NORDSTROM INC
Form 10-Q
December 07, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 29, 2011

OR

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

For the transition period from __________ to __________

Commission file number: 001-15059

NORDSTROM, INC.

(Exact name of registrant as specified in its charter)

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

206-628-2111

(Registrant s telephone number, including area code)

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

YES þ NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 þ NO ¨

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

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

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

YES ¨ NO þ

Common stock outstanding as of December 2, 2011: 209,424,143 shares of common stock

Table of Contents

NORDSTROM, INC.

TABLE OF CONTENTS

Table of Contents

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 29, 2011	**October 30, 2010**	**October 29, 2011**	**October 30, 2010**
Net sales	**$ 2,383**	$ 2,087	**$ 7,328**	$ 6,494
Credit card revenues	**95**	95	**283**	290
Total revenues	**2,478**	2,182	**7,611**	6,784
Cost of sales and related buying and occupancy costs	**(1,511)**	(1,331)	**(4,619)**	(4,139)
Selling, general and administrative expenses:				
Retail	**(670)**	(569)	**(1,989)**	(1,715)
Credit	**(57)**	(61)	**(171)**	(218)
Earnings before interest and income taxes	**240**	221	**832**	712
Interest expense, net	**(31)**	(31)	**(92)**	(94)
Earnings before income taxes	**209**	190	**740**	618
Income tax expense	**(82)**	(71)	**(293)**	(237)
Net earnings	**$ 127**	$ 119	**$ 447**	$ 381
Earnings per share:				
Basic	**$ 0.60**	$ 0.54	**$ 2.08**	$ 1.74
Diluted	**$ 0.59**	$ 0.53	**$ 2.04**	$ 1.71
Weighted average shares outstanding:				
Basic	**210.9**	219.0	**215.3**	218.9
Diluted	**215.0**	222.5	**219.6**	222.6

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

Table of Contents

NORDSTROM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions)

(Unaudited)

	October 29, 2011	January 29, 2011	October 30, 2010
Assets			
Current assets:			
Cash and cash equivalents	**$ 1,457**	$ 1,506	$ 1,046
Accounts receivable, net	**1,995**	2,026	2,015
Merchandise inventories	**1,507**	977	1,307
Current deferred tax assets, net	**216**	236	238
Prepaid expenses and other	**147**	79	120
Total current assets	**5,322**	4,824	4,726
Land, buildings and equipment (net of accumulated depreciation of $3,769, $3,520 and $3,451)	**2,471**	2,318	2,300
Goodwill	**200**	53	53
Other assets	**346**	267	303
Total assets	**$ 8,339**	$ 7,462	$ 7,382
Liabilities and Shareholders Equity			
Current liabilities:			
Accounts payable	**$ 1,256**	$ 846	$ 1,054
Accrued salaries, wages and related benefits	**327**	375	296
Other current liabilities	**698**	652	587
Current portion of long-term debt	**506**	6	6
Total current liabilities	**2,787**	1,879	1,943
Long-term debt, net	**2,810**	2,775	2,806
Deferred property incentives, net	**511**	495	496
Other liabilities	**335**	292	266
Commitments and contingencies			
Shareholders equity:			
Common stock, no par value: 1,000 shares authorized; 210.1, 218.0 and 218.6 shares issued and outstanding	**1,436**	1,168	1,138
Retained earnings	**487**	882	752
Accumulated other comprehensive loss	**(27)**	(29)	(19)
Total shareholders equity	**1,896**	2,021	1,871
Total liabilities and shareholders equity	**$ 8,339**	$ 7,462	$ 7,382

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

Table of Contents

NORDSTROM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Amounts in millions except per share amounts)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 29, 2011	218.0	$ 1,168	$ 882	$ (29)	$ 2,021
Net earnings			447		447
Other comprehensive earnings, net of tax				2	2
Comprehensive net earnings					449
Dividends ($0.69 per share)			(149)		(149)
Issuance of common stock for HauteLook acquisition	3.5	148			148
Issuance of common stock under stock compensation plans	2.9	86			86
Stock-based compensation	0.9	34			34
Repurchase of common stock	(15.2)		(693)		(693)
Balance at October 29, 2011	**210.1**	**$ 1,436**	**$ 487**	**$ (27)**	**$ 1,896**

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at January 30, 2010	217.7	$ 1,066	$ 525	$ (19)	$ 1,572
Net earnings			381		381
Other comprehensive earnings, net of tax					
Comprehensive net earnings					381
Dividends ($0.56 per share)			(123)		(123)
Issuance of common stock under stock compensation plans	1.8	46			46
Stock-based compensation		26			26
Repurchase of common stock	(0.9)		(31)		(31)
Balance at October 30, 2010	**218.6**	**$ 1,138**	**$ 752**	**$ (19)**	**$ 1,871**

