NORDSTROM INC
Form 10-Q
June 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2011

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	**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)

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 þ NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 Exchange Act).

YES ¨ NO þ

Common stock outstanding as of June 3, 2011: 217,911,141 shares of common stock

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

NORDSTROM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions except per share amounts)

(Unaudited)

	Quarter Ended	
	April 30, 2011	**May 1, 2010**
Net sales	**$ 2,229**	$ 1,990
Credit card revenues	**94**	97
Total revenues	**2,323**	2,087
Cost of sales and related buying and occupancy costs	**(1,385)**	(1,243)
Selling, general and administrative expenses:		
Retail	**(611)**	(533)
Credit	**(55)**	(92)
Earnings before interest and income taxes	**272**	219
Interest expense, net	**(31)**	(31)
Earnings before income taxes	**241**	188
Income tax expense	**(96)**	(72)
Net earnings	**$ 145**	$ 116
Earnings per share:		
Basic	**$ 0.66**	$ 0.53
Diluted	**$ 0.65**	$ 0.52
Weighted average shares outstanding:		
Basic	**219.0**	218.4
Diluted	**223.3**	222.4

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

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NORDSTROM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in millions)

(Unaudited)

	April 30, 2011	January 29, 2011	May 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	**$ 1,433**	$ 1,506	$ 1,040
Accounts receivable, net	**1,969**	2,026	1,964
Merchandise inventories	**1,149**	977	1,067
Current deferred tax assets, net	**222**	236	234
Prepaid expenses and other	**80**	79	84
Total current assets	**4,853**	4,824	4,389
Land, buildings and equipment (net of accumulated depreciation of $3,600, $3,520 and $3,388)	**2,361**	2,318	2,262
Goodwill	**200**	53	53
Other assets	**333**	267	252
Total assets	**$ 7,747**	$ 7,462	$ 6,956
Liabilities and Shareholders Equity			
Current liabilities:			
Accounts payable	**$ 1,035**	$ 846	$ 908
Accrued salaries, wages and related benefits	**232**	375	216
Other current liabilities	**715**	652	621
Current portion of long-term debt	**506**	6	6
Total current liabilities	**2,488**	1,879	1,751
Long-term debt, net	**2,276**	2,775	2,756
Deferred property incentives, net	**506**	495	481
Other liabilities	**343**	292	274
Commitments and contingencies			
Shareholders equity:			
Common stock, no par value: 1,000 shares authorized; 219.8, 218.0 and 218.9 shares issued and outstanding	**1,362**	1,168	1,107
Retained earnings	**800**	882	607
Accumulated other comprehensive loss	**(28)**	(29)	(20)
Total shareholders equity	**2,134**	2,021	1,694
Total liabilities and shareholders equity	**$ 7,747**	$ 7,462	$ 6,956

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

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NORDSTROM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Amounts in millions except per share amounts)

(Unaudited)

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Loss	Total
Balance at January 29, 2011	218.0	$ 1,168	$ 882	$ (29)	$ 2,021
Net earnings			145		145
Other comprehensive earnings, net of tax				1	1
Comprehensive net earnings					146
Dividends ($0.23 per share)			(50)		(50)
Issuance of common stock for:					
HauteLook acquisition	3.5	148			148
Stock option plans	1.1	29			29
Employee stock purchase plan	0.2	7			7
Stock-based compensation	0.9	10			10
Repurchase of common stock	(3.9)		(177)		(177)
Balance at April 30, 2011	**219.8**	**$ 1,362**	**$ 800**	**$ (28)**	**$ 2,134**

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Loss	Total
Balance at January 30, 2010	217.7	$ 1,066	$ 525	$ (19)	$ 1,572
Net earnings			116		116
Other comprehensive loss, net of tax				(1)	(1)
Comprehensive net earnings					115
Dividends ($0.16 per share)			(34)		(34)
Issuance of common stock for:					
Stock option plans	1.0	25			25
Employee stock purchase plan	0.2	7			7
Stock-based compensation		9			9
Balance at May 1, 2010	218.9	$ 1,107	$ 607	$ (20)	$ 1,694

