NORDSTROM INC
Form 10-K
March 16, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 31, 2015
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to___________
Commission file number 001-15059
NORDSTROM, INC.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code 206-628-2111
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES þ NO ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ NO ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO þ
As of August 1, 2014 the aggregate market value of the Registrant's voting and non-voting stock held by non-affiliates of the Registrant was approximately $10.6 billion using the closing sales price on that day of $68.95. On March 2, 2015, 190,405,729 shares of common stock were outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Proxy Statement for the 2015 Annual Meeting of Shareholders scheduled to be held on May 5, 2015 are incorporated into Part III.

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PART I

Item 1. Business.

DESCRIPTION OF BUSINESS

Founded in 1901 as a retail shoe business in Seattle, Nordstrom later incorporated in Washington state in 1946 and went on to become one of the leading fashion specialty retailers based in the U.S. As of March 16, 2015, we operate 290 U.S. stores located in 38 states as well as a robust ecommerce business through Nordstrom.com, Nordstromrack.com and HauteLook and TrunkClub.com. We also operate two Nordstrom full-line stores in Canada. The west and east coasts of the U.S. are the areas in which we have the largest presence. We have two reportable segments: Retail and Credit.

As of March 16, 2015, the Retail segment includes our 115 “Nordstrom” branded full-line stores in the U.S. and Nordstrom.com, 167 off-price Nordstrom Rack stores, two Canada full-line stores, Nordstromrack.com and HauteLook, and other retail channels including five Trunk Club showrooms and TrunkClub.com, our two Jeffrey boutiques and one clearance store that operates under the name “Last Chance.” Through these multiple retail channels, we strive to deliver the best customer experience possible. We offer an extensive selection of high-quality brand-name and private label merchandise focused on apparel, shoes, cosmetics and accessories. Our integrated Nordstrom full-line stores and online store allow us to provide our customers with a seamless shopping experience. In-store purchases are primarily fulfilled from that store’s inventory, but when inventory is unavailable at that store it may also be shipped to our customers from our fulfillment center in Cedar Rapids, Iowa, or from other Nordstrom full-line stores. Online purchases are primarily shipped to our customers from our Cedar Rapids fulfillment center, but may also be shipped from our Nordstrom full-line stores. Our customers can also pick up online orders in our Nordstrom full-line stores if inventory is available at one of our locations. These capabilities allow us to better serve customers across various channels and improve sales. Nordstrom Rack stores purchase high-quality brand-name merchandise primarily from the same vendors carried in Nordstrom full-line stores and also serve as outlets for clearance merchandise from our Nordstrom stores and other retail channels. During the year, we launched Nordstromrack.com and the associated mobile app. Nordstromrack.com combines the technology expertise of HauteLook with the merchant expertise of Nordstrom Rack. Nordstromrack.com and HauteLook offer limited-time sale events on fashion and lifestyle brands as well as a persistent selection of off-price, high-quality brand-name merchandise and are integrated with a single customer log-in, shared shopping cart and streamlined checkout process. Furthermore, we can accommodate returns from these sites by mail or at any Nordstrom Rack location.

Our Credit segment includes our wholly owned federal savings bank, Nordstrom fsb, through which we provide a private label credit card, two Nordstrom Visa credit cards and a debit card. The credit and debit cards feature a loyalty program designed to increase customer visits and spending. Although the primary purposes of our Credit segment are to foster greater customer loyalty and drive more sales, we also generate revenues from finance charges and other fees on these cards. In addition, we save on interchange fees that the Retail segment would incur if our customers used third-party cards.

For more information about our business and our reportable segments, see Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 16: Segment Reporting in Item 8: Financial Statements and Supplementary Data.

FISCAL YEAR

We operate on a 52/53-week fiscal year ending on the Saturday closest to January 31st. References to 2014 and all years within this document are based on a 52-week fiscal year, except 2012, which is based on a 53-week fiscal year.

TRADEMARKS

We have 156 trademarks, each of which is the subject of one or more trademark registrations and/or trademark applications. Our most notable trademarks include Nordstrom, Nordstrom Rack, HauteLook, Halogen, BP., Zella, Caslon and Trunk Club. Each of our trademarks is renewable indefinitely, provided that it is still used in commerce at the time of the renewal.

