock-based compensation   | 14                | 14               |
| Excess tax benefit from stock-based compensation                                    | (14)              | (15)             |
| Bad debt expense  | 26                | 28               |
| Credit transaction and other, net   | (46)              | —                |
| Change in operating assets and liabilities:   |                   |                  |
| Accounts receivable   | (73)              | (94)             |
| Proceeds from sale of credit card receivables originated at Nordstrom               | 1,297             | —                |
| Merchandise inventories   | (607)             | (574)            |
| Prepaid expenses and other assets   | (36)              | (60)             |
| Accounts payable  | 326               | 314              |
| Accrued salaries, wages and related benefits  | (2)               | (13)             |
| Other current liabilities   | (34)              | 38               |
| Deferred property incentives  | 128               | 77               |
| Other liabilities   | 4                 | 7                |
| Net cash provided by operating activities   | 1,745             | 516              |
| <b>Investing Activities</b>   |                   |                  |
| Capital expenditures  | (857)             | (616)            |
| Change in credit card receivables originated at third parties                       | 33                | (10)             |
| Proceeds from sale of credit card receivables originated at third parties           | 890               | —                |
| Other, net  | 3                 | (12)             |
| Net cash provided by (used in) investing activities                                 | 69                | (638)            |
| <b>Financing Activities</b>   |                   |                  |
| Proceeds from long-term borrowings, net of discounts                                | 13                | 26               |
| Principal payments on long-term borrowings  | (6)               | (5)              |
| Defeasance of long-term debt  | (339)             | —                |
| Increase (decrease) in cash book overdrafts   | 7                 | (58)             |
| Cash dividends paid   | (1,116)           | (189)            |
| Payments for repurchase of common stock   | (517)             | (537)            |
| Proceeds from issuances under stock compensation plans                              | 90                | 117              |
| Excess tax benefit from stock-based compensation                                    | 14                | 15               |

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|  |        |    |       |
|--|--------|----|-------|
| Other, net                                       | 34     | (8 | )     |
| Net cash used in financing activities            | (1,820 | )  | (639  |
| Net decrease in cash and cash equivalents        | (6     | )  | (761  |
| Cash and cash equivalents at beginning of period | 827    |    | 1,194 |
| Cash and cash equivalents at end of period       | \$821  |    | \$433 |

Supplemental Cash Flow Information

Cash paid during the period for:

|                                       |       |       |
|---------------------------------------|-------|-------|
| Income taxes, net of refunds          | \$383 | \$373 |
| Interest, net of capitalized interest | 86    | 99    |

Non-cash investing and financing activities:

|   |    |     |
|---|----|-----|
| Beneficial interest asset acquired from the sale of credit card receivables | 62 | —   |
| Issuance of common stock for Trunk Club acquisition                         | 23 | 280 |

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, per option and per unit amounts)

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the balances of Nordstrom, Inc. and its subsidiaries (the "Company"). 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 2014 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 October 31, 2015 and November 1, 2014 are unaudited. The condensed consolidated balance sheet as of January 31, 2015 has been derived from the audited consolidated financial statements included in our 2014 Annual Report. The interim condensed consolidated financial statements should be read together with the consolidated financial statements and related footnote disclosures contained in our 2014 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 and the holidays in the fourth quarter, our sales are typically higher in the second and fourth quarters than in the first and third quarters of the fiscal year. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Credit Card Revenues, net

On October 1, 2015, we completed the sale of substantially all of our U.S. Visa and private label credit card portfolio in an agreement with TD Bank, N.A. ("TD") (see Note 2: Credit Card Receivable Transaction). Prior to this agreement, credit card revenues included finance charges, late fees and other revenue generated by our combined Nordstrom private label card and Nordstrom Visa credit card programs, and interchange fees generated by the use of Nordstrom Visa credit cards at third-party merchants. Finance charges and late fees were assessed according to the terms of the related cardholder agreements and recognized as revenue when earned. Credit card revenues were recorded net of estimated uncollectible finance charges and fees.

Following the close of the credit card receivable transaction and pursuant to the new program agreement with TD, credit card revenues, net includes our portion of the ongoing credit card revenue, net of credit losses, from both the sold and newly generated credit card receivables. In addition, credit card revenues, net includes asset amortization and deferred revenue recognition of the assets and liabilities recorded as part of the transaction.

Accounts Receivable, net

Prior to the close of the credit card receivable transaction, accounts receivable included credit card receivables from our Nordstrom private label and Visa credit cards, as well as credit and debit card receivables due from third parties. Following the close of the credit card receivable transaction (see Note 2: Credit Card Receivable Transaction), our remaining accounts receivable, net includes employee credit card receivables, third-party credit receivables and debit card receivables. We continue to record credit card receivables on our Consolidated Balance Sheets at the outstanding balance, net of an allowance for credit losses.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which was subsequently modified in August 2015 by ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. The core principle of ASU No. 2014-09 is that companies should recognize revenue when the transfer of promised goods or services to customers

occurs in an amount that reflects what the company expects to receive. It requires additional disclosures to describe the nature, amount, timing, and uncertainty of revenue and cash flows from contracts with customers. This guidance is now effective for us beginning in the first quarter of 2018. We are currently evaluating the impact the provisions would have on our consolidated financial statements.

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NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 2: CREDIT CARD RECEIVABLE TRANSACTION

On October 1, 2015, we completed the sale of substantially all of our U.S. Visa and private label credit card portfolio to TD. In connection with the sale, we entered into a long-term program agreement under which TD is the exclusive issuer of our U.S. consumer credit cards. The following events summarize our credit card receivable transaction:

Receivables Reclassification – In the second quarter of 2015, we reclassified substantially all of our U.S. Visa and private label credit card receivables from "held for investment" to "held for sale" and, as such, recorded these receivables at the lower of cost (par) or fair value, resulting in the reversal of an allowance for credit losses of \$64.

Secured Notes Defeasance – In September 2015, we completed the defeasance of our \$325 Series 2011-1 Class A Notes in order to provide the credit card receivables to TD free and clear.

Transaction Close – At close we received \$2.2 billion in cash consideration reflecting the par value of the receivables sold, and incurred \$32 in transaction related expenses during the third quarter.

Program Agreement – Pursuant to the agreement, we are obligated to offer and administer our loyalty program and perform other account servicing functions. In return, we receive a portion of the ongoing credit card revenue, net of credit losses, from both the sold and newly generated credit card receivables.

Transaction Accounting

The Purchase and Sale and Program agreements constitute a multiple element arrangement. These agreements were accounted for in accordance with Accounting Standards Codification ("ASC") 605, Revenue Recognition and ASC 860, Transfers and Servicing. We allocated the upfront cash consideration to each of the contract elements, including but not limited to receivables, accounts and loyalty obligations based upon relative selling price or fair value. We then recognized revenue relative to each of the contract elements that were delivered or earned, including receivables sold and accounts delivered, and deferred revenue on each of the elements that remained undelivered or unearned, including loyalty obligations.

We recorded the following assets and liabilities associated with the arrangement:

Beneficial interest asset of \$62 – represents the present value of the expected profits on the receivables sold.

- Deferred revenue of \$289 – primarily related to our obligation to offer and administer our loyalty program over the term of the agreement.

Investment in contract asset of \$210 – represents the future economic benefit associated with the arrangement and is equal to the difference between the carrying value of the delivered elements and the upfront cash consideration allocated to those elements.

We did not record a servicing asset or liability as our servicing fee approximates that of a market participant and represents adequate compensation.

The beneficial interest asset is carried at fair value (see Note 6: Fair Value Measurements) and is amortized over approximately four years based primarily on the payment rate of the associated receivables. The deferred revenue and investment in contract asset are recognized/amortized over seven years on a straight line basis, following the delivery of the contract obligations and expected life of the agreement. We record each of these items in Credit card revenue, net in our Condensed Consolidated Statements of Earnings.