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

Table of Contents

NORDSTROM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Nine Months Ended	
	October 29, 2011	October 30, 2010
Operating Activities		
Net earnings	**$ 447**	$ 381
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization expenses	**273**	244
Amortization of deferred property incentives and other, net	**(41)**	(40)
Deferred income taxes, net	**18**	(16)
Stock-based compensation expense	**42**	29
Tax benefit from stock-based compensation	**17**	10
Excess tax benefit from stock-based compensation	**(19)**	(10)
Provision for bad debt expense	**82**	125
Change in operating assets and liabilities:		
Accounts receivable	**(56)**	(46)
Merchandise inventories	**(444)**	(362)
Prepaid expenses and other assets	**(62)**	(36)
Accounts payable	**331**	267
Accrued salaries, wages and related benefits	**(53)**	(40)
Other current liabilities	**30**	(20)
Deferred property incentives	**61**	77
Other liabilities	**2**	(2)
Net cash provided by operating activities	**628**	561
Investing Activities		
Capital expenditures	**(398)**	(295)
Change in credit card receivables originated at third parties	**10**	(59)
Other, net	**(3)**	4
Net cash used in investing activities	**(391)**	(350)
Financing Activities		
Proceeds from long-term borrowings, net of discounts	**499**	498
Principal payments on long-term borrowings	**(5)**	(354)
(Decrease) increase in cash book overdrafts	**(20)**	2
Cash dividends paid	**(149)**	(123)
Payments for repurchase of common stock	**(693)**	(31)
Proceeds from exercise of stock options	**55**	23
Proceeds from employee stock purchase plan	**14**	13
Excess tax benefit from stock-based compensation	**19**	10
Other, net	**(6)**	2

Net cash (used in) provided by financing activities	**(286)**	40
Net (decrease) increase in cash and cash equivalents	**(49)**	251
Cash and cash equivalents at beginning of period	**1,506**	795
Cash and cash equivalents at end of period	**$ 1,457**	$ 1,046
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest (net of capitalized interest)	**$ 73**	$ 69
Income taxes	**$ 340**	$ 335
Non-cash investing activity:		
Issuance of common stock for HauteLook acquisition	**$ 148**	$

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

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include Nordstrom, Inc. and its subsidiaries. All intercompany transactions and balances are eliminated in consolidation. The interim condensed consolidated financial statements have been prepared on a basis consistent in all material respects with the accounting policies described and applied in our 2010 Annual Report on Form 10-K, and reflect all adjustments that are, in management s opinion, necessary for the fair presentation of the results of operations, financial position and cash flows for the periods presented.

The condensed consolidated financial statements as of and for the periods ended October 29, 2011 and October 30, 2010 are unaudited. The condensed consolidated balance sheet as of January 29, 2011 has been derived from the audited consolidated financial statements included in our 2010 Annual Report on Form 10-K. The interim condensed consolidated financial statements should be read together with the consolidated financial statements and related footnote disclosures contained in our 2010 Annual Report on Form 10-K.

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

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

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-02, *A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. This ASU clarifies existing guidance on whether a loan modification constitutes a troubled debt restructuring (TDR) for accounting purposes, and requires certain disclosures related to TDRs. The provisions of this ASU, which are effective with this quarterly report for the period ended October 29, 2011, did not have a material impact on our consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU clarifies existing fair value measurement and disclosure requirements, amends certain fair value measurement principles and requires additional disclosures about fair value measurements. We do not expect the provisions of this ASU, which are effective for us beginning with the first quarter of 2012, to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income.* This ASU amends existing presentation and disclosure requirements concerning comprehensive income, most significantly by requiring that comprehensive income be presented with net income in a continuous financial statement, or in a separate but consecutive financial statement. The provisions of this ASU, which are currently effective for us beginning with the first quarter of 2012, will result in changes to the presentation of comprehensive net earnings in our consolidated financial statements, but will have no effect on the calculation of net earnings, comprehensive net earnings or earnings per share.

In September 2011, the FASB issued ASU No. 2011-08, *Testing for Goodwill Impairment*. This ASU amends existing guidance by permitting an entity to first assess qualitative factors before calculating the fair value of a reporting unit in the two-step goodwill impairment test described in Accounting Standards Codification Topic 350, *Intangibles Goodwill and Other*. If it is determined that it is more likely than not that the fair value of a reporting unit is not less than its carrying amount, further testing is not needed. We do not expect the provisions of this ASU, which are effective for us beginning with the first quarter of 2012, to have a material impact on our consolidated financial statements.

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 2: ACQUISITION

On March 23, 2011, we acquired 100% of the outstanding equity of HauteLook, Inc., an online private sale retailer offering limited time sale events on fashion and lifestyle brands. We believe the acquisition will enable us to participate in the fast-growing private sale marketplace and provide a platform to increase innovation and speed in the way we serve customers across channels. The terms of this acquisition included upfront consideration of $180 in Nordstrom stock and an earn-out provision for up to $90 of additional consideration payable in Nordstrom stock over a three-year period, subject to HauteLook s performance in meeting certain targets for sales and earnings before interest, taxes, depreciation and amortization (EBITDA).

HauteLook s results of operations are included in our consolidated results from the acquisition date, and were not material to our consolidated results for the quarter and nine months ended October 29, 2011. We have not presented pro forma results of operations for periods prior to the acquisition because HauteLook s results of operations were not material to our consolidated results for any previous period.

