NORDSTROM INC
Form 10-Q/A
June 03, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended May 1, 2004

[ ] 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	91-0515058
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1617 Sixth Avenue, Seattle, Washington 98101

(Address of principal executive offices) (Zip code)

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

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 X NO ____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES X NO ____

Common stock outstanding as of May 29, 2004: 140,422,630 shares of common stock.

Explanatory Note

This Amendment to the Quarterly Report on Form 10-Q for Nordstrom, Inc. (the "Company") for the fiscal quarter ended May 1, 2004, is being filed to correct two errors in our previously issued financial statements: the statements of cash flows presentation of property incentive cash inflows and the balance sheet classification of leased assets that were previously treated as sale-leaseback transactions. In addition, we have reclassified balances in our previously issued financial statements to conform to our current presentation. The principal reclassification items relate to the balance sheet and cash flow presentation of the following: our Auction Rate Securities, our presentation of outstanding checks drawn on our disbursement bank accounts, and our third party credit card receivables. See Note 10 in our Notes to Condensed Consolidated Financial Statements for a discussion of these corrections and reclassifications, and a reconciliation of amounts previously reported to those shown herein. We have also revised our discussion in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations. Information not affected by the corrections and reclassifications as described in Note 10 remains unchanged and reflects the disclosures made at the time of the original filing of the Form 10-Q on June 8, 2004. Our previously reported net earnings, earnings per share and shareholders' equity are not impacted by these corrections and reclassifications.

NORDSTROM, INC. AND SUBSIDIARIES

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NORDSTROM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(amounts in thousands except per share amounts)
(unaudited)

	Quarter Ended	
	May 1, 2004	May 3, 2003
Net sales	$1,535,490	$1,335,472
Cost of sales and related buying and occupancy costs	(972,932)	(886,095)
Gross profit	562,558	449,377
Selling, general and administrative expenses	(452,734)	(420,326)
Operating income	109,824	29,051
Interest expense, net	(36,684)	(20,228)
Service charge income and other, net	39,487	35,632
Earnings before income taxes	112,627	44,455
Income tax expense	(43,900)	(17,300)
Net earnings	$ 68,727	$ 27,155
Basic earnings per share	$ 0.49	$ 0.20
Diluted earnings per share	$ 0.48	$ 0.20

Basic shares	139,110	135,578
Diluted shares	141,975	135,798
Cash dividends paid per share of common stock outstanding	$ 0.11	$ 0.10

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

NORDSTROM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands)
(unaudited)

	May 1, 2004	January 31, 2004	May 3, 2003
	As Restated, see Note 10		
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 172,372	$ 340,281	$ 141,817
Short-term investments	85,000	176,000	54,452
Accounts receivable, net	640,581	666,811	647,100
Retained interest in accounts receivable	307,663	272,294	155,609
Merchandise inventories	1,020,812	901,623	1,078,232
Current deferred tax assets	127,063	121,681	109,006
Prepaid expenses	49,088	46,153	43,106
Total current assets	2,402,579	2,524,843	2,229,322
Land, buildings and equipment (net of accumulated depreciation of $2,159,707, $2,121,158 and $1,949,900)	1,787,436	1,807,778	1,849,082
Goodwill, net	51,714	51,714	51,714
Tradename, net	84,000	84,000	84,000
Other assets	99,045	100,898	68,425
TOTAL ASSETS	$4,424,774	$4,569,233	$4,282,543

LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$563,733	$458,809	$533,074
Accrued salaries, wages and related benefits	175,773	276,007	163,396
Other accrued expenses	294,613	314,753	252,575
Income taxes payable	53,844	66,157	32,579
Current portion of long-term debt	6,502	6,833	5,615
Total current liabilities	1,094,465	1,122,559	987,239
Long-term debt	1,024,283	1,227,410	1,341,262
Deferred property incentives, net	399,927	407,856	425,606
Other liabilities	174,469	177,399	135,055
Shareholders' Equity:			
Common stock, no par: 500,000 shares authorized; 139,816, 138,377 and 135,810 shares issued and outstanding	466,573	424,645	363,258
Unearned stock compensation	(522)	(597)	(1,843)
Retained earnings	1,254,566	1,201,093	1,027,713
Accumulated other comprehensive earnings	11,013	8,868	4,253
Total shareholders' equity	1,731,630	1,634,009	1,393,381
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$4,424,774	$4,569,233	$4,282,543

