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

(Mark One)

R ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended January 28, 2006

OR

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

Commission file number 001-15059

# NORDSTROM, INC.

(Exact name of Registrant as specified in its charter)

Washington  
(State or other jurisdiction of  
incorporation or organization)

91-0515058  
(IRS employer  
Identification No.)

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

98101  
(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES R NO £

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
YES £ NO R

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 R NO £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer R Accelerated filer £ Non-accelerated filer £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES £ NO R

As of July 29, 2005 the aggregate market value of the Registrant's voting and non-voting stock held by non-affiliates of the Registrant was approximately \$8.1 billion using the closing sales price on that day of \$37.01. On March 10, 2006, 267,288 shares of common stock were outstanding (in thousands).

## DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2006 Annual Meeting of Shareholders scheduled to be held on May 23, 2006 are incorporated into Part III

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## PART I

### Item 1. Business.

#### DESCRIPTION OF BUSINESS

Nordstrom incorporated in the state of Washington in 1946 as the successor to a retail shoe business that started in 1901. We are one of the nation's leading fashion specialty retailers, with 156 U.S. stores located in 27 states. The west coast and east coast are the areas in which we have the largest presence. Nordstrom is comprised of four segments: Retail Stores, Credit, Direct, and Other.

**Retail Stores** derives its revenues from sales of high-quality apparel, shoes, cosmetics and accessories. It includes our 99 Full-Line 'Nordstrom' stores, 49 discount 'Nordstrom Rack' stores, one free-standing shoe store, and two clearance stores that operate under the name 'Last Chance.' The Nordstrom Rack stores serve as outlets for clearance merchandise from our Full-Line stores and purchase merchandise directly from manufacturers.

In 2005, we opened four Full-Line stores (Atlanta, Georgia; San Antonio, Texas; Irvine, California; and Dallas, Texas) and relocated one Rack store (Portland, Oregon). In March 2006, we opened one Full-Line store in Palm Beach Gardens, Florida. We are scheduled to relocate our Topanga Full-Line store in Canoga Park, California and open one Rack store in San Marcos, California in the fall of 2006. In 2007, we are scheduled to open four Full-Line stores.

Through our wholly-owned federal savings bank, Nordstrom fsb, we offer a private label card, two co-branded Nordstrom VISA credit cards and a debit card for Nordstrom purchases. The credit and debit cards feature a shopping based loyalty program designed to increase customer visits and spending in our Retail Stores and Direct segments. Our **Credit** segment generates earnings through finance charges and securitization-related gains on these cards.

**Direct** generates revenues from sales of high-quality apparel, shoes, cosmetics and accessories by serving our customers on the Web at [www.nordstrom.com](http://www.nordstrom.com) and through our catalogs. Most of the Direct segment's sales are shipped via third-party carriers from our fulfillment center in Cedar Rapids, Iowa.

Our **Other** segment includes our five U.S. based 'Façonnable' boutiques and the 32 Façonnable boutiques located in France, Portugal and Belgium. Façonnable is a wholesaler and retailer of high quality men's and women's apparel and accessories with distribution to over 45 countries. Façonnable has licensee and franchisee agreements with others who operate wholesale distribution and/or boutique locations in Spain, Switzerland, Turkey, Greece, the Middle East, Taiwan, Canada and Latin America. The Other segment also includes our product development team, called Nordstrom Product Group, which coordinates the design and production of private label merchandise sold in our retail stores. In addition, this segment includes our corporate center operations.

For more information about our business and our reportable segments, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation" on page 14 and Note 15 of the Notes to Consolidated Financial Statements in Item 8 on page 45.

#### FISCAL YEAR END

Our fiscal year ends on the Saturday closest to January 31st. References to 2005, 2004 and 2003 relate to the 52 week fiscal years ended January 28, 2006, January 29, 2005 and January 31, 2004. References to 2006 relate to the 53 weeks ending February 3, 2007.

#### STOCK SPLIT

On May 24, 2005, our Board of Directors approved a two-for-one stock split of our outstanding common stock and a proportional increase in the number of common shares authorized from 500 million to 1 billion. Additional shares issued as a result of the stock split were distributed on June 30, 2005 to shareholders of record as of June 13, 2005. Reference to our shares and per share information have been adjusted to reflect this stock split.

#### TRADEMARKS

We have approximately 150 registered trademarks or trademark applications. Our most notable trademarks include Nordstrom, Nordstrom Rack, Façonnable, Caslon, John W. Nordstrom, and Classiques Entier. Each of our trademarks is renewable indefinitely provided that it is still used in commerce at the time of the renewal.

#### RETURN POLICY

We offer our customers a fair and liberal return policy at our Full-Line stores. Our Nordstrom Rack stores accept returns up to 30 days from the date of purchase. In general, our return policy is somewhat more generous than industry standards. We utilize historical return patterns to estimate our expected returns.

#### SEASONALITY

Due to our anniversary sale in July and the holidays in December, sales are higher for our Retail Stores in the second and fourth quarters of the fiscal year than in the first and third quarters.

#### INVENTORY

We plan our merchandise purchases and receipts to coincide with the selling patterns that we expect. For instance, we purchase and receive a larger amount of merchandise in the fall as we prepare for the holiday shopping season (from late November through early January). Also, our merchandise purchases and receipts increase prior to our Anniversary Sale, which extends over the last two weeks of July. We pay for our merchandise purchases under the terms established with our vendors, which is usually within 30 days of the date that the merchandise was shipped to us.

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In order to offer merchandise that our customer will desire, we purchase merchandise from a wide variety of high-quality suppliers. In 2005, our ten largest suppliers accounted for approximately 21% of our merchandise purchases. We also have arrangements with agents and contract manufacturers to produce our private label merchandise. We do not have long-term purchase commitments or arrangements with any of our merchandise suppliers. Our suppliers include domestic and foreign businesses. We expect our suppliers to meet our "Nordstrom Partnership: Standards and Business Practice Guidelines," which address our standards for matters such as law, labor, health and safety, and environment.

### **COMPETITIVE CONDITIONS**

All segments of our business are highly competitive. Each of our stores competes with other national, regional and local retail establishments that may carry similar lines of merchandise, including department stores, specialty stores, boutiques, mail order and Internet businesses. Our specific competitors vary from market to market. We believe the principal methods of competing in our industry include customer service, store environment, quality of product, fashion, depth of selection and location.

### **EMPLOYEES**

During 2005, we regularly employed on a full or part-time basis an average of 51,400 employees. Due to the seasonal nature of our business, employment increased to approximately 55,400 employees in July 2005 and 56,000 in December 2005.

### **CAUTIONARY STATEMENT**

Certain statements in this Annual Report on Form 10-K contain "forward-looking" statements (as defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties, including anticipated results, store openings and trends in our operations. Actual future results and trends may differ materially from historical results or current expectations depending upon various factors including those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Item 1A under the heading "Risk Factors:" the impact of economic and competitive market forces, terrorist activity or war may impact our customers and the retail industry, our ability to predict fashion trends, consumer apparel buying patterns, trends in personal bankruptcies and bad debt write-offs, changes in interest rates, employee relations, our ability to continue and control our expansion, remodel and investment plans, changes in government or regulatory requirements, our ability to control costs, weather conditions and hazards of nature.

These and other factors could affect our financial results and cause actual results to differ materially from those contained in any forward-looking statements we may make. As a result, while we believe there is a reasonable basis for the forward-looking statements, you should not place undue reliance on those statements. We undertake no obligation to update or revise any forward-looking statements to reflect subsequent events, new information or future circumstances.

### **SEC FILINGS**

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission ("SEC"). All material we file with the SEC is publicly available at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet Web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

### **WEB SITE ACCESS**

Our Internet Web site address is [www.nordstrom.com](http://www.nordstrom.com). We make available free of charge on or through our Internet Web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, statements of changes in beneficial ownership of securities on Form 4 and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file the report with or furnish it to the SEC. Interested parties may also access a Webcast of quarterly earnings conference calls and other financial events over our Internet Web site.

### **CORPORATE GOVERNANCE**

We have a long-standing commitment to upholding a high level of ethical standards. In addition, as required by the listing standards of the New York Stock Exchange ("NYSE") and the rules of the SEC, we have adopted a Code of Business Conduct and Ethics ("Code of Ethics") and Corporate Governance Guidelines. We have posted on our Web site our Code of Ethics, our Corporate Governance Guidelines, and our Committee Charters for the Audit, Compensation, Corporate Governance and Nominating, Executive, and Finance committees. These items are also available in print to any shareholder upon request to:

Nordstrom, Inc. Investor Relations  
P.O. Box 2737  
Seattle, Washington 98111  
(206) 303-3200  
[invrelations@nordstrom.com](mailto:invrelations@nordstrom.com)

## **Item 1A. Risk Factors.**

Our business faces many risks. We believe the risks described below outline the items of most concern to us. However, these risks may not be the only ones we face. Additional risks and uncertainties, not presently known to us or that we currently deem immaterial, may also impair our business operations.

#### **ABILITY TO RESPOND TO THE BUSINESS ENVIRONMENT AND FASHION TRENDS**

Our sales and operating results depend in part on our ability to predict or respond to changes in fashion trends and consumer preferences in a timely manner. Any sustained failure to identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse affect on our business. Consumer spending at our stores may be affected by many factors outside of our control, including consumer confidence, weather and other hazards of nature that affects consumer traffic, and general economic conditions.

#### **INVENTORY MANAGEMENT**

We strive to ensure the merchandise we offer remains fresh and compelling to our customers. If we are not successful at predicting our sales trends and adjusting our purchases, we may have excess inventory, which would result in additional markdowns and reduce our operating performance.

#### **IMPACT OF COMPETITIVE MARKET FORCES**

The recent retail industry consolidation changes the environment for many of our vendors and customers. In the future, our competition may partner more effectively with vendors to serve the market's needs. If we do not effectively respond to changes in our environment, we may see a loss of market share to competitors, declining same-store sales, and declining profitability due to higher markdowns.

#### **STORE GROWTH STRATEGY**

As of March 2006, our plans for the next three years include opening 13 new stores and relocating or remodeling 18 existing stores. In the past, our expected opening dates have sometimes been delayed because of development plan delays. Our future growth could be negatively impacted by delays to our store opening, relocating or remodeling plans. In addition, our future net sales at new, relocated or remodeled stores may not meet our projections, which could reduce our operating performance. Performance in our new stores could also be impacted based on our ability to hire employees who are able to deliver the level of service customers have come to expect when shopping at our stores.

#### **INFORMATION SECURITY AND PRIVACY**

The protection of our customer, employee, and company data is critical to us. The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements across our business units. In addition, our customers have a high expectation that we will adequately protect their personal information. A significant breach of customer, employee, or company data could damage our reputation and result in lost sales, fines, or lawsuits.

#### **LEADERSHIP DEVELOPMENT AND SUCCESSION PLANNING**

The training and development of our future leaders is critical to our long-term growth. If we do not effectively implement our strategic and business planning processes to train and develop future leaders, our long-term growth may suffer. In addition, if unexpected leadership turnover occurs without established succession plans, our business may suffer.

#### **BOARD SUCCESSION**

A number of our long-standing Directors who were instrumental in leading our Company have retired or will soon retire from our Board. These Board members with extensive experience will no longer be actively involved in our business and development of our long-term strategy. We are welcoming a number of new members to our Board, and we expect to benefit from their vast business experience.

#### **MULTI-CHANNEL STRATEGY EXECUTION**

In 2005, we started to make changes in our Direct business that better align our online shopping environment and catalog with the customer experience in our Full-Line stores. These changes include: aligning our Direct merchandise offering with our Full-Line stores to create a seamless experience for our customers between our stores, catalogs and Web site; integrating our Full-Line stores and Direct merchandise organization; recommending that our Full-Line store salespeople utilize our Direct inventory to fulfill customer requests when merchandise is not available at the store; reducing the number and frequency of our Direct catalog mailings; and transitioning our Direct inventory system onto our Full-Line store platform, all while dealing with changes in the Internet market in general. If we made decisions that prove to not be embraced by our customers, our sales could decline. In addition, the cost of integrating these businesses may be greater than expected, which would impact our future operating performance.

#### **BRAND AND REPUTATION**

We have a well-recognized brand that is synonymous with the highest level of customer service. Any significant damage to our brand or reputation may negatively impact same-store sales, lower employee morale and productivity, and diminish customer trust, resulting in a reduction in shareholder value.

#### **CAPITAL EFFICIENCY AND PROPER ALLOCATION**

Our goal is to invest capital to maximize our overall returns. This includes spending on inventory, capital projects and expenses, managing debt levels, managing accounts receivable through our credit business, and using our assets efficiently to return value to our shareholders. To a large degree, capital efficiency reflects how well we manage the other key risks to our Company. The actions taken to address other specific risks may affect how well we manage the more general risk of capital efficiency. Our recent operating results have raised expectations about our performance. If we do not properly allocate our capital to maximize returns, we may fail to continue to produce similar financial results and we may experience a reduction in shareholder value.

## HUMAN RESOURCE REGULATIONS

Our policies and procedures are designed to comply with human resource laws such as wage and hour, meal and rest period, and commissions. Federal and state wage and hour laws are complex, and the related enforcement is increasingly aggressive, particularly in the state of California. Failure to comply with these laws could result in damage to our reputation, class action lawsuits, and dissatisfied employees.

## EMPLOYMENT AND DISCRIMINATION LAWS

State and federal employment and discrimination laws and the related case law continue to evolve, making ongoing compliance in this area a challenge. Failure to comply with these laws may result in damage to our reputation, legal and settlement costs, disruption of our business, and loss of customers and employees, which would result in a loss of net sales and increased employment costs, low employee morale and attendant harm to our business and results of operations.

## TECHNOLOGY STRATEGY

We make investments in information technology to sustain our competitive position. We spend on average approximately \$150 million each year on information technology operations and system development, and this spending is key to our growth strategy. We must monitor and choose the right investments and implement them at the right pace. Targeting the wrong opportunities, failing to make the best investment, or making an investment commitment significantly above or below the requirements of the business opportunity may result in the loss of our competitive position. In addition, an inadequate investment in maintaining our current systems may result in a loss of system functionality and increased future costs to bring our systems up to date.

We may implement too much technology, or change too fast, which could result in failure to adopt the new technology if the business is not ready or capable of accepting it. Excessive technological change affects the effectiveness of adoption, and could adversely affect the realization of benefits from the technology. However, not implementing enough technology could compromise our competitive position.

## REGULATORY COMPLIANCE

Our policies and procedures are designed to comply with all applicable laws and regulations, including those imposed by the SEC, NYSE, the banking industry, and foreign countries. With recent high profile business failures on accounting-related issues, additional legal and regulatory requirements such as the Sarbanes-Oxley Act have increased the complexity of the regulatory environment. In addition, foreign laws may conflict with domestic laws. Failure to comply with the various regulations may result in damage to our reputation, civil and criminal liability, fines and penalties, increased cost of regulatory compliance, and restatements of financial statements.

## ANTI-TAKEOVER PROVISIONS

We are incorporated in the state of Washington and subject to Washington state law. Some provisions of Washington state law could interfere with or restrict takeover bids or other change in control events affecting us. For example, one statutory provision prohibits us, except under specified circumstances, from engaging in any significant business transaction with any shareholder who owns 10% or more of our common stock (which shareholder, under the statute, would be considered an "acquiring person") for a period of five years following the time that such shareholder became an acquiring person.

## Item 1B. Unresolved Staff Comments.

None.

## Item 2. Properties.

The following table summarizes the number of retail stores owned or leased by us, and the percentage of total store square footage represented by each listed category at January 28, 2006:

	Number of Stores	% of total store square footage
Owned stores	32	25.5%
Leased stores	108	30.8%
Owned on leased land	44	42.2%
Partly owned and partly leased	3	1.5%
Total	187	100.0%

We also own six merchandise distribution centers located in Portland, Oregon; Dubuque, Iowa; Ontario, California; Newark, California; Upper Marlboro, Maryland; and Gainesville, Florida, which are utilized by the Retail Stores segment. The Direct segment utilizes one fulfillment center in Cedar Rapids, Iowa, which is owned on leased land. Our administrative offices in Seattle, Washington are a combination of leased and owned space. For one of our corporate office buildings in Seattle, we own a 49% interest in a limited partnership which constructed the office building in which we are the primary tenant. During 2002, the limited partnership refinanced its construction loan obligation with a mortgage secured by the property. This mortgage is included in our long-term debt and is amortized as we make rental payments to the limited partnership over the life of the mortgage. We also lease an office building in the Denver, Colorado metropolitan area that serves as an office of Nordstrom fsb and Nordstrom Credit, Inc.

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The following table lists our retail store facilities as of January 28, 2006:

Location	Store Name	Square Footage	Year Store Opened	Location	Store Name	Square Footage	Year Store Opened
<b>Full-Line Stores</b>							
ALASKA				ILLINOIS			
Anchorage	Anchorage	97,000	1975	Chicago	Michigan Avenue	274,000	2000
ARIZONA				Oak Brook	Oakbrook Center	249,000	1991
Chandler	Chandler Fashion Center	149,000	2001	Schaumburg	Woodfield Shopping Center	215,000	1995
Scottsdale	Scottsdale Fashion Square	235,000	1998	Skokie	Old Orchard Center	209,000	1994
CALIFORNIA				INDIANA			
Arcadia	Santa Anita	151,000	1994	Indianapolis	Circle Centre	216,000	1995
Brea	Brea Mall	195,000	1979	KANSAS			
Canoga Park	Topanga	154,000(a)	1984	Overland Park	Oak Park Mall	219,000	1998
Cerritos	Los Cerritos Center	122,000	1981	MARYLAND			
Corte Madera	The Village at Corte Madera	116,000	1985	Annapolis	Annapolis Mall	162,000	1994
Costa Mesa	South Coast Plaza	235,000	1978	Bethesda	Montgomery Mall	225,000	1991
Escondido	North County	156,000	1986	Columbia	The Mall in Columbia	173,000	1999
Glendale	Glendale Galleria	147,000	1983	Towson	Towson Town Center	205,000	1992
Irvine	Irvine Spectrum Center	130,000	2005	MICHIGAN			
Los Angeles	The Grove	120,000	2002	Troy	Somerset Collection	258,000	1996
Los Angeles	Westside Pavilion	150,000	1985	MINNESOTA			
Mission Viejo	The Shops at Mission Viejo	172,000	1999	Bloomington	Mall of America	240,000	1992
Montclair	Montclair Plaza	134,000	1986	MISSOURI			
Palo Alto	Stanford Shopping Center	187,000	1984	Des Peres	West County	193,000	2002
Pleasanton	Stoneridge Mall	173,000	1990	NEVADA			
Redondo Beach	South Bay Galleria	161,000	1985	Las Vegas	Fashion Show	207,000	2002
Riverside	The Galleria at Tyler in Riverside	164,000	1991	NEW JERSEY			
Roseville	Galleria at Roseville	149,000	2000	Edison	Menlo Park	204,000	1991
Sacramento	Arden Fair	190,000	1989	Freehold	Freehold Raceway Mall	174,000	1992
San Diego	Fashion Valley	220,000	1981	Paramus	Garden State Plaza	282,000	1990
San Diego	Horton Plaza	151,000	1985	Short Hills	The Mall at Short Hills	188,000	1995
San Diego	University Towne Centre	130,000	1984	NEW YORK			
San Francisco	San Francisco Centre	350,000	1988	Garden City	Roosevelt Field	241,000	1997
San Francisco	Stonestown Galleria	174,000	1988	White Plains	The Westchester	219,000	1995
San Jose	Valley Fair	232,000	1987	NORTH CAROLINA			
San Mateo	Hillsdale Shopping Center	149,000	1982	Charlotte	SouthPark	151,000	2004
Santa Ana	MainPlace/Santa Ana	169,000	1987	Durham	The Streets at Southpoint	149,000	2002
Santa Barbara	Paseo Nuevo in Santa Barbara	186,000	1990	OHIO			
Walnut Creek	Broadway Plaza	193,000	1984	Beachwood	Beachwood Place	231,000	1997
COLORADO				Columbus	Easton Town Center	174,000	2001
Broomfield	FlatIron Crossing	172,000	2000	OREGON			
Littleton	Park Meadows	245,000	1996	Portland	Clackamas Town Center	121,000	1981
CONNECTICUT				Portland	Downtown Portland	174,000	1966
Farmington	Westfarms	189,000	1997	Portland	Lloyd Center	150,000	1963
FLORIDA				Salem	Salem Center	71,000	1980
Boca Raton	Town Center at Boca Raton	193,000	2000	Tigard	Washington Square	189,000	1974
Coral Gables	Village of Merrick Park	212,000	2002	PENNSYLVANIA			
Miami	Dadeland Mall	150,000	2004	King of Prussia	The Plaza at King of Prussia	238,000	1996
Orlando	The Florida Mall	174,000	2002				
Tampa	International Plaza	172,000	2001				
Wellington	The Mall at Wellington Green	127,000	2003				
GEORGIA							
Atlanta	Perimeter Mall	243,000	1998				
Atlanta	Phipps Plaza	140,000	2005				
Buford	Mall of Georgia	172,000	2000				

(a) We are scheduled to relocate our Full-Line store in Canoga Park, CA in 2006, increasing the square footage to approximately 200,000.



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Location	Store Name	Square Footage	Year Store Opened
<b>Full-Line Stores (Cont.)</b>			
<b>RHODE ISLAND</b>			
Providence	Providence Place	206,000	1999
<b>TEXAS</b>			
Austin	Barton Creek Square	150,000	2003
Dallas	Galleria Dallas	249,000	1996
Dallas	NorthPark Center	212,000	2005
Frisco	Stonebriar Centre	149,000	2000
Houston	The Galleria	226,000	2003
Hurst	NorthEast Mall	149,000	2001
San Antonio	The Shops at La Cantera	149,000	2005
<b>UTAH</b>			
Murray	Fashion Place	110,000	1981
Orem	University Mall	122,000	2002
Salt Lake City	Crossroads Plaza	140,000	1980
<b>VIRGINIA</b>			
Arlington	The Fashion Centre at Pentagon City	241,000	1989
Dulles	Dulles Town Center	148,000	2002
McLean	Tysons Corner Center	211,000	1988
Norfolk	MacArthur Center	166,000	1999
Richmond	Short Pump Town Center	128,000	2003
<b>WASHINGTON</b>			
Bellevue	Bellevue Square	285,000	1967
Lynnwood	Alderwood	151,000	1979
Seattle	Downtown Seattle	383,000	1963
Seattle	Northgate	122,000	1965
Spokane	Spokane	137,000	1974
Tacoma	Tacoma Mall	134,000	1966
Tukwila	Southcenter	170,000	1968
Vancouver	Vancouver	71,000	1977
<b>Other</b>			
Honolulu, HI	Ward Centre Shoes	16,000	1997
Façonnable	U.S. (5 boutiques)	58,000	
Façonnable	International (32 boutiques)	95,000	

Location	Store Name	Square Footage	Year Store Opened
<b>Nordstrom Rack Group</b>			
Chandler, AZ	Chandler Festival Rack	37,000	2000
Phoenix, AZ	Last Chance	48,000	1992
Scottsdale, AZ	Scottsdale Promenade Rack	38,000	2000
Brea, CA	Brea Union Plaza Rack	45,000	1999
Chino, CA	Chino Spectrum Towne Center Rack	38,000	1987
Colma, CA	Colma Rack	31,000	1987
Costa Mesa, CA	Metro Pointe at South Coast Rack	50,000	1983
Fresno, CA	Villaggio Retail Center Rack	32,000	2002
Glendale, CA	Glendale Fashion Center Rack	36,000	2000
Long Beach, CA	Long Beach CityPlace Rack	33,000	2002
Los Angeles, CA	The Promenade at Howard Hughes Center Rack	41,000	2001
Ontario, CA	Ontario Mills Mall Rack	40,000	2002
Oxnard, CA	Esplanade Shopping Center Rack	38,000	2001
Roseville, CA	Creekside Town Center Rack	36,000	2001
Sacramento, CA	Howe `Bout Arden Center Rack	54,000	1999
San Diego, CA	Mission Valley Rack	57,000	1985
San Francisco, CA	555 Ninth Street Retail Center Rack	43,000	2001
San Jose, CA	Westgate Mall Rack	48,000	1998
San Leandro, CA	San Leandro Rack	44,000	1990
Woodland Hills, CA	Topanga Rack	64,000	1984
Broomfield, CO	Flatiron Marketplace Rack	36,000	2001
Littleton, CO	Meadows Marketplace Rack	34,000	1998
Miami, FL	Last Chance	26,000	2005
Sunrise, FL	The Oasis at Sawgrass Mills Rack	27,000	2003
Buford, GA	Mall of Georgia Crossing Rack	44,000	2000
Honolulu, HI	Victoria Ward Centers Rack	34,000	2000
Chicago, IL	The Shops at State and Washington Rack	41,000	2003
Northbrook, IL	Northbrook Rack	40,000	1996
Oak Brook, IL	The Shops at Oak Brook Place Rack	42,000	2000
Schaumburg, IL	Woodfield Rack	45,000	1994
Gaithersburg, MD	Gaithersburg Rack	49,000	1999
Towson, MD	Towson Rack	31,000	1992
Grand Rapids, MI	Centerpointe Mall Rack	40,000	2001
Troy, MI	Troy Marketplace Rack	40,000	2000
Bloomington, MN	Mall of America Rack	41,000	1998
Las Vegas, NV	Silverado Ranch Plaza Rack	33,000	2001
Westbury, NY	The Mall at the Source Rack	48,000	1997
Beaverton, OR	Tanasbourne Town Center Rack	53,000	1998
Clackamas, OR	Clackamas Promenade Rack	28,000	1983
Portland, OR	Downtown Portland Rack	32,000	1986
King of Prussia, PA	The Overlook at King of Prussia Rack	45,000	2002
Hurst, TX	The Shops at North East Mall Rack	40,000	2000
Plano, TX	Preston Shepard Place Rack	39,000	2000
Salt Lake City, UT	Sugarhouse Rack	31,000	1991
Dulles, VA	Dulles Town Crossing Rack	41,000	2001
Woodbridge, VA	Potomac Mills Rack	46,000	1990
Auburn, WA	SuperMall of the Great Northwest Rack	48,000	1995
Bellevue, WA	Factoria Mall Rack	46,000	1997
Lynnwood, WA	Golde Creek Plaza Rack	38,000	1985
Seattle, WA	Downtown Seattle Rack	42,000	1987
Spokane, WA	NorthTown Mall Rack	28,000	2000

In March 2006, we opened one Full-Line store in Palm Beach Gardens, FL and we plan to open one Rack store in San Marcos, CA in the fall of 2006. In 2007, we are scheduled to open four Full-Line stores.