Purchase Price

Both the $180 upfront payment and the $90 earn-out consideration include amounts attributable to HauteLook employees that are subject to ongoing vesting requirements. These amounts will be recorded as compensation expense as the related service is performed over the respective employee vesting periods of up to four years after the acquisition date. The remaining (non-compensation) consideration was measured at its acquisition-date fair value to determine the purchase price, as summarized in the following table:

	Upfront	**Earn-out**	**Total**
Maximum total consideration	$ 180	$ 90	**$ 270**
Less: portion attributable to post-acquisition compensation	(27)	(15)	**(42)**
Consideration attributable to purchase price	$ 153	$ 75	**$ 228**
Purchase price at fair value	$ 153	$ 42	**$ 195**

The $153 upfront component of the purchase price consisted of 3.5 shares of Nordstrom common stock at a closing stock price of $42 per share on the acquisition date. Earn-out payments will range from $0 to $90, also in Nordstrom common stock, with amounts attributable to the purchase price ranging from $0 to $75 and to post-acquisition compensation of $0 to $15. We estimated the $42 acquisition-date fair value of the earn-out attributable to the purchase price using a valuation model, and recorded this amount in other liabilities on our condensed consolidated balance sheet. As of October 29, 2011, the estimated fair value was $39 (see Note 5: Fair Value Measurements). We will adjust the recorded earn-out obligation on a quarterly basis to the extent our projections change based on HauteLook s actual performance or other factors, with a corresponding charge to expense or credit to income. If HauteLook achieves the maximum performance thresholds, we will incur additional expense of $36 through 2013 associated with adjustments to the recorded earn-out obligation, compared with $39 of income if the minimum targets are not met.

Net Assets Acquired

We allocated the total purchase price of $195 to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated purchase price recorded as goodwill. As a result of the purchase price allocation, we recorded intangible assets of $62 and goodwill of $146, offset by other net liabilities of $13.

Intangible assets consist of $27 of trademarks/trade names, $20 of technology and $15 of customer relationships. We estimated the fair values of the acquired intangible assets based on discounted cash flow models using estimates and assumptions regarding future operations and cash flows. We will amortize the acquired intangible assets over their estimated lives of two to seven years on a straight-line basis, which approximates the pattern of expected economic benefit. We expect to record total amortization expense of $54 associated with these intangible assets over the next five years, including $16 in 2011.

Goodwill of $146 is equal to the excess of the purchase price over the net assets recognized and represents the acquisition s benefits that are not attributable to individually identified and separately recognized assets. These benefits include our expected ability to increase innovation and speed in the way we serve customers across channels, HauteLook s assembled workforce including its key management and the going-concern value of acquiring HauteLook s business as a whole. We include this goodwill, which is not deductible for tax purposes, in our Retail segment.

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 3: ACCOUNTS RECEIVABLE

The components of accounts receivable are as follows:

	October 29, 2011	January 29, 2011	October 30, 2010
Credit card receivables:			
Nordstrom VISA credit card receivables	**$ 1,344**	$ 1,431	$ 1,450
Nordstrom private label card receivables	**691**	672	652
Total credit card receivables	**2,035**	2,103	2,102
Allowance for credit losses	**(125)**	(145)	(160)
Credit card receivables, net	**1,910**	1,958	1,942
Other accounts receivable	**85**	68	73
Accounts receivable, net	**$ 1,995**	$ 2,026	$ 2,015

Other accounts receivable consist primarily of credit and debit card receivables due from third-party financial institutions.

Activity in the allowance for credit losses for the quarter and nine months ended October 29, 2011 and October 30, 2010 is as follows:

	Quarter Ended		Nine Months Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Allowance at beginning of period	**$ 125**	$ 175	**$ 145**	$ 190
Bad debt provision	**31**	28	**82**	125
Write-offs	**(37)**	(48)	**(119)**	(168)
Recoveries	**6**	5	**17**	13
Allowance at end of period	**$ 125**	$ 160	**$ 125**	$ 160

For purposes of determining impairment and recording the associated allowance for credit losses, we evaluate our credit card receivables on a collective basis as they are composed of large groups of smaller-balance homogeneous loans and, therefore, are not individually evaluated for impairment.

Under certain circumstances, we may make modifications to payment terms for a customer experiencing financial difficulties in an effort to help the customer avoid bankruptcy and to maximize our recovery of the outstanding balance. These modifications, which meet the definition of troubled debt restructurings (TDRs), include reduced or waived fees and finance charges, and/or minimum payments. Receivables classified as TDRs were $62, or 3.1% of our total credit card receivables as of October 29, 2011, $56, or 2.7% of our total credit card receivables as of January 29, 2011 and $54, or 2.6% of our total credit card receivables as of October 30, 2010. As with other aged receivables in our portfolio, the allowance for credit losses related to receivables classified as TDRs is primarily based on our historical aging and delinquency trends and write-off experience, with qualitative consideration of factors affecting the credit quality of our portfolio, including amounts of and trends in TDRs.

Credit Quality

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

	October 29, 2011		January 29, 2011		October 30, 2010	
	Balance	% of Total	Balance	% of Total	Balance	% of Total
Current	**$ 1,899**	**93.3%**	$ 1,942	92.4%	$ 1,929	91.8%
1 29 days delinquent	**80**	**3.9%**	97	4.6%	100	4.7%
30+ days delinquent:						
30 59 days delinquent	**21**	**1.1%**	24	1.1%	25	1.2%
60 89 days delinquent	**15**	**0.7%**	17	0.8%	19	0.9%
Greater than 90 days delinquent	**20**	**1.0%**	23	1.1%	29	1.4%
Total 30+ days delinquent	**$ 56**	**2.8%**	$ 64	3.0%	$ 73	3.5%
Total credit card receivables	**$ 2,035**	**100.0%**	$ 2,103	100.0%	$ 2,102	100.0%
Receivables not accruing finance charges	$ 18		$ 14		$ 29	
Receivables greater than 90 days delinquent and still accruing finance charges	$ 11		$ 21		$ 13	

9 of 31

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 3: ACCOUNTS RECEIVABLE (CONTINUED)

