

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 August 4, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-15059

NORDSTROM, INC.

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of
incorporation or organization)

91-0515058

(I.R.S. Employer
Identification No.)

1617 Sixth Avenue, Seattle, Washington

(Address of principal executive offices)

98101

(Zip Code)

206-628-2111

(Registrant's telephone number, including area code)

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

YES NO

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

YES NO

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

Large accelerated filer

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

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 29, 2018: 168,565,459 shares

**NORDSTROM, INC.
TABLE OF CONTENTS**

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. Financial Statements (Unaudited).	
Condensed Consolidated Statements of Earnings Quarter and Six Months Ended August 4, 2018 and July 29, 2017	3
Condensed Consolidated Statements of Comprehensive Earnings Quarter and Six Months Ended August 4, 2018 and July 29, 2017	3
Condensed Consolidated Balance Sheets August 4, 2018, February 3, 2018, and July 29, 2017	4
Condensed Consolidated Statements of Shareholders' Equity Six Months Ended August 4, 2018 and July 29, 2017	5
Condensed Consolidated Statements of Cash Flows Six Months Ended August 4, 2018 and July 29, 2017	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	14
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	25
Item 4. Controls and Procedures.	25
<u>PART II – OTHER INFORMATION</u>	
Item 1. Legal Proceedings.	26
Item 1A. Risk Factors.	26
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	26
Item 6. Exhibits.	26
Exhibit Index	27
Signatures	28

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		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net sales	\$3,980	\$3,717	\$7,450	\$6,996
Credit card revenues, net	87	76	179	152
Total revenues	4,067	3,793	7,629	7,148
Cost of sales and related buying and occupancy costs	(2,589)	(2,451)	(4,877)	(4,607)
Selling, general and administrative expenses	(1,232)	(1,125)	(2,353)	(2,173)
Earnings before interest and income taxes	246	217	399	368
Interest expense, net	(28)	(29)	(56)	(76)
Earnings before income taxes	218	188	343	292
Income tax expense	(56)	(78)	(94)	(119)
Net earnings	\$162	\$110	\$249	\$173
Earnings per share:				
Basic	\$0.97	\$0.66	\$1.48	\$1.04
Diluted	\$0.95	\$0.65	\$1.46	\$1.02
Weighted-average shares outstanding:				
Basic	167.8	166.4	167.8	166.8
Diluted	170.3	168.5	170.3	168.8

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

**NORDSTROM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS**

(Amounts in millions)
(Unaudited)

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net earnings	\$162	\$110	\$249	\$173
Foreign currency translation adjustment	(4)	32	(15)	20
Post retirement plan adjustments, net of tax	1	1	2	2
Cumulative effect of adopted accounting standard	—	—	(5)	—
Comprehensive net earnings	\$159	\$143	\$231	\$195

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

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

	August 4, 2018	February 3, 2018	July 29, 2017
Assets			
Current assets:			
Cash and cash equivalents	\$1,343	\$1,181	\$919
Accounts receivable, net	200	145	320
Merchandise inventories	2,065	2,027	2,077
Prepaid expenses and other	439	150	157
Total current assets	4,047	3,503	3,473
Land, property and equipment (net of accumulated depreciation of \$6,393, \$6,105 and \$5,866)	3,860	3,939	3,930
Goodwill	249	238	238
Other assets	334	435	520
Total assets	\$8,490	\$8,115	\$8,161
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$1,840	\$1,409	\$1,704
Accrued salaries, wages and related benefits	394	578	397
Other current liabilities	1,380	1,246	1,339
Current portion of long-term debt	54	56	11
Total current liabilities	3,668	3,289	3,451
Long-term debt, net	2,680	2,681	2,729
Deferred property incentives, net	480	495	524
Other liabilities	522	673	672
Commitments and contingencies (Note 6)			
Shareholders' equity:			
Common stock, no par value: 1,000 shares authorized; 167.5, 167.0 and 166.2 shares issued and outstanding	2,899	2,816	2,757
Accumulated deficit	(1,712)	(1,810)	(1,951)
Accumulated other comprehensive loss	(47)	(29)	(21)
Total shareholders' equity	1,140	977	785
Total liabilities and shareholders' equity	\$8,490	\$8,115	\$8,161

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

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

	Common Stock		Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount			
Balance at February 3, 2018	167.0	\$2,816	(\$1,810)	(\$29)	\$977
Cumulative effect of adopted accounting standards	—	—	60	(5)	55
Net earnings	—	—	249	—	249
Other comprehensive loss	—	—	—	(13)	(13)
Dividends (\$0.74 per share)	—	—	(124)	—	(124)
Issuance of common stock under stock compensation plans	1.5	49	—	—	49
Stock-based compensation	0.8	34	—	—	34
Repurchase of common stock	(1.8)	—	(87)	—	(87)
Balance at August 4, 2018	167.5	\$2,899	(\$1,712)	(\$47)	\$1,140

	Common Stock		Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount			
Balance at January 28, 2017	170.0	\$2,707	(\$1,794)	(\$43)	\$870
Net earnings	—	—	173	—	173
Other comprehensive earnings	—	—	—	22	22
Dividends (\$0.74 per share)	—	—	(124)	—	(124)
Issuance of common stock under stock compensation plans	0.4	14	—	—	14
Stock-based compensation	0.4	36	—	—	36
Repurchase of common stock	(4.6)	—	(206)	—	(206)
Balance at July 29, 2017	166.2	\$2,757	(\$1,951)	(\$21)	\$785

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

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

	Six Months Ended	
	August 4, 2018	July 29, 2017
Operating Activities		
Net earnings	\$249	\$173
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization expenses	338	320
Amortization of deferred property incentives and other, net	(34)	(48)
Deferred income taxes, net	(13)	(71)
Stock-based compensation expense	51	41
Change in operating assets and liabilities:		
Accounts receivable	(55)	(120)
Merchandise inventories	(122)	(141)
Prepaid expenses and other assets	(149)	(24)
Accounts payable	404	319
Accrued salaries, wages and related benefits	(183)	(58)
Other current liabilities	76	117
Deferred property incentives	29	46
Other liabilities	3	20
Net cash provided by operating activities	594	574
Investing Activities		
Capital expenditures	(269)	(341)
Other, net	(21)	33
Net cash used in investing activities	(290)	(308)
Financing Activities		
Proceeds from long-term borrowings, net of discounts	—	635
Principal payments on long-term borrowings	(5)	(655)
Increase in cash book overdrafts	63	6
Cash dividends paid	(124)	(124)
Payments for repurchase of common stock	(82)	(211)
Proceeds from issuances under stock compensation plans	49	14
Tax withholding on share-based awards	(17)	(6)
Other, net	(26)	(13)
Net cash used in financing activities	(142)	(354)
Net increase (decrease) in cash and cash equivalents	162	(88)
Cash and cash equivalents at beginning of period	1,181	1,007
Cash and cash equivalents at end of period	\$1,343	\$919
Supplemental Cash Flow Information		
Cash paid during the period for:		
Income taxes, net	\$181	\$188
Interest, net of capitalized interest	61	84

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

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

NOTE 1: BASIS OF PRESENTATION

The accompanying Condensed Consolidated Financial Statements include the balances of Nordstrom, Inc. and its subsidiaries (the "Company"). All intercompany transactions and balances are eliminated in consolidation. The interim Condensed Consolidated Financial Statements have been prepared on a basis consistent in all material respects with the accounting policies described and applied in our 2017 Annual Report on Form 10-K ("Annual Report"), except as described in Note 2: Revenue, and reflect all adjustments of a normal recurring nature that are, in management's opinion, necessary for the fair presentation of the results of operations, financial position and cash flows for the periods presented.

The Condensed Consolidated Financial Statements as of and for the periods ended August 4, 2018 and July 29, 2017 are unaudited. The Condensed Consolidated Balance Sheet as of February 3, 2018 has been derived from the audited Consolidated Financial Statements included in our 2017 Annual Report. The interim Condensed Consolidated Financial Statements should be read together with the Consolidated Financial Statements and related footnote disclosures contained in our 2017 Annual Report.

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

Our business, like that of other retailers, is subject to seasonal fluctuations. Our sales are typically higher during our Anniversary Sale in July and the holidays in the fourth quarter. Our Anniversary Sale shifted to the second quarter in 2018 compared with the second and third quarters in 2017. Results for any one quarter are not indicative of the results that may be achieved for a full fiscal year.

Goodwill

We continue to make investments in evolving the customer experience, with a strong emphasis on integrating technology across our business. To support these efforts, we have acquired two retail technology companies. During the first quarter of 2018, we recorded \$11 of goodwill as a result of these acquisitions.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*, which was subsequently amended in July 2018 by ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* and ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements* ("ASU 2018-11"). This ASU increases transparency and comparability by recognizing a lessee's rights and obligations resulting from leases by recording them on the balance sheet as right-of-use assets and lease liabilities. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification dictates whether lease expense is to be recognized based on an effective interest method or on a straight-line basis over the term of the lease. Additional qualitative and quantitative disclosures will be required to give financial statement users information on the amount, timing and judgments related to a reporting entity's cash flows arising from leases. We plan to adopt this ASU in the first quarter of 2019 and we anticipate using the additional (and optional) transition method provided in ASU 2018-11, which would allow for application of the guidance at the beginning of the period in which it is adopted by recognizing a cumulative-effect adjustment to the opening balance of retained earnings. We expect adoption of this standard will have a material impact on our Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles — Goodwill and Other: Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairment by eliminating step two from the goodwill impairment test. Under this new guidance, if the carrying amount of a reporting unit exceeds its estimated fair value, an impairment charge shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. This guidance is effective prospectively for fiscal years and interim periods within those years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact this guidance would have on our Consolidated Financial Statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement — Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This new guidance allows a reclassification from accumulated other comprehensive loss to accumulated deficit for certain tax effects resulting from the 2017 Tax Cuts and Jobs Act ("Tax Act"), which could not be recorded under prior guidance. We elected to early adopt this standard in the first quarter of 2018 and reclassified \$5 of tax impacts resulting from the change in the federal corporate tax rate, decreasing the beginning accumulated deficit for the six months ended August 4, 2018.

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

NOTE 2: REVENUE

During the first quarter of fiscal 2018, we adopted ASU No. 2014-09, *Revenue from Contracts with Customers*, and all related amendments (“Revenue Standard”), using the modified retrospective adoption method. Results for reporting periods beginning in the first quarter of 2018 are presented under the new Revenue Standard while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605 — *Revenue Recognition*. Upon adoption, we recorded a net cumulative effect adjustment to decrease beginning accumulated deficit of \$55. Excluding the impact of the new Revenue Standard, our second quarter net sales would have been \$3,950 for the second quarter and \$7,402 for the six months ended August 4, 2018 primarily due to the seasonal timing of the Anniversary Sale at the end of the second quarter. We do not expect the impact of adopting the new Revenue Standard to be material to our Consolidated Statement of Earnings for the year ended February 2, 2019. The impact of adoption on our Condensed Consolidated Balance Sheet for the period ended August 4, 2018 was as follows:

	August 4, 2018		
	As Reported	Revenue Standard Adjustment	Excluding Impact of Revenue Standard
Assets			
Merchandise inventories	\$2,065	\$72	\$2,137
Prepaid expenses and other	439	(268)	171
Other assets	334	87	421
Liabilities and Shareholders' Equity			
Other current liabilities	1,380	(182)	1,198
Other liabilities	522	150	672
Accumulated deficit	(1,712)	(77)	(1,789)

Revenue Recognition**NET SALES**

We recognize sales revenue net of estimated returns and excluding sales taxes. Revenue from sales to customers shipped from our fulfillment centers, stores and directly from our vendors (“shipped revenues”), which includes shipping revenue when applicable, is recognized at shipping point, the point in time where control has transferred to the customer. Costs to ship orders to customers are expensed as a fulfillment activity at shipping point and commissions from sales at our full-line stores are expensed at the point of sale and both are recorded in selling, general and administrative expenses. Prior to 2018, shipped revenues were recognized upon estimated receipt by the customer and we recorded an estimated in-transit reserve for orders shipped prior to a period’s end, but not yet received by the customer.

We reduce sales and cost of sales by an estimate of customer merchandise returns, which is calculated based on historical return patterns, and record a sales return reserve and an estimated returns asset. Our sales return reserve is classified in other current liabilities and our estimated returns asset, calculated based on the cost of merchandise sold, is classified in prepaid expenses and other on the Condensed Consolidated Balance Sheet. Due to the seasonality of our business, these balances typically increase with higher sales occurring in the last month of a period, such as the Anniversary Sale, and decrease in the following period. Prior to 2018, the estimated cost of merchandise returned was netted with our sales return reserve in other current liabilities.

CREDIT CARD REVENUES, NET

Credit program revenues, net include our portion of the ongoing credit card revenue, net of credit losses, pursuant to the program agreement with TD Bank N.A. (“TD”).

