

NORDSTROM INC
Form 10-Q
December 06, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended November 3, 2007
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
(IRS 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 December 1, 2007: 232,084,622 shares of common stock.

**NORDSTROM, INC. AND SUBSIDIARIES
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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

(Amounts in thousands except per share amounts and percentages)

(Unaudited)

	Quarter Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Net sales	\$ 1,970,444	\$ 1,872,103	\$ 6,313,814	\$ 5,929,794
Cost of sales and related buying and occupancy costs	(1,228,506)	(1,160,123)	(3,957,178)	(3,729,759)
Gross profit	741,938	711,980	2,356,636	2,200,035
Selling, general and administrative expenses	(552,632)	(538,210)	(1,722,780)	(1,611,982)
Gain on sale of Façonnable	33,925		33,925	
Operating income	223,231	173,770	667,781	588,053
Interest expense, net	(20,408)	(11,419)	(44,431)	(34,953)
Other income, net	68,779	58,819	194,946	173,508
Earnings before income tax expense	271,602	221,170	818,296	726,608
Income tax expense	(105,878)	(85,497)	(315,345)	(280,950)
Net earnings	\$ 165,724	\$ 135,673	\$ 502,951	\$ 445,658
Earnings per basic share	\$ 0.69	\$ 0.53	\$ 2.01	\$ 1.70
Earnings per diluted share	\$ 0.68	\$ 0.52	\$ 1.98	\$ 1.67
Basic shares	241,521	256,757	250,164	261,920
Diluted shares	245,344	261,616	254,475	266,893
(% of Net Sales)	Quarter Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales and related buying and occupancy costs	(62.3%)	(62.0%)	(62.7%)	(62.9%)
Gross profit	37.7%	38.0%	37.3%	37.1%
Selling, general and administrative expenses	(28.0%)	(28.7%)	(27.3%)	(27.2%)
Gain on sale of Façonnable	1.7%		0.5%	
Operating income	11.3%	9.3%	10.6%	9.9%
Interest expense, net	(1.0%)	(0.6%)	(0.7%)	(0.6%)

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Other income, net	3.5%	3.1%	3.1%	2.9%
Earnings before income tax expense	13.8%	11.8%	13.0%	12.3%
Income tax expense (as a percentage of earnings before income tax expense)	(39.0%)	(38.7%)	(38.5%)	(38.7%)
Net earnings	8.4%	7.2%	8.0%	7.5%

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

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NORDSTROM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

(Unaudited)

	November 3, 2007	February 3, 2007	October 28, 2006
Assets			
Current assets:			
Cash and cash equivalents	\$ 107,913	\$ 402,559	\$ 208,715
Accounts receivable, net	1,734,043	684,376	667,748
Investment in asset backed securities		428,175	313,656
Merchandise inventories	1,242,163	997,289	1,228,230
Current deferred tax assets, net	190,264	169,320	169,858
Prepaid expenses and other	68,409	60,474	65,711
Total current assets	3,342,792	2,742,193	2,653,918
Land, buildings and equipment, net	1,910,193	1,757,215	1,748,395
Goodwill	53,613	51,714	51,714
Acquired tradename		84,000	84,000
Other assets	180,854	186,456	170,355
Total assets	\$ 5,487,452	\$ 4,821,578	\$ 4,708,382
Liabilities and Shareholders Equity			
Current liabilities:			
Commercial paper	\$ 90,500	\$	\$
Accounts payable	738,037	576,796	758,402
Accrued salaries, wages and related benefits	265,657	339,965	253,440
Other current liabilities	437,884	433,487	385,767
Income taxes payable	42,422	76,095	42,970
Current portion of long-term debt	209,019	6,800	106,572
Total current liabilities	1,783,519	1,433,143	1,547,151
Long-term debt, net	1,791,416	623,652	624,631
Deferred property incentives, net	354,814	356,062	351,733
Other liabilities	249,666	240,200	223,262
Commitments and contingent liabilities			
Shareholders equity:			
Common stock, no par value: 1,000,000 shares authorized; 232,034, 257,313 and 256,904 shares issued and outstanding	927,527	826,421	791,678
Retained earnings	407,758	1,350,680	1,171,364
Accumulated other comprehensive loss	(27,248)	(8,580)	(1,437)
Total shareholders equity	1,308,037	2,168,521	1,961,605

Total liabilities and shareholders equity	\$ 5,487,452	\$ 4,821,578	\$ 4,708,382
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The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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NORDSTROM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Amounts in thousands except per share amounts)
(Unaudited)

	Common Stock Shares	Unearned Stock Compensation	Retained Earnings	Accumulated Other Comprehensive (Loss) Earnings	Total
Balance at February 3, 2007	257,313	\$ 826,421	\$ 1,350,680	\$ (8,580)	\$ 2,168,521
Cumulative effect adjustment to adopt FIN 48			(2,962)		(2,962)
Adjusted Beginning Balance	257,313	826,421	1,347,718	(8,580)	2,165,559
Net earnings			502,951		502,951
Other comprehensive (loss) earnings:					
Foreign currency translation				(15,770)	(15,770)
Amounts amortized into net periodic benefit cost, net of tax of (\$1,406)				2,084	2,084
Fair value adjustment to investment in asset backed securities, net of tax of \$2,806				(4,982)	(4,982)
Comprehensive net earnings					484,283
Cash dividends paid (\$0.405 per share)			(102,912)		(102,912)
Issuance of common stock for:					
Stock option plans	2,089	59,281			59,281
Employee stock purchase plan	393	17,614			17,614
Other	70	3,930			3,930
Stock-based compensation	7	20,281			20,281
Repurchase of common stock	(27,838)		(1,339,999)		(1,339,999)
Balance at November 3, 2007	232,034	\$ 927,527	\$ 407,758	\$ (27,248)	\$ 1,308,037

	Common Stock Shares	Unearned Stock Compensation	Retained Earnings	Accumulated Other Comprehensive (Loss) Earnings	Total
Balance at January 28, 2006	269,549	\$ 685,934	\$ (327)	\$ 1,404,366	\$ 2,092,681
Net earnings			445,658	2,708	445,658
Other comprehensive (loss) earnings:					

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Foreign currency translation				1,131	1,131
Fair value adjustment to investment in asset backed securities, net of tax of \$3,253				(5,276)	(5,276)
Comprehensive net earnings					441,513
Cash dividends paid (\$0.315 per share)				(83,139)	(83,139)
Issuance of common stock for:					
Stock option plans	2,909	68,272			68,272
Employee stock purchase plan	446	16,635			16,635
Other	17	257	327		584
Stock-based compensation		20,580			20,580
Repurchase of common stock	(16,017)			(595,521)	(595,521)
Balance at October 28, 2006	256,904	\$ 791,678		\$ 1,171,364	\$ (1,437) \$ 1,961,605

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

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NORDSTROM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months Ended	
	November 3, 2007	October 28, 2006
Operating Activities		
Net earnings	\$ 502,951	\$ 445,658
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization of buildings and equipment	202,523	205,816
Gain on sale of Façonnable	(33,925)	
Amortization of deferred property incentives and other, net	(30,190)	(25,255)
Stock-based compensation expense	20,875	25,075
Deferred income taxes, net	(33,443)	(49,755)
Tax benefit from stock-based payments	27,203	29,691
Excess tax benefit from stock-based payments	(25,228)	(25,384)
Provision for bad debt expense	71,334	10,715
Change in operating assets and liabilities:		
Accounts receivable	(1,143,339)	(38,652)
Investment in asset backed securities	420,387	242,204
Merchandise inventories	(282,554)	(235,623)
Prepaid expenses	(10,084)	(10,092)
Other assets	(28,481)	(4,203)
Accounts payable	131,625	213,294
Accrued salaries, wages and related benefits	(66,536)	(34,861)
Other current liabilities	(60)	(22,559)
Income taxes payable	(21,902)	(38,647)
Deferred property incentives	41,839	13,779
Other liabilities	2,487	11,328
Net cash (used in) provided by operating activities	(254,518)	712,529
Investing Activities		
Capital expenditures	(358,119)	(187,748)
Proceeds from sale of Façonnable	215,761	
Proceeds from sale of assets	12,205	
Purchases of short-term investments		(109,550)
Sales of short-term investments		163,550
Other, net	3,471	(6,380)
Net cash used in investing activities	(126,682)	(140,128)
Financing Activities		
Proceeds from commercial paper	90,500	