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

	October 29, 2011		January 29, 2011		October 30, 2010	
FICO Score Range[1]	**Balance**	**% of Total**	**Balance**	**% of Total**	**Balance**	**% of Total**
801+	**$ 331**	**16.3%**	$ 314	14.9%	$ 332	15.8%
720 800	**728**	**35.7%**	731	34.8%	729	34.7%
660 719	**545**	**26.8%**	558	26.5%	550	26.1%
600 659	**253**	**12.4%**	274	13.0%	268	12.8%
001 599	**115**	**5.7%**	155	7.4%	161	7.7%
Other[2]	**63**	**3.1%**	71	3.4%	62	2.9%
Total credit card receivables	**$ 2,035**	**100.0%**	$ 2,103	100.0%	$ 2,102	100.0%

[1]Credit scores for our cardholders are typically updated at least every 60 days. Amounts listed in the table reflect the most recently obtained credit scores as of the dates

indicated.

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

NOTE 4: DEBT AND CREDIT FACILITIES

Debt

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

	October 29, 2011	January 29, 2011	October 30, 2010
Secured			
Series 2007-2 Class A Notes, one-month LIBOR plus 0.06% per year, due April 2012	**$ 454**	$ 454	$ 454
Series 2007-2 Class B Notes, one-month LIBOR plus 0.18% per year, due April 2012	**46**	46	46
Mortgage payable, 7.68%, due April 2020	**52**	55	57
Other	**13**	14	13

		565		569		570
Unsecured						
Senior notes, 6.75%, due June 2014, net of unamortized discount		**399**		399		399
Senior notes, 6.25%, due January 2018, net of unamortized discount		**648**		647		647
Senior notes, 4.75%, due May 2020, net of unamortized discount		**498**		498		498
Senior notes, 4.00%, due October 2021, net of unamortized discount		**499**				
Senior debentures, 6.95%, due March 2028		**300**		300		300
Senior notes, 7.00%, due January 2038, net of unamortized discount		**343**		343		343
Other		**64**		25		55
		2,751		2,212		2,242
Total long-term debt		**3,316**		2,781		2,812
Less: current portion		**(506)**		(6)		(6)
Total due beyond one year	**$**	**2,810**	$	2,775	$	2,806

10 of 31

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 4: DEBT AND CREDIT FACILITIES (CONTINUED)

On October 5, 2011, we issued $500 of senior unsecured notes at 4.00%, due October 15, 2021. After deducting the original issue discount of $1, net proceeds from the offering were $499. We intend to use the net proceeds from the issuance of the notes for general corporate purposes.

Our interest rate swap agreements (collectively, the swap), which have a $650 notional amount maturing in 2018, are intended to hedge the exposure of changes in the fair value of our fixed-rate senior notes due in 2018 from interest rate risk. Under the swap, we receive a fixed rate of 6.25% and pay a variable rate based on one-month LIBOR plus a margin of 2.9% (3.1% at October 29, 2011). The swap is designated as a fully effective fair value hedge. As such, the interest rate swap fair value is included in other assets or other liabilities on our condensed consolidated balance sheet, with an offsetting adjustment to the carrying value of our long-term debt (included in other unsecured debt in the table above). See Note 5: Fair Value Measurements for additional information about our swap.

On November 22, 2011, we issued $325 Series 2011-1 Class A Notes at 2.28%, due October 17, 2016. The notes are secured by a portion of our credit card receivables. We intend to use the net proceeds from the issuance of the notes for general corporate purposes.

Credit Facilities

On June 23, 2011, we entered into a new unsecured revolving credit facility (revolver) with a capacity of $600, which is scheduled to expire in June 2016. This revolver replaced our previous $650 unsecured line of credit which was scheduled to expire in August 2012. Under the terms of the revolver, we pay a variable rate of interest and a commitment fee based on our debt rating. The revolver is available for working capital, capital expenditures and general corporate purposes, including liquidity support for our commercial paper program. We have the option to increase the revolving commitment by up to $100, to a total of $700, provided that we obtain written consent from the lenders.

The revolver requires that we maintain a leverage ratio, defined as Adjusted Debt to Earnings before Interest, Income Taxes, Depreciation, Amortization and Rent (EBITDAR), of less than four times. As of October 29, 2011, we were in compliance with this covenant.

As of October 29, 2011, we had total short-term borrowing capacity available for general corporate purposes of $900. Of the total capacity, we had $600 under our commercial paper program, which is backed by our revolver expiring June 2016, and $300 under our Variable Funding Note facility (2007-A VFN) that expires in January 2012. As of October 29, 2011, we had no issuances under our commercial paper program and no borrowings under our revolver or our 2007-A VFN.

NOTE 5: FAIR VALUE MEASUREMENTS

The following table presents our financial assets and liabilities that are measured at fair value in our condensed consolidated balance sheets on a recurring basis, by level within the fair value hierarchy as defined by applicable accounting standards:

	Fair Value Hierarchy	October 29, 2011	January 29, 2011	October 30, 2010
Assets:				
Interest rate swap	Level 2	**$ 64**	$ 25	$ 55

Liabilities:			
HauteLook earn-out liability	Level 3	**$**	**39**

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

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 5: FAIR VALUE MEASUREMENTS (CONTINUED)

We estimated the fair value of our interest rate swap based upon observable market-based inputs for identical or comparable arrangements from reputable third-party brokers, adjusted for credit risk (see Note 4: Debt and Credit Facilities for additional information about our swap). We estimated the fair value of the HauteLook earn-out liability using a valuation model based on our expectations of HauteLook s future performance, estimates of volatility around those expectations and the risk-adjusted discount rate. Prior to the acquisition of HauteLook in March 2011, we did not have any Level 3 fair value measurements.