RETURN POLICY

We have a fair and liberal approach to returns as part of our objective to provide high-quality customer service. We do not have a formal return policy at our Nordstrom full-line stores or online at Nordstrom.com. Our goal is to take care of our customers, which includes making returns and exchanges easy, whether in stores or online, where we offer free shipping and free returns. Our Nordstrom Rack stores generally accept returns up to 90 days from the date of purchase with the original price tag and sales receipt, and also accept returns of Nordstromrack.com and HauteLook merchandise. Nordstromrack.com and HauteLook generally accept returns of apparel, footwear and accessories within 90 days from the date of shipment.

SEASONALITY

Due to our Anniversary Sale in July and the holidays in December, our sales are typically higher in the second and fourth quarters than in the first and third quarters of the fiscal year.

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COMPETITIVE CONDITIONS

We operate in a highly competitive business environment. We compete with other national, regional, local and online retailers that may carry similar lines of merchandise, including department stores, specialty stores, off-price stores, boutiques and Internet businesses. Our specific competitors vary from market to market. We believe the keys to competing in our industry are providing great customer service and customer experiences in stores and online, which includes compelling price and value, fashion newness, quality of products, selection, convenience, technology, product fulfillment, personalization and appealing, relevant store environments in top locations.

INVENTORY

We plan our merchandise purchases and receipts to coincide with expected sales trends. For instance, our merchandise purchases and receipts increase prior to our Anniversary Sale, which has historically extended over the last two weeks of July. We also purchase and receive a larger amount of merchandise in the fall as we prepare for the holiday shopping season (from late November through December). Beginning in 2012, we increased our investment in pack and hold inventory at Nordstrom Rack, which involves the strategic purchase of merchandise from some of our full-line stores' top brands in advance of the upcoming selling seasons to take advantage of favorable buying opportunities. This inventory is typically held for six months on average and has contributed to the growth in our Nordstrom Rack business. We pay for our merchandise purchases under the terms established with our vendors.

In order to offer merchandise that our customers want, we purchase from a wide variety of high-quality suppliers, including domestic and foreign businesses. We also have arrangements with agents and contract manufacturers to produce our private label merchandise. We expect our suppliers to meet our "Nordstrom Partnership Guidelines," which address our corporate social responsibility standards for matters such as legal and regulatory compliance, labor, health and safety and the environment, and are available on our website at Nordstrom.com.

EMPLOYEES

During 2014, we employed approximately 67,000 employees on a full- or part-time basis. Due to the seasonal nature of our business, employment increased to approximately 68,000 employees in July 2014 and 73,500 in December 2014. All of our employees are non-union. We believe our relationship with our employees is good.

CAUTIONARY STATEMENT

Certain statements in this Annual Report on Form 10-K contain or may suggest "forward-looking" information (as defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties, including, but not limited to, anticipated financial outlook for the fiscal year ending January 30, 2016, anticipated annual total and comparable sales rates, anticipated new store openings in existing, new and international markets, anticipated Return on Invested Capital and trends in our operations. Such statements are based upon the current beliefs and expectations of the company's management and are subject to significant risks and uncertainties. Actual future results may differ materially from historical results or current expectations depending upon factors including, but not limited to:

- successful execution of our customer strategy, including expansion into new markets, acquisitions, investments in our stores and online, our ability to realize the anticipated benefits from growth initiatives, our ability to provide a seamless experience across all channels, and the timely completion of construction associated with newly planned stores, relocations and remodels, all of which may be impacted by the financial health of third parties,
- our ability to manage the transformation of our business/financial model as we increase our investments in growth opportunities, including our online business and our ability to manage related organizational changes,
- our ability to maintain relationships with our employees and to effectively attract, develop and retain our future leaders,
- effective inventory management, disruptions in our supply chain and our ability to control costs,
- the impact of any systems failures, cybersecurity and/or security breaches, including any security breach of our systems or those of a third-party provider that results in the theft, transfer or unauthorized disclosure of customer, employee or company information or compliance with information security and privacy laws and regulations in the event of such an incident,
- successful execution of our information technology strategy,