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

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

	Quarter Ended	
	May 1, 2004	May 3, 2003
	As Restated, see Note 10	
OPERATING ACTIVITIES:		
Net earnings	$68,727	$27,155
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	64,917	62,835
Amortization of deferred property incentives and other, net	(8,666)	(6,409)
Stock-based compensation expense	1,264	87

Deferred income taxes, net	(3,597)	1
Tax benefit on stock option exercise	6,536	110
Provision for bad debt expense	6,390	7,830
Change in operating assets and liabilities:		
Accounts receivable, net	18,930	(466)
Retained interest in accounts receivable	(33,335)	(29,107)
Merchandise inventories	(113,386)	(123,798)
Prepaid expenses	(933)	(4,058)
Other assets	691	(108)
Accounts payable	121,052	151,460
Accrued salaries, wages and related benefits	(98,019)	(52,765)
Other accrued expenses	(20,077)	(18,646)
Income taxes payable	(27,218)	(28,491)
Property incentives	833	17,172
Other liabilities	7,428	3,702
Net cash (used in) provided by operating activities	(8,463)	6,504
INVESTING ACTIVITIES:		
Capital expenditures	(48,257)	(59,962)
Sales of short-term investments	1,122,150	498,916
Purchases of short-term investments	(1,031,150)	(432,102)
Other, net	1,194	476
Net cash provided by investing activities	43,937	7,328
FINANCING ACTIVITIES:		
Principal payments on long-term debt	(198,739)	(541)
Increase (decrease) in bank overdrafts	(21,586)	10,564
Proceeds from exercise of stock options	25,920	457
Proceeds from employee stock purchases	6,276	4,458
Cash dividends paid	(15,254)	(13,547)
Other, net	-	2,341
Net cash (used in) provided by financing activities	(203,383)	3,732
Net decrease in cash and cash equivalents	(167,909)	17,564
Cash and cash equivalents at beginning of period	340,281	124,253
Cash and cash equivalents at end of period	$172,372	$141,817

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

NORDSTROM, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands except per share 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 2003 Amended Annual Report filed with the Securities and Exchange Commission on April 8, 2005. The same accounting policies are followed for preparing quarterly and annual financial data. 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.

(amounts in thousands except per share amounts)

Due to the seasonal nature of the retail industry, quarterly results are not necessarily indicative of the results for the full fiscal year.

Reclassifications

Certain reclassifications of previously reported balances have been made to conform with our current presentation.
See Note 10 for a discussion of the significant reclassifications and a reconciliation of amounts previously reported to those shown herein.

Stock Compensation

We apply APB No. 25, "Accounting for Stock Issued to Employees," in measuring compensation costs under our stock-based compensation programs, which are described more fully in our 2003 Annual Report.

If we had elected to recognize compensation cost based on the fair value of the options and shares at grant date, net earnings and earnings per share would have been as follows:

	Quarter Ended	
	May 1, 2004	May 3, 2003
Net earnings, as reported	$68,727	$27,155
Add: stock-based compensation expense included in reported net earnings, net of tax	771	53
Deduct: stock-based compensation expense determined under fair value, net of tax	(5,651)	(6,276)
Pro forma net earnings	$63,847	$20,932
Earnings per share:		
Basic - as reported	$0.49	$0.20
Diluted - as reported	$0.48	$0.20
Basic - pro forma	$0.46	$0.15
Diluted - pro forma	$0.45	$0.15

Note 1 - Summary of Significant Accounting Policies (Cont.)

Recent Accounting Pronouncements

During November 2003, the EITF reached a consensus on Issue 03-10, "Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers." EITF 03-10 addresses the accounting and disclosure treatment for a retailer's reimbursement receipt from a vendor for coupons offered directly to consumers by the vendor. EITF 03-10 is effective for coupons redeemed by retailers in fiscal years beginning after December 15, 2003. The adoption of EITF 03-10 did not have a material impact on our financial statements.