NOTE 3: TRUNK CLUB ACQUISITION

On August 22, 2014, we acquired 100% of the outstanding equity of Trunk Club, a personalized clothing service for men. The purchase price of \$357 was partially offset by \$46 attributable to Trunk Club employee stock awards that are subject to ongoing vesting requirements and are recorded as compensation expense. Of the purchase price consideration, \$35 represents an indemnity holdback, most of which was settled primarily in Nordstrom stock during the third quarter of fiscal 2015, upon satisfaction of the representations, warranties and covenants subject to the indemnities. We allocated the net purchase price of \$311 to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated net purchase

price recorded as goodwill. On the acquisition date, we recorded current assets of \$21, intangible assets of \$59, goodwill of \$261, and other non-current assets of \$2, offset by net liabilities of \$32.

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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

## NOTE 4: ACCOUNTS RECEIVABLE

On October 1, 2015, we completed the sale of substantially all of our U.S. Visa and private label credit card portfolio to TD (see Note 2: Credit Card Receivable Transaction). The receivables sold to TD, which were classified as "held for sale" as of the second quarter of 2015 are no longer reported on our Condensed Consolidated Balance Sheets. We will continue to service these receivables in accordance with the program agreement with TD. The components of accounts receivable are as follows:

|  | October 31, 2015 | January 31, 2015 | November 1, 2014 |
|--|------------------|------------------|------------------|
| Credit card receivables <sup>1</sup>   | \$70             | \$2,284          | \$2,228          |
| Allowance for credit losses            | (1               | ) (75            | ) (75            |
| Other accounts receivable <sup>2</sup> | 146              | 97               | 100              |
| Accounts receivable, net               | \$215            | \$2,306          | \$2,253          |

<sup>1</sup> Credit card receivables consist of employee credit card receivables as of October 31, 2015.

<sup>2</sup> Other accounts receivable consists primarily of third-party credit receivables and debit card receivables.

Activity in the allowance for credit losses is as follows:

|  | Quarter Ended    |                  | Nine Months Ended |                  |
|--|------------------|------------------|-------------------|------------------|
|  | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |
| Allowance at beginning of period         | \$1              | \$80             | \$75              | \$80             |
| Bad debt expense                         | 6                | 6                | 26                | 28               |
| Write-offs                               | (11              | ) (14            | ) (49             | ) (52            |
| Recoveries                               | 5                | 3                | 13                | 19               |
| Reversal of allowance for credit losses— | —                | —                | (64               | ) —              |
| Allowance at end of period               | \$1              | \$75             | \$1               | \$75             |

Prior to the credit card receivable transaction with TD, under certain circumstances we made 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 met the accounting definition of troubled debt restructurings ("TDRs"), included reduced or waived fees and finance charges, and/or reduced minimum payments. Receivables classified as TDRs as of January 31, 2015 and November 1, 2014 are as follows:

|   | January 31, 2015 <sup>1</sup> | November 1, 2014 <sup>1</sup> |
|---|-------------------------------|-------------------------------|
| Credit card receivables classified as TDRs                  | \$34                          | \$36                          |
| Percent of total credit card receivables classified as TDRs | 1.5                           | % 1.6                         |

<sup>1</sup> We no longer present the current period balances as our remaining credit card receivables are insignificant and are no longer meaningful.

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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

## Credit Quality

The primary indicators of the credit quality of the 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. On October 1, 2015, we completed the sale of substantially all of our U.S. Visa and private label credit card portfolio to TD (see Note 2: Credit Card Receivable Transaction). There have been no material changes to the delinquency status or net credit losses of the portfolio sold. The following table illustrates the aging and delinquency status as of January 31, 2015 and November 1, 2014:

|   | January 31, 2015 <sup>1</sup> |            | November 1, 2014 <sup>1</sup> |            |   |
|---|-------------------------------|------------|-------------------------------|------------|---|
|   | Balance                       | % of total | Balance                       | % of total | % |
| Current   | \$2,134                       | 93.4       | % \$2,092                     | 93.9       | % |
| 1 – 29 days delinquent  | 103                           | 4.5        | % 92                          | 4.1        | % |
| 30 days or more delinquent:   |                               |            |                               |            |   |
| 30 – 59 days delinquent   | 16                            | 0.7        | % 15                          | 0.7        | % |
| 60 – 89 days delinquent   | 10                            | 0.5        | % 11                          | 0.5        | % |
| 90 days or more delinquent  | 21                            | 0.9        | % 18                          | 0.8        | % |
| Total 30 days or more delinquent  | 47                            | 2.1        | % 44                          | 2.0        | % |
| Total credit card receivables   | \$2,284                       | 100.0      | % \$2,228                     | 100.0      | % |
| Receivables not accruing finance charges                                  | \$13                          |            | \$10                          |            |   |
| Receivables 90 days or more delinquent and still accruing finance charges | 13                            |            | 13                            |            |   |

<sup>1</sup> We no longer present the current period balances as our remaining credit card receivables are insignificant and are no longer meaningful.

We also evaluated credit quality using FICO credit scores. The following table illustrates the distribution of our credit card receivables across FICO score ranges as of January 31, 2015 and November 1, 2014:

| FICO Score Range <sup>2</sup> | January 31, 2015 <sup>1</sup> |            | November 1, 2014 <sup>1</sup> |            |   |
|-------------------------------|-------------------------------|------------|-------------------------------|------------|---|
|                               | Balance                       | % of total | Balance                       | % of total | % |
| 801+                          | \$369                         | 16.2       | % \$371                       | 16.6       | % |
| 660 – 800                     | 1,435                         | 62.8       | % 1,391                       | 62.4       | % |
| 001 – 659                     | 392                           | 17.1       | % 370                         | 16.6       | % |
| Other <sup>3</sup>            | 88                            | 3.9        | % 96                          | 4.4        | % |
| Total credit card receivables | \$2,284                       | 100.0      | % \$2,228                     | 100.0      | % |

<sup>1</sup> We no longer present the current period balances as our remaining credit card receivables are insignificant and are no longer meaningful.

<sup>2</sup> Amounts listed in the table reflect the most recently obtained credit scores as of the dates indicated.

<sup>3</sup> Other consists of amounts not yet posted to customers' accounts and receivables from customers for whom FICO scores were temporarily unavailable.



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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

## NOTE 5: DEBT AND CREDIT FACILITIES

## Debt

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

|  | October 31, 2015 | January 31, 2015 | November 1, 2014 |
|--|------------------|------------------|------------------|
| <b>Secured</b>                                       |                  |                  |                  |
| Series 2011-1 Class A Notes, 2.28%, due October 2016 | \$—              | \$325            | \$325            |
| Mortgage payable, 7.68%, due April 2020              | 32               | 36               | 38               |
| Other  | 5                | 7                | 7                |
| Total secured debt                                   | 37               | 368              | 370              |
| <b>Unsecured</b>                                     |                  |                  |                  |
| Net of unamortized discount:                         |                  |                  |                  |
| Senior notes, 6.25%, due January 2018                | 649              | 649              | 649              |
| Senior notes, 4.75%, due May 2020                    | 499              | 499              | 499              |
| Senior notes, 4.00%, due October 2021                | 499              | 499              | 499              |
| Senior debentures, 6.95%, due March 2028             | 300              | 300              | 300              |
| Senior notes, 7.00%, due January 2038                | 146              | 146              | 146              |
| Senior notes, 5.00%, due January 2044                | 600              | 598              | 597              |
| Other  | 79               | 72               | 67               |
| Total unsecured debt                                 | 2,772            | 2,763            | 2,757            |
| Total long-term debt                                 | 2,809            | 3,131            | 3,127            |
| Less: current portion                                | (9               | ) (8             | ) (8             |
| Total due beyond one year                            | \$2,800          | \$3,123          | \$3,119          |

## Credit Facilities

As of October 31, 2015, we had total short-term borrowing capacity available for general corporate purposes of \$800. In April 2015, we terminated our \$800 senior unsecured revolving credit facility that was scheduled to expire in March 2018. We replaced this with a five-year \$800 senior unsecured revolving credit facility ("revolver") that expires in April 2020, with an option to extend for an additional two years. Under the terms of our revolver, we pay a variable rate of interest and a commitment fee based on our debt rating. The revolver is available for working capital, capital expenditures and other general corporate purposes. As of October 31, 2015, we had no issuances outstanding under our commercial paper program and no borrowings outstanding under our revolver.