### **Item 3. Legal Proceedings.**

#### **COSMETICS**

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

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

We entered into a settlement agreement with the plaintiffs and the other defendants on July 13, 2003. In furtherance of the settlement agreement, the case was re-filed in the United States District Court for the Northern District of California on behalf of a class of all persons who currently reside in the United States and who purchased "Department Store" cosmetics and fragrances from the defendants during the period May 29, 1994 through July 16, 2003. The Court gave preliminary approval to the settlement, and a summary notice of class certification and the terms of the settlement were disseminated to class members. On March 30, 2005, the Court entered a final judgment approving the settlement and dismissing the plaintiffs' claims and the claims of all class members with prejudice, in their entirety. On April 29, 2005, two class members who had objected to the settlement filed notices of appeal from the Court's final judgment to the United States Court of Appeals for the Ninth Circuit. The objectors' appellate brief is due on March 24, 2006, and plaintiffs' and defendants' briefs are due in late April or early May, 2006. It is uncertain when the appeals will be resolved, but the appeal process could take as much as another year or more. If the Court's final judgment approving the settlement is affirmed on appeal, or the appeals are dismissed, the defendants will provide class members with certain free products with an estimated retail value of \$175 million and pay the plaintiffs' attorneys' fees, awarded by the Court, of \$24 million. Our share of the cost of the settlement will not have a material adverse effect on our financial condition, results of operations or cash flows.

#### **OTHER**

We are involved in routine claims, proceedings, and litigation arising from the normal course of our business. We do not believe any such claim, proceeding or litigation, either alone or in aggregate, will have a material impact on our results of operations, financial position, or liquidity.

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

None.

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Our Common Stock, without par value, is traded on the New York Stock Exchange under the symbol “JWN.” The approximate number of holders of Common Stock as of March 10, 2006 was 133,876, based upon the number of registered and beneficial shareholders, as well as the number of employee shareholders in the Nordstrom 401(k) Plan and Profit Sharing.

On May 24, 2005, our Board of Directors approved a two-for-one stock split of our outstanding common stock and a proportional increase in the number of common shares authorized from 500 million to 1 billion. Additional shares issued as a result of the stock split were distributed on June 30, 2005 to shareholders of record as of June 13, 2005. Reference to our shares and per share information have been adjusted to reflect this stock split.

The high and low sales prices of our common stock and dividends declared for each quarter of 2005 and 2004 are presented in the table below:

	Common Stock Price				Dividends per Share	
	2005		2004		2005	2004
	High	Low	High	Low		
1st Quarter	\$28.14	\$23.91	\$20.63	\$17.57	\$0.065	\$0.055
2nd Quarter	\$37.46	\$25.22	\$23.15	\$17.43	\$0.085	\$0.055
3rd Quarter	\$37.96	\$30.41	\$22.12	\$18.03	\$0.085	\$0.065
4th Quarter	\$42.74	\$33.58	\$24.49	\$21.34	\$0.085	\$0.065
Full Year	\$42.74	\$23.91	\$24.49	\$17.43	\$0.32	\$0.24

#### REPURCHASES

(Dollars in millions except per share amounts)

A summary of our fourth quarter share repurchases are as follows:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
Nov. 2005 (10/30/05 to 11/26/05)	100,000	\$37.79	100,000	\$249.9
Dec. 2005 (11/27/05 to 12/31/05)	925,000	\$36.97	925,000	\$215.7
Jan. 2006 (1/1/06 to 1/28/06)	75,000	\$37.40	75,000	\$212.9
<b>Total</b>	<b>1,100,000</b>	<b>\$37.07</b>	<b>1,100,000</b>	

(1) In February 2005, the Board of Directors authorized \$500.0 of share repurchases. The actual number and timing of share repurchases will be subject to market conditions and applicable SEC rules. In 2005, we purchased 8,493,887 shares for \$287.1 at an average price of \$33.80 per share.

## Item 6. Selected Financial Data.

(Dollars in thousands except sales per square foot and per share amounts)

The following selected financial data are derived from the audited Consolidated Financial Statements and should be read in conjunction with Item 1A "Risk Factors," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operation," and the Consolidated Financial Statements and the related notes included in Item 8 of this Annual Report on Form 10-K.

Fiscal Year	2005	2004	2003	2002 <sup>4</sup>	2001	2000 <sup>6</sup>
<b>Operations</b>						
Net sales	\$7,722,860	\$7,131,388	\$6,448,678	\$5,944,656	\$5,607,687	\$5,511,908
Same-store sales percentage increase (decrease) <sup>1</sup>	6.0%	8.5%	4.1%	1.4%	(2.9%)	0.3%
Gross profit	2,834,837	2,572,000	2,233,132	1,974,634	1,844,133	1,854,220
Gross profit rate <sup>2</sup>	36.7%	36.1%	34.6%	33.2%	32.9%	33.6%
Selling, general, and administrative expenses	(2,100,666)	(2,020,233)	(1,899,129)	(1,783,210)	(1,698,497)	(1,722,247)
Selling, general, and administrative rate <sup>3</sup>	27.2%	28.3%	29.4%	30.0%	30.3%	31.2%
Operating income	734,171	551,767	334,003	191,424	145,636	131,973
Interest expense, net	(45,300)	(77,428)	(90,952)	(81,921)	(75,038)	(62,698)
Other income including finance charges, net	196,354	172,942	155,090	139,289	133,890	130,600
Earnings before income tax expense	885,225	647,281	398,141	195,624 <sup>5</sup>	204,488	167,018
Earnings before income tax expense as a percentage of net sales	11.5%	9.1%	6.2%	3.3%	3.6%	3.0%
Net earnings	551,339	393,450	242,841	90,224	124,688	101,918
Net earnings as a percentage of net sales	7.1%	5.5%	3.8%	1.5%	2.2%	1.8%
Diluted earnings per share	\$1.98	\$1.38	\$0.88	\$0.33	\$0.46	\$0.39
Dividends per share	\$0.32	\$0.24	\$0.205	\$0.19	\$0.18	\$0.175
Return on average shareholders' equity	28.4%	23.0%	16.2%	6.7%	9.8%	8.4%
Sales per square foot	\$369	\$347	\$325	\$317	\$319	\$341
<b>Financial Position (at year end)</b>						
Customer accounts receivable, net	\$566,815	\$580,397	\$594,900	\$606,861	\$621,491	\$649,504
Investment in asset backed securities	561,136	422,416	272,294	124,543	58,539	50,183
Merchandise inventories	955,978	917,182	901,623	953,112	888,172	945,687
Current assets	2,874,157	2,572,444	2,524,843	2,125,356	2,095,317	1,812,982
Current liabilities	1,623,312	1,341,152	1,122,559	925,978	986,587	950,568
Land, buildings and equipment, net	1,773,871	1,780,366	1,807,778	1,849,961	1,761,082	1,599,938
Long-term debt, including current portion	934,394	1,030,107	1,234,243	1,350,595	1,424,242	1,112,296
Shareholders' equity	2,092,681	1,788,994	1,634,009	1,372,864	1,316,245	1,233,445
Debt-to-capital ratio	30.9%	36.5%	43.0%	49.6%	52.0%	49.2%
Book value per share	7.76	6.59	5.90	5.07	4.89	4.61
Total assets	4,921,349	4,605,390	4,569,233	4,185,269	4,084,356	3,608,503
<b>Store Information (at year end)</b>						
Full-Line stores	98	94	92	88	80	77
Rack and other stores	57	56	56	55	52	43
International Façonnable boutiques	32	31	31	23	24	20
Total square footage	20,070,000	19,397,000	19,138,000	18,428,000	17,048,000	16,056,000

1 Same-stores include stores that have been open at least one full year at the beginning of the year.

2 Gross profit rate is calculated as the gross profit as a percentage of net sales.

3 Selling, general, and administrative rate is calculated as the selling, general, and administrative expenses as a percentage of net sales.

4 2002 — The items below amounted to a net \$90,638 charge (\$71,041, net of tax, or \$0.26 per diluted share):

- Selling, general and administrative expenses included an impairment charge of \$15,570 related to the write-down of an information technology investment in a supply chain software application in our private label business.
- We purchased the outstanding shares of Nordstrom.com, Inc. series C preferred stock for \$70,000. The minority interest purchase and reintegration costs resulted in a one-time charge of \$53,168. No tax benefit was recognized as there was no possibility of a future tax benefit.
- When we adopted SFAS No. 142, "Goodwill and Other Intangible Assets," our initial impairment test of the Façonnable Business Unit resulted in an impairment charge to acquired tradename of \$16,133 and to goodwill of \$5,767. The impairment charge is reflected as a cumulative effect of accounting change (\$13,359, net of tax).

5 In 2002, earnings before income tax expense and earnings before income tax expense as a percentage of net sales do not include the cumulative effect of an accounting change of \$13,359, net of tax of \$8,541.

6 2000 — The items below amounted to a net \$56,084 charge (\$34,211, net of tax, or \$0.13 per diluted share):

- Selling, general and administrative expenses included a charge of \$13,000 for certain severance and other costs related to a change in management.
- We recorded an impairment charge of \$10,227, consisting of \$9,627 recorded in selling, general and administrative expenses and \$600 in interest expense, related to several software projects under development that were either impaired or obsolete.
- We held common shares in Streamline, Inc., an Internet grocery and consumer goods delivery company. Streamline ceased its operations effective November 2000, and we wrote off our entire investment of \$32,857 in Streamline.

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(Dollars in thousands except sales per square foot and per share amounts)

<b>Fiscal Year</b>	<b>1994</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>
<b>Operations</b>					
Net sales	\$5,144,754	\$5,049,182	\$4,864,604	\$4,457,931	\$4,113,717
Same-store sales percentage increase (decrease) <sup>1</sup>	(1.1%)	(2.7%)	4.0%	0.6%	(0.7%)
Gross profit	1,781,929	1,704,237	1,568,791	1,378,472	1,310,931
Gross profit rate <sup>2</sup>	34.6%	33.8%	32.2%	30.9%	31.9%
Selling, general, and administrative expenses	(1,516,259)	(1,429,837)	(1,338,235)	(1,232,860)	(1,136,069)
Selling, general, and administrative rate <sup>3</sup>	29.5%	28.3%	27.5%	27.7%	27.6%
Operating income	265,670	274,400	230,556	145,612	174,862
Interest expense, net	(50,396)	(47,091)	(34,250)	(39,400)	(39,295)
Other income including finance charges, net	116,783	110,414	110,907	135,331	134,179
Earnings before income tax expense	332,057	337,723	307,213	241,543	269,746
Earnings before income tax expense as a percentage of net sales	6.5%	6.7%	6.3%	5.4%	6.6%
Net earnings	202,557	206,723	186,213	146,316	163,556
Net earnings as a percentage of net sales	3.9%	4.1%	3.8%	3.3%	4.0%
Diluted earnings per share	\$0.73	\$0.70	\$0.60	\$0.45	\$0.50
Dividends per share	\$0.16	\$0.15	\$0.1325	\$0.125	\$0.125
Return on average shareholders' equity	16.3%	15.0%	12.8%	10.2%	11.9%
Sales per square foot	\$349	\$362	\$384	\$377	\$382
<b>Financial Position (at year end)</b>					
Customer accounts receivable, net	\$557,190	\$560,564	\$621,704	\$661,332	\$874,103
Investment in asset backed securities	38,830	7,097	20,158	31,791	—
Merchandise inventories	797,845	750,269	826,045	719,919	626,303
Current assets	1,564,648	1,668,689	1,613,492	1,549,819	1,612,776
Current liabilities	866,509	794,490	979,031	795,321	833,443
Land, buildings and equipment, net	1,429,492	1,378,006	1,252,513	1,152,454	1,103,298
Long-term debt, including current portion	804,982	868,234	420,865	380,632	439,943
Shareholders' equity	1,185,614	1,300,545	1,458,950	1,457,084	1,408,053
Debt-to-capital ratio	42.5%	42.1%	31.9%	27.2%	32.3%
Book value per share	4.48	4.58	4.78	4.57	4.34
Total assets	3,062,081	3,103,689	2,890,664	2,726,495	2,732,619
<b>Store Information (at year end)</b>					
Full-Line stores	71	67	65	62	58
Rack and other stores	33	30	27	21	20
International Façonnable boutiques	0	0	0	0	0
Total square footage	14,487,000	13,593,000	12,614,000	11,754,000	10,713,000

<sup>1</sup> Same-stores include stores that have been open at least one full year at the beginning of the year.

<sup>2</sup> Gross profit rate is calculated as the gross profit as a percentage of net sales.

<sup>3</sup> Selling, general, and administrative rate is calculated as the selling, general, and administrative expenses as a percentage of net sales.

<sup>4</sup> 1999 — The item below amounted to a net \$10,000 charge (\$6,111, net of tax, or \$0.02 per diluted share):

- Selling, general and administrative expenses included a charge of \$10,000 primarily associated with the restructuring of our information technology services area. The charge consisted of \$4,053 in the disposition of several software projects under development, \$2,685 in employee severance and \$1,206 in other miscellaneous costs. Additionally, we recorded \$2,056 related to settlement costs for two lawsuits.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.**

Nordstrom is a fashion specialty retailer offering high-quality apparel, shoes, cosmetics and accessories for women, men and children. We offer a wide selection of brand name and private label merchandise. We offer our products through multiple retail channels including our Full-Line 'Nordstrom' stores, our discount 'Nordstrom Rack' stores, our 'Façonnable' boutiques, our catalogs and on the Internet at [www.nordstrom.com](http://www.nordstrom.com). Our stores are located throughout the United States and we have 32 Façonnable boutiques located in France, Portugal, and Belgium. In addition, we offer our customers a variety of payment products and services including our loyalty program.

### **STRATEGIC INITIATIVES FOR 2006**

Our long-term goal is to deliver industry-leading performance, and we continue to focus on driving top-line growth, gaining operational efficiencies and developing leaders for future growth. This mindset has served us well over the last few years as we have generated same-store sales growth and improved our gross profit and selling, general, and administrative rates. Our 2006 initiatives maintain the same focus but also recognize the developments in our business and the marketplace.

#### **Drive Top-Line Growth**

Our top priority is to gain market share through existing stores and channels, as well as from new Full-Line stores. Our success in accomplishing this goal starts and ends with the experience each customer has in our stores. We believe the essence of this experience is desirable products coupled with personalized service. Our ongoing focus revolves around these two key elements of our business as we believe they are an integral part of long-term success. For 2006, we have identified three specific areas of focus to drive top-line growth: re-energizing women's apparel, multi-channel integration and enhancing our designer business.

**Women's Apparel** — Women's apparel represents about one-third of our total sales and serves a wide range of individual tastes and styles. In 2005, we started to develop more targeted merchandising strategies for our women's departments. A thorough analysis of objective customer information combined with the feedback from our selling floor has helped us to better understand our customers' needs and shopping priorities in terms of style, price, fit and occasion. We have carefully reorganized our merchant teams and are in the process of fine-tuning our offerings to better serve our customers.

**Multi-Channel Integration** — Our goal is to create a more integrated, consistent merchandise offering for our customers, whether they choose to shop in our Full-Line stores, on the Internet or through our catalogs. As described in "Multi-Channel Strategy Execution" on page 6, we initiated the integration in 2005. In 2006 we will begin migrating the Direct inventory system onto our Full-Line store platform, creating a "one-company view" of inventory resulting in a more seamless merchandise offering and experience for our customer. This process is expected to continue through 2008.

**Designer** — Our women's designer category has been a strong performer and contributes significantly to the aspirational nature of our brand. Our goal is to have a complete designer offering in at least one store for every major market we serve. In addition, we are focused on enhancing and aligning our designer offering across all major merchandise categories. In August 2005, we purchased a majority interest in Jeffrey, a luxury specialty store business with stores in New York City and Atlanta, and named the founder, President and CEO of Jeffrey, Mr. Jeffrey Kalinsky, Director of Designer Merchandising at Nordstrom. Along with our merchant team, we're utilizing Mr. Kalinsky's expertise and creativity in the designer business to further our current designer strategies. Additionally, we launched a designer Web site in February 2006, which offers designer apparel, footwear and accessories.

#### **Continue to Gain Operational Efficiencies**

As we 'drive top-line growth,' we seek to expand our gross profit and reduce our selling, general and administrative rates by minimizing the increases to our buying, occupancy, general and administrative costs. This approach has been successful over the past three years, as we have controlled these costs while we supported our same-store sales growth. We are committed to keeping our technology investments current and relevant to our business needs. This includes investing in ongoing maintenance and system enhancements as well as replacing older applications as the opportunities present themselves. This is an ongoing part of our overall technology investment strategy. We anticipate additional rate improvement from our buying and corporate organization as we enhance our processes and expand the use of our systems to support our future sales growth.

#### **Leadership Development and Succession Planning**

At Nordstrom, we are committed to developing the best talent in retail. The training and development of our future leaders is critical to our long-term growth. To that end, we have identified potential successors for all major leadership roles. We have also piloted with 35 executives a leadership development program designed to increase specifically identified leadership skills. This program includes identifying each leader's development needs and includes personal coaching as well as interactive group learning. This program will be rolled out to approximately 90 leaders by the end of 2006 with plans to train more individuals over the next few years.

**OVERVIEW**

In 2005, our same-store sales increased 6.0% on top of our 8.5% increase in 2004. These increases are our two highest annual same-store sales growth results in the past 10 years. Some other retailers who combine an offering of compelling merchandise and customer service have also experienced positive sales growth. Our merchandise and selling costs increased in-line with our same-store sales, but our other costs, including buying and occupancy costs and non-selling labor, remained relatively consistent with last year. As a result of our same-store sales growth and expense performance, we experienced a significant increase in our operating income. Our earnings before income tax expense as a percentage of net sales was 11.5% in 2005, the first year that it exceeded 10.0% since we first issued stock to the public in 1971. In addition, our diluted earnings per share increased 43.5% to \$1.98.

**RESULTS OF OPERATIONS****Net Sales (Dollars in Millions)**

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Net sales	<b>\$7,722.9</b>	\$7,131.4	\$6,448.7
Net sales increase	<b>8.3%</b>	10.6%	8.5%
Same-store sales increase	<b>6.0%</b>	8.5%	4.1%
Percentage of net sales by merchandise category:			
Women's apparel	<b>35%</b>	36%	36%
Shoes	<b>21%</b>	20%	20%
Cosmetics and women's accessories	<b>20%</b>	20%	19%
Men's apparel	<b>18%</b>	18%	17%
Children's apparel	<b>3%</b>	3%	4%
Other	<b>3%</b>	3%	4%

**2005 VS 2004 NET SALES**

In our Full-Line stores, our accessories, cosmetics and men's apparel merchandise categories experienced the largest same-store sales increases. Our shoe divisions had same-store sales increases. Our women's apparel merchandise category had mixed same-store sales performance; women's intimate, junior and contemporary apparel were the leaders in the women's category, while women's special sizes, better and bridge apparel had same-store sales decreases in 2005.

Our Rack same-store sales increased 14.8% in 2005, on top of last year's 13.2% increase. Our sales increase was driven by the Rack's merchandise mix, especially our ability to offer customers branded merchandise.

Nordstrom Direct's 2005 sales, including shipping revenue, decreased by 2.5%. Internet sales increased 40.7%. In February 2005, we reduced our shipping fees, which drove additional Internet sales but reduced our overall shipping revenue. Nordstrom Direct's 2005 sales, excluding shipping revenue, improved by 2.4% compared to 2004. As part of the multi-channel strategy (see page 6), we reduced our Direct catalog mailings significantly beginning in July 2005 and we shifted the merchandise offering to be more aligned with the Full-Line stores. The decrease in the number of Direct catalog mailings, along with a continuing shift of catalog customers to the Internet, resulted in a drop in catalog sales in 2005.

Total net sales increased as a result of our same-store sales increases as well as from the six Full-Line stores opened since February 2004.

**2004 VS 2003 NET SALES**

Our net sales increased as our customers responded positively to our merchandise offerings. Both our Full-Line and Rack stores had overall and same-store sales increases. All of our geographic regions and major merchandise categories also reported overall and same-store sales increases. The strongest performing areas were accessories, women's shoes and women's better apparel, followed by women's designer and men's apparel.

Total net sales also benefited from the six Full-Line stores and two Rack stores opened since February 2003, increasing our retail square footage 5% during the last two years.

Sales at Nordstrom Direct increased 30.9% due to Internet-customer order growth and an improved customer order fulfillment rate. Internet sales increased 53.1% due to an increase in the rate of Web site visits that result in sales and increased Internet advertising. Catalog net sales decreased in 2004 by 3%, which is consistent with our strategy to shift catalog customers to the Internet.

**2006 FORECAST OF SAME-STORE SALES**

In March 2006, we opened one Full-Line store; later in 2006, we plan to open one Rack store and relocate one existing Full-Line store, increasing retail square footage by approximately 1%. We expect 2006 same-store sales to increase 1% to 3%.



**Gross Profit (Dollars in Millions Except Per Square Foot Amounts)**

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Gross profit	\$2,834.8	\$2,572.0	\$2,233.1
Gross profit rate	36.7%	36.1%	34.6%
Average inventory per square foot	\$51.25	\$52.46	\$54.81
Inventory turnover	4.84	4.51	4.10

**2005 VS 2004 GROSS PROFIT**

While we showed growth in our same-store sales, we held buying and occupancy costs relatively consistent with last year. In addition, our merchandise costs increased in-line with our sales increases. As a result, we drove a gross profit rate improvement of 60 basis points.

We continue our efforts to improve inventory management while providing fresh and compelling merchandise to our customers. We utilized existing and new technology to gain greater visibility into our sales trends and inventory position. Our merchant teams used these tools to expand their analysis of our sales and on-hand content to drive sales growth and increase our inventory turnover rate.

**2004 VS 2003 GROSS PROFIT**

In 2004, the improvement in our gross profit rate was primarily a result of meeting our customers' desire for fresh, compelling merchandise, which increased the sales of regular priced merchandise. In addition, gross profit benefited from our ongoing improvement in managing inventory and by holding buying costs and the fixed portion of occupancy expenses flat.

Contributing to our gross profit rate improvement was the continuous improvement we are making utilizing our perpetual inventory system investment, which we made in 2003. We have better visibility into sales trends and on-hand content, allowing us to more effectively manage our merchandise; the result was a significant improvement in our inventory turnover rate. Increased sell-through of regular-priced merchandise reduced the markdowns necessary to sell slow moving goods. We maintained our inventory at levels consistent with the prior year, even though our sales and square footage grew in 2004. The overall improvements in merchandise management have generated higher margins on our inventory investments.

**2006 FORECAST OF GROSS PROFIT**

In 2006, if we achieve our planned same-store sales growth, we expect a net 10 to 20 basis point improvement in our gross profit rate from continued sales leverage on buying and occupancy costs. This includes an estimated 15 basis point decrease to our 2006 gross profit rate when we adopt SFAS No. 123(R), "Share-Based Payment."

**Selling, General and Administrative Expenses (Dollars in Millions)**

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Selling, general and administrative expenses	\$2,100.7	\$2,020.2	\$1,899.1
Selling, general and administrative rate	27.2%	28.3%	29.4%

**2005 VS 2004 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

The primary component of our selling, general and administrative expenses that varies with our same-store sales is our selling costs. Most of our other expenses do not fluctuate with changes in our same-store sales. In 2005, as our same-store sales increased 6.0%, we held our general and administrative expenses essentially in-line with 2004, which resulted in a 110 basis point decrease in our selling, general and administrative rate. This is our second year in a row that the combination of our net sales increases and control of our general and administrative costs has given us an improvement in the selling, general and administrative rate of over 100 basis points.