- our ability to effectively utilize data in strategic planning and decision making,
- efficient and proper allocation of our capital resources,
- reviewing of options and structure for a financial partner in regards to a potential transaction related to our credit card receivables,
- our ability to safeguard our reputation and maintain our vendor relationships,
- the impact of economic and market conditions and the resultant impact on consumer spending patterns,
- our ability to respond to the business environment, fashion trends and consumer preferences, including changing expectations of service and experience in stores and online,
- the effectiveness of planned advertising, marketing and promotional campaigns in the highly competitive retail industry,
- weather conditions, natural disasters, health hazards, national security or other market disruptions, or the prospects of these events and the resulting impact on consumer spending patterns,
- our compliance with applicable banking-related laws and regulations impacting our ability to extend credit to our customers, employment laws and regulations, certain international laws and regulations, other laws and regulations applicable to us, including the outcome of claims and litigation and resolution of tax matters, and ethical standards,
- impact of the current regulatory environment and financial system and health care reforms,

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- compliance with debt covenants, availability and cost of credit, changes in interest rates, and trends in debt repayment patterns, personal bankruptcies and bad debt write-offs, and
- the timing and amounts of share repurchases by the company, if any, or any share issuances by the company, including issuances associated with option exercises or other matters.

These and other factors, including those factors described in Item 1A: Risk Factors, could affect our financial results and cause actual results to differ materially from any forward-looking information we may provide. We undertake no obligation to update or revise any forward-looking statements to reflect subsequent events, new information or future circumstances.

SEC FILINGS

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission ("SEC"). All material we file with the SEC is publicly available at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

WEBSITE ACCESS

Our website address is Nordstrom.com. Our annual and quarterly reports on Form 10-K and Form 10-Q (including related filings in eXtensible Business Reporting Language ("XBRL") format), current reports on Form 8-K, proxy statements, our executives' statements of changes in beneficial ownership of securities on Form 4 and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are available for free on or through our website as soon as reasonably practicable after we electronically file the report with or furnish it to the SEC. Interested parties may also access a webcast of quarterly earnings conference calls and other financial events through our website.

CORPORATE GOVERNANCE

We have a long-standing commitment to upholding a high level of ethical standards. In addition, as the listing standards of the New York Stock Exchange ("NYSE") and the rules of the SEC require, we have adopted Codes of Business Conduct and Ethics for our employees, officers and directors ("Codes of Ethics") and Corporate Governance Guidelines. Our Codes of Ethics, Corporate Governance Guidelines and Committee Charters for the Audit, Compensation, Corporate Governance and Nominating, Finance and Technology Committees are posted on our website. Any amendments to these documents, or waivers of the requirements they contain, will also be available on our website.

For printed versions of these items or any other inquiries, please contact:

Nordstrom Investor Relations
PO Box 2737
Seattle, Washington 98111
(206) 303-3200
invrelations@nordstrom.com

Item 1A. Risk Factors.

Our business faces many risks. We believe the risks described below outline the items of most concern to us.

RISKS DUE TO STRATEGIC AND OPERATIONAL FACTORS

Our customer strategy focuses on providing a seamless, cohesive and high-quality experience across all Nordstrom channels and failure to successfully execute our plans could negatively impact our current business and future profitability.

We are enhancing our customer shopping experience in our stores, online, and in mobile and social channels by pursuing a heightened focus on technology and ecommerce to fuel our growth. With the accelerated pace of change in the retail environment, we may not be able to meet our customers' changing expectations in how they shop in stores or through ecommerce. If we target the wrong opportunities, fail to make investments at the right time or pace, fail to make the best investments in the right channels or make an investment commitment significantly above or below our needs, it may result in the loss of our competitive position. If these technologies and investments do not perform as expected or are not seamlessly integrated, our profitability and growth could be adversely affected. In addition, if we do not maintain our current systems, we may see interruptions to our business and increased costs in order to bring our systems up to date.

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We are continuing our plan to accelerate the number of new Nordstrom Rack store openings. New store openings both at the Rack and in our full-line stores involve certain risks, including the availability of suitable locations, constructing, furnishing and supplying a store in a timely and cost-effective manner and properly balancing our capital investments between new stores, remodels, technology and ecommerce. In addition, we may not accurately assess the demographic or retail environment for a particular location and sales at new, relocated or remodeled stores may not meet our projections, particularly in light of the changing trends between online and brick-and-mortar shopping channels, which could adversely affect our return on investment. We also intend to open stores in new and international markets, such as Canada, Puerto Rico and Manhattan, and expansion will require additional management attention and resources and may distract us from executing our core operations. In addition, competition from strong local competitors, compliance with foreign and local laws and regulatory requirements and potentially unfavorable tax consequences may cause our business to be adversely impacted.