The revolver requires that we maintain an adjusted debt to earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR") leverage ratio of less than four times. As of October 31, 2015, we were in compliance with this covenant.

As a condition of closing the credit card receivable transaction (see Note 2: Credit Card Receivable Transaction), we defeased the \$325 secured Series 2011-1 Class A Notes in order to provide the receivables to TD free and clear.



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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

## NOTE 6: 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

## Financial Instruments Measured at Fair Value on a Recurring Basis

We recorded a beneficial interest asset when we completed the sale of substantially all of our U.S. Visa and private label credit card portfolio (see Note 2: Credit Card Receivable Transaction). We determined the fair value of the beneficial interest asset based on a discounted cash flow model using Level 3 inputs in the fair value hierarchy regarding future credit card portfolio performance. Inputs and assumptions include the discount rate, payment rate, credit losses, revenues and expenses. Based on comparable market participant capital structures in the banking and credit card industries, we used a 12% discount rate. Based on historical and expected portfolio performance, we used a monthly payment rate ranging from approximately 6% to 33%, an annual credit loss rate ranging from approximately 1% to 4%, annual revenues ranging from approximately 6% to 18% of credit card receivables and annual expenses ranging from approximately 2% to 9% of credit card receivables. Amortization was the only significant change in value during the quarter and primarily reflects payments received on the receivables sold.

We did not have any financial assets or liabilities that were measured at fair value on a recurring basis as of January 31, 2015 and November 1, 2014.

## Financial Instruments Not Measured at Fair Value

Financial instruments not measured at fair value include cash and cash equivalents, accounts payable and long-term debt. Cash and cash equivalents and accounts payable 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:

|   | October 31, 2015 | January 31, 2015 | November 1, 2014 |
|---|------------------|------------------|------------------|
| Carrying value of long-term debt <sup>1</sup> | \$2,809          | \$3,131          | \$3,127          |
| Fair value of long-term debt                  | 3,177            | 3,693            | 3,566            |

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

## Non-financial Assets Measured at Fair Value on a Nonrecurring Basis

We measure certain non-financial assets at fair value on a nonrecurring basis, primarily goodwill, investment in contract asset and long-lived tangible and intangible assets, in connection with periodic evaluations for potential impairment. There were no material impairment charges for these assets for the nine months ended October 31, 2015 and November 1, 2014. We estimate the fair value of goodwill, investment in contract asset and long-lived tangible and intangible assets using primarily unobservable inputs and, as such, these are considered Level 3 fair value measurements.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

## NOTE 7: COMMITMENTS AND CONTINGENT LIABILITIES

Plans for our Manhattan full-line store ultimately include owning a condominium interest in a mixed-use tower and leasing certain nearby properties. As of October 31, 2015, we had approximately \$176 of fee interest in land, which is expected to convert to a condominium interest once the store is constructed. We have committed to make future installment payments based on the developer meeting pre-established construction and development milestones. In the unlikely event that this project is not completed, the opening may be delayed and we may potentially be subject to future losses or capital commitments in order to complete construction or to monetize our investment in the land.

## NOTE 8: SHAREHOLDERS' EQUITY

In February 2013, our Board of Directors authorized a program to repurchase up to \$800 of our outstanding common stock, through March 1, 2015. There was \$73 of unused capacity upon program expiration. In September 2014, our Board of Directors authorized a program to repurchase up to \$1,000 of our outstanding common stock, through March 1, 2016. On October 1, 2015, our Board of Directors authorized a program to repurchase up to \$1,000 of our outstanding common stock, through March 1, 2017. During the nine months ended October 31, 2015, we repurchased 7.0 shares of our common stock for an aggregate purchase price of \$517 and had \$1,486 remaining in share repurchase capacity as of October 31, 2015. The actual number, price, manner and timing of future share repurchases, if any, will be subject to market and economic conditions and applicable Securities and Exchange Commission ("Commission") rules.

On October 1, 2015, our Board of Directors authorized a special cash dividend of \$4.85 per share of outstanding common stock, using proceeds from the sale of our credit card receivables (see Note 2: Credit Card Receivable Transaction), payable to shareholders of record at the close of business on October 12, 2015. The special cash dividend was in addition to our recurring quarterly dividend of \$0.37 per share, paid in September 2015.

Our accumulated deficit was \$1,047 as of October 31, 2015, compared with retained earnings of \$29 as of November 1, 2014, primarily resulting from the special cash dividend, our recurring quarterly dividends and increased share repurchases.

In November 2015, subsequent to quarter end, we declared a quarterly dividend of \$0.37 per share, payable in December 2015.

## NOTE 9: STOCK-BASED COMPENSATION

The following table summarizes our stock-based compensation expense:

|   | Quarter Ended    |                  | Nine Months Ended |                  |
|---|------------------|------------------|-------------------|------------------|
|   | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |
| Stock options   | \$7              | \$8              | \$26              | \$29             |
| Acquisition-related stock compensation                            | 5                | 4                | 14                | 4                |
| Restricted stock units  | 4                | 3                | 14                | 9                |
| Performance share units   | (1               | ) —              | (1                | ) 1              |
| Other   | 1                | 2                | 4                 | 5                |
| Total stock-based compensation expense, before income tax benefit | 16               | 17               | 57                | 48               |
| Income tax benefit  | (5               | ) (6             | ) (18             | ) (17            |
| Total stock-based compensation expense, net of income tax benefit | \$11             | \$11             | \$39              | \$31             |





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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

The following table summarizes our grants:

|   | Nine Months Ended<br>October 31, 2015 |   | November 1, 2014 |   |
|---|---------------------------------------|---|------------------|---|
|   | Granted                               | Weighted-average<br>grant-date fair<br>value per unit | Granted          | Weighted-average<br>grant-date fair<br>value per unit |
| Stock options   | 1.8                                   | \$21  | 1.9              | \$16  |
| Stock options special dividend<br>adjustment          | 0.9                                   | N/A   | —                | N/A   |
| Restricted stock units                                | 0.5                                   | 77  | 0.5              | 63  |
| Restricted stock units special dividend<br>adjustment | 0.1                                   | N/A   | —                | N/A   |

## Special Dividend Adjustment

In connection with the closing of our credit card receivable transaction on October 1, 2015, our board of directors authorized a special cash dividend of \$4.85 per share (see Note 8: Shareholders Equity). As required by our equity incentive plans, an adjustment was made to outstanding awards to prevent dilution of their value resulting from the special cash dividend. The adjustments to awards included increasing the number of outstanding restricted shares, stock options and performance shares, as well as reducing the exercise prices of outstanding stock options. These adjustments did not result in incremental stock-based compensation expense as the anti-dilutive adjustments are required by our equity incentive plans.