The following table provides a reconciliation between the beginning and ending balances of our HauteLook earn-out liability for the quarter and nine months ended October 29, 2011:

	Quarter Ended October 29, 2011	Nine Months Ended October 29, 2011
Balance at beginning of period	$ 44	$
Acquisition of HauteLook		42
Change in fair value of HauteLook earn-out liability[1]	(5)	(3)
Balance at end of period	**$ 39**	**$ 39**

[1]Included in Retail selling, general and administrative expenses in the condensed consolidated statement of earnings.

Financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, accounts payable and debt. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. The estimated fair value of our long-term debt, including current maturities and excluding the value of our interest rate swap, was $3,687 as of October 29, 2011, compared with a carrying value of $3,316. We estimated the fair value of long-term debt using quoted market prices of the same or similar issues.

We also measure certain non-financial assets at fair value on a nonrecurring basis, primarily long-lived tangible and intangible assets in connection with periodic evaluations for potential impairment. We recorded no impairment charges for these assets for the nine months ended October 29, 2011 and October 30, 2010.

NOTE 6: CONTINGENT LIABILITIES

We are subject from time to time to various claims and lawsuits arising in the ordinary course of business, including lawsuits alleging violations of state and/or federal wage and hour and other employment laws, privacy and other consumer-based claims. Some of these lawsuits 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.

NOTE 7: SHAREHOLDERS EQUITY

In August 2010, our Board of Directors authorized a program (the 2010 Program) to repurchase up to $500 of our outstanding common stock, through January 28, 2012. In May 2011, our Board of Directors authorized a new program (the 2011 Program) to repurchase up to $750 of our outstanding common stock, through February 2, 2013, in addition to the remaining amount available for repurchase under the 2010 Program. For the nine months ended October 29, 2011, we repurchased 15.2 shares of our common stock for an aggregate purchase price of $693, and had $468 in remaining share repurchase capacity. The actual number and timing of future share repurchases, if any, will be subject to market and economic conditions.

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 8: STOCK COMPENSATION PLANS

The following table summarizes our stock-based compensation expense:

	Quarter Ended		Nine Months Ended	
	October 29, 2011	**October 30, 2010**	**October 29, 2011**	**October 30, 2010**
Stock options	**$ 8**	$ 8	**$ 26**	$ 25
HauteLook stock compensation	**3**		**9**	
Performance share units	**3**	1	**4**	2
Employee stock purchase plan			**1**	1
Other			**2**	1
Total stock-based compensation expense, before income tax benefit	**$ 14**	$ 9	**$ 42**	$ 29
Income tax benefit	**(5)**	(4)	**(16)**	(11)
Total stock-based compensation expense, net of income tax benefit	**$ 9**	$ 5	**$ 26**	$ 18

During the nine months ended October 29, 2011 and October 30, 2010, we granted 2.7 and 2.6 options with weighted average grant-date fair values per option of $15 and $13.

As discussed in Note 2: Acquisition, portions of both the upfront and earn-out consideration for our acquisition of HauteLook are payable in Nordstrom stock, subject to ongoing vesting requirements for HauteLook s employees. These amounts will therefore be recorded as compensation expense as the related service is performed over the respective employee vesting periods of up to four years after the acquisition date (subject also to HauteLook s financial performance in the case of the earn-out consideration). These shares are not issued from our 2010 Equity Incentive Plan, but rather from our unallocated and unissued shares.

NOTE 9: EARNINGS PER SHARE

The computation of earnings per share is as follows:

	Quarter Ended		Nine Months Ended	
	October 29, 2011	**October 30, 2010**	**October 29, 2011**	**October 30, 2010**
Net earnings	**$ 127**	$ 119	**$ 447**	$ 381
Basic shares	**210.9**	219.0	**215.3**	218.9
Dilutive effect of stock options and other	**4.1**	3.5	**4.3**	3.7
Diluted shares	**215.0**	222.5	**219.6**	222.6

Earnings per basic share	**$ 0.60**	$ 0.54	**$ 2.08**	$ 1.74
Earnings per diluted share	**$ 0.59**	$ 0.53	**$ 2.04**	$ 1.71
Anti-dilutive stock options and other	**3.8**	7.1	**4.0**	7.0

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 10: SEGMENT REPORTING

The following tables set forth information for our reportable segments:

	Retail	Credit	Corporate/Other	Total
Quarter Ended October 29, 2011				
Net sales	$ 2,350		$ 33	$ 2,383
Credit card revenues		$ 95		95
Earnings (loss) before interest and income taxes	307	22	(89)	240
Interest expense, net		(2)	(29)	(31)
Earnings (loss) before income taxes	307	20	(118)	209
Quarter Ended October 30, 2010				
Net sales	$ 2,051		$ 36	$ 2,087
Credit card revenues		$ 95		95
Earnings (loss) before interest and income taxes	278	21	(78)	221
Interest expense, net		(4)	(27)	(31)
Earnings (loss) before income taxes	278	17	(105)	190
Nine Months Ended October 29, 2011				
Net sales	$ 7,427		$ (99)	$ 7,328
Credit card revenues		$ 283		283
Earnings (loss) before interest and income taxes	1,061	60	(289)	832
Interest expense, net		(9)	(83)	(92)
Earnings (loss) before income taxes	1,061	51	(372)	740
Goodwill	200			200
Total assets	3,949	2,338	2,052	8,339
Nine Months Ended October 30, 2010				
Net sales	$ 6,565		$ (71)	$ 6,494
Credit card revenues		$ 290		290
Earnings (loss) before interest and income taxes	931	25	(244)	712
Interest expense, net		(16)	(78)	(94)
Earnings (loss) before income taxes	931	9	(322)	618
Goodwill	53			53
Total assets	3,319	2,031	2,032	7,382