Upon adoption of the new Revenue Standard, the remaining unamortized balances of the investment in contract asset and deferred revenue associated with the sale of the credit card receivables to TD in 2015 and 2017 were eliminated as part of a cumulative-effect adjustment, reducing the opening balance of accumulated deficit for 2018. As a result, the asset amortization and deferred revenue recognition are no longer recorded in credit card revenues, net. Prior to 2018, the investment in contract asset was classified in prepaid expenses and other and other assets, while the deferred revenue was classified in other current liabilities and other liabilities on the Condensed Consolidated Balance Sheet.

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

LOYALTY PROGRAM

The Nordstrom Rewards loyalty program allows customers to accumulate points based on their level of spending, regardless of how they choose to pay. Upon reaching certain point thresholds, customers receive Nordstrom Notes ("Notes"), which can be redeemed for goods or services offered at Nordstrom full-line stores, Nordstrom.com, Nordstrom Rack and Nordstromrack.com/HauteLook. Nordstrom cardholders can also earn rewards at Trunk Club. Customers who participate in our loyalty program through our credit and debit cards receive additional benefits, including Notes or reimbursements for alterations, Personal Triple Points days, shopping and fashion events and early access to the Anniversary Sale.

As our customers earn points and Notes in the loyalty program, a portion of underlying sales revenue is deferred. We recognize the revenue and related cost of sale when the Notes are ultimately redeemed. The amount of revenue deferred is based on an estimated stand-alone selling price of the points and other loyalty benefits, such as alterations, and included in other current liabilities on the Condensed Consolidated Balance Sheet. Other benefits of the loyalty program, including shopping and fashion events, are recorded in selling, general and administrative expenses as these are not a material right of the program.

Our outstanding performance obligation for the Nordstrom Rewards loyalty program consists of unredeemed points and Notes and was \$149 as of August 4, 2018. Almost all Notes are redeemed within six months of issuance. We record breakage revenue of unused points and unredeemed Notes based on expected customer redemption. We estimate, based on historical usage, that 6% of Notes will be unredeemed and recognized as revenue. Prior to 2018, we estimated the net cost of Notes that will be issued and redeemed and recorded this cost as rewards points were accumulated. These costs, as well as reimbursed alterations, were recorded in cost of sales as we provided customers with products and services for these rewards.

GIFT CARDS

We record deferred revenue from the sale of gift cards at the time of purchase. As gift cards are redeemed, we recognize revenue and reduce our contract liability. Though our gift cards do not have an expiration date, we include this deferred revenue in other current liabilities on the Condensed Consolidated Balance Sheet as customers can redeem gift cards at any time.

As of August 4, 2018, our outstanding performance obligation for unredeemed gift cards was \$296. Almost all gift cards are redeemed within two years of issuance. We record breakage revenue on unused gift cards based on expected customer redemption. We estimate, based on historical usage, that 2% will be unredeemed and recognized as revenue. Prior to 2018, gift card breakage was recorded in selling, general and administrative expenses and was estimated based on when redemption was considered remote.

Contract Liabilities

Under the new Revenue Standard, contract liabilities represent our obligation to transfer goods or services to customers and include deferred revenue for our loyalty program (including points and Notes) and gift cards. Our contract liabilities are classified as current on the Condensed Consolidated Balance Sheet. Our contract liabilities are as follows:

	Contract Liabilities
Opening balance as of February 4, 2018	\$498
Balance as of May 5, 2018	460
Ending balance as of August 4, 2018	445

The amount of revenue recognized from our beginning contract liability balance was \$77 in the second quarter ended 2018 and \$228 for the six months ended August 4, 2018.

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

Disaggregation of Revenue

The following table summarizes our disaggregated net sales:

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Full-Price ¹	\$2,707	\$2,850	\$4,948	\$5,006
Off-Price ¹	1,273	1,189	2,502	2,341
Other ¹	—	(322)	—	(351)
Total net sales	\$3,980	\$3,717	\$7,450	\$6,996
Digital sales as % of total net sales²	34%	29%	31%	27%

¹ We present our sales with how management views our results internally, including presenting 2018 under the new Revenue Standard and allocating our sales return reserve and the loyalty related adjustments to Full-Price and Off-Price. Amounts in 2018 related to adoption of the new Revenue Standard have not been recast for any prior periods due to the modified retrospective method of adoption. For 2017, Other primarily included unallocated sales return, in-transit and loyalty related adjustments necessary to reconcile sales by business to total net sales. If we applied the sales return reserve allocation and the loyalty related adjustments to the second quarter and six months ended July 29, 2017, Full-Price net sales would decrease \$254 and \$271, Off-Price net sales would decrease \$11 and \$28 and Other net sales would increase \$265 and \$299. This activity is typically higher at the end of the second quarter primarily due to the seasonal timing of the Anniversary Sale.

² Digital sales are online sales and digitally assisted store sales which include Buy Online, Pickup in Store ("BOPUS"), Reserve Online, Try on in Store (Store Reserve) and Style Boards, a digital selling tool.

The following table summarizes the percent of net sales by merchandise category:

	August 4, 2018	
	Quarter Ended	Six Months Ended
Women's Apparel	32%	33%
Shoes	23%	24%
Men's Apparel	17%	16%
Women's Accessories	11%	11%
Beauty	11%	11%
Kids' Apparel	4%	3%
Other	2%	2%
Total	100%	100%

NOTE 3: SEGMENT REPORTING

We continually monitor and review our segment reporting structure in accordance with authoritative guidance to determine whether any changes have occurred that would impact our reportable segments. In the first quarter of 2018, as a result of the evolution of our operations, our reportable segments have become progressively more integrated such that we have changed to one reportable "Retail" segment to align with how management operates, evaluates and views the results of our operations. Our principal executive officer, who is our chief operating decision maker ("CODM"), reviews results on a total company, Full-Price and Off-Price basis and uses earnings before interest and taxes as a measure of profitability. We completed the reporting and budgeting in the first quarter of 2018 to better align with how the CODM allocates resources and assesses business performance. As part of this evolution, we now allocate our previous Credit segment results across our other businesses while credit assets are included in Corporate/Other.

Our Retail segment aggregates our two operating segments, Full-Price and Off-Price. Full-Price consists of Nordstrom U.S. full-line stores, Nordstrom.com, Canada, Trunk Club, Jeffrey and Nordstrom Local. Off-Price consists of Nordstrom U.S. Rack stores, Nordstromrack.com/HauteLook and Last Chance clearance stores.

Our Full-Price and Off-Price operating segments both generate revenue by offering customers an extensive selection of high-quality, brand-name and private label merchandise, which includes apparel, shoes, cosmetics and accessories for women, men, young adults and children. We continue to focus on omni-channel initiatives by integrating the operations, merchandising and technology necessary to be consistent with our customers' expectations of a seamless shopping experience regardless of channel or business. Full-Price and Off-Price have historically had similar economic characteristics and are expected to have similar economic characteristics and long-term financial performance in future periods. They also have other similar qualitative characteristics, including suppliers, method of distribution, type of customer and regulatory environment. Due to their similar qualitative and economic characteristics, we have aggregated our Full-Price and Off-Price operating segments into a single reportable segment.

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

The following table sets forth information for our reportable segment:

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Retail segment earnings before interest and income taxes ¹	\$313	\$359	\$530	\$545
Corporate/Other loss before interest and income taxes ¹	(67)	(142)	(131)	(177)
Interest expense, net	(28)	(29)	(56)	(76)
Earnings before income taxes	\$218	\$188	\$343	\$292

¹ We present our segment results with how management views our results internally, including allocating our sales return reserve and the loyalty related adjustments to Full-Price and Off-Price in 2018. Amounts in 2018 reflect the adoption of the new Revenue Standard, whereas 2017 amounts have not been recast due to the modified retrospective method of adoption described in Note 2: Revenue. If we applied the sales return reserve allocation and the loyalty related adjustments to the second quarter ended 2017 and six months ended July 29, 2017, Retail segment earnings before interest and income taxes would decrease \$74 and \$68 and Corporate/Other loss before interest and income taxes would decrease \$74 and \$68. This activity is typically higher at the end of the second quarter primarily due to the seasonal timing of the Anniversary Sale.

NOTE 4: DEBT AND CREDIT FACILITIES

Debt

A summary of our long-term debt, including capital leases, is as follows:

	August 4, 2018	February 3, 2018	July 29, 2017
Secured			
Mortgage payable, 7.68%, due April 2020	\$14	\$17	\$22
Other	—	1	1
Total secured debt	14	18	23
Unsecured			
Net of unamortized discount:			
Senior notes, 4.75%, due May 2020	500	500	499
Senior notes, 4.00%, due October 2021	500	500	500
Senior notes, 4.00%, due March 2027	349	349	349
Senior debentures, 6.95%, due March 2028	300	300	300
Senior notes, 7.00%, due January 2038	146	146	146
Senior notes, 5.00%, due January 2044	893	892	890
Other ¹	32	32	33
Total unsecured debt	2,720	2,719	2,717
Total long-term debt	2,734	2,737	2,740
Less: current portion	(54)	(56)	(11)
Total due beyond one year	\$2,680	\$2,681	\$2,729

¹ Other unsecured debt includes our Puerto Rico unsecured borrowing facility partially offset by deferred bond issue costs.

During the first quarter of 2017, we issued \$350 aggregate principal amount of 4.00% senior unsecured notes due March 2027 and \$300 aggregate principal amount of 5.00% senior unsecured notes due January 2044. With the proceeds of these new notes, we retired our \$650 senior unsecured notes that were due January 2018. We incurred \$18 of net interest expense related to the refinancing, which included the write-off of unamortized balances associated with the debt discount, issue costs and fair value hedge adjustment resulting from the sale of our interest rate swap agreements in 2012. It also included a one-time payment of \$24 to 2018 Senior Note holders under a make-whole provision, which represents the net present value of expected coupon payments had the notes been outstanding through the original maturity date.

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

Credit Facilities

As of August 4, 2018, we had total short-term borrowing capacity of \$800 under our senior unsecured revolving credit facility ("revolver") that expires in April 2020. Under the terms of our revolver, we pay a variable rate of interest and a commitment fee based on our debt rating. The revolver is available for working capital, capital expenditures and general corporate purposes. We have the option to increase the revolving commitment by up to \$200, to a total of \$1,000, provided that we obtain written consent from the lenders.

The revolver requires that we maintain an adjusted debt to earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR") leverage ratio of no more than four times. As of August 4, 2018, we were in compliance with this covenant.

Our \$800 commercial paper program allows us to use the proceeds to fund 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 available liquidity under the revolver by an amount equal to the principal amount of commercial paper.

As of August 4, 2018, we had no issuances outstanding under our commercial paper program and no borrowings outstanding under our revolver.

Our wholly owned subsidiary in Puerto Rico maintains a \$52 unsecured borrowing facility to support our expansion into that market. The facility expires in Fall 2018 and borrowings on this facility incur interest based upon the LIBOR plus 1.275% per annum and also incur a fee based on any unused commitment. As of August 4, 2018, we had \$47 outstanding on this facility, which is included in the current portion of long-term debt.

NOTE 5: FAIR VALUE MEASUREMENTS

We disclose our financial assets and liabilities that are measured at fair value in our Condensed Consolidated Balance Sheets by level within the fair value hierarchy as defined by applicable accounting standards:

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

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

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

Financial Instruments Not Measured at Fair Value

Financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, and accounts payable, which approximate fair value due to their short-term nature, and long-term debt.

We estimate the fair value of our long-term debt using quoted market prices of the same or similar issues and, as such, this is considered a Level 2 fair value measurement. The following table summarizes the carrying value and fair value estimate of our long-term debt, including current maturities:

	August 4, 2018	February 3, 2018	July 29, 2017
Carrying value of long-term debt	\$2,734	\$2,737	\$2,740
Fair value of long-term debt	2,797	2,827	2,908

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

We also measure certain non-financial assets at fair value on a nonrecurring basis, primarily goodwill and long-lived tangible and intangible assets, in connection with periodic evaluations for potential impairment. We estimate the fair value of these assets using primarily unobservable inputs and, as such, these are considered Level 3 fair value measurements. There were no material impairment charges for these assets for the six months ended August 4, 2018 and July 29, 2017.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Plans for our Nordstrom NYC store, which we currently expect to open in 2019, ultimately include owning a condominium interest in a mixed-use tower and leasing certain nearby properties. As of August 4, 2018, we had approximately \$289 of fee interest in land, which is expected to convert to the condominium interest once the store is constructed. We have committed to make future installment payments based on the developer meeting pre-established construction and development milestones. In the event that this project is not completed, the opening may be delayed and we may be subject to future losses or capital commitments in order to complete construction or to monetize our investment.

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

NOTE 7: SHAREHOLDERS' EQUITY

In February 2017, our Board of Directors authorized a program to repurchase up to \$500 of our outstanding common stock through August 31, 2018. During the six months ended August 4, 2018, we repurchased 1.8 shares of our common stock for an aggregate purchase price of \$87 and had \$327 remaining in share repurchase capacity as of August 4, 2018. There was \$319 of unused capacity upon program expiration on August 31, 2018.