## NOTE 10: EARNINGS PER SHARE

The computation of earnings per share is as follows:

|   | Quarter Ended    |                  | Nine Months Ended |                  |
|---|------------------|------------------|-------------------|------------------|
|   | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |
| Net earnings                                  | \$81             | \$142            | \$420             | \$465            |
| Basic shares                                  | 187.2            | 190.7            | 189.1             | 190.0            |
| Dilutive effect of stock options and<br>other | 4.1              | 4.0              | 4.1               | 3.4              |
| Diluted shares                                | 191.3            | 194.7            | 193.2             | 193.4            |
| Earnings per basic share                      | \$0.43           | \$0.74           | \$2.22            | \$2.45           |
| Earnings per diluted share                    | \$0.42           | \$0.73           | \$2.17            | \$2.40           |
| Anti-dilutive stock options and other         | 1.9              | 1.6              | 1.8               | 2.8              |

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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

## NOTE 11: SEGMENT REPORTING

The following tables set forth information for our reportable segments:

|  | Retail   | Corporate/Other | Retail Business <sup>1</sup> | Credit | Total   |
|--|----------|-----------------|------------------------------|--------|---------|
| Quarter Ended October 31, 2015                   |          |                 |                              |        |         |
| Net sales  | \$3,169  | \$ 70           | \$3,239                      | \$—    | \$3,239 |
| Credit card revenues, net                        | —        | —               | —                            | 89     | 89      |
| Earnings (loss) before interest and income taxes | 185      | (37 )           | 148                          | 7      | 155     |
| Interest expense, net                            | —        | (27 )           | (27 )                        | (3 )   | (30 )   |
| Earnings (loss) before income taxes              | 185      | (64 )           | 121                          | 4      | 125     |
| Assets <sup>2</sup>                              | 6,140    | 1,869           | 8,009                        | 577    | 8,586   |
| Quarter Ended November 1, 2014                   |          |                 |                              |        |         |
| Net sales  | \$2,991  | \$ 49           | \$3,040                      | \$—    | \$3,040 |
| Credit card revenues, net                        | —        | —               | —                            | 100    | 100     |
| Earnings (loss) before interest and income taxes | 254      | (49 )           | 205                          | 57     | 262     |
| Interest expense, net                            | —        | (29 )           | (29 )                        | (5 )   | (34 )   |
| Earnings (loss) before income taxes              | 254      | (78 )           | 176                          | 52     | 228     |
| Assets <sup>2</sup>                              | 5,165    | 1,788           | 6,953                        | 2,316  | 9,269   |
| Nine Months Ended October 31, 2015               |          |                 |                              |        |         |
| Net sales  | \$10,135 | \$ (182 )       | \$9,953                      | \$—    | \$9,953 |
| Credit card revenues, net                        | —        | —               | —                            | 291    | 291     |
| Earnings (loss) before interest and income taxes | 855      | (246 )          | 609                          | 168    | 777     |
| Interest expense, net                            | —        | (82 )           | (82 )                        | (12 )  | (94 )   |
| Earnings (loss) before income taxes              | 855      | (328 )          | 527                          | 156    | 683     |
| Assets <sup>2</sup>                              | 6,140    | 1,869           | 8,009                        | 577    | 8,586   |
| Nine Months Ended November 1, 2014               |          |                 |                              |        |         |
| Net sales  | \$9,339  | \$ (167 )       | \$9,172                      | \$—    | \$9,172 |
| Credit card revenues, net                        | —        | —               | —                            | 291    | 291     |
| Earnings (loss) before interest and income taxes | 931      | (224 )          | 707                          | 151    | 858     |
| Interest expense, net                            | —        | (90 )           | (90 )                        | (14 )  | (104 )  |
| Earnings (loss) before income taxes              | 931      | (314 )          | 617                          | 137    | 754     |
| Assets <sup>2</sup>                              | 5,165    | 1,788           | 6,953                        | 2,316  | 9,269   |

<sup>1</sup> 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.

<sup>2</sup> Assets in Corporate/Other include unallocated assets in corporate headquarters, consisting primarily of cash, land, property and equipment and deferred tax assets.

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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

The following table summarizes net sales within our reportable segments:

|                                   | Quarter Ended    |                  | Nine Months Ended |                  |
|-----------------------------------|------------------|------------------|-------------------|------------------|
|                                   | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |
| Nordstrom full-line stores - U.S. | \$1,634          | \$1,666          | \$5,431           | \$5,423          |
| Nordstrom.com                     | 414              | 371              | 1,518             | 1,291            |
| Nordstrom                         | 2,048            | 2,037            | 6,949             | 6,714            |
| Nordstrom Rack                    | 885              | 816              | 2,573             | 2,316            |
| Nordstromrack.com/HauteLook       | 129              | 93               | 363               | 249              |
| Other retail <sup>1</sup>         | 107              | 45               | 250               | 60               |
| Total Retail segment              | 3,169            | 2,991            | 10,135            | 9,339            |
| Corporate/Other                   | 70               | 49               | (182              | ) (167           |
| Total net sales                   | \$3,239          | \$3,040          | \$9,953           | \$9,172          |

<sup>1</sup> Other retail includes Trunk Club, Nordstrom Canada full-line stores and Jeffrey boutiques.

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

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 January 30, 2016, anticipated annual total and comparable sales rates, anticipated new store openings in existing, new and international markets, 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 customer strategy, including expansion into new domestic and international markets, acquisitions, investments in our stores and online, our ability to realize the anticipated benefits from growth initiatives and our ability to provide a seamless experience across all channels,
- 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 investment opportunities in 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 of our systems or those of a third-party provider that results in the theft, transfer or unauthorized disclosure of customer, employee or Company information or compliance with information security and privacy laws and regulations in the event of such an incident,
- successful execution of our information technology strategy,
- our ability to effectively utilize data in strategic planning and decision making,
- efficient and proper allocation of our capital resources,
- our ability to realize the expected benefits, respond to potential risks and appropriately manage potential costs associated with the program agreement with TD,
- 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 resulting impact on consumer spending patterns,
- our compliance with applicable banking-related laws and regulations, 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, debt repayment patterns, personal bankruptcies, and
- the timing, price, manner 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 2014 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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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)

OVERVIEW

We continue to execute our strategy to enhance the customer experience and serve more customers through our growth initiatives. While we experienced lower growth than expected during the quarter, we are still confident in achieving our long-term plans. For the third quarter our total net sales increased 6.6%, comparable sales increased 0.9% and we achieved the following milestones towards our growth initiatives:

• We opened our first international flagship full-line store in Vancouver, British Columbia.

• We opened two new U.S. full-line stores and 16 Nordstrom Rack stores.

• We increased our fulfillment capacity by over 50% with the opening of our new East coast fulfillment center.

On September 18th, we opened our first international flagship store in Vancouver, B.C. Not only was it the most successful opening in our company's history, it is a major step forward in store experience and services. We believe our continued expansion in Canada represents a \$1 billion sales opportunity by 2020 with six announced full-line stores and the potential for approximately 15 Nordstrom Rack stores.

In our Nordstrom business, we opened two full-line stores, including our first in Milwaukee and second in Minneapolis, and relocated a store in Los Angeles. These stores reflect our latest store design, which is now featured in nine locations. At Nordstrom.com, we made ongoing progress on our strategic priorities around selection, convenience and experience. This included expanded selection of approximately 20% and increased capacity with our new East coast fulfillment center.

Our Nordstrom Rack off-price business gives us access to new markets and a pipeline of new and younger customers. We are serving more customers with 16 additional stores, taking our total Rack store count to 194. Additionally, our online business had a significant gain in new customers to Nordstrom over the last year. Net sales at Nordstromrack.com/HauteLook increased 39%. Similar to our full-price business, we see meaningful synergies for customers to engage with us across stores and online.

