

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 29, 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)

206-628-2111

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Common stock outstanding as of August 17, 2006: 256,621 shares of common stock (in thousands).

NORDSTROM, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Statements of Earnings</u> <u>Quarter and Six Months Ended July 29, 2006 and July 30, 2005</u>	3
<u>Condensed Consolidated Balance Sheets</u> <u>July 29, 2006, January 28, 2006, and July 30, 2005</u>	4
<u>Condensed Consolidated Statements of Shareholders' Equity</u> <u>Six Months Ended July 29, 2006 and July 30, 2005</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u> <u>Six Months Ended July 29, 2006 and July 30, 2005</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>Item 4. Controls and Procedures</u>	23
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	24
<u>Item 1A. Risk Factors</u>	25
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	26
<u>Item 6. Exhibits</u>	26
<u>SIGNATURES</u>	27
<u>INDEX TO EXHIBITS</u>	28
<u>EXHIBIT 10.1</u>	
<u>EXHIBIT 10.2</u>	
<u>EXHIBIT 10.3</u>	
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 32.1</u>	

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

NORDSTROM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Amounts in thousands except per share amounts and percentages)
(Unaudited)

	Quarter Ended		Six Months Ended	
	July 29, 2006	July 30, 2005	July 29, 2006	July 30, 2005
Net sales	\$ 2,270,468	\$ 2,106,438	\$ 4,057,691	\$ 3,760,912
Cost of sales and related buying and occupancy costs	(1,446,633)	(1,347,515)	(2,569,636)	(2,393,680)
Gross profit	823,835	758,923	1,488,055	1,367,232
Selling, general and administrative expenses	(579,552)	(551,196)	(1,073,772)	(1,016,618)
Operating income	244,283	207,727	414,283	350,614
Interest expense, net	(12,783)	(10,904)	(23,534)	(23,543)
Other income including finance charges, net	60,851	44,970	114,689	87,702
Earnings before income tax expense	292,351	241,793	505,438	414,773
Income tax expense	(113,597)	(92,875)	(195,453)	(161,317)
Net earnings	\$ 178,754	\$ 148,918	\$ 309,985	\$ 253,456
Basic earnings per share	\$ 0.68	\$ 0.54	\$ 1.17	\$ 0.93
Diluted earnings per share	\$ 0.67	\$ 0.53	\$ 1.15	\$ 0.91
Basic shares	261,512	273,379	264,501	273,225
Diluted shares	266,226	279,169	269,556	278,832
(% of Net Sales)	Quarter Ended		Six Months Ended	
	July 29, 2006	July 30, 2005	July 29, 2006	July 30, 2005
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales and related buying and occupancy costs	(63.7%)	(64.0%)	(63.3%)	(63.6%)
Gross profit	36.3%	36.0%	36.7%	36.4%
Selling, general and administrative expenses	(25.5%)	(26.2%)	(26.5%)	(27.0%)
Operating income	10.8%	9.9%	10.2%	9.3%
Interest expense, net	(0.6%)	(0.5%)	(0.6%)	(0.6%)
Other income including finance charges, net	2.7%	2.1%	2.8%	2.3%
Earnings before income tax expense	12.9%	11.5%	12.5%	11.0%
Income tax expense (as a % of earnings before income tax expense)	(38.9%)	(38.4%)	(38.7%)	(38.9%)
Net earnings	7.9%	7.1%	7.6%	6.7%

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

NORDSTROM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)
(Unaudited)

	<u>July 29, 2006</u>	<u>January 28, 2006</u>	<u>July 30, 2005</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 280,197	\$ 462,656	\$ 462,875
Short-term investments	—	54,000	34,000
Accounts receivable, net	712,166	639,558	701,882
Investment in asset backed securities	354,348	561,136	515,596
Merchandise inventories	1,026,287	955,978	989,365
Current deferred tax assets	165,298	145,470	140,745
Prepaid expenses and other	67,452	55,359	50,101
Restricted cash	150,000	—	—
Total current assets	<u>2,755,748</u>	<u>2,874,157</u>	<u>2,894,564</u>
Land, buildings and equipment (net of accumulated depreciation of \$2,669,980, \$2,549,559 and \$2,444,359)	1,750,304	1,773,871	1,771,492
Goodwill	51,714	51,714	51,714
Acquired tradename	84,000	84,000	84,000
Other assets	150,911	137,607	114,643
Total assets	<u><u>\$ 4,792,677</u></u>	<u><u>\$ 4,921,349</u></u>	<u><u>\$ 4,916,413</u></u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$ 725,675	\$ 540,019	\$ 714,429
Accrued salaries, wages and related benefits	220,026	285,982	226,307
Other current liabilities	378,682	409,076	365,569
Income taxes payable	120,074	81,617	107,713
Current portion of long-term debt	307,463	306,618	4,840
Total current liabilities	<u>1,751,920</u>	<u>1,623,312</u>	<u>1,418,858</u>
Long-term debt, net	624,861	627,776	923,952
Deferred property incentives, net	356,111	364,382	355,197
Other liabilities	215,425	213,198	199,724
Shareholders' equity:			
Common stock, no par value: 1,000,000 shares authorized; 256,500, 269,549 and 273,683 shares issued and outstanding	751,281	685,934	646,684
Unearned stock compensation	—	(327)	(550)
Retained earnings	1,095,181	1,404,366	1,365,888
Accumulated other comprehensive (loss) earnings	(2,102)	2,708	6,660
Total shareholders' equity	<u>1,844,360</u>	<u>2,092,681</u>	<u>2,018,682</u>
Total liabilities and shareholders' equity	<u><u>\$ 4,792,677</u></u>	<u><u>\$ 4,921,349</u></u>	<u><u>\$ 4,916,413</u></u>

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

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

	Common Stock		Unearned Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Total
	Shares	Amount			Earnings	
Balance at January 28, 2006	269,549	\$ 685,934	\$ (327)	\$ 1,404,366	\$ 2,708	\$ 2,092,681
Net earnings	—	—	—	309,985	—	309,985
Other comprehensive earnings:						
Foreign currency translation adjustment	—	—	—	—	1,175	1,175
Fair value adjustment to investment in asset backed securities, net of tax of \$3,711	—	—	—	—	(5,985)	(5,985)
Comprehensive net earnings	—	—	—	—	—	305,175
Cash dividends paid (\$0.21 per share)	—	—	—	(56,249)	—	(56,249)
Issuance of common stock for:						
Stock option plans	1,820	42,595	—	—	—	42,595
Employee stock purchase plan	237	8,568	—	—	—	8,568
Other	14	161	327	—	—	488
Stock-based compensation	—	14,023	—	—	—	14,023
Repurchase of common stock	(15,120)	—	—	(562,921)	—	(562,921)
Balance at July 29, 2006	256,500	\$ 751,281	—	\$ 1,095,181	\$ (2,102)	\$ 1,844,360

	Common Stock		Unearned Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Earnings	Total
	Shares	Amount			Earnings	
Balance at January 29, 2005	271,331	\$ 552,655	\$ (299)	\$ 1,227,303	\$ 9,335	\$ 1,788,994
Net earnings	—	—	—	253,456	—	253,456
Other comprehensive earnings:						
Foreign currency translation adjustment	—	—	—	—	(1,743)	(1,743)
Fair value adjustment to investment in asset backed securities, net of tax of \$596	—	—	—	—	(932)	(932)
Comprehensive net earnings	—	—	—	—	—	250,781
Cash dividends paid (\$0.15 per share)	—	—	—	(40,994)	—	(40,994)
Issuance of common stock for:						
Stock option plans	4,389	81,439	—	—	—	81,439
Employee stock purchase plan	532	9,484	—	—	—	9,484
Other	124	3,106	(251)	—	—	2,855
Repurchase of common stock	(2,693)	—	—	(73,877)	—	(73,877)
Balance at July 30, 2005	273,683	\$ 646,684	\$ (550)	\$ 1,365,888	\$ 6,660	\$ 2,018,682

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

NORDSTROM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Six Months Ended	
	July 29, 2006	July 30, 2005
Operating Activities		
Net earnings	\$ 309,985	\$ 253,456
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of buildings and equipment	138,632	137,436
Amortization of deferred property incentives and other, net	(16,280)	(15,664)
Stock-based compensation expense	14,083	7,474
Deferred income taxes, net	(31,632)	2,420
Tax benefit from stock-based payments	18,092	26,872
Excess tax benefit from stock-based payments	(15,109)	—
Provision for bad debt expense	6,448	10,064
Change in operating assets and liabilities:		
Accounts receivable	(78,971)	(67,230)
Investment in asset backed securities	200,803	(94,112)
Merchandise inventories	(79,747)	(71,717)
Prepaid expenses	(11,809)	(71)
Other assets	(1,262)	(1,936)
Accounts payable	192,158	191,087
Accrued salaries, wages and related benefits	(64,777)	(67,260)
Other current liabilities	(29,356)	(938)
Income taxes payable	38,457	(7,842)
Property incentives	8,866	21,613
Other liabilities	974	15,959
Net cash provided by operating activities	<u>599,555</u>	<u>339,611</u>
Investing Activities		
Capital expenditures	(115,720)	(131,384)
Proceeds from sale of assets	128	—
Purchases of short-term investments	(109,550)	(289,500)
Sales of short-term investments	163,550	297,325
Increase in restricted cash	(150,000)	—
Other, net	(2,820)	(139)
Net cash used in investing activities	<u>(214,412)</u>	<u>(123,698)</u>
Financing Activities		
Principal payments on long-term debt	(2,312)	(98,650)
Increase in cash book overdrafts	5,604	35,633
Proceeds from exercise of stock options	24,700	55,413
Proceeds from employee stock purchase plan	8,370	8,640
Excess tax benefit from stock-based payments	15,109	—
Cash dividends paid	(56,249)	(40,994)
Repurchase of common stock	(562,921)	(73,913)
Other, net	97	210
Net cash used in financing activities	<u>(567,602)</u>	<u>(113,661)</u>
Net (decrease) increase in cash and cash equivalents	(182,459)	102,252
Cash and cash equivalents at beginning of period	462,656	360,623
Cash and cash equivalents at end of period	<u>\$ 280,197</u>	<u>\$ 462,875</u>

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended January 28, 2006. The same accounting policies are followed for preparing quarterly and annual financial information. All adjustments necessary for the fair presentation of the results of operations, financial position and cash flows have been included and are of a normal, recurring nature.

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

Similar to many retailers, this year we will have an extra week — a 53rd week. This week will be reported in the fourth quarter, which will have 14 weeks instead of the normal 13 weeks.

Accounting Policies

The preparation of our financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. With the exception of our adoption of Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment" in the beginning of the first quarter of 2006, our accounting policies and methodologies in 2006 are consistent with those discussed in our Annual Report on Form 10-K for the fiscal year ended January 28, 2006.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes." FIN 48 requires that we recognize the impact of a tax position in our financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. The provisions of FIN 48 are effective for us as of the beginning of our 2007 fiscal year. We are currently evaluating the impact of adopting FIN 48 on our financial statements.

Stock-Based Compensation

Prior to the adoption of SFAS No. 123(R), we applied Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," to measure compensation costs for our stock-based compensation programs. Under APB No. 25, we recorded no compensation expense for stock options granted to employees and directors because the options' strike price was equal to the closing market price of our common stock on the grant date. Also, through 2005 we recorded no compensation expense in connection with our Employee Stock Purchase Plan (ESPP). Through 2005, we presented the effect on net earnings and earnings per share of the fair value provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" in the Notes to Condensed Consolidated Financial Statements.