**2004 VS 2003 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

We continued to use our infrastructure to support increased sales. In 2004, our selling, general and administrative rate improved 110 basis points. We were able to control and leverage our fixed general and administrative expenses, especially non-selling labor. While selling expense increased in 2004, primarily from higher costs linked to increased sales, we experienced a slight rate improvement in selling expense as a percentage of net sales.

**2006 FORECAST OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

In 2006, our selling, general and administrative rate is expected to improve overall by 10 to 20 basis points, primarily from continued sales leverage on general and administrative expenses. This includes an estimated 20 basis point increase to our 2006 selling, general and administrative rate when we adopt SFAS No. 123(R), "Share-Based Payment."

**Interest Expense, Net (Dollars in Millions)**

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Interest expense, net	<b>\$45.3</b>	\$77.4	\$91.0

**2005 VS 2004 INTEREST EXPENSE, NET**

Interest expense, net decreased \$32.1 million in 2005 compared to 2004. The decrease is primarily due to debt prepayment costs of \$20.9 million incurred in 2004 in connection with a \$198.2 million debt buyback. We did not incur similar costs in 2005.

**2004 VS 2003 INTEREST EXPENSE, NET**

We prepaid debt of \$198.2 million in 2004 and \$105.7 million in 2003. We incurred debt prepayment costs of \$20.9 million in 2004 and \$14.3 million in 2003. The decrease in our interest expense, net in 2004 was due to the reduction in our 2004 average outstanding debt, partially offset by the increase in the prepayment costs.

**2006 FORECAST OF INTEREST EXPENSE, NET**

We expect a reduction in interest expense, net of approximately \$8 to \$10 million due to higher interest income. This forecasted interest expense can vary based upon the rate of our share repurchases, which affects our cash on hand and the related interest income, and the variable portion of our long-term debt. Although the majority of our debt has fixed interest rates, we currently hold an interest rate swap agreement on our \$250.0 million 5.625% senior notes due in January 2009, where we receive a fixed rate of 5.625% and pay a variable rate based on LIBOR plus a margin of 2.3% set at six-month intervals (7.09% at January 28, 2006).

**Other Income Including Finance Charges, Net (Dollars in Millions)**

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Other income including finance charges, net	<b>\$196.4</b>	\$172.9	\$155.1
Other income including finance charges, net as a percentage of net sales	<b>2.5%</b>	2.4%	2.4%

**2005 VS 2004 OTHER INCOME INCLUDING FINANCE CHARGES, NET**

Other income including finance charges, net increased \$23.4 million, due to earnings growth in the Nordstrom fsb co-branded VISA credit card program and our gift card breakage income of \$8.0 million. The principal balances of receivables in the VISA credit card, which are held by a separate trust in which we hold a certificated interest, increased 20.6% during 2005. The receivables growth increase, which is mostly funded by our operating cash flows, produces an increase in the trust's earnings. Our income from the program increased primarily because of this growth in the co-branded receivables program.

Gift card breakage income is a new component of income in 2005. Unclaimed property legislation changed in 2004 to allow us to retain unused balances on gift cards. We analyzed the experience of our program since it was introduced in 1999, and we determined that balances remaining on cards issued five years ago are unlikely to be redeemed. The breakage income recognized in 2005 includes \$2.6 million and \$5.4 million for cards issued in 1999 and 2000; in both cases, the breakage income is 3.4% of the amount issued as gift cards in those years.

**2004 VS 2003 OTHER INCOME INCLUDING FINANCE CHARGES, NET**

Our overall other income including finance charges, net increased \$17.9 million, primarily from our co-branded VISA credit card program growth. Since 2002, we marketed this credit card to our in-store customers and the inactive Nordstrom private label credit card holders. These marketing efforts showed success in 2004, as the co-branded VISA credit card holders used the cards more extensively in 2004, resulting in a 45.7% volume increase.

**2006 FORECAST OF OTHER INCOME INCLUDING FINANCE CHARGES, NET**

In 2006, other income including finance charges, net is expected to increase approximately \$25 to \$30 million as we continue to see growth in our VISA credit card program and corresponding income.

**Income Tax Expense (Dollars in Millions)**

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Income tax expense	<b>\$333.9</b>	\$253.8	\$155.3
Effective tax rate	<b>37.7%</b>	39.2%	39.0%

**2005 VS 2004 INCOME TAX EXPENSE**

Our expected effective tax rate, considering the federal tax rate of 35.0% and the net effect of state income taxes, is 38.5%. In 2005, our actual effective tax rate was below this rate because our 2004 tax expense, which was finalized in the third quarter of 2005, was less than we expected; we reduced our reserve when the audits of our 2000 and 2001 federal tax returns were completed; and, we utilized a larger than previously estimated amount of our capital loss carryforward.

**2004 VS 2003 INCOME TAX EXPENSE**

Our effective tax rate in 2004 increased from the 2003 rate because we recorded a valuation allowance for a portion of a capital loss carryforward which we deemed to be unrealizable.

**2006 FORECAST OF INCOME TAX EXPENSE**

In 2006, we expect our effective tax rate to be 38.5%.

**Net Earnings and Diluted Earnings Per Share (Dollars in Millions Except Per Share Amounts)**

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Net earnings	<b>\$551.3</b>	\$393.5	\$242.8
Net earnings as a percentage of net sales	<b>7.1%</b>	5.5%	3.8%
Diluted earnings per share	<b>\$1.98</b>	\$1.38	\$0.88

**2005 VS 2004 NET EARNINGS AND DILUTED EARNINGS PER SHARE**

In 2005, net earnings increased 40.1% and diluted earnings per share increased 43.5% as a result of our same-store sales growth and sales leverage on buying and occupancy and general and administrative expenses. In 2004, we incurred prepayment costs and wrote off deferred debt costs totaling \$20.9 million, or \$0.05 per diluted share, upon prepayment of \$198.2 million of long-term debt. We did not incur similar costs in 2005.

**2004 VS 2003 NET EARNINGS AND DILUTED EARNINGS PER SHARE**

In 2004, earnings per share increased to \$1.38 from \$0.88 in 2003. This increase was driven by a strong increase in overall and same-store sales, improvements in gross profit through better inventory management, and sales leverage on buying and occupancy and selling, general and administrative expenses.

**2006 FORECAST OF DILUTED EARNINGS PER SHARE**

We expect our diluted earnings per share to be in the range of \$2.15 to \$2.23 in 2006, which includes an estimated annual expense of \$0.06 per diluted share from the adoption of SFAS No. 123(R), "Share-Based Payment" in the first quarter of 2006.

**Fourth Quarter Results**

Net earnings for the fourth quarter of 2005 were \$190.4 million compared with \$140.0 million in 2004. Total sales for the quarter increased 9.3% to \$2.3 billion and same-store sales increased by 5.8%. Our cosmetics, accessories and men's apparel merchandise categories experienced the largest same-store sales increases. Our shoe divisions had same-store sales increases. Our women's apparel merchandise categories had mixed same-store sales performance. Women's intimate and contemporary apparel were the leaders in the women's category, while women's special sizes, bridge and better apparel had same-store sales decreases in 2005.

Our gross profit rate increased to 37.5% from 36.6% last year. Our women's apparel category experienced a reduction in gross profit rate, but this was offset by improvement in the men's apparel and accessories categories. The quarterly improvement in our gross profit rate resulted from leverage on our buying and occupancy expenses.

Our selling, general and administrative rate improved 70 basis points from 26.9% to 26.2%, primarily from leverage on our general and administrative expenses.

**LIQUIDITY AND CAPITAL RESOURCES**

Overall, cash increased by \$102.0 million to \$462.7 million as of January 28, 2006 due primarily to the increase in our net earnings in 2005. We utilized our cash flow from operations for capital expenditures, to repay debt and to return capital to our shareholders through dividends and repurchases of our common stock.

## Operating Activities

### 2005 VS 2004 OPERATING ACTIVITIES

Net cash flow from operating activities increased from \$606.3 million to \$776.2 million, an increase of \$169.9 million primarily due to the growth in our net earnings. We continue to see growth in our co-branded VISA credit card program, and as a result we have increased the capital we allocate to fund this program. Under our co-branded VISA program, we earn interchange and finance charge income and we offer card holders merchandise certificates, which can be redeemed in our stores, similar to a gift certificate. Our operating cash flows have been sufficient over the past three years to support the annual growth of this program, and we expect additional growth in 2006 also will be funded from our operations.

A key tool that we use to manage our inventory is our perpetual inventory system. In 2005, we reduced our average inventory per square foot by 2.3%. We use our perpetual inventory system to identify sales trends quickly, so we can enhance additional sales opportunities and increase inventory turnover.

In the course of negotiating for store locations, some developers offer up-front cash payments to defray our capital expenditures in exchange for our commitment to operate a store in their development. In 2005, we received \$49.5 million of these incentives, which is a \$29.6 million increase over 2004. Property incentive receipts vary year to year, depending on the number of our store openings and remodels and the arrangements we negotiate with developers.

### 2004 VS 2003 OPERATING ACTIVITIES

In 2004, net cash flow from operating activities increased to \$606.3 million, a \$7.1 million increase. Higher net earnings was offset by our merchandise purchase and payment flow changes in 2004 as compared to 2003 and the timing of income tax payments. Toward the end of 2003 and into 2004, we achieved a more even flow of merchandise purchases in relation to our sales trends. Our 2004 inventory turns have improved over the prior year; the payables leverage we achieved in 2004 is consistent with our merchandise purchase plan. Income tax payments have increased in 2004 as a result of our earnings growth.

### 2006 FORECAST FOR OPERATING ACTIVITIES

In 2006, cash flows provided by operating activities are expected to increase slightly as a result of increased net earnings.

## Investing Activities

In the past three years, we have had two principal types of investing activities: capital expenditures and short-term investments.

### CAPITAL EXPENDITURES

The changes in the level of our capital expenditures from year to year partially correlate to the number of stores opened in each year:

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Capital expenditures (in millions)	<b>\$271.7</b>	\$246.9	\$258.3
Stores opened:			
Full-Line	<b>4</b>	2	4
Rack	<b>—</b>	—	2

In 2005, we opened four Full-Line stores: at Phipps Plaza in Atlanta, Georgia; at The Shops at La Cantera in San Antonio, Texas; at the Irvine Spectrum Center in Irvine, California; and at the NorthPark Center in Dallas, Texas. Gross square footage for the year increased approximately 3.5%, from 19,397,000 to 20,070,000. In 2005, 40% of our capital expenditures was for new stores and 30% was for remodels. In addition, 15% of our capital expenditures was for information technology and 15% for other routine projects.

Our capital expenditures over the last three years totaled \$776.8 million. These capital expenditures were offset by property incentives of \$115.3 million. With these capital expenditures, we added stores, enhanced existing facilities and improved our information systems. More than 1.6 million square feet of retail store space have been added during this period, representing an increase of 9% since January 31, 2003.

We expect that our capital expenditures will be \$1.5 billion over the next three years, with \$319 million planned for 2006. These future capital expenditures are expected to be offset partially by property incentives of \$230 million. We plan to use 50% of this investment to build new stores, 25% on remodels, 10% on information technology and 15% for smaller, store-related improvements. Compared to the previous three years, capital expenditures will increase 94%, with increased spending allocated to new stores. The estimated capital project spending does not include potential investments in new stores resulting from the current industry consolidation. We believe we have the capacity to address additional capital investments should opportunities arise.

As of January 28, 2006, we were contractually committed to spend \$567.5 million for constructing new stores, remodeling existing stores, and other capital projects.

## SHORT-TERM INVESTMENTS

We reduced our holdings of our short-term investments in 2004 when we repurchased \$198.2 million of long-term debt. In 2005, our short-term investment balances have been more consistent. We evaluate a number of short-term investment options, with a variety of yields and liquidity restrictions. Consistent with our investment policy, we invest our excess cash in high quality short-term investments. Some of these investments are classified as cash equivalents while others are classified as short-term investments; changes in the investment mix, while not significant to our overall short-term investing activities, can impact our net cash flows from investing activities.

## Financing Activities

Over the past three years, our net operating cash flows have exceeded our net investing activities, and we used this excess cash flow to repay long-term debt, pay dividends, and to repurchase our common stock in 2004 and 2005. Over this three-year period, the price of our common stock has increased, which spurred stock option exercises that also increased our net cash. We have not utilized our short-term borrowing facilities during the past three years.

## DEBT REPURCHASE

The following table outlines our debt retirement activity (in millions):

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Principal repaid or retired:			
Senior notes, 8.95%, due 2005	—	\$196.8	\$103.2
Notes payable, 6.7%, due 2005	<b>\$96.0</b>	\$1.5	\$2.5
<b>Total</b>	<b>\$96.0</b>	\$198.3	\$105.7
Total cash payment	<b>\$96.0</b>	\$220.1	\$120.8

We repaid the remaining \$96.0 million of our 6.7% medium-term notes when they matured in 2005. The cash payments in 2004 and 2003 that exceeded the principal retired represent early prepayment premiums.

In October 2006, our \$300.0 million 4.82% Private Label Securitization will mature. We intend to borrow the funds necessary to repay the Securitization with a combination of our existing borrowing capacity and additional borrowing capacity that we expect to put in place before October 2006. In the first quarter of 2007, we intend to establish a new securitization program that includes the private label and co-branded Visa cards.

## SHARE REPURCHASE

In August 2004, our Board of Directors authorized \$300.0 million of share repurchases, replacing a previous share repurchase authorization. By the end of 2004, we purchased 13.8 million shares in the open market for the entire authorized amount of \$300.0 million at an average price of \$21.71 per share.

In February 2005, our Board of Directors authorized an additional \$500.0 million of share repurchases. The actual number and timing of share repurchases will be subject to market conditions and applicable SEC rules. We entered into an accelerated share repurchase agreement with Goldman, Sachs & Co. in September 2005 to repurchase shares of our common stock for an aggregate purchase price of \$100.0 million. We purchased 2.6 million shares of our common stock on September 8, 2005 at \$38.77 per share. Under the terms of the agreement, we received 0.1 million additional shares in March 2006 based on the volume weighted average price of our common stock from September 8, 2005 to March 3, 2006. Overall for 2005, we purchased 8.5 million shares for \$287.1 million at an average price of \$33.80 per share. We expect to utilize the remaining authorization of \$212.9 million in the first half of 2006.

## Debt-to-Capital Ratio

Our recent favorable operating results increased our shareholders' equity and allowed us to reduce our long-term debt, which contributed to a decrease in our debt-to-capital ratio from 43.0% at the end of 2003 to 30.9% at the end of 2005. We believe that a debt-to-capital ratio in the range of 25% to 40% results in favorable debt ratings and provides appropriate flexibility and a reasonable cost of capital.

## Off-Balance Sheet Financing

We transfer our Nordstrom co-branded VISA credit card receivables to a third-party trust that issued \$200 million of VISA receivable backed securities to third parties in 2002; those securities mature in April 2007. The outstanding balance of the co-branded VISA credit card receivables exceeds the receivable backed securities balance. As a result, we hold securities that represent our beneficial interests in the trust, recorded as investment in asset backed securities in our consolidated balance sheets. We do not record the \$200.0 million of VISA receivable backed securities or the co-branded Nordstrom VISA credit card receivables transferred to the trust on our consolidated balance sheets.

In the past, this off-balance sheet financing provided us a cost-effective source of capital. See Note 8 for a further description of our off-balance sheet financing activities, including the amounts of income and cash flows arising from the arrangement and the amounts of our beneficial interests.

**Interest Rate Swaps**

To manage our interest rate risk, we entered into an interest rate swap agreement in 2003, which had a \$250.0 million notional amount expiring in January 2009. Under the agreement, we receive a fixed rate of 5.63% and pay a variable rate based on LIBOR plus a margin of 2.3% set at six-month intervals (7.09% at January 28, 2006). The interest rate swap agreement had a fair value of \$(11.1) million and \$(7.8) million at the end of 2005 and 2004.

**Contractual Obligations (Dollars in Millions)**

The following table summarizes our contractual obligations and the expected effect on our liquidity and cash flows. We expect to fund these commitments primarily with operating cash flows generated in the normal course of business and credit available to us under existing and potential future facilities.

	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Long-term debt	<b>\$1,136.1</b>	\$305.8	\$461.5	\$11.0	\$357.8
Capital lease obligations	<b>15.5</b>	2.0	3.9	2.6	7.0
Operating leases	<b>680.6</b>	73.4	143.8	131.4	332.0
Purchase obligations	<b>1,469.9</b>	996.6	379.0	71.2	23.1
Other long-term liabilities	<b>196.9</b>	30.0	39.9	19.2	107.8
<b>Total</b>	<b>\$3,499.0</b>	\$1,407.8	\$1,028.1	\$235.4	\$827.7

Long-term debt includes financing related to the \$200.0 million off-balance sheet receivable backed securities due in April 2007. In addition to the required debt repayments disclosed above, we estimate total interest payments of approximately \$576.6 million as of January 28, 2006, payable over the remaining life of the debts.

Purchase obligations primarily consist of purchase orders for unreceived goods or services and capital expenditure commitments.

Other long-term liabilities consist of workers' compensation and general liability insurance reserves and postretirement benefits. The repayment amounts presented above were determined based on historical payment trends. Other long-term liabilities not requiring cash payments, such as deferred property incentives, were excluded from the table above.

This table also excludes the short-term liabilities, other than the current portion of long-term debt, disclosed on our 2005 balance sheet as the amounts recorded for these items will be paid in the next year.

**Credit Capacity and Commitments**

The following table summarizes our amount of commitment expiration per period (in millions):

	<b>Total Amounts Committed</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Other commercial commitments					
\$500.0 unsecured line of credit, none outstanding	—	—	—	—	—
\$150.0 variable funding note, none outstanding	—	—	—	—	—
Standby letters of credit	<b>\$11.2</b>	\$11.2	—	—	—
Import letters of credit	<b>\$19.5</b>	\$19.5	—	—	—
<b>Total</b>	<b>\$30.7</b>	\$30.7	—	—	—

In November 2005, we replaced our existing \$350.0 million unsecured line of credit with a \$500.0 million unsecured line of credit, which is available as liquidity support for our commercial paper program. Under the terms of the agreement, we pay a variable rate of interest and a commitment fee based on our debt rating. Based upon our current debt rating, we pay a variable rate of interest of LIBOR plus a margin of 0.225% (4.793% at January 28, 2006) on the outstanding balance and an annual commitment fee of 0.075% on the total capacity. The variable rate of interest increases to LIBOR plus a margin of 0.325% if more than \$250.0 million is outstanding on the facility. The line of credit expires in November 2010, and contains restrictive covenants, which include maintaining a leverage ratio.

We have a variable funding note backed by Nordstrom private label card and VISA credit card receivables with a borrowing capacity of \$150.0 million. The annual renewal of this note requires both our approval and our issuing bank's approval and interest is paid based on the actual cost of commercial paper plus specified fees of 0.15% (4.66% as of January 28, 2006). We also pay a commitment fee of 0.15% for the note based on the amount of the commitment. The facility can be cancelled or not renewed if our debt ratings fall below Standard and Poor's BB+ rating or Moody's Ba1 rating.

We did not make any borrowings under our unsecured line of credit or our variable funding note backed by Nordstrom private label card receivables during the three years ended January 28, 2006.

We also have universal shelf registrations on file with the Securities and Exchange Commission that permit us to offer an additional \$450.0 million of securities to the public. These registration statements allow us to issue various types of securities, including debt, common stock, warrants to purchase common stock, warrants to purchase debt securities and warrants to purchase or sell foreign currency.

## Debt Ratings

The following table shows our credit ratings at the date of this report:

Credit Ratings	Moody's	Standard and Poor's
Senior unsecured debt	Baa1	A-
Commercial paper	P-2	A-2
Outlook	Stable	Positive watch

These ratings could change depending on our performance and other factors. Our outstanding debt is not subject to termination or interest rate adjustments based on changes in our credit ratings.

## Dividends

In 2005, we paid dividends of \$0.32 per share, the ninth consecutive year that our annual dividends increased. We paid dividends of \$0.24 and \$0.205 in 2004 and 2003. In determining the amount of dividends to pay, we analyze our dividend payout ratio and our dividend yield and balance the dividend payment with our operating performance and capital resources. We target a dividend payout ratio of approximately 18% to 20% of net income, although the ratio has been slightly lower the last two years as a result of the significant increase in our net earnings. For the dividend yield, which is calculated as our dividends per share divided by our stock price, we target a 1% long-term yield. While we plan to increase dividends over time, we will balance future increases with our operating performance and available capital resources.

## Liquidity

We maintain a level of liquidity to allow us to cover our seasonal cash needs and to minimize our need for short-term borrowings. We believe that our operating cash flows, existing cash and available credit facilities are sufficient to finance our cash requirements for the next 12 months. In October 2006, we plan to repay our \$300.0 million 4.82% Private Label Securitization with proceeds from a combination of our existing borrowing capacity and additional borrowing capacity that we expect to put in place before October 2006.

Over the long term, we manage our cash and capital structure to maximize shareholder return, strengthen our financial position and maintain flexibility for future strategic initiatives. We continuously assess our debt and leverage levels, capital expenditure requirements, principal debt payments, dividend payouts, potential share repurchases, and future investments or acquisitions. We believe our operating cash flows, existing cash and available credit facilities, as well as any potential future borrowing facilities will be sufficient to fund these scheduled future payments and potential long term initiatives.

## CRITICAL ACCOUNTING POLICIES

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

### Off-Balance Sheet Financing

Our co-branded Nordstrom VISA credit card receivables are transferred to a third-party trust on a daily basis. The balance of the receivables transferred to the trust fluctuates as new receivables are generated and old receivables are retired (through payments received, charge-offs, or credits from merchandise returns). The trust issues securities that are backed by the receivables. Certain of these securities or "beneficial interests" are sold to third-party investors and those remaining securities are issued to us.

We recognize gains or losses on the sale of the co-branded Nordstrom VISA receivables to the trust based on the difference between the face value of the receivables sold and the estimated fair value of the assets created in the securitization process. The fair value of the assets is calculated as the present value of their expected cash flows. The discount rate used to calculate fair value represents the volatility and risk of the assets. Assumptions and judgments are made to estimate the fair value of our investment in asset backed securities. We have no other off-balance sheet transactions.

### Inventory

Our inventory is stated at the lower of cost or market using the retail inventory method (first-in, first-out basis). Under the retail method, the valuation of inventories and the resulting gross margins are determined by applying a calculated cost-to-retail ratio to the retail value of ending inventory. To determine if the retail value of our inventory should be marked down, we considered current and anticipated demand, customer preferences, age of the merchandise and fashion trends. As our inventory retail value is adjusted regularly to reflect market conditions, our inventory is valued at the lower of cost or market.

We also reserve for obsolescence based on historical trends and specific identification. Shrinkage is estimated as a percentage of net sales for the period from the most recent semi-annual inventory count based on historical shrinkage results.

### **Revenue Recognition**

We recognize revenues net of estimated returns and we exclude sales taxes. Our retail stores record revenue at the point of sale. Our catalog and Internet sales include shipping revenue and are recorded upon estimated delivery to the customer. As part of the normal sales cycle, we receive customer merchandise returns. To recognize the financial impact of sales returns, we estimate the amount of goods that will be returned and reduce sales and cost of sales accordingly. We utilize historical return patterns, which have remained consistent year over year, to estimate our expected returns.

### **Vendor Allowances**

We receive allowances from merchandise vendors for purchase price adjustments, cooperative advertising programs, cosmetic selling expenses and vendor sponsored contests. Purchase price adjustments are recorded as a reduction of cost of sales after an agreement with the vendor is executed and the related merchandise has been sold. Allowances for cooperative advertising programs and vendor sponsored contests are recorded in cost of sales and selling, general and administrative expenses as a reduction to the related cost when incurred. Allowances for cosmetic selling expenses are recorded in selling, general and administrative expenses as a reduction to the related cost when incurred. Any allowances in excess of actual costs incurred that are recorded in selling, general and administrative expenses are recorded as a reduction to cost of sales.

### **Self Insurance**

We retain a portion of the risk for certain losses related to health and welfare, workers' compensation and general liability claims. Liabilities associated with these losses include estimates of both losses reported and losses incurred but not yet reported. We estimate our ultimate cost based on internal analysis of historical data and independent actuarial estimates. We experienced an increase in our California workers' compensation costs in 2002 and 2003 and declining costs in 2005. Our total workers' compensation costs over the last three years have been \$12,804, \$29,263, and \$33,782 in 2005, 2004, and 2003.

### **Allowance For Doubtful Accounts**

Our allowance for doubtful accounts represents our best estimate of the losses inherent in our private label credit card receivable as of the balance sheet date. We evaluate the collectibility of our accounts receivable based on several factors, including historical trends of aging of accounts, write-off experience and expectations of future performance. We recognize finance charges on delinquent accounts until the account is written off. Delinquent accounts are written off when they are determined to be uncollectible, usually after the passage of 151 days without receiving a full scheduled monthly payment. Accounts are written off sooner in the event of customer bankruptcy or other circumstances that make further collection unlikely. Our write-off experience and aging trends have improved each of the last three years.