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Proceeds from long-term borrowing	1,521,500	100,000
Principal payments on long-term debt	(176,838)	(306,465)
Increase (decrease) in cash book overdrafts	23,036	(21,511)
Proceeds from exercise of stock options	32,102	38,917
Proceeds from employee stock purchase plan	17,591	16,300
Excess tax benefit from stock-based payments	25,228	25,384
Cash dividends paid	(102,912)	(83,139)
Repurchase of common stock	(1,339,999)	(595,521)
Other, net	(3,654)	(307)
 Net cash provided by (used in) financing activities	 86,554	 (826,342)
 Net decrease in cash and cash equivalents	 (294,646)	 (253,941)
Cash and cash equivalents at beginning of period	402,559	462,656
 Cash and cash equivalents at end of period	 \$ 107,913	 \$ 208,715

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

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NORDSTROM, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar and share amounts in thousands except per share and per option amounts)
(Unaudited)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in our 2006 Annual Report on Form 10-K. The same accounting policies are followed for preparing quarterly and annual financial information. All adjustments necessary for the fair presentation of the results of operations, financial position and cash flows have been included and are of a normal, recurring nature.

In May 2007, we increased our ownership in Jeffrey. As a result of the additional purchase, Jeffrey is now consolidated and included in our retail segment. This additional purchase included \$29,436 of goodwill.

Our business, like that of other retailers, is subject to seasonal fluctuations. Our Anniversary Sale in July and the holidays in December typically result in higher sales in the second and fourth quarters of our fiscal years.

Accordingly, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Accounting Policies

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 accounting policies in 2007 are consistent with those discussed in our 2006 Annual Report on Form 10-K, with the exception of our adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) in the beginning of the first quarter of 2007. Additionally, in the first quarter of 2007, we converted our Nordstrom private label card and co-branded Nordstrom VISA credit card receivables into one on-balance sheet securitization program, which is accounted for as a secured borrowing (on-balance sheet).

Other Income

On May 1, 2007, we converted our Nordstrom private label card and co-branded Nordstrom VISA credit card programs into one securitization program. Prior to the transaction, other income consisted primarily of finance charges and late fees generated by our Nordstrom private label cards and earnings from our investment in asset backed securities and securitization gains and losses, which were both generated from the co-branded Nordstrom VISA credit card program. After the transaction, other income consists primarily of finance charges and late fees generated by our combined Nordstrom private label card and co-branded Nordstrom VISA credit card programs.

Securitization of Accounts Receivable and Accounts Receivable

We offer Nordstrom private label cards and co-branded Nordstrom VISA credit cards to our customers. As described above, on May 1, 2007 we converted the Nordstrom private label card and co-branded Nordstrom VISA credit card programs into one securitization program, which is accounted for as a secured borrowing (on-balance sheet). When we combined the securitization programs, our investment in asset backed securities was converted from available-for-sale securities to receivables. As of May 5, 2007, the majority of co-branded Nordstrom VISA credit card receivables were recorded at estimated fair value. As of November 3, 2007, approximately 16% of those receivables remain recorded at estimated fair value. Based on past payment patterns, we expect that this receivable portfolio will be repaid within approximately eight months of the transaction date. During that time, we expect to transition the co-branded Nordstrom VISA credit card receivable portfolio to historical cost, net of allowance for doubtful accounts, on our balance sheet.

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NORDSTROM, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

We report our Nordstrom private label card receivables and new co-branded Nordstrom VISA credit card receivables generated after May 1, 2007 at cost, net of an allowance for doubtful accounts. Our allowance for doubtful accounts represents our best estimate of the losses inherent in our customer accounts receivable based on several factors, including historical trends of aging of accounts, write-off experience and expectations of future performance.

Going forward, we expect that both our Nordstrom private label cards and co-branded Nordstrom VISA credit cards will be accounted for using the same on-balance sheet, historical cost method.

Substantially all of the Nordstrom private label receivables and 90% of the co-branded Nordstrom VISA credit card receivables are securitized. Under the securitization, the receivables are transferred to a third-party trust on a daily basis. The balance of the receivables transferred to the trust fluctuates as new receivables are generated and old receivables are retired (through payments received, charge-offs, or credits for merchandise returns). On May 1, 2007, the trust issued securities that are backed by the receivables. These combined receivables back the Series 2007-1 Notes, the Series 2007-2 Notes, and variable funding notes that are discussed in Note 5: Long-term debt.

Under the terms of the trust agreement, we may be required to fund certain amounts upon the occurrence of specific events. Our credit card securitization agreements set a maximum percentage of receivables that can be associated with various receivable categories, such as employee or foreign receivables. As of November 3, 2007, these maximums were not exceeded.

Income Taxes

Effective February 4, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The cumulative effect of adopting FIN 48 has resulted in an increase to our liability for uncertain tax positions of \$2,962, which reduced the beginning balance of retained earnings. Upon adoption we had approximately \$20,899 of gross unrecognized tax benefits, of which \$6,522 relates to deferred items which, if recognized, would not impact the effective tax rate. Interest and penalties related to income tax matters are classified as a component of income tax expense. The estimate for accrued interest and penalties upon adoption was \$1,467. There were no material changes to these balances during the nine months ended November 3, 2007.

We file income tax returns in the U.S. federal and various state jurisdictions. We also file returns in France and several other foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2002. Our U.S. federal filings for the years 2002 through 2005 are under routine examination and that process is anticipated to be completed before the end of 2008. Additionally, the U.S. federal tax returns for 2006 and 2007 are under concurrent year processing, and are expected to be complete in 2008. We currently have an active examination in France for the years 2001 through 2004. Certain state jurisdictions have active income tax examinations that include earlier years. These audits are not considered material.

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NORDSTROM, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar and share amounts in thousands except per share and per option amounts)
(Unaudited)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Recent Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 will be effective at the beginning of our 2008 fiscal year. We are assessing the impact of the adoption of SFAS 157 and believe there will be no material impact on our results of operations, financial position or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 will be effective at the beginning of our 2008 fiscal year. We are assessing the impact of the adoption of SFAS 159 and believe there will be no material impact on our results of operations, financial position or cash flows.

NOTE 2: SALE OF FAÇONNABLE

During the third quarter, we completed the sale of our Façonnable business to M1 Group in exchange for cash of \$215,761, net of transaction costs. As part of this transaction, goodwill of \$27,537 and acquired tradename of \$84,000 were removed from our balance sheet and we recorded a gain of \$33,925. Upon the closing of this transaction, we entered into a Transition Services Agreement with M1, whereby we will continue to provide certain back office functions related to the Façonnable U.S. wholesale business for a limited amount of time as part of a transition period. We additionally entered into a Minimum Purchase Agreement with the Façonnable U.S. wholesale business whereby we committed to purchase \$246,000 of Façonnable inventory over the next three years.