Effective January 29, 2006, we adopted SFAS No. 123(R), which requires us to measure the cost of employee and director services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The costs are recognized over the period during which an employee is required to provide services in exchange for the award.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

We recognize stock-based compensation expense on a straight-line basis over the requisite service period. The following table summarizes our stock-based compensation expense (earnings):

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>July 29, 2006</u>	<u>July 30, 2005</u>	<u>July 29, 2006</u>	<u>July 30, 2005</u>
Stock options	\$ 6,352	—	\$ 12,992	—
Employee Stock Purchase Plan	471	—	959	—
Performance share units	(829)	\$ 5,527	(715)	\$ 6,570
Other	753	519	847	904
Total stock-based compensation expense before income tax benefit	6,747	6,046	14,083	7,474
Income tax benefit	(2,429)	(2,352)	(5,068)	(2,907)
Total stock-based compensation expense, net of income tax benefit	\$ 4,318	\$ 3,694	\$ 9,015	\$ 4,567

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

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>July 29, 2006</u>	<u>July 30, 2005</u>	<u>July 29, 2006</u>	<u>July 30, 2005</u>
Cost of sales and related buying and occupancy costs	\$ 2,628	—	\$ 5,351	—
Selling, general and administrative expenses	4,119	\$ 6,046	8,732	\$ 7,474
Total stock-based compensation expense before income tax benefit	\$ 6,747	\$ 6,046	\$ 14,083	\$ 7,474

We adopted SFAS No. 123(R) using the modified prospective method. Under this transition method, the stock-based compensation expense recognized in the current period includes the expense for stock options granted after January 29, 2006. The stock-based compensation expense also includes the expense for options granted prior to, but not vested as of January 29, 2006 based on the grant-date fair value determined in accordance with the original provisions of SFAS No. 123. In addition, we recognized stock-based compensation expense related to our ESPP, as our 10% purchase discount exceeds the amount allowed under SFAS No. 123(R) for non-compensatory treatment. As provided for under the modified prospective method, we have not restated our results for prior periods. The incremental stock-based compensation expense upon adoption of SFAS No. 123(R) for the quarter ended July 29, 2006 was \$6,823 (\$4,365 net of tax), or \$0.02 per basic share and \$0.01 per diluted share. For the six months ended July 29, 2006, the incremental stock-based compensation expense was \$13,951 (\$8,933 net of tax), or \$0.03 per basic and diluted share. We expect to record \$26,960 in incremental stock-based compensation expense for the year ended February 3, 2007, representing approximately \$0.06 per diluted share.

Prior to the adoption of SFAS No. 123(R), we presented all tax benefits resulting from the exercise of stock options and ESPP as operating cash inflows. SFAS No. 123(R) requires the benefits of tax deductions in excess of the compensation cost recognized for those awards to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis. This amount is shown as "Excess tax benefit from stock-based payments" in the condensed consolidated statement of cash flows and was \$15,109 for the six months ended July 29, 2006.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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" in 2005:

	<u>Quarter Ended</u> <u>July 30, 2005</u>	<u>Six Months Ended</u> <u>July 30, 2005</u>
Net earnings, as reported	\$ 148,918	\$ 253,456
Add: stock-based compensation expense included in reported net earnings, net of tax	3,696	4,567
Deduct: stock-based compensation expense determined under fair value, net of tax	(7,911)	(13,628)
Pro forma net earnings	<u>\$ 144,703</u>	<u>\$ 244,395</u>
Earnings per share:		
Basic — as reported	\$ 0.54	\$ 0.93
Diluted — as reported	\$ 0.53	\$ 0.91
Basic — pro forma	\$ 0.53	\$ 0.89
Diluted — pro forma	\$ 0.52	\$ 0.88

In 2005, we used the Black-Scholes option valuation model to estimate the fair value of the stock options under SFAS No. 123. When we adopted SFAS No. 123(R), we elected to use the Binomial Lattice option valuation model. We believe that this model provides a better estimate of fair value than the Black-Scholes option valuation model, as it can accommodate variability in assumptions for expected volatility, dividends and risk-free interest rates. We used the following assumptions to estimate the fair value for stock options at grant date:

	<u>2006</u>	<u>2005</u>
Risk-free interest rate	4.9% – 5.1%	3.9%
Weighted average expected volatility	37.0%	44.3%
Weighted average expected dividend yield	1.0%	1.7%
Weighted average expected life in years	5.4	5.0

The weighted average fair value per option at the grant date was \$16 and \$10 in 2006 and 2005. The following describes the significant assumptions used to estimate the fair value of options granted:

- **Risk-free interest rate:** For 2006, the rate represents the yield on U.S. Treasury zero-coupon securities that mature over the 10-year life of the stock options. For 2005, the rate was the yield on the U.S. Treasury zero-coupon securities which matured near the end of the expected life of the stock options.
- **Expected volatility:** For 2006, the expected volatility was based on a combination of the historical volatility of our common stock and the implied volatility of exchange traded options for our common stock. In 2005, the expected volatility was estimated using the historical volatility of our common stock.
- **Expected dividend yield:** For 2006, the yield was our forecasted dividend yield for the next ten years. In 2005, the expected dividend yield was based on our historical dividend yield.
- **Expected life in years:** The expected life represents the estimated period of time until option exercise. In 2006, based on our historical exercise behavior and taking into consideration the contractual term of the option and our employees' expected exercise and post-vesting employment termination behavior, the expected term of options granted was derived from the output of the Binomial Lattice option valuation model. In 2005, the expected life was determined based on our historical exercise behavior.

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

NOTE 2: POST-RETIREMENT BENEFITS

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

	Quarter Ended		Six Months Ended	
	July 29, 2006	July 30, 2005	July 29, 2006	July 30, 2005
Participant service cost	\$ 557	\$ 496	\$ 1,114	\$ 909
Interest cost	1,308	1,027	2,616	2,045
Amortization of net loss	724	413	1,448	827
Amortization of prior service cost	257	255	514	495
Total expense	\$ 2,846	\$ 2,191	\$ 5,692	\$ 4,276

NOTE 3: EARNINGS PER SHARE

The computation of earnings per share is as follows:

	Quarter Ended		Six Months Ended	
	July 29, 2006	July 30, 2005	July 29, 2006	July 30, 2005
Net earnings	\$ 178,754	\$ 148,918	\$ 309,985	\$ 253,456
Basic shares	261,512	273,379	264,501	273,225
Dilutive effect of stock options and performance share units	4,714	5,790	5,055	5,607
Diluted shares	266,226	279,169	269,556	278,832
Basic earnings per share	\$ 0.68	\$ 0.54	\$ 1.17	\$ 0.93
Diluted earnings per share	\$ 0.67	\$ 0.53	\$ 1.15	\$ 0.91
Antidilutive stock options and other	1,835	150	1,835	150

NOTE 4: ACCOUNTS RECEIVABLE

The components of accounts receivable are as follows:

	July 29, 2006	January 28, 2006	July 30, 2005
Trade receivables			
Unrestricted	\$ 29,607	\$ 32,070	\$ 29,182
Restricted	606,198	552,671	601,972
Allowance for doubtful accounts	(15,934)	(17,926)	(18,259)
Trade receivables, net	619,871	566,815	612,895
Other	92,295	72,743	88,987
Accounts receivable, net	\$ 712,166	\$ 639,558	\$ 701,882

Our restricted trade receivables relate to our Nordstrom private label card, which back the \$300,000 Class A notes due in October 2006. 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.

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

NOTE 5: INVESTMENT IN ASSET BACKED SECURITIES

Our investment in asset backed securities and the off-balance sheet financing are described in Notes 1 and 8 of our Annual Report on Form 10-K for the fiscal year ended January 28, 2006. The following table presents the co-branded Nordstrom VISA credit card balances and the estimated fair value of our investment in asset backed securities:

	<u>July 29, 2006</u>	<u>January 28, 2006</u>	<u>July 30, 2005</u>
Total face value of co-branded Nordstrom VISA credit card principal receivables	<u>\$ 840,087</u>	<u>\$ 738,947</u>	<u>\$ 703,237</u>
Debt securities issued by the VISA Trust:			
Off-balance sheet (sold to third parties):			
2002 Class A & B Notes	\$ 200,000	\$ 200,000	\$ 200,000
2004-2 VFN	<u>300,000</u>	<u>—</u>	<u>—</u>
	<u>\$ 500,000</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>
Transferor Interest amount recorded on Nordstrom, Inc.'s balance sheet:			
Investment in asset backed securities at fair value	<u>\$ 354,348</u>	<u>\$ 561,136</u>	<u>\$ 515,596</u>

In July 2006, the VISA Trust issued for cash \$300,000 of variable funding notes at par; these notes are referred to as the 2004-2 VFN. The proceeds received by the VISA Trust were then sent to us in exchange for a reduction in the Transferor Interest in the VISA Trust held by Nordstrom, Inc. The reduction in the Transferor Interest was equal to a \$300,000 reduction in our share of the principal balance of the underlying VISA credit card receivables.

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

	<u>July 29, 2006</u>	<u>January 28, 2006</u>	<u>July 30, 2005</u>
Weighted average remaining life (in months)	7.2	7.6	7.2
Average annual credit losses	5.7%	4.7%	6.9%
Average gross yield	17.5%	17.1%	17.5%
Weighted average coupon on issued securities	5.7%	5.2%	4.6%
Average monthly payment rates	8.1%	8.2%	8.2%
Discount rate on investment in asset backed securities	8.4% to 11.8%	5.9% to 11.1%	5.6% to 9.7%

The following table summarizes the income earned by the investment in asset backed securities that is included in other income including finance charges, net on the condensed consolidated statements of earnings:

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>July 29, 2006</u>	<u>July 30, 2005</u>	<u>July 29, 2006</u>	<u>July 30, 2005</u>
Interest income	\$ 25,773	\$ 18,403	\$ 44,700	\$ 32,567
Gain on sales of receivables and other income	7,636	7,458	16,031	13,344
	<u>\$ 33,409</u>	<u>\$ 25,861</u>	<u>\$ 60,731</u>	<u>\$ 45,911</u>

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

NOTE 6: DEBT

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 (7.85% at July 29, 2006). The fair value of our interest rate swap is as follows:

	<u>July 29, 2006</u>	<u>January 28, 2006</u>	<u>July 30, 2005</u>
Interest rate swap fair value	\$ (11,899)	\$ (11,050)	\$ (10,507)

In the second quarter of 2006, we deposited \$150,000 into a restricted pre-funding account. We will continue to deposit \$50,000 of cash per month into the account to repay the \$300,000 Private Label Securitization debt due in October 2006.

In June 2006, we amended our existing variable funding facility backed by Nordstrom private label card and VISA credit card receivables to increase the capacity of this facility from \$150,000 to \$450,000. Borrowings under the facility will incur interest based upon the actual cost of commercial paper plus specified fees ranging from 0.075% to 0.15% (5.43% as of July 29, 2006). We pay a commitment fee ranging from 0.125% to 0.15% for the note based on the amount of the commitment. Fee rates decrease if more than \$50,000 is outstanding on the facility. The facility can be cancelled or not renewed if our debt ratings fall below Standard and Poor's BB+ rating or Moody's Ba1 rating. Our current rating by Standard and Poor's is A, five grades above BB+, and by Moody's is Baa1, three grades above Ba1.