In August 2018, subsequent to quarter end, our Board of Directors authorized an additional program to repurchase up to \$1,500 of our outstanding common stock, with no expiration date, and we declared a quarterly dividend of \$0.37 per share, which will be paid on September 19, 2018 to holders of record as of September 4, 2018. The actual timing, price, manner and amounts of future share repurchases, if any, will be subject to market and economic conditions and applicable Securities and Exchange Commission ("SEC") rules.

NOTE 8: STOCK-BASED COMPENSATION

The following table summarizes our stock-based compensation expense:

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Restricted stock units	\$22	\$15	\$40	\$28
Stock options	3	5	6	8
Other	3	4	5	5
Total stock-based compensation expense, before income tax benefit	28	24	51	41
Income tax benefit	(7)	(9)	(13)	(16)
Total stock-based compensation expense, net of income tax benefit	\$21	\$15	\$38	\$25

The following table summarizes our grant allocations:

	Six Months Ended			
	August 4, 2018		July 29, 2017	
	Granted	Weighted-average grant-date fair value per unit	Granted	Weighted-average grant-date fair value per unit
Restricted stock units	2.1	\$49	1.8	\$43
Stock options	—	—	0.3	\$16
Performance share units	—	—	0.1	\$40

NOTE 9: EARNINGS PER SHARE

The computation of earnings per share is as follows:

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net earnings	\$162	\$110	\$249	\$173
Basic shares	167.8	166.4	167.8	166.8
Dilutive effect of common stock equivalents	2.5	2.1	2.5	2.0
Diluted shares	170.3	168.5	170.3	168.8
Earnings per basic share	\$0.97	\$0.66	\$1.48	\$1.04
Earnings per diluted share	\$0.95	\$0.65	\$1.46	\$1.02
Anti-dilutive common stock equivalents	5.2	10.3	7.4	11.2

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

(Dollar and share amounts in millions except per share and per square foot amounts)

CAUTIONARY STATEMENT

Certain statements in this Quarterly Report on Form 10-Q contain or may suggest "forward-looking" information (as defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties including, but not limited to, our anticipated financial outlook for the fiscal year ending February 2, 2019, our anticipated annual total and comparable sales rates, our anticipated new store openings in existing, new and international markets, our anticipated Return on Invested Capital and trends in our operations. Such statements are based upon the current beliefs and expectations of our management and are subject to significant risks and uncertainties. Our actual future results may differ materially from historical results or current expectations depending upon factors including, but not limited to:

Strategic and Operational

- successful execution of our customer strategy to provide a differentiated and seamless experience across all Nordstrom channels,
- timely and effective implementation of our plans to evolve our business model, including development of applications for electronic devices, improvement of customer-facing technology, timely delivery of products purchased digitally, enhancement of inventory management systems, greater and more fluid inventory availability between our digital channels and retail store locations, increased reliance on third parties and greater consistency in marketing and pricing strategies, as well as our ability to manage the costs associated with this evolving business model,
- our ability to evolve our business model as necessary to respond to the business and retail environment, as well as fashion trends and consumer preferences, including changing expectations of service and experience in stores and online,
- our ability to properly balance our investments in existing and new store locations, especially our investments in our Nordstrom Men's Store NYC and Nordstrom NYC and our Los Angeles market integration,
- successful execution of our information technology strategy, including engagement with third-party service providers,
- our ability to effectively utilize internal and third-party data in strategic planning and decision making,
- our ability to maintain or expand our presence, including timely completion of construction associated with new, relocated and remodeled stores and fulfillment and distribution centers, all of which may be impacted by third parties and consumer demand,
- efficient and proper allocation of our capital resources,
- effective inventory management processes and systems, fulfillment and supply chain processes and systems, disruptions in our supply chain and our ability to control costs,
- the impact of any systems or network failures, cybersecurity and/or security breaches, including any security breach of our systems or those of a third-party provider that results in the theft, transfer or unauthorized disclosure of customer, employee or Company information or compliance with information security and privacy laws and regulations in the event of such an incident,
- our ability to safeguard our reputation and maintain relationships with our vendors and third-party service providers,
- our ability to maintain relationships with and motivate our employees and to effectively attract, develop and retain our future leaders,
- our ability to realize the expected benefits, respond to potential risks and appropriately manage costs associated with our program agreement with TD,
- the effectiveness of planned advertising, marketing and promotional campaigns in the highly competitive and promotional retail industry,
- market fluctuations, increases in operating costs, exit costs and overall liabilities and losses associated with owning and leasing real estate,
- potential goodwill impairment charges, future impairment charges and fluctuations in the fair values of reporting units or of assets in the event projected financial results are not achieved within expected time frames,
- compliance with debt and operating covenants, availability and cost of credit, changes in our credit rating and changes in interest rates,
- the timing, price, manner and amounts of future share repurchases by us, if any, or any share issuances by us,

Economic and External

- the impact of the seasonal nature of our business and cyclical customer spending,
- the impact of economic and market conditions and the resultant impact on consumer spending and credit patterns,
- the impact of economic, environmental or political conditions in the U.S. and countries where our third-party vendors operate,
- weather conditions, natural disasters, health hazards, national security or other market and supply chain disruptions, including the effects of tariffs, or the prospects of these events and the resulting impact on consumer spending patterns or information technology systems and communications,

Legal and Regulatory

- our compliance with applicable domestic and international laws, regulations and ethical standards, including those related to employment and tax, and the outcome of claims and litigation and resolution of such matters,
- the impact of the current regulatory environment and financial system, health care, and tax reforms,
- the impact of changes in accounting rules and regulations, changes in our interpretation of the rules or regulations, or changes in underlying assumptions, estimates or judgments.

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)

These and other factors, including those factors described in Part I, "Item 1A. Risk Factors" in our 2017 Annual Report on Form 10-K and Part II, "Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q 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, except as may be required by law.

OVERVIEW

We strive to be the best fashion retailer in a digital world with our customer strategy centered on three strategic pillars: providing a compelling product offering, delivering outstanding services and experiences, and leveraging the strength of the Nordstrom brand. We are targeting higher shareholder returns through three key deliverables: growing market share, improving profitability and returns, and continuing our disciplined capital allocation approach.

Our second quarter results demonstrated our continued progress in executing our strategy and delivering on our long-term financial commitments:

- Net earnings of \$162, or \$0.95 per diluted share for the second quarter reflected a 7.1% net sales increase with growth across Full-Price and Off-Price.
- Through our market-leading presence, digital sales increased by 23% in the second quarter, compared with 20% for the same period last year.
- During the first day of our Anniversary Sale, we achieved record digital demand, surpassing our previous peak by 80% at 10 times our average daily demand. Digital sales accounted for more than 40% of our event.
- Our strategic brands enable us to provide customers with a compelling product offering. In the second quarter, strategic brand sales grew 13%, making up approximately 45% of Full-Price.

We continue to execute our local market strategy to drive increased customer engagement and gain market share.

- Starting in Los Angeles, our largest market, we are bringing our digital and physical assets together in a seamless ecosystem to deliver outstanding services and experiences.
- This includes investments in our supply chain capabilities, which are a critical enabler to better serve customers, improve our efficiencies, and better leverage inventory in our local markets. We have identified sites for our West Coast fulfillment center and local omni-channel hub, which are scheduled to open in late 2019.
- Our Nordstrom Local concepts are another component of our local market strategy to engage with customers through more convenient access to product and services, such as buy online pick up in store, alterations, store reserve, and personal styling. This fall, we plan to open two additional locations in the Los Angeles market.

We are encouraged with our progress and we plan 2018 to be an inflection point for long-term profitable growth. We are confident in our path forward and are well-positioned to achieve our financial plans for the year and over the long-term.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**(Continued)** (Amounts in millions except per share amounts)**RESULTS OF OPERATIONS**

In our ongoing effort to enhance the customer experience, we are focused on providing customers with a seamless experience across our channels. We invested early in our omni-channel capabilities, integrating our operations, merchandising and technology across our stores and online, in both our Full-Price and Off-Price businesses. While our customers may engage with us through multiple channels, we know they value the overall Nordstrom brand experience and view us simply as Nordstrom, which is ultimately how we view our business. We have one Retail reportable segment in 2018 and analyze our results on a total Company basis.

We may not calculate certain metrics used to evaluate our business in a consistent manner among industry peers. Provided below are definitions of metrics we present within our analysis:

- Comparable Sales – sales from stores that have been open at least one full year at the beginning of the year
 - Comparable sales include sales from our online channels
 - Due to the 53rd week in 2017, our 2018 comparable sales are reported on a like-for-like basis with no impact from event shifts or revenue recognition
- Digital Sales – online sales and digitally assisted store sales which include Buy Online, Pickup in Store (“BOPUS”), Reserve Online, Try on in Store (Store Reserve) and Style Board, a digital selling tool
- Gross Profit – net sales less cost of sales and related buying and occupancy costs
- Inventory Turnover Rate – trailing 12-months cost of sales and related buying and occupancy costs divided by the trailing 4-quarter average inventory

Net Sales

During the first quarter of 2018, we adopted the new revenue recognition standard using the modified retrospective adoption method. Results beginning in the first quarter of 2018 are presented under the new Revenue Standard, while prior period amounts are not adjusted. Also beginning in 2018, we aligned our sales presentation with how we view the results of our operations internally and how our customers shop with us, by our Full-Price and Off-Price businesses.

- Full-Price – Nordstrom U.S. full-line stores, Nordstrom.com, Canada, Trunk Club, Jeffrey and Nordstrom Local.
- Off-Price – Nordstrom U.S. Rack stores, Nordstromrack.com/HauteLook and Last Chance clearance stores

The following table summarizes net sales and comparable sales for the quarter and six months ended August 4, 2018, compared with the same periods in fiscal 2017:

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net sales by business¹:				
Full-Price	\$2,707	\$2,850	\$4,948	\$5,006
Off-Price	1,273	1,189	2,502	2,341
Other	—	(322)	—	(351)
Total net sales	\$3,980	\$3,717	\$7,450	\$6,996
Comparable sales increase (decrease) by business:				
Full-Price	4.1%	1.4%	2.6%	(0.4%)
Off-Price	4.0%	3.1%	2.2%	2.7%
Total Company	4.0%	1.7%	2.4%	0.6%
Digital sales as % of total net sales				
	34%	29%	31%	27%

¹ We present our sales with how management views our results internally, including presenting 2018 under the new Revenue Standard and allocating our sales return reserve to Full-Price and Off-Price. For 2017, Other primarily included unallocated sales return, in-transit and loyalty related adjustments necessary to reconcile sales by business to total net sales.

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

Total Company net sales increased 7.1% and 6.5% for the second quarter ended 2018 and six months ended August 4, 2018, compared with the same periods in 2017. This included an increase of approximately 100 basis points in the second quarter and 200 basis points for the six months ended August 4, 2018, primarily due to the impact of the new Revenue Standard as it relates to the timing of the Anniversary Sale. We expect a corresponding decrease of approximately 100 basis points in the third quarter of 2018. We do not expect the impact of adopting the new Revenue Standard to be material for the year ended February 2, 2019. We do expect the impact of the 53rd week in 2017 to result in a decrease of approximately 100 basis points in 2018 compared with 2017. Digital sales increased 23% in the second quarter ended 2018 and 21% in the six months ended August 4, 2018 compared with the same periods in 2017. To date in fiscal 2018, we opened our Nordstrom Men's Store NYC and seven Nordstrom Rack stores and closed one full-line store and one Trunk Club clubhouse.

Full-Price net sales decreased 5.0% and 1.2% for the second quarter ended 2018 and six months ended August 4, 2018, compared with the same periods in 2017. This included a decrease of approximately 900 basis points for the second quarter and 400 basis points for the six months ended August 4, 2018, due primarily to the sales return reserve allocation and to a lesser extent the new Revenue Standard. We expect a corresponding increase of approximately 800 basis points in the third quarter of 2018 primarily related to the sales return reserve allocation. Full-Price sales reflected an increase in the average selling price per item sold and the number of items sold. The top-ranking merchandise categories were Kids' Apparel and Beauty for the quarter and six months ended August 4, 2018.

Off-Price net sales increased 7.0% and 6.9% for the second quarter ended 2018 and six months ended August 4, 2018, compared with the same periods in 2017. This reflected an increase in the number of items sold, partially offset by a decrease in the average selling price per item sold. The increase in sales included a decrease of approximately 150 basis points for the second quarter and 50 basis points for the six months ended August 4, 2018, primarily due to the new Revenue Standard. Shoes was the top-performing merchandise category for the quarter and six months ended August 4, 2018.

Credit Card Revenue, Net

Credit program revenues, net includes our portion of the credit card revenue, net of credit losses, from credit card receivables pursuant to our program agreement with TD.