Lastly, on October 1st, we completed the sale of our credit portfolio to TD Bank, a premiere global financial institution and experienced credit card partner. Our mutual commitment to having Nordstrom employees serve our customers directly was paramount to this partnership. We are able to retain all aspects of customer-facing activities, aligning with our strategy of enhancing the customer experience while allowing for improvement in capital efficiency. We are returning \$1.8 billion net proceeds directly to our shareholders, including a special cash dividend of \$905 paid on October 27th, with the remaining proceeds to be applied towards share repurchase.

We are well-positioned through our customer strategy while remaining focused on our current execution, and believe we are on track to achieve our sales ambition of over \$20 billion by 2020. We are confident that the execution of our strategy will deliver long-term profitable growth and top-quartile shareholder return.

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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)

## RESULTS OF OPERATIONS

Our reportable segments are Retail and Credit. Our Retail segment includes our Nordstrom branded full-line stores and online store, Nordstrom Rack stores, Nordstromrack.com/HauteLook, Trunk Club, Jeffrey and our Last Chance clearance store. For purposes of discussion and analysis of our results of operations of our Retail Business, we combine our Retail segment results with revenues and expenses in the "Corporate/Other" column of Note 11: Segment Reporting (collectively, the "Retail Business"). We analyze our results of operations through earnings before interest and income taxes for our Retail Business and Credit, while interest expense and income taxes are discussed on a total company basis.

## Retail Business

## Summary

The following table summarizes the results of our Retail Business:

|  | Quarter Ended     |         | November 1, 2014 |                             |    |
|--|-------------------|---------|------------------|-----------------------------|----|
|  | October 31, 2015  |         | Amount           | % of net sales <sup>1</sup> |    |
| Net sales  | \$3,239           | 100.0   | % \$3,040        | 100.0                       | %  |
| Cost of sales and related buying and occupancy costs | (2,140)           | ) (66.1 | %) (1,960        | ) (64.5                     | %) |
| Gross profit   | 1,099             | 33.9    | % 1,080          | 35.5                        | %  |
| Selling, general and administrative expenses         | (951)             | ) (29.3 | %) (875          | ) (28.8                     | %) |
| Earnings before interest and income taxes            | \$148             | 4.6     | % \$205          | 6.8                         | %  |
|  | Nine Months Ended |         | November 1, 2014 |                             |    |
|  | October 31, 2015  |         | Amount           | % of net sales <sup>1</sup> |    |
| Net sales  | \$9,953           | 100.0   | % \$9,172        | 100.0                       | %  |
| Cost of sales and related buying and occupancy costs | (6,463)           | ) (64.9 | %) (5,908        | ) (64.4                     | %) |
| Gross profit   | 3,490             | 35.1    | % 3,264          | 35.6                        | %  |
| Selling, general and administrative expenses         | (2,871)           | ) (28.8 | %) (2,557        | ) (27.9                     | %) |
| Other loss   | (10)              | ) (0.1  | %) —             | —                           |    |
| Earnings before interest and income taxes            | \$609             | 6.1     | % \$707          | 7.7                         | %  |

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



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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)

## Retail Business Net Sales

In our ongoing effort to enhance the customer experience, we are focused on providing customers with a seamless experience across our channels. While our customers may engage with us through multiple channels, we know they value the overall Nordstrom brand experience and view us simply as Nordstrom, which is ultimately how we view our business. To provide additional transparency into our net sales by channel, we present the following summary of our Retail Business:

|  | Quarter Ended    |                  | Nine Months Ended |                  |    |
|--|------------------|------------------|-------------------|------------------|----|
|  | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |    |
| Net sales by channel:  |                  |                  |                   |                  |    |
| Nordstrom full-line stores - U.S.                                | \$1,634          | \$1,666          | \$5,431           | \$5,423          |    |
| Nordstrom.com  | 414              | 371              | 1,518             | 1,291            |    |
| Nordstrom  | 2,048            | 2,037            | 6,949             | 6,714            |    |
| Nordstrom Rack   | 885              | 816              | 2,573             | 2,316            |    |
| Nordstromrack.com/HauteLook                                      | 129              | 93               | 363               | 249              |    |
| Other retail <sup>1</sup>  | 107              | 45               | 250               | 60               |    |
| Retail segment   | 3,169            | 2,991            | 10,135            | 9,339            |    |
| Corporate/Other  | 70               | 49               | (182)             | (167)            |    |
| Total net sales  | \$3,239          | \$3,040          | \$9,953           | \$9,172          |    |
| Net sales increase   | 6.6              | % 8.9            | % 8.5             | % 7.3            | %  |
| Comparable sales increase (decrease)<br>by channel: <sup>2</sup> |                  |                  |                   |                  |    |
| Nordstrom full-line stores - U.S.                                | (2.2             | %) 0.0           | %) (0.2           | %) (1.0          | %) |
| Nordstrom.com  | 11.4             | %) 21.8          | %) 17.6           | %) 25.2          | %) |
| Nordstrom  | 0.3              | %) 3.4           | %) 3.2            | %) 3.2           | %) |
| Nordstrom Rack   | (2.2             | %) 1.7           | %) (0.2           | %) 4.0           | %) |
| Nordstromrack.com/HauteLook                                      | 38.8             | %) 33.8          | %) 46.1           | %) 19.7          | %) |
| Total company  | 0.9              | %) 3.9           | %) 3.5            | %) 3.8           | %) |
| Sales per square foot: <sup>3</sup>                              |                  |                  |                   |                  |    |
| Total sales per square foot                                      | \$116            | \$114            | \$361             | \$347            |    |
| 4-wall sales per square foot                                     | 93               | 94               | 296               | 295              |    |
| U.S. full-line sales per square foot                             | 79               | 81               | 264               | 262              |    |
| Nordstrom Rack sales per square foot                             | 130              | 138              | 389               | 408              |    |

<sup>1</sup> Other retail includes Trunk Club, Nordstrom Canada full-line stores and Jeffrey boutiques.

<sup>2</sup> Comparable sales include sales from stores that have been open at least one full year at the beginning of the year. We also include sales from our online channels (Nordstrom.com and Nordstromrack.com/HauteLook) in comparable sales because of the integration with our stores.

<sup>3</sup> Sales per square foot is calculated as net sales divided by weighted-average square footage. Weighted-average square footage includes a percentage of year-end square footage for new stores equal to the percentage of the year during which they were open. 4-wall sales per square foot is calculated as sales for our Nordstrom U.S. full-line stores, Nordstrom Rack stores, Jeffrey boutiques, Nordstrom Canada full-line stores, Last Chance and Trunk Club clubhouses divided by their weighted-average square footage.

Total company net sales increased 6.6% for the quarter and 8.5% for the nine months ended October 31, 2015, compared with the same periods in 2014. During the nine months ended October 31, 2015, we opened five full-line stores, relocated one full-line store and opened 27 Nordstrom Rack stores. Overall comparable sales increased 0.9%

for the quarter and 3.5% for the nine months ended October 31, 2015.

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Nordstrom net sales, which consists of U.S. full-line and Nordstrom.com businesses, increased to \$2,048, or 0.5%, for the third quarter of 2015 and to \$6,949, or 3.5%, for the nine months ended October 31, 2015, compared with the same periods in 2014. These increases were driven by growth at Nordstrom.com and new store openings. Although both the number of items sold and the average selling price increased on a comparable basis for the quarter and nine months ended October 31, 2015, the growth in number of transactions decelerated relative to the first half of the year. The top-performing merchandise category for the quarter ended October 31, 2015 was Cosmetics and for the nine months ended October 31, 2015 were Cosmetics and Women's Apparel.