As we execute our plans and continue to evolve and transform our strategy, we may not adequately manage the related organizational changes to align with our strategy or appropriately monitor, report or communicate the changes in an effective manner. In addition, we may not gather accurate and relevant data or effectively utilize that data, which may impact our strategic planning and decision making.

Our stores located in shopping malls may be adversely affected if the consumer traffic of malls decline.

Many of our stores are located in desirable locations within shopping malls and benefit from the abilities that we and other anchor tenants have to generate consumer traffic. A substantial decline in mall traffic, the development of new shopping malls, the availability of locations within existing or new shopping malls, the success of individual shopping malls and the success of other anchor tenants may negatively impact our ability to maintain or grow our sales in existing stores, as well as our ability to open new stores, which could have an adverse effect on our financial condition or results of operations.

Improvements to our merchandise buying processes and systems could adversely affect our business if not successfully executed.

We are making investments to improve our merchandise planning, procurement and allocation capabilities through changes in personnel, processes and technology over a period of several years. If we encounter challenges associated with change management, the ability to hire and retain key personnel involved in these efforts, implementation of associated information technology or adoption of new processes, our ability to continue to successfully execute our strategy or evolve our strategy as the retail environment changes could be adversely affected. As a result, we may not derive the expected benefits to our sales and profitability, or we may incur increased costs relative to our current expectations.

If we do not effectively design and implement our strategic and business planning processes to attract, retain, train and develop talent and future leaders, our business may suffer.

We rely on the experience of our senior management, who have specific knowledge relating to us and our industry that is difficult to replace, and the talents of our workforce to execute our business strategies and objectives. If unexpected turnover occurs without adequate succession plans, the loss of the services of any of these individuals, or any resulting negative perceptions of our business, could damage our reputation and our business.

Even if we take appropriate measures to safeguard our information security and privacy environment from security breaches, our customers and our business could still be exposed to risk.

Our Retail and Credit segments involve the collection, storage and transmission of customers' personal information, consumer preferences and credit card information. In addition, our operations involve the collection, storage and transmission of employee information and company financial and strategic data. Any measures we implement to prevent a security or cybersecurity threat may not be totally effective and may have the potential to harm relations with our customers or decrease activity on our websites by making them more difficult to use. In addition, the regulatory environment surrounding information security, cybersecurity and privacy is increasingly demanding, with new and constantly changing requirements. Security breaches and cyber incidents and their remediation, whether at our company, our third-party providers or other retailers, could expose us to a risk of loss or misappropriation of this information, litigation, potential liability, reputation damage and loss of customers' trust and business, which could adversely impact our sales. Any such breaches or incidents could subject us to investigation, notification and remediation costs, and if there is additional information that is later discovered related to such security breach or incident, there could be further loss of customers' trust and business, based upon their reactions to this additional information. Additionally, as a credit card issuer, we could be subject to credit card fraud losses due to external credit card fraud.

If we fail to appropriately manage our capital, we may negatively impact our operations and shareholder return.

We utilize capital to finance our operations, make capital expenditures and acquisitions, manage our debt levels and return value to our shareholders through dividends and share repurchases. If our access to capital is restricted or our borrowing costs increase, our operations and financial condition could be adversely impacted. Further, if we do not properly allocate our capital to maximize returns, our operations, cash flows and returns to shareholders could be adversely affected.

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Our customer and employee relationships could be negatively affected if we fail to maintain our corporate culture and reputation.

We have a well-recognized culture and reputation that consumers may associate with a high level of integrity, customer service and quality merchandise, and it is one of the reasons customers shop with us and employees choose us as a place of employment. Any significant damage to our reputation could negatively impact sales, diminish customer trust, reduce employee morale and productivity and lead to difficulties in recruiting and retaining qualified employees.

The potential transaction related to our credit card receivables could adversely impact our business.