The following table summarizes net sales within our reportable segments:

	Quarter Ended		Nine Months Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Nordstrom	**$ 1,773**	$ 1,615	**$ 5,825**	$ 5,331
Nordstrom Rack	**528**	427	**1,478**	1,209
Other retail[1]	**49**	9	**124**	25
Total Retail segment	**2,350**	2,051	**7,427**	6,565
Corporate/Other	**33**	36	**(99)**	(71)
Total net sales	**$ 2,383**	$ 2,087	**$ 7,328**	$ 6,494

[1]Other retail includes our HauteLook online private sale subsidiary, our Jeffrey stores and our treasure&bond store.

Table of Contents

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)

The following discussion should be read in conjunction with the Management s Discussion and Analysis section of our 2010 Annual Report on Form 10-K.

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 results (including, but not limited to, our anticipated total and same-store sales results, credit card revenues, gross profit rate, selling, general and administrative expenses, net interest expense, effective tax rate, earnings per share, operating cash flows and Return on Invested Capital (ROIC)), anticipated store openings, capital expenditures, dividend payout, trends in our operations, compliance with debt covenants, outcome of claims and litigation, the anticipated financial performance of HauteLook and the anticipated impact of the HauteLook acquisition on the company s performance. 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:

the impact of economic and market conditions and the resultant impact on consumer spending patterns,

our ability to maintain our relationships with vendors,

our ability to respond to the business environment, fashion trends and consumer preferences, including changing expectations of service and experience in stores and online,

effective inventory management,

successful execution of our growth strategy, including possible expansion into new markets, technological investments and acquisitions, including our ability to realize the anticipated benefits from such acquisitions, and the timely completion of construction associated with newly planned stores, relocations and remodels, which may be impacted by the financial health of third parties,

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

successful execution of our multi-channel strategy,

our compliance with applicable banking and related laws and regulations impacting our ability to extend credit to our customers,

impact of the current regulatory environment and financial system and health care reforms,

the impact of any systems failures and/or security breaches, including any security breaches that result in the theft, transfer or unauthorized disclosure of customer, employee or company information or our compliance with information security and privacy laws and regulations in the event of such an incident,

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

trends in personal bankruptcies and bad debt write-offs,

changes in interest rates,

efficient and proper allocation of our capital resources,

availability and cost of credit,

our ability to safeguard our brand and reputation,

successful execution of our information technology strategy,

weather conditions, natural disasters, health hazards or other market disruptions, or the prospects of these events and the impact on consumer spending patterns,

disruptions in our supply chain,

the geographic locations of our stores,

the effectiveness of planned advertising, marketing and promotional campaigns,

our ability to control costs and

the timing and amounts of share repurchases by the company, if any, or any share issuances by the company, including issuances associated with option exercises or other matters.

These and other factors, including those factors described in Part I, Item 1A. Risk Factors in our 2010 Annual Report on Form 10-K and in Part II, Item 1A. Risk Factors on page 29 of this report, could affect our financial results and cause actual results to differ materially from any forward-looking information we may provide. We undertake no obligation to update or revise any forward-looking statements to reflect subsequent events, new information or future circumstances.

Table of Contents

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

Our third quarter results continued the performance from the first half of 2011, with eight consecutive quarters of total company same-store sales increases and double-digit increases in total sales. This is a result of consistent execution across all channels, providing compelling new fashion to our customers, and efforts to improve the customer experience in our stores and online.

We believe there is significant potential to drive additional sales volume and achieve profitable growth by improving the customer experience across all channels. As customers expectations broaden with greater emphasis on speed and convenience, we are increasing our investments in e-commerce to better respond to how customers want to shop. Our online channel continues to be the fastest growing part of our business, and during the quarter we began offering free standard shipping and returns for online purchases. We believe this change makes it easier and more convenient to shop with us. Our combined efforts to enhance the online experience led to meaningful growth in our online sales in the third quarter.

Our strong financial position enables us to continue to make these investments while also growing our business through new stores, remodels and other initiatives. During the first nine months of 2011, we opened three Nordstrom full-line stores, eighteen Nordstrom Rack stores and relocated two Nordstrom Rack stores. We also opened a philanthropic store in New York called treasure&bond, and acquired HauteLook, a leader in the online private sale marketplace. We believe this acquisition will help us further develop our mobile and e-commerce capabilities and enable us to participate in the fast-growing private sales channel.

Our increased investments in e-commerce and technology are part of what will enable us to achieve our overall goals of mid-to-high single-digit total sales growth and mid-teens Return on Invested Capital (ROIC). As we make these investments to enhance the customer experience, we expect that the increased spending on e-commerce and technology will flow through our expenses at a faster pace than other investments in previous years. These investments are important to our ability to evolve with customers and achieve our long-term growth plans.

