

NORDSTROM INC
Form 10-Q
September 10, 2008

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

(Mark One)

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

**For the quarterly period ended August 2, 2008
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, 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. (Check one):

Large accelerated filer 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 Exchange Act).

YES NO

Common stock outstanding as of August 30, 2008: 215,512,113 shares of common stock

**NORDSTROM, INC. AND SUBSIDIARIES
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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

(Amounts in millions except per share amounts and percentages)

(Unaudited)

	Quarter Ended		Six Months Ended	
	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
Net sales	\$ 2,287	\$ 2,390	\$ 4,166	\$ 4,344
Cost of sales and related buying and occupancy costs	(1,488)	(1,514)	(2,667)	(2,729)
Gross profit	799	876	1,499	1,615
Selling, general and administrative expenses	(604)	(636)	(1,149)	(1,170)
Finance charges and other, net	74	70	146	126
Earnings before interest and income taxes	269	310	496	571
Interest expense, net	(34)	(17)	(65)	(24)
Earnings before income taxes	235	293	431	547
Income tax expense	(92)	(113)	(169)	(210)
Net earnings	\$ 143	\$ 180	\$ 262	\$ 337
Earnings per basic share	\$ 0.66	\$ 0.72	\$ 1.21	\$ 1.33
Earnings per diluted share	\$ 0.65	\$ 0.71	\$ 1.19	\$ 1.30
Basic shares	216.5	251.0	217.6	254.5
Diluted shares	219.5	255.4	220.6	259.1
(% of Net Sales)	Quarter Ended		Six Months Ended	
	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales and related buying and occupancy costs	(65.0%)	(63.4%)	(64.0%)	(62.8%)
Gross profit	35.0%	36.6%	36.0%	37.2%
Selling, general and administrative expenses	(26.4%)	(26.6%)	(27.6%)	(26.9%)
Finance charges and other, net	3.2%	2.9%	3.5%	2.9%
Earnings before interest and income taxes	11.8%	13.0%	11.9%	13.1%

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Interest expense, net	(1.5%)	(0.7%)	(1.6%)	(0.6%)
Earnings before income taxes	10.3%	12.3%	10.4%	12.6%
Income tax expense (as a percentage of earnings before income taxes)	(39.2%)	(38.4%)	(39.2%)	(38.3%)
Net earnings	6.3%	7.6%	6.3%	7.8%

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

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NORDSTROM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions)

(Unaudited)

	August 2, 2008	February 2, 2008	August 4, 2007
Assets			
Current assets:			
Cash and cash equivalents	\$ 92	\$ 358	\$ 179
Accounts receivable, net	2,045	1,788	1,803
Merchandise inventories	1,000	956	1,053
Current deferred tax assets, net	196	181	178
Prepaid expenses and other	65	78	66
Assets held for sale			229
Total current assets	3,398	3,361	3,508
Land, buildings and equipment, net	2,139	1,983	1,823
Goodwill	53	53	53
Other assets	219	203	182
Total assets	\$ 5,809	\$ 5,600	\$ 5,566
Liabilities and Shareholders Equity			
Current liabilities:			
Commercial paper	\$ 79	\$	\$
Accounts payable	724	556	777
Accrued salaries, wages and related benefits	226	268	217
Other current liabilities	492	492	439
Income taxes payable	22	58	80
Current portion of long-term debt	260	261	8
Liabilities related to assets held for sale			40
Total current liabilities	1,803	1,635	1,561
Long-term debt, net	2,234	2,236	1,492
Deferred property incentives, net	399	369	357
Other liabilities	244	245	250
Commitments and contingent liabilities			
Shareholders equity:			
Common stock, no par value: 1,000 shares authorized; 215.6, 220.9 and 247.5 shares issued and outstanding	969	936	892
Retained earnings	181	201	1,025
Accumulated other comprehensive loss	(21)	(22)	(11)

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Total shareholders' equity	1,129	1,115	1,906
Total liabilities and shareholders' equity	\$ 5,809	\$ 5,600	\$ 5,566

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

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NORDSTROM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Amounts in millions except per share amounts)

(Unaudited)

	Common Stock		Retained	Accumulated Other Comprehensive (Loss) Earnings	Total
	Shares	Amount	Earnings		
Balance at February 2, 2008	220.9	\$ 936	\$ 201	\$ (22)	\$ 1,115
Net earnings			262		262
Other comprehensive earnings:					
Amounts amortized into net periodic benefit cost, net of tax of (\$1)				1	1
Comprehensive net earnings					263
Cash dividends paid (\$0.32 per share)			(70)		(70)
Issuance of common stock for:					
Stock option plans	0.5	10			10
Employee stock purchase plan	0.3	9			9
Stock-based compensation		14			14
Repurchase of common stock	(6.1)		(212)		(212)
Balance at August 2, 2008	215.6	\$ 969	\$ 181	\$ (21)	\$ 1,129