Note 2 - Postretirement 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	
	May 1, 2004	May 3, 2003
Service cost	$372	$205
Interest cost	991	855
Amortization of net loss	386	188
Amortization of prior service cost	240	173
Total expense	$1,989	$1,421

Note 3 - Earnings Per Share

	Quarter Ended	
	May 1, 2004	May 3, 2003
Net earnings	$68,727	$27,155
Basic shares	139,110	135,578
Dilutive effect of stock options and performance share units	2,865	220
Diluted shares	141,975	135,798
Basic earnings per share	$0.49	$0.20
Diluted earnings per share	$0.48	$0.20
Antidilutive stock options	1,980	13,798

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

Note 4 - Accounts Receivable

The components of accounts receivable are as follows:

	May 1, 2004	January 31, 2004	May 3, 2003
Trade receivables:			
Unrestricted	$30,800	$25,228	$32,591
Restricted	556,647	589,992	574,592
Allowance for doubtful accounts	(19,934)	(20,320)	(22,354)
Trade receivables, net	567,513	594,900	584,829
Other	73,068	71,911	62,271
Accounts receivable, net	$640,581	$666,811	$647,100

The restricted private label receivables back the $300,000 Class A notes and the $200,000 variable funding note issued by us in November 2001. Other accounts receivable consist primarily of credit card receivables due from third-party financial institutions and vendor rebates, which are believed to be fully realizable as they are collected soon after they are earned.

Note 5 - Debt

During the first quarter of 2004, we retired $196,770 of our 8.95% senior notes and $973 of our 6.7% medium-term notes for a total cash payment of $219,587. We recognized $20,842 of expense in the first quarter of 2004 related to this purchase.

We had an interest rate swap outstanding with a fair value of ($12,630) and ($8,091) at May 1, 2004 and January 31, 2004, recorded in other liabilities. Our swap has a $250,000 notional amount, expires in 2009 and is designated as a fully effective fair value hedge. Under the agreement, we received a fixed rate of 5.63% and paid a variable rate based on LIBOR plus a margin of 2.3% set at six-month intervals (3.945% at May 1, 2004.)

We did not make any borrowings under our unsecured line of credit or our variable funding note backed by Nordstrom private label receivables during the first quarter of 2004.

Note 6 - Comprehensive Net Earnings

	Quarter Ended	
	May 1, 2004	May 3, 2003
Net earnings	$68,727	$27,155
Foreign currency translation adjustment	921	358
Securitization adjustment, net of tax of ($783)		

and ($764)	1,224	1,195
Comprehensive net earnings	$70,872	$28,708

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

Note 7 - Segment Reporting

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

Quarter ended May 1, 2004	Retail Stores	Credit Operations	Catalog/ Internet	Corporate and Other	Eliminations	Tot
Net sales	$1,454,607	$-	$80,883	$-	$-	$1,535,4
Service charge income	-	40,156	-	-	-	40,1
Intersegment revenues	4,037	7,600	-	-	(11,637)	
Interest expense, net	125	5,363	(69)	31,265	-	36,6
Earnings before taxes	177,123	10,123	5,991	(80,610)	-	112,6
Net earnings (loss)	108,083	6,177	3,656	(49,189)	-	68,7
Assets	2,847,705	870,699	102,135	604,235	-	4,424,7

Quarter ended May 3, 2003	Retail Stores	Credit Operations	Catalog/ Internet	Corporate and Other	Eliminations	Tot
Net sales	$1,269,331	$-	$66,141	$-	$-	$1,335,4
Service charge income	-	33,932	-	-	-	33,9
Intersegment revenues	6,251	6,848	-	-	(13,099)	
Interest expense, net	94	5,373	(16)	14,777	-	20,2
Earnings before taxes	95,796	6,380	(2,459)	(55,262)	-	44,4
Net earnings (loss)	58,516	3,897	(1,502)	(33,756)	-	27,1
Assets	2,922,317	703,934	104,320	551,972	-	4,282,5

As of May 1, 2004, January 31, 2004 and May 3, 2003, Retail Stores assets included $35,998 of goodwill and $84,000 of tradename, and Catalog/Internet assets included $15,716 of goodwill. Goodwill and tradename included in all segments totaled $135,714.