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

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NORDSTROM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Quarter Ended	
	April 30, 2011	**May 1, 2010**
Operating Activities		
Net earnings	**$ 145**	$ 116
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization expenses	**86**	79
Amortization of deferred property incentives and other, net	**(14)**	(15)
Deferred income taxes, net	**1**	(11)
Stock-based compensation expense	**11**	10
Tax benefit from stock-based compensation	**7**	7
Excess tax benefit from stock-based compensation	**(8)**	(7)
Provision for bad debt expense	**25**	63
Change in operating assets and liabilities:		
Accounts receivable	**4**	13
Merchandise inventories	**(143)**	(159)
Prepaid expenses and other assets	**(2)**	
Accounts payable	**154**	172
Accrued salaries, wages and related benefits	**(147)**	(120)
Other current liabilities	**52**	20
Deferred property incentives	**29**	28
Other liabilities	**9**	8
Net cash provided by operating activities	**209**	204
Investing Activities		
Capital expenditures	**(116)**	(95)
Change in credit card receivables originated at third parties	**30**	(4)
Other, net	**(2)**	1
Net cash used in investing activities	**(88)**	(98)
Financing Activities		
Proceeds from long-term borrowings, net of discounts		498
Principal payments on long-term borrowings	**(1)**	(352)
Decrease in cash book overdrafts	**(9)**	(3)
Cash dividends paid	**(50)**	(34)
Payments for repurchase of common stock	**(171)**	
Proceeds from exercise of stock options	**22**	17
Proceeds from employee stock purchase plan	**7**	7
Excess tax benefit from stock-based compensation	**8**	7
Other, net		(1)
Net cash (used in) provided by financing activities	**(194)**	139

Net (decrease) increase in cash and cash equivalents	**(73)**	245
Cash and cash equivalents at beginning of period	**1,506**	795
Cash and cash equivalents at end of period	**$ 1,433**	$ 1,040
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest (net of capitalized interest)	**$ 12**	$ 17
Income taxes	**$ 36**	$ 57
Non-cash investing activity:		
Issuance of common stock for HauteLook acquisition	**$ 148**	$

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

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share and per option amounts)

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the balances of Nordstrom, Inc. and its subsidiaries. All intercompany transactions and balances are eliminated in consolidation. The interim condensed consolidated financial statements have been prepared on a basis consistent in all material respects with the accounting policies described and applied in our 2010 Annual Report on Form 10-K, and reflect all adjustments that are, in management s opinion, necessary for the fair presentation of the results of operations, financial position and cash flows for the periods presented.

The condensed consolidated financial statements as of and for the periods ended April 30, 2011 and May 1, 2010 are unaudited. The condensed consolidated balance sheet as of January 29, 2011 has been derived from the audited consolidated financial statements included in our 2010 Annual Report on Form 10-K. The interim condensed consolidated financial statements should be read together with the consolidated financial statements and related footnote disclosures contained in our 2010 Annual Report on Form 10-K.

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

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-02, *A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. This ASU clarifies existing guidance on whether a loan modification constitutes a troubled debt restructuring (TDR) for accounting purposes, and requires certain disclosures related to TDRs. The provisions of this ASU will be effective beginning with our quarter ending October 29, 2011. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* This ASU clarifies existing fair value measurement and disclosure requirements, amends certain fair value measurement principles and requires additional disclosures about fair value measurements. We do not expect the provisions of this ASU, which are effective for us as of the beginning of 2012, to have a material impact on our consolidated financial statements.

NOTE 2: ACQUISITION

On March 23, 2011, we acquired 100% of the outstanding equity of HauteLook, Inc., an online private sale retailer offering limited time sale events on fashion and lifestyle brands. We believe the acquisition will enable us to participate in the fast-growing private sale marketplace and provide a platform to increase innovation and speed in the way we serve customers across channels. The terms of this acquisition included upfront consideration of $180 in Nordstrom stock and an earn-out provision for up to $90 of additional consideration payable in Nordstrom stock over a three-year period, subject to HauteLook s performance in meeting certain targets for sales and earnings before interest, taxes, depreciation and amortization (EBITDA).

HauteLook s results of operations are included in our consolidated results from the acquisition date, and were not material to our consolidated results for the first quarter of 2011. We have not presented pro forma results of operations for periods prior to the acquisition because HauteLook s results of operations were not material to our consolidated results for any previous period.

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NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share and per option amounts)

(Unaudited)

NOTE 2: ACQUISITION (CONTINUED)

Purchase Price

Both the $180 upfront payment and the $90 earn-out consideration include amounts attributable to HauteLook employees that are subject to ongoing vesting requirements. These amounts will be recorded as compensation expense as the related service is performed over the respective employee vesting periods of up to four years after the acquisition date. The remaining (non-compensation) consideration was measured at its acquisition-date fair value to determine the purchase price, as summarized in the following table:

	Upfront	Earn-out	Total
Maximum total consideration	$ 180	$ 90	**$ 270**
Less: portion attributable to post-acquisition compensation	(27)	(15)	**(42)**
Consideration attributable to purchase price	$ 153	$ 75	**$ 228**
Purchase price at fair value	$ 153	$ 42	**$ 195**