In July 2006, the VISA Trust used this facility to issue \$300,000 of Notes. As the VISA Trust is a statutory business trust and the VISA credit card receivables transferred to it are accounted for as a sale under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," the obligations of the VISA Trust are not recorded in our financial statements. The VISA Trust sent the proceeds from this note issuance to us in return for a reduction in our interest in the VISA Trust equal to a \$300,000 decrease in our share of the principal balance of VISA credit card receivables.

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

NOTE 7: STOCK-BASED COMPENSATION

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 July 29, 2006, we have options outstanding under three stock option plans (collectively, the “Nordstrom, Inc. Plans”). Options vest over periods ranging from four to eight years, and expire ten years after the date of grant. A summary of stock option activity under the Nordstrom, Inc. Plans is presented below:

	Six Months Ended			
	July 29, 2006		July 30, 2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	14,344	\$ 15	18,320	\$ 13
Granted	1,939	40	2,564	26
Exercised	(1,820)	14	(4,390)	13
Cancelled	(367)	25	(501)	16
Outstanding, end of period	14,096	\$ 19	15,993	\$ 15

In 2005 and 2006, stock option awards to employees were approved by the Compensation Committee of the Company’s Board of Directors and their exercise price was set at the closing price of our common stock on the Committee meeting date. The stock option awards provide our leaders with the opportunity for financial rewards when our stock price increases. The awards are determined based upon a percentage of the leaders’ base salary and the fair value of the stock options, which was estimated using an option pricing model. The fair value per stock option was \$16 in 2006 (using a Binomial Lattice option valuation model) and \$10 in 2005 (using the Black-Scholes option valuation model). For the six months ended July 29, 2006, we awarded stock options to 1,235 employees compared to 1,207 employees in the same period in 2005.

The total intrinsic value of options exercised during the six months ended July 29, 2006 and July 30, 2005 was \$46,016 and \$66,890. The total fair value of stock options vested during the six months ended July 29, 2006 and July 30, 2005 was \$30,068 and \$26,403. As of July 29, 2006, the total unrecognized stock-based compensation expense related to nonvested stock options was \$51,066, which is expected to be recognized over a weighted average period of 32 months. The aggregate intrinsic value of options outstanding as of July 29, 2006 was \$226,268.

The following table summarizes information about stock options outstanding for the Nordstrom, Inc. Plans as of July 29, 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 – \$9.00	3,351	6	\$ 9	2,311	\$ 9
\$9.01 – \$13.00	3,203	5	12	3,166	12
\$13.01 – \$20.00	3,536	5	18	2,056	18
\$20.01 – \$40.27	4,006	9	33	480	26
	14,096	6	\$ 19	8,013	\$ 13

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

NOTE 7: STOCK-BASED COMPENSATION (CONT.)**Performance Share Units**

We grant performance share units to align the performance of our senior management with our shareholder returns. Performance share units vest after a three-year performance period only when our total shareholder return (growth in stock price and reinvestment of dividends) is positive and outperforms companies in a defined peer group of direct competitors determined by the Compensation Committee of our Board of Directors. The percentage of units that vest depends on our relative position at the end of the performance period and can range from 0% to 125% of the number of units granted. As participants may elect to exchange each unit earned for one share of stock or the cash equivalent, these units are classified as a liability award.

At the end of each period, we record the performance share unit liability based on the vesting factors described above. At the end of July 29, 2006 and July 30, 2005, our liabilities included \$4,903 and \$11,825 for the units. For the six months ended July 29, 2006 and July 30, 2005, stock-based compensation (earnings) expense was \$(715) and \$6,570. As of July 29, 2006, the remaining unrecognized stock-based compensation expense related to nonvested performance share units was \$2,329, which is expected to be recognized over a weighted average period of 15 months. At January 28, 2006, 412,648 units were unvested. During the six months ended July 29, 2006, 63,673 units were granted, 216,865 units vested and 991 units cancelled, resulting in an ending balance of 258,465 unvested units as of July 29, 2006.

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

	Six Months Ended	
	July 29, 2006	July 30, 2005
Number of performance share units vested	216,865	336,892
Total fair value of performance share units vested	\$ 11,310	\$ 10,159
Total amount of performance share units settled for cash	\$ 5,982	\$ 1,836

Nonemployee Director Stock Incentive Plan

The Nonemployee Director Stock Incentive Plan authorizes the grant of stock awards to our 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 5 shares of common stock for a total expense of \$169 in 2006. An additional 15 shares were deferred for a total expense of \$509. As of July 29, 2006, we had 755 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 and bonus compensation. At the end of each six-month offering period, participants may purchase shares of our common stock at 90% of the fair market value on the last day of each offer period. Beginning in 2006, we recognize stock-based compensation expense related to the ESPP, as our purchase discount exceeds the amount allowed under SFAS No. 123(R) for non-compensatory treatment. We record compensation expense over the purchase period at the fair value of the ESPP at the end of each reporting period.

We issued 237 shares under this plan in the first quarter of 2006. As of July 29, 2006 and July 30, 2005, we had current liabilities of \$5,760 and \$4,961 for the purchase of shares in the future.

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

NOTE 8: SEGMENT REPORTING

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

Quarter ended July 29, 2006	Retail Stores	Credit	Direct	Other	Eliminations	Total
Net sales	\$ 2,128,192	—	\$ 126,898	\$ 15,378	—	\$ 2,270,468
Net sales increase (decrease)	7.5%	N/A	16.9%	(14.4%)	N/A	7.8%
Intersegment revenues	—	\$ 12,717	—	—	\$ (12,717)	—
Interest expense, net	—	(7,602)	—	(5,181)	—	(12,783)
Other income including finance charges, net	(3,816)	67,168	(200)	(2,301)	—	60,851
Earnings before income tax expense	300,746	15,582	30,845	(54,822)	—	292,351
Earnings before income tax expense as a percentage of net sales	14.1%	N/A	24.3%	N/A	N/A	12.9%

Quarter ended July 30, 2005	Retail Stores	Credit	Direct	Other	Eliminations	Total
Net sales	\$ 1,979,962	—	\$ 108,508	\$ 17,968	—	\$ 2,106,438
Net sales increase	7.3%	N/A	9.2%	N/A	N/A	7.8%
Intersegment revenues	—	\$ 11,826	—	—	\$ (11,826)	—
Interest expense, net	—	(6,311)	—	(4,593)	—	(10,904)
Other income including finance charges, net	(2,765)	58,706	(17)	(10,954)	—	44,970
Earnings before income tax expense	268,996	13,408	21,405	(62,016)	—	241,793
Earnings before income tax expense as a percentage of net sales	13.6%	N/A	19.7%	N/A	N/A	11.5%

Six months ended July 29, 2006	Retail Stores	Credit	Direct	Other	Eliminations	Total
Net sales	\$ 3,782,616	—	\$ 236,500	\$ 38,575	—	\$ 4,057,691
Net sales increase (decrease)	7.9%	N/A	11.1%	(6.9%)	N/A	7.9%
Intersegment revenues	—	\$ 21,050	—	—	\$ (21,050)	—
Interest expense, net	—	(14,184)	—	(9,350)	—	(23,534)
Other income including finance charges, net	(5,609)	124,725	(349)	(4,078)	—	114,689
Earnings before income tax expense	537,803	33,269	56,066	(121,700)	—	505,438
Earnings before income tax expense as a percentage of net sales	14.2%	N/A	23.7%	N/A	N/A	12.5%
Total assets	2,334,691	1,173,188	104,515	1,180,283	—	4,792,677

Six months ended July 30, 2005	Retail Stores	Credit	Direct	Other	Eliminations	Total
Net sales	\$ 3,506,548	—	\$ 212,920	\$ 41,444	—	\$ 3,760,912
Net sales increase	7.3%	N/A	9.3%	N/A	N/A	7.8%
Intersegment revenues	—	\$ 19,720	—	—	\$ (19,720)	—
Interest expense, net	—	(12,548)	—	(10,995)	—	(23,543)
Other income including finance charges, net	(4,606)	108,735	(36)	(16,391)	—	87,702
Earnings before income tax expense	476,763	25,001	39,202	(126,193)	—	414,773
Earnings before income tax expense as a percentage of net sales	13.6%	N/A	18.4%	N/A	N/A	11.0%
Total assets	2,326,472	1,169,190	111,066	1,309,685	—	4,916,413

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

NOTE 8: SEGMENT REPORTING (CONT.)

The segment information for 2005 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 Stores segment.

NOTE 9: SUPPLEMENTARY CASH FLOW INFORMATION

	Six Months Ended	
	July 29, 2006	July 30, 2005
Cash paid during the year for:		
Interest (net of capitalized interest)	\$ 30,367	\$ 29,549
Income taxes	\$ 166,741	\$ 139,265

NOTE 10: CONTINGENCIES**Gain Contingencies**

In July 2006, we received \$5,586 of proceeds from the VISA Check/Master Money Antitrust Litigation. These proceeds were recorded as a gain in the second quarter of 2006 in other income including finance charges, net.

Loss Contingencies

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.

[Table of Contents](#)**Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations (Dollar amounts in millions except per share amounts).**

The following discussion should be read in conjunction with the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the fiscal year ended January 28, 2006.

RESULTS OF OPERATIONS**Overview**

	Second Quarter		Six Months	
	2006	2005	2006	2005
Net earnings	\$178.8	\$148.9	310.0	\$253.5
Net earnings as a percentage of net sales	7.9%	7.1%	7.6%	6.7%
Diluted earnings per share	\$ 0.67	\$ 0.53	\$ 1.15	\$ 0.91

Net earnings as a percentage of net sales improved 80 basis points for the quarter and 90 basis points for the six months ended July 29, 2006 compared to the same periods last year. These results were driven by the combination of continued sales growth, moderate gross profit rate expansion, stable selling cost rates, and leverage of fixed costs. Key highlights include:

- Same-store sales increased 5.7% for the quarter and 5.6% for the six months ended July 29, 2006, above our low single-digit plan. For both periods, sales increases continued across all of our retail sales channels and all of our geographic regions.
- Gross profit as a percentage of net sales (gross profit rate) increased 26 basis points for the quarter and 32 basis points for the six months ended July 29, 2006, delivered by merchandise margin improvement and leverage on our buying and occupancy costs.
- Sales leverage on expenses resulted in a 64 basis point reduction in selling, general and administrative expenses as a percentage of net sales (SG&A rate) for the quarter and a 57 basis point reduction for the six months ended July 29, 2006.
- We repurchased 9.7 million shares of our common stock during the second quarter and 15.1 million shares during the first six months of 2006 for \$350.0 and \$562.9. The resulting reduction in weighted-average shares outstanding had a \$0.01 impact on diluted earnings per share for the quarter and a \$0.03 impact for the six months ended July 29, 2006.

Net Sales

	Second Quarter		Six Months	
	2006	2005	2006	2005
Net sales	\$2,270.5	\$2,106.4	\$4,057.7	\$3,760.9
Net sales increase	7.8%	7.8%	7.9%	7.8%
Total company same-store sale increase	5.7%	6.2%	5.6%	6.2%

Total net sales for the quarter and six month periods increased over the same periods in the prior year due to new stores and same-store sales increases. Total net sales benefited from the four Full-Line stores opened since the second quarter of 2005. These four stores increased our retail square footage by 3% compared to last year.