Credit card revenue, net was \$87 for the quarter ended August 4, 2018, compared with \$76 for the same period in 2017 and \$179 for the six months ended August 4, 2018, compared with \$152 for the same period in 2017. The increases of \$11 and \$27 for the quarter and six months ended August 4, 2018 were a result of our strategic partnership with TD to responsibly grow our receivables and associated revenues as well as efforts to drive new account growth.

Gross Profit

The following table summarizes gross profit:

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Gross profit	\$1,391	\$1,266	\$2,573	\$2,389
Gross profit as a % of net sales	35.0%	34.0%	34.5%	34.2%
			August 4, 2018	July 29, 2017
Inventory turnover rate			4.74	4.53

Our gross profit rate increased 91 basis points for the second quarter ended 2018 and 39 basis points for the six months ended August 4, 2018, compared with the same periods in 2017. This increase included a favorable shift of \$30 million due to the impact of the new Revenue Standard as it relates to the timing of the Anniversary Sale, which is expected to fully reverse in the third quarter. In addition, the increase was driven by higher product margins from favorable regular price selling trends and leverage on occupancy expenses. Continued inventory execution led to improvements in inventory turnover rate as of August 4, 2018. For additional information on the impacts of the new Revenue Standard, see Note 2: Revenue in Item 1.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**(Continued)** (Amounts in millions except per share amounts)**Selling, General and Administrative Expenses**

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

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Selling, general and administrative expenses	\$1,232	\$1,125	\$2,353	\$2,173
Selling, general and administrative expenses as a % of net sales	31.0%	30.3%	31.6%	31.1%

SG&A increased \$107 and 71 basis points for the second quarter ended 2018 and \$180 and 53 basis points for the six months ended August 4, 2018, primarily due to higher supply chain expenses related to planned growth and the Anniversary Sale.

Earnings Before Interest and Income Taxes

Earnings before interest and income taxes ("EBIT") are summarized in the following table:

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Earnings before interest and income taxes	\$246	\$217	\$399	\$368
Earnings before interest and income taxes as a % of net sales	6.2%	5.8%	5.4%	5.3%

EBIT increased \$29 and 33 basis points for the second quarter ended 2018 and \$31 and 10 basis points for the six months ended August 4, 2018. The increase in EBIT included a favorable shift of \$30 primarily due to the impact of the new Revenue Standard as it relates to the timing of the Anniversary Sale, which is expected to fully reverse in the third quarter.

Interest Expense, net

Interest expense, net was \$28 for the second quarter ended 2018, compared with \$29 for the same period in 2017, and \$56 for the six months ended August 4, 2018, compared with \$76 for the same period in 2017. The decrease for the six months ended August 4, 2018, is due to a net interest expense charge of \$18 related to the \$650 debt refinancing completed in the first quarter of 2017 (see Note 4: Debt and Credit Facilities in Item 1).

Income Tax Expense

Income tax expense is summarized in the following table:

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Income tax expense	\$56	\$78	\$94	\$119
Effective tax rate	25.7%	41.8%	27.4%	40.7%

The effective tax rate decreased for the second quarter ended 2018 and six months ended August 4, 2018, compared with the same periods in 2017, primarily due to the lower statutory tax rate enacted under the Tax Act.

Earnings Per Share

Earnings per share is as follows:

	Quarter Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Basic	\$0.97	\$0.66	\$1.48	\$1.04
Diluted	\$0.95	\$0.65	\$1.46	\$1.02

Earnings per diluted share increased \$0.30 for the second quarter ended 2018 and increased \$0.44 for the six months ended August 4, 2018, compared with the same periods in 2017 due to higher sales volume, a lower tax rate and the impact of the new Revenue Standard as it relates to the timing of the Anniversary Sale.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**(Continued)** (Amounts in millions except per share amounts)**Fiscal Year 2018 Outlook**

We raised our annual outlook expectations for sales and earnings per diluted share to incorporate our first half results. Our current expectations for fiscal 2018 are as follows:

	Prior Outlook	Current Outlook
Net sales	\$15.2 to \$15.4 billion	\$15.4 to \$15.5 billion
Credit card revenues	Mid-teens growth	Mid-teens growth
Comparable sales (percent)	0.5 to 1.5	1.5 to 2
EBIT	\$895 to \$940 million	\$925 to \$960 million
Earnings per diluted share (excluding the impact of any future share repurchases)	\$3.35 to \$3.55	\$3.50 to \$3.65

Our updated full year outlook incorporated the following assumptions:

- For the second half of fiscal 2018, we expect the third quarter to contribute approximately 30 percent of EBIT and the fourth quarter to contribute approximately 70 percent of EBIT.
- Third quarter EBIT margin is expected to deleverage on fixed expenses and reflect an unfavorable shift of \$30. This represents the reversal of the second quarter benefit of the new Revenue Standard as it relates to the timing of the Anniversary Sale.
- Fourth quarter EBIT is expected to leverage from higher sales volume and reflect a favorable comparison of \$16 from a one-time employee investment in 2017 associated with last year's tax reform. When normalizing for this one-time impact, we anticipate the fourth quarter's EBIT contribution to the second half will be generally consistent with historical trends.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**(Continued)** (Amounts in millions except per share amounts)**Adjusted Return on Invested Capital ("Adjusted ROIC") (Non-GAAP financial measure)**

We believe that Adjusted ROIC is a useful financial measure for investors in evaluating the efficiency and effectiveness of the capital we have invested in our business to generate returns. Adjusted ROIC adjusts our operating leases as if they met the criteria for capital leases or we had purchased the properties. This provides additional supplemental information that reflects the investment in our off-balance sheet operating leases, controls for differences in capital structure between us and our competitors and provides investors and credit agencies with another way to comparably evaluate the efficiency and effectiveness of our capital investments over time. In addition, we incorporate Adjusted ROIC into our executive incentive measures and it is an important indicator of shareholders' return over the long term.

We define Adjusted ROIC as our adjusted net operating profit after tax divided by our average invested capital using the trailing 12-month average. Adjusted ROIC is not a measure of financial performance under generally accepted accounting principles ("GAAP") and should be considered in addition to, and not as a substitute for, return on assets, net earnings, total assets or other financial measures prepared in accordance with GAAP. Our method of determining non-GAAP financial measures may differ from other companies' methods and therefore may not be comparable to those used by other companies. Estimated depreciation on capitalized operating leases and average estimated asset base of capitalized operating leases are not calculated in accordance with, or an alternative for, GAAP and should not be considered in isolation or as a substitution of our results as reported under GAAP. The financial measure calculated under GAAP which is most directly comparable to Adjusted ROIC is return on assets.

For the 12 fiscal months ended August 4, 2018, our Adjusted ROIC increased to 10.8% compared with 8.9% for the 12 fiscal months ended July 29, 2017. Results for the prior period were negatively impacted by approximately 310 basis points due to the Trunk Club non-cash goodwill impairment charge in the third quarter of 2016.

The following is a reconciliation of the components of Adjusted ROIC and return on assets:

	12 Fiscal Months Ended	
	August 4, 2018	July 29, 2017
Net earnings	\$513	\$364
Add: income tax expense ¹	329	346
Add: interest expense	124	139
Earnings before interest and income tax expense	966	849
Add: rent expense, net	249	230
Less: estimated depreciation on capitalized operating leases ²	(133)	(123)
Adjusted net operating profit	1,082	956
Less: estimated income tax expense	(422)	(438)
Adjusted net operating profit after tax	\$660	\$518
Average total assets	\$8,175	\$8,018
Less: average non-interest-bearing current liabilities ³	(3,371)	(3,173)
Less: average deferred property incentives and deferred rent liability ³	(635)	(646)
Add: average estimated asset base of capitalized operating leases ²	1,962	1,636
Average invested capital	\$6,131	\$5,835
Return on assets⁴	6.3%	4.5%
Adjusted ROIC⁴	10.8%	8.9%

¹ Results for the 12 fiscal months ended August 4, 2018 include a \$42 unfavorable impact related to the Tax Act.

² Capitalized operating leases is our best estimate of the asset base we would record for our leases that are classified as operating if they had met the criteria for a capital lease or we had purchased the property. The asset base is calculated based upon the trailing 12-month average of the monthly asset base. The asset base for each month is calculated as the trailing 12 months of rent expense multiplied by eight. The multiple of eight times rent expense is a commonly used method of estimating the asset base we would record for our capitalized operating leases.

³ Balances associated with our deferred rent liability have been classified as long-term liabilities as of January 28, 2017.

⁴ Results for the 12 fiscal months ended July 29, 2017 include the \$197 impact of the Trunk Club non-cash goodwill impairment charge in the third quarter of 2016, which negatively impacted the prior period return on assets by approximately 230 basis points and Adjusted ROIC by approximately 310 basis points.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**(Continued)** (Amounts in millions except per share amounts)**LIQUIDITY AND CAPITAL RESOURCES**

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

Over the long term, we manage our cash and capital structure to maximize shareholder return, maintain our financial position, manage refinancing risk and allow flexibility for strategic initiatives. We regularly assess our debt and leverage levels, capital expenditure requirements, debt service payments, dividend payouts, potential share repurchases and other future investments. We believe that as of August 4, 2018, our existing cash and cash equivalents on-hand of \$1,343, available credit facility of \$800 and potential future operating cash flows and borrowings will be sufficient to fund these scheduled future payments and potential long-term initiatives.

The following is a summary of our cash flows by activity:

Fiscal year	Six Months Ended	
	August 4, 2018	July 29, 2017
Net cash provided by operating activities	\$594	\$574
Net cash used in investing activities	(290)	(308)
Net cash used in financing activities	(142)	(354)

Operating Activities

Net cash provided by operating activities increased \$20 for the period ended August 4, 2018, compared with the same period in 2017, primarily due to the timing of the payments for inventory purchases and higher net earnings, partially offset by the timing of payroll and increased incentive compensation payouts, which included \$16 for our one-time investment in employees paid in 2018 in response to the Tax Act.

Investing Activities

Net cash used in investing activities decreased \$18 for the period ended August 4, 2018, compared with the same period in 2017, primarily due to planned reductions in capital expenditures, partially offset by the acquisitions of two retail technology companies, which were classified in other investing activities, net (see Note 1: Basis of Presentation in Item 1).

Financing Activities

Net cash used in financing activities decreased \$212 for the period ended August 4, 2018, compared with the same period in 2017, primarily due to decreased share repurchase activity.

Borrowing Activity

During the first quarter of 2017, we issued \$350 aggregate principal amount of 4.00% senior unsecured notes due March 2027 and \$300 aggregate principal amount of 5.00% senior unsecured notes due January 2044. We recorded debt issuance costs incurred as a result of the issuance in other financing activities, net in the Condensed Consolidated Statements of Cash Flows in Item 1. With the proceeds of these new notes, we retired our \$650 senior unsecured notes that were due January 2018.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**(Continued)** (Amounts in millions except per share amounts)**Free Cash Flow (Non-GAAP financial measure)**

Free Cash Flow is one of our key liquidity measures, and when used in conjunction with GAAP measures, provides investors with a meaningful analysis of our ability to generate cash from our business. For the six months ended August 4, 2018, we had Free Cash Flow of \$388 compared with \$239 for the six months ended July 29, 2017.

Beginning in the first quarter of fiscal 2018, we no longer adjust free cash flow for cash dividends paid. We believe this presentation is more reflective of our operating performance and more consistent with the way we manage our business, how our peers calculate free cash flows and prevailing industry practice. Prior period Free Cash Flow financial measures have been recast to conform with current period presentation.

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

	Six Months Ended	
	August 4, 2018	July 29, 2017
Net cash provided by operating activities	\$594	\$574
Less: capital expenditures	(269)	(341)
Add: change in cash book overdrafts	63	6
Free Cash Flow	\$388	\$239

Adjusted EBITDA (Non-GAAP financial measure)

Adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") is our key financial metric to reflect our view of cash flow from net earnings. Adjusted EBITDA excludes significant items which are non-operating in nature in order to evaluate our core operating performance against prior periods. The financial measure calculated under GAAP which is most directly comparable to Adjusted EBITDA is net earnings. As of August 4, 2018 and July 29, 2017, Adjusted EBITDA was \$697 and \$650.

Adjusted EBITDA is not a measure of financial performance under GAAP and should be considered in addition to, and not as a substitute for net earnings, overall change in cash or liquidity of the business as a whole. Our method of determining non-GAAP financial measures may differ from other companies' methods and therefore may not be comparable to those used by other companies. The following is a reconciliation of net earnings to Adjusted EBITDA:

	Six Months Ended	
	August 4, 2018	July 29, 2017
Net earnings	\$249	\$173
Add: income tax expense	94	119
Add: interest expense, net	56	76
Earnings before interest and income taxes	399	368
Add: depreciation and amortization expenses	338	320
Less: amortization of deferred property incentives	(40)	(38)
Adjusted EBITDA	\$697	\$650

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**(Continued)** (Amounts in millions except per share amounts)**Credit Capacity and Commitments**

As of August 4, 2018, we had total short-term borrowing capacity of \$800 under our senior unsecured revolving credit facility ("revolver") that expires in April 2020. Under the terms of our revolver, we pay a variable rate of interest and a commitment fee based on our debt rating. The revolver is available for working capital, capital expenditures and general corporate purposes. We have the option to increase the revolving commitment by up to \$200, to a total of \$1,000, provided that we obtain written consent from the lenders.