Our credit business continues to contribute to an improved customer experience and to our overall performance. In September, our Fashion Rewards customer event drove significant incremental sales compared to the same event in the prior year. For the third quarter of 2011, Fashion Rewards sales increased 22% compared with the same period last year. Fashion Rewards continue to grow and is an important part of our loyalty strategy, as members shop more frequently and spend more with us on average than non-members. Our key credit metrics of delinquency, write-off and payment rates continue to improve, although at a moderating pace in comparison to previous quarters.

We remain focused on our goal of improving customer service and providing a superior shopping experience. We believe our customer-focused strategy allows us to execute our current operating plans across all channels while targeting investments in e-commerce and technology to sustain long-term profitable growth.

RESULTS OF OPERATIONS

Our reportable segments are Retail and Credit. Our Retail segment includes our Nordstrom branded full-line stores and online store, our Nordstrom Rack stores, and our other retail channels including HauteLook, our Jeffrey stores and our treasure&bond store. For purposes of discussion and analysis of our results of operations, we combine our Retail segment results with revenues and expenses in the Corporate/Other column of our segment reporting footnote (collectively, the Retail Business). We analyze our results of operations through earnings before interest and income taxes for our Retail Business and Credit, while interest expense, income taxes and net earnings are discussed on a total company basis.

Table of Contents

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

Summary

The following tables summarize the results of our Retail Business for the quarter and nine months ended October 29, 2011, compared with the quarter and nine months ended October 30, 2010:

	Quarter Ended			
	October 29, 2011		October 30, 2010	
	Amount	% of net sales	Amount	% of net sales
Net sales	**$ 2,383**	**100.0%**	$ 2,087	100.0%
Cost of sales and related buying and occupancy costs	**(1,495)**	**(62.7%)**	(1,318)	(63.1%)
Gross profit	**888**	**37.3%**	769	36.9%
Selling, general and administrative expenses	**(670)**	**(28.1%)**	(569)	(27.3%)
Earnings before interest and income taxes	**$ 218**	**9.1%**	$ 200	9.6%

	Nine Months Ended			
	October 29, 2011		October 30, 2010	
	Amount	% of net sales	Amount	% of net sales
Net sales	**$ 7,328**	**100.0%**	$ 6,494	100.0%
Cost of sales and related buying and occupancy costs	**(4,567)**	**(62.3%)**	(4,092)	(63.0%)
Gross profit	**2,761**	**37.7%**	2,402	37.0%
Selling, general and administrative expenses	**(1,989)**	**(27.1%)**	(1,715)	(26.4%)
Earnings before interest and income taxes	**$ 772**	**10.5%**	$ 687	10.6%

Retail Business Net Sales

	Quarter Ended		Nine Months Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Net sales:				
Nordstrom	**$ 1,773**	$ 1,615	**$ 5,825**	$ 5,331
Nordstrom Rack	**528**	427	**1,478**	1,209
Other retail[1]	**49**	9	**124**	25

Total Retail segment sales	**2,350**	2,051	**7,427**	6,565
Corporate/Other	**33**	36	**(99)**	(71)
Total net sales	**$ 2,383**	$ 2,087	**$ 7,328**	$ 6,494
Net sales increase	**14.2%**	11.7%	**12.8%**	13.5%
Same-store sales increase (decrease) by channel:				
Nordstrom	**8.5%**	7.3%	**8.1%**	10.2%
Nordstrom Rack	**6.8%**	(2.2%)	**4.3%**	(0.4%)
Total	**7.9%**	5.8%	**7.2%**	8.6%
Sales per square foot	**$ 98**	$ 88	**$ 303**	$ 279

[1]Other retail includes our HauteLook online private sale subsidiary, our Jeffrey stores and our treasure&bond store.

Total net sales increased 14.2% for the quarter and 12.8% for the nine months ended October 29, 2011, compared with the same periods in the prior year. Overall same-store sales increased 7.9% for the quarter and 7.2% for the nine months ended October 29, 2011. During the nine months ended October 29, 2011, we opened three Nordstrom full-line stores, eighteen Nordstrom Rack stores and one treasure&bond store, relocated two Nordstrom Rack stores and acquired HauteLook.

Table of Contents

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)

Nordstrom net sales for the third quarter of 2011 were $1,773, an increase of 9.8% compared with the same period in 2010, while net sales of $5,825 for the nine months ended October 29, 2011, increased 9.3% compared with the same period in 2010. Nordstrom same-store sales increased 8.5% for the quarter and 8.1% for the nine months ended October 29, 2011, compared with the same periods in 2010. Both the average selling price and the number of sales transactions increased for the quarter and nine months ended October 29, 2011, compared with the same periods last year. Category highlights for the quarter and nine months ended October 29, 2011, included Designer, Handbags and Dresses. The South and Midwest were the top-performing geographic regions for Nordstrom full-line stores for both the quarter and nine months ended October 29, 2011. The Direct channel continued to show strong sales growth, outpacing the overall Nordstrom increase.

Nordstrom Rack net sales increased $101, or 23.6%, for the quarter and $269, or 22.2%, for the nine months ended October 29, 2011, compared with the same periods in 2010. Same-store sales at Nordstrom Rack increased 6.8% for the quarter and 4.3% for the nine months ended October 29, 2011. Both the average selling price of Nordstrom Rack merchandise and the number of sales transactions increased for the quarter and nine months ended October 29, 2011, compared with the same periods last year.