Men's apparel, cosmetics, accessories and intimate apparel were the key merchandise categories that experienced the largest same-store sales increases in the second quarter and for the six months ended July 29, 2006. During both periods, our women's apparel merchandise category had slight same-store sales decreases.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations (Cont.) (Dollar amounts in millions except per share amounts).

Our second quarter sales are an important contributor to our annual results. We hold clearance sales in June with our Women's & Kids' and Men's Half Yearly Events. In July, we conduct our Anniversary Sale, which is our biggest event of the year, offering new Fall-season merchandise priced at promotional discount prices before the season begins. Our highest sales volume days of the year occur during these three events. Each of these events delivered positive same-store sales increases in 2006. In addition, sales of regular-price merchandise increased in the second quarter.

Gross Profit

	Second Quarter		Six Months	
	2006	2005	2006	2005
Gross profit	\$823.8	\$758.9	\$1,488.1	\$1,367.2
Gross profit rate	36.3%	36.0%	36.7%	36.4%

	Four Quarters Ended	
	July 29, 2006	July 30, 2005
Average inventory per square foot	\$52.20	\$52.94
Inventory turnover rate (for the most recent four quarters)	4.85	4.58

Compared to the same periods last year, our gross profit rate improved 26 basis points for the quarter and 32 basis points for the six months ended July 29, 2006. For the quarter, our merchandise margin improved slightly compared to the same period in the prior year, driven primarily by our men's and intimate apparel merchandise divisions. For the six months ended July 29, 2006, our merchandise margin was flat compared to last year. Additionally, for both periods, we experienced leverage on buying and occupancy expenses from better than planned sales.

Our buying expense included \$2.6 in the second quarter and \$5.4 in the six months ended July 29, 2006 for costs related to stock options awarded primarily to our merchant and product development groups. These costs impacted our gross profit rate by 12 basis points for the quarter and 13 basis points for the six month period.

Our four-quarter average inventory turnover rate improved 5.9% in 2006, indicating that our merchandise planning and execution have continued to improve.

Selling, General and Administrative Expenses (SG&A)

	Second Quarter		Six Months	
	2006	2005	2006	2005
Selling, general and administrative expenses	\$579.6	\$551.2	\$1,073.8	\$1,016.6
SG&A rate	25.5%	26.2%	26.5%	27.0%

Compared to the same period last year, our SG&A rate improved 64 basis points for the quarter and 57 basis points for the six months ended July 29, 2006. For both periods, the performance resulted primarily from leverage on better than planned sales. Our variable expense rate, which consists primarily of selling labor and credit expenses, was slightly lower than last year; and, we leveraged our fixed selling costs, including non-selling labor and advertising. SG&A include incentive and deferred compensation costs, which were impacted by fluctuations in our stock price and, to a lesser degree, overall market trends. We experienced favorability in our SG&A resulting from a decline in our stock price during both the quarter and six months ended July 29, 2006. However, our employee medical costs and information technology professional services increased in 2006.

SG&A included \$4.2 in the second quarter and \$8.6 in the six months ended July 29, 2006 for costs related to stock options awarded to employees in our store operations, business units and corporate service center. These costs impacted our SG&A rate by 18 basis points for the quarter and 21 basis points for the six month period.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations (Cont.) (Dollar amounts in millions except per share amounts).**Interest Expense, net**

Interest expense, net increased by \$1.9 to \$12.8 for the quarter ended July 29, 2006, compared to the same period in 2005. The increase was due to a slight increase in our average interest rates and lower interest income as we reduced our cash and short-term investment balances in 2006 as compared to 2005.

For the six months ended July 29, 2006, interest expense, net was \$23.5, which was flat compared to the same period in 2005. During the first quarter of 2006, our interest income was higher than last year due to larger cash balances. During the second quarter, this was offset by an increase in interest expense as discussed above.

Other Income Including Finance Charges, net

	Second Quarter		Six Months	
	2006	2005	2006	2005
Other income including finance charges, net	\$60.9	\$45.0	\$114.7	\$87.7
Other income including finance charges, net as a percentage of net sales	2.7%	2.1%	2.8%	2.3%

Other income including finance charges, net increased by \$15.9 for the quarter and \$27.0 for the six months ended July 29, 2006. For both periods, the increase was primarily due to growth in our co-branded Nordstrom VISA credit card program.

In July 2006, we received \$5.6 of proceeds from the VISA Check/Master Money Antitrust Litigation. These proceeds were recorded as a gain in the second quarter of 2006 in other income including finance charges, net.

Seasonality

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

[Table of Contents](#)

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations (Cont.) (Dollar amounts in millions except per share amounts).

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

In the past two years, we have incorporated Return on Invested Capital (ROIC) into our key financial metrics, and since 2005 have used it as an executive incentive measure. Overall performance as measured by ROIC correlates directly to shareholders' return over the long-term. For the 12 months ended July 29, 2006, we improved our ROIC to 18.5% compared to 14.7% for the 12 months ended July 30, 2005. Our ROIC improved primarily from increased earnings before interest and taxes. See our GAAP ROIC reconciliation below. The closest GAAP measure is return on assets, which improved to 12.5% from 9.9% for the last 12 months ended July 29, 2006 compared to the 12 months ended July 30, 2005.

We define ROIC as follows:

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

Numerator = NOPAT

Net Earnings
+ Income tax expense
+ Interest expense, net
<hr/>
= EBIT
+ Rent expense
<hr/>
- Estimated depreciation on capitalized operating leases
<hr/>
= Net operating profit
- Estimated income tax expense
<hr/>
<hr/>
= NOPAT

Denominator = Average Invested Capital

Average total assets
- Average non-interest-bearing current liabilities
- Average deferred property incentives
+ Average estimated asset base of capitalized operating leases
<hr/>
<hr/>
= Average invested capital

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

	12 months ended	
	July 29, 2006	July 30, 2005
Net earnings	\$ 607.9	\$ 471.3
Add: income tax expense	368.0	302.9
Add: interest expense, net	45.3	50.2
Earnings before interest and income tax expense	1,021.2	824.4
Add: rent expense	44.9	50.0
Less: estimated depreciation on capitalized operating leases ¹	(24.0)	(26.7)
Net operating profit	1,042.1	847.7
Estimated income tax expense	(393.3)	(330.2)
Net operating profit after tax	\$ 648.8	\$ 517.5
Average total assets ²	\$ 4,877.0	\$ 4,746.8
Less: average non-interest-bearing current liabilities ³	(1,373.9)	(1,292.5)
Less: average deferred property incentives ²	(361.8)	(377.4)
Add: average estimated asset base of capitalized operating leases ⁴	366.5	431.9
Average invested capital	\$ 3,507.8	\$ 3,508.8
Return on Assets	12.5%	9.9%
ROIC	18.5%	14.7%

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

² Based upon the trailing 12-month average.

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

⁴ Based upon the trailing 12-month average of the monthly asset base which is calculated as the trailing 12 months rent expense multiplied by 8.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations (Cont.) (Dollar amounts in millions except per share amounts).

LIQUIDITY AND CAPITAL RESOURCES

Overall for the first six months of 2006, cash has decreased by \$182.5 from the beginning of the year. Cash outflows for common stock repurchases and payments to the Private Label Securitization pre-funding account were only partially offset by cash inflows from operations, including the reduction in our investment in asset backed securities.

Operating Activities

In comparison to last year, net cash flow from operating activities increased by \$259.9 to \$599.6 in 2006 primarily due to the reduction of our investment in asset backed securities. In July 2006, the VISA Trust issued for cash \$300.0 of variable funding notes at par. The proceeds received by the VISA Trust were then sent to us in exchange for a reduction in the Transferor Interest in the VISA Trust held by Nordstrom, Inc. (reflected as the investment in asset backed securities in our condensed consolidated balance sheets). The reduction in the Transferor Interest was equal to a \$300.0 reduction in our share of the principal balance of the underlying VISA credit card receivables.

Excluding the proceeds from the reduction of our investment in asset backed securities, our net cash flow from operating activities decreased \$40.1, due partially to the change in the classification of the reduction in our tax benefit for stock-based payment arrangements from operating activities to financing activities as a result of the adoption of SFAS No. 123(R), "Share-Based Payment," and partially as a result of the timing of various working capital items.

Investing Activities

Net cash used in investing activities increased by \$90.7 to \$214.4 primarily due to the investment of \$150.0 into a pre-funding account in preparation for the upcoming repayment of our Private Label Securitization debt. We plan to continue to deposit \$50.0 of cash per month into the pre-funding account to fund the \$300.0 Private Label Securitization due in October 2006. The restricted pre-funding account was classified as restricted cash in the condensed consolidated balance sheet.

Our capital expenditures decreased slightly in 2006 as a result of the timing of our new store openings and remodels. In the first half of 2006, we opened one Full-Line store in Palm Beach Gardens, Florida. We are scheduled to open a new store to replace our existing store at the Topanga Plaza in Canoga Park, California in October 2006. Also, we expect to open a Rack store in San Marcos, California in November 2006.

In 2006, we sold our short-term investments and primarily used the proceeds for the common stock repurchases described below.

Financing Activities

Net cash used in financing activities increased to \$567.6 in 2006 from \$113.7 in 2005, primarily due to increased repurchases of our outstanding common stock.

In the first half of 2006, we repurchased 15.1 million shares of our common stock for an aggregate purchase price of \$562.9 (an average price per share of \$37.23). In May 2006, our Board of Directors authorized up to \$1,000.0 of share repurchases. As of July 29, 2006, the unused authorization was \$650.0. The actual number and timing of future share repurchases will be subject to market conditions and applicable SEC rules.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations (Cont.) (Dollar amounts in millions except per share amounts).

In June 2006, we amended our existing variable funding note facility to increase the capacity of this facility from \$150.0 to \$450.0. In July 2006, the VISA Trust used this facility to issue \$300.0 of Notes. As the VISA Trust is a statutory business trust and the VISA credit card receivables transferred to it are accounted for as a sale under SFAS No. 140, the obligations of the VISA Trust are not recorded in our financial statements. The VISA Trust sent the proceeds from this note issuance to us in return for a reduction in our interest in the VISA Trust equal to a \$300.0 decrease in our share of the principal balance of VISA credit card receivables.

Liquidity

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 scheduled future payments and potential long-term initiatives.

In October 2006, we will repay our \$300.0 of 4.82% Private Label Securitization debt; we have already invested \$150.0 in a pre-funding account in anticipation of this repayment. In April 2007, the \$200.0 2002 Class A & B Notes issued by the VISA Trust will mature. We are evaluating alternatives to combine the Private Label and VISA credit card borrowing programs in the first half of 2007.

In the third quarter, we expect to borrow up to \$250.0 to finance a portion of our holiday season merchandise purchases. We are pursuing an increase to the variable funding note facility borrowing capacity, although we have other available financing sources.