Our wholly owned subsidiary in Puerto Rico maintains a \$52 unsecured borrowing facility to support our expansion into that market. The facility expires in Fall 2018 and borrowings on this facility incur interest based upon the LIBOR plus 1.275% per annum and also incur a fee based on any unused commitment. As of August 4, 2018, we had \$47 outstanding on this facility.

As of August 4, 2018, we had no issuances outstanding under our commercial paper program and no borrowings outstanding under our revolver.

Impact of Credit Ratings

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

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

	Credit Ratings	Outlook
Moody's	Baa1	Stable
Standard & Poor's	BBB+	Stable

	Base Interest Rate	Applicable Margin
Euro-Dollar Rate Loan	LIBOR	1.02%
Canadian Dealer Offer Rate Loan	CDOR	1.02%
Base Rate Loan	various	—

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

Debt Covenants

The revolver requires that we maintain an adjusted debt to earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR") leverage ratio of no more than four times. As of August 4, 2018, we were in compliance with this covenant.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**(Continued)** (Amounts in millions except per share amounts)**Adjusted Debt to EBITDAR (Non-GAAP financial measure)**

Adjusted Debt to EBITDAR is one of our key financial metrics, and we believe that our debt levels are best analyzed using this measure. Our goal is to manage debt levels to maintain an investment-grade credit rating and operate with an efficient capital structure. In evaluating our debt levels, this measure provides a reflection of our credit worthiness that could impact our credit rating and borrowing costs. We also have a debt covenant that requires an adjusted debt to EBITDAR leverage ratio of no more than four times. As of August 4, 2018, our Adjusted Debt to EBITDAR was 2.5, and as of July 29, 2017, it was 2.4.

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

	2018 ¹	2017 ¹
Debt	\$2,734	\$2,740
Add: estimated capitalized operating lease liability ²	1,993	1,841
Adjusted Debt	\$4,727	\$4,581
Net earnings	\$513	\$364
Add: income tax expense ³	329	346
Add: interest expense, net	115	136
Earnings before interest and income taxes	957	846
Add: depreciation and amortization expenses	683	646
Add: rent expense, net	249	230
Add: non-cash acquisition-related charges ⁴	1	204
Adjusted EBITDAR	\$1,890	\$1,926
Debt to Net Earnings⁵	5.3	7.5
Adjusted Debt to EBITDAR	2.5	2.4

¹ The components of Adjusted Debt are as of August 4, 2018 and July 29, 2017, while the components of Adjusted EBITDAR are for the 12 months ended August 4, 2018 and July 29, 2017.

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

³ Results for the 12 fiscal months ended August 4, 2018 include a \$42 unfavorable impact related to the Tax Act.

⁴ Non-cash acquisition-related charges for the 12 months ended July 29, 2017 include the goodwill impairment charge of \$197 related to Trunk Club.

⁵ Results for the period ended July 29, 2017 include the \$197 impact of the Trunk Club goodwill impairment charge, which approximates 260 basis points.

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

(Continued) (Amounts in millions except per share amounts)

CRITICAL ACCOUNTING ESTIMATES

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. We believe that the estimates, assumptions and judgments involved in the accounting policies referred to in our Annual Report on Form 10-K for the year ended February 3, 2018 have the greatest potential effect on our financial statements, so we consider these to be our critical accounting policies and estimates. Our management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors.

Except as disclosed in Note 2: Revenue of Item 1, pertaining to our adoption of the new Revenue Standard, there have been no significant changes to our significant accounting policies as described in our Annual Report on Form 10-K filed with the SEC on March 19, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We discussed our interest rate risk and our foreign currency exchange risk in Part II, "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2017 Annual Report on Form 10-K filed with the SEC on March 19, 2018. There have been no material changes to these risks since that time.

Item 4. Controls and Procedures.

DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no other material changes to the risk factors we discussed in Part I, "Item 1A. Risk Factors" of our 2017 Annual Report on Form 10-K filed with the SEC on March 19, 2018, as updated by our subsequent quarterly report on Form 10-Q filed with the SEC on June 7, 2018.

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

(c) SHARE REPURCHASES

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

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

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
May 2018 (May 6, 2018 to June 2, 2018)	0.6	\$48.26	0.6	\$371
June 2018 (June 3, 2018 to July 7, 2018)	0.7	\$50.99	0.7	\$337
July 2018 (July 8, 2018 to August 4, 2018)	0.2	\$50.78	0.2	\$327
Total	1.5	\$49.81	1.5	

Our February 2017 Board authorized share repurchase program, which had \$327 of remaining capacity as of August 4, 2018, expired on August 31, 2018. There was \$319 of unused capacity upon program expiration. In August 2018, our Board of Directors authorized an additional program to repurchase up to \$1,500 of our outstanding common stock, with no expiration date. The actual timing, price, manner and amounts of future share repurchases, if any, will be subject to market and economic conditions and applicable SEC rules.

Item 6. Exhibits.

Exhibits are incorporated herein by reference or are filed or furnished with this report as set forth in the Exhibit Index on page 27 hereof.

NORDSTROM, INC.
Exhibit Index

	Exhibit	Method of Filing
3.1	Bylaws, as amended and restated as of May 8, 2018	Filed herewith electronically
10.1	Nordstrom, Inc. 2002 Nonemployee Director Stock Incentive Plan (2018 Amendment)	Filed herewith electronically
31.1	Certification of Co-President required by Section 302(a) of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
31.2	Certification of Chief Financial Officer required by Section 302(a) of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
32.1	Certification of Co-President and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith electronically
101.INS	XBRL Instance Document	Filed herewith electronically
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith electronically
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith electronically
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	Filed herewith electronically
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith electronically
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith electronically

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/ Anne L. Bramman
Anne L. Bramman
Chief Financial Officer
(Principal Financial Officer)

Date: September 5, 2018

**BYLAWS
OF
NORDSTROM, INC.**

(Amended and Restated as of May 8, 2018)

ARTICLE I

Offices

The principal office of the corporation in the state of Washington shall be located in the city of Seattle. The corporation may have such other offices, either within or without the state of Washington, as the Board of Directors may designate or as the business of the corporation may require from time to time.

The registered office of the corporation required by the Washington Business Corporation Act to be maintained in the state of Washington may be, but need not be, identical with the principal office in the state of Washington and the address of the registered office may be changed from time to time by the Board of Directors or by officers designated by the Board of Directors.

ARTICLE II

Shareholders

Section 1. Annual Meetings. The annual meeting of the shareholders shall be held on the third Tuesday in the month of May each year, at the hour of 11:00 a.m., unless the Board of Directors shall have designated a different hour and day in the month of May to hold said meeting. The meeting shall be for the purpose of electing directors and the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting shall be a legal holiday in the state of Washington and if the Board of Directors has not designated some other day in the month of May for such meeting, such meeting shall be held at the same hour and place on the next succeeding business day not a holiday. The failure to hold an annual meeting at the time stated in these Bylaws does not affect the validity of any corporate action. If the election of directors shall not be held on the day designated herein or by the Board of Directors for any annual meeting of the shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as conveniently may be.

Section 2. Special Meetings. Special meetings of the shareholders may be called for any purpose or purposes, unless otherwise prescribed by statute, at any time by the Non-Executive Chairman of the Board of Directors, by the President (or any Co-President) if there is not then a Non-Executive Chairman of the Board of Directors or by the Board of Directors and shall be called by the Non-Executive Chairman of the Board of Directors or the President (or any Co-President) at the request of holders of not less than 10% of all outstanding shares of the corporation entitled to vote on any issue proposed to be considered at the meeting. Only business within the purpose or purposes described in the meeting notice may be conducted at a special shareholder's meeting.

Section 3. Place of Meeting. The Board of Directors may designate any place, either within or without the state of Washington, as the place of meeting for any annual meeting or for any special meeting of the corporation. If no such designation is made, the place of meeting shall be the principal offices of the corporation in the state of Washington.

Section 4. Notice of Meetings. Written notice of annual or special meetings of shareholders stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given by the Secretary, or persons authorized to call the meeting, to each shareholder of record entitled to vote at the meeting, not less than ten (10) nor more than sixty (60) days prior to the date of the meeting, unless otherwise prescribed by statute.

Section 5. Waiver of Notice. Notice of the time, place and purpose of any meeting may be waived in writing (either before or after such meeting) and will be waived by any shareholder by attendance of the shareholder in person or by proxy, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting. Any shareholder waiving notice of a meeting shall be bound by the proceedings of the meeting in all respects as if due notice thereof had been given.

Section 6. Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or any adjournment thereof, or shareholders entitled to receive payment of any dividend, or to make a determination of shareholders for any other proper purpose, the Board of Directors may fix in advance a record date for any such determination of shareholders, such date to be not more than seventy (70) days and, in the case of a meeting of shareholders, not less than ten (10) days, prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the day before the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this Section, the determination shall apply to any adjournment thereof, unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned more than one hundred twenty (120) days after the date fixed for the original meeting.

Section 7. Voting Lists. After fixing a record date for a shareholders' meeting, the corporation shall prepare an alphabetical list of the names of all shareholders on the record date who are entitled to notice of the shareholders' meeting. The list shall show the address of and number of shares held by each shareholder. A shareholder, shareholder's agent, or a shareholder's attorney may inspect the shareholder list, at the shareholder's expense, beginning ten (10) days prior to the shareholders' meeting and continuing through the meeting, at the corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held during regular business hours. The shareholder list shall be kept open for inspection at the time and place of such meeting or any adjournment.

Section 8. Quorum and Adjourned Meetings. Unless the Articles of Incorporation or applicable law provide otherwise, a majority of the outstanding shares of the corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. Once a share is represented at a meeting, other than to object to holding the meeting or transacting business, it is deemed to be present for the remainder of the meeting and any adjournment thereof unless a new record date is set or is required to be set for the adjourned meeting. A majority of the shares represented at a meeting, even if less than a quorum, may adjourn the meeting from time to time without further notice. The Non-Executive Chairman, or the President if there is not then a Non-Executive Chairman, may recess or adjourn the meeting from time to time without further notice. At a reconvened meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the original meeting. Business may continue to be conducted at a duly organized meeting and at any adjournment of such meeting (unless a new record date is or must be set for the adjourned meeting), notwithstanding the withdrawal of enough shares from either meeting to leave less than a quorum.

Section 9. Proxies. At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by the shareholder's duly authorized attorney in fact. Such proxy shall be filed with the Secretary of the corporation before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

Section 10. Voting of Shares. Every shareholder of record shall have the right at every shareholders' meeting to one vote for every share standing in the shareholder's name on the books of the corporation. A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred. If a quorum exists, action on a matter, other than election of directors, is approved by the shareholders if the votes cast favoring the action exceed the votes cast opposing the action, unless the Articles of Incorporation or applicable law require a greater number of affirmative votes. Notwithstanding the foregoing, shares of the corporation may not be voted if they are owned, directly or indirectly, by another corporation and the corporation owns, directly or indirectly, a majority of shares of the other corporation entitled to vote for directors of the other corporation.

Section 11. Acceptance of Votes. If the name signed on a vote, consent, waiver or proxy appointment does not correspond to the name of a shareholder of the corporation, the corporation may accept the vote, consent, waiver or proxy appointment and give effect to it as the act of the shareholder if: (i) the shareholder is an entity and the name signed purports to be that of an officer, partner or agent of the entity; (ii) the name signed purports to be that of an administrator, executor, guardian or conservator representing the shareholder; (iii) the name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder; (iv) the name signed purports to be that of a pledgee, beneficial owner or attorney-in-fact of the shareholder; or (v) two or more persons are the shareholder as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-owners and the person signing appears to be acting on behalf of all co-owners.

Section 12. Nomination of Directors. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the corporation. Nominations of persons for election to the Board of Directors may be made at any annual meeting of shareholders (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (b) by any shareholder of the corporation (i) who is a shareholder of record on the date of the giving of the notice provided for in this Section 12 and on the record date for the determination of shareholders entitled to vote at the annual meeting and (ii) who timely complies with the notice procedures and form of notice set forth in this Section 12. This Section 12 shall be the exclusive means for a shareholder to submit nominations of persons for election to the Board of Directors.

Section 12.1. Procedure for Nomination by Shareholders. To be timely, a shareholder's notice must be given to the Secretary of this corporation in proper form and must be delivered to or mailed and received at the principal executive offices of the corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the anniversary of the immediately preceding annual meeting of shareholders; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after the anniversary date, or no annual meeting was held in the immediately preceding year, notice by the shareholder in order to be timely must be so received no later than the close of business on the tenth (10th) day following the day on which the notice of the annual meeting date was mailed to shareholders.