### **Intangible Asset Impairment Testing**

We review our goodwill and acquired tradename annually for impairment in the first quarter or when circumstances indicate the carrying value of these assets may not be recoverable. The goodwill and acquired tradename associated with our Façonnable business are our largest impairment risk. In 2005, we engaged an independent valuation specialist to estimate the reporting unit's fair value.

### **Leases**

We lease the land or the land and building at many of our Full-Line stores, and we lease the building at many of our Rack stores. Additionally, we lease office facilities, warehouses and equipment. We recognize lease expense on a straight-line basis over the minimum lease term. In 2004, we corrected our lease accounting policy to recognize lease expense, net of property incentives, from the time that we control the leased property. We recorded a charge of \$7.8 million (\$4.7 million net of tax) in the fourth quarter of 2004 to correct this accounting policy. The impact of this change was immaterial to prior periods. Many of our leases include options that allow us to extend the lease term beyond the initial commitment period, subject to terms agreed to at lease inception. For leases that contain rent holiday periods and scheduled rent increases, we record the difference between the rent expense and the rental amount payable under the leases in liabilities. Some leases require additional payments based on sales and are recorded in rent expense when the contingent rent is probable.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends ARB No. 43, Chapter 4, "Inventory Pricing" to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material should be recognized as current period charges. In addition, this statement requires that fixed overhead production be allocated to the costs of conversion based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, and should be applied prospectively. We do not believe the adoption of SFAS No. 151 will have a material impact on our financial statements.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award. We expect to adopt SFAS No. 123R in the first quarter of 2006 under the modified prospective method. We believe adoption of SFAS No. 123R will reduce our 2006 diluted earnings per share by \$0.06.



## Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

### INTEREST RATE RISK

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

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

The table below presents information about our financial instruments that are sensitive to changes in interest rates, which consist of debt obligations and interest rate swaps for the year ended January 28, 2006. For debt obligations, the table presents principal amounts, at book value, by maturity date, and related weighted average interest rates. For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates. Notional amounts are the predetermined dollar principal on which the exchanged interest payments are based.

Dollars in thousands	2006	2007	2008	2009	2010	Thereafter	Total at January 28, 2006	Fair value at January 28, 2006
Long-term debt								
Fixed	\$306,618	\$6,709	\$256,858	\$6,958	\$5,419	\$362,882	\$945,444	\$963,092
Avg. int. rate	4.9%	8.1%	5.7%	7.8%	8.9%	7.2%	6.0%	
Interest rate swap								
Fixed to variable	—	—	\$250,000	—	—	—	\$250,000	\$(11,050)
Avg. pay rate	—	—	7.09%	—	—	—	7.09%	
Avg. receive rate	—	—	5.63%	—	—	—	5.63%	

### FOREIGN CURRENCY EXCHANGE RISK

The majority of our revenue, expense and capital expenditures are transacted in U.S. dollars. However, we periodically enter into foreign currency purchase orders denominated in Euros for apparel, accessories and shoes. We use forward contracts to hedge against fluctuations in foreign currency prices. The fair value of our outstanding forward contracts at January 28, 2006 was not material.

In addition, the functional currency of Façonnable, S.A.S. of Nice, France is the Euro. Assets and liabilities of Façonnable are translated into U.S. dollars at the exchange rate prevailing at the end of the period. Income and expenses are translated into U.S. dollars at an average exchange rate during the period. Foreign currency gains and losses from the translation of Façonnable's balance sheet and income statement are included in other comprehensive earnings. Foreign currency gains or losses from certain intercompany loans are recorded in other income including finance charges, net.

We considered the potential impact of a hypothetical 10% adverse change in foreign exchange rates and we believe that such a change would not have a material impact on our cash flows of financial instruments that are sensitive to foreign currency exchange risk. The model measured the change in cash flows arising from the 10% adverse change in foreign exchange rates, and covered long-term debt denominated in Euros.

## **Item 8. Financial Statements and Supplementary Data.**

### **MANAGEMENT RESPONSIBILITY FOR FINANCIAL INFORMATION**

We are responsible for the preparation, integrity and fair presentation of our financial statements and the other information that appears in this annual report on Form 10-K. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include estimates based on our best judgment.

We maintain a comprehensive system of internal controls and procedures designed to provide reasonable assurance, at an appropriate cost-benefit relationship, that our financial information is accurate and reliable, our assets are safeguarded and our transactions are executed in accordance with established procedures.

Deloitte and Touche LLP, an independent registered public accounting firm, is retained to audit Nordstrom's consolidated financial statements and management's assessment of the effectiveness of the Company's internal control over financial reporting. Its accompanying reports are based on audits conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

The Audit Committee, which is comprised of six independent directors, meets regularly with our management, our internal auditors and the independent registered public accounting firm to ensure that each is properly fulfilling its responsibilities. The Committee oversees our systems of internal control, accounting practices, financial reporting and audits to ensure their quality, integrity and objectivity are sufficient to protect shareholders' investments.

### **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities and Exchange Act of 1934 rules. Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control — Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of January 28, 2006.

Management's assessment of the effectiveness of our internal control over financial reporting as of January 28, 2006 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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

/s/ Blake W. Nordstrom  
Blake W. Nordstrom  
President

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Shareholders of Nordstrom, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Nordstrom, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of January 28, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of January 28, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2006, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended January 28, 2006 of the Company and our report dated March 21, 2006, expresses an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP  
Seattle, Washington  
March 21, 2006

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS**

To the Board of Directors and Shareholders of Nordstrom, Inc.

We have audited the accompanying consolidated balance sheets of Nordstrom, Inc. and subsidiaries (the "Company") as of January 28, 2006 and January 29, 2005, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended January 28, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Nordstrom, Inc. and subsidiaries as of January 28, 2006 and January 29, 2005, and the results of their operations and their cash flows for each of the three years in the period ended January 28, 2006, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of January 28, 2006, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 21, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP  
Seattle, Washington  
March 21, 2006

**Nordstrom, Inc.****Consolidated Statements of Earnings**

Amounts in thousands except per share amounts

<b>Fiscal year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Net sales	<b>\$7,722,860</b>	\$7,131,388	\$6,448,678
Cost of sales and related buying and occupancy costs	<b>(4,888,023)</b>	(4,559,388)	(4,215,546)
Gross profit	<b>2,834,837</b>	2,572,000	2,233,132
Selling, general and administrative expenses	<b>(2,100,666)</b>	(2,020,233)	(1,899,129)
Operating income	<b>734,171</b>	551,767	334,003
Interest expense, net	<b>(45,300)</b>	(77,428)	(90,952)
Other income including finance charges, net	<b>196,354</b>	172,942	155,090
Earnings before income tax expense	<b>885,225</b>	647,281	398,141
Income tax expense	<b>(333,886)</b>	(253,831)	(155,300)
<b>Net earnings</b>	<b>\$551,339</b>	\$393,450	\$242,841
Basic earnings per share	<b>\$2.03</b>	\$1.41	\$0.89
Diluted earnings per share	<b>\$1.98</b>	\$1.38	\$0.88
Basic shares	<b>271,958</b>	278,993	272,658
Diluted shares	<b>277,776</b>	284,533	275,478
Cash dividends paid per share of common stock outstanding	<b>\$0.32</b>	\$0.24	\$0.205

**Consolidated Statements of Earnings (% of sales)**

<b>Fiscal year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Net sales	<b>100.0%</b>	100.0%	100.0%
Cost of sales and related buying and occupancy costs	<b>(63.3)</b>	(63.9)	(65.4)
Gross profit	<b>36.7</b>	36.1	34.6
Selling, general and administrative expenses	<b>(27.2)</b>	(28.3)	(29.4)
Operating income	<b>9.5</b>	7.7	5.2
Interest expense, net	<b>(0.6)</b>	(1.1)	(1.4)
Other income including finance charges, net	<b>2.5</b>	2.4	2.4
Earnings before income tax expense	<b>11.5</b>	9.1	6.2
Income tax expense (as a % of earnings before income tax expense)	<b>(37.7)</b>	(39.2)	(39.0)
<b>Net earnings</b>	<b>7.1</b>	5.5%	3.8%

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

**Nordstrom, Inc.**  
**Consolidated Balance Sheets**

Amounts in thousands

	January 28, 2006	January 29, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$462,656	\$360,623
Short-term investments	54,000	41,825
Accounts receivable, net	639,558	645,663
Investment in asset backed securities	561,136	422,416
Merchandise inventories	955,978	917,182
Current deferred tax assets	145,470	131,547
Prepaid expenses and other	55,359	53,188
<b>Total current assets</b>	<b>2,874,157</b>	<b>2,572,444</b>
Land, buildings and equipment, net	1,773,871	1,780,366
Goodwill	51,714	51,714
Acquired tradename	84,000	84,000
Other assets	137,607	116,866
<b>Total assets</b>	<b>\$4,921,349</b>	<b>\$4,605,390</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$540,019	\$482,394
Accrued salaries, wages and related benefits	285,982	287,904
Other current liabilities	409,076	354,201
Income taxes payable	81,617	115,556
Current portion of long-term debt	306,618	101,097
<b>Total current liabilities</b>	<b>1,623,312</b>	<b>1,341,152</b>
Long-term debt, net	627,776	929,010
Deferred property incentives, net	364,382	367,087
Other liabilities	213,198	179,147
Shareholders' equity:		
Common stock, no par value: 1,000,000 shares authorized; 269,549 and 271,331 shares issued and outstanding	685,934	552,655
Unearned stock compensation	(327)	(299)
Retained earnings	1,404,366	1,227,303
Accumulated other comprehensive earnings	2,708	9,335
<b>Total shareholders' equity</b>	<b>2,092,681</b>	<b>1,788,994</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$4,921,349</b>	<b>\$4,605,390</b>

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

**Nordstrom, Inc.**  
**Consolidated Statements of Shareholders' Equity**

Amounts in thousands except per share amounts

	Common Stock		Unearned Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Earnings	Total
	Shares	Amount				
<b>Balance at January 31, 2003</b>	270,888	\$358,069	\$(2,010)	\$1,014,105	\$2,700	\$1,372,864
Net earnings	—	—	—	242,841	—	242,841
Other comprehensive earnings:						
Foreign currency translation adjustment	—	—	—	—	7,379	7,379
Unrecognized loss on SERP, net of tax of \$3,304	—	—	—	—	(5,168)	(5,168)
Fair value adjustment to investment in asset backed securities, net of tax of \$(2,530)	—	—	—	—	3,957	3,957
Comprehensive net earnings	—	—	—	—	—	249,009
Cash dividends paid (\$0.205 per share)	—	—	—	(55,853)	—	(55,853)
Issuance of common stock for:						
Stock option plans	4,519	57,981	—	—	—	57,981
Employee stock purchase plan	1,295	9,677	—	—	—	9,677
Stock-based compensation	51	(1,082)	1,413	—	—	331
<b>Balance at January 31, 2004</b>	276,753	424,645	(597)	1,201,093	8,868	1,634,009
Net earnings	—	—	—	393,450	—	393,450
Other comprehensive earnings:						
Foreign currency translation adjustment	—	—	—	—	493	493
Unrecognized loss on SERP, net of tax of \$76	—	—	—	—	(119)	(119)
Fair value adjustment to investment in asset backed securities, net of tax of \$(59)	—	—	—	—	93	93
Comprehensive net earnings	—	—	—	—	—	393,917
Cash dividends paid (\$0.24 per share)	—	—	—	(67,240)	—	(67,240)
Issuance of common stock for:						
Stock option plans	7,238	111,315	—	—	—	111,315
Employee stock purchase plan	977	14,081	—	—	—	14,081
Stock-based compensation	178	2,614	298	—	—	2,912
Repurchase of common stock	(13,815)	—	—	(300,000)	—	(300,000)
<b>Balance at January 29, 2005</b>	271,331	552,655	(299)	1,227,303	9,335	1,788,994
Net earnings	—	—	—	551,339	—	551,339
Other comprehensive earnings:						
Foreign currency translation adjustment	—	—	—	—	(1,815)	(1,815)
Unrecognized loss on SERP, net of tax of \$4,950	—	—	—	—	(7,742)	(7,742)
Fair value adjustment to investment in asset backed securities, net of tax of \$(1,875)	—	—	—	—	2,930	2,930
Comprehensive net earnings	—	—	—	—	—	544,712
Cash dividends paid (\$0.32 per share)	—	—	—	(87,196)	—	(87,196)
Issuance of common stock for:						
Stock option plans	5,820	112,948	—	—	—	112,948
Employee stock purchase plan	757	16,767	—	—	—	16,767
Stock-based compensation	136	3,564	(28)	—	—	3,536
Repurchase of common stock	(8,495)	—	—	(287,080)	—	(287,080)
<b>Balance at January 28, 2006</b>	<b>269,549</b>	<b>\$685,934</b>	<b>\$(327)</b>	<b>\$1,404,366</b>	<b>\$2,708</b>	<b>\$2,092,681</b>

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

**Nordstrom, Inc.**  
**Consolidated Statements of Cash Flows**

Amounts in thousands

<b>Fiscal year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Operating Activities</b>			
Net earnings	\$551,339	\$393,450	\$242,841
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization of buildings and equipment	276,328	264,769	250,683
Amortization of deferred property incentives and other, net	(33,350)	(31,378)	(27,712)
Stock-based compensation expense	13,285	8,051	17,894
Deferred income taxes, net	(11,238)	(8,040)	(1)
Tax benefit of stock option exercises and employee stock purchases	41,092	25,442	10,199
Provision for bad debt	20,918	24,639	27,975
Change in operating assets and liabilities:			
Accounts receivable	(15,140)	(2,950)	(30,677)
Investment in asset backed securities	(135,790)	(149,970)	(141,264)
Merchandise inventories	(20,804)	(11,771)	28,213
Prepaid expenses	(1,035)	(3,163)	86
Other assets	(3,473)	(8,143)	(10,109)
Accounts payable	31,721	23,930	75,736
Accrued salaries, wages and related benefits	(11,284)	15,055	42,885
Other current liabilities	38,755	58,471	38,970
Income taxes payable	(33,877)	(18,999)	21,319
Property incentives	49,480	19,837	46,007
Other liabilities	19,305	7,116	6,237
Net cash provided by operating activities	776,232	606,346	599,282
<b>Investing Activities</b>			
Capital expenditures	(271,659)	(246,851)	(258,314)
Proceeds from sale of assets	107	5,473	—
Purchases of short-term investments	(542,925)	(3,232,250)	(2,144,909)
Sales of short-term investments	530,750	3,366,425	2,090,175
Other, net	(8,366)	(2,830)	3,451
Net cash used in investing activities	(292,093)	(110,033)	(309,597)
<b>Financing Activities</b>			
Principal payments on long-term debt	(101,047)	(205,252)	(111,436)
Increase (decrease) in cash book overdrafts	4,946	(2,680)	33,832
Proceeds from exercise of stock options	73,023	87,061	48,598
Proceeds from employee stock purchase plan	15,600	12,892	8,861
Cash dividends paid	(87,196)	(67,240)	(55,853)
Repurchase of common stock	(287,080)	(300,000)	—
Other, net	(352)	(752)	2,341
Net cash used in financing activities	(382,106)	(475,971)	(73,657)
Net increase in cash and cash equivalents	102,033	20,342	216,028
Cash and cash equivalents at beginning of year	360,623	340,281	124,253
<b>Cash and cash equivalents at end of year</b>	<b>\$462,656</b>	<b>\$360,623</b>	<b>\$340,281</b>

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



## **Nordstrom, Inc.**

### **Notes to Consolidated Financial Statements**

Amounts in thousands except per share amounts

#### **NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **The Company**

We are one of the nation's leading fashion specialty retailers, with 156 U.S. stores located in 27 states. Founded in 1901 as a shoe store in Seattle, today we operate 99 Full-Line Nordstrom stores, 49 discount Nordstrom Rack stores, five U.S.-based Façonnable boutiques, one free-standing shoe store, and two clearance stores. We also operate 32 international Façonnable boutiques in France, Portugal and Belgium. We also serve our customers on the Web at [www.nordstrom.com](http://www.nordstrom.com) and through our catalogs.

Our credit operations offer a Nordstrom private label card, two co-branded Nordstrom VISA credit cards and a debit card for Nordstrom purchases, which generate earnings through finance charges and securitization-related gains.

Our operations also include a product development group, which coordinates the design and production of private label merchandise sold in our retail stores.

##### **Fiscal Year**

Our fiscal year ends on the Saturday closest to January 31st. References to 2005, 2004 and 2003 relate to the 52 week fiscal years ended January 28, 2006, January 29, 2005 and January 31, 2004. References to 2006 relate to the 53 weeks ending February 3, 2007.

##### **Two-for-one Stock Split**

On May 24, 2005, our Board of Directors approved a two-for-one stock split of our outstanding common stock and a proportional increase in the number of common shares authorized from 500,000 to 1,000,000. Additional shares issued as a result of the stock split were distributed on June 30, 2005 to shareholders of record as of June 13, 2005. The shares and per share information included herein have been adjusted to reflect this stock split.

##### **Principles of Consolidation**

The consolidated financial statements include the balances of Nordstrom, Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

##### **Use of Estimates**

We make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### **Revenue Recognition**

We record revenues net of estimated returns and we exclude sales taxes. Our retail stores record revenue at the point of sale. Our catalog and Internet sales include shipping revenue and are recorded upon estimated delivery to the customer. We recognize revenue associated with our gift cards upon redemption of the gift card. As part of the normal sales cycle, we receive customer merchandise returns. To recognize the financial impact of sales returns, we estimate the amount of goods that will be returned and reduce sales and cost of sales accordingly. We utilize historical return patterns to estimate our expected returns. Our sales return reserves were \$51,172 and \$49,745 at the end of 2005 and 2004.

##### **Buying and Occupancy Costs**

Buying costs consist primarily of salaries and costs incurred by our merchandise and product development groups. Occupancy costs include rent, depreciation, property taxes and operating costs of our retail and distribution facilities.

##### **Shipping and Handling Costs**

Our shipping and handling costs include payments to third-party shippers and costs to hold, move and prepare merchandise for shipment. Shipping and handling costs of \$79,689, \$75,421, and \$67,583 in 2005, 2004, and 2003 were included in selling, general and administrative expenses.

##### **Advertising**

Production costs for newspaper, radio and other media are expensed the first time the advertisement is run. Total advertising expenses, net of vendor allowances, were \$122,294, \$123,974 and \$117,411 in 2005, 2004, and 2003.

##### **Other Income Including Finance Charges, Net**

This consists primarily of income from finance charges and late fees generated by our Nordstrom private label cards and earnings from our investment in asset backed securities and securitization gains, which are both generated from the co-branded Nordstrom VISA credit card program. Gift card breakage income is a new component of other income including finance charges, net in 2005. Unclaimed property legislation changed in 2004 to allow us to retain unused balances on gift cards. We analyzed the experience of our program since it was introduced in 1999, and we determined that balances remaining on cards issued five years ago are unlikely to be redeemed. The breakage income recognized in 2005 includes \$2,636 and \$5,410 for cards issued in 1999 and 2000; in both cases, the breakage income is 3.4% of the amount issued as gift cards in those years.

**Nordstrom, Inc.****Notes to Consolidated Financial Statements**

Amounts in thousands except per share amounts

**Stock Compensation**

We apply APB No. 25, "Accounting for Stock Issued to Employees," in measuring compensation costs under our stock-based compensation programs. Stock options are issued at the fair market value of the stock at the date of grant. Accordingly, we recognized no compensation expense for the issuance of our stock options.

The following table illustrates the effect on net earnings and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation:"

<b>Fiscal year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Net earnings, as reported	\$551,339	\$393,450	\$242,841
Add: stock-based compensation expense included in reported net earnings, net of tax	8,277	4,894	9,898
Deduct: stock-based compensation expense determined under fair value, net of tax	(25,681)	(25,001)	(30,154)
<b>Pro forma net earnings</b>	<b>\$533,935</b>	<b>\$373,343</b>	<b>\$222,585</b>
Earnings per share:			
Basic-as reported	\$2.03	\$1.41	\$0.89
Diluted-as reported	\$1.98	\$1.38	\$0.88
Basic-pro forma	\$1.96	\$1.34	\$0.82
Diluted-pro forma	\$1.92	\$1.31	\$0.81

The Black-Scholes method was used to estimate the fair value of the options at grant date under SFAS No. 123 based on the following assumptions:

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Risk-free interest rate	3.9%	3.0%	2.9%
Volatility	44.3%	65.4%	70.6%
Dividend yield	1.7%	1.5%	1.5%
Expected life in years	5.0	6.0	5.0

The weighted-average fair value per option at grant date was \$10, \$11 and \$5 in 2005, 2004 and 2003.

**Cash Equivalents**

Cash equivalents are short-term investments with a maturity of three months or less from the date of purchase. As of the end of 2005 and 2004, we had restricted cash of \$6,728 and \$6,886 included in other long term assets. The restricted cash is held in a trust for use by our Supplemental Executive Retirement Plan and Deferred Compensation Plans.

**Cash Management**

Our cash management system provides for the reimbursement of all major bank disbursement accounts on a daily basis. Accounts payable at the end of 2005 and 2004 included \$91,671 and \$86,725 of checks not yet presented for payment drawn in excess of our bank deposit balances.

**Short-term Investments**

Short-term investments consist of auction rate securities classified as available-for-sale. Auction rate securities are high-quality variable rate bonds whose interest rate is periodically reset, typically every 7, 28, or 35 days. However, the underlying security can have a duration from 15 to 30 years. Our auction rate securities are stated at cost, which approximates fair value, and therefore there were no unrealized gains or losses related to these securities included in accumulated other comprehensive earnings. The cost of securities sold was based on the specific identification method.

**Securitization of Accounts Receivable**

We offer Nordstrom private label cards and co-branded Nordstrom VISA credit cards to our customers. Substantially all of the receivables related to both credit cards are securitized. Under our credit card securitizations, the receivables are transferred to third-party trusts on a daily basis. The balance of the receivables transferred to the trusts fluctuates as new receivables are generated and old receivables are retired (through payments received, charge-offs, or credits from merchandise returns). The trusts issue securities that are backed by the receivables. Certain of these securities or "beneficial interests" are sold to third-party investors and the remaining securities are issued to us.

Under the terms of the trust agreements, we may be required to fund certain amounts upon the occurrence of specific events. Both of our credit card securitization agreements set a maximum percentage of receivables that can be associated with various receivable categories, such as employee or foreign receivables. As of January 28, 2006, these maximums were exceeded by \$1,211. It is possible that we may be required to repurchase these receivables. Aside from these instances, we do not believe any additional funding will be required.

## **Nordstrom, Inc.**

### **Notes to Consolidated Financial Statements**

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The private label securitizations are accounted for as a secured borrowing (on-balance sheet) while the VISA securitization qualifies for sale treatment (off-balance sheet).

#### **NORDSTROM PRIVATE LABEL RECEIVABLES (ON-BALANCE SHEET)**

We transfer these receivables to a third-party trust ("Private Label Trust") that issues two Nordstrom private label receivable backed securitizations, which are described below in Note 10: Long-term Debt.

Total principal receivables of the securitized private label portfolio at the end of 2005 and 2004 were \$549,962 and \$566,967, and receivables more than 30 days past due were \$11,265 and \$13,099. Net charged-off receivables for 2005, 2004, and 2003 were \$22,845, \$25,370, and \$28,703.

#### **CO-BRANDED NORDSTROM VISA RECEIVABLES (OFF-BALANCE SHEET)**

In order to enhance our cost-effective capital sources, we have in place a securitized asset structure. This allows us to reduce our investment in the co-branded Nordstrom VISA credit card receivables, so we can deploy our capital resources to greater-value opportunities.

We transfer our co-branded Nordstrom VISA credit card receivables to a third-party trust ("VISA Trust") that issues VISA receivable backed securities. In May 2002, the VISA Trust issued \$200,000 of certificated Class A and Class B notes to third-party investors ("2002 Class A & B Notes") and a certificated, subordinate Class C note to us. The receivables transferred to the VISA Trust exceed the face value of the issued notes. This excess creates a certificated, non-subordinated asset called the Transferor's Interest, which was also conveyed to us. In addition, we hold a non-certificated Interest Only Strip, which results when the estimated value of projected cash inflows related to the notes exceeds the projected cash outflows.

We do not record the \$200,000 in debt related to the VISA securitization or the receivables transferred to the VISA Trust on our consolidated financial statements. However, we do hold the 2002 Class C note, the Transferor's Interest and the Interest Only Strip. These assets are included in the consolidated balance sheets as investment in asset backed securities and accounted for as investments in "available-for-sale" debt securities. As such, we record the investment in asset backed securities at its estimated fair value in our consolidated balance sheets.

We recognize gains or losses on the sale of the co-branded Nordstrom VISA receivables to the VISA Trust based on the difference between the face value of the receivables sold and the estimated fair value of the assets created in the securitization process. The receivables sold to the VISA Trust are then allocated between the various interests in the VISA Trust based on those interests' relative fair market values. The fair values of the assets are calculated as the present value of their expected future cash flows. The unrealized gains and losses, as well as any adjustments to fair value of the investment in asset backed securities, are recorded as a component of accumulated other comprehensive earnings.