In May 2014, we announced that we are reviewing options for a financial partner for our credit card receivables. This review may not result in a consummated transaction, and further, could divert management’s attention away from our core Retail business, negatively impacting our execution on our customer strategy. If we do not successfully execute a transaction that meets our needs or fail to properly allocate our capital to maximize returns, our operations, cash flows and returns to shareholders could be adversely affected. Additionally, credit rating agencies may downgrade our business, which could adversely impact our operations and cash flows. Although we do not expect any change to the customer experience following a transaction, if such a transaction negatively impacts the customer service associated with our credit cards, this could harm our business and reputation, harming our competitive position.

The concentration of stock ownership in a small number of our shareholders could limit your ability to influence corporate matters.

We have regularly reported in our annual proxy statements the holdings of members of the Nordstrom family, including Bruce A. Nordstrom, our former Co-President and Chairman of the Board, his sister Anne E. Gittinger and members of the Nordstrom family within our Executive Team. In our proxy statement as of March 2, 2015, for the 2015 Annual Meeting of Shareholders, these individuals owned an aggregate of approximately 27% of our common stock. As a result, either individually or acting together, they may be able to exercise considerable influence over matters requiring shareholder approval. As reported in our periodic filings, our Board of Directors has from time to time authorized share repurchases. While these share repurchases may be offset in part by share issuances under our equity incentive plans and as consideration for acquisitions, the repurchases may nevertheless have the effect of increasing the overall percentage ownership held by these shareholders. The corporate law of the State of Washington, where the company is incorporated, provides that approval of a merger or similar significant corporate transaction requires the affirmative vote of two-thirds of a company’s outstanding shares. The beneficial ownership of these shareholders may have the effect of discouraging offers to acquire us, delay or otherwise prevent a significant corporate transaction because the consummation of any such transaction would likely require the approval of these shareholders. As a result, the market price of our common stock could be affected.

Investment and partnerships in new business strategies and acquisitions could disrupt our core business.

We have invested in or are pursuing strategic growth opportunities, which may include acquisitions of, or investments in, other businesses, as well as new technologies or other investments to provide a superior customer shopping experience in our stores and online. Additionally, our business model will continue to rely more on partnerships with third parties for certain strategic initiatives and technologies. If these investments, acquisitions or partnerships do not perform as expected or create operational difficulties, our profitability and growth could be adversely affected.

RISKS DUE TO ECONOMIC AND EXTERNAL MARKET FACTORS

A downturn in economic conditions could have a significant adverse effect on our business.

During economic downturns, fewer customers may shop for the high-quality items in our stores and on our websites as they may be seen as discretionary and those who do shop may limit the amount of their purchases. This reduced demand may lead to lower sales, higher markdowns and increased marketing and promotional spending.

Our business could suffer if we do not appropriately assess and react to competitive market forces and changes in customer behavior.

We compete with other national, regional, local and online retailers that may carry similar lines of merchandise, including department stores, specialty stores, off-price stores, boutiques and Internet businesses. The retail environment is rapidly evolving with customer shopping preferences continuing to shift online and we expect competition in the ecommerce market to intensify in the future as the Internet facilitates competitive entry and comparison shopping. We may lose market share to our competitors and our sales and profitability could suffer if we are unable to remain competitive in the key areas of price and value, fashion newness, quality of products, depth of selection, convenience, fulfillment, service and the shopping experience, including the online and store environment and store location. Our financial model is changing to match customer shopping preferences, but if we do not properly allocate our capital between the store and online environment, or adjust the effectiveness and efficiency of our stores, our overall sales and profitability could suffer.

Our Credit segment faces competition from other retailers who also offer credit card products with associated loyalty programs, large banks and other credit card companies, some of which have substantial financial resources. If we do not effectively anticipate or respond to the competitive banking and credit card environments, we could lose market share to our competitors.

Our sales and customer relationships may be negatively impacted if we do not anticipate and respond to consumer preferences and fashion trends appropriately.

Our ability to predict or respond to constantly changing fashion trends, consumer preferences and spending patterns significantly impacts our sales and operating results. If we do not identify and respond to emerging trends in consumer spending and preferences quickly enough, we may harm our ability to retain our existing customers or attract new customers. If we purchase too much inventory, we may be forced to sell our merchandise at lower average margins, which could harm our business. Conversely, if we fail to purchase enough merchandise, we may lose opportunities for additional sales and damage our relationships with our customers.

The results of our Credit operations could be adversely affected by changes in market conditions.