Note 8 - Litigation

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.

Note 9 - Subsequent Event

In May 2004, we replaced our existing $300,000 unsecured line of credit with a $350,000 unsecured line of credit, which is available as liquidity support for our commercial paper program. Under the terms of the agreement, we pay a variable rate of interest based on LIBOR plus a margin of 0.31%. The margin increases to 0.41% if more than $175,000 is outstanding on the facility. The line of credit agreement expires in three years and contains restrictive covenants, which include maintaining a leverage ratio. We also pay a commitment fee for the line based on our debt rating.

Also in May 2004, we renewed our variable funding note backed by Nordstrom private label receivables and reduced the capacity by $50,000 to $150,000. This note is renewed annually and interest is paid based on the actual cost of commercial paper plus specified fees. We also pay a commitment fee for the note based on the amount of the facility.

Note 10 - Restatement and Reclassifications

Subsequent to issuance of our 2004 quarterly financial statements, we have corrected two errors in our previously issued financial statements: the statements of cash flows presentation of property incentive cash inflows and the balance sheet classification of leased assets that were previously treated as sale-leaseback transactions. Our previously reported net earnings, earnings per share and shareholders' equity are not impacted by these corrections.

Statements of cash flows presentation of property incentives cash inflows: On February 7, 2005, the Chief Accountant of the U.S. Securities and Exchange Commission ("SEC") released a letter expressing the SEC's views on certain lease accounting matters and their application under generally accepted accounting principles in the United States of America. Following the issuance of this letter, we reviewed our lease accounting policies and determined that our classification of property incentives in our consolidated statements of cash flows was not in accordance with GAAP.

We historically recognized property incentives in our consolidated statements of cash flows as a separate line item in investing activities. After a review of our lease accounting policies, we determined that property incentives should be classified in operating activities and, accordingly, have restated our statements of cash flows.

Leased assets previously treated as sale-leaseback transactions: From 1998 to 2000, we partnered with developers to build five new full-line stores. We controlled the construction phase of the new stores' development and we received payments from the developers to offset a portion of the related capital expenditures. In our previously issued financial statements, we treated those stores as being sold to and leased back from the developer. As we analyzed our lease accounting in connection with the SEC Staff's letter discussed above, we determined that sale-leaseback accounting treatment was not correct because we have ongoing involvement at the stores. We have restated our previously issued balance sheets by classifying the stores' assets in land, buildings and equipment, the developer payment in deferred property incentives, and eliminating the net of those two balances, which was previously recorded in other assets and prepaid expenses. The impact to earnings is not material.

Reclassifications

(amounts in thousands except per share amounts)

We have reclassified balances in our previously issued financial statements to conform to our current presentation. The principal reclassification items are as follows:

Auction rate securities: In order to maximize our earnings on available capital, we invest in high-quality bonds known as Auction Rate Securities ("ARS"), which we had classified as cash equivalents in previously issued financial statements. The interest rates for ARS that we invest in are set for short periods, ranging from seven to 35 days, via auction. At the end of each interest period, we choose to rollover our holdings or redeem the investment for cash. A `market maker' facilitates the redemption of the ARS and the underlying issuers are not required to redeem the investments within 90 days of our purchase of the investments. We have reclassified $85,000, $176,000 and $54,452 at the end of May 1, 2004, January 31, 2004 and May 3, 2003 to short term investments and we have reflected the purchases and sales of these securities in our statements of cash flows for 2003 through 2004.

Note 10 - Restatement and Reclassifications (cont.)

Disbursement Accounts: Our treasury management process uses a series of depository and disbursement accounts, primarily at three large national banks. When checks we have issued are presented to the disbursement account bank, funds are transferred from the depository bank to offset the disbursements. In our previously issued financial statements, we offset the outstanding checks drawn on the disbursement bank account against the balances in our depository bank accounts. Our new presentation reflects the outstanding checks drawn on the disbursement bank as a component of accounts payable in the current liabilities section of our balance sheet. We reclassified $69,664, $73,010 and $71,746 at the end of May 1, 2004, January 31, 2004 and May 3, 2003 and we updated the statements of cash flows to reflect this reclassification.