In addition, we record interest income related to the investment in asset backed securities based upon their carrying value and their discount rate.

The gain on sales of receivables and the interest income earned on the beneficial interests are included in other income including finance charges, net in our consolidated statements of earnings.

#### **Accounts Receivable**

Accounts receivable consist primarily of our Nordstrom private label receivables that serve as collateral for our Private Label Securitization. We record the face value of the principal, plus any earned finance charges, late fees, or cash advance fees.

We report accounts receivable net of an allowance for doubtful accounts. Our allowance for doubtful accounts represents our best estimate of the losses inherent in our customer accounts receivable based on several factors, including historical trends of aging of accounts, write-off experience and expectations of future performance.

We recognize finance charges on delinquent accounts until the account is written off or when an account is placed into a debt management program. Payments received for these accounts are recorded in the same manner as other accounts. Our approach for resuming accrual of interest on these accounts is made on an account by account basis. Delinquent accounts are written off when they are determined to be uncollectible, usually after the passage of 151 days without receiving a full scheduled monthly payment. Accounts are written off sooner in the event of customer bankruptcy or other circumstances making further collection unlikely.

#### **Merchandise Inventories**

Merchandise inventories are valued at the lower of cost or market, using the retail method (first-in, first-out basis).

## Nordstrom, Inc.

### Notes to Consolidated Financial Statements

Amounts in thousands except per share amounts

#### Land, Buildings and Equipment

Depreciation is computed using the straight-line method. Estimated useful lives by major asset category are as follows:

<u>Asset</u>	<u>Life (in years)</u>
Buildings and improvements	5-40
Store fixtures and equipment	3-15
Leasehold improvements	Shorter of life of lease
Software	3-7

#### Intangible Asset Impairment Testing

We review our goodwill and acquired tradename annually for impairment in the first quarter or when circumstances indicate the carrying value of these assets may not be recoverable. The goodwill and acquired tradename associated with our Façonnable business are our largest impairment risk. In 2005, we engaged an independent valuation specialist to estimate the reporting unit's fair value.

#### Leases

We recognize lease expense on a straight-line basis over the minimum lease term. In 2004, we corrected our lease accounting policy to recognize lease expense, net of landlord reimbursements, from the time that we control the leased property. In the past, we recorded net rent expense once lease payments or retail operations started. We recorded a charge of \$7,753 (\$4,729 net of tax) in the fourth quarter of 2004 to correct this accounting policy. The impact of this change was immaterial to prior periods.

We lease the land or the land and building at many of our Full-Line stores, and we lease the building at many of our Rack stores. Additionally, we lease office facilities, warehouses and equipment. Most of these leases are classified as operating leases and they expire at various dates through 2080. We have no significant individual or master lease agreements.

Our fixed, noncancelable terms of the lease generally are 20 to 30 years for Full-Line stores and 10 to 15 years for Rack stores. Many of our leases include options that allow us to extend the lease term beyond the initial commitment period, subject to terms agreed to at lease inception.

For leases that contain predetermined, fixed escalations of the minimum rentals, we recognize the rent expense on a straight-line basis and record the difference between the rent expense and the rental amount payable under the leases in liabilities.

Most of our leases also provide for payment of operating expenses, such as common area charges, real estate taxes and other executory costs. Some leases require additional payments based on sales and are recorded in rent expense when the contingent rent is probable.

Leasehold improvements made at the inception of the lease are amortized over the shorter of the asset life or the initial lease term as described above. Leasehold improvements made during the lease term are also amortized over the shorter of the asset life or the remaining lease term.

We receive incentives to construct stores in certain developments. These incentives are recorded as a deferred credit and recognized as a reduction to rent expense on a straight-line basis over the lease term as described above. At the end of 2005 and 2004, this deferred credit balance was \$400,917 and \$392,807. Also, we may receive incentives based on a store's net sales; we recognize these incentives in the year that they are earned as a reduction to rent expense.

#### Foreign Currency Translation

The assets and liabilities of our foreign subsidiaries have been translated to U.S. dollars using the exchange rates effective on the balance sheet date, while income and expense accounts are translated at the average rates in effect during the year. The resulting translation adjustments are recorded in accumulated other comprehensive earnings.

#### Income Taxes

We use the asset and liability method of accounting for income taxes. Using this method, deferred tax assets and liabilities are recorded based on differences between financial reporting and tax basis of assets and liabilities. The deferred tax assets and liabilities are calculated using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. We establish valuation allowances for tax benefits when we believe it is not likely that the related expense will be deductible for tax purposes.

#### Other Current Liabilities

Included in other current liabilities were gift card liabilities of \$154,683 and \$133,532 at the end of 2005 and 2004.

**Nordstrom, Inc.****Notes to Consolidated Financial Statements**

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**Loyalty Program**

Customers who reach a cumulative purchase threshold when using our Nordstrom private label cards or our co-branded Nordstrom VISA credit cards receive merchandise certificates. These merchandise certificates can be redeemed in our stores similar to gift certificates. We estimate the net cost of the merchandise certificates that will be earned and redeemed and record this cost as the merchandise certificates are earned. The cost of the loyalty program is not significant in relation to the corresponding sales, so the program expense is recorded in cost of sales rather than as a reduction of net sales.

**Vendor Allowances**

We receive allowances from merchandise vendors for purchase price adjustments, cooperative advertising programs, cosmetic selling expenses, and vendor sponsored contests. Purchase price adjustments are recorded as a reduction of cost of sales at the point they have been earned and the related merchandise has been sold. Allowances for cooperative advertising programs and vendor sponsored contests are recorded in cost of sales and selling, general and administrative expenses as a reduction to the related cost when incurred. Allowances for cosmetic selling expenses are recorded in selling, general and administrative expenses as a reduction to the related cost when incurred. Any allowances in excess of actual costs incurred that are recorded in selling, general and administrative expenses are recorded as a reduction to cost of sales. The following table shows vendor allowances earned during the year:

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Purchase price adjustments	\$58,103	\$47,707	\$49,312
Cosmetic selling expenses	107,166	96,936	88,518
Cooperative advertising	57,575	57,786	44,939
Vendor sponsored contests	3,668	3,975	4,180
<b>Total vendor allowances</b>	<b>\$226,512</b>	<b>\$206,404</b>	<b>\$186,949</b>

Allowances were recorded in our consolidated statement of earnings as follows:

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Cost of sales	\$118,104	\$106,902	\$55,161
Selling, general and administrative expenses	108,408	99,502	131,788
<b>Total vendor allowances</b>	<b>\$226,512</b>	<b>\$206,404</b>	<b>\$186,949</b>

**Fair Value of Financial Instruments**

The carrying amounts of cash equivalents and short term-investments approximate fair value. See Note 10 for the fair values of our long-term debt and interest rate swap agreements.

**Derivatives Policy**

We periodically enter into foreign currency purchase orders denominated in Euros for apparel, accessories and shoes. We use forward contracts to hedge against fluctuations in foreign currency prices. These forward contracts do not qualify for derivative hedge accounting. At the end of 2005 and 2004, the notional amounts of our foreign currency forward contracts at the contract rates were \$6,127 and \$2,644. We also use derivative financial instruments to manage our interest rate risks. See Note 10 for a further description of our interest rate swaps.

**Recent Accounting Pronouncements**

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends ARB No. 43, Chapter 4, "Inventory Pricing" to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material should be recognized as current period charges. In addition, this statement requires that fixed overhead production be allocated to the costs of conversion based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, and should be applied prospectively. We do not believe the adoption of SFAS No. 151 will have a material impact on our financial statements.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award. We expect to adopt SFAS No. 123R in the first quarter of 2006 under the modified prospective method. We believe adoption of SFAS No. 123R will reduce our 2006 diluted earnings per share by \$0.06.

**NOTE 2: EMPLOYEE BENEFITS**

We provide a 401(k) and profit sharing plan for our employees. Our Board of Directors establishes our profit sharing contribution each year. The 401(k) component is funded by voluntary employee contributions. In addition, we provide matching contributions up to a fixed percentage of employee contributions. Our expense related to the profit sharing component and matching contributions to the 401(k) component totaled \$67,088, \$54,186, and \$51,720 in 2005, 2004, and 2003.

**Nordstrom, Inc.**  
**Notes to Consolidated Financial Statements**

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**NOTE 3: POST-RETIREMENT BENEFITS**

We have an unfunded Supplemental Executive Retirement Plan ("SERP"), which provides retirement benefits to certain officers and select employees. This plan is non-qualified and does not have a minimum funding requirement.

The following table provides a reconciliation of our accumulated benefit obligation:

	January 28, 2006	January 29, 2005
Change in benefit obligation:		
Accumulated benefit obligation at beginning of year	\$63,950	\$59,613
Participant service cost	1,763	1,489
Interest cost	4,747	3,965
Amortization of net loss	2,615	1,543
Amortization of prior service cost	962	962
Change in additional minimum liability	12,623	(766)
Distributions	(2,850)	(2,856)
<b>Accumulated benefit obligation at end of year</b>	<b>\$83,810</b>	<b>\$63,950</b>

The following table details the change in plan assets, our projected benefit obligation, our funded status of the SERP, and a reconciliation to amounts recognized in the consolidated balance sheets:

	January 28, 2006	January 29, 2005
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	\$2,850	\$2,856
Distributions	(2,850)	(2,856)
<b>Fair value of plan assets at end of year</b>	<b>—</b>	<b>—</b>
<b>Projected benefit obligation</b>	<b>91,036</b>	<b>69,598</b>
Underfunded status	(91,036)	(69,598)
Unrecognized prior service cost	5,198	5,266
Unrecognized loss	39,258	24,989
Accrued pension cost	(46,580)	(39,343)
Additional minimum liability	(37,230)	(24,607)
<b>Total SERP liability</b>	<b>\$(83,810)</b>	<b>\$(63,950)</b>
Amounts recognized in the balance sheets:		
Accrued pension cost	\$46,580	\$39,343
Intangible asset included in other assets	5,198	5,266
Deferred tax asset	12,492	7,543
Accumulated other comprehensive loss, net of tax	19,540	11,798
<b>Net amount recognized</b>	<b>\$83,810</b>	<b>\$63,950</b>

The components of SERP expense and a summary of significant assumptions are as follows:

Fiscal year	2005	2004	2003
Participant service cost	\$1,763	\$1,489	\$819
Interest cost	4,747	3,965	3,420
Amortization of net loss	2,615	1,543	751
Amortization of prior service cost	962	962	693
<b>Total expense</b>	<b>\$10,087</b>	<b>\$7,959</b>	<b>\$5,683</b>
Assumption percentages:			
Discount rate	6.00%	6.25%	6.25%
Rate of compensation increase	4.00%	4.00%	4.00%
Measurement date	10/31/05	10/31/04	10/31/03

We use a discount rate that is determined by constructing a hypothetical bond portfolio based on bonds available on October 31, 2005 rated "AA" or better by either Moody's or Standard & Poor's, which yield 6.077%. This assumption was built to match the expected benefit payments under the SERP.

**Nordstrom, Inc.****Notes to Consolidated Financial Statements**

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In 2005, we updated the post-retirement mortality table to better anticipate future experience and granted additional years of service for purposes of enhancing the SERP benefit for certain mid-career new hires. In addition, we updated our assumptions relating to bonus payments.

The expected future benefit payments based upon the same assumptions as of October 31, 2005 and including benefits attributable for future employee service for the following periods are as follows:

<b>Fiscal year</b>	
2006	\$4,365
2007	4,361
2008	4,367
2009	4,428
2010	4,597
2011-2015	28,455

**NOTE 4: INTEREST EXPENSE, NET**

The components of interest expense, net are as follows:

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Interest expense on long-term debt	\$63,378	\$88,518	\$100,518
Less:			
Interest income	(13,273)	(7,929)	(5,981)
Capitalized interest	(4,805)	(3,161)	(3,585)
<b>Interest expense, net</b>	<b>\$45,300</b>	<b>\$77,428</b>	<b>\$90,952</b>

**NOTE 5: INCOME TAXES**

Income tax expense consists of the following:

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Current income taxes:			
Federal	\$311,996	\$282,430	\$118,559
State and local	38,100	45,091	15,516
<b>Total current income tax expense</b>	<b>350,096</b>	<b>327,521</b>	<b>134,075</b>
Deferred income taxes:			
Current	(7,208)	(15,259)	(7,904)
Non-current	(9,002)	(58,431)	29,129
<b>Total deferred income tax (benefit) expense</b>	<b>(16,210)</b>	<b>(73,690)</b>	<b>21,225</b>
<b>Total income tax expense</b>	<b>\$333,886</b>	<b>\$253,831</b>	<b>\$155,300</b>

A reconciliation of the statutory Federal income tax rate to the effective tax rate on earnings before income tax expense is as follows:

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income taxes	3.2	3.5	3.1
Change in valuation allowance	(0.1)	0.3	—
Other, net	(0.4)	0.4	0.9
<b>Effective tax rate</b>	<b>37.7%</b>	<b>39.2%</b>	<b>39.0%</b>

**Nordstrom, Inc.****Notes to Consolidated Financial Statements**

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Deferred income taxes reflect the net tax effect of temporary differences between amounts recorded for financial reporting purposes and amounts used for tax purposes. The major components of deferred tax assets and liabilities are as follows:

	January 28, 2006	January 29, 2005
Accrued expenses	\$53,629	\$56,135
Compensation and benefits accruals	70,454	57,947
Bad debts	5,528	6,309
Gift cards and gift certificates	13,041	12,743
Merchandise certificates	5,524	3,461
Merchandise inventories	23,206	20,933
Securitization	7,892	834
Capital loss carryforwards	—	6,286
Other	1,581	820
Total deferred tax assets	180,855	165,468
Land, buildings and equipment basis and depreciation differences	(16,892)	(13,294)
Other	(8,720)	(11,317)
Total deferred tax liabilities	(25,612)	(24,611)
Valuation allowance	—	(1,800)
<b>Net deferred tax assets</b>	<b>\$155,243</b>	<b>\$139,057</b>

In 2004, a valuation allowance was established for approximately \$4,500 for our capital loss carryforward expected to expire unused at the end of 2005. In 2005, we utilized more of our capital loss carryforward than expected, resulting in a benefit in our tax provision of \$800.

**NOTE 6: EARNINGS PER SHARE**

Basic earnings per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share uses the weighted average number of common shares outstanding during the year plus dilutive common stock equivalents, primarily stock options and performance share units.

Options with an exercise price greater than the average market price and other anti-dilutive equity instruments were not included in diluted earnings per share. These anti-dilutive options and other equity instruments totaled 144 shares in 2005 and 10,670 shares in 2003. There were no anti-dilutive options or other equity instruments in 2004.

Since the beginning of 2003, 17,581 shares have been issued upon the exercise of stock options; we repurchased 22,310 shares in 2005 and 2004.

The computation of earnings per share is as follows:

Fiscal Year	2005	2004	2003
Net earnings	\$551,339	\$393,450	\$242,841
Basic shares	271,958	278,993	272,658
Dilutive effect of stock options and performance share units	5,818	5,540	2,820
Diluted shares	277,776	284,533	275,478
Basic earnings per share	\$2.03	\$1.41	\$0.89
Diluted earnings per share	\$1.98	\$1.38	\$0.88



**Nordstrom, Inc.**  
**Notes to Consolidated Financial Statements**

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**NOTE 7: ACCOUNTS RECEIVABLE**

The components of accounts receivable are as follows:

	January 28, 2006	January 29, 2005
Trade receivables:		
Unrestricted	\$32,070	\$31,400
Restricted	552,671	568,062
Allowance for doubtful accounts	(17,926)	(19,065)
Trade receivables, net	566,815	580,397
Other	72,743	65,266
<b>Accounts receivable, net</b>	<b>\$639,558</b>	<b>\$645,663</b>

Our restricted trade receivables relate to our Nordstrom private label card, which back the \$300,000 Class A notes and the \$150,000 variable funding note. The unrestricted trade receivables consist primarily of our Façonnable trade receivables and accrued finance charges not yet allocated to customer accounts.

Other accounts receivable consist primarily of credit card receivables due from third-party financial institutions and vendor rebates, which are believed to be fully realizable as they are collected soon after they are earned.

**NOTE 8: INVESTMENT IN ASSET BACKED SECURITIES — CO-BRANDED NORDSTROM VISA CREDIT CARD RECEIVABLES**

The following table presents the co-branded Nordstrom VISA credit card balances and the estimated fair values of our investment in asset backed securities.

	January 28, 2006	January 29, 2005
Total face value of co-branded Nordstrom VISA credit card principal receivables	\$738,947	\$612,549
Securities issued by the VISA Trust:		
Off-balance sheet (sold to third parties):		
2002 Class A & B Notes at par value	\$200,000	\$200,000
Amounts recorded on balance sheet:		
Investment in asset backed securities at fair value	561,136	422,416

The following table presents the key assumptions we use to value the investment in asset backed securities:

	January 28, 2006	January 29, 2005
Assumptions used to estimate the fair value of the investment in asset backed securities:		
Weighted average remaining life (in months)	7.6	8.1
Average annual credit losses	4.7%	6.9%
Average gross yield	17.1%	15.8%
Weighted average coupon on issued securities	5.2%	3.8%
Average monthly payment rates	8.2%	7.5%
Discount rate on investment in asset backed securities	5.9% to 11.1%	4.5% to 9.0%

The discount rate on asset backed securities represents the volatility and risk of the asset. Our discount rates consider both the current interest rate environment and credit spreads.

**Nordstrom, Inc.****Notes to Consolidated Financial Statements**

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The following table illustrates the sensitivity of fair market value estimates of the investment in asset backed securities given independent changes in assumptions as of January 28, 2006:

	+10%	+20%	-10%	-20%
Gross yield	\$7,045	\$14,090	\$(7,045)	\$(14,090)
Interest expense on issued classes	(614)	(1,229)	614	1,229
Card holders' payment rate	(376)	(944)	55	(416)
Charge offs	(2,111)	(4,196)	2,138	4,303
Discount rate	(2,213)	(4,405)	2,233	4,488

These sensitivities are hypothetical and should be used with caution. The effect of an adverse change in a particular assumption on the fair value of the investment in asset backed securities is calculated without changing any other assumption. Actual changes in one factor may result in changes in another, which might alter the reported sensitivities.

The following table summarizes certain income, expenses and cash flows received from and paid to the VISA Trust:

Fiscal Year	2005	2004	2003
Principal collections reinvested in new receivables	\$2,597,499	\$2,019,162	\$1,332,790
Gains on sales of receivables	19,902	8,876	4,920
Income earned on beneficial interests	54,396	46,645	31,926
Cash flows from beneficial interests:			
Investment in asset backed securities	129,879	76,381	58,222
Servicing fees	13,309	10,698	7,631

Net credit losses were \$25,386, \$23,169, and \$20,519 for 2005, 2004, and 2003, and receivables past due for more than 30 days were \$10,059 and \$9,736 at the end of 2005 and 2004.

The following table illustrates default projections using net credit losses as a percentage of average outstanding receivables in comparison to actual performance:

Fiscal Year	2006	2005	2004
Original projection	3.46%	4.04%	5.15%
Actual	N/A	3.76%	4.25%

Our continued involvement in the securitization of co-branded Nordstrom VISA credit card receivables includes recording gains/losses on sales, recognizing income on investment in asset backed securities, holding subordinated, non-subordinated and residual interests in the trust, and servicing the portfolio.

**NOTE 9: LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment consist of the following:

	January 28, 2006	January 29, 2005
Land and land improvements	\$67,020	\$64,037
Buildings and building improvements	796,686	818,733
Leasehold improvements	1,190,041	1,066,383
Store fixtures and equipment	1,919,200	1,817,294
Software	265,951	233,223
Construction in progress	84,532	91,303
	4,323,430	4,090,973
Less accumulated depreciation and amortization	(2,549,559)	(2,310,607)
<b>Land, buildings and equipment, net</b>	<b>\$1,773,871</b>	<b>\$1,780,366</b>

The total cost of buildings and equipment held under capital lease obligations was \$20,035 at the end of 2005 and 2004, with related accumulated amortization of \$16,089 and \$15,259. The amortization of capitalized leased buildings and equipment of \$830, \$1,238 and \$1,430 in 2005, 2004 and 2003 was recorded in depreciation expense.

**Nordstrom, Inc.**  
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**NOTE 10: LONG-TERM DEBT**

A summary of long-term debt is as follows:

	January 28, 2006	January 29, 2005
Private Label Securitization, 4.82%, due 2006	\$300,000	\$300,000
Senior debentures, 6.95%, due 2028	300,000	300,000
Senior notes, 5.625%, due 2009	250,000	250,000
Notes payable, 6.7%, due 2005	—	96,027
Mortgage payable, 7.68%, due 2020	72,633	75,406
Other	22,811	16,495
Fair market value of interest rate swap	(11,050)	(7,821)
Total long-term debt	934,394	1,030,107
Less current portion	(306,618)	(101,097)
<b>Total due beyond one year</b>	<b>\$627,776</b>	<b>\$929,010</b>

We retired our 6.7% medium-term notes when they matured in July 2005. In 2004, we prepaid \$196,770 of our 8.95% senior notes and \$1,473 of our 6.7% medium-term notes for a total cash payment of \$220,106. After considering deferred issuance costs related to these debt retirements, we recorded a pre-tax charge for debt retirements in interest expense, net of \$20,862.

Our mortgage payable is secured by an office building which had a net book value of \$78,943 at the end of 2005.

To manage our interest rate risk, we have an interest rate swap outstanding recorded in other liabilities. Our swap has a \$250,000 notional amount, expires in January 2009 and is designated as a fully effective fair value hedge. Under the agreement, we receive a fixed rate of 5.63% and pay a variable rate based on LIBOR plus a margin of 2.3% set at six-month intervals (7.09% at January 28, 2006).

The fair value of long-term debt, including current maturities, using quoted market prices of the same or similar issues, was \$963,092 and \$1,105,302 at the end of 2005 and 2004.

Required principal payments on long-term debt, excluding capital lease obligations and the fair market value of the interest rate swap, are as follows:

Fiscal Year	
2006	\$305,797
2007	5,752
2008	255,739
2009	6,270
2010	4,743
Thereafter	357,806

In November 2005, we replaced our existing \$350,000 unsecured line of credit with a \$500,000 unsecured line of credit, which is available as liquidity support for our commercial paper program. Under the terms of the agreement, we pay a variable rate of interest and a commitment fee based on our debt rating. Based upon our current debt rating, we pay a variable rate of interest of LIBOR plus a margin of 0.225% (4.793% at January 28, 2006) on the outstanding balance and an annual commitment fee of 0.075% on the total capacity. The variable rate of interest increases to LIBOR plus a margin of 0.325% if more than \$250,000 is outstanding on the facility. The line of credit expires in November 2010, and contains restrictive covenants, which include maintaining a leverage ratio.

We have a variable funding note backed by Nordstrom private label card and VISA credit card receivables with a borrowing capacity of \$150,000. The annual renewal of this note requires both our approval and our issuing bank's approval and interest is paid based on the actual cost of commercial paper plus specified fees of 0.15% (4.66% as of January 28, 2006). We also pay a commitment fee of 0.15% for the note based on the amount of the commitment. The facility can be cancelled and renewal can be denied if our debt ratings fall below Standard and Poor's BB+ rating or Moody's Ba1 rating.

We did not make any borrowings under our unsecured line of credit or our variable funding note backed by Nordstrom private label card receivables during the three years ended January 28, 2006.

**Nordstrom, Inc.**  
**Notes to Consolidated Financial Statements**

Amounts in thousands except per share amounts

**NOTE 11: LEASES**

Future minimum lease payments as of January 28, 2006 are as follows:

<b>Fiscal Year</b>	<b>Capital Leases</b>	<b>Operating Leases</b>
2006	\$1,946	\$73,389
2007	1,946	73,296
2008	1,946	70,525
2009	1,376	67,892
2010	1,270	63,524
Thereafter	6,990	332,016
Total minimum lease payments	15,474	\$680,642
Less amount representing interest	(6,137)	
<b>Present value of net minimum lease payments</b>	<b>\$9,337</b>	

Rent expense for 2005, 2004 and 2003 was as follows:

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Minimum rent:			
Store locations	\$62,036	\$79,285	\$61,451
Offices, warehouses and equipment	15,493	21,104	23,158
Percentage rent:			
Store locations	10,607	9,214	7,920
Property incentives:	(46,645)	(46,737)	(37,380)
<b>Total rent expense</b>	<b>\$41,491</b>	<b>\$62,866</b>	<b>\$55,149</b>

The rent expense above does not include common area maintenance costs of \$16,105, \$17,527 and \$16,906 in 2005, 2004 and 2003.

**NOTE 12: STOCK-BASED COMPENSATION**

**Stock Option Plans**

In 2004, our shareholders approved the 2004 Equity Incentive Plan. We currently grant stock options, performance share units and common shares under this plan.