NOTE 3: ACCOUNTS RECEIVABLE

The components of accounts receivable are as follows:

	November 3, 2007	February 3, 2007	October 28, 2006
Trade receivables:			
Restricted trade receivables	\$ 1,558,192	\$ 582,281	\$ 558,354
Unrestricted trade receivables	137,074	43,793	39,208
Allowance for doubtful accounts	(54,064)	(17,475)	(15,704)
Trade receivables, net	1,641,202	608,599	581,858
Other	92,841	75,777	85,890
Accounts receivable, net	\$ 1,734,043	\$ 684,376	\$ 667,748

The following table summarizes the restricted trade receivables:

	November 3, 2007	February 3, 2007	October 28, 2006
Private label card receivables	\$ 604,639	\$ 582,281	\$ 558,354
Co-branded Nordstrom VISA credit card receivables	953,553		
Restricted trade receivables	\$ 1,558,192	\$ 582,281	\$ 558,354

As of November 3, 2007, the restricted trade receivables relate to substantially all of our Nordstrom private label card receivables and 90% of the co-branded Nordstrom VISA credit card receivables. These restricted trade receivables back the Series 2007-1 Notes, the Series 2007-2 Notes, and the variable funding notes discussed in Note 5: Long-term debt. At February 3, 2007 and October 28, 2006, the restricted trade receivables related to our Nordstrom private label card backed our previously existing variable funding note.

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NORDSTROM, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 3: ACCOUNTS RECEIVABLE (CONTINUED)

The unrestricted trade receivables consist primarily of the remaining portion of our Nordstrom private label and co-branded Nordstrom VISA credit card receivables and accrued finance charges not yet allocated to customer accounts.

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

NOTE 4: INVESTMENT IN ASSET BACKED SECURITIES CO-BRANDED NORDSTROM VISA CREDIT CARD RECEIVABLES

Prior to the securitization transaction discussed in Note 1, our co-branded Nordstrom VISA credit card program was treated as an investment in asset backed securities. As previously discussed, as of November 3, 2007, our balance sheet does not include an investment in asset backed securities. The following table represents the components prior to the transaction:

	February 3, 2007	October 28, 2006
Total face value of co-branded Nordstrom VISA credit card principal receivables	\$ 907,983	\$ 844,634
Debt securities issued by the VISA Trust: Off-balance sheet (sold to third parties):		
2002 Class A & B Notes	\$ 200,000	\$ 200,000
2004-2 Variable funding notes	350,000	350,000
	\$ 550,000	\$ 550,000
Transferor interest amount recorded on Nordstrom, Inc.'s balance sheet: Investment in asset backed securities at fair value	\$ 428,175	\$ 313,656

The following table presents the key assumptions we used to value the investment in asset backed securities prior to the securitization transaction:

	February 3, 2007	October 28, 2006
Weighted average remaining life (in months)	7.5	7.0
Average annual credit losses	5.7%	6.0%
Average gross yield	16.8%	16.9%
Weighted average coupon on issued securities	5.3%	5.2%
Average monthly payment rates	8.0%	8.4%
Discount rate on investment in asset backed securities	7.3% to 11.5%	7.7% to 11.4%

The following table summarizes the income earned by the investment in asset backed securities that is included in other income on the condensed consolidated statements of earnings prior to the transaction on May 1, 2007:

	Quarter Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Interest income		\$ 20,899	\$ 21,266	\$ 65,599
Gain on sales of receivables and other income		7,744	4,745	23,775
		\$ 28,643	\$ 26,011	\$ 89,374

Our investment in asset backed securities and the off-balance sheet financing are described in Notes 1 and 3 of our 2006 Annual Report on Form 10-K.

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NORDSTROM, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

NOTE 5: LONG-TERM DEBT

We hold both secured and unsecured debt. The secured debts' primary collateral are our Nordstrom private label cards and co-branded Nordstrom VISA credit card receivables. A summary of long-term debt is as follows:

	November 3, 2007	February 3, 2007	October 28, 2006
Secured			
2001-1 Variable Funding Note	\$	\$	\$ 100,000
2007-A Variable Funding Note	200,000		
Series 2007-1 Class A Notes, 4.92%, due April 2010	325,500		
Series 2007-1 Class B Notes, 5.02%, due April 2010	24,500		
Series 2007-2 Class A Notes, one-month LIBOR plus 0.06% per year, due April 2012	453,800		
Series 2007-2 Class B Notes, one-month LIBOR plus 0.18% per year, due April 2012	46,200		
Mortgage payable, 7.68%, due April 2020	67,366	69,710	70,462
Other	12,511	13,630	13,797
	1,129,877	83,340	184,259
Unsecured			
Commercial paper	301,500		
Senior notes, 5.625%, due January 2009	250,000	250,000	250,000
Senior debentures, 6.95%, due March 2028	300,000	300,000	300,000
Other	21,746	5,970	5,896
Fair market value of interest rate swap	(2,688)	(8,858)	(8,952)
	870,558	547,112	546,944
Total long term debt	2,000,435	630,452	731,203
Less current portion	(209,019)	(6,800)	(106,572)
Total due beyond one year	\$ 1,791,416	\$ 623,652	\$ 624,631

In the first quarter of 2007, the Private Label Trust used our previously existing variable funding facility (2001-1 Variable Funding Note) to issue a total of \$150,000 in Notes. On May 1, 2007, in connection with the issuance of the new Notes discussed below, we paid the outstanding balance and terminated this facility.

During the first quarter of 2007, we entered into an agreement for a new variable funding facility (2007-A Variable Funding Note) backed by substantially all of the Nordstrom private label card receivables and a 90% interest in the co-branded Nordstrom VISA credit card receivables with a commitment of \$300,000. Borrowings under the facility incur interest based upon the cost of commercial paper issued by the third party bank conduit plus specified fees.

During the third quarter of 2007, we used this facility to issue \$220,000 in Notes. As of November 3, 2007, \$200,000

in Notes were outstanding and the cost of commercial paper issued by the third party bank conduit was 5.71%. We pay a commitment fee for the note based on the size of the commitment and the amount of borrowings outstanding. Commitment fee rates decrease if more than \$50,000 is outstanding on the facility. The facility can be cancelled or not renewed if our debt ratings fall below Standard and Poor's BB+ rating or Moody's Ba1 rating. Our current rating by Standard and Poor's is A-, four grades above BB+, and by Moody's is Baa1, three grades above Ba1.

Both the Series 2007-1 Class A & B Notes and the Series 2007-2 Class A & B Notes are secured by substantially all of the Nordstrom private label card receivables and a 90% interest in the co-branded Nordstrom VISA credit card receivables.

Other debt consists primarily of capital lease obligations and liabilities related to the acquisition of Jeffrey.

To manage our interest rate risk, we have an interest rate swap outstanding recorded in other liabilities. Our swap has a \$250,000 notional amount, expires in January 2009 and is designated as a fully effective fair value hedge. Under the agreement, we receive a fixed rate of 5.63% and pay a variable rate based on LIBOR plus a margin of 2.3% set at six-month intervals (7.09% at November 3, 2007).

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NOTE 5: LONG-TERM DEBT (CONTINUED)

The Series 2007-1 Class A & B Notes increased our required principal payments due in fiscal 2010 by their combined notional amount of \$350,000. The Series 2007-2 Class A & B Notes increased our required principal payments due after five years by their combined notional amount of \$500,000.

During the third quarter of 2007, we entered into an agreement for a new variable funding facility backed by the remaining 10% interest in the co-branded Nordstrom VISA credit card receivables with a commitment of \$100,000. As of November 3, 2007, no issuances have been made against this facility. Borrowings under the facility will incur interest based upon the cost of commercial paper issued by the third party bank conduit plus specified fees. We maintain a \$500,000 unsecured line of credit, which is available as liquidity support for our commercial paper program described below. We made no borrowings under this line of credit during the nine months ended November 3, 2007.

In October 2007, we entered into a new commercial paper dealer agreement, supported by our unsecured line of credit. Under this commercial paper program, we may issue commercial paper in an aggregate amount outstanding at any particular time not to exceed \$500,000. This agreement allows us to use the proceeds to fund share repurchases as well as operating cash requirements. Under the terms of the commercial paper agreement, we pay a rate of interest based on, among other factors, the maturity of the issuance and market conditions. The issuance of commercial paper has the effect, while it is outstanding, of reducing our borrowing capacity under the line of credit by an amount equal to the principal amount of the commercial paper. As of November 3, 2007, we had \$392,000 in outstanding issuances of commercial paper.