Third Party Credit Card Receivables: We receive payment from third party credit card issuers for purchases made by customers using the issuers' credit cards (for example, VISA and American Express). The issuers typically pay us within three days of the credit card transaction. In our previously issued financial statements, we treated these receivables as in-transit cash deposits and recorded the balances in cash and cash equivalents. We reclassified $45,215, $32,953 and $38,053 at the end of May 1, 2004, January 31, 2004 and May 3, 2003 from cash and cash equivalents to accounts receivable and we updated the statements of cash flows to reflect this reclassification.

In addition to these reclassifications, we have revised the grouping of some liabilities within the current liabilities section of the 2003 and 2004 balance sheets.

The following table summarizes the impacts of the restatements and reclassifications on the previously issued financial statements:

	Year to Date Ended May 1, 2004

	As Originally Reported	Restatement Adjustments	Reclass Adjustments	As Restated and Reclassified
Consolidated Statement of Earnings				
Cost of sales and related buying and occupancy costs	$(970,460)	$ -	$ (2,472)	$ (972,932)
Gross profit	565,030	-	(2,472)	562,558
Selling, general and administrative expense	(455,206)	-	2,472	(452,734)
Operating income	109,824	-	-	109,824
Consolidated Statement of Cash Flows				
Net cash used in operating activities	(15,274)	833	5,978	(8,463)
Net cash (used in) provided by investing activities	(46,230)	(833)	91,000	43,937
Net cash used in financing activities	(181,797)	-	(21,586)	(203,383)

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

Note 10 - Restatement and Reclassifications (cont.)

	May 1, 2004			
	As Originally Reported	Restatement Adjustments	Reclass Adjustments	As Restated and Reclassified
Consolidated Balance Sheet				
Cash and cash equivalents	$232,923	$ -	$ (60,551)	$ 172,372
Short-term investments	-	-	85,000	85,000
Accounts receivable, net	595,366	-	45,215	640,581
Prepaid expenses	52,529	(3,441)	-	49,088
Total current assets	2,336,356	(3,441)	69,664	2,402,579
Land, buildings and equipment net	1,705,460	81,976	-	1,787,436
Other assets	147,544	(48,499)	-	99,045
Total assets	4,325,074	30,036	69,664	4,424,774
Accounts payable	604,142	-	(40,409)	563,733
Accrued salaries, wages and related benefits	234,271	-	(58,498)	175,773
Other accrued expenses	126,042	-	168,571	294,613
Total current liabilities	1,024,801	-	69,664	1,094,465

Deferred property incentives, net	369,891	30,036	-	399,927
Total liabilities and shareholders' equity	4,325,074	30,036	69,664	4,424,774

	Year to Date Ended May 3, 2003			
Consolidated Statement of Cash Flows				
Net cash used in operating activities	$ (7,622)	$17,172	$ (3,046)	$ 6,504
Net cash (used in) provided by investing activities	(42,314)	(17,172)	66,814	7,328
Net cash (used in) provided by financing activities	(6,832)	-	10,564	3,732

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

Note 10 - Restatement and Reclassifications (cont.)

	May 3, 2003			
	As Originally Reported	Restatement Adjustments	Reclass Adjustments	As Restated and Reclassified
Consolidated Balance Sheet				
Cash and cash equivalents	$ 162,576	$ -	$ (20,759)	$141,817
Short-term investments	-	-	54,452	54,452
Accounts receivable, net	609,047	-	38,053	647,100
Prepaid expenses	46,613	(3,507)	-	43,106
Total current assets	2,161,083	(3,507)	71,746	2,229,322
Land, buildings and equipment net	1,762,039	87,043	-	1,849,082
Other assets	119,931	(51,506)	-	68,425
Total assets	4,178,767	32,030	71,746	4,282,543
Accounts payable	550,395	-	(17,321)	533,074
Accrued salaries, wages				

and related benefits	207,477	-	(44,081)	163,396
Other accrued expenses	119,427	-	133,148	252,575
Total current liabilities	915,493	-	71,746	987,239
Deferred property incentives, net	393,576	32,030	-	425,606
Total liabilities and shareholders' equity	4,178,767	32,030	71,746	4,282,543

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Management's Discussion and Analysis section of our 2003 Amended Annual Report. All dollar amounts are in millions except per share amounts.