**STOCK OPTIONS**

As of January 28, 2006, we have options outstanding under three stock option plans, (collectively, the "Nordstrom, Inc. Plans") with 16,189 shares reserved for future stock grants. Options vest over periods ranging from four to eight years, and expire ten years after the date of grant. Stock option activity for the Nordstrom, Inc. Plans was as follows:

<b>Fiscal Year</b>	<b>2005</b>		<b>2004</b>		<b>2003</b>	
	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>
Outstanding, beginning of year	18,320	\$13	23,368	\$12	23,773	\$12
Granted	2,564	26	2,830	20	5,429	9
Exercised	(5,822)	13	(7,239)	12	(4,520)	11
Cancelled	(718)	16	(639)	13	(1,311)	12
Expired	—	—	—	—	(3)	7
Outstanding, end of year	14,344	\$15	18,320	\$13	23,368	\$12
Options exercisable at end of year	6,128	\$12	7,877	\$13	10,714	\$13

**Nordstrom, Inc.**

**Notes to Consolidated Financial Statements**

Amounts in thousands except per share amounts

The following table summarizes information about stock options outstanding for the Nordstrom, Inc. Plans as of January 28, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
\$8.03-\$8.99	3,912	7	\$9	1,728	\$9
\$9.00-\$12.99	3,899	5	12	2,895	11
\$13.00-\$19.99	4,143	6	18	1,505	18
\$20.00-\$26.01	2,390	9	26	—	—
	14,344	6	\$15	6,128	\$12

**PERFORMANCE SHARE UNITS**

We grant performance share units to align the performance of our senior management with our shareholder returns. These units vest at the end of a three year period. Employees do not pay any monetary consideration and may elect to exchange each unit earned for one share of stock or the cash equivalent. The number of units earned is determined by the performance of our stock price and dividend payments relative to a pre-defined group of retail peers over the three-year period and can be adjusted from 0% to 125% of the number of units granted; as of the end of 2005, the unvested performance share units have been adjusted to 125% of the units granted. We granted 79,126, and 228 units in 2005, 2004 and 2003, and cancelled 19, 6 and 34 units in 2005, 2004 and 2003. At the end of 2005 and 2004, our liabilities included \$16,927 and \$15,278 for the unvested grants. We record compensation expense over the performance period at the fair value of the stock at the end of each reporting period based on the vesting percentages on those dates. Total stock-based compensation expense for 2005, 2004, and 2003 was \$11,672, \$7,816 and \$15,970.

**Nonemployee Director Stock Incentive Plan**

The Nonemployee Director Stock Incentive Plan authorizes the grant of stock awards to nonemployee directors. These awards may be deferred or issued in the form of restricted or unrestricted stock, nonqualified stock options or stock appreciation rights. We issued 9, 10, and 32 shares of common stock for a total expense of \$270, \$202, and \$318 for 2005, 2004 and 2003. An additional 15, 7, and 21 shares were deferred for a total expense of \$413, \$140, and \$183 in 2005, 2004, and 2003. At January 28, 2006, we had 774 remaining shares available for issuance.

**Employee Stock Purchase Plan**

We offer an Employee Stock Purchase Plan as a benefit to our employees. Employees may make payroll deductions of up to ten percent of their base compensation. At the end of each six-month offering period, the participants purchase shares of our common stock at a discount. Prior to April 1, 2005, participants could purchase shares of our common stock at 85% of the lower of the stock's fair market value at the beginning or the end of the offering period. Effective April 1, 2005, participants may purchase our common stock at 90% of the fair market value on the last day of each six-month offer period.

We issued 757, 977, and 1,295 shares under this plan in 2005, 2004, and 2003. As of January 28, 2006 and January 29, 2005, we had payroll deductions totaling \$5,497 and \$5,097 for the purchase of shares in the future. We have 1,363 shares available for issuance at January 28, 2006.

**NOTE 13: ACCUMULATED OTHER COMPREHENSIVE EARNINGS**

The following table shows the components of accumulated other comprehensive earnings:

	January 28, 2006	January 29, 2005	January 31, 2004
Foreign currency translation	\$14,461	\$16,276	\$15,783
Unrecognized loss on SERP	(19,540)	(11,798)	(11,679)
Fair value adjustment to asset backed securities	7,787	4,857	4,764
<b>Total accumulated other comprehensive earnings</b>	<b>\$2,708</b>	<b>\$9,335</b>	<b>\$8,868</b>

**NOTE 14: SUPPLEMENTARY CASH FLOW INFORMATION**

Fiscal Year	2005	2004	2003
Cash paid during the year for:			
Interest (net of capitalized interest)	\$57,187	\$88,876	\$96,824
Income taxes	343,891	253,576	121,271

**Nordstrom, Inc.****Notes to Consolidated Financial Statements**

Amounts in thousands except per share amounts

**NOTE 15: SEGMENT REPORTING**

We have four segments: Retail Stores, Credit, Direct, and Other.

- The **Retail Stores** segment derives its revenues from sales of high-quality apparel, shoes, cosmetics and accessories. It includes our Full-Line and Rack stores.
- The **Credit** segment earns finance charges and securitization gains and losses through operation of the Nordstrom private label and co-branded VISA credit cards. Intersegment revenues consist of interchange fees charged to our other segments.
- The **Direct** segment generates revenues from sales of high-quality apparel, shoes, cosmetics and accessories via catalogs and the Nordstrom.com Web site.
- The **Other** segment includes our Façonnable stores, our product development group, which coordinates the design and production of private label merchandise sold in our retail stores, and our distribution network. This segment also includes our corporate center operations.

This segment information for 2004 and 2003 has been adjusted from our previous disclosures as we now reflect Façonnable, Nordstrom Product Group and the distribution network in "Other"; also, beginning in September 2005, we changed our internal method for recognizing returns of Direct sales at Retail Stores. Previously, these returns were recognized in the Direct segment and now they are recognized in the Retail Store segment.

In general, we use the same measurements to compute earnings before income tax expense for reportable segments as we do for the consolidated company. However, redemptions of our merchandise rewards certificates are included in net sales for our Retail Stores segment. The sales amount in our Other segment eliminates these sales from our consolidated net sales. There is no impact to earnings before income tax expense for this adjustment. In addition, our sales return reserve for our Retail Stores segment is recorded in the Other segment. Other than described above, the accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in Note 1.

The following table summarizes the net sales by merchandise category:

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Women's apparel	\$2,709,563	\$2,577,489	\$2,348,670
Shoes	1,590,877	1,454,415	1,302,257
Cosmetics and women's accessories	1,567,725	1,403,359	1,235,445
Men's apparel	1,388,713	1,250,546	1,071,135
Children's apparel	266,225	246,079	235,667
Other	199,757	199,500	255,504
<b>Total</b>	<b>\$7,722,860</b>	<b>\$7,131,388</b>	<b>\$6,448,678</b>

The following table presents our sales by merchandise category as a percentage of net sales:

<b>Fiscal Year</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Women's apparel	35%	36%	36%
Shoes	21%	20%	20%
Cosmetics and women's accessories	20%	20%	19%
Men's apparel	18%	18%	17%
Children's apparel	3%	3%	4%
Other	3%	3%	4%

**Nordstrom, Inc.**  
**Notes to Consolidated Financial Statements**

Amounts in thousands except per share amounts

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

<b>Fiscal Year 2005</b>	<b>Retail Stores</b>	<b>Credit</b>	<b>Direct</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Net sales (a)	\$7,234,173	—	\$401,386	\$87,301	—	\$7,722,860
Intersegment revenues	—	\$38,947	—	—	\$(38,947)	—
Interest expense, net (b)	—	(26,216)	—	(19,084)	—	(45,300)
Other income including finance charges, net	(10,588)	224,677	29	(17,764)	—	196,354
Depreciation and amortization	223,258	1,209	2,693	49,168	—	276,328
Earnings before income tax expense	1,007,193	49,677	69,473	(241,118)	—	885,225
Goodwill	8,462	—	15,716	27,536	—	51,714
Acquired tradename	—	—	—	84,000	—	84,000
Assets (c)	2,285,259	1,164,472	85,082	1,386,536	—	4,921,349
Capital expenditures	232,198	925	2,850	35,686	—	271,659

<b>Fiscal Year 2004</b>	<b>Retail Stores</b>	<b>Credit</b>	<b>Direct</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Net sales (a)	\$6,665,823	—	\$411,719	\$53,846	—	\$7,131,388
Intersegment revenues	—	\$36,645	—	—	\$(36,645)	—
Interest expense, net (b)	—	(23,522)	148	(54,054)	—	(77,428)
Other income including finance charges, net	(10,717)	202,359	(208)	(18,492)	—	172,942
Depreciation and amortization	209,321	1,107	4,395	49,946	—	264,769
Earnings before income tax expense	838,100	39,503	52,517	(282,839)	—	647,281
Goodwill	8,462	—	15,716	27,536	—	51,714
Acquired tradename	—	—	—	84,000	—	84,000
Assets (c)	2,258,762	1,030,941	103,961	1,211,726	—	4,605,390
Capital expenditures	207,599	605	6,196	32,451	—	246,851

<b>Fiscal Year 2003</b>	<b>Retail Stores</b>	<b>Credit</b>	<b>Direct</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
Net sales (a)	\$6,069,378	—	\$314,542	\$64,758	—	\$6,448,678
Intersegment revenues	—	\$34,276	—	—	\$(34,276)	—
Interest expense, net (b)	—	(22,122)	105	(68,935)	—	(90,952)
Other income including finance charges, net	(12,375)	176,551	(602)	(8,484)	—	155,090
Depreciation and amortization	199,322	2,838	5,052	43,471	—	250,683
Earnings before income tax expense	577,531	17,473	19,572	(216,435)	—	398,141
Goodwill	8,462	—	15,716	27,536	—	51,714
Acquired tradename	—	—	—	84,000	—	84,000
Assets (c)	2,118,779	878,541	93,070	1,478,843	—	4,569,233
Capital expenditures	216,039	1,104	4,729	36,442	—	258,314

(a) Net sales in Other include foreign sales of \$93,851, \$94,994, and \$92,524 for 2005, 2004, and 2003.

(b) Interest income of \$12,374, \$5,574 and \$3,009 for 2005, 2004 and 2003 is recorded in our Other segment as an offset to interest expense, net.

(c) Assets in Other include foreign assets of \$204,865, \$207,095, and \$234,459 at the end of 2005, 2004, and 2003. It also includes unallocated assets in corporate headquarters, consisting primarily of cash, land, buildings and equipment, and deferred tax assets.

**Nordstrom, Inc.****Notes to Consolidated Financial Statements**

Amounts in thousands except per share amounts

**NOTE 16: SELF INSURANCE**

We retain a portion of the risk for certain losses related to health and welfare, workers' compensation and general liability claims. Liabilities associated with these losses include estimates of both losses reported and losses incurred but not yet reported. We estimate our ultimate cost based on analysis of historical data and independent actuarial estimates.

- **Workers' Compensation** — We have a deductible per claim of \$1,000 or less and no policy limits. Our workers' compensation reserve was \$55,226 and \$64,446 at the end of 2005 and 2004 and our expense was \$12,804, \$29,263, and \$33,782 in 2005, 2004, and 2003.
- **General Liability** — We have a deductible per claim of \$1,000 or less and a policy limit up to \$150,000. Our general liability insurance reserve was \$10,954 and \$9,872 at the end of 2005 and 2004.
- **Health and Welfare** — We are self insured for our health and welfare coverage and do not have stop-loss coverage. Participants contribute to the cost of their coverage and are subject to certain plan limits and deductibles. Our health and welfare reserve was \$12,100 and \$10,545 at the end of 2005 and 2004.

**NOTE 17: COMMITMENTS AND CONTINGENT LIABILITIES**

We are involved in routine claims, proceedings, and litigation arising from the normal course of our business. We do not believe any such claim, proceeding or litigation, either alone or in aggregate, will have a material impact on our results of operations, financial position, or liquidity.

We are routinely audited for tax compliance by the federal, state, local and foreign jurisdictions in which we operate. The audits generally cover several years and issues raised in an audit can impact other years that are available to be audited. While it is often difficult to predict whether we will prevail, we believe that our tax reserves reflect the probable outcome of known tax contingencies. We periodically reassess the amount of such reserves in light of changing facts and circumstances and adjust reserve balances as necessary. We have accrued \$17,100 for anticipated tax and interest to be paid for our exposure items. Our income tax returns for 2002 through 2004 are currently under examination by the IRS.

Our estimated total purchase obligations, capital expenditure contractual commitments and inventory purchase orders were \$1,469,921 as of January 28, 2006.

In connection with the purchase of foreign merchandise, we have outstanding import letters of credit totaling \$19,485 and standby letters of credit totaling \$11,184 as of January 28, 2006.

**NOTE 18: SELECTED QUARTERLY DATA (UNAUDITED)**

<b>Fiscal Year 2005</b>	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>	<b>Total</b>
Net sales	\$1,654,474	\$2,106,438	\$1,666,130	\$2,295,818	<b>\$7,722,860</b>
Same-store sales percentage change	6.2%	6.2%	5.9%	5.8%	<b>6.0%</b>
Gross profit	608,309	758,923	607,678	859,927	<b>2,834,837</b>
Earnings before income taxes	172,980	241,793	163,012	307,440	<b>885,225</b>
Net earnings	104,538	148,918	107,453	190,430	<b>551,339</b>
Net earnings as a percentage of net sales	6.3%	7.1%	6.4%	8.3%	<b>7.1%</b>
Basic earnings per share	\$0.38	\$0.54	\$0.40	\$0.71	<b>\$2.03</b>
Diluted earnings per share	\$0.38	\$0.53	\$0.39	\$0.69	<b>\$1.98</b>
<b>Fiscal Year 2004</b>	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>	<b>Total</b>
Net sales	\$1,535,490	\$1,953,480	\$1,542,075	\$2,100,343	<b>\$7,131,388</b>
Same-store sales percentage change	13.2%	6.8%	8.1%	7.2%	<b>8.5%</b>
Gross profit	562,558	682,588	557,167	769,687	<b>2,572,000</b>
Earnings before income taxes	112,627	175,266	122,913	236,475	<b>647,281</b>
Net earnings	68,727	106,915	77,828	139,980	<b>393,450</b>
Net earnings as a percentage of net sales	4.5%	5.5%	5.0%	6.7%	<b>5.5%</b>
Basic earnings per share	\$0.25	\$0.38	\$0.28	\$0.51	<b>\$1.41</b>
Diluted earnings per share	\$0.24	\$0.37	\$0.27	\$0.50	<b>\$1.38</b>



## **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

### **Item 9A. Controls and Procedures.**

As of the end of the period covered by this Annual Report on Form 10-K, we performed an evaluation under the supervision and with the participation of management, including our President and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, our President and our Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures are effective in the timely recording, processing, summarizing and reporting of material financial and non-financial information.

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.

The following information required under this item is filed as part of this report:

	<b>Page</b>
<a href="#">Management Responsibility for Financial Information</a>	25
<a href="#">Management's Report on Internal Control Over Financial Reporting</a>	25
<a href="#">Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</a>	26
<a href="#">Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements</a>	27

### **Item 9B. Other Information.**

None.

## **PART III**

### **Item 10. Directors and Executive Officers of the Registrant.**

The information required under this item is included in the following sections of our Proxy Statement for our 2006 Annual Meeting of Shareholders, which sections are incorporated by reference herein and will be filed within 120 days after the end of our fiscal year:

- Executive Officers
- Election of Directors
- Board Committees
- Director Nominating Process
- Website Access to Corporate Governance Documents
- Section 16(a) Beneficial Ownership Reporting Compliance

### **Item 11. Executive Compensation.**

The information required under this item is included in the following sections of our Proxy Statement for our 2006 Annual Meeting of Shareholders, which sections are incorporated by reference herein and will be filed within 120 days after the end of our fiscal year:

- Compensation of Executive Officers
- Compensation Committee Report
- Stock Price Performance
- Compensation of Directors

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.**

The information required under this item is included in the following section of our Proxy Statement for our 2006 Annual Meeting of Shareholders, which sections are incorporated by reference herein and will be filed within 120 days after the end of our fiscal year:

- Security Ownership of Certain Beneficial Owners and Management
- Equity Compensation Plans

### **Item 13. Certain Relationships and Related Transactions.**

The information required under this item is included in the following sections of our Proxy Statement for our 2006 Annual Meeting of Shareholders, which sections are incorporated by reference herein and will be filed within 120 days after the end of our fiscal year:

- Election of Directors
- Certain Relationships and Related Transactions

### **Item 14. Principal Accountant Fees and Services.**

The information required under this item is included in the following section of our Proxy Statement for our 2006 Annual Meeting of Shareholders, which section is incorporated by reference herein and will be filed within 120 days after the end of our fiscal year:

- Ratification of the Appointment of Independent Registered Public Accounting Firm

## **PART IV**

### **Item 15. Exhibits, Financial Statement Schedules.**

The following information required under this item is filed as part of this report:

#### **(a)1. FINANCIAL STATEMENTS**

	<b>Page</b>
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<a href="#">Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting</a>	26
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#### **(a)2. FINANCIAL STATEMENT SCHEDULE**

	<b>Page</b>
<a href="#">Consent of Independent Registered Public Accounting Firm and Report on Schedule</a>	51
<a href="#">Schedule II — Valuation and Qualifying Accounts</a>	52

#### **(a)3. EXHIBITS**

Exhibits are incorporated herein by reference or are filed with this report as set forth in the Index to Exhibits on pages 54 through 57 hereof.

All other schedules and exhibits are omitted because they are not applicable, not required, or because the information required has been given as part of this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NORDSTROM, INC.  
(Registrant)

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

Date: March 24, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Principal Financial Officer:

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

Principal Executive Officer:

/s/ Blake W. Nordstrom  
Blake W. Nordstrom  
President and Director

Principal Accounting Officer:

/s/ Peter F. Collins  
Peter F. Collins  
Divisional Vice President and Corporate Controller

Directors:

/s/ Phyllis J. Campbell  
Phyllis J. Campbell  
Director

/s/ Enrique Hernandez, Jr.  
Enrique Hernandez, Jr.  
Director

/s/ Jeanne P. Jackson  
Jeanne P. Jackson  
Director

/s/ Robert G. Miller  
Robert G. Miller  
Director

/s/ Bruce A. Nordstrom  
Bruce A. Nordstrom  
Chairman of the Board of Directors  
and Director

/s/ John N. Nordstrom  
John N. Nordstrom  
Director

/s/ Alfred E. Osborne, Jr., Ph.D.  
Alfred E. Osborne, Jr., Ph.D.  
Director

/s/ Philip G. Satre  
Philip G. Satre  
Director

/s/ Alison A. Winter  
Alison A. Winter  
Director

Date: March 24, 2006

## **CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND REPORT ON SCHEDULE**

To the Board of Directors and Shareholders of Nordstrom, Inc.

We consent to the incorporation by reference in Registration Statement Nos. 033-18321, 333-63403, 333-40064, 333-40066, 333-79791, 333-101110, and 333-118756 on Form S-8 and in Registration Statement Nos. 333-59840 and 333-69281 on Form S-3 of our reports dated March 21, 2006, relating to the consolidated financial statements and financial statement schedule of Nordstrom, Inc., and management's report on the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Nordstrom, Inc. for the year ended January 28, 2006.

Our audits of the financial statements referred to in our aforementioned report also included the financial statement schedule of Nordstrom, Inc. listed in Item 15(a)2. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP  
Seattle, Washington  
March 21, 2006

**NORDSTROM, INC. AND SUBSIDIARIES**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**

(Dollars in thousands)

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>
<b>Description</b>	<b>Balance at beginning of period</b>	<b>Additions Charged to costs and expenses</b>	<b>Deductions</b>	<b>Balance at end of period</b>
Deducted from related balance sheet account				
Allowance for doubtful accounts:				
Year ended:				
January 28, 2006	\$19,065	\$20,918	\$22,057 (A)	\$17,926
January 29, 2005	\$20,320	\$24,639	\$25,894 (A)	\$19,065
January 31, 2004	\$22,385	\$27,975	\$30,040 (A)	\$20,320
Reserves				
Allowance for sales return, net:				
Year ended:				
January 28, 2006	\$49,745	\$805,288	\$803,861 (B)	\$51,172
January 29, 2005	\$39,841	\$725,982	\$716,078 (B)	\$49,745
January 31, 2004	\$33,284	\$620,124	\$613,567 (B)	\$39,841

(A) Deductions consist of write-offs of uncollectible accounts, net of recoveries.

(B) Deductions consist of actual returns net of related costs and commissions.

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**Nordstrom, Inc. and Subsidiaries****Exhibit Index**

	<b>Exhibit</b>	<b>Method of Filing</b>
3.1	Articles of Incorporation as amended and restated on May 24, 2005	Incorporated by reference from the Registrant's Form 8-K filed on May 31, 2005, Exhibit 3.1
3.2	Bylaws, as amended and restated on February 21, 2006	Filed herewith electronically
4.1	Indenture between Registrant and Norwest Bank Colorado, N.A., as trustee, dated March 11, 1998	Incorporated by reference from Registration No. 333-47035, Exhibit 4.1
4.2	Senior indenture between Registrant and Norwest Bank Colorado, N.A., as trustee, dated January 13, 1999	Incorporated by reference from Registration No. 333-69281, Exhibit 4.3
4.3	Form of Subordinated Indenture between Registrant and Norwest Bank Colorado, N.A., as trustee, dated January 13, 1999	Incorporated by reference from Registration No. 333-69281, Exhibit 4.4
10.1	Merchant Agreement dated August 30, 1991 between Registrant and Nordstrom National Credit Bank	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1991, Exhibit 10.1
10.2	Nordstrom Supplemental Executive Retirement Plan (2003 Restatement)	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 1, 2003, Exhibit 10.1
10.3	Investment Agreement dated October 8, 1984 between the Registrant and Nordstrom Credit, Inc.	Incorporated by reference from the Nordstrom Credit, Inc. Form 10, Exhibit 10.1
10.4	1997 Nordstrom Stock Option Plan, amended and restated on February 16, 2000	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 2, 2003, Exhibit 10.1
10.5	Nordstrom 401(K) Plan & Profit Sharing, as amended and restated on January 1, 2004	Incorporated by reference from the Registrant's Annual Report on Form 11-K for the year ended December 31, 2003, Exhibit 99.2
10.6	Amendment 2005-1 to the Nordstrom 401(K) Plan & Profit Sharing dated January 1, 2004	Filed herewith electronically
10.7	Amendment 2005-2 to the Nordstrom 401(K) Plan & Profit Sharing dated January 1, 2004	Filed herewith electronically
10.8	Commercial Paper Dealer Agreement dated October 2, 1997 between Registrant and Bancamerica Securities, Inc.	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1997, Exhibit 10.1
10.9	Commercial Paper Agreement dated October 2, 1997 between Registrant and Credit Suisse First Boston Corporation	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1997, Exhibit 10.2
10.10	Issuing and Paying Agency Agreement dated October 2, 1997 between Registrant and First Trust of New York, N.A.	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1997, Exhibit 10.3
10.11	Share Purchase and Contribution Agreement dated as of September 27, 2000 by and among Nordstrom, Inc., Nordstrom European Capital Group, and the Selling Shareholders of Façonnable, S.A.S.	Incorporated by reference from the Registrant's Form S-3, Registration No. 333-50028 filed on November 15, 2000, Exhibit 2.1
10.12	Amendment to the Share Purchase and Contribution Agreement dated as of September 27, 2000 by and among Nordstrom, Inc., Nordstrom European Capital Group, and the Selling Shareholders of Façonnable, S.A.S., dated October 20, 2000	Incorporated by reference from the Registrant's Form S-3, Registration No. 333-50028 filed on November 15, 2000, Exhibit 2.2