In December 2007, we issued \$650,000 aggregate principal amount of 6.25% senior unsecured notes due 2018 and \$350,000 aggregate principal amount of 7.00% senior unsecured notes due 2038. We have reclassified \$301,500 of the commercial paper facility, which has been repaid by the proceeds of the debt offering. The remaining \$90,500 of the commercial paper recorded in short-term debt was paid using operating cash flows.

NOTE 6: POST-RETIREMENT BENEFITS

The expense components of our Supplemental Executive Retirement Plan, which provides retirement benefits to certain officers and select employees, are as follows:

	Quarter Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Participant service cost	\$ 652	\$ 557	\$ 1,957	\$ 1,671
Interest cost	1,433	1,308	4,299	3,924
Amortization of net loss	772	724	2,315	2,172
Amortization of prior service cost	263	257	787	771
Total expense	\$ 3,120	\$ 2,846	\$ 9,358	\$ 8,538

NOTE 7: STOCK COMPENSATION PLANS

Stock-based compensation expense before income tax benefit was recorded in our condensed consolidated statements of earnings as follows:

Quarter Ended	Nine Months Ended
----------------------	--------------------------

	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Cost of sales and related buying and occupancy costs	\$ 2,961	\$ 2,908	\$ 8,051	\$ 8,259
Selling, general and administrative expenses	3,751	8,084	12,824	16,816
Total stock-based compensation expense before income tax benefit	\$ 6,712	\$ 10,992	\$ 20,875	\$ 25,075

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NOTE 7: STOCK COMPENSATION PLANS (CONTINUED)**Stock Options**

As of November 3, 2007, we have options outstanding under two stock option plans. Options vest over periods ranging from four to eight years, and expire 10 years after the date of grant. During the nine months ended November 3, 2007, 1,597 options were granted, 2,089 options were exercised, and 318 options were cancelled. During the nine months ended October 28, 2006, 1,940 options were granted, 2,909 options were exercised, and 518 options were cancelled.

In the first quarter of fiscal 2007, stock option awards to employees were approved by the Compensation Committee of our Board of Directors and their exercise price was set at the closing price of our common stock on March 1, 2007. The stock option awards provide recipients with the opportunity for financial rewards when our stock price increases. The awards are determined based upon a percentage of the recipients' base salary and the estimated fair value of the stock options, which was estimated using a Binomial Lattice option valuation model. During the nine months ended November 3, 2007, we awarded stock options to 1,195 employees compared to 1,235 employees in the same period in 2006.

We used the following assumptions to estimate the fair value of stock options at grant date:

	November 3, 2007	October 28, 2006
Risk-free interest rate	4.6% - 4.7%	4.9% - 5.1%
Weighted average expected volatility	35.0%	37.0%
Weighted average expected dividend yield	1.0%	1.0%
Weighted average expected life in years	5.7	5.4

The weighted average estimated fair value per option at the grant date was \$20 and \$16 in 2007 and 2006, respectively. The following describes the significant assumptions used to estimate the fair value of options granted:

Risk-free interest rate: The rate represents the yield on U.S. Treasury zero-coupon securities that mature over the 10-year life of the stock options.

Expected volatility: The expected volatility is based on a combination of the historical volatility of our common stock and the implied volatility of exchange traded options for our common stock.

Expected dividend yield: The yield is our forecasted dividend yield for the next 10 years.

Expected life in years: The expected life represents the estimated period of time until option exercise. Based on our historical exercise behavior and taking into consideration the contractual term of the option and our employees' expected exercise and post-vesting employment termination behavior, the expected term of options granted was derived from the output of the Binomial Lattice option valuation model.

Performance Share Units

We grant performance share units to align certain elements of our senior management compensation with our shareholder returns. Performance share units are payable in either cash or stock as elected by the employee; therefore they are classified as a liability award in accordance with Statement No. 123(R), *Share-Based Payment* (SFAS 123(R)). Performance share units vest after a three-year performance period only when our total shareholder return (reflecting daily stock price appreciation and compound reinvestment of dividends) is positive and outperforms companies in a defined peer group of direct competitors determined by the Compensation Committee of our Board of Directors. The percentage of units that vest depends on our relative position at the end of the performance period and can range from 0% to 125% of the number of units granted.

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NOTE 7: STOCK COMPENSATION PLANS (CONTINUED)

We record the performance share unit liability based on the vesting factors described above. The liability is remeasured and the appropriate earnings adjustment is taken at each fiscal quarter-end during the vesting period. The price we use to remeasure the performance share units granted in 2005 is the closing market price of our common stock on the current quarter-end date. To remeasure the performance share units granted in 2006 and following, we use the 30-day average closing market price of our common stock leading up to the current quarter-end date. The price used to issue stock or cash for the performance share units upon vesting is the closing market price of our common stock on the vest date.

As of November 3, 2007, February 3, 2007 and October 28, 2006, our liabilities included \$4,288, \$12,653 and \$9,314 for the performance share units. As of November 3, 2007, the remaining unrecognized stock-based compensation expense related to non-vested performance share units was approximately \$1,000, which is expected to be recognized over a weighted average period of 12 months. At February 3, 2007, 255,467 units were unvested. During the nine months ended November 3, 2007, 50,070 units were granted, 112,496 units vested and no units cancelled, resulting in an ending balance of 193,041 unvested units as of November 3, 2007.

The following table summarizes the information for performance share units that vested during the period:

	Nine Months Ended	
	November 3, 2007	October 28, 2006
Number of performance share units vested	112,496	216,865
Total fair value of performance share units vested	\$ 7,970	\$ 11,310
Total amount of performance share units settled for cash	\$ 729	\$ 5,982

NOTE 8: EARNINGS PER SHARE

The computation of earnings per share, using the respective weighted average shares, is as follows:

	Quarter Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Net earnings	\$ 165,724	\$ 135,673	\$ 502,951	\$ 445,658
Basic shares	241,521	256,757	250,164	261,920
Dilutive effect of stock options, performance share units and other	3,823	4,859	4,311	4,973
Diluted shares	245,344	261,616	254,475	266,893
Earnings per basic share	\$ 0.69	\$ 0.53	\$ 2.01	\$ 1.70
Earnings per diluted share	\$ 0.68	\$ 0.52	\$ 1.98	\$ 1.67
Antidilutive stock options and other	2,793	1,825	1,559	1,788

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NOTE 9: SEGMENT REPORTING

The following tables set forth the information for our reportable segments and a reconciliation to the consolidated totals:

Quarter ended	Retail					
November 3, 2007	Stores	Credit	Direct	Other	Eliminations	Total
Net sales	\$ 1,788,207	\$	\$ 151,068	\$ 31,169	\$	\$ 1,970,444
Net sales increase	4.4%	N/A	15.0%	N/A	N/A	5.3%
Intersegment revenues		185			(185)	
Interest expense, net	76	(12,724)		(7,760)		(20,408)
Other income, net	(176)	65,957	(4)	3,002		68,779
Earnings before income tax expense	269,842	372	41,076	(39,688)		271,602
Earnings before income tax expense as a percentage of net sales	15.1%	N/A	27.2%	N/A	N/A	13.8%
Quarter ended	Retail					
October 28, 2006	Stores	Credit	Direct	Other	Eliminations	Total
Net sales	\$ 1,712,061	\$	\$ 131,367	\$ 28,675	\$	\$ 1,872,103
Net sales increase	11.0%	N/A	28.2%	N/A	N/A	12.4%
Intersegment revenues		157			(157)	
Interest expense, net		(3,170)		(8,249)		(11,419)
Other income, net	744	54,535	(6)	3,546		58,819
Earnings before income tax expense	256,346	19,947	32,429	(87,552)		221,170
Earnings before income tax expense as a percentage of net sales	15.0%	N/A	24.7%	N/A	N/A	11.8%
Nine months ended	Retail					
November 3, 2007	Stores	Credit	Direct	Other	Eliminations	Total
Net sales	\$ 5,838,040	\$	\$ 437,678	\$ 38,096	\$	\$ 6,313,814
Net sales increase	6.2%	N/A	19.0%	N/A	N/A	6.5%
Intersegment revenues		463			(463)	
Interest expense, net	(68)	(25,329)		(19,034)		(44,431)
Other income, net	367	180,267	25	14,287		194,946
Earnings before income tax expense	897,869	(4,446)	110,397	(185,524)		818,296
Earnings before income tax expense as a percentage of net sales	15.4%	N/A	25.2%	N/A	N/A	13.0%