CRITICAL ACCOUNTING POLICIES

The preparation of our financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. Our critical accounting policies and methodologies in 2006 are consistent with those discussed in our Annual Report on Form 10-K for the fiscal year ended January 28, 2006.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes." FIN 48 requires that we recognize the impact of a tax position in our financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. The provisions of FIN 48 are effective for us as of the beginning of our 2007 fiscal year. We are currently evaluating the impact of adopting FIN 48 on our financial statements.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations (Cont.) (Dollar amounts in millions except per share amounts).

FORWARD-LOOKING INFORMATION CAUTIONARY STATEMENT

Certain statements in the preceding disclosures contain "forward-looking" statements (as defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties, including anticipated financial results, use of cash and liquidity, store openings and trends in our operations. Actual future results and trends may differ materially from historical results or current expectations depending upon various factors including, but not limited to:

- the impact of economic and competitive market forces,
- the impact of terrorist activity or war on 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 trends and cause actual results and trends to differ materially from those contained in any forward-looking statements we may provide. As a result, while we believe there is a reasonable basis for the forward-looking statements, you should not place undue reliance on those statements. We undertake no obligation to update or revise any forward-looking statements to reflect subsequent events, new information or future circumstances. This discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements.

Item 3. Quantitative And Qualitative Disclosures About Market Risk.

We discussed our interest rate risk and our foreign currency exchange risk in Item 7A of our Annual Report on Form 10-K for the fiscal year ended January 28, 2006. There has been no material change to these risks since that time.

Item 4. Controls And Procedures.

As of the end of the period covered by this Quarterly Report on Form 10-Q, 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 Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures are effective in the timely recording, processing, summarizing and reporting of material financial and non-financial information.

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

Cosmetics

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

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

While we believe that the plaintiffs' claims are without merit, we entered into a settlement agreement with the plaintiffs and the other defendants on July 13, 2003 in order to avoid the cost and distraction of protracted litigation. In furtherance of the settlement agreement, the case was re-filed in the United States District Court for the Northern District of California on behalf of a class of all persons who currently reside in the United States and who purchased "Department Store" cosmetics and fragrances from the defendants during the period May 29, 1994 through July 16, 2003. The Court gave preliminary approval to the settlement, and a summary notice of class certification and the terms of the settlement was disseminated to class members. On March 30, 2005, the Court entered a final judgment approving the settlement and dismissing the plaintiffs' claims and the claims of all class members with prejudice, in their entirety. On April 29, 2005, two class members who had objected to the settlement filed notices of appeal from the Court's final judgment to the United States Court of Appeals for the Ninth Circuit. One of the objectors has since dropped her appeal, but the other filed her appeal brief on March 20, 2006. Plaintiffs' and defendants' briefs were filed on May 25, 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. We do not believe the outcome of this matter will have a material adverse effect on our financial condition, results of operations or cash flows.

Other

We are involved in routine claims, proceedings, and litigation arising from the normal course of our business. 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.

[Table of Contents](#)**Item 1A. Risk Factors.**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 28, 2006. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K.

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

(dollars in millions, except per share amounts)

	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) Of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs ²
May 2006 (April 30, 2006 to May 27, 2006)	697,682 ¹	\$ 35.78	696,800	\$ 975.1
June 2006 (May 28, 2006 to July 1, 2006)	7,679,700	\$ 36.07	7,679,700	\$ 698.0
July 2006 (July 2, 2006 to July 29, 2006)	1,320,877	\$ 36.37	1,320,877	\$ 650.0
Total	9,698,259	\$ 36.07	9,697,377	

¹ Included in this balance were 882 shares that were not redeemed as part of a publicly announced repurchase plan or program. These shares were tendered by an employee to Nordstrom for tax withholding purposes.

² In the first half of 2006, we repurchased 15.1 million shares of our common stock for an aggregate purchase price of \$562.9 (an average price per share of \$37.23). In May 2006, our Board of Directors authorized up to \$1,000.0 of share repurchases. As of July 29, 2006, the unused authorization was \$650.0. The actual number and timing of future share repurchases will be subject to market conditions and applicable SEC rules.

Item 4. Submission of Matters to a Vote of Security Holders (Amounts in thousands).

We held our Annual Shareholders Meeting on May 23, 2006 at which time the shareholders voted on the following proposals:

(1) Election of Directors

Name of Candidate	For	Withheld
Phyllis J. Campbell	246,041	1,681
Enrique Hernandez, Jr.	244,674	3,048
Jeanne P. Jackson	244,545	3,177
Robert G. Miller	244,675	3,047
Blake W. Nordstrom	245,860	1,862
Erik B. Nordstrom	245,606	2,116
Peter E. Nordstrom	245,604	2,118
Philip G. Satre	244,931	2,791
Alison A. Winter	246,317	1,404

There were no abstentions and no broker non-votes.

(2) Approval of an Amendment to the Company's Employee Stock Purchase Plan

The vote was 217,638 for, 1,133 against, and there were 1,346 abstentions. There were 27,605 broker non-votes.

(3) Ratification of the Appointment of Independent Registered Public Accounting Firm

The vote was 246,051 for, 439 against, and there were 1,232 abstentions. There were no broker non-votes.

Item 6. Exhibits.

Exhibits are incorporated herein by reference or are filed with this report as set forth in the Index to Exhibits on page 28 hereof.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORDSTROM, INC.
(Registrant)

/s/ Michael G. Koppel

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

Date: August 31, 2006

[Table of Contents](#)

NORDSTROM, INC. AND SUBSIDIARIES

Exhibit Index

	Exhibit	Method of Filing
10.1	Trust Agreement dated October 16, 2001 between Nordstrom Private Label Receivables LLC and Wilmington Trust Company, as trustee	Filed herewith electronically
10.2	Administration Agreement dated October 1, 2001 between Nordstrom Private Label Credit Card Master Note Trust and Nordstrom fsb	Filed herewith electronically
10.3	Trust Agreement dated March 25, 2002 between Nordstrom Credit Card Receivables LLC and Wilmington Trust Company, as trustee	Filed herewith electronically
31.1	Certification of President required by Section 302(a) of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
31.2	Certification of Chief Financial Officer required by Section 302(a) of the Sarbanes-Oxley Act of 2002	Filed herewith electronically
32.1	Certification of President and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith electronically

TRUST AGREEMENT

This Trust Agreement, dated as of October 16, 2001 (the "Agreement"), is between Nordstrom Private Label Receivables LLC, a Delaware limited liability company, as transferor (the "Transferor"), and Wilmington Trust Company, a Delaware banking corporation, as trustee (in such capacity, the "Trustee").

In consideration of the mutual agreements herein contained, and of other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Creation. There is hereby formed, in accordance with the Delaware Business Trust Act (12 Del. Code Section 3801 et seq.) (the "Delaware Act"), a trust to be known as Nordstrom Private Label Credit Card Master Note Trust (the "Trust"), in which name the Trustee may engage in the activities of the Trust, make and execute contracts and other instruments on behalf of the Trust and sue and be sued. The parties hereto intend that the Trust be a business trust under the Delaware Act and that this Agreement shall constitute the governing instrument of the Trust. Effective as of the date hereof, the Trustee shall have all rights, powers and duties set forth herein and in the Delaware Act with respect to accomplishing the purposes of the Trust. The Trustee is hereby directed to file a certificate of trust in accordance with Section 3810 of the Delaware Act, a form of which is attached hereto as Exhibit A.

2. Trust Assets. The Transferor hereby grants, conveys, transfers and assigns to the Trust, and the Trustee hereby acknowledges receipt of, the sum of ten dollars (\$10.00), which sum shall be the initial assets of the Trust.

3. Indemnification of Trustee. The Trustee (as such and in its individual capacity) shall be indemnified and held harmless by the Transferor with respect to any loss, liability, claim, damage or expense incurred by the Trustee (as such or in its individual capacity) arising out of or incurred in connection with the acceptance or performance by the Trustee of the trusts and duties contained in this Agreement; provided, however, that the Trustee shall not be indemnified or held harmless as to any such loss, liability, claim, damage or expense incurred by reason of its willful misconduct, bad faith or gross negligence. The obligations of the Transferor under this Section Three shall survive the resignation or removal of the Trustee and the termination of this Agreement.

4. Resignation or Removal of Trustee. The Transferor may remove any trustee of the Trust at any time with or without cause. The Trustee may resign by giving 30 days' prior written notice to the Transferor; provided, that no such resignation shall become effective until a successor trustee shall have been appointed. Upon receiving notice of resignation, the Transferor shall promptly appoint by written instrument a successor Trustee. If no successor Trustee shall have been appointed within 30 days after such notice of resignation is given, the Trustee at the expense of the Transferor may petition a court of competent jurisdiction for the appointment of a successor.

5. Amended and Restated Trust Agreement. The Transferor and the Trustee will enter into an Amended and Restated Trust Agreement, dated as of October 1, 2001 (the "Amended and Restated Trust Agreement"), satisfactory to each such party, to provide for the contemplated operation of the Trust created hereby. Prior to the execution and delivery of such Amended and Restated Trust Agreement, the Trustee shall not have any duty or obligation hereunder or with respect to the trust estate, except as otherwise required by applicable law or may be necessary to obtain prior to such execution and delivery and licenses, consents or approvals required by applicable law or otherwise; provided however, the Transferor may instruct the Trustee with respect to operation of the Trust and action to be taken on behalf of the Trust, and to the extent the Trustee follows such instructions in good faith it shall not be liable to any person.

6. Counterparts. This Agreement may be executed in any number of counterparts, each of which so executed and delivered shall be deemed to be an original, but all of which counterparts shall together constitute but one and the same instrument.

7. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware (without regard to conflict of laws provisions).

8. Amendment. This Agreement may be amended and restated by the parties hereto as necessary to provide for the operation of the Trust.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

NORDSTROM PRIVATE LABEL RECEIVABLES LLC,
as Transferor

By: NORDSTROM CREDIT, INC., as Member

By: /s/ Carol S. Powell

Name: Carol S. Powell
Title: Assistant Treasurer

WILMINGTON TRUST COMPANY, as Trustee

By: /s/ James P. Lawler

Name: James P. Lawler
Title: Vice President

EXHIBIT A

CERTIFICATE OF TRUST

This Certificate of Trust of Nordstrom Private Label Credit Card Master Note Trust (the "Trust"), dated October __, 2001, is being duly executed and filed by Wilmington Trust Company, a Delaware banking corporation, as trustee, to form a business trust under the Delaware Business Trust Act (12 Del. Code, Section 3801 et seq.).

1. Name. The name of the business trust formed hereby is Nordstrom Private Label Credit Card Master Note Trust.

2. Delaware Trustee. The name and business address of the trustee of the Trust having its principal place of business in the State of Delaware is Wilmington Trust Company, Rodney Square North, 1100 North Market Street, Wilmington, Delaware 19890-00001, Attention: Corporate Trust Administration Department.

3. Effective Date. This Certificate of Trust shall be effective upon its filing with the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, the undersigned, being the sole trustee of the Trust, has executed this Certificate of Trust as of the date first above written.