Our credit card revenues and profitability are subject in large part to economic and market conditions that are beyond our control, including, but not limited to, interest rates, consumer credit availability, consumer debt levels, unemployment trends and other factors. These economic and market conditions could impair our credit card revenues and the profitability of our credit card business due to factors such as lower demand for credit, or could impair ability to assess the creditworthiness of our customers if the criteria and/or models we use to underwrite and manage our customers become less predictive of future losses, causing our losses to rise and have a negative impact on our results of operations. Deterioration of economic conditions and consumer confidence may also adversely affect our credit customers' payment patterns and delinquency rates, increasing our bad debt expense.

Our business and operations could be materially and adversely affected by supply chain disruptions, port disruptions, severe weather patterns, natural disasters, widespread pandemics and other natural or man-made disruptions.

We derive a significant amount of our total sales from stores located on the west and east coasts of the United States, particularly in California, which increases our exposure to conditions in these regions. Similarly, merchandise received through west coast ports could be adversely impacted by labor disruptions. These disruptions could cause, among other things, a decrease in consumer spending that would negatively impact our sales, staffing shortages in our stores, distribution centers or corporate offices, interruptions in the flow of merchandise to our stores, disruptions in the operations of our merchandise vendors or property developers, increased costs, and a negative impact on our reputation and long-term growth plans.

RISKS DUE TO LEGAL AND REGULATORY FACTORS

We are subject to certain laws, litigation, regulatory matters and ethical standards, and our failure to comply with or adequately address developments as they arise could adversely affect our reputation and operations.

Our policies, procedures and practices and the technology we implement are designed to comply with federal, state, local and foreign laws, rules and regulations, including those imposed by the SEC and other regulatory agencies, the marketplace, the banking industry and foreign countries, as well as responsible business, social and environmental practices, all of which may change from time to time. Significant legislative changes, including those that relate to employment matters and health care reform, could impact our relationship with our workforce, which could increase our expenses and adversely affect our operations. In addition, if we fail to comply with applicable laws and regulations or implement responsible business, social, environmental and supply chain practices, we could be subject to damage to our reputation, class action lawsuits, legal and settlement costs, civil and criminal liability, increased cost of regulatory compliance, restatements of our financial statements, disruption of our business and loss of customers. Any required changes to our employment practices could result in the loss of employees, reduced sales, increased employment costs, low employee morale and harm to our business and results of operations. In addition, political and economic factors could lead to unfavorable changes in federal, state and foreign tax laws, which may increase our tax liabilities. An increase in our tax liabilities could adversely affect our results of operations. We are also regularly involved in various litigation matters that arise in the ordinary course of business. Litigation or regulatory developments could adversely affect our business and financial condition.

We continue to face uncertainties due to financial services industry regulation and supervision that could have an adverse affect on our operations.

Federal and state regulation and supervision of the financial industry has increased in recent years due to implementation of consumer protection and financial reform legislation such as the Credit Card Accountability Responsibility and Disclosure Act of 2009 (“CARD Act”) and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Financial Reform Act”). The Financial Reform Act significantly restructured regulatory oversight and other aspects of the financial industry, created the Consumer Financial Protection Bureau (“CFPB”) to supervise and enforce consumer lending laws and regulations, and expanded state authority over consumer lending. The CARD Act included new and revised rules and restrictions on credit card pricing, finance charges and fees, customer billing practices and payment application. We anticipate more regulation and interpretations of the new rules to continue, and, depending on the nature and extent of these new regulations and interpretations, we may be required to make changes to our credit card practices and systems, which could adversely impact the revenues and profitability of our Credit segment. In addition, we operate in a regulated environment where financial supervisory agencies provide oversight over our activities. Compliance with applicable laws and regulations could limit or restrict our activities and the conduct of our business and enforcement actions by those agencies for failure to comply could have an adverse impact on us.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The following table summarizes the number of retail stores we own or lease, and the percentage of total store square footage represented by each listed category as of January 31, 2015:

	Number of stores	% of total store square footage	
Leased stores on leased land	195	38	%
Owned stores on leased land	61	40	%
Owned stores on owned land	35	21	%
Partly owned and partly leased store	1	1	%
Total	292	100	%

The following table summarizes our store activity during the last three years:

Fiscal year	2014	2013	2012
Number of stores, beginning of year	260	240	225