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Total assets	2,723,579	1,712,910	157,890	893,073		5,487,452
Nine months ended October 28, 2006	Retail Stores	Credit	Direct	Other	Eliminations	Total
Net sales	\$ 5,494,677	\$	\$ 367,867	\$ 67,250	\$	\$ 5,929,794
Net sales increase	8.8%	N/A	16.6%	N/A	N/A	9.3%
Intersegment revenues		356			(356)	
Interest expense, net		(10,662)		(24,291)		(34,953)
Other income, net	138	158,409	(3)	14,964		173,508
Earnings before income tax expense	799,153	56,168	88,847	(217,560)		726,608
Earnings before income tax expense as a percentage of net sales	14.5%	N/A	24.2%	N/A	N/A	12.3%
Total assets	2,466,157	932,699	126,939	1,182,587		4,708,382

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NOTE 9: SEGMENT REPORTING (CONTINUED)

The segment information for the quarter and nine months ended November 3, 2007 has been adjusted from our 2006 Form 10-Q disclosures to reflect the 2007 view of certain costs between our Credit, Other, and Retail Stores segments, but do not impact the condensed consolidated statement of earnings. These changes include expense related to our merchandise rewards certificate programs, intercompany merchant fee income and intercompany borrowings. Additionally, in the second quarter of 2007, we increased our ownership in Jeffrey. As a result of the additional purchase, Jeffrey is now consolidated and included in our Retail segment.

NOTE 10: SUPPLEMENTARY CASH FLOW INFORMATION

	Nine Months Ended	
	November 3, 2007	October 28, 2006
Cash paid during the year for:		
Interest	\$ 51,702	\$ 44,593
Income taxes	\$339,905	\$ 336,357

NOTE 11: COMMITMENTS AND CONTINGENT LIABILITIES

We are involved in routine claims, proceedings and litigation arising from the normal course of our business. The results of these claims, proceedings and litigation cannot be predicted with certainty. However, we do not believe any such claim, proceeding or litigation, either alone or in aggregate, will have a material impact on our results of operations, financial position, or cash flows.

NOTE 12: SUBSEQUENT EVENT

In November 2007, our Board of Directors authorized an increase of \$1,000,000 to our existing \$1,500,000 share repurchase program. The existing share repurchase program, which was authorized by our Board of Directors in August 2007, had \$751,400 of unused capacity as of November 3, 2007. Repurchases under the program may be made through the end of 2009. The actual amount and timing of share repurchases will be subject to market conditions and applicable Securities and Exchange Commission rules.

In December 2007, we issued \$650,000 aggregate principal amount of 6.25% senior unsecured notes due 2018 and \$350,000 aggregate principal amount of 7.00% senior unsecured notes due 2038. We have reclassified \$301,500 of the commercial paper facility, which has been repaid by the proceeds of the debt offering. The remaining \$90,500 of the commercial paper recorded in short-term debt was paid using operating cash flows.

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 2006 Annual Report on Form 10-K.

RESULTS OF OPERATIONS**Overview**

	Quarter Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Net earnings	\$ 165.7	\$ 135.7	\$ 503.0	\$ 445.7
Net earnings as a percentage of net sales	8.4%	7.2%	8.0%	7.5%
Earnings per diluted share	\$ 0.68	\$ 0.52	\$ 1.98	\$ 1.67

Earnings per diluted share improved \$0.16 for the quarter and \$0.31 for the nine months ended November 3, 2007 due primarily to sales growth. Key highlights include:

Total net sales for the third quarter increased 5.3% for the quarter and 6.5% for the nine months ended November 3, 2007. For the quarter, same-store sales increased 2.2%, on top of 10.7% in the same period last year. Same-store sales increased 5.8% for the nine months ended November 3, 2007 on top of 7.2% last year. For both periods, full-line, Rack and Direct delivered positive same-store sales increases. Additionally, all full-line and Rack regions showed same-store sales increases year-to-date.

Gross profit as a percentage of net sales (gross profit rate) decreased 38 basis points for the quarter, driven primarily by increases in full-line store markdowns. The gross profit rate improved 22 basis points for the nine months ended November 3, 2007, driven by a decrease in performance based incentives, partially offset by increased markdowns in our full-line stores.

Selling, general and administrative expenses as a percentage of net sales (SG&A rate) decreased 70 basis points for the quarter and increased 10 basis points for the nine months ended November 3, 2007. The decrease for the quarter was primarily driven by a reduction in performance based incentives, partially offset by higher bad debt expense. The increase for the nine months ended November 3, 2007, was due to the higher bad debt expense which was partially offset by a decrease in performance-based incentives. The impact of bringing the co-branded Nordstrom VISA credit card receivables on-balance sheet increased our SG&A rate by 57 basis points for the quarter and 48 basis points for the nine months ended November 3, 2007.

We closed the sale of the Façonnable business during the third quarter, and realized a gain on the sale of \$33.9. The impact to reported earnings per diluted share was \$0.09, net of tax of \$13.1.

Net Sales

	Quarter Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Net sales	\$ 1,970.0	\$ 1,872.1	\$ 6,313.8	\$ 5,929.8
Net sales increase	5.3%	12.4%	6.5%	9.3%
Total company same-store sales increase	2.2%	10.7%	5.8%	7.2%

Total net sales for the third quarter increased 5.3% for the quarter and 6.5% for the nine months ended November 3, 2007, compared to the same periods in the prior year due to same-store sales increases. All channels (full-line stores, Rack, and Direct) achieved positive same-store sales increases.

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).

Designer apparel, women's accessories, and men's apparel were our merchandise categories with the largest full-line same-store sales increases for both the quarter and nine months ended November 3, 2007. Designer apparel offers fashion-forward and aspirational products, which drove the increase. Women's accessories benefited from increases in sales of handbags and fashion jewelry. Additionally, the increase in men's apparel was in part due to sales within our younger contemporary products.

Our Rack channel delivered 11.3% and 12.3% net sales increases in the quarter and nine months ended November 3, 2007, respectively. These results were driven by growth in accessories, men's, women's, and shoes merchandise categories.

Our Direct channel delivered 15.0% and 19.0% net sales increases in the quarter and nine months ended November 3, 2007, respectively. These results were led by growth in cosmetics, women's accessories and men's apparel.

In looking forward to the fourth quarter of 2007, we expect our same-store sales to be approximately flat.

Gross Profit

	Quarter Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Gross profit	\$ 741.9	\$ 712.0	\$ 2,356.6	\$ 2,200.0
Gross profit rate	37.7%	38.0%	37.3%	37.1%

	Four Quarters Ended	
	November 3, 2007	October 28, 2006
Inventory per square foot	\$ 60.47	\$ 60.57
Inventory turnover rate (for the most recent four quarters)	4.92	4.73

Compared to the same period last year, our gross profit rate declined 38 basis points for the quarter and improved 22 basis points for the nine months ended November 3, 2007. For the quarter, our merchandise margin rate was unfavorably impacted by an increase in markdowns at our full-line stores. We entered the third quarter with inventory levels above plan and experienced higher markdowns during the quarter as we moved to re-align inventory levels with slower sales trends. Our merchandise margin rate decreased slightly in the nine months ended November 3, 2007. For both periods, merchandise margin performance was offset by a decrease in buying and occupancy expenses, partially from lower performance based incentives. Additionally, our buying and occupancy costs are mostly fixed, which created rate improvement when compared to the increased sales growth during the nine months ended November 3, 2007.