WILMINGTON TRUST COMPANY,
as Trustee

By: _____
Name: _____
Title: _____

=====

ADMINISTRATION AGREEMENT

between

NORDSTROM PRIVATE LABEL CREDIT CARD MASTER NOTE TRUST,
as Issuer,

and

NORDSTROM fsb,
as Administrator

Dated as of October 1, 2001

=====

TABLE OF CONTENTS

	Page

Section 1.01 Capitalized Terms; Interpretive Provisions.....	1
Section 1.02 Duties of Administrator.....	2
Section 1.03 Records.....	6
Section 1.04 Compensation.....	6
Section 1.05 Additional Information to be Furnished to Issuer.....	7
Section 1.06 Independence of Administrator.....	7
Section 1.07 No Joint Venture.....	7
Section 1.08 Other Activities of Administrator.....	7
Section 1.09 Term of Agreement; Resignation and Removal of Administrator.....	7
Section 1.10 Action upon Termination, Resignation or Removal.....	8
Section 1.11 Notices.....	8
Section 1.12 Amendments.....	9
Section 1.13 Successors and Assigns.....	10
Section 1.14 GOVERNING LAW.....	10
Section 1.15 Effect of Headings and Table of Contents.....	11
Section 1.16 Counterparts.....	11
Section 1.17 Severability of Provisions.....	11
Section 1.18 Not Applicable to Nordstrom fsb in Other Capacities.....	11
Section 1.19 Limitation of Liability of Owner Trustee.....	11
Section 1.20 Third-Party Beneficiary.....	11
Section 1.21 Nonpetition Covenant.....	11
Section 1.22 Successor Administrator.....	11
Exhibit A Power Of Attorney.....	A-1

ADMINISTRATION AGREEMENT

This Administration Agreement, dated as of October 1, 2001 (the "Agreement"), is between Nordstrom Private Label Credit Card Master Note Trust, a Delaware business trust (the "Issuer"), and Nordstrom fsb, a federal savings bank, as administrator (the "Administrator").

WHEREAS, the Issuer has entered into a master indenture, dated as of October 1, 2001 (the "Indenture"), between the Issuer and Wells Fargo Bank West, National Association, a national banking association, as trustee (the "Indenture Trustee"), to provide for the issuance of its asset backed notes (the "Notes") from time to time pursuant to one or more indenture supplements (the "Indenture Supplements");

WHEREAS, the Issuer has entered into certain agreements in connection with the issuance of the Notes, the issuance of the beneficial ownership interest of the Issuer and transactions related thereto, including (i) the Indenture; (ii) the Indenture Supplements; (iii) a transfer and servicing agreement, dated as of October 1, 2001 (the "Transfer and Servicing Agreement"), among Nordstrom Private Label Receivables LLC, as transferor (the "Transferor"), Nordstrom fsb, as servicer (the "Servicer"), and the Issuer and (iv) an amended and restated trust agreement, dated as of October 1, 2001 (the "Trust Agreement" and, together with the Indenture, the related Indenture Supplement and the Transfer and Servicing Agreement, the "Related Agreements"), between the Transferor, as transferor, and Wilmington Trust Company, as trustee (the "Owner Trustee");

WHEREAS, pursuant to the Related Agreements, the Issuer and the Owner Trustee are required to perform certain duties in connection with (a) the Notes and the collateral therefor pledged pursuant to the Indenture (the "Collateral") and (b) the beneficial ownership interest in the Issuer (the holder of such interest being referred to herein as the "Owner");

WHEREAS, the Issuer and the Owner Trustee desire to have the Administrator perform certain of the duties of the Issuer and the Owner Trustee referred to in the preceding clause and to provide such additional services consistent with the terms of this Agreement and the Related Agreements as the Issuer and the Owner Trustee may from time to time request; and

WHEREAS, the Administrator has the capacity to provide the services required hereby and is willing to perform such services for the Issuer and the Owner Trustee on the terms set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

Section 1.01 Capitalized Terms; Interpretive Provisions.

(a) Capitalized terms used herein that are not otherwise defined shall have the meanings ascribed thereto or incorporated by reference in the Trust Agreement, the Transfer and Servicing Agreement or the Indenture, as the case may be. Whenever used herein, unless the context otherwise requires, the following words and phrases shall have the following meanings:

"Agreement" has the meaning set forth in the Preamble.

"Indenture" has the meaning set forth in the Preamble.

"Related Agreements" has the meaning set forth in the Preamble.

"Transfer and Servicing Agreement" has the meaning set forth in the Preamble.

"Trust Agreement" has the meaning set forth in the Preamble.

(b) For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, (i) terms used in this Agreement include, as appropriate, all genders and the plural as well as the singular, (ii) references to this Agreement include all Exhibits hereto, (iii) references to words such as "herein", "hereof" and the like shall refer to this Agreement as a whole and not to any particular part, Article or Section within this Agreement, (iv) the term "include" and all variations thereof shall mean "include without limitation", (v) the term "or" shall include "and/or" and (vi) the term "proceeds" shall have the meaning ascribed to such term in the UCC.

Section 1.02 Duties of Administrator.

(a) Duties with Respect to the Related Agreements.

The Administrator shall consult with the Owner Trustee regarding the duties of the Issuer and the Owner Trustee under the Related Agreements. The Administrator shall monitor the performance of the Issuer and shall advise the Owner Trustee when action is necessary to comply with the Issuer's or the Owner Trustee's duties under the Related Agreements. The Administrator shall prepare for execution by the Issuer or the Owner Trustee or shall cause the preparation by other appropriate persons of all such documents, reports, filings, instruments, orders, certificates and opinions as shall be the duty of the Issuer or the Owner Trustee to prepare, file or deliver pursuant to any Related Agreement. In addition to the foregoing, the Administrator shall take all appropriate action that is the duty of the Issuer or the Owner Trustee to take pursuant to the Indenture including such of the foregoing as are required with respect to the following matters under the Indenture (references are to sections of the Indenture):

(i) the preparation of or obtaining of the documents and instruments required for execution, authentication and delivery of the Notes (whether upon initial issuance, transfer or exchange, or otherwise), if any, and delivery of the same to the Indenture Trustee (if applicable) (Sections 2.03, 2.05, 2.06, 2.12(c) or 2.15);

(ii) the duty to cause the Note Register to be kept, to appoint a successor Transfer Agent and Registrar, if necessary, and to give the Indenture Trustee notice of any appointment of a new Transfer Agent and Registrar and the location, or change in location, of the Note Register (Section 2.05);

(iii) the furnishing of the Indenture Trustee, the Servicer, any Noteholder or the Paying Agent with the names and addresses of Noteholders after receipt of a written request therefor from the Indenture Trustee, the Servicer, any Noteholder or the Paying

Agent, respectively, or as otherwise specified in the Indenture (Sections 2.09(a) and 7.01);

(iv) the preparation, obtaining or filing of the instruments, opinions and certificates and other documents required for the release of collateral (Section 2.11);

(v) the duty to cause the Issuer to maintain an office or agency within the Borough of Manhattan, City of New York (and as otherwise set forth in an Indenture Supplement) and to give the Indenture Trustee and the Noteholders notice of the location, or change in location, of such office or agency (Section 3.02);

(vi) the duty to direct the Indenture Trustee to deposit with any Paying Agent the sums specified in the Indenture and the preparation of an Issuer Order directing the investment of such funds in Eligible Investments (Section 3.03);

(vii) the duty to cause newly appointed Paying Agents, if any, to deliver to the Indenture Trustee the instrument specified in the Indenture regarding funds held in trust (Section 3.03);

(viii) the direction to Paying Agents to pay to the Indenture Trustee all sums held in trust by such Paying Agents (Section 3.03);

(ix) the duty to cause the Issuer to keep in full force its existence, rights and franchises as a Delaware business trust and the obtaining and preservation of the Issuer's qualification to do business in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of the Indenture, the Notes, the Collateral and each other related instrument and agreement (Section 3.04);

(x) the preparation of all supplements, amendments, financing statements, continuation statements, if any, instruments of further assurance and other instruments necessary to protect, maintain and enforce the Collateral (Section 3.05);

(xi) the obtaining of the Opinion of Counsel on the Series Issuance Date and the annual delivery of Opinions of Counsel as to the Collateral, and the annual delivery of the Officer's Certificate (Section 3.06);

(xii) the identification to the Indenture Trustee in an Officer's Certificate of a Person with whom the Issuer has contracted to assist it in performing its duties under the Indenture (Section 3.07(b));

(xiii) causing the delivery of notice by the Indenture Trustee to the Rating Agencies of the occurrence of any Servicer Default of which the Issuer has knowledge and the action, if any, being taken in connection with such default (Section 3.07(d));

(xiv) the delivery to the Indenture Trustee, within 120 days after the end of each fiscal year of the Issuer of an Officer's Certificate with respect to various matters relating to compliance with the Indenture (Section 3.09);

(xv) the preparation and obtaining of documents, certificates, opinions and instruments required in connection with the consolidation or merger by the Issuer with or into any other Person or the sale of the Issuer's assets substantially as an entirety to any Person (Section 3.10);

(xvi) the delivery of notice to the Indenture Trustee and each Rating Agency of (1) each Event of Default, (2) each default by the Servicer or the Transferor under the Transfer and Servicing Agreement, (3) each default by a Seller under a Receivables Purchase Agreement and (4) any action taken by the Indenture Trustee pursuant to the Indenture (Section 3.19);

(xvii) the monitoring of the Issuer's obligations as to the satisfaction and discharge of the Indenture and the preparation and delivery of an Officer's Certificate and the obtaining of the Opinion of Counsel and the Independent Certificate relating thereto (Section 4.01);

(xviii) the compliance with any directive of the Indenture Trustee with respect to the sale of the Collateral if an Event of Default shall have occurred and be continuing and the Notes have been accelerated (Section 5.05);

(xix) the preparation and delivery of an Officer's Certificate to be delivered to the Indenture Trustee and the deliverance of such Officer's Certificate to the Noteholders (Section 6.03(b));

(xx) the removal of the Indenture Trustee, if necessary and in compliance with the Indenture, and the appointment of a successor (Section 6.08);

(xxi) the preparation and delivery of various reports to be filed with the Indenture Trustee and the Commission, as applicable (Section 7.03);

(xxii) notifying the Indenture Trustee if and when the Notes are listed on any stock exchange (Section 7.04);

(xxiii) the preparation of an Issuer Order and Officer's Certificate and the obtaining of an Opinion of Counsel and Independent Certificates, if necessary, for the release of the Collateral (Sections 8.09 and 8.10);

(xxiv) the preparation and delivery of Issuer Orders, agreements, certificates, instruments, consents and other documents and the obtaining of Opinions of Counsel with respect to the execution of supplemental indentures (Sections 3.07(f), 10.01, 10.02 and 10.03);

(xxv) the execution of new Notes conforming to any supplemental indenture (Section 10.06);

(xxvi) in connection with a Defeasance, compliance with the provisions of Section 11.04 of the Indenture (Section 11.04);

(xxvii) the preparation of all Officers' Certificates, Opinions of Counsel and, if necessary, Independent Certificates with respect to any requests by the Issuer to the Indenture Trustee to take any action under the Indenture (Section 12.01(a));

(xxviii) the preparation and delivery of Officers' Certificates and the obtaining of Independent Certificates, if necessary, in connection with the deposit of any Collateral or other property or securities with the Indenture Trustee that is to be made the basis for the release of property from the lien of the Indenture (Section 12.01(b));

(xxix) the preparation and delivery to Noteholders and the Indenture Trustee of any agreements with respect to alternate payment and notice provisions (Section 12.06); and

(xxx) compliance with the provisions of the Transfer and Servicing Agreement, Indenture Supplement and Trust Agreement applicable to the Issuer.