	Common Stock		Retained	Accumulated Other Comprehensive (Loss) Earnings	Total
	Shares	Amount	Earnings		
Balance at February 3, 2007	257.3	\$ 827	\$ 1,351	\$ (9)	\$ 2,169
Cumulative effect adjustment to adopt FIN 48			(3)		(3)
Adjusted Beginning Balance at February 3, 2007	257.3	\$ 827	\$ 1,348	\$ (9)	\$ 2,166
Net earnings			337		337
Other comprehensive earnings (loss):					
Foreign currency translation adjustment				1	1
Amounts amortized into net periodic benefit cost, net of tax of (\$1)				2	2
				(5)	(5)

Fair value adjustment to investment
in asset backed securities, net of tax
of \$3

Comprehensive net earnings					335
Cash dividends paid (\$0.27 per share)			(70)		(70)
Issuance of common stock for:					
Stock option plans	1.4	40			40
Employee stock purchase plan	0.2	9			9
Other		3			3
Stock-based compensation		13			13
Repurchase of common stock	(11.4)		(590)		(590)
Balance at August 4, 2007	247.5	\$ 892	\$ 1,025	\$ (11)	\$ 1,906

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

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NORDSTROM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Six Months Ended	
	August	
	2, 2008	August 4, 2007
Operating Activities		
Net earnings	\$ 262	\$ 337
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization of buildings and equipment	146	137
Amortization of deferred property incentives and other, net	(20)	(21)
Stock-based compensation expense	15	14
Deferred income taxes, net	(30)	(27)
Tax benefit from stock-based payments	2	18
Excess tax benefit from stock-based payments	(2)	(17)
Provision for bad debt expense	56	42
Change in operating assets and liabilities:		
Accounts receivable	(138)	(1,073)
Investment in asset backed securities		420
Merchandise inventories	(67)	(115)
Prepaid expenses	12	(9)
Other assets	(4)	(25)
Accounts payable	161	136
Accrued salaries, wages and related benefits	(42)	(114)
Other current liabilities		8
Income taxes payable	(35)	16
Deferred property incentives	57	26
Other liabilities	(2)	(1)
Net cash provided by (used in) operating activities	371	(248)
Investing Activities		
Capital expenditures	(295)	(222)
Change in accounts receivable originated at third parties	(174)	(105)
Proceeds from sale of assets		12
Other, net	1	4
Net cash used in investing activities	(468)	(311)
Financing Activities		
Proceeds from commercial paper	79	
Proceeds from long-term borrowings		1,000
Principal payments on long-term borrowings	(3)	(152)
Increase in cash book overdrafts	44	102

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Proceeds from exercise of stock options	7	22
Proceeds from employee stock purchase plan	9	9
Excess tax benefit from stock-based payments	2	17
Cash dividends paid	(70)	(70)
Repurchase of common stock	(238)	(590)
Other, net	1	(3)
Net cash (used in) provided by financing activities	(169)	335
Net decrease in cash and cash equivalents	(266)	(224)
Cash and cash equivalents at beginning of period	358	403
Cash and cash equivalents at end of period	\$ 92	\$ 179

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

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NORDSTROM, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar and share amounts in millions except per share, per option and unit 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 2007 Annual Report on Form 10-K. 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.

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 accounting policies in 2008 are consistent with those discussed in our 2007 Annual Report on Form 10-K, except as discussed below.

Fair Value Measurements

Effective February 3, 2008, we adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement applies whenever other accounting pronouncements require or permit fair value measurements. The adoption of SFAS 157 did not have a material impact on our consolidated financial statements. Refer to Note 4: Fair Value Measurement for the required disclosures under SFAS 157.

Statement of Cash Flows Correction

Through our wholly owned federal savings bank, Nordstrom fsb, we offer a co-branded Nordstrom VISA credit card to our customers. On May 1, 2007, we combined the VISA program into our existing Nordstrom private label credit card securitization master trust, which is accounted for as a secured borrowing (on-balance sheet). The VISA program allows our customers the option of using the card for purchases of Nordstrom merchandise and services, as well as for purchases outside of Nordstrom. See additional disclosure related to our securitization of accounts receivable below and our accounts receivable in Note 2: Accounts Receivable.

Subsequent to the issuance of our 2007 Annual Report on Form 10-K, we determined that beginning in the second quarter of 2007, cash flows arising from VISA originations and repayments for sales outside of Nordstrom are more properly defined as an investing activity rather than an operating activity within our condensed consolidated statements of cash flows. As a result, net cash used in operating activities and net cash used in investing activities in the accompanying condensed consolidated statements of cash flows have been corrected from the amounts previously reported as follows:

Six months ended	
August 4, 2007	
As	
previously	As
reported	corrected

Operating Activities:

Change in accounts receivable	\$ (1,178)	\$ (1,073)
Net cash used in operating activities	(353)	(248)

Investing Activities:

Change in accounts receivable originated at third parties		(105)
Net cash used in investing activities	(206)	(311)

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (Revised 2007), *Business Combinations* (SFAS 141(R)). Under SFAS 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at th