Our four-quarter average inventory turnover rate was 4.92 at the third quarter of 2007 compared to 4.73 at the third quarter of 2006, indicating continuous progress in improving merchandise planning and execution.

Total ending inventory per square foot at November 3, 2007 was flat compared to October 28, 2006. The current quarter end does not include inventory of Façonnable, which reduced our inventory per square foot by 2% and offset the remaining inventory increase. Part of the increase in our inventory supports the growth of our designer business in apparel, accessories and shoes. The remaining increase is due to merchandise levels in select divisions above our expectations. We believe inventory will be in line with plan by year-end.

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).

Selling, General and Administrative Expenses (SG&A)

	Quarter Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Selling, general and administrative expenses	\$ 552.6	\$ 538.2	\$ 1,722.8	\$ 1,612.0
SG&A rate	28.0%	28.7%	27.3%	27.2%

The selling, general and administrative expense dollars increased for the quarter and nine months ended November 3, 2007 due to increased labor driven by our new stores and additional bad debt expense partially offset by incentive costs tied to company performance. The impact from bringing the co-branded Nordstrom VISA credit card receivables on-balance sheet increased our SG&A dollars by approximately \$11 and \$30 for the quarter and nine months ended November 3, 2007. In addition to the incremental bad debt expense related to accounting for the securitization transaction, we observed an increase in delinquency rates. Our write-off rates are consistent with where they were prior to the 2005 change in bankruptcy legislation. We anticipate bad debt to remain higher than last year due to the increase in our portfolio and delinquencies.

Our SG&A rate decreased by 70 basis points for the quarter. The rate improvement was driven by our expense growing at a slower rate than sales. Expenses decreased due to a reduction in performance based incentives, partially offset by higher bad debt expense.

For the nine months ended November 3, 2007, our SG&A rate increased 10 basis points. Bad debt expense was the primary driver of the rate deterioration, which was only partially offset by the reduction on our performance based incentives.

Gain on sale of Façonnable

We closed the sale of the Façonnable business during the third quarter, and realized a gain on the sale of \$33.9. The impact to reported earnings per diluted share was \$0.09, net of tax of \$13.1.

Interest Expense, net

Net interest expense increased by \$9.0 to \$20.4 for the quarter primarily due to higher average debt levels resulting from the securitization transaction that occurred at the end of the first quarter (see Note 1). For the nine month period ended November 3, 2007, interest expense, net increased \$9.5 to \$44.4. Higher interest expense due to increased debt was partially offset by interest income on invested cash balances and a larger amount of capitalized interest in conjunction with our increased capital expenditures.

Other Income, net

	Quarter Ended		Nine Months Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Other income, net	\$ 68.8	\$ 58.8	\$ 194.9	\$ 173.5
Other income, net as a percentage of net sales	3.5%	3.1%	3.1%	2.9%

Other income, net increased by \$10.0 to \$68.8 for the quarter and by \$21.4 to \$194.9 for the nine months ended November 3, 2007. For both periods, the increase was primarily due to growth in our credit card programs, partially offset by securitization transaction costs.

Seasonality

Our business, similar to other retailers, is subject to seasonal fluctuations. Our Anniversary Sale in July and the holidays in December typically result in higher sales in the second and fourth quarters of our fiscal years.

Accordingly, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

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).

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

We believe Return on Invested Capital (ROIC) is a key financial metric supporting long term shareholder value. As a result, we monitor it closely and use it as a senior executive incentive measure. Historically, overall performance as measured by ROIC correlates directly to shareholders' return over the long-term. For the 12 months ended November 3, 2007, we improved our ROIC to 20.7% compared to 19.5% for the 12 months ended October 28, 2006. Our ROIC improved primarily from increased earnings before interest and taxes. See our GAAP ROIC reconciliation below. The closest GAAP measure is return on assets, which improved to 14.0% from 13.1% for the last 12 months ended November 3, 2007 compared to the 12 months ended October 28, 2006.

We define ROIC as follows:

$$\text{ROIC} = \frac{\text{Net Operating Profit after Tax (NOPAT)}}{\text{Average Invested Capital}}$$

Numerator = NOPAT

Net Earnings
 + Income tax expense
 + Interest expense, net
 = EBIT
 + Rent expense

- Estimated depreciation on capitalized operating leases

= Net operating profit
 - Estimated income tax expense

= NOPAT**Denominator = Average Invested Capital**

Average total assets
 - Average non-interest-bearing current liabilities
 - Average deferred property incentives
 + Average estimated asset base of capitalized operating leases

= Average invested capital

A reconciliation of our return on assets to ROIC is as follows:

	12 months ended	
	November 3, 2007	October 28, 2006
Net earnings	\$ 735.3	\$ 636.1
Add: income tax expense	462.1	398.0
Add: interest expense, net	52.2	46.4
Earnings before interest and income tax expense	1,249.6	1,080.5
Add: rent expense	49.8	45.8
Less: estimated depreciation on capitalized operating leases ¹	(26.6)	(24.4)
Net operating profit	1,272.8	1,101.9

Estimated income tax expense	(491.5)	(423.9)
Net operating profit after tax	\$ 781.3	\$ 678.0
Average total assets ²	\$ 5,247.7	\$ 4,864.3
Less: average non-interest-bearing current liabilities ³	(1,506.9)	(1,390.2)
Less: average deferred property incentives ²	(357.7)	(360.7)
Add: average estimated asset base of capitalized operating leases ⁴	391.5	360.0
Average invested capital	\$ 3,774.6	\$ 3,473.4
Return on Assets	14.0%	13.1%
ROIC	20.7%	19.5%

¹ Depreciation based upon estimated asset base of capitalized operating leases as described in Note 4 below.

² Based upon the trailing 12-month average.

³ Based upon the trailing 12-month average for accounts payable, accrued salaries, wages and related benefits, other current liabilities and income taxes payable.

⁴ Based upon the trailing 12-month average of the monthly asset base which is

calculated as the
trailing
12 months rent
expense
multiplied by 8.

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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).

LIQUIDITY AND CAPITAL RESOURCES

Overall for the first nine months of 2007, cash and cash equivalents decreased by \$294.6 primarily due to share repurchases, increased capital expenditures, and cash used for operations. These amounts were offset by the \$1,521.5 of borrowings on our long-term debt facility and by \$215.8 from the sale of Façonnable.

In the first quarter of 2007, we converted our Nordstrom private label card and co-branded Nordstrom VISA credit card receivables into one on-balance sheet securitization program. As a result of the transaction, we recorded \$943 of co-branded Nordstrom VISA credit card receivables on our balance sheet and eliminated our investment in asset backed securities.

Operating Activities

Net cash used in operating activities was \$254.5, compared to net cash provided by operating activities of \$712.5 in the same period last year. The decrease in cash provided by operating activities of \$967.0 is primarily due to the increase in accounts receivable as a result of the new on-balance sheet co-branded Nordstrom VISA credit card receivables partially offset by the elimination of investment in asset backed securities.

Investing Activities

Net cash used in investing activities decreased by \$13.4 to \$126.7. The decrease in cash used is primarily due to \$215.8 of proceeds from the sale of our Façonnable business partially offset by an increase in capital expenditures resulting from the timing of our new store openings and remodels.

Financing Activities

Net cash provided by financing activities was \$86.6, compared to net cash used in financing activities of \$826.3 in the same period last year. The increase in cash provided by financing activities of \$912.9 is primarily due to cash inflows from the \$850.0 in Notes issued during the securitization transaction, \$370.0 in borrowings from our variable funding note facility and \$392.0 in commercial paper issuance; partially offset by share repurchases.

In the first quarter of 2007, the Private Label Trust used our previously existing variable funding facility to issue a total of \$150.0 in Notes. On May 1, 2007, in connection with the issuance of the new Notes discussed above, we paid the outstanding balance and terminated this facility. Also in the first quarter, we entered into a new variable funding facility backed by substantially all of the Nordstrom private label card receivables and a 90% interest in the co-branded Nordstrom VISA credit card receivables with a capacity of \$300.0. During the third quarter, the combined Nordstrom VISA and Private Label Trust issued \$220.0 of Notes to fund share repurchases, of which we paid \$20.0 by the end of the quarter.