To be in the proper form, a shareholder's notice must be in written form and must set forth (a) as to each person whom the shareholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the proposed nominee, (ii) the principal occupation or employment of the proposed nominee, (iii) (A) the class or series and number of shares of capital stock of the corporation which are owned beneficially or of record by the proposed nominee and any affiliates or associates of such person, (B) the name of each nominee holder of shares of all stock of the corporation owned beneficially but not of record by such person or any affiliates or associates of such person, and the number of such shares of stock of the corporation held by each such nominee holder, (C) whether and the extent to which any derivative instrument, swap, option, warrant, short interest, hedge or profit interest or other transaction has been entered into by or on behalf of such person, or any affiliates or associates of such person, with respect to stock of the corporation and (D) whether and the extent to which any other transaction, agreement, arrangement or understanding (including any short position or any borrowing or lending of shares of stock of the corporation) has been made by; or on behalf of such person, or any affiliates or associates of such person, the effect or intent of any of the foregoing being to mitigate loss to, or to manage risk or benefit of stock price changes for, such person, or any affiliates or associates of such person, or to increase or decrease the voting power or pecuniary or economic interest of such person, or any affiliates or associates of such person, with respect to stock of the corporation, (iv) as an appendix, a completed and signed questionnaire, representation and agreement required by Section 12.3 of this Article II and (v) any other information relating to the proposed nominee that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder and (b) as to the shareholder giving the notice, and the beneficial owner, if any, on whose behalf the nomination is being made, (i) the name and record address of the shareholder giving the notice and the name and principal place of business of such beneficial owner, (ii) (A) the class or series and number of shares of capital stock of the corporation which are owned beneficially or of record by such person and any affiliates or associates of such person, (B) the name of each nominee holder of shares of all stock of the corporation owned beneficially but not of record by such person or any affiliates or associates of such person, and the number of such shares of stock of the corporation held by each such nominee holder, (C) whether and the extent to which any derivative instrument, swap, option, warrant, short interest, hedge or profit interest or other transaction has been entered into by or on behalf of such person, or any affiliates or associates of such person, with respect to stock of the corporation and (D) whether and the extent to which any other transaction, agreement, arrangement or understanding (including any short position or any borrowing or lending of shares of stock of the corporation) has been made by or on behalf of such person, or any affiliates or associates of such person, the effect or intent of any of the foregoing being to mitigate loss to, or to manage risk or benefit of stock price changes for, such person, or any affiliates or associates of such person, or to increase or decrease the voting power or pecuniary or economic interest of such person, or any affiliates or associates of such person, with respect to stock of the corporation, (iii) a reasonably detailed description of (A) all agreements, arrangements or understandings (whether written or oral) between or among such person, or any affiliates or associates of such person, and each proposed nominee, or any affiliates or associates of such proposed nominee, (B) all agreements, arrangements or understandings (whether written or oral) between or among such person, or any affiliates or associates of such person, and any other person or persons (including their names) pursuant to which the nomination(s) are being made by such person, or otherwise relating to the corporation or their ownership of capital stock of the corporation, and (C) any material interest of such person, or any affiliates or associates of such person, in such nomination, including any anticipated benefit therefrom to such person, or any affiliates or associates of such person, (iv) a representation that the shareholder intends to appear in person or by proxy at the

meeting to nominate the person named in its notice, (v) a representation whether the shareholder intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding capital stock required to elect the nominee and/or solicit proxies from shareholders in support of the nomination, (vi) any performance related fees (other than an asset based fee) that such shareholder is entitled to based on any increase or decrease in the price or value of shares of any class or series of this corporation, and (vii) any other information relating to such person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. The notice must be accompanied by a written consent of each proposed nominee to be named as a nominee and to serve as a director if elected. The corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as an independent director of the corporation or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such nominee.

A shareholder providing notice of any nomination proposed to be made at an annual meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 12 of this Article II shall be true and correct as of the record date for determining the shareholders entitled to receive notice of the annual meeting, and such update and supplement shall be delivered to or be mailed and received by the Secretary at the principal executive offices of the corporation not later than five (5) business days after the record date for determining the shareholders entitled to receive notice of such annual meeting.

Section 12.2. Compliance with Procedures. If the chairman of the annual meeting determines that a nomination was not made in accordance with the foregoing procedures, the chairman shall declare to the meeting that the nomination was defective and the defective nomination shall be disregarded. Notwithstanding anything to the contrary in these Bylaws, unless otherwise required by law, (i) no person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures (including providing the required information) set forth in this Section 12, whether such proposed nominee is to be included in the corporation's proxy statement or presented to shareholders by means of an independently financed proxy solicitation and (ii) if the shareholder (or a qualified representative) giving the notice does not appear at the meeting to present the nomination such nomination may be disregarded, notwithstanding that proxies in respect to such nomination may have been received by the corporation.

Section 12.3. Submission of Questionnaire; Representation and Agreement. To be eligible to be a shareholder nominee for election or reelection as a director of the corporation, a person must deliver (in accordance with the time periods prescribed for delivery of notice under Section 12.1 of this Article II) to the Secretary of the corporation at the principal executive offices of the corporation a written questionnaire with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made (which questionnaire shall be provided to such person by the Secretary upon written request) and a written representation and agreement (in the form provided to such person by the Secretary upon written request) that such person (i) is not and will not become a party to (A) any agreement, arrangement or understanding (whether written or oral) with and has not given any commitment or assurance to, any person or entity as to how such person, if elected as a director of the corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the corporation or (B) any Voting Commitment that could limit or interfere with such person's ability to comply, if elected as a director of the corporation, with such person's fiduciary duties under applicable law, (ii) is not and will not become a party to any agreement, arrangement or understanding (whether written or oral) with any person or entity other than the corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein, (iii) in such person's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the corporation, and will comply with, applicable law and all applicable publicly disclosed corporate governance, conflict of interest, corporate opportunities, code of conduct and ethics, confidentiality and stock ownership and trading policies and guidelines of the corporation and (iv) if elected as a director of the corporation, will act in the best interests of the corporation and its shareholders and not in the interests of individual constituencies.

Section 13. Business at Shareholder Meetings. At any annual or special meeting of shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual or special meeting of shareholders, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (c) otherwise properly brought before the annual or special meeting by any shareholder who is a shareholder of record on the date of the giving of the written notice

required by this Section 13 and on the record date for determination of shareholders entitled to vote at the meeting. This Section 13 shall be the exclusive means for a shareholder to submit business before a meeting of shareholders (other than the nomination of a person for election as a director, which is governed by Section 12 of Article II of these Bylaws).

Without qualification, for business to be properly brought before an annual or special meeting of shareholders by a shareholder (other than the nomination of a person for election as a director, which is governed by Section 12 of Article II of these Bylaws), the shareholder intending to propose the business must timely comply with the notice procedures and the form of notice set forth in this Section 13.

For the written notice to be timely for purposes of an annual meeting, a shareholder's notice must be given to the Secretary of the corporation in proper form and must be delivered to the Secretary or mailed and received at the principal executive offices of the corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the anniversary date of the immediately preceding annual meeting of shareholders; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after the anniversary date, notice by the shareholder in order to be timely must be so received no later than the close of business on the tenth (10th) day following the day on which the notice of the annual meeting date was mailed to shareholders. In no event shall any adjournment or postponement of an annual meeting or a public announcement thereof commence a new time period (or extend any time period) for the giving of a shareholder's notice.

For the written notice to be timely for purposes of a special meeting, a shareholder's notice must be given to the Secretary of the corporation in proper form and must be delivered to the Secretary or mailed and received at the principal executive offices of the corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the date of such special meeting of shareholders; provided, however, that if the first public announcement of the date of such special meeting is less than one hundred (100) days prior to the date of such special meeting, the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting. In no event shall any adjournment or postponement of a special meeting or a public announcement thereof commence a new time period (or extend any time period) for the giving of a shareholder's notice.

To be in proper form, a shareholder's notice must be in written form and must set forth (a) as to each matter the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting and the proposed text of any proposal regarding such business (including the text of any resolutions proposed for consideration and, if such business includes a proposal to amend these Bylaws, the text of the proposed amendment), and the reasons for conducting the business at the meeting, (b) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is being made, (i) the name and record address of the shareholder giving the notice and the name and principal place of business of such beneficial owner, (ii) (A) the class or series and number of shares of capital stock of the corporation which are owned beneficially or of record by such person and any affiliates or associates of such person, (B) the name of each nominee holder of shares of all stock of the corporation owned beneficially but not of record by such person or any affiliates or associates of such person, and the number of such shares of stock of the corporation held by each such nominee holder, (C) whether and the extent to which any derivative instrument, swap, option, warrant, short interest, hedge or profit interest or other transaction has been entered into by or on behalf of such person, or any affiliates or associates of such person, with respect to stock of the corporation and (D) whether and the extent to which any other transaction, agreement, arrangement or understanding (including any short position or any borrowing or lending of shares of stock of the corporation) has been made by or on behalf of such person, or any affiliates or associates of such person, the effect or intent of any of the foregoing being to mitigate loss to, or to manage risk or benefit of stock price changes for, such person, or any affiliates or associates of such person, or to increase or decrease the voting power or pecuniary or economic interest of such person, or any affiliates or associates of such person, with respect to stock of the corporation, (iii) a reasonably detailed description of all agreements, arrangements or understandings (whether written or oral) between or among such person, or any affiliates or associates of such person, and any other person or persons (including their names) in connection with or relating to (A) the corporation or (B) the proposal, including any material interest in, or anticipated benefit from, the proposal to such person, or any affiliates or associates of such person, (iv) any performance related fees (other than an asset based fee) that such person is entitled to based on any increase or decrease in the price or value of shares of any class or series of the corporation, (v) a representation that the shareholder intends to appear in person or by proxy at the meeting to bring such business before the meeting, (vi) a representation whether the shareholder intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the corporation's outstanding shares required to approve the proposal and/or otherwise solicit proxies from shareholders in support of the proposal. and (vii) any other information relating to such person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies by such person with respect to the proposed business to be brought by such person before the meeting pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder.

A shareholder providing notice of business proposed to be brought before an annual or special meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 13 of this Article II shall be true and correct as of the record date for determining the shareholders entitled to receive notice of the annual or special meeting, and such update and supplement shall be delivered to or be mailed and received by the Secretary at the principal executive offices of the corporation not later than five (5) business days after the record date for determining the shareholders entitled to receive notice of such annual or special meeting.

Notwithstanding anything to the contrary in these Bylaws: (a) no business shall be conducted at any annual or special meeting of shareholders except in accordance with the procedures set forth in this Section 13 of this Article II, (other than the nomination of a person for election as a director, which is governed by Section 12 of Article II of these Bylaws) and (b) unless otherwise required by law, if a shareholder intending to propose business at an annual or special meeting of shareholders does not comply with the procedures (including providing the required information) set forth in this Section 13 or if such shareholder (or a qualified representative) does not appear at the meeting to present the proposed business, such business shall not be transacted, notwithstanding that proxies in respect of such business may have been received by the corporation. If the chairman of the meeting determines that business was not properly brought before the meeting in accordance with the foregoing procedures, the chairman shall declare to the meeting that the business was not properly brought before the meeting and the business shall not be transacted.

The requirements of this Section 13 shall apply to any business to be brought before a meeting by a shareholder (other than the nomination of a person for election as a director, which is governed by Section 12 of Article II of these Bylaws) whether such business is to be included in this corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or presented to shareholders by means of an independently financed proxy solicitation. The requirements of this Section 13 are intended to provide this corporation with notice of a shareholder's intention to bring business before an annual or special meeting of shareholders and shall in no event be construed as imposing upon any shareholder the requirement to seek approval from the corporation as a condition precedent to bringing any such business before an annual or special meeting of shareholders.

Section 14. Exclusive Forum. Unless the corporation consents in writing to the selection of an alternative forum, the state and federal courts in King County, Washington shall be the sole and exclusive forums for (i) any derivative action or proceeding brought on behalf of the corporation, (ii) any action asserting a claim for breach of a fiduciary duty owed by any director, officer, employee or agent of the corporation to the corporation or the corporation's shareholders, (iii) any action asserting a claim arising pursuant to any provision of the Washington Business Corporation Act, the articles of incorporation or the bylaws of the corporation or (iv) any action asserting a claim governed by the internal affairs doctrine.

ARTICLE III Board of Directors

Section 1. General Powers. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, its Board of Directors, except as may be otherwise provided in these Bylaws, the Amended and Restated Articles of Incorporation or the Washington Business Corporation Act. The Board of Directors may, in its discretion, appoint a Non-Executive Chairman of the Board of Directors; and, if a Non-Executive Chairman has been appointed, the Non-Executive Chairman shall, when present, preside at all meetings of the Board of Directors and shall have such other powers as the Board of Directors may prescribe.