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	<b>Exhibit</b>	<b>Method of Filing</b>
10.13	Receivables Purchase Agreement dated October 1, 2001 between Nordstrom Credit, Inc. and Nordstrom Private Label Receivables, LLC	Incorporated by reference from Nordstrom Credit, Inc.'s Annual Report on Form 10-K for the year ended January 31, 2002, Exhibit 10.21
10.14	Transfer and Servicing Agreement dated October 1, 2001 between Nordstrom Private Label Receivables, LLC, Nordstrom fsb, Wells Fargo Bank Minnesota, N.A., and Nordstrom Private Label Credit Card Master Note Trust	Incorporated by reference from Nordstrom Credit, Inc.'s Annual Report on Form 10-K for the year ended January 31, 2002, Exhibit 10.22
10.15	Master Indenture dated October 1, 2001 between Nordstrom Private Label Credit Card Master Note Trust and Wells Fargo Bank Minnesota, N.A., as trustee	Incorporated by reference from Nordstrom Credit, Inc.'s Annual Report on Form 10-K for the year ended January 31, 2002, Exhibit 10.23
10.16	Series 2001-1 Indenture Supplement dated October 1, 2001 between Nordstrom Private Label Credit Card Master Note Trust and Wells Fargo Bank Minnesota, N.A., as trustee	Incorporated by reference from Nordstrom Credit, Inc.'s Annual Report on Form 10-K for the year ended January 31, 2002, Exhibit 10.24
10.17	Series 2001-2 Indenture Supplement dated December 4, 2001 between Nordstrom Private Label Credit Card Master Note Trust and Wells Fargo Bank Minnesota, N.A., as trustee	Incorporated by reference from Nordstrom Credit, Inc.'s Annual Report on Form 10-K for the year ended January 31, 2002, Exhibit 10.25
10.18	Amended and Restated Trust Agreement dated October 1, 2001 between Nordstrom Private Label Receivables, LLC, and Wilmington Trust Company, as trustee	Incorporated by reference from Nordstrom Credit, Inc.'s Annual Report on Form 10-K for the year ended January 31, 2002, Exhibit 10.26
10.19	Note Purchase Agreement dated December 4, 2001 between Nordstrom Private Label Receivables, LLC, Nordstrom fsb, Falcon Asset Securitization Corporation, and Bank One, NA, as agent	Incorporated by reference from Nordstrom Credit, Inc.'s Annual Report on Form 10-K for the year ended January 31, 2003, Exhibit 10.25
10.20	First Amendment to the Note Purchase Agreement dated December 4, 2001 between Nordstrom Private Label Receivables, LLC, Nordstrom fsb, Falcon Asset Securitization Corporation, and Bank One, NA, as agent, dated December 2, 2002	Incorporated by reference from Nordstrom Credit, Inc.'s Annual Report on Form 10-K for the year ended January 31, 2003, Exhibit 10.26
10.21	Second Amendment to the Note Purchase Agreement dated December 4, 2001 between Nordstrom Private Label Receivables, LLC, Nordstrom fsb, Falcon Asset Securitization Corporation, and Bank One, NA, as agent, dated December 2, 2003	Incorporated by reference from Nordstrom Credit, Inc.'s Annual Report on Form 10-K for the year ended January 31, 2004, Exhibit 10.25
10.22	Third Amendment to the Note Purchase Agreement dated December 4, 2001 between Nordstrom Private Label Receivables, LLC, Nordstrom fsb, Falcon Asset Securitization Corporation, and Bank One, NA, as agent, dated February 29, 2004	Incorporated by reference from Nordstrom Credit, Inc.'s Quarterly Report on Form 10-Q for the quarter ended May 1, 2004, Exhibit 10.3
10.23	Fourth Amendment to the Note Purchase Agreement dated December 4, 2001 between Nordstrom Private Label Receivables, LLC, Nordstrom fsb, Falcon Asset Securitization Corporation, and Bank One, NA, as agent, dated May 28, 2004	Incorporated by reference from Nordstrom Credit, Inc.'s Quarterly Report on Form 10-Q for the quarter ended May 1, 2004, Exhibit 10.4
10.24	Fifth Amendment to the Note Purchase Agreement dated December 4, 2001 between Nordstrom Private Label Receivables, LLC, Nordstrom fsb, Falcon Asset Securitization Corporation, and JP Morgan Chase Bank NA (successor-by-merger to Bank One, NA (Main Office Chicago)) as agent, dated December 16, 2004	Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended January 29, 2005, Exhibit 10.25
10.25	Receivables Purchase Agreement dated April 1, 2002 between Nordstrom fsb and Nordstrom Credit Card Receivables LLC	Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended January 31, 2003, Exhibit 10.39
10.26	Administration Agreement dated April 1, 2002 between Nordstrom Credit Card Master Note Trust and Nordstrom fsb	Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended January 31, 2003, Exhibit 10.40



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	<b>Exhibit</b>	<b>Method of Filing</b>
10.27	Amended and Restated Trust Agreement dated April 1, 2002 between Nordstrom Credit Card Receivables LLC and Wilmington Trust Company	Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended January 31, 2003, Exhibit 10.41
10.28	Master Indenture dated April 1, 2002 between Nordstrom Credit Card Master Note Trust and Wells Fargo Bank Minnesota, National Association	Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended January 31, 2003, Exhibit 10.42
10.29	Series 2002-1 Indenture Supplement dated April 1, 2002 between Nordstrom Credit Card Master Note Trust and Wells Fargo Bank Minnesota, National Association	Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended January 31, 2003, Exhibit 10.43
10.30	Transfer and Servicing Agreement dated April 1, 2002 between Nordstrom Credit Card Receivables, LLC, Nordstrom fsb, Wells Fargo Bank Minnesota, National Association and Nordstrom Credit Card Master Note Trust	Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended January 31, 2003, Exhibit 10.44
10.31	Principal Balance Increase Request dated December 28, 2004 between Nordstrom Credit Card Receivables, LLC, Nordstrom fsb, Wells Fargo Bank and Nordstrom Credit, Inc.	Incorporated by reference from Nordstrom Credit, Inc.'s Quarterly Report on Form 10-Q for the quarter ended April 30, 2005, Exhibit 10.1
10.32	Principal Balance Increase Request dated March 28, 2005 between Nordstrom Credit Card Receivables, LLC, Nordstrom fsb, Wells Fargo Bank and Nordstrom Credit, Inc.	Incorporated by reference from Nordstrom Credit, Inc.'s Quarterly Report on Form 10-Q for the quarter ended April 30, 2005, Exhibit 10.2
10.33	Principal Balance Increase Confirmation dated March 31, 2005 between Nordstrom Credit, Inc. and Wells Fargo Bank	Incorporated by reference from Nordstrom Credit, Inc.'s Quarterly Report on Form 10-Q for the quarter ended April 30, 2005, Exhibit 10.3
10.34	Performance Undertaking dated September 28, 2001 between Registrant and Bank One, N.A.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended January 31, 2002, Exhibit 10.37
10.35	Performance Undertaking dated December 4, 2001 between Registrant and Bank One, N.A.	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended January 31, 2002, Exhibit 10.38
10.36	Promissory Note dated April 18, 2002 between 1700 Seventh, L.P. and New York Life Insurance Company	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2002, Exhibit 10.2
10.37	Promissory Note dated April 18, 2002 between 1700 Seventh, L.P. and Life Investors Insurance Company of America	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2002, Exhibit 10.3
10.38	Guaranty Agreement dated April 18, 2002 between Registrant, New York Life Insurance Company and Life Investors Insurance Company of America	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2002, Exhibit 10.4
10.39	The 2002 Nonemployee Director Stock Incentive Plan	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2002, Exhibit 10.1
10.40	Nordstrom Executive Deferred Compensation Plan (2003 Restatement)	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 2, 2003, Exhibit 10.2
10.41	Nordstrom Directors Deferred Compensation Plan (2002 Restatement)	Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended January 31, 2004, Exhibit 10.55
10.42	Nordstrom, Inc. Leadership Separation Plan (Restated Effective March 1, 2005)	Incorporated by reference from Registrant's Annual Report on Form 10-K for the year ended January 29, 2005, Exhibit 10.43
10.43	Nordstrom, Inc. Executive Management Group Bonus Plan	Incorporated by reference from Registrant's definitive proxy statement filed with the Commission on April 15, 2004

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	<b>Exhibit</b>	<b>Method of Filing</b>
10.44	2004 Equity Incentive Plan	Incorporated by reference from Registrant's definitive proxy statement filed with the Commission on April 15, 2004
10.45	Commitment of Nordstrom, Inc. to Nordstrom fsb dated June 17, 2004	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2004, Exhibit 10.4
10.46	Nordstrom fsb Segregated Earmarked Deposit Agreement And Security Agreement by and between Nordstrom fsb and Nordstrom, Inc. dated July 1, 2004	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2004, Exhibit 10.5
10.47	Revolving Credit Facility dated May 14, 2004 between Registrant and a group of commercial banks	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2004, Exhibit 10.1
10.48	Revolving Credit Facility Agreement dated November 4, 2005, between Registrant and each of the initial lenders named therein as Lenders, JPMorgan Chase Bank, N.A. and Wells Fargo Bank, N.A., as Syndication Agents, U.S. Bank, National Association, as Documentation Agent and Bank of America, N.A. as administrative agent	Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005, Exhibit 10.1
10.49	Employment Letter with Mr. Paul Favaro, effective February 1, 2005	Incorporated by reference from the Registrant's Form 8-K filed on January 12, 2005, Exhibit 99.1
10.50	Form of Notice of Stock Option Grant and Stock Option Agreement under the Nordstrom, Inc. 2004 Equity Incentive Plan	Incorporated by reference from the Registrant's Form 8-K filed on March 1, 2005, Exhibit 10.1
10.51	Form of 2005 Performance Share Unit Notice and Performance Share Unit Award Agreement	Incorporated by reference from the Registrant's Form 8-K filed on March 1, 2005, Exhibit 10.2
10.52	Press release dated February 24, 2005 announcing that its Board of Directors authorized a \$500 million share repurchase program	Incorporated by reference from the Registrant's Form 8-K filed on March 1, 2005, Exhibit 99.1
10.53	Summary of Lead Director Compensation	Incorporated by reference from the Registrant's Form 8-K filed on March 1, 2005, Exhibit 99.2
10.54	Director Compensation Summary	Incorporated by reference from the Registrant's Form 8-K filed on August 29, 2005, Exhibit 99.1
21.1	Subsidiaries of the Registrant	Filed herewith electronically
23.1	Consent of Independent Registered Public Accounting Firm and Report on Schedule	Filed as page 51 of this report
31.1	Certification of President required by Section 302(a) of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
31.2	Certification of Chief Financial Officer required by Section 302(a) of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
32.1	Certification of President and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith electronically

BYLAWS  
OF  
NORDSTROM, INC.

(Amended and Restated as of February 21, 2006)

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 Chairman (or any Co-Chairman) of the Board of Directors, by the President (or any Co-President) if there is not then a Chairman (or Co-Chairman) of the Board of Directors or by the Board of Directors and shall be called by the Chairman (or any Co-Chairman) of the Board of Directors or the President (or any Co-President) at the request of holders of not less than 15% 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 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

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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. 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. 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.

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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 10 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.

To be timely, a shareholder's notice must be given to the Secretary of this corporation 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) days 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 person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the corporation which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations proxies for election of director pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Act") and the rules and regulations promulgated thereunder and (b) as to the shareholder giving the notice (i) the name and record address of the shareholder, (ii) the class or series and number of shares of capital stock of the corporation which are owned beneficially or by record by the shareholder, (iii) a description of all arrangements or understandings between the shareholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by the shareholder, (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, and (v) any other information relating to the shareholder 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.

No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this Section 12. 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.

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Section 13. Business at Annual Meetings. No business may be transacted at an annual meeting of shareholders, other than business that is either (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 annual 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 meeting 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 13 and on the record date for the determination of shareholders of record on the 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 13.

To be timely, a shareholder's notice must be given to the Secretary of the corporation 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 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.

To be in proper form, a shareholder's notice must be in written form and must set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for documenting the business at the annual meeting, (ii) the name and record address of the shareholder, (iii) the number of shares of capital stock of the corporation which are owned beneficially or of record by the shareholder, (iv) a description of all arrangements or understandings between the shareholder and any other person or persons (including their names) in connection with the proposal of the business and (v) a representation that the shareholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

No business shall be conducted at the annual meeting of shareholders except business brought before the annual meeting in accordance with the procedures set forth in this Section 13; provided, however, that, once the business has been properly brought before the annual meeting in accordance with such procedures, nothing in this Section 13 shall be deemed to preclude discussion by any shareholder of any such business. If the chairman of the annual meeting determines that business was not properly brought before the annual 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.

#### 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

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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.

Section 2. Number, Tenure and Qualifications. The number of directors of the corporation shall be ten (10). Each director shall hold office until the next annual meeting of shareholders and until his successors shall have been

elected and qualified. Directors need not be residents of the state of Washington or shareholders of the corporation.

Section 3. 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 Chairman (or any Co-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 4. Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the Chairman (or any Co-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 5. Notice. Notice of any special meeting shall be given at least two days previously thereto 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 6. Quorum. A majority of the number of directors fixed by Section 2 of this Article III 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 7. 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 8. 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.

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Section 9. Compensation. By resolution of the Board of Directors, each director may be paid his 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 salary as director, a fixed sum for attendance at each such meeting, or both. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 10. 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 11. 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 form 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 11.1. 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 proposal 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 11.2. 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 11.3. 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.

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ARTICLE IV  
Special Measures Applying to Both  
Shareholder and Director Meetings

Section 1. Actions by Written Consent. 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, committee of directors, or shareholders may be accomplished without a meeting if one or more unanimous written consents of the respective directors or shareholders, setting forth the actions so taken, shall be signed, either before or after the action taken, by all the directors, committee members or shareholders, as the case may be. Action taken by unanimous written 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. Action taken by unanimous written consent of the shareholders is effective when all consents have been delivered to the corporation, unless the consent specifies a later effective date.

Section 2. Meetings by Conference Telephone. Members of the Board of Directors, members of a committee of directors, or shareholders 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.

Section 3. 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, private carrier, or personal delivery; telegraph or teletype; or telephone, wire or wireless equipment which transmits a facsimile of the notice. Written notice to a shareholder is effective when mailed, if mailed with first class postage prepaid and correctly addressed to the shareholder's address shown in the corporation's current record of shareholders. In all other instances, written notice is effective on the earliest of the following: (a) when dispatched to the person's address, telephone number, or other number appearing on the records of the corporation by telegraph, teletype or facsimile equipment; (b) when received; (c) five days



after deposit in the United States mail, as evidenced by the postmark, if mailed with first class postage, prepaid and correctly addressed; or (d) on the date shown on the return receipt, if sent by registered or certified mail, return receipt requested and the receipt is signed by or on behalf of the addressee. 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 Chairman or two or

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more Co-Chairmen of the Board of Directors, 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. Chairman of the Board of Directors. The Chairman or Co-Chairmen of the Board of Directors, subject to the authority of the Board of Directors, shall preside at meetings of shareholders and directors and, together with the President and Co-Presidents, shall have general supervision and control over the business and affairs of the corporation. The Chairman or a Co-Chairman of the Board of Directors may sign any and all documents, deeds, 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 may perform all duties which are normally incident to the office of Chairman of the Board of Directors or President and such other duties, authority and responsibilities as may be prescribed by the Board of Directors from time to time.

Section 6. President. The President or Co-Presidents, together with the Chairman or Co-Chairmen of the Board of Directors, shall have general supervision and control over the business and affairs of the corporation subject to the authority of the Chairman or Co-Chairmen 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 Chairman or Co-Chairmen of the Board of Directors or the Board of Directors from time to time.

Section 7. 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 Chairman or Co-Chairmen of the Board of Directors, President or any Co-President, or by the Board of Directors.

Section 8. 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 Chairman or Co-Chairmen of the Board of Directors, 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 Chairman or Co-Chairmen of the Board of Directors, President or any Co-President, or by the Board of Directors.

Section 9. 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 Chairman or Co-Chairmen of the Board of Directors, 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 10. Assistant Secretaries and Assistant Treasurers. The Assistant Secretaries, when authorized by the Board of Directors, may sign with the Chairman or Co-Chairmen of the Board of Directors, 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 Chairman or Co-Chairmen of the Board of Directors, President or any Co-President, or by the

Board of Directors.

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.

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 Chairman (or any Co-Chairman) of the Board of Directors, 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

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the stock transfer books of the corporation. 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 fiscal year of the corporation shall begin in January or February and end in January or February each year, based upon the 4-5-4 calendar as defined by the National Retail Federation ("NRF").

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."

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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 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 to the fullest extent not prohibited by the Washington Business Corporation Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment does not prohibit the corporation from providing broader indemnification rights than prior to the amendment), 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 no such indemnity shall indemnify any person from or on account of 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 a director 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 person personally received a benefit in money, property, or services to which the person was not legally entitled; and further 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.

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

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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 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 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, any indemnitee shall be entitled to indemnification in accordance with the provisions hereof with respect to any acts or omissions of such indemnitee occurring prior to such amendment or repeal.

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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 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 Chairman (or any Co-Chairman) of the Board of Directors, 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.

AMENDMENT 2005-1  
TO THE  
NORDSTROM 401(K) PLAN & PROFIT SHARING  
(2004 Restatement)

The Nordstrom 401(k) Plan & Profit Sharing (the "Plan") is amended as follows effective January 1, 2005, except as otherwise stated, pursuant to 13.1-3 and 15.2 of the Plan, to make technical and administrative changes.

1. Section 2.8 Eligible Employee is amended by adding the following Paragraph (f) to reflect an Employee's ability to irrevocably waive eligibility to participate in the Plan:

"(f) An Employee who, prior to his or her earliest participation date under 4.1, makes a one-time irrevocable election not to participate in the Plan, in accordance with procedures established by the Administrator. An Employee is not eligible to receive anything of value from any Employer, from the Administrator or from any other person associated with the Employer or the Plan in consideration of the Employee's election not to participate in the Plan."

2. Section 5.3 Employer Matching Contributions is amended by replacing Subsection 5.3-3 Mid-Year Terminations with the following to correct a typographical error:

"A Participant whose mid-year termination of employment is on account of death, Disability or Retirement, who accumulated a Year of Service in such year prior to such termination, and whose entire Plan account remains undistributed as of the last day of the Plan Year of termination, shall share in the Employer Matching Contribution allocation for that year. Any other Participant whose employment with the Employer terminates during a Plan Year, and any year-end active Participant who fails to meet the Year of Service requirement, shall not share in the Employer Matching Contribution."

3. Section 5.8 Rollover Contributions is amended by replacing Subsection 5.8-4 Rollover Account with the following for consistency with the Plan's internal rule for involuntary distribution of account balances below \$1,000, effective for distributions on and after March 28, 2005:

"5.8-4 Rollover Account. The transferred amount accepted by the Plan shall be placed in the Participant's Rollover Account, and shall be at all times fully vested and subject to the investment and distribution provisions of section 5.2, but shall not be considered a Participant Elective Deferral Contribution for purposes of the Employer Matching Contribution, contribution limits, or nondiscrimination requirements and limitations of this Plan and the Code, or as part of a Participant's total account balance for purposes of the

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consent requirement under Section 10.1-1 for involuntary distribution of account balances. Rollovers of after-tax contribution amounts described in 10.7 will be accounted for separately."

4. Article VII Investment in Insurance Contracts is replaced with the following effective January 1, 2005, to clarify the Plan's administration of life insurance contracts held for investment in participant accounts:

"ARTICLE VII. INVESTMENT IN INSURANCE CONTRACTS

"7.1 Purchase of Insurance. Effective from and after February 1, 1992, no additional policies of life insurance will be purchased by the Plan. Policies of ordinary or whole life insurance purchased prior to February 1, 1992, may be continued in effect, subject to the limitations contained elsewhere in this Article VII. The Administrator shall continue to direct payment of premiums on such previously purchased policies for all



Participants until such time as a Participant affirmatively elects to surrender or cancel the policy. The Administrator will pay premiums from assets held in the Participant's Plan account, or, if the assets in the Participant's Plan account are not sufficient to pay the premiums required to keep the policy in force, the Administrator will use the policy's cash surrender value to the extent necessary to pay policy premiums. If a Participant affirmatively elects to purchase, surrender or cancel an insurance policy, the Administrator shall transfer, surrender or cancel the policy and allocate the proceeds to the Participant's other investment accounts.

"In no event may any premiums on whole life insurance be paid under this Plan for a Participant, if the aggregate premiums for that insurance exceed forty-nine percent (49%) of the aggregate of the contributions allocated to such Participant at any time.

"7.2 Trustee Shall Own the Policy. Each contract issued shall provide, and the application therefor shall request, that a Trustee, subject to the terms and conditions of a Trust Agreement entered into by Employer, shall be the owner of the contract. Any and all rights provided under the contract or policy, or permitted by the insurance company, shall be reserved to that Trustee. Such rights shall include the right to surrender, reduce or split the policy, the right to name and change the payee to receive policy benefits on the happening of any contingency specified in the policy, the right to exercise any loan provisions to pay the policy premium or for any other reason, and such other rights as may be reserved to the owner of the policy. The listing of rights above shall not be construed as a limitation on the Trustee. However, the exercise of the rights reserved to the Trustee as owner of the policy shall be subject to and pursuant to the direction of the Administrator.

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"7.3 Premiums, etc. The Trustee shall maintain possession of any policy purchased and shall pay the premiums as each premium falls due, unless the Administrator directs otherwise. Dividends may be used in reduction of any such premium, may be applied in any other manner permitted by the insurance company or may be taken in cash by the Trustee, as the Administrator determines from time to time. If, at any time, the Administrator shall decide as an investment matter that the premium on any policy is not to be paid in cash from the Participant's account, the Administrator, in its sole discretion, shall direct the Trustee whether such premium is to be paid by policy loan (if the policy contains such a provision), if any, or whether the policy is to be continued as a paid-up policy, or whether use is to be made of any extended insurance option available thereunder, or whether some other action is to be taken under the policy. Any policy loans shall be proportionate to the loan values of the insurance contracts. In any determination of the Administrator, all Participants similarly situated shall be treated the same. Before directing a Trustee to take any action other than payment of premiums in cash, the Administrator must give the Participant an opportunity either to pay the premium in cash from his or her own funds or to purchase the policy from the Trustee for its fair market value. Any premium received by the Trustee from the Participant shall be paid to the insurance company. If the Participant purchases the policy, the Trustee shall transfer the policy to him/her free and clear of Trust and shall add to his or her account the amount paid by such Participant.

"7.4 Proceeds and Benefits of Policy. Upon the death of a Participant on whose life the Trustee holds a policy payable to it, the Trustee may collect the proceeds, in which case such proceeds shall be turned over to the Participant's beneficiary, or the Trustee may assign to such beneficiary the policy and all rights thereunder, or the Trustee may direct the insurance company to make payment to such beneficiary in such manner as may be permitted by the insurance contract. The action taken by the Trustee shall be as directed by the Administrator, in its sole discretion, after consideration of the needs of the beneficiary and the intention of the Participant as indicated in the last direction filed with the Administrator and the Trustee by the Participant prior to his or her death. Such intention or direction, however, shall not of itself create in any way a

vested right, either in the Participant or his or her beneficiary, nor shall it alter the provisions of this Agreement.

"7.5 Disposition of Policy. When any Participant whose policy is held hereunder reaches his or her retirement date or age, or terminates employment, or if this Plan and Trust Fund should terminate, the Administrator shall direct the Trustee as to the disposition of the policy so that the provisions of this Plan covering disposition of the account of the Participant in the happening of any such event, may be effected. If a Participant elects to receive a distribution of benefits as provided in Article X, the Participant may elect one of the following options with respect to the policy:

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"(a) Distribution. The Participant may elect a distribution of the policy, free and clear of any lien or interest of the Trust, the Trustee, or the Plan.

"(b) Surrender. The Participant may instruct the Administrator to direct the Trustee to surrender or cancel the policy, and the cash surrender value of the policy will be distributed to the Participant.

"(c) Purchase. The Participant may purchase the policy from the Trustee by paying the policy's fair market value to the Trust. The Participant must use non-Plan funds to purchase the policy. Upon the Trust's receipt of the full purchase price, the policy will be transferred to the Participant, free and clear of any lien or interest of the Trust, the Trustee, or the Plan.

"If the Participant reaches his or her retirement age and does not elect to receive a distribution of Plan benefits, the Trustee shall continue to hold any insurance policy for the benefit of the Participant (provided that that the policy premiums can be paid from the Participant's account as provided in 7.1), unless the Participant (1) elects to purchase the policy by paying to the Trustee the policy's fair market value, or (2) elects to surrender or cancel the policy under 7.1. If the policy premiums cannot be paid from the Participant's account for any reason, the policy will be surrendered or canceled, unless the Participant affirmatively elects to purchase the policy from the Plan. Any amount received by the Trustee as a result of any purchase, cancellation or surrender of the policy shall be added to the account of the Participant and disposition or distribution made as provided elsewhere in this Plan.

"7.6 Insurer's Responsibility. No insurance company that issues a policy under the Plan will thereby become a party to the Plan or the related Trust Agreements. The liability of any such insurance company shall be only as provided in any policy it may issue. The insurance company shall be fully protected from all liability in accepting premium payments from the Trustee and in making payments to the Trustee, or on direction of the Trustee or the Administrator, without liability as to the application of such payments."

5. Section 10.1 Distribution of Benefits is amended by replacing Subsection 10.1-1 Lump Sum Payment with the following, effective for distributions on and after March 28, 2005, to reflect a reduction from \$5,000 to \$1,000 as the threshold amount for involuntary distributions of a Participant's account after his or her Severance from Employment Date.

"10.1-1 Lump Sum Payment. Upon the occurrence of any of the events specified in Article IX requiring or permitting a distribution of benefits to a Participant or his or her beneficiary, the Administrator shall instruct the Trustee to distribute benefits, determined in accordance with 10.2, below, in a single lump sum payment unless the Trustee receives a

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timely election for a different form of benefit. If the present value of a Participant's benefit (excluding the balance in any rollover account) exceeds \$1,000 (\$5,000 prior to March 28, 2005) and the benefit is Immediately Distributable (see 10.1-3), the Administrator must obtain the consent of the Participant (and Participant's spouse, if married) for the distribution. Consent of both the Participant and his or her spouse shall be written and in the case of the spouse either notarized or witnessed by a plan representative."

6. Section 18.1 Loans to Participants is amended by replacing the last sentence of Paragraph 18.1-3(e) Means of Payment with the following to extend from 80 days to 90 days the period of non-payment that will result in a loan being considered in default, effective for loan repayments due on and after January 1, 2005:

"However, the loan will be deemed in default if a loan repayment is not received for a period of 90 days."