During the third quarter of 2007, we entered into an agreement for a new variable funding facility backed by the remaining 10% interest in the co-branded Nordstrom VISA credit card receivables with a commitment of \$100.0. As of November 3, 2007, no issuances have been made against this facility. Borrowings under the facility will incur interest based upon the cost of commercial paper issued by the third party bank conduit plus specified fees.

In connection with a previous \$1,000.0 of share repurchases authorized by our Board of Directors in May 2006, we entered into an accelerated share repurchase agreement with Credit Suisse International in May 2007 to repurchase shares of our common stock for an aggregate purchase price of \$300.0. We purchased 5.4 shares of our common stock on May 23, 2007 at \$55.17 per share. Under the terms of the agreement, we received 0.4 additional shares in June 2007 at no additional cost, based on the volume weighted average price of our common stock from June 1, 2007 to June 26, 2007. This resulted in an average price per share of \$51.69 for the accelerated share repurchase as a whole. We had \$392.0 of commercial paper outstanding as of November 3, 2007. The commercial paper is issued under our new dealer agreement and supported by our unsecured line of credit. We issued the short-term debt in order to fund share repurchase activity and the growth from the on-balance sheet co-branded Nordstrom VISA credit card receivables. With our December 2007 debt issuance, we have reclassified \$301.5 of the commercial paper facility, which has been repaid by the proceeds of the debt offering. The remaining \$90.5 of the commercial paper recorded in short-term debt was paid using operating cash flows.

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).

Following completion of our May 2006 share repurchase program, in August 2007, our Board of Directors authorized a \$1,500.0 share repurchase program. Overall for the third quarter of 2007, we purchased 16.4 shares for \$750.0 at an average price of \$45.63 per share. As of November 3, 2007 the unused capacity was \$751.4. In November 2007, our Board of Directors authorized an increase of \$1,000.0 to our existing share repurchase program. Repurchases under the program may be made through the end of 2009. The actual amount and timing of share repurchases will be subject to market conditions and applicable Securities and Exchange Commission rules.

Securitization of Accounts Receivable

We offer Nordstrom private label cards and co-branded Nordstrom VISA credit cards to our customers. On May 1, 2007, we converted the Nordstrom private label card and co-branded Nordstrom VISA credit card programs into one securitization program, which is accounted for as a secured borrowing (on-balance sheet). When we combined the securitization programs, our investment in asset backed securities, which was accounted for as available-for-sale securities, was eliminated and we reacquired all of the co-branded Nordstrom VISA credit card receivables previously held off-balance sheet. These reacquired co-branded Nordstrom VISA credit card receivables were recorded at estimated fair value at the date of acquisition. Based on past payment patterns, we expect that these receivables will be repaid within approximately eight months of the transaction date. During that time, we expect to transition the co-branded Nordstrom VISA credit card receivable portfolio to historical cost, net of bad debt allowances, on our balance sheet.

Substantially all of the Nordstrom private label card receivables and 90% of the co-branded Nordstrom VISA credit card receivables are securitized. Under the securitization, the receivables are transferred to a third-party trust on a daily basis. The balance of the receivables transferred to the trust fluctuates as new receivables are generated and old receivables are retired (through payments received, charge-offs, or credits for merchandise returns). On May 1, 2007, the trust issued securities that are backed by the receivables. These combined receivables back the Series 2007-1 Notes, the Series 2007-2 Notes, and our variable funding notes.

Contractual Obligations

Our contractual obligations due in less than one year increased by our inventory purchase guarantee of \$35.0 related to the sale of Façonnable and \$301.5 of commercial paper reclassified into long-term debt as a result of our debt issuance in December, 2007. Our contractual obligations due in 1 to 3 years increased by our required principal payments on notes outstanding under the variable funding facility of \$200.0 and the inventory purchase guarantee of \$163.6 related to the sale of Façonnable. Our contractual obligations due in 3 to 5 years have increased by our required principal payments on the Series 2007-1 Notes by their notional amount of \$350.0 and the inventory purchase guarantee of \$47.4 related to the sale of Façonnable. Our contractual obligations due after 5 years have been increased by our required principal payments on the Series 2007-2 Notes by their notional amount of \$500.0.

Liquidity

We maintain a level of liquidity to allow us to cover our seasonal cash needs and to minimize our need for short-term borrowings. We believe that our operating cash flows, existing cash and available credit facilities are sufficient to finance our cash requirements for the next 12 months. In addition, in December 2007, we issued \$650.0 aggregate principal amount of 6.25% senior unsecured notes due 2018 and \$350.0 aggregate principal amount of 7.00% senior unsecured notes due 2038.

Over the long term, we manage our cash and capital structure to maximize shareholder return by minimizing our cost of capital, strengthening our financial position and maintaining flexibility for future strategic initiatives. We continuously assess our debt and leverage levels, capital expenditure requirements, principal debt payments, dividend payouts, potential share repurchases, and future investments or acquisitions. We believe our operating cash flows, existing cash and available credit facilities will be sufficient to fund scheduled future payments and potential long-term initiatives.

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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).

In November 2007, our Board of Directors authorized an increase of \$1,000.0 to our existing share repurchase program, resulting in a total authorization of \$2,500.0. Repurchases under the revised program may be made through the end of 2009. The actual number and timing of share repurchases will be subject to market conditions and applicable Securities and Exchange Commission rules.

CRITICAL ACCOUNTING POLICIES

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. Except for the elimination of our off-balance sheet financing in the first quarter of 2007, our critical accounting policies and methodologies in 2007 are consistent with those discussed in our 2006 Annual Report on Form 10-K.

Off-Balance Sheet Financing

On May 1, 2007, we converted the Nordstrom private label card and co-branded Nordstrom VISA credit card programs into one securitization program. After we combined the securitization programs, our investment in the VISA Trust was converted from available-for-sale securities to receivables. As of November 3, 2007, our balance sheet does not include an investment in asset backed securities. Accordingly, we no longer consider off-balance sheet financing to be a critical accounting policy.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 will be effective at the beginning of fiscal year 2008. We are assessing the impact of the adoption of SFAS 157 and believe it will not have a material impact on our results of operations, financial position or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 will be effective at the beginning of fiscal year 2008. We are assessing the impact of the adoption of SFAS 159 and believe it will not have a material impact on our results of operations, financial position or cash flows.

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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).

FORWARD-LOOKING INFORMATION CAUTIONARY STATEMENT

Certain statements in this Quarterly Report on Form 10-Q contain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties, including anticipated financial results, use of cash and liquidity, store openings, same-store sales, the timing of the repayment of our receivables portfolio, the timing and amounts of share repurchases and trends in our operations. Actual future results and trends may differ materially from historical results or current expectations depending upon various factors including, but not limited to:

our ability to respond to the business environment and fashion trends

effective inventory management

the impact of economic and competitive market forces

successful execution of our store growth strategy including the timely completion of construction associated with newly planned stores

our compliance with information security and privacy laws and regulations, employment laws and regulations, and other laws and regulations applicable to the company

successful execution of our multi-channel strategy

our ability to safeguard our brand and reputation

efficient and proper allocation of our capital resources

successful execution of our technology strategy

the impact of terrorist activity or war on our customers and the retail industry

trends in personal bankruptcies and bad debt write-offs

changes in interest rates

our ability to maintain our relationships with our employees

our ability to control costs

weather conditions

hazards of nature that affect consumer traffic and consumers' purchasing patterns

timing and amounts of share repurchases by the company

These and other factors, including those factors described in Part I, Item 1A. Risk Factors in our Form 10-K for the fiscal year ended February 3, 2007, could affect our financial results and trends and cause actual results and trends to differ materially from those contained in any forward-looking statements we may provide. As a result, while we believe there is a reasonable basis for the forward-looking statements, you should not place undue reliance on those statements. We undertake no obligation to update or revise any forward-looking statements to reflect subsequent

events, new information or future circumstances. This discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements.