RESULTS OF OPERATIONS:

Overview

Earnings for the first quarter of 2004 increased to $68.7 or $0.48 per diluted share from $27.2 or $0.20 per diluted share for the same period in 2002. This increase was driven by strong sales, improved gross margin and total expense leverage.

Sales

Total sales for the quarter on a 4-5-4 comparable basis increased 16.6% compared to the first quarter of last year due to substantial same store sales increases and store openings. Same store sales on a 4-5-4 comparable basis increased 13.2% for the quarter. The sales growth is attributable to our merchandising efforts, supported by our enhanced information systems, and the strengthening retail environment. For the twelve months ended May 1, 2004, we have opened four full-line stores and two Nordstrom Rack stores. See our GAAP sales reconciliation on page 16.

Sales at Nordstrom Direct increased 22.3% due to strong Internet demand and favorable fill rates. Internet sales in the first quarter of 2004 increased 42.8% while catalog remained flat with last year.

All of our geographic regions and major merchandise divisions reported same store sales increases. Our strongest performing merchandise divisions for the quarter were accessories, intimate apparel, shoes, men's apparel, women's designer and better apparel.

Gross Profit

	First Quarter 2004	First Quarter 2003
Gross profit as a percent of sales	36.6%	33.6%

In the first quarter of 2004, gross profit increased $113.2 and as a percentage of sales improved by 300 basis points compared to the same period last year. Our improved performance resulted from lower markdowns and greater leverage on our buying and occupancy expenses. Also, we continued to see improvements in our inventory management, as total inventory at the end of the first quarter of 2004 decreased $57.4 as compared to the prior period. On a same store basis, inventory declined 9.2%.

Selling, General and Administrative Expense

	First Quarter 2004	First Quarter 2003
Selling, general and administrative expense as a percent of sales	29.4%	31.4%

The improvement in the first quarter of 2004 resulted primarily from overall expense control and leverage on better than expected same store sales. Expenses, other than selling labor, variable compensation tied to performance, and costs associated with new stores, were consistent with prior year levels, allowing us to fully leverage the incremental sales. On a same store basis, we saw the most significant improvement in our non-selling labor and benefit costs.

Interest Expense

Interest expense, net increased $16.5 for the quarter ended May 1, 2004 when compared to the same period in 2003 due to $20.8 in additional expense that resulted from the prepayment premiums and deferred cost write-offs associated with the repurchase of $197.7 of long-term debt during the quarter. Excluding this expense, interest expense decreased versus the first quarter of last year primarily due to the lower overall debt levels. Over the 12 months ended May 1, 2004, we have retired $303.5 of our outstanding long-term debt.

Service Charge Income and Other

Service charge income and other, net increased $3.9 for the quarter ended May 1, 2004 primarily due to income recorded from our VISA securitization. Our first quarter 2004 service charge income benefited from substantial increases in our VISA receivables compared to the same period in 2003.

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

GAAP Sales Reconciliation

We converted to a 4-5-4 Retail Calendar at the beginning of 2003. This change in our fiscal calendar has resulted in one less day of sales being included in our 2004 first quarter versus the same period in the prior year. Sales performance numbers included in this document have been calculated on a comparative 4-5-4 basis. We believe that adjusting for the difference in days provides a more comparable basis from which to evaluate sales performance. The following reconciliation bridges the reported GAAP sales to the 4-5-4 comparable sales.

Sales Reconciliation ($M)	QTD 2003	QTD 2004	Dollar Increase	% Change Total Sales	% Change Comp Sales
Number of Days Reported GAAP	92	91			
Reported GAAP Sales	$1,335.5	$1,535.5	$200.0	15.0%	N/A
Less Feb. 1, 2003 sales	($18.2)	-			
Reported 4-5-4 sales	$1,317.3	$1,535.5	$218.2	16.6%	13.2%
4-5-4 Adjusted Days	91	91			

LIQUIDITY AND CAPITAL RESOURCES

We finance our working capital needs, capital expenditures, acquisitions, dividends, debt repurchase and share repurchase activities with a combination of cash flows from operations and borrowings.