U.S. full-line stores' comparable sales decreased 2.2% for the quarter and 0.2% for the nine months ended October 31, 2015, compared with the same periods in 2014. The top-performing geographic regions for full-line stores for the quarter ended October 31, 2015 were the Northwest and Southern California, while the top-performing geographic regions for the nine months ended October 31, 2015 were the Northwest and Southwest.

Both of our online channels' net sales increased in the quarter and nine months ended October 31, 2015, driven by increased merchandise selection. Nordstrom.com net sales increased 11.4% in the quarter and 18% in the nine months ended October 31, 2015. Nordstromrack.com/HauteLook net sales increased 39% in the third quarter of 2015 and 46% in the nine months ended October 31, 2015.

Nordstrom Rack net sales increased \$69, or 8.5%, for the quarter and \$257, or 11.1%, for the nine months ended October 31, 2015, compared with the same periods in 2014. Nordstrom Rack comparable sales decreased 2.2% for the quarter and 0.2% for the nine months ended October 31, 2015. The average selling price increased, while the number of items sold decreased on a comparable basis for the quarter and nine months ended October 31, 2015. Nordstrom Rack sales per square foot decreased 6.4% for the third quarter and 4.7% for the nine months ended October 31, 2015 primarily due to new store openings.

## Retail Business Gross Profit

The following table summarizes the Retail Business gross profit:

|   | Quarter Ended    |                  | Nine Months Ended |                  |   |
|---|------------------|------------------|-------------------|------------------|---|
|   | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |   |
| Retail gross profit <sup>1</sup>        | \$1,099          | \$1,080          | \$3,490           | \$3,264          |   |
| Retail gross profit as a % of net sales | 33.9             | % 35.5           | % 35.1            | % 35.6           | % |
| Ending inventory per square foot        |                  |                  | October 31, 2015  | November 1, 2014 |   |
| Inventory turnover rate <sup>2</sup>    |                  |                  | \$83.98           | \$81.69          |   |
|   |                  |                  | 4.32              | 4.52             |   |

<sup>1</sup> Retailers do not uniformly record the costs of buying and occupancy and supply chain operations (freight, purchasing, receiving, distribution, fulfillment, etc.) between gross profit and selling, general and administrative expenses. As such, our gross profit and selling, general and administrative expenses and rates may not be comparable to other retailers' expenses and rates.

<sup>2</sup> Inventory turnover rate is calculated as the trailing 12-months' cost of sales and related buying and occupancy costs (for all segments) divided by the trailing 4-quarter average inventory. Retailers do not uniformly calculate inventory turnover as buying and occupancy costs may be included in selling, general and administrative expenses. As such, our inventory turnover rates may not be comparable to other retailers' rates.

Our Retail gross profit rate decreased 162 basis points for the quarter primarily due to higher markdowns in addition to Nordstrom Rack's continued store expansion. For the nine months ended October 31, 2015, our Retail gross profit rate decreased 53 basis points primarily due to higher markdowns. Our Retail gross profit increased \$19 for the third quarter of 2015 primarily due to increased sales, partially offset by higher markdowns and Nordstrom Rack's continued store expansion. Retail gross profit increased \$226 for the nine months ended October 31, 2015, compared with the same period in 2014, primarily due to increased sales, partially offset by Nordstrom Rack's continued store expansion.



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Our inventory turnover rate of 4.32 times decreased for the period ended October 31, 2015, compared with the same period in 2014, due to softer sales trends experienced during the quarter. Though our ending inventory per square foot of \$83.98 increased for the period ended October 31, 2015, our ending inventory increase of 8.0% was in-line with the increase in net sales.

Ending inventory includes pack and hold inventory of \$162 and \$169 on October 31, 2015 and November 1, 2014, which represents strategic purchases of merchandise for upcoming selling seasons.

## Retail Business Selling, General and Administrative Expenses

Retail Business selling, general and administrative expenses ("Retail SG&A") are summarized in the following table:

|  | Quarter Ended    |                  | Nine Months Ended |                  |   |
|--|------------------|------------------|-------------------|------------------|---|
|  | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |   |
| Selling, general and administrative expenses                     | \$951            | \$875            | \$2,871           | \$2,557          |   |
| Selling, general and administrative expenses as a % of net sales | 29.3             | % 28.8           | % 28.8            | % 27.9           | % |

Our Retail SG&A rate increased 58 basis points for the quarter and 97 basis points for the nine months ended October 31, 2015 due to planned growth initiatives related to Trunk Club and Canada, and higher fulfillment costs associated with online growth. Retail SG&A increased \$76 for the quarter and \$314 for the nine months ended October 31, 2015 primarily due to planned growth initiatives related to Trunk Club and Canada and an increase in sales.

## Other Loss

Other loss of \$10 for the nine months ended October 31, 2015 was due to impairment of an equity method investment as we determined it was no longer recoverable.

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## Credit Segment

## Summary

The table below provides a detailed view of the operational results of our Credit segment, consistent with Note 11: Segment Reporting. 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 represent the estimated costs that would be incurred if cardholders used third-party cards instead of ours in our stores or on our websites.

On October 1, 2015, we completed the sale of substantially all of our U.S. Visa and private label credit card portfolio to TD (see Note 2: Credit Card Receivable Transaction).

Prior to October 1, 2015, interest expense at the Credit segment was equal to the amount of interest related to securitized debt plus an amount assigned to the Credit segment in proportion to the 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 ranged from 70% to 90%. As such, we considered a mix of 80% debt and 20% equity appropriate, and therefore assigned interest expense to the Credit segment as if it carried debt of up to 80% of the credit card receivables. Subsequent to the sale, we no longer allocate interest expense to the Credit segment as we do not fund the accounts receivable now owned by TD.

|  | Quarter Ended     |                  |
|--|-------------------|------------------|
|  | October 31, 2015  | November 1, 2014 |
| Credit card revenues, net                              | \$89              | \$100            |
| Credit expenses  | (50)              | (43)             |
| Credit transaction, net                                | (32)              | —                |
| Earnings before interest and income taxes <sup>1</sup> | 7                 | 57               |
| Interest expense                                       | (3)               | (5)              |
| Intercompany merchant fees                             | 24                | 23               |
| Credit segment contribution, before income taxes       | \$28              | \$75             |
| Credit and debit card volume <sup>2</sup> :            |                   |                  |
| Outside  | \$1,059           | \$1,074          |
| Inside   | 1,243             | 1,160            |
| Total volume   | \$2,302           | \$2,234          |
|  | Nine Months Ended |                  |
|  | October 31, 2015  | November 1, 2014 |
| Credit card revenues, net                              | \$291             | \$291            |
| Credit expenses  | (152)             | (140)            |
| Credit transaction, net                                | 29                | —                |
| Earnings before interest and income taxes <sup>1</sup> | 168               | 151              |
| Interest expense                                       | (12)              | (14)             |
| Intercompany merchant fees                             | 83                | 77               |
| Credit segment contribution, before income taxes       | \$239             | \$214            |
| Credit and debit card volume <sup>2</sup> :            |                   |                  |
| Outside  | \$3,209           | \$3,220          |
| Inside   | 4,242             | 3,879            |
| Total volume   | \$7,451           | \$7,099          |

<sup>1</sup> As presented in Note 11: Segment Reporting.

<sup>2</sup> Volume represents sales plus applicable taxes on all Nordstrom branded credit and debit cards, including those owned by TD.



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## Credit Card Revenues, net

The following is a summary of our credit card revenues, net:

|                                 | Quarter Ended    |                  | Nine Months Ended |                  |
|---------------------------------|------------------|------------------|-------------------|------------------|
|                                 | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |
| Finance charge revenue          | \$45             | \$64             | \$173             | \$186            |
| Interchange                     | 15               | 22               | 60                | 66               |
| Late fees and other             | 14               | 14               | 43                | 39               |
| Credit program revenues, net    | 15               | —                | 15                | —                |
| Total credit card revenues, net | \$89             | \$100            | \$291             | \$291            |

Prior to the close of the credit card receivable transaction on October 1, 2015, credit card revenues included finance charges, interchange fees, late fees and other revenue, recorded net of estimated uncollectible finance charges and fees. 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 continue to recognize revenue in this manner for the credit card receivables retained subsequent to the close of the credit card receivable transaction.