Retail Business Gross Profit

	Quarter Ended		Nine Months Ended	
	October 29, 2011	**October 30, 2010**	**October 29, 2011**	**October 30, 2010**
Gross profit	**$ 888**	$ 769	**$ 2,761**	$ 2,402
Gross profit rate	**37.3%**	36.9%	**37.7%**	37.0%

	October 29, 2011	October 30, 2010
Ending inventory per square foot	**$ 60.90**	$ 54.94
Inventory turnover rate[1]	**5.23**	5.19

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

Retail gross profit increased $119 for the quarter and $359 for the nine months ended October 29, 2011, compared with the same periods in 2010, due to higher gross margin, partially offset by an increase in occupancy costs for stores opened during 2011 and 2010. Our retail gross profit rate improved 40 basis points for the quarter and 69 basis points for the nine months ended October 29, 2011, compared with the same periods in 2010. The increase was primarily due to leveraging buying and occupancy costs on higher net sales and strength in regular-price selling. These factors were partially offset by reduced shipping revenue associated with the introduction of free standard shipping and free returns for online purchases in the third quarter.

Our inventory turnover rate increased to 5.23 times for the nine months ended October 29, 2011, from 5.19 times for the same period in the prior year. We ended the quarter with a 10.8% increase in inventory per square foot on a 10.4% increase in sales per square foot, compared with the third quarter of 2010. This reflects a widening selection in our online merchandise offering to better serve our online customers as well as the timing of a seasonal buildup in our store inventory.

Retail Business Selling, General and Administrative Expenses

	Quarter Ended		Nine Months Ended	
	October 29, 2011	**October 30, 2010**	**October 29, 2011**	**October 30, 2010**
Selling, general and administrative expenses	**$ 670**	$ 569	**$ 1,989**	$ 1,715
Selling, general and administrative expense rate	**28.1%**	27.3%	**27.1%**	26.4%

Selling, general and administrative expense per square foot	**$ 28**	$ 24	**$ 82**	$ 74

Our Retail selling, general and administrative expenses (Retail SG&A) increased $101 for the quarter and $274 for the nine months ended October 29, 2011, compared with the same periods in 2010. The increase was driven by higher sales volume and the opening of 23 stores since the third quarter of 2010. It also reflects investments to improve the shopping experience across channels and specifically to grow our e-commerce business, and includes HauteLook operating and purchase accounting expenses as well as planned increases in marketing and technology spend.

Table of Contents

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)

Our Retail SG&A rate increased 87 basis points for the quarter, compared with the same period in the prior year, driven primarily by the investments to grow our e-commerce business discussed above. Our Retail SG&A rate increased 74 basis points for the nine months ended October 29, 2011, compared with the same period last year, primarily due to HauteLook expenses.

Credit

Summary

The table below provides a detailed view of the operational results of our Credit segment, consistent with the segment disclosure provided in the Notes to Condensed Consolidated Financial Statements. In order to better reflect the economic contribution of our credit and debit card program, intercompany merchant fees are also included in the table below. Intercompany merchant fees represent the estimated intercompany income of our Credit segment from the usage of our cards in the Retail segment. To encourage the use of Nordstrom cards in our stores, the Credit segment does not charge the Retail segment an intercompany interchange merchant fee. On a consolidated basis, we avoid costs that would be incurred if our customers used third-party cards.

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

	Quarter Ended October 29, 2011		Quarter Ended October 30, 2010	
	Amount	Annualized % of average credit card receivables	Amount	Annualized % of average credit card receivables
Credit card revenues	**$ 95**	**18.7%**	$ 95	18.4%
Interest expense	**(2)**	**(0.6%)**	(4)	(0.9%)
Net credit card income	**93**	**18.1%**	91	17.5%
Cost of sales and related buying and occupancy costs loyalty program	**(16)**	**(3.2%)**	(13)	(2.7%)
Selling, general and administrative expenses	**(57)**	**(11.1%)**	(61)	(11.5%)
Total expense	**(73)**	**(14.2%)**	(74)	(14.2%)
Credit segment earnings before income taxes, as presented in segment disclosure	**20**	**3.9%**	17	3.3%
Intercompany merchant fees	**14**	**2.9%**	12	2.3%
Credit segment contribution, before income taxes	**$ 34**	**6.7%**	$ 29	5.6%

Credit and debit card volume:		
Outside	**$ 1,015**	$ 947
Inside	**735**	607
Total volume	**$ 1,750**	$ 1,554
Average credit card receivables	**$ 2,036**	$ 2,085
Average credit card receivable investment (assuming 80% of accounts receivable is funded with debt)	**$ 407**	$ 417
Annualized Credit segment contribution, net of tax, as a percentage of average credit card receivable investment	**20.5%**	17.0%

Table of Contents

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)

	Nine Months Ended October 29, 2011		Nine Months Ended October 30, 2010	
	Amount	Annualized % of average credit card receivables	Amount	Annualized % of average credit card receivables
Credit card revenues	**$ 283**	**18.7%**	$ 290	18.0%
Interest expense	**(9)**	**(0.6%)**	(16)	(1.0%)
Net credit card income	**274**	**18.1%**	274	17.0%
Cost of sales and related buying and occupancy costs loyalty program	**(52)**	**(3.5%)**	(47)	(3.0%)
Selling, general and administrative expenses	**(171)**	**(11.3%)**	(218)	(13.5%)
Total expense	**(223)**	**(14.7%)**	(265)	(16.5%)
Credit segment earnings before income taxes, as presented in segment disclosure	**51**	**3.4%**	9	0.5%
Intercompany merchant fees	**50**	**3.3%**	41	2.5%
Credit segment contribution, before income taxes	**$ 101**	**6.7%**	$ 50	3.1%