Section 2. Election. In any election of directors which is not a contested election (hereinafter an "uncontested election"), each vote entitled to be cast may be voted for, voted against or, to the extent afforded as a specific voting choice, withheld for, one or more nominees for director up to that number of nominees that is equal to the number of directors to be elected but without cumulating the votes, or a shareholder may indicate an abstention for one or more nominees for director. Votes cast for, against and/or withheld as to a nominee for director shall be deemed to be votes cast in an uncontested election. A nominee for director in an uncontested election shall be elected to the Board of Directors if the votes cast for such nominee's election exceed the other votes cast in connection with such nominee's election at a meeting at which a quorum is present.

In any election which is a contested election, the nominees receiving a plurality of the votes cast by holders of shares entitled to vote in the election at a meeting at which a quorum is present will be elected. A "contested election" means an election of directors of the corporation in which the number of nominees for any election of directors nominated by (i) the Board of Directors, or (ii) any shareholder pursuant to Article II, Section 12 of these Bylaws, or (iii) a combination of nominees by the Board of Directors and any shareholder pursuant to Article II, Section 12 of these Bylaws, exceed the number of directors to be elected.

Shares otherwise present at a meeting but for which there is an abstention or as to which no authority or direction to vote in the election is given or specified, are not deemed to be votes cast in the election.

The foregoing provisions on election of directors do not apply to vacancies and newly created directorships filled by a vote of the Board of Directors under Article III, Section 9 of these Bylaws.

Section 3. Number, Tenure and Qualifications. The Board of Directors shall consist of not less than nine (9) nor more than eleven (11) directors, with the specific number to be determined from time to time by resolution of the Board of Directors. No decrease in the number of Directors shall have the effect of shortening the term of any incumbent Director. Each director shall hold office until the next annual meeting of shareholders and until his successors shall have been elected and qualified. Notwithstanding the foregoing, a nominee for director in an uncontested election who does not receive the requisite votes for election, but who was a director at the time of the election, shall continue to serve as a director for a term that shall terminate on the date that is the earlier of: (i) ninety (90) days from the date on which the voting results of the election are determined, or (ii) the date on which an individual is selected by the Board of Directors to fill the office held by such director, which selection shall be deemed to constitute the filling of a vacancy by the Board of Directors. Directors need not be residents of the state of Washington or shareholders of the corporation.

Section 4. Regular Meeting. A regular meeting of the Board of Directors shall be held without other notice than this Bylaw immediately after and at the same place as, the annual meeting of shareholders. Regular meetings of the Board of Directors shall be held at such place and on such day and hour as shall from time to time be fixed by the Non-Executive Chairman of the Board of Directors, the President (or any Co-President) or the Board of Directors. No other notice of regular meeting of the Board of Directors shall be necessary.

Section 5. Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the Non-Executive Chairman of the Board of Directors, the President (or any Co-President) or any two directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the state of Washington, as the place for holding any special meeting of the Board of Directors called by them.

Section 6. Notice. Notice of any special meeting shall be given at least one (1) day previously thereto, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate under the circumstances, by either oral or written notice. Any director may waive notice of any meeting. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

Section 7. Quorum. A majority of the number of directors then in office shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Section 8. Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 9. Vacancies. Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office. A vacancy on the Board of Directors created by reason of an increase in the number of directors may be filled by election by the Board of Directors for a term of the office continuing only until the next election of directors by the shareholders.

Section 10. Compensation. By resolution of the Board of Directors, each director may be paid his or her expenses, if any, of attendance at each meeting of the Board of Directors and at each meeting of a committee of the Board of Directors and may be paid a stated fee as director, a fixed sum for attendance at each such meeting, or both. The corporation may also pay such other expenses of each director incurred in connection with his or her role as a director at the request of the corporation. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 11. Presumption of Assent. A director of the corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall

be entered in the minutes of the meeting, or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof, or shall forward such dissent by registered mail to the Secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

Section 12. Committees. The Board of Directors, by resolution adopted by the greater of a majority of the Board of Directors then in office and the number of directors required to take action in accordance these Bylaws, may create standing or temporary committees, including an Executive Committee, and appoint members from its own number and invest such committees with such powers as it may see fit, subject to such conditions as may be prescribed by the Board of Directors, the Articles of Incorporation, these Bylaws and applicable law. Each committee must have two or more members, who shall serve at the pleasure of the Board of Directors.

Section 12.1. Authority of Committees. Except for the executive committee which, when the Board of Directors is not in session, shall have and may exercise all of the authority of the Board of Directors except to the extent, if any, that such authority shall be limited by the resolutions appointing the executive committee, each committee shall have and may exercise all of the authority of the Board of Directors to the extent provided in the resolution of the Board of Directors creating the committee and any subsequent resolutions adopted in like manner, except that no such committee shall have the authority to: (1) authorize or approve a distribution except according to a general formula or method prescribed by the Board of Directors, (2) approve or propose to shareholders sections or actions required by the Washington Business Corporation Act to be approved by shareholders, (3) fill vacancies on the Board or any committee thereof, (4) amend the Articles of Incorporation pursuant to RCW 23B.10.020, (5) adopt, amend or repeal Bylaws, (6) approve a plan of merger not requiring shareholder approval, or (7) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares except that the Board may authorize a committee or a senior executive officer of the corporation to do so within limits specifically prescribed by the Board.

Section 12.2. Removal. The Board of Directors may remove any member of any committee elected or appointed by it but only by the affirmative vote of the greater of a majority of the directors then in office and the number of directors required to take action in accordance with these Bylaws.

Section 12.3. Minutes of Meetings. All committees shall keep regular minutes of their meetings and shall cause them to be recorded in books kept for that purpose.

Section 13. Meetings by Conference Telephone. Members of the Board of Directors or members of a committee of directors may participate in their respective meetings by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time; participation in a meeting by such means shall constitute presence in person at such meeting.

ARTICLE IV

Special Measures Applying to Both Shareholder and Director Meetings

Section 1. Actions Without Meeting.

(a) Any corporate action required or permitted by the Articles of Incorporation, Bylaws, or the laws under which the corporation is formed, to be voted upon or approved at a duly called meeting of the directors or committee of directors may be accomplished without a meeting if one or more unanimous consents of the directors setting forth the actions so taken, shall be signed, either before or after the action taken, by all the directors or committee members as the case may be. The consents shall be set forth either (i) in an executed written record or (ii) if the Board of Directors has designated an address, location, or system to which the consents may be electronically transmitted and the consent is electronically transmitted to the designated address, location, or system, in an executed electronically transmitted record. Action taken by unanimous consent of the directors or a committee of the Board of Directors is effective when the last director or committee member signs the consent, unless the consent specifies a later effective date.

(b) Any corporate action required or permitted by the Articles of Incorporation, Bylaws, or the laws under which the corporation is formed, to be voted upon or approved at a duly called meeting of the shareholders may

be accomplished without a meeting if one or more unanimous written consents of the shareholders, setting forth the actions so taken, shall be signed, either before or after the action taken, by all the shareholders, as the case may be. Action taken by unanimous written consent of the shareholders is effective when all consents are in possession of the corporation, unless the consent specifies a later effective date.

Section 2. Written or Oral Notice. Oral notice may be communicated in person, or by telephone, wire or wireless equipment, which does not transmit a facsimile of the notice. Oral notice is effective when communicated. Written notice may be transmitted by mail, hand, facsimile, commercial overnight courier or e-mail. Written notice is effective (a) when mailed, if mailed with first class postage prepaid (x) to the shareholder's address shown in the corporation's current record of shareholders and (y) to the director's address as provided by such director, (b) when delivered personally by hand (with written confirmation of receipt), (c) when sent by facsimile (x) to the shareholder's facsimile number shown in the corporation's current record of shareholders (with written confirmation of transmission) and (y) to the director's facsimile number as provided by such director (with written confirmation of transmission), (d) one (1) business day following the day sent by commercial overnight courier (x) to the shareholder's address shown in the corporation's current record of shareholders (with written confirmation of receipt) and (y) to the director's address as provided by such director (with written confirmation of receipt) or (e) when sent by e-mail (x) to the shareholder's e-mail address shown in the corporation's current record of shareholders (with written confirmation of transmission) and (y) to the director's e-mail address as provided by such director (with written confirmation of transmission). In addition, notice may be given in any manner not inconsistent with the foregoing provisions and applicable law.

ARTICLE V

Officers

Section 1. Number. The offices and officers of the corporation shall be as designated from time to time by the Board of Directors. Such offices may include a President or two or more Co-Presidents, one or more Vice Presidents, a Secretary and a Treasurer. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board of Directors. Any two or more offices may be held by the same persons.

Section 2. Election and Term of Office. The officers of the corporation shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until a successor shall have been duly elected and qualified, or until the officer's death or resignation, or the officer has been removed in the manner hereinafter provided.

Section 3. Removal. Any officer or agent may be removed by the Board of Directors whenever in its judgment, the best interests of the corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 4. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

Section 5. President. The President or Co-Presidents shall have general supervision and control over the business and affairs of the corporation subject to the authority of the Non-Executive Chairman of the Board of Directors and the Board of Directors. The President or a Co-President may sign any and all documents, mortgages, bonds, contracts, leases, or other instruments in the ordinary course of business with or without the signature of a second corporate officer, may sign certificates for shares of the corporation with the Secretary or Assistant Secretary of the corporation and may sign any documents which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of President and such other duties, authority and responsibilities as may be prescribed by the Board of Directors from time to time.

Section 6. The Vice President. In the absence of the President and all Co-Presidents, or in the event of their death, inability or refusal to act, the Executive Vice President, if one is designated and otherwise the Vice Presidents in the order designated at the time of their election or in the absence of any designation, then in the order of their election, shall perform the duties of the President and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President may sign, with the Secretary or an Assistant Secretary, certificates for shares of the corporation; and shall perform such

other duties as from time to time may be assigned to the Vice President by the President or any Co-President, or by the Board of Directors.

Section 7. The Secretary. The Secretary shall: (a) keep the minutes of the proceedings of the shareholders and of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (c) be custodian of the corporate records and of the seal of the corporation and see that the seal of the corporation is affixed to all documents and the execution of which on behalf of the corporation under its seal is duly authorized; (d) keep a register of the post office address of each shareholder which shall be furnished to the Secretary by such shareholders; (e) sign with the President or a Co-President, or with a Vice President, certificates for shares of the corporation, or contracts, deeds or mortgages the issuance or execution of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the stock transfer books of the corporation subject to the authority delegated to a transfer agent or registrar if appointed; and (g) in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to the Secretary by the President or any Co-President, or by the Board of Directors.

Section 8. The Treasurer. The Treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the corporation; (b) receive and give receipts for monies due and payable to the corporation from any source whatsoever and deposit all such monies in the name of the corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article VII of these Bylaws; and (c) in general perform all of the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to the Treasurer by the President or any Co-President, or by the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine.

Section 9. Assistant Secretaries and Assistant Treasurers. The Assistant Secretaries, when authorized by the Board of Directors, may sign with the President or a Co-President, or with a Vice President, certificates for shares of the corporation or contracts, deeds or mortgages, the issuance or execution of which shall have been authorized by a resolution of the Board of Directors. The Assistant Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned to them by the Secretary or the Treasurer, respectively, or by the President or any Co-President, or by the Board of Directors.

Section 10. Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board may delegate to the President of the corporation the power to choose such other officers and to prescribe their respective duties and powers.

ARTICLE VI

Contracts, Loans, Checks and Deposits

Section 1. Contracts. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation and such authority may be general or confined to specific instances.

Section 2. Loans. No loans shall be contracted on behalf of the corporation and no evidences of indebtedness shall be issued in its name unless authorized by the Board of Directors. Such authority may be general or confined to specific instances.

Section 3. Checks, Drafts, etc.

All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation, shall be signed by such officers, agent or agents of the corporation and in such manner as shall from time to time be determined by the Board of Directors. Any and all signatures on such documents may be a facsimile or by electronic signature.

Section 4. Deposits. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositories as the Board of Directors may select.

ARTICLE VII

Certificates for Shares and Their Transfer

Section 1. Certificates for Shares. Certificates representing shares of the corporation shall be in such form as shall be determined by the Board of Directors; provided that any shares of the corporation may be uncertificated shares, whether upon original issuance, re-issuance or subsequent transfer. Notwithstanding the foregoing, each holder of uncertificated shares shall be entitled, upon request, to a certificate representing such shares. Shares represented by certificates shall be signed by the President (or any Co-President) or a Vice President and by the Secretary or an Assistant Secretary and sealed with the corporate seal or a facsimile thereof. The signatures of such officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent, or registered by a registrar, other than the corporation itself or one of its employees. If any officer who signed a certificate, either manually or in facsimile, no longer holds such office when the certificate is issued, the certificate is nevertheless valid. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the corporation or registered by a registrar. All certificates surrendered to the corporation for transfer shall be canceled and no new certificate, or, upon request, evidence of the equivalent uncertificated shares, shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the corporation as the Board of Directors may prescribe. Upon receipt of proper transfer instructions from the holder of uncertificated shares, the corporation shall cancel such uncertificated shares and issue new equivalent uncertificated shares, or, upon such holder's request, certificated shares, to the person entitled thereto, and record the transaction upon its books. Except as otherwise provided by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of certificated shares, shall be identical.