Following the close of the credit card receivable transaction and pursuant to the new program agreement with TD, we receive our portion of the ongoing credit card revenue, net of credit losses, from both the sold and newly generated credit card receivables, and is recorded in credit program revenues, net. Asset amortization and deferred revenue recognition associated with the assets and liabilities recorded as part of the transaction are also recorded in credit program revenues, net.

Credit card revenues, net decreased \$11 for the quarter ended October 31, 2015, compared with the same period in the prior year, primarily due to amortization and the impact of the program agreement with TD.

## Credit Expenses

Credit expenses are summarized in the following table:

|                       | Quarter Ended    |                  | Nine Months Ended |                  |
|-----------------------|------------------|------------------|-------------------|------------------|
|                       | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |
| Operational expenses  | \$42             | \$36             | \$121             | \$108            |
| Bad debt expense      | 6                | 6                | 26                | 28               |
| Occupancy expenses    | 2                | 1                | 5                 | 4                |
| Total credit expenses | \$50             | \$43             | \$152             | \$140            |

Total credit expenses increased \$7 for the quarter and \$12 for the nine months ended October 31, 2015, compared with the same periods in the prior year, due to higher operational costs related to increased credit volume.

## Credit Transaction, net

Credit transaction, net of \$(32) for the quarter ended October 31, 2015 represents transaction costs associated with the sale. Credit transaction, net of \$29 for the nine months ended October 31, 2015 is due to the reversal of the allowance for credit losses on receivables reclassified as "held for sale" during the second quarter, partially offset by transaction related costs related to the sale of these receivables.

## Allowance for Credit Losses and Credit Trends

We considered a credit card account delinquent if the minimum payment was not received by the payment due date. Our aging method was based on the number of completed billing cycles during which the customer failed to make a minimum payment. During the third quarter of 2014, we modified our write-off policy from 150 days past due to 180 days past due to better align with industry practice.





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Substantially all of our U.S. Visa and private label receivables were reclassified as "held for sale" during the second quarter of 2015, and resulted in the reversal of the allowance for credit losses on those receivables. Activity in the allowance for credit losses is as follows:

|  | Quarter Ended    |                  | Nine Months Ended |                  |
|--|------------------|------------------|-------------------|------------------|
|  | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |
| Allowance at beginning of period         | \$1              | \$80             | \$75              | \$80             |
| Bad debt expense                         | 6                | 6                | 26                | 28               |
| Write-offs                               | (11              | ) (14            | ) (49             | ) (52            |
| Recoveries                               | 5                | 3                | 13                | 19               |
| Reversal of allowance for credit losses— |                  | —                | (64               | ) —              |
| Allowance at end of period               | \$1              | \$75             | \$1               | \$75             |

**Intercompany Merchant Fees**

Intercompany merchant fees represent the estimated costs that would be incurred if Nordstrom cardholders used third-party cards in our Nordstrom stores and online. This estimate increased to \$24 for the quarter ended October 31, 2015 from \$23 for the same period in 2014, and increased to \$83 for the nine months ended October 31, 2015 from \$77 for the same period in 2014. These changes were primarily driven by the increased use of Nordstrom branded credit and debit cards in store and online.

**Total Company Results****Interest Expense, net**

Interest expense, net was \$30 for the third quarter and \$94 for the nine months ended October 31, 2015, compared with \$34 for the third quarter and \$104 for the nine months ended November 1, 2014. The decreases are primarily due to increased capitalized interest resulting from growth-related initiatives.

**Income Tax Expense**

Income tax expense is summarized in the following table:

|                    | Quarter Ended    |                  | Nine Months Ended |                  |
|--------------------|------------------|------------------|-------------------|------------------|
|                    | October 31, 2015 | November 1, 2014 | October 31, 2015  | November 1, 2014 |
| Income tax expense | \$44             | \$86             | \$263             | \$289            |
| Effective tax rate | 35.2             | % 37.9           | % 38.5            | % 38.3           |

The effective tax rate decreased for the quarter ended October 31, 2015, compared with the same period in 2014, primarily due to the benefit of income tax credits in 2015, and changes in non-deductible expenses and estimated tax reserves. The effective tax rate was flat for the nine months ended October 31, 2015, compared with the same period in 2014.

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## Fiscal Year 2015 Outlook

The Company updated its annual earnings per diluted share expectations, incorporating third quarter results. Our expectations for fiscal 2015 are as follows:

|  | Prior Outlook              | Current Outlook            |
|--|----------------------------|----------------------------|
| Net sales increase (percent)   | 8.5 to 9.5                 | 7.5 to 8.0                 |
| Comparable sales increase (percent)  | 3.5 to 4.5                 | 2.5 to 3.0                 |
| Gross profit % (basis points)  | 5 decrease to 5 increase   | 50 to 60 decrease          |
| Selling, general and administrative expenses % (basis points)  | 65 to 75 increase          | 70 to 75 increase          |
| Earnings per diluted share (excluding the impact of the credit transaction and other, and impact of any future share repurchases) <sup>1</sup> | \$3.70 to \$3.80           | \$3.40 to \$3.50           |
| Impact of credit transaction and other <sup>1</sup>  | \$51 million EBIT increase | \$38 million EBIT decrease |
| Earnings per diluted share (excluding the impact of any future share repurchases)  | \$3.85 to \$3.95           | \$3.30 to \$3.40           |

<sup>1</sup> The impact of the credit transaction and other primarily represents credit program revenues related to the program agreement, transaction costs, non-cash accounting adjustments and other loss.

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## 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 compensation measures. For the 12 fiscal months ended October 31, 2015, our ROIC decreased to 11.4% compared with 13.1% for the 12 fiscal months ended November 1, 2014, primarily due to ongoing store expansion and increased technology investments in addition to the acquisition of Trunk Club.

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 |                  |   |
|--|------------------------|------------------|---|
|  | October 31, 2015       | November 1, 2014 |   |
| Net earnings   | \$675                  | \$732            |   |
| Add: income tax expense  | 438                    | 458              |   |
| Add: interest expense  | 129                    | 155              |   |
| Earnings before interest and income tax expense                                | 1,242                  | 1,345            |   |
| Add: rent expense  | 165                    | 133              |   |
| Less: estimated depreciation on capitalized operating leases <sup>1</sup>      | (88                    | ) (70            | ) |
| Net operating profit   | 1,319                  | 1,408            |   |
| Less: estimated income tax expense <sup>2</sup>                                | (519                   | ) (542           | ) |
| Net operating profit after tax   | \$800                  | \$866            |   |
| Average total assets <sup>3</sup>  | \$9,362                | \$8,733          |   |
| Less: average non-interest-bearing current liabilities <sup>4</sup>            | (2,965                 | ) (2,658         | ) |
| Less: average deferred property incentives <sup>3</sup>                        | (536                   | ) (498           | ) |
| Add: average estimated asset base of capitalized operating leases <sup>5</sup> | 1,171                  | 1,035            |   |
| Average invested capital   | \$7,032                | \$6,612          |   |
| Return on assets   | 7.2                    | % 8.4            | % |
| ROIC   | 11.4                   | % 13.1           | % |

<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 October 31, 2015 and November 1, 2014.