SIGNED pursuant to proper authority this 28 day of June, 2005.

Attest:

NORDSTROM, INC.

By: /s/ Kathy Way

By: /s/ Delena Sunday

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Title: Retirement and Life/Work Manager

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Delena Sunday  
Executive Vice-President  
Human Resources and Diversity  
Affairs

AMENDMENT 2005-2  
TO THE  
NORDSTROM 401(K) PLAN & PROFIT SHARING  
(2004 Restatement)

The Nordstrom 401(k) Plan & Profit Sharing (the "Plan") is amended as follows effective January 1, 2006, to make required and permitted technical and administrative changes pursuant to final Treasury regulations issued under Sections 401(k) and (m) of the Internal Revenue Code of 1986, as amended, to add a Qualified Non-Elective Contribution feature, and to provide for a special rule regarding the treatment of Hours of Service for certain Employees affected by Hurricanes Rita and Wilma:

1. Section 2.14 Hour of Service is amended to include new subsection 2.14-5 Certain Time Lost Due to 2005 Hurricanes as follows in order to give certain participants credit for hours of service that were scheduled to be worked but which could not be worked due to Hurricanes Rita and Wilma:

"2.14 Certain Time Lost Due to Hurricanes. Notwithstanding anything in 2.14 to the contrary, for any Employee whose regular workplace during the period September 1, 2005, through November 30, 2005, was within 100 miles of either the Houston, Texas or Miami, Florida, metropolitan areas, such Employee's Hours of Service during this September 1, 2005 - November 30, 2005 period shall include any regularly scheduled hours that the Employee was unable to work due to circumstances related to either Hurricane Rita or Hurricane Wilma, regardless of whether such hours are paid or unpaid."

2. Section 5.1-2 Allocation of Employer Profit Sharing Contributions is amended to reflect the addition of Qualified Non-Elective Contributions by inserting the following sentence at the beginning of such section:

"The portion of the Employer Profit Sharing Contribution that is not treated as a QNEC under 5.1-6 shall be allocated pursuant to this 5.1-2."

3. Section 5.1-2 Allocation of Employer Profit Sharing Contributions is amended for clarification purposes by inserting the following sentence at the end of such section:

"A Participant's Years of Service for Hypothetical Allocation Contribution purposes shall be the same as the Participant's Years of Service used for vesting purposes, as determined in Article VIII."

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4. Section 5.1-6 Treatment as QNEC is added to permit the Board to designate a portion of the Employer Profit Sharing Contribution as a Qualified Non-Elective Contribution:

"5.1-6 Treatment as QNEC. To the extent necessary to pass the non-discrimination tests under 6.8 and subject to the limitations under 5.9-3, the Board may direct the Committee to treat and allocate a portion of the Employer Profit Sharing Contribution declared under 5.1-2 as a QNEC."

5. Section 5.9 Qualified Non-Elective Contributions is added to the Plan to specify how Qualified Non-Elective Contributions are allocated:

"5.9 Qualified Non-Elective Contributions.

5.9-1 Generally. A "Qualified Non-Elective Contribution" (QNEC) means a non-elective contribution which is 100% non-forfeitable at all times, is subject to the distribution restrictions under 9.8, is allocated to the Participant's QNEC Account as of a date within the Plan Year being tested, and is actually contributed to the Plan within the 12 month period immediately following such Plan Year. A QNEC under this 5.9 shall include Employer Profit Sharing Contributions treated as QNECs pursuant to 5.1-6 and shall be considered an Employer contribution for purposes of the

Employer's minimum employer contribution obligations under 12.4.1.

5.9-2 Allocation of QNECs. QNECs will be allocated to the QNEC Account of each Participant who meets the eligibility requirements under 5.9-4 in reverse order of Compensation as provided for herein, subject to the limitations under 5.9-3. The QNEC will be allocated to the eligible Participant with the lowest Compensation until all of the QNEC has been allocated. If two or more eligible Participants have the same Compensation, the QNEC will be allocated equally to each eligible Participant until all of the QNEC has been allocated. If any QNEC remains unallocated, this process is repeated for the eligible Participant(s) with the next lowest level of Compensation in accordance with this paragraph until all of the QNEC is allocated, within the limits provided under 5.9-3. The portion of any QNEC that cannot be allocated due to the limitations under 5.9-3 shall be treated as an additional Employer Profit Sharing Contribution and allocated pursuant to 5.1.

5.9-3 QNEC Allocation Limits. The maximum QNEC allocated to any eligible Participant shall not exceed the least of:

(a) the amount sufficient to satisfy the ADP or ACP test(s) under 6.8;

(b) the Participant's Annual Addition Limitation for the Plan Year under 6.6; or

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(c) the amount equal to the Participant's Compensation multiplied by the greater of:

(1) five percent (5%); or

(2) two times the Plan's Representative Contribution Rate.

5.9-4 QNEC Eligibility. Eligibility to receive QNEC allocations for a Plan Year is limited to Participants who, as of the last day of such Plan Year, are: (a) Non-Highly Compensated Employees; (b) eligible to receive Employer Matching Contributions pursuant to 5.3-2; and (c) not included in the "otherwise excludible" testing group under 6.8-2.

5.9-5 Representative Contribution Rate. The "Representative Contribution Rate" for purposes of 5.9-3(c)(2) is the lowest Applicable Contribution Rate of any eligible Participant among a group of eligible Participants that consists of half (50%) of all eligible Participants for the Plan Year or, if greater, the lowest Applicable Contribution Rate of any eligible Participant in the group of all eligible Participants for the Plan Year and who is employed by the Employer on the last day of the Plan Year.

5.9-6 Applicable Contribution Rate. The "Applicable Contribution Rate" under 5.9-5 for an eligible Participant equals the Participant's QNEC allocation for a Plan Year divided by the Participant's Compensation for the same period.

5.9-7 Compensation for QNEC Purposes. Compensation for purposes of this 5.9 is Compensation under 6.8-2(d).

5.9-8 Investment of QNEC Accounts. A Participant's QNECs will be invested in the same manner as his or her Elective Deferral Contributions."

6. Section 6.8 Contribution Limits for Highly Compensated Employees is replaced in its entirety with the following in order to comply with the requirements of the final Treasury Regulations issued under Code sections 401(k) and 401(m):

"6.8 Contribution Limits for Highly Compensated Employees.

6.8-1 Non-Discrimination Tests. For each Plan Year, the Plan shall satisfy the nondiscrimination tests in Code sections 401(k)(3) and 401(m) in accordance with Treasury Regulation sections 1.401(k)-2 and 1.401(m)-2.

The applicable Code and Regulation sections are incorporated by this reference. The following provisions shall be applied in a manner consistent with such Code and Regulation sections.

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6.8-2 Determining the ADP and ACP. For each Plan Year, the Committee shall determine the Actual Deferral Percentage ("ADP") and the Actual Contribution Percentage ("ACP") of the Eligible Employees who are Highly Compensated Employees under 2.13 and the ADP and ACP of the remaining Eligible Employees in two separate groups. Employees under age 21 or who have less than one Year of Service as of the end of the Plan Year are one group (the "otherwise excludable group"), and all other Employees are the other group. The "otherwise excludable group" shall not consist of any Highly Compensated Employees. The ADP and ACP shall be determined as follows:

(a) The ADP (and ACP) for the Highly Compensated Employees and for the remaining Employees is the average of the Actual Deferral Rates (or Actual Contribution Rates) for all eligible Employees within their respective groups. The ADP (and ACP) for a group of eligible Employees shall be calculated to the nearest hundredth of a percentage point.

(b) An Employee's Actual Deferral Rate ("ADR") is the sum of that individual's Basic Elective Deferral Contributions and QNECs for the Plan Year, divided by such Employee's Compensation under (d). The ADR is calculated to the nearest hundredth of a percentage point. Notwithstanding anything in the foregoing to the contrary:

(1) Elective Deferral Contributions made pursuant to 5.7-1(b) (relating to Employees returning from qualified military service) shall not be taken into account when determining an Employee's ADR for the Plan Year for which the Basic Elective Deferral Contributions are made or for any other Plan Year.

(2) Excess Deferrals which exceed the limitations under Code Section 402(g)(3) shall be taken into account as Basic Elective Deferral Contributions when determining a Highly Compensated Employee's ADR for the Plan Year, even if those Excess Deferrals are distributed pursuant to 5.2-5.

(3) Excess Deferrals which exceed the limitations under Code Section 402(g)(3) shall not be taken into account as Basic Elective Deferral Contributions when determining a Non-Highly Compensated Employee's ADR for the Plan Year, to the extent such deferrals are prohibited under Code Section 401(a)(30). However, to the extent such amounts are not prohibited under Code Section 401(a)(30), they shall be taken into account for ADR purposes, whether or not distributed pursuant to 5.2-5.

(c) An Employee's Actual Contribution Rate ("ACR") is that individual's Employer Matching Contributions for the Plan Year, divided by such

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Employee's Compensation under (d), subject to (e). The ACR is calculated to the nearest hundredth of a percentage point. Notwithstanding anything in the foregoing to the contrary:

(1) Employer Matching Contributions made pursuant to 5.7-1(c) (relating to Employees returning from qualified military service) shall not be taken into account when determining an Employee's ACR for the Plan Year for which the Employer Matching

Contributions are made or for any other Plan Year.

(2) Any Employer Matching Contributions that are forfeited because the Elective Deferral Contributions to which they relate are treated as Excess Contributions or Excess Deferrals shall not be taken into account when determining an Employee's ACR for the Plan Year.

(d) Compensation for ADR and ACR purposes is Compensation under 2.6, or such other definition of compensation permitted by Code section 414(s) in lieu thereof. Only Compensation earned while an Eligible Employee shall be considered for this purpose.

(e) The Committee may for any Plan Year treat Basic Elective Deferral Contributions or QNECs not needed to pass the ADP test as Employer Matching Contributions for purposes of the ACP test. No single contribution may be used in both tests.

(f) The following shall be aggregated to determine the ADR and the ACR:

(1) All Plans that are aggregated with this Plan under Code sections 401(a)(4) and 410(b) (other than for purposes of the average benefit percentage test).

(2) All cash and or deferred arrangements sponsored by the Employer in which the same Highly Compensated Employee is eligible to participate.

6.8-3 ADP and ACP Limitations. Neither the ADP nor the ACP of the Highly Compensated Employees may exceed the greater of the following:

(a) 1.25 times the ADP or ACP of the remaining employees for the appropriate Plan Year.

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(b) 2 percentage points higher than the ADP or ACP of the remaining employees, up to 2 times such ADP or ACP for the appropriate Plan Year.

6.8-4 ADP and ACP Testing Methodology.

(a) Generally. The Plan elects to use the current year testing method in computing the ADP and ACP for Non-Highly Compensated Employees under the nondiscrimination rules of Code sections 401(k) and 401(m).

(b) Regulatory Incorporation. For purposes of the limitations under this 6.8, the provisions of Code sections 401(k)(3) and 401(m)(3) together with their specific underlying Treasury Regulations and subsequent Internal Revenue Service guidance issued thereunder are hereby incorporated into this Plan by reference."

7. Section 6.9 Correcting Excess Contributions is replaced in its entirety with the following in order to comply with the requirements of the final Treasury Regulations issued under Code sections 401(k) and 401(m):

"6.9 Correcting Excess Contributions.

6.9-1 Determine the Excess Contribution Amounts. If the ADP or ACP of the Highly Compensated Employees exceeds the limits in 6.8-3, the Committee shall adjust the contributions for certain Highly Compensated Employees, as follows:

(a) Correcting for ADP Failures. If the ADP limit is exceeded, Basic Elective Deferral Contributions shall be reduced taking the highest individual dollar amount first. Basic Elective Deferral Contributions reduced under this provision shall not be eligible for Employer Matching Contributions.

(b) Correcting for ACP Failures. If the ACP limit is exceeded, Employer Matching Contributions shall be reduced taking the highest individual dollar amount first.

6.9-2 Excess Contribution Reductions. Amounts reduced under 6.9-1 shall be forfeited, withheld or distributed as follows:

(a) Any amount reduced from Employer Matching Contributions shall be forfeited, with related earnings, as follows:

(1) Any amount reduced under 6.9-1(b) shall be forfeited to the extent of any unvested balance in the Employer Matching Contribution

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account of the Highly Compensated Employee to whom it applies. The unvested balance shall be determined before the reduction.

(2) Amounts forfeited shall be treated in accordance with 6.5.

(b) Any Employer Matching Contribution for which eligibility is lost under 6.9-1(a) because a Basic Elective Deferral Contribution was reduced shall not be contributed and thus shall neither be forfeited nor distributed.

(c) Subject to (d) and (e), any contributed amount not forfeited under (a) shall be distributed to the Highly Compensated Employees to whom it applies. The distribution shall be adjusted for allocable gain or loss, determined under applicable Regulations, for the Plan Year in which the excess arose ("Plan Year income"). Distribution of such amounts generally may be made within two and a half (2 1/2) months after the end of the Plan Year to which the excess applies and in any event by the end of the following Plan Year.

(d) A distribution under (c) because of an ADP limitation shall be reduced by the amount of any Excess Deferral previously withdrawn under 5.2-5 for the same Plan Year.

(e) In addition to adjustment for Plan Year income under (c), the distribution shall be further adjusted for gain or loss for the "gap period" (the period after the close of the Plan Year and prior to the distribution) ("gap period income"). Gap period income shall be determined using the "safe harbor method" prescribed under Treas. Reg. sections 1.401(k)-2(a)(2)(iv)(D) and 1.401(m)-2(a)(2)(iv)(D). Specifically, gap period income on Excess Contribution Amounts shall be equal to ten percent (10%) of the Plan Year income as determined in (c) above, multiplied by the number of calendar months that have elapsed since the end of the Plan Year. When calculating the number of calendar months that have elapsed for purposes of this paragraph, a corrective distribution that is made on or before the fifteenth day of a month is treated as made on the last day of the preceding month and a corrective distribution that is made after the fifteenth day of a month is treated as made on the last day of the month."

8. Section 8.2 Forfeiture of Benefits for Certain Causes is replaced in its entirety with the following for clarification purposes:

"8.2 Forfeiture of Benefits for Certain Causes. Notwithstanding any other provisions of this Plan to the contrary, the right of any Participant or former Participant to receive or to have paid to any other person and the right of any such other person to receive Employer Profit Sharing or Employer Matching Contributions hereunder shall terminate and shall be forever forfeited if such

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Participant's employment with the Employer is terminated because of his or her fraud, embezzlement or dishonesty or any willful act which injures the Employer or the Employee's fellow workers. This section shall be inapplicable as of the earliest of the following dates:

- (a) the date the Participant meets the requirements for normal retirement benefits under 9.1;
- (b) the date the Participant completes five (5) Years of Service with respect to Employer Profit Sharing Contributions or three (3) Years of Service with respect to Employer Matching Contributions;
- (c) the date the Plan terminates; or
- (d) the date contributions to the Plan have been completely discontinued.

Notwithstanding the provisions of 8.2, should the Plan become a top heavy plan as defined in 12.2, only that portion of a Participant's account which is not vested under the vesting schedule set forth at 12.4 of this Plan shall be subject to forfeiture."

9. Section 8.5-1 Service After a Break in Vesting Service is amended by replacing subsections (b) (1) and (2) in their entirety with the following in order to comply with the requirements of the final Treasury Regulations issued under Code sections 401(k) and 401(m):

"8.5-1 Service After a Break in Vesting Service.

\* \* \*

(b) Account After the Break. \* \* \*

(1) General Crediting Rule. Upon completing a Year of Service after reemployment, the Participant shall be credited with all Years of Service, including Years of Service prior to the Break in Vesting Service which have not been forfeited under (b) (2) below, in determining such Participant's vested interest in that portion of the Participant's account balance attributable to contributions, earnings and losses after the Break in Vesting Service. This 8.5-1(b) (1) shall apply to any Participant who, at the time of severance of employment, either was vested in his or her Employer Profit Sharing or Employer Matching Contribution Accounts or had an account that was subject to the limitations of 9.8 (i.e., an Elective Deferral Account or a QNEC Account).

(2) Exclusion of Forfeited Service. This provision applies to a Participant who experiences a Break in Vesting Service prior to acquiring a nonforfeitable interest under the Plan, and who subsequently is reemployed by an Employer. This paragraph does not apply to a Participant who at the time of severance of employment had an Elective Deferral Account or a QNEC Account because such a Participant is deemed to have acquired a nonforfeitable interest under the Plan for purposes of this 8.5-1(b) (2). If this paragraph applies to a Participant and the Participant's number of consecutive one (1) year Breaks in Vesting Service equals or exceeds the greater of (i) five (5), or (ii) the aggregate number of his or her Years of Service, whether or not consecutive, completed prior to such Break in Vesting Service (other than Years of Service which may be disregarded on account of a prior Break in Vesting Service), Years of Service before the Break in Vesting Service shall not be counted for the purpose of determining the vested percentage of the Participant's account balance derived from Employer contributions to the Plan on the Participant's behalf after such Break in Vesting Service."

10. Section 9.4 Benefits on Severance from Employment is replaced in its entirety with the following in order to comply with the requirements of the final Treasury Regulations issued under Code sections 401(k) and 401(m):

"9.4 Benefits on Severance from Employment. Upon the severance of a Participant's employment with the Employer prior to his or her death, Disability or Retirement, the Participant shall be entitled to distribution of his or her vested account balance. Distribution of benefits on account of a Participant's severance from employment with the Employer as provided herein shall be made to the Participant in accordance with the provisions of Article X. A change in employment from Employee to Leased Employee status shall not be considered a severance from employment for purposes of this 9.4."

11. Section 9.7 Hardship Withdrawals is replaced in its entirety with the following in order to comply with the requirements of the final Treasury Regulations issued under Code sections 401(k) and 401(m), to expand the financial need events which qualify as an "immediate and heavy financial need" for hardship withdrawal purposes, and to clarify the eligibility of withdrawn Elective Deferral Contributions for Employer Matching Contributions during the year of withdrawal:

"9.7 Hardship Withdrawals. At the direction of the Administrator and in accordance with uniform rules consistently applied, the Administrator may direct the Trustee to distribute a Participant's Rollover Account, Elective Deferral Contributions and Employer Profit Sharing Contributions to the Participant in the case of "hardship" pursuant to 9.7-1 to -7 below. A

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Participant receiving a hardship distribution will be ineligible to make Elective Deferral Contributions (including Catch-up Contributions) for the period of six (6) consecutive months following the hardship withdrawal.

9.7-1 Maximum Amount. \* \* \*

9.7-2 Financial Hardship. The term "hardship" as used herein shall mean an immediate and heavy financial need resulting from any one or more of (a) through (g), below:

(a) uninsured expenses for (or necessary to obtain) medical or dental care that would be deductible under Code section 213(d) (determined without regard to whether the expenses exceed 7.5% of the Participant's adjusted gross income) incurred or to be incurred by the Participant or the Participant's spouse or dependents (where a Participant's dependents include Participant's noncustodial children who are treated as dependents pursuant to Code section 213(d)(5), provided however that expenses with respect to any such noncustodial children exclude nonprescription drugs or medicine, other than insulin);

(b) costs directly related to the purchase (excluding mortgage payments) of a principal residence for the Participant;

(c) payment of tuition, related educational fees, and room and board expenses for up to the next twelve (12) months of post-secondary education for the Participant or the Participant's spouse, children or dependents;

(d) payments necessary to prevent the eviction of Participant from his or her principal residence or to prevent foreclosure on the mortgage of Participant's principal residence;

(e) payments for burial or funeral expenses for the Participant's deceased parent, spouse, children or dependents; or

(f) uninsured expenses for the repair of damage to the Participant's principal residence that would qualify for the casualty deduction under Code section 165 (determined without regard to whether the loss exceeds 10% of the Participant's adjusted gross income);

(g) any tax obligation which becomes payable on account of a distribution for any hardship described in (a) through (f), above.

For purposes of this 9.7-2, the term "dependents" shall have the meaning prescribed under Code section 152, without regard to subsections (b)(1), (b)(2) and (d)(1)(B).

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Nordstrom 401(k) Plan & Profit Sharing  
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9.7-3 Representation that Distribution is Necessary to Satisfy Financial Need. A distribution under 9.7 can only be made to the extent it is necessary to satisfy an immediate and heavy financial need.

(a) A distribution is necessary to satisfy an immediate and heavy financial need only to the extent that:

(1) the amount of the distribution is not in excess of the amount required to satisfy the financial need; and

(2) the financial need cannot be satisfied from other resources reasonably available to the Participant, as determined by the Administrator on the basis of all relevant facts and circumstances.

(b) The Administrator shall require the Participant to provide written certification of the facts and circumstances establishing that Participant has met one of the hardship categories and may consider other relevant evidence. Such written certification shall require the Participant to represent that the financial need cannot reasonably be relieved (1) through reimbursement or compensation by insurance or otherwise; (2) by liquidation of the Participant's assets; (3) by cessation of Elective Deferrals under the Plan; (4) by other currently available distributions and nontaxable loans under the Plan and under any other plan maintained by the Employer or by any other employer; or (5) by borrowing from commercial sources on reasonable commercial terms in an amount sufficient to satisfy the need. A Participant's need cannot reasonably be relieved by taking one of the above actions (1) through (5) if the effect would be to increase the amount of the need.

(c) For purposes of (a)(2), the Administrator is entitled to rely on the Participant's representation made pursuant to (b), unless the Administrator has actual knowledge to the contrary.

9.7-4 Fee. \* \* \*

9.7-5 Valuation. \* \* \*

9.7-6 Withdrawal Precludes Match. Notwithstanding anything in the Plan to the contrary, Elective Deferral Contributions made with respect to any given Plan Year are not treated as eligible for Employer Matching Contributions to the extent such Elective Deferral Contributions are withdrawn during such Plan Year; for purposes of this paragraph, hardship distributions withdrawn during a Plan Year shall be deemed to be made from the most recent Elective Deferral Contributions made by the Participant. There are no Employer Matching Contributions on Catch-up Contributions under any circumstances.

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9.7-7 Ordering Rule. \* \* \*"

12. Section 9.8 Restrictions on Distributions of Elective Deferrals is replaced in its entirety with the following to reflect the addition of Qualified

Non-Elective Contributions:

"9.8 Restriction on Distributions of Elective Deferrals. Amounts attributable to Elective Deferral Contributions and QNECs under this Plan may not be distributed prior to the occurrence of one of the following events: termination of employment with all Employers, the Participant's death or Disability, the Participant's attaining age fifty-nine and one-half (59 1/2), or the Participant's establishment of a hardship under 9.7."

13. Section 15.3-1 Termination Event is amended by replacing subsection (c) in its entirety with the following in order to comply with the requirements of the final Treasury Regulations issued under Code sections 401(k) and 401(m):

"(c) Merger or Consolidation. In the case of any merger or consolidation with, or transfer of assets or liabilities to, any other plan, each Participant of this Plan shall receive a benefit which is equal to the benefit he/she would have been entitled to receive immediately before the merger or consolidation as if the Plan had then terminated. Moreover, prior to any transfer pursuant to this 15.3-1(c), the administrator of the transferee plan shall provide adequate assurances and representations to the Administrator that those portions of Participant accounts that are subject to the limitations of 9.8 as of the date of transfer shall subsequently remain subject to such limitations under the transferee plan. However, this provision shall not be construed to be a termination or discontinuance of the Plan or to be a guaranty of a specified level of benefit from the Plan."

\* \* \* \* \*

SIGNED pursuant to proper authority this 22nd day of December, 2005.

Attest: NORDSTROM, INC.

By: /s/ Brenda McCracken -----	By: /s/ Delena Sunday -----
Title: Benefits Compliance and Governance Analyst	Delena Sunday Executive VP, Corporate HR & Diversity Affairs

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Exhibit 21.1

NORDSTROM, INC. AND SUBSIDIARIES  
SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	State/Country of Incorporation
Nordstrom fsb	Arizona
Nordstrom Credit Card Receivables, LLC	Delaware
Nordstrom Credit, Inc.	Colorado
Nordstrom Private Label Receivables, LLC	Delaware
Nordstrom Distribution, Inc.	Washington
N2HC, Inc.	Colorado
Nordstrom International Limited	Washington
Nordstrom European Capital Group	France

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

I, Blake W. Nordstrom, certify that:

1. I have reviewed this report on Form 10-K 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: March 24, 2006

/s/ Blake W. Nordstrom  
-----  
President of Nordstrom, Inc.

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

I, Michael G. Koppel, certify that:

1. I have reviewed this report on Form 10-K 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: March 24, 2006

/s/ Michael G. Koppel  
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Executive Vice President and  
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 Annual Report of Nordstrom, Inc (the "Company") on Form 10-K for the period ended January 28, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Blake W. Nordstrom, President (Principal Executive Officer), and Michael G. Koppel, Executive Vice President and 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.

March 24, 2006

/s/ Blake W. Nordstrom

-----  
President

/s/ Michael G. Koppel

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Executive Vice President and  
Chief Financial Officer

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.