Cash Flow from Operations

Cash flow from operating activities decreased by $15.0 in 2004. Higher net earnings were offset by our merchandise purchase and payment flow changes in 2004 as compared to 2003, the timing of performance related payments and the timing of property incentive payments. Toward the end of 2003 and into 2004, we have achieved a more even flow of merchandise purchases in relation to our sales trends. Our 2004 inventory turns have improved over the prior year; the payables leverage we achieved in 2004 is consistent with our merchandise purchase plan. Performance related payments in 2004 increased due to the improvement in our 2003 operations as compared to 2002. Property incentive payments, which are often received near the time of capital expenditures, decreased in 2004 as we are planning to open fewer stores in 2004.

Cash Flow from Investing

In the first quarter of 2004, net cash provided by investing activities increased from the reduction in our short-term investments, which was used to repurchase outstanding debt.

We opened one full-line store in Charlotte, NC during the first quarter of 2004. Additionally, we expect to open one full-line store in Miami, FL in the fall of 2004. For the entire year, gross square footage is expected to increase 2%. During the first quarter of 2004, gross retail square footage increased from 19,138,000 to 19,289,000.

Cash Flow from Financing

For the quarter ended May 1, 2004, cash used in financing activities increased primarily due to our current year debt repurchase, offset by an increase in the proceeds received primarily from employee stock option exercises. Proceeds from employee stock purchases were $6.3 and $4.5 in the first quarters of 2004 and 2003.

During the first quarter of 2004, we retired $196.8 of our 8.95% senior notes and $1.0 of our 6.7% medium-term notes for a total cash payment of $219.6. We recorded $20.8 of expense in the first quarter of 2004 related to this purchase.

In May 2004, we replaced our existing $300.0 unsecured line of credit with a $350.0 unsecured line of credit, which is available as liquidity support for our commercial paper program. Under the terms of the agreement, we pay a variable rate of interest based on LIBOR plus a margin of 0.31%. The margin increases to 0.41% if more than $175.0 is outstanding on the facility. The line of credit agreement expires in three years and contains restrictive covenants, which include maintaining a leverage ratio. We also pay a commitment fee for the line based on our debt rating.

Also in May 2004, we renewed our variable funding note backed by Nordstrom private label receivables and reduced the capacity by $50.0 to $150.0. This note is renewed annually and interest is paid based on the actual cost of commercial paper plus specified fees. We also pay a commitment fee for the note based on the amount of the facility.

We believe that our operating cash flows, existing cash and available credit facilities are sufficient to finance our cash requirements for the next 12 months. Additionally, we believe our operating cash flows, existing cash and credit available to us under existing and potential future facilities are sufficient to meet our cash requirements for the next 10 years.

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 regularly evaluate our estimates including those related to doubtful accounts, inventory valuation, intangible assets, income taxes, self-insurance liabilities, post-retirement benefits, sales return accruals, contingent liabilities and litigation. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. Our accounting policies and methodologies in 2004 are consistent with those discussed in our 2003 Amended Annual Report.

Recent Accounting Pronouncements

During November 2003, the EITF reached a consensus on Issue 03-10, "Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers." EITF 03-10 addresses the accounting and disclosure treatment for a retailer's reimbursement receipt from a vendor for coupons offered directly to consumers by the vendor. EITF 03-10 is effective for coupons redeemed by retailers in fiscal years beginning after December 15, 2003. The adoption of EITF 03-10 did not have a material impact on our financial statements.

FORWARD-LOOKING INFORMATION CAUTIONARY STATEMENT:

The preceding disclosures included forward-looking statements regarding our performance, liquidity and adequacy of capital resources. These statements are based on our current assumptions and expectations and are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Forward-looking statements are qualified by the risks and challenges posed by our ability to predict fashion trends, consumer apparel buying patterns, our ability to control costs, weather conditions, hazards of nature such as earthquakes and floods, trends in personal bankruptcies and bad debt write-offs, changes in interest rates, employee relations, our ability to continue our expansion plans, and the impact of economic and competitive market forces, including the impact of terrorist activity or the impact of a war on us, our customers and the retail industry. 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. This discussion and analysis should be read in conjunction with the condensed consolidated financial statements.