(b) Additional Duties.

(i) In addition to the duties of the Administrator set forth above, but subject to Sections 1.02(c)(ii) and 1.06, the Administrator shall perform all duties and obligations of the Issuer under the Related Agreements and shall perform such calculations and shall prepare for execution by the Issuer and shall cause the preparation by other appropriate persons of all such documents, reports, filings, instruments, certificates and opinions as it shall be the duty of the Issuer or the Owner Trustee to prepare, file or deliver pursuant to the Related Agreements and shall administer the Trust in the interest of the holders of the Notes and the Transferor Certificates and at the request of the Issuer shall take all appropriate action that is the duty of the Issuer or the Owner Trustee to take pursuant to the Related Agreements. Subject to Sections 1.02(c)(ii) and 1.06 of this Agreement, and in accordance with the directions of the Issuer, the Administrator shall administer, perform or supervise the performance of such other activities in connection with the Collateral (including the Related Agreements) as are not covered by any of the foregoing provisions and as are expressly requested by the Owner Trustee and are reasonably within the capability of the Administrator.

(ii) The Administrator shall perform any duties expressly required to be performed by the Administrator under the Trust Agreement.

(iii) In carrying out the foregoing duties or any of its other obligations under this Agreement, the Administrator may enter into transactions with or otherwise deal with any of its Affiliates; provided, however, that the terms of any such transactions or dealings shall be in accordance with any directions received from the Issuer and shall be, in the Administrator's opinion, no less favorable to the Issuer than would be available from unaffiliated parties.

(iv) It is the intention of the parties hereto that the Administrator shall, and the Administrator hereby agrees to, prepare, file and deliver on behalf of the Issuer all such documents, reports, filings, instruments, certificates and opinions as it shall be the duty of the Issuer to prepare, file or deliver pursuant to the Related Agreements. In furtherance

thereof, the Owner Trustee shall, on behalf of the Issuer, execute and deliver to the Administrator and its agents, and to each successor Administrator appointed pursuant to the terms hereof, one or more powers of attorney substantially in the form of Exhibit A hereto, appointing the Administrator the attorney-in-fact of the Issuer for the purpose of executing on behalf of the Issuer all such documents, reports, filings, instruments, certificates and opinions.

(c) Non-Ministerial Matters.

(i) With respect to matters that in the reasonable judgment of the Administrator are non-ministerial, the Administrator shall not take any action unless within a reasonable time before the taking of such action, the Administrator shall have notified the Transferor of the proposed action and the Transferor shall not have withheld consent or provided an alternative direction. For the purpose of the preceding sentence, "non-ministerial matters" shall include:

(A) the amendment of or any supplement to the Indenture;

(B) the initiation of any claim or lawsuit by the Issuer and the compromise of any action, claim or lawsuit brought by or against the Issuer (other than in connection with the collection or enforcement of the Collateral);

(C) the amendment, change or modification of the Related Agreements;

(D) the appointment of each successor Transfer Agent and Registrars, each successor Paying Agents and each successor Indenture Trustees pursuant to the Indenture or the appointment of successor Administrators, or the consent to the assignment by each of the Transfer Agent and Registrar, Paying Agent or Indenture Trustee of its obligations under the Indenture; and

(1) the removal of the Indenture Trustee.

(ii) Notwithstanding anything to the contrary in this Agreement, the Administrator shall not be obligated to, and shall not, (x) make any payments from its own funds to the Noteholders, the Owner or any other Person under the Related Agreements, (y) sell the Collateral pursuant to Section 5.05 of the Indenture other than pursuant to a written directive of the Indenture Trustee or (z) take any other action that the Issuer directs the Administrator not to take on its behalf.

Section 1.03 Records. The Administrator shall maintain appropriate books of account and records relating to services performed hereunder, which books of account and records shall be accessible for inspection by the Issuer, the Owner Trustee, the Indenture Trustee, the Servicer and the Transferor at any time during normal business hours.

Section 1.04 Compensation. As compensation for the performance of the Administrator's obligations under this Agreement, the Administrator shall be entitled to \$100 per month which shall be payable in accordance with Section 3.01(e) of the Transfer and Servicing

Agreement. The Transferor shall be responsible for payment of the Administrator's fees (to the extent not paid pursuant to Section 3.01(e) of the Transfer and Servicing Agreement).

Section 1.05 Additional Information to be Furnished to Issuer. The Administrator shall furnish to the Issuer from time to time such additional information regarding the Collateral as the Issuer shall reasonably request.

Section 1.06 Independence of Administrator. For all purposes of this Agreement, the Administrator shall be an independent contractor and shall not be subject to the supervision of the Issuer or the Owner Trustee with respect to the manner in which it accomplishes the performance of its obligations hereunder. Unless expressly authorized by the Issuer, the Administrator shall have no authority to act for or represent the Issuer or the Owner Trustee in any way and shall not otherwise be deemed an agent of the Issuer or the Owner Trustee.

Section 1.07 No Joint Venture. Nothing contained in this Agreement shall (i) constitute the Administrator and either of the Issuer or the Owner Trustee as members of any partnership, joint venture, association, syndicate, unincorporated business or other separate entity, (ii) be construed to impose any liability as such on any of them or (iii) be deemed to confer on any of them any express, implied or apparent authority to incur any obligation or liability on behalf of the others.

Section 1.08 Other Activities of Administrator. Nothing herein shall prevent the Administrator or its affiliates from engaging in other businesses or, in its sole discretion, from acting in a similar capacity as an administrator for any other person or entity even though such person or entity may engage in business activities similar to those of the Issuer, the Owner Trustee or the Indenture Trustee.

Section 1.09 Term of Agreement; Resignation and Removal of Administrator.

(a) This Agreement shall continue in force until the termination of the Issuer, upon which event this Agreement shall automatically terminate.

(b) Subject to Sections 1.09(e) and (f), the Administrator may resign its duties hereunder by providing the Issuer with at least 60 days prior written notice.

(c) Subject to Sections 1.09(e) and (f), the Issuer may remove the Administrator without cause by providing the Administrator with at least 60 days prior written notice.

(d) Subject to Sections 1.09(e) and (f), at the sole option of the Issuer, the Administrator may be removed immediately upon written notice of termination from the Issuer to the Administrator if any of the following events shall occur:

(i) the Administrator shall default in the performance of any of its duties under this Agreement and, after notice of such default, shall not cure such default within 30 days (or, if such default cannot be cured in such time, shall not give within 30 days such assurance of cure as shall be reasonably satisfactory to the Issuer);

(ii) a court having jurisdiction in the premises shall enter a decree or order for relief, and such decree or order shall not have been vacated within 60 days, in respect of the Administrator in any involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect or appoint a receiver, conservator, liquidator, assignee, custodian, trustee, sequestrator or similar official for the Administrator or any substantial part of its property or order the winding-up or liquidation of its affairs; or

(iii) the Administrator shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the Administrator or any substantial part of its property, shall consent to the taking of possession by any such official of any substantial part of its property, shall make any general assignment for the benefit of creditors, shall admit in writing its inability to pay its debts generally as they become due or shall fail generally to pay its debts as they become due.

The Administrator agrees that if any of the events specified in clause (ii) or (iii) of this Section shall occur, it shall give written notice thereof to the Issuer and the Indenture Trustee within seven days after the happening of such event.

(e) No resignation or removal of the Administrator pursuant to this Section shall be effective until (i) a successor Administrator shall have been appointed by the Issuer and (ii) such successor Administrator shall have agreed in writing to be bound by the terms of this Agreement in the same manner as the Administrator is bound hereunder.

(f) The appointment of any successor Administrator shall be effective only after satisfaction of the Rating Agency Condition with respect to the proposed appointment.

Section 1.10 Action upon Termination, Resignation or Removal. Promptly upon the effective date of termination of this Agreement pursuant to Section 1.09(a) or the resignation or removal of the Administrator pursuant to Sections 1.09(b), (c) or (d), respectively, the Administrator shall be entitled to be paid all fees and reimbursable expenses accruing to it pursuant to Section 1.04 of this Agreement and Section 3.01(e) of the Transfer and Servicing Agreement to the date of such termination, resignation or removal. The Administrator shall forthwith upon such termination pursuant to Section 1.09(a) deliver to the Transferor all property and documents of or relating to the Collateral then in the custody of the Administrator. In the event of the resignation or removal of the Administrator pursuant to Sections 1.09(b), (c) or (d), respectively, the Administrator shall cooperate with the Issuer and take all reasonable steps requested to assist the Issuer in making an orderly transfer of the duties of the Administrator.

Section 1.11 Notices. Any notice, report or other communication given hereunder shall be in writing and addressed as follows:

If to the Issuer or the Owner Trustee, to

Nordstrom Private Label Credit Card Master Note Trust
c/o Wilmington Trust Company
Rodney Square North
1100 North Market Street
Wilmington, Delaware 19890-0001
Attention: Corporate Trust Administration
(facsimile no. (302) 651-8882)

If to the Administrator, to

Nordstrom fsb
7320 East Butherus Drive, Suite 100
Scottsdale, Arizona 85260-2438
(facsimile no. (303) 397-4488)

If to the Indenture Trustee, to

Wells Fargo Bank Minnesota, National Association
Wells Fargo Corporate Trust
Asset Backed Securities
625 Marquette Avenue, MAC N9311-161
Minneapolis, Minnesota 55480
(facsimile no. (612) 667-3464)

If to the Transferor, to

Nordstrom Private Label Receivables LLC
13531 East Caley Avenue
Englewood, Colorado 80111
(facsimile no. (303) 397-4488)

or to such other address as any party shall have provided to the other parties in writing. Any notice required to be in writing hereunder shall be deemed given if such notice is mailed by certified mail, postage prepaid, or hand-delivered to the address of each such party as provided above, except that notices to the Indenture Trustee, the Transferor, the Administrator or the Issuer are effective only upon receipt.

Section 1.12 Amendments. This Agreement may be amended from time to time, by a written amendment duly executed and delivered by the Issuer, the Administrator and the Transferor, with the written consent of the Owner Trustee (as such and in its individual capacity), without the consent of any of the Noteholders or the Owner, to cure any ambiguity, to correct or supplement any provisions in this Agreement or for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Agreement or modifying in any manner the rights of the Noteholders or Owner; provided, however, that (i) such amendment will not, as evidenced by an Officer's Certificate of the Administrator addressed and delivered to the Owner Trustee, materially and adversely affect the interests of

any Noteholder or the Owner and (ii) the Rating Agency Condition will have been satisfied with respect to such amendment.

This Agreement may also be amended from time to time, by a written amendment duly executed and delivered by the Issuer, the Administrator and the Transferor, with the written consent of the Owner Trustee (as such and in its individual capacity), the Noteholders evidencing not less than a majority in the Outstanding Amount of the Notes and the Owner, for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Agreement or modifying in any manner the rights of Noteholders or the Owner; provided, however, that, without the consent of the Holders of all of the Notes then outstanding, no such amendment shall (a) increase or reduce in any manner the amount of, or accelerate or delay the timing of, collections of payments on the Receivables or distributions that are required to be made for the benefit of the Noteholders or (b) reduce the aforesaid portion of the Outstanding Amount of the Notes, the Holders of which are required to consent to any such amendment.