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Item 3. Quantitative And Qualitative Disclosures About Market Risk (Dollar amounts in thousands)

INTEREST RATE RISK

We are exposed to market risk from changes in interest rates. In seeking to minimize risk, we manage exposure through our regular operating and financing activities. We do not use financial instruments for trading or other speculative purposes and are not party to any leveraged financial instruments.

Interest rate exposure is managed through our mix of fixed and variable rate borrowings. Short-term borrowing and investing activities generally bear interest at variable rates, but because they have maturities of three months or less, we believe that the risk of material loss is low, and that the carrying amount approximates fair value.

In the first quarter of 2007, we entered into new debt, as shown in Note 5: Long-term debt. The principal of the \$325,500 Series 2007-1 Class A Notes with a fixed-rate of 4.92% and the principal of the \$24,500 Series 2007-1 Class B Notes with a fixed-rate of 5.02% is due April 2010. The effect of these Notes decreases the weighted-average interest rate on principal payments for fiscal 2010 to 5.0%. The principal of the \$453,800 Series 2007-2 Class A Notes with a variable-rate of One-Month LIBOR plus 0.06% and the principal of the \$46,200 Series 2007-2 Class B Notes with a variable-rate of One-Month LIBOR plus 0.18% is due April 2012.

As of November 3, 2007, we had \$200,000 in outstanding Notes issued under our variable funding facility, to be paid during fiscal 2008. The interest rate on this facility is based upon the cost of commercial paper issued by the third party bank conduit plus specified fees. As of November 3, 2007, the cost of commercial paper issued by the third party bank conduit was 5.71%.

In December of 2007, we entered into new debt, as discussed in Note 5: Long-term debt and Note 12: Subsequent events. With our December 2007 debt issuance, we have reclassified \$301,500 of the commercial paper facility which has been repaid by the proceeds of the debt offering. The effect of this commercial paper decreases the weighted-average interest rate on principal payments due after fiscal year 2011 to 6.7%.

There were no other changes to our financial instruments that are sensitive to changes in interest rates, including debt obligations and our interest rate swap. For further information on these items, please refer to Item 7A of our 2006 Annual Report on Form 10-K.

FOREIGN CURRENCY EXCHANGE RISK

There were no changes to our instruments subject to foreign currency exchange risk during the first nine months of fiscal 2007. For further information on these items, please refer to Item 7A of our 2006 Annual Report on Form 10-K.

Item 4. Controls And Procedures.

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

There has been no change 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 has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings.****Cosmetics**

We were originally named as a defendant along with other department store and specialty retailers in nine separate but virtually identical class action lawsuits filed in various Superior Courts of the State of California in May, June and July 1998 that were consolidated in Marin County Superior Court. In May 2000, plaintiffs filed an amended complaint naming a number of manufacturers of cosmetics and fragrances and two other retailers as additional defendants. Plaintiffs amended complaint alleged that the retail price of the prestige or Department Store cosmetics and fragrances sold in department and specialty stores was collusively controlled by the retailer and manufacturer defendants in violation of the Cartwright Act and the California Unfair Competition Act.

Plaintiffs sought treble damages and restitution in an unspecified amount, attorneys fees and prejudgment interest, on behalf of a class of all California residents who purchased cosmetics and fragrances for personal use from any of the defendants during the four years prior to the filing of the original complaints.

While we believe that the plaintiffs claims are without merit, we entered into a settlement agreement with the plaintiffs and the other defendants on July 13, 2003 in order to avoid the cost and distraction of protracted litigation. In furtherance of the settlement agreement, the case was re-filed in the United States District Court for the Northern District of California on behalf of a class of all persons who currently reside in the United States and who purchased Department Store cosmetics and fragrances from the defendants during the period May 29, 1994 through July 16, 2003. The Court gave preliminary approval to the settlement, and a summary notice of class certification and the terms of the settlement was disseminated to class members. On March 30, 2005, the Court entered a final judgment approving the settlement and dismissing the plaintiffs claims and the claims of all class members with prejudice, in their entirety. On April 29, 2005, two class members who had objected to the settlement filed notices of appeal from the Court s final judgment to the United States Court of Appeals for the Ninth Circuit. The Ninth Circuit issued its decision on August 23, 2007, affirming the District Court s ruling. The deadline for the appellant to file a Petition for Writ of Certiorari to appeal the Ninth Circuit s decision ended on November 21, 2007. Accordingly, the settlement became final according to its terms on November 22, 2007. Pursuant to the settlement, the defendants will provide class members with certain free products with an estimated retail value of \$175 million and pay the plaintiffs attorneys fees, awarded by the Court, of \$24 million. We have paid approximately \$1.3 million for our allocated portion of both the costs of the free products to class members and the attorneys fees, which amount, along with the money paid by the other defendants, was being held in escrow until conclusion of the appeal process. We do not believe the outcome of this matter will have a material adverse effect on our financial condition, results of operations or cash flows.

Other

We are involved in routine claims, proceedings, and litigation arising from the normal course of our business. The results of these claims, proceedings and litigation cannot be predicted with certainty. However, we do not believe any such claim, proceeding or litigation, either alone or in aggregate, will have a material impact on our results of operations, financial position, or cash flows.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our 2006 Annual Report on Form 10-K. There have been no material changes in our risk factors from those disclosed in our 2006 Annual Report on Form 10-K.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****(c) Repurchases**

(Dollar amounts in millions, except per share amounts)

	Total Number of Shares (or Units Purchased)	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs¹
August 2007 (August 5, 2007 to September 1, 2007)	2,244,672	\$ 47.86	2,244,672	\$ 1,394.0
September 2007 (September 2, 2007 to October 6, 2007)	7,652,900	\$ 48.30	7,652,900	\$ 1,024.3
October 2007 (October 7, 2007 to November 3, 2007)	6,538,488	\$ 41.74	6,538,488	\$ 751.4
Total	16,436,060	\$ 45.63	16,436,060	

¹ In the first nine months of 2007, we repurchased 27,837,545 shares of our common stock for an aggregate purchase price of \$1,340.0 (an average price per share of \$48.14). In May 2006, the Board of Directors authorized \$1,000.0 of share

repurchases which was exhausted in August 2007. Additionally, in August, our Board of Directors authorized a \$1,500.0 share repurchase program, and as of November 3, 2007, the unused capacity was \$751.4. In November 2007, our Board of Directors authorized an additional \$1,000.0 for share repurchases bringing the total program to \$2,500.0. The actual amount and timing of future share repurchases will be subject to market conditions and applicable Securities and Exchange Commission rules.

In connection with the May 2006 \$1,000.0 authorization, we entered into an accelerated share repurchase agreement with Credit Suisse International in

May 2007 to repurchase shares of our common stock for an aggregate purchase price of \$300.0. We repurchased 5,438,103 shares of our common stock on May 23, 2007 at \$55.17 per share. Under the terms of the agreement, we received 365,782 additional shares in June 2007 at no additional cost, based on the volume weighted average price of our common stock from June 1, 2007 to June 26, 2007. This resulted in an average price per share of \$51.69 for the accelerated share repurchase as a whole.

Item 3. Default Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibits are incorporated herein by reference or are filed with this report as set forth in the Index to Exhibits on page 29 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 6, 2007

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NORDSTROM, INC. AND SUBSIDIARIES

Exhibit Index

	Exhibit	Method of Filing
3.2	Bylaws, as amended and restated on August 21, 2007	Incorporated by reference from the Registrant's Form 8-K filed on August 23, 2007
10.1	Form of Restricted Stock Award under the 2002 Nonemployee Director Stock Incentive Plan	Filed herewith electronically
31.1	Certification of President required by Section 302(a) of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
31.2	Certification of Chief Financial Officer required by Section 302(a) of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
32.1	Certification of President and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith electronically

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