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 our 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 have now been consolidated in Marin County Superior Court. In May 2000, plaintiffs filed an amended complaint naming a number of manufacturers of cosmetics and fragrances and two other retailers as additional defendants. Plaintiffs' amended complaint alleges that the retail price of the "prestige" or "Department Store" cosmetics sold in department and specialty stores was collusively controlled by the retailer and manufacturer defendants in violation of the Cartwright Act and the California Unfair Competition Act.

Plaintiffs seek treble damages and restitution in an unspecified amount, attorneys' fees and prejudgment interest, on behalf of a class of all California residents who purchased cosmetics and fragrances for personal use from any of the defendants during the four years prior to the filing of the amended complaint. Defendants, including us, have answered the amended complaint denying the allegations. The defendants have produced documents and responded to plaintiffs' other discovery requests, including providing witnesses for depositions.

We entered into a settlement agreement with the plaintiffs and the other defendants on July 13, 2003. In furtherance of the settlement agreement, the case was refiled 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 from the defendants during the period May 29, 1994 through July 16, 2003. The Court has given preliminary approval to the settlement. A summary notice of class certification and the terms of the settlement has been disseminated to class members. A hearing on whether the Court will grant final approval of the settlement is being scheduled. If approved by the Court, the settlement will result in the plaintiffs' claims and the claims of all class members being dismissed, with prejudice, in their entirety. In connection with the settlement agreement, the defendants will provide class members with certain free products and pay the plaintiffs' attorneys' fees. Our share of the cost of the settlement will not have a material adverse effect on our financial condition, results of operations or cash flows.

Other

We are involved in various routine legal proceedings incidental to the ordinary course of business. In management's opinion, the outcome of pending legal proceedings, separately and in the aggregate, will not have a material adverse effect on our business or consolidated financial condition.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

(e) Repurchases

	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Units)	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)
Feb. 2004 (2/1/04 to 2/28/04)	-	-	-	$82 million
Mar. 2004 (2/29/04 to 4/3/04)	-	-	-	$82 million
Apr. 2004 (4/4/04 to 5/1/04)	672 (1)	$39.99	-	$82 million

(1) The 672 shares redeemed were not part of a publicly announced repurchase plan or program. These shares were owned and tendered by an employee to Nordstrom as payment for an option exercise.

(2) In May 1995, the Board of Directors authorized $1.1 billion of share repurchases, with no expiration date.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Third Amendment to the Note Purchase Agreement dated December 4, 2001 between Nordstrom Private Label Receivables, LLC, Nordstrom fsb, Falcon Asset Securitization Corporation, and Bank One, NA, as agent, dated February 29, 2004 is hereby incorporated by reference from the Nordstrom Credit, Inc. Form 10-Q for the quarter ended May 1, 2004, Exhibit 10.3

10.2 Fourth Amendment to the Note Purchase Agreement dated December 4, 2001 between Nordstrom Private Label Receivables, LLC, Nordstrom fsb, Falcon Asset Securitization Corporation, and Bank One, NA, as agent, dated May 28, 2004 is hereby incorporated by reference from the Nordstrom Credit, Inc. Form 10-Q for the quarter ended May 1, 2004, Exhibit 10.4

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

31.2 Certification of Chief Financial Officer required by Section 302(a) of the Sarbanes-Oxley Act of 2002.

Item 6. Exhibits and Reports on Form 8-K (cont.)

32.1 Certification of President regarding periodic report containing financial statements pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer regarding periodic report containing financial statements pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

We filed a Form 8-K on February 5, 2004 attaching a press release to announce our preliminary January 2004 sales results.

We filed a Form 8-K on February 19, 2004 attaching a press release to announce our results of operations for the quarter and year ended January 31, 2004.

We filed a Form 8-K on March 4, 2004 attaching a press release to announce our preliminary February 2004 sales results.

We filed a Form 8-K on April 8, 2004 attaching a press release to announce our preliminary March 2004 sales results.

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 Accounting and Financial Officer)

Date: June 3, 2005

NORDSTROM INC. AND SUBSIDIARIES

Exhibit Index

Exhibit		Method of Filing
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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 regarding periodic report	Furnished herewith electronically

	containing financial statements pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
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