Prior to the execution of any such amendment or consent, the Administrator shall furnish written notification of the substance of such amendment or consent to each Rating Agency. Promptly after the execution of any such amendment or consent, the Administrator shall furnish written notification of the substance of such amendment or consent to the Indenture Trustee.

It shall not be necessary for the consent of Noteholders pursuant to this Section to approve the particular form of any proposed amendment or consent, but it shall be sufficient if such consent shall approve the substance thereof.

Section 1.13 Successors and Assigns. This Agreement may not be assigned by the Administrator unless such assignment is previously consented to in writing by the Issuer, the Transferor and the Owner Trustee (as such and in its individual capacity) and subject to the satisfaction of the Rating Agency Condition in respect thereof. An assignment with such consent and satisfaction, if accepted by the assignee, shall bind the assignee hereunder in the same manner as the Administrator is bound hereunder. Notwithstanding the foregoing, upon notice to the Rating Agencies, this Agreement may be assigned by the Administrator without the consent of the Issuer, the Transferor, the Owner Trustee or the Rating Agencies to a corporation or other organization that is a successor (by merger, consolidation or purchase of assets) to the Administrator, provided that such successor organization executes and delivers to the Issuer, the Transferor and the Owner Trustee an agreement in which such corporation or other organization agrees to be bound hereunder by the terms of said assignment in the same manner as the Administrator is bound hereunder. Subject to the foregoing, this Agreement shall bind any successors or assigns of the parties hereto.

Section 1.14 GOVERNING LAW. THIS AGREEMENT AND EACH NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS (OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW) AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

Section 1.15 Effect of Headings and Table of Contents. The headings herein and Table of Contents are for convenience only and shall not affect the construction hereof.

Section 1.16 Counterparts. This Agreement may be executed in counterparts, each of which when so executed shall together constitute but one and the same agreement.

Section 1.17 Severability of Provisions. If any one or more of the covenants, agreements, provisions or terms of this Agreement shall for any reason whatsoever be held invalid, then such covenants, agreements, provisions, or terms shall be deemed severable from the remaining covenants, agreements, provisions, and terms of this Agreement and shall in no way affect the validity or enforceability of the other provisions of this Agreement.

Section 1.18 Not Applicable to Nordstrom fsb in Other Capacities. Nothing in this Agreement shall affect any obligation Nordstrom fsb may have in any other capacity, other than as Administrator.

Section 1.19 Limitation of Liability of Owner Trustee. Notwithstanding anything contained herein to the contrary, this instrument has been signed by Wilmington Trust Company not in its individual capacity but solely in its capacity as Owner Trustee of the Issuer and in no event shall Wilmington Trust Company in its individual capacity or any beneficial owner of the Issuer have any liability for the representations, warranties, covenants, agreements or other obligations of the Issuer hereunder, as to all of which recourse shall be had solely to the assets of the Issuer. For all purposes of this Agreement, in the performance of any duties or obligations hereunder, the Owner Trustee (as such or in its individual capacity) shall be subject to, and entitled to the benefits of, the terms and provisions of the Trust Agreement.

Section 1.20 Third-Party Beneficiary. The Owner Trustee is a third-party beneficiary to this Agreement and is entitled to the rights and benefits hereunder and may enforce the provisions hereof as if it were a party hereto.

Section 1.21 Nonpetition Covenant. Notwithstanding any prior termination of this Agreement, the Administrator shall not at any time with respect to the Issuer or the Transferor acquiesce, petition or otherwise invoke or cause the Issuer or the Transferor to invoke the process of any court or government authority for the purpose of commencing or sustaining a case against the Issuer or the Transferor under any Federal or state bankruptcy, insolvency or similar law or appointing a receiver, conservator, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or the Transferor or any substantial part of its property or ordering the winding up or liquidation of the affairs of the Issuer or the Transferor; provided, however, that this Section shall not operate to preclude any remedy described in Article Five of the Indenture.

Section 1.22 Successor Administrator. In the event of a servicing transfer pursuant to Article Seven of the Transfer and Servicing Agreement, the successor servicer under the Transfer and Servicing Agreement shall, upon the date of such servicing transfer, become the successor Administrator hereunder. "Administrator" shall mean initially Nordstrom fsb and thereafter its permitted successor and assigns as provided in Section 1.13 or any successor Administrator as provided in this Section.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and delivered as of the day and year first above written.

NORDSTROM PRIVATE LABEL CREDIT CARD
MASTER NOTE TRUST

By: WILMINGTON TRUST COMPANY,
not in its individual capacity
but solely as Owner Trustee

By: /s/ James P. Lawler

Name: James P. Lawler
Title: Vice President

NORDSTROM fsb,
as Administrator

By: /s/ Carol S. Powell

Name: Carol S. Powell
Title: Treasurer

Acknowledged and Accepted:

NORDSTROM PRIVATE LABEL
RECEIVABLES LLC,
as Transferor

By: /s/ Carol S. Powell

Name: Carol S. Powell
Title: Treasurer

Form of Power of Attorney

POWER OF ATTORNEY

STATE OF DELAWARE)
)
COUNTY OF _____)

KNOW ALL MEN BY THESE PRESENTS, that Nordstrom Private Label Credit Card Master Note Trust, a Delaware business trust (the "Trust"), does hereby make, constitute and appoint Nordstrom fsb, as Administrator under the Administration Agreement (as defined below), and its agents and attorneys, as Attorneys-in-Fact to execute on behalf of the Trust all such documents, reports, filings, instruments, certificates and opinions as it shall be the duty of the Trust to prepare, file or deliver pursuant to the Related Agreements (as defined in the Administration Agreement), including, without limitation, to appear for and represent the Trust in connection with the preparation, filing and audit of federal, state and local tax returns pertaining to the Trust, and with full power to perform any and all acts associated with such returns and audits that the Trust could perform, including without limitation, the right to distribute and receive confidential information, defend and assert positions in response to audits, initiate and defend litigation, and to execute waivers of restriction on assessments of deficiencies, consents to the extension of any statutory or regulatory time limit, and settlements. For the purpose of this Power of Attorney, the term "Administration Agreement" means the administration agreement, dated as of October 1, 2001, between the Trust and Nordstrom fsb, as administrator (the "Administrator"), as amended from time to time.

This power of attorney is coupled with an interest and shall survive and not be affected by the subsequent bankruptcy or dissolution of the Trust.

All powers of attorney for this purpose heretofore filed or executed by the Trust are hereby revoked.

EXECUTED this ____ day of October, 2001.

NORDSTROM PRIVATE LABEL CREDIT CARD
MASTER NOTE TRUST

By: WILMINGTON TRUST COMPANY,
not in its individual capacity
but solely as Owner Trustee

By: _____
Name: _____
Title: _____

TRUST AGREEMENT

This Trust Agreement, dated as of March 25, 2002 (the "Agreement"), is between Nordstrom Credit Card Receivables LLC, a Delaware limited liability company (the "Transferor"), and Wilmington Trust Company, a Delaware banking corporation, as trustee (in such capacity, the "Trustee").

In consideration of the mutual agreements herein contained, and of other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Creation. There is hereby formed, in accordance with the Delaware Business Trust Act (12 Del. Code Section 3801 et seq.) (the "Delaware Act"), a trust to be known as Nordstrom Credit Card Master Note Trust (the "Trust"), in which name the Trustee may engage in the activities of the Trust, make and execute contracts and other instruments on behalf of the Trust and sue and be sued. The parties hereto intend that the Trust be a business trust under the Delaware Act and that this Agreement shall constitute the governing instrument of the Trust. Effective as of the date hereof, the Trustee shall have all rights, powers and duties set forth herein and in the Delaware Act with respect to accomplishing the purposes of the Trust. The Trustee is hereby directed to file a certificate of trust in accordance with Section 3810 of the Delaware Act, a form of which is attached hereto as Exhibit A.

2. Trust Assets. The Transferor hereby grants, conveys, transfers and assigns to the Trust, and the Trustee hereby acknowledges receipt of, the sum of ten dollars (\$10.00), which sum shall be the initial assets of the Trust.

3. Indemnification of Trustee. The Trustee (as such and in its individual capacity) shall be indemnified and held harmless by the Transferor with respect to any loss, liability, claim, damage or expense incurred by the Trustee (as such or in its individual capacity) arising out of or incurred in connection with the acceptance or performance by the Trustee of the trusts and duties contained in this Agreement; provided, however, that the Trustee shall not be indemnified or held harmless as to any such loss, liability, claim, damage or expense incurred by reason of its willful misconduct, bad faith or gross negligence. The obligations of the Transferor under this Section Three shall survive the resignation or removal of the Trustee and the termination of this Agreement.

4. Resignation or Removal of Trustee. The Transferor may remove any trustee of the Trust at any time with or without cause. The Trustee may resign by giving 30 days' prior written notice to the Transferor; provided, that no such resignation shall become effective until a successor trustee shall have been appointed. Upon receiving notice of resignation, the Transferor shall promptly appoint by written instrument a successor Trustee. If no successor Trustee shall have been appointed within 30 days after such notice of resignation is given, the Trustee at the expense of the Transferor may petition a court of competent jurisdiction for the appointment of a successor.

5. Counterparts. This Agreement may be executed in any number of counterparts, each of which so executed and delivered shall be deemed to be an original, but all of which counterparts shall together constitute but one and the same instrument.

6. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware (without regard to conflict of laws provisions).

7. Amendment. This Agreement may be amended and restated by the parties hereto as necessary to provide for the operation of the Trust.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

NORDSTROM CREDIT CARD
RECEIVABLES LLC

By: /s/ Kevin T. Knight

Name: Kevin T. Knight
Title: President

WILMINGTON TRUST COMPANY,
as Trustee

By: /s/ Donald G. MacKelcan

Name: Donald G. MacKelcan
Title: Vice President

EXHIBIT A

CERTIFICATE OF TRUST

This Certificate of Trust of Nordstrom Credit Card Master Note Trust (the "Trust"), dated March 25, 2002, is being duly executed and filed by Wilmington Trust Company, a Delaware banking corporation, as trustee, to form a business trust under the Delaware Business Trust Act (12 Del. Code, Section 3801 et seq.).

1. Name. The name of the business trust formed hereby is Nordstrom Credit Card Master Note Trust.

2. Delaware Trustee. The name and business address of the trustee of the Trust having its principal place of business in the State of Delaware is Wilmington Trust Company, Rodney Square North, 1100 North Market Street, Wilmington, Delaware 19890-00001, Attention: Corporate Trust Administration Department.

3. Effective Date. This Certificate of Trust shall be effective upon its filing with the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, the undersigned, being the sole trustee of the Trust, has executed this Certificate of Trust as of the date first above written.

WILMINGTON TRUST COMPANY,
as Trustee

By: _____
Name: _____
Title: _____

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

/s/ Blake W. Nordstrom

Blake W. Nordstrom
President of Nordstrom, Inc.

Date: August 31, 2006

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

/s/ Michael G. Koppel

Michael G. Koppel
Executive Vice President and Chief
Financial Officer of Nordstrom, Inc.

Date: August 31, 2006

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

In connection with the Quarterly Report of Nordstrom, Inc (the "Company") on Form 10-Q for the period ended July 29, 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.

August 31, 2006

/s/ Blake W. Nordstrom

Blake W. Nordstrom
President

/s/ Michael G. Koppel

Michael G. Koppel
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.