Section 2. Transfer of Shares. Transfer of shares of the corporation shall be made only on the stock transfer books of the corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the corporation, or with its transfer agent, if any, and on surrender for cancellation of the certificate for such shares or upon proper instructions from the holder of uncertificated shares. The person in whose name shares stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes.

ARTICLE VIII

Fiscal Year

The corporation shall operate on a 52/53-week fiscal year ending on the Saturday closest to January 31st.

ARTICLE IX

Dividends

The Board of Directors may, from time to time, declare and the corporation may pay dividends on its outstanding shares in the manner and upon the terms and conditions provided by law and its articles of incorporation.

ARTICLE X

Corporate Seal

The Board of Directors shall provide a corporate seal which shall be circular in form and shall have inscribed thereon the name of the corporation and the state of incorporation and the words, "Corporate Seal."

ARTICLE XI

Indemnification of Directors, Officers and Others

Section 1. Right to Indemnification. Each person (including a person's personal representative) who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or by or in the right of the corporation, or otherwise (hereinafter a "proceeding") by reason of the fact that he or she (or a person of whom he or she is a personal representative) is or was a director or officer of the corporation or an officer of a division of the corporation, or, while serving as a director or officer of the corporation or an officer of a division of the corporation, is or was acting at the request of the corporation as a director, officer, partner, trustee, employee, agent or in any other relationship or capacity whatsoever, of

any other foreign or domestic corporation, partnership, joint venture, employee benefit plan or trust or other trust, enterprise or other private or governmental entity, agency, board, commission, body or other unit whatsoever (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action or inaction in an official capacity as a director, officer, partner, trustee, employee, agent or in any other relationship or capacity whatsoever, shall be indemnified and held harmless by the corporation against all expenses, liabilities and losses (including but not limited to attorneys' fees, judgments, claims, fines, ERISA and other excise and other taxes and penalties and other adverse effects and amounts paid in settlement), reasonably incurred or suffered by the indemnitee; provided, however, that except as provided in Section 2 of this Article with respect to suits relating to rights to indemnification, the corporation shall indemnify any indemnitee in connection with a proceeding (or part thereof) initiated by the indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the corporation.

No indemnification shall be provided to any indemnitee for acts or omissions of such person finally adjudged to be intentional misconduct or a knowing violation of law, or from or on account of conduct of an indemnitee finally adjudged to be in violation of RCW 23B.08.310, or from or on account of any transaction with respect to which it was finally adjudged that such indemnitee personally received a benefit in money, property, or services to which the person was not legally entitled. Notwithstanding the foregoing, if Section 23B.08.560 or any successor provision of the Washington Business Corporation Act is hereafter amended, the restrictions on indemnification set forth in this Section shall be as set forth in such amended statutory provision.

The right to indemnification granted in this Article is a contract right and includes the right to payment by, and the right to receive reimbursement from, the corporation of all expenses as they are incurred in connection with any proceeding in advance of its final disposition (hereinafter an "advance of expenses"); provided, however, that an advance of expenses received by an indemnitee in his or her capacity as a director or officer of the corporation, as an officer of a division of the corporation, or, acting at the request of the corporation, as director or officer of any other foreign or domestic corporation, partnership, joint venture, employee benefit plan or trust or other trust, enterprise or other private or governmental entity, agency, board, commission, body or other unit whatsoever (and not in any other capacity in which service was or is rendered by such indemnitee unless such service was authorized by the Board of Directors) shall be made only upon (i) receipt by the corporation of a written undertaking (hereinafter an "undertaking") by or on behalf of such indemnitee, to repay advances of expenses if and to the extent it shall ultimately be determined by order of a court having jurisdiction (which determination shall become final upon expiration of all rights to appeal), hereinafter a "final adjudication", that the indemnitee is not entitled to be indemnified for such expenses under this Article, (ii) receipt by the corporation of written affirmation by the indemnitee of his or her good faith belief that he or she has met the standard of conduct applicable (if any) under the Washington Business Corporation Act necessary for indemnification by the corporation under this Article, and (iii) a determination of the Board of Directors, in its good faith belief, that the indemnitee has met the standard of conduct applicable (if any) under the Washington Business Corporation Act necessary for indemnification by the corporation under this Article.

Section 2. Right of Indemnitee to Bring Suit. If any claim for indemnification under Section 1 of this Article is not paid in full by the corporation within sixty (60) days after a written claim has been received by the corporation, except in the case of a claim for an advance of expenses, in which case the applicable period shall be twenty (20) days, the indemnitee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. If the indemnitee is successful in whole or in part in any such suit, or in any suit in which the corporation seeks to recover an advance of expenses, the corporation shall also pay to the indemnitee all the indemnitee's expenses in connection with such suit. The indemnitee shall be presumed to be entitled to indemnification under this Article upon the corporation's receipt of indemnitee's written claim (and in any suits relating to rights to indemnification where the required undertaking and affirmation have been received by the corporation) and thereafter the corporation shall have the burden of proof to overcome that presumption. Neither the failure of the corporation (including its Board of Directors, independent legal counsel, or shareholders) to have made a determination prior to other commencement of such suit that the indemnitee is entitled to indemnification, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel or shareholders) that the indemnitee is not entitled to indemnification, shall be a defense to the suit or create a presumption that the indemnitee is not so entitled. It shall be a defense to a claim for an amount of indemnification under this Article (other than a claim for advances of expenses prior to final disposition of a proceeding where the required undertaking and affirmation have been received by the corporation) that the claimant has not met the standards of conduct applicable (if any) under the Washington Business Corporation Act to entitle the claimant to the amount claimed, but the corporation shall have the burden of proving such defense. If requested by the indemnitee, determination of the right to indemnity and amount of indemnity shall be made by final adjudication (as defined above) and such final adjudication shall supersede any determination made in accordance with RCW 23B.08.550.

Section 3. Non-Exclusivity of Rights. The rights to indemnification (including, but not limited to, payment, reimbursement and advances of expenses) granted in this Article shall not be exclusive of any other powers or obligations of the corporation or of any other rights which any person may have or hereafter acquire under any statute, the common law, the corporation's Articles of Incorporation or Bylaws, agreement, vote of shareholders or disinterested directors, or otherwise. Notwithstanding any amendment to or repeal of this Article XI, the rights to indemnification for an indemnitee under this Article XI shall vest at the time the indemnitee first becomes a director, officer, partner, trustee, employee, agent or in any other relationship or capacity whatsoever and no repeal or amendment of, or adoption of any provision inconsistent with this Article XI shall adversely affect any rights to indemnification granted to an indemnitee pursuant hereto existing at, arising out of, or related to any acts or omissions of such indemnitee occurring prior to such amendment or repeal.

Section 4. Insurance, Contracts and Funding. The corporation may purchase and maintain insurance, at its expense, to protect itself and any person (including a person's personal representative) who is or was a director, officer, employee or agent of the corporation or who is or was a director, officer, partner, trustee, employee, agent, or in any other relationship or capacity whatsoever, of any other foreign or domestic corporation, partnership, joint venture, employee benefit plan or trust or other trust, enterprise or other private or governmental entity, agency, board, commission, body or other unit whatsoever, against any expense, liability or loss, whether or not the power to indemnify such person against such expense, liability or loss is now or hereafter granted to the corporation under the Washington Business Corporation Act. The corporation may enter into contracts granting indemnity, to any such person whether or not in furtherance of the provisions of this Article and may create trust funds, grant security interests and use other means (including, without limitation, letters of credit) to secure and ensure the payment of indemnification amounts.

Section 5. Indemnification of Employees and Agents. The corporation may, by action of the Board of Directors, provide indemnification and pay expenses in advance of the final disposition of a proceeding to employees and agent of the corporation with the same scope and effect as the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the corporation or pursuant to rights granted under, or provided by, the Washington Business Corporation Act or otherwise.

Section 6. Separability of Provisions. If any provision or provisions of this Article shall be held to be invalid, illegal or unenforceable for any reason whatsoever (i) the validity, legality and enforceability of the remaining provisions of this Article (including without limitation, all portions of any sections of this Article containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (ii) to the fullest extent possible, the provisions of this Article (including, without limitation, all portions of any paragraph of this Article containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

Section 7. Partial Indemnification. If an indemnitee is entitled to indemnification by the corporation for some or a portion of expenses, liabilities or losses, but not for the total amount thereof, the corporation shall nevertheless indemnify the indemnitee for the portion of such expenses, liabilities and losses to which the indemnitee is entitled.

Section 8. Successors and Assigns. All obligations of the corporation to indemnify (including, but not limited to, payment, reimbursement and advances of expenses) any indemnitee: (i) shall be binding upon all successors and assigns of the corporation (including any transferee of all or substantially all of its assets and any successor by merger or otherwise by operation of law), (ii) shall be binding on and inure to the benefit of the spouse, heirs, personal representatives and estate of the indemnitee, and (iii) shall continue as to any indemnitee who has ceased to be a director, officer, partner, trustee, employee or agent (or other relationship or capacity).

ARTICLE XII

Books and Records

Section 1. Books of Accounts, Minutes and Share Register. The corporation shall keep as permanent records minutes of all meetings of its shareholders and Board of Directors, a record of all actions taken by the shareholders or Board of Directors without a meeting and a record of all actions taken by a committee of the Board of Directors exercising the authority of the Board of Directors on behalf of the corporation. The corporation shall maintain appropriate accounting records. The corporation or its agent shall maintain a record of its shareholders, in a form that permits preparation of a list of the names and addresses of all shareholders, in alphabetical order showing the number and class of shares held by each. The corporation shall keep a copy

of the following records at its principal office: the Articles or Restated Articles of Incorporation and all amendments currently in effect; the Bylaws or Restated Bylaws and all amendments currently in effect; the minutes of all shareholders' meetings and records of all actions taken by shareholders without a meeting, for the past three years; its financial statements for the past three years, including balance sheets showing in reasonable detail the financial condition of the corporation as of the close of each fiscal year and an income statement showing the results of its operations during each fiscal year prepared on the basis of generally accepted accounting principles or, if not, prepared on a basis explained therein; all written communications to shareholders generally within the past three years; a list of the names and business addresses of its current directors and officers; and its most recent annual report delivered to the Secretary of State of the State of Washington.

Section 2. Copies of Resolutions. Any person dealing with the corporation may rely upon a copy of any of the records of the proceedings, resolutions, or votes of the Board of Directors or shareholders, when certified by the President (or any Co-President) or Secretary.

ARTICLE XIII

Amendment of Bylaws

These Bylaws may be amended, altered, or repealed by the affirmative vote of a majority of the full Board of Directors at any regular or special meeting of the Board of Directors.

NORDSTROM, INC.
2002 NONEMPLOYEE DIRECTOR STOCK INCENTIVE PLAN

2018 Amendment
Approved by the Board of Directors on August 22, 2018

The 2002 Nonemployee Director Stock Incentive Plan (the "Plan") as amended pursuant to the 2007 Amendment is hereby amended pursuant to Section 14.2 of the Plan by the Nordstrom Board of Directors. The provisions of this Amendment are effective immediately.

1. Section 2.1 **Committee Composition** is replaced with the following:

"2.1 **Committee Composition.** The Plan shall be administered by the Compensation Committee (the "Committee)."

Except as amended above, the Plan shall remain in full force and effect.

Certification required by Section 302(a) of the Sarbanes-Oxley Act of 2002

I, Blake W. Nordstrom, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nordstrom, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 5, 2018

/s/ Blake W. Nordstrom

Blake W. Nordstrom
Co-President of Nordstrom, Inc.

Certification required by Section 302(a) of the Sarbanes-Oxley Act of 2002

I, Anne L. Bramman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nordstrom, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 5, 2018

/s/ Anne L. Bramman

Anne L. Bramman
Chief Financial Officer of Nordstrom, Inc.

NORDSTROM, INC.
1617 SIXTH AVENUE
SEATTLE, WASHINGTON 98101
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Nordstrom, Inc. (the "Company") on Form 10-Q for the period ended August 4, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Blake W. Nordstrom, Co-President (Principal Executive Officer), and Anne L. Bramman, Chief Financial Officer (Principal Financial Officer), of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 5, 2018

/s/ Blake W. Nordstrom

Blake W. Nordstrom

Co-President of Nordstrom, Inc.

/s/ Anne L. Bramman

Anne L. Bramman

Chief Financial Officer of Nordstrom, Inc.

A signed original of this written statement required by Section 906 has been provided to Nordstrom, Inc. and will be retained by Nordstrom, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.