<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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**LIQUIDITY AND CAPITAL RESOURCES**

We strive to 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, dividend payouts, potential share repurchases and other future investments. We believe that as of October 31, 2015, our existing cash and cash equivalents on-hand of \$821, 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. Further, upon the closing of our credit card receivable transaction, we received net proceeds of approximately \$1.8 billion, after \$325 in debt reduction and transaction costs. On October 27, 2015, the Company paid a special cash dividend of \$905, or \$4.85 per share of outstanding common stock, using the proceeds from the sale of our credit card receivables. In addition, the Company expects to initiate share repurchase with the remaining net proceeds beginning in the fourth quarter of this year.

For the nine months ended October 31, 2015, cash and cash equivalents decreased by \$6 to \$821, due to payments for cash dividends of \$1,116 and capital expenditures of \$857, offset by net proceeds from the sale of our credit card receivables of \$1,848.

**Operating Activities**

Net cash provided by operating activities increased \$1,229 for the nine months ended October 31, 2015, compared with the same period in 2014, primarily due to proceeds from the sale of credit card receivables originated at Nordstrom of \$1,297.

**Investing Activities**

Net cash provided by investing activities was \$69 for the nine months ended October 31, 2015, compared with net cash used of \$638 for the same period in 2014. The increase relates to proceeds from the sale of the credit card receivables originated at third parties of \$890, offset by capital expenditures of \$857.

**Financing Activities**

Net cash used in financing activities was \$1,820 for the nine months ended October 31, 2015, compared with \$639 for the same period in 2014, primarily due to an increase in cash dividends paid. The nine months ended October 31, 2015 included a special cash dividend of \$905.

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

Free Cash Flow is one of our key liquidity measures, and when used 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 October 31, 2015, Free Cash Flow increased to \$702 compared with \$(357) for the nine months ended November 1, 2014, primarily due to an increase in cash provided by operating activities as a result of proceeds from the sale of our credit card receivables, partially offset by cash dividends paid.

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 |                  |
|--|-------------------|------------------|
|  | October 31, 2015  | November 1, 2014 |
| Net cash provided by operating activities                                      | \$1,745           | \$516            |
| Less: capital expenditures   | (857)             | (616)            |
| Less: cash dividends paid  | (1,116)           | (189)            |
| Add: proceeds from sale of credit card receivables originated at third parties | 890               | —                |
| Add (Less): change in credit card receivables originated at third parties      | 33                | (10)             |
| Add (Less): change in cash book overdrafts                                     | 7                 | (58)             |
| Free Cash Flow   | \$702             | \$(357)          |
| Net cash provided by (used in) investing activities                            | \$69              | \$(638)          |
| Net cash used in financing activities  | (1,820)           | (639)            |

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## Credit Capacity and Commitments

As of October 31, 2015, we had total short-term borrowing capacity available for general corporate purposes of \$800. In April 2015, we terminated our \$800 senior unsecured revolving credit facility that was scheduled to expire in March 2018. We replaced this with a five-year \$800 senior unsecured revolving credit facility ("revolver") that expires in April 2020, with an option to extend for an additional two years. Under the terms of our revolver, we pay a variable rate of interest and a commitment fee based on our debt rating. The revolver is available for working capital, capital expenditures and other general corporate purposes. As of October 31, 2015, we had no issuances outstanding under our commercial paper program and no borrowings outstanding under our revolver.

As a condition of closing the credit card receivable transaction (see Note 2: Credit Card Receivable Transaction), we defeased the \$325 secured Series 2011-1 Class A Notes to provide the receivables to TD free and clear.

## 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              | 0.91%             |
| Canadian Dealer Offer Rate Loan | CDOR               | 0.91%             |
| 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 borrowing cost 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 borrowing cost under this facility.

## Debt Covenant

The revolver requires that we maintain an adjusted debt to earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR") leverage ratio of less than four times (see the following additional discussion of Adjusted Debt to EBITDAR). As of October 31, 2015, we were in compliance with this covenant.



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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 an 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 borrowing costs. We also have a debt covenant that requires an adjusted debt to EBITDAR leverage ratio of less than four times. As of October 31, 2015 and November 1, 2014, 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:

|   | 2015 <sup>1</sup> | 2014 <sup>1</sup> |
|---|-------------------|-------------------|
| Debt  | \$2,809           | \$3,127           |
| Add: estimated capitalized operating lease liability <sup>2</sup> | 1,320             | 1,068             |
| Less: fair value hedge adjustment included in long-term debt      | (26               | ) (39             |
| Adjusted Debt   | \$4,103           | \$4,156           |
| Net earnings  | \$675             | \$732             |
| Add: income tax expense   | 438               | 458               |
| Add: interest expense, net  | 129               | 155               |
| Earnings before interest and income taxes                         | 1,242             | 1,345             |
| Add: depreciation and amortization expenses                       | 557               | 498               |
| Add: rent expense   | 165               | 133               |
| Add: non-cash acquisition-related charges                         | 13                | 8                 |
| EBITDAR   | \$1,977           | \$1,984           |
| Debt to Net Earnings  | 4.2               | 4.3               |
| Adjusted Debt to EBITDAR  | 2.1               | 2.1               |

<sup>1</sup> The components of Adjusted Debt are as of October 31, 2015 and November 1, 2014, while the components of EBITDAR are for the 12 months ended October 31, 2015 and November 1, 2014.

<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.

#### Off-Balance Sheet Arrangements

On October 1, 2015, we completed the sale of substantially all of our U.S. Visa and private label credit card portfolio to TD (see Note 2: Credit Card Receivable Transaction). This transaction represents an off-balance sheet arrangement and credit card receivables serviced under this contract are \$2,199 as of October 31, 2015.

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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 2014 Annual Report on Form 10-K filed with the Commission on March 16, 2015. There have been no material changes to these risks since that time.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

On May 4, 2015, the Company filed a Form 8-K announcing the appointment of Blake Nordstrom, Pete Nordstrom and Erik Nordstrom as co-presidents of Nordstrom, Inc. The three executives retained their current roles and responsibilities following that appointment. In light of those individual responsibilities, Blake Nordstrom continues to serve as the Company's principal executive officer for purposes of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company's Executive Vice President and Chief Financial Officer is the Company's principal financial officer for purposes of the Exchange Act.

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 principal executive officer and principal 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 Exchange Act). Based upon that evaluation, our principal executive officer and principal 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 principal executive officer and principal 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 principal executive officer and principal 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)

The following is a summary of our third quarter share repurchases:

|  | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>1</sup> |
|--|----------------------------------|------------------------------|--|---|
| August 2015<br>(August 2, 2015 to August 29, 2015)     | 0.2                              | \$73.10                      | 0.2  | \$ 718  |
| September 2015<br>(August 30, 2015 to October 3, 2015) | 1.9                              | 73.08                        | 1.9  | 1,579   |
| October 2015<br>(October 4, 2015 to October 31, 2015)  | 1.4                              | 68.77                        | 1.4  | 1,486   |
| Total  | 3.5                              | \$71.42                      | 3.5  |   |

<sup>1</sup> In September 2014, our Board of Directors authorized a program to repurchase up to \$1,000 of our outstanding common stock, through March 1, 2016. On October 1, 2015, our Board of Directors authorized a program to repurchase up to \$1,000 of our outstanding common stock, through March 1, 2017. The actual number, price, manner and timing of future share repurchases, if any, will be subject to market and economic conditions and applicable 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 35 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 1, 2015

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## NORDSTROM, INC.

## Index to Exhibits

| Exhibit |  | Method of Filing                  |
|---------|--|-----------------------------------|
| 10.1    | Credit Card Program Agreement by and among Nordstrom, Inc., Nordstrom fsb and TD Bank USA, N.A. dated May 25, 2015   | Filed herewith electronically     |
| 31.1    | Certification of Co-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 Co-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     |