The $153 upfront component of the purchase price consisted of 3.5 shares of Nordstrom common stock at a closing stock price of $42 per share on the acquisition date. Earn-out payments will range from $0 to $90, also in Nordstrom common stock, with amounts attributable to the purchase price ranging from $0 to $75 and to post-acquisition compensation of $0 to $15. We estimated the $42 acquisition-date fair value of the earn-out attributable to the purchase price using a valuation model (see Note 5: Fair Value Measurements), and recorded this amount in other liabilities on our condensed consolidated balance sheet. We will adjust the recorded earn-out obligation on a quarterly basis to the extent our projections change based on HauteLook s actual performance or other factors, with a corresponding charge to expense or credit to income. If HauteLook achieves the maximum performance thresholds, we will incur additional expense of $33 over the next three years associated with adjustments to the recorded earn-out obligation, compared with $42 of income if the minimum targets are not met.

Net Assets Acquired

We allocated the total purchase price of $195 to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated purchase price recorded as goodwill. As a result of the purchase price allocation, we recorded intangible assets of $62 and goodwill of $146, offset by other net liabilities of $13.

Intangible assets consist of $27 of trademarks/trade names, $20 of technology and $15 of customer relationships. We estimated the fair values of the acquired intangible assets based on discounted cash flow models using estimates and assumptions regarding future operations and cash flows. We will amortize the acquired intangible assets over their estimated lives of two to seven years on a straight-line basis, which approximates the pattern of expected economic benefit. We expect to record total amortization expense of $54 associated with these intangible assets over the next five years, including $16 in 2011.

Goodwill of $146 is equal to the excess of the purchase price over the net assets recognized and represents the acquisition s benefits that are not attributable to individually identified and separately recognized assets. These benefits include our expected ability to increase innovation and speed in the way we serve customers across channels, HauteLook s assembled workforce including its key management and the going-concern value of acquiring HauteLook s business as a whole. We assigned this goodwill, which is not deductible for tax purposes, to our Retail segment.

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NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share and per option amounts)

(Unaudited)

NOTE 3: ACCOUNTS RECEIVABLE

The components of accounts receivable are as follows:

	April 30, 2011	January 29, 2011	May 1, 2010
Credit card receivables:			
Nordstrom VISA credit card receivables	**$ 1,367**	$ 1,431	$ 1,440
Nordstrom private label card receivables	**656**	672	635
Total credit card receivables	**2,023**	2,103	2,075
Allowance for credit losses	**(135)**	(145)	(190)
Credit card receivables, net	**1,888**	1,958	1,885
Other accounts receivable	**81**	68	79
Accounts receivable, net	**$ 1,969**	$ 2,026	$ 1,964

Other accounts receivable consist primarily of credit and debit card receivables due from third-party financial institutions and vendor claims.

Activity in the allowance for credit losses for the quarters ended April 30, 2011 and May 1, 2010 is as follows:

	Quarter Ended	
	April 30, 2011	May 1, 2010
Allowance at beginning of period	**$ 145**	$ 190
Bad debt provision	**25**	63
Write-offs	**(40)**	(67)
Recoveries	**5**	4
Allowance at end of period	**$ 135**	$ 190

For purposes of determining impairment and recording the associated allowance for credit losses, we evaluate our credit card receivables on a collective basis as they are composed of large groups of smaller-balance homogeneous loans and therefore are not individually evaluated for impairment.

Under certain circumstances, we may make modifications to payment terms for a customer experiencing financial difficulties in an effort to help the customer avoid bankruptcy and to maximize our recovery of the outstanding balance. These modifications, which constitute a troubled debt restructuring, include reduced or waived fees and finance charges, and/or minimum payments. Receivables classified as TDRs were $54, or 2.7% of our total credit card receivables as of April 30, 2011, $56, or 2.7% of our total credit card receivables as of January 29, 2011 and $51, or 2.5% of our total credit card receivables as of May 1, 2010. As with other aged receivables in our portfolio, the allowance for credit losses related to receivables classified as TDRs is primarily based on our historical aging and delinquency trends and write-off experience, with qualitative consideration of factors affecting the credit quality of our portfolio, including amounts of and trends in TDRs.

Credit Quality

The primary indicators of the credit quality of our credit card receivables are aging and delinquency, particularly the levels of account balances delinquent 30 days or more as these are the accounts most likely to be written off. The following table illustrates the aging and delinquency status of our credit card receivables:

	April 30, 2011		January 29, 2011		May 1, 2010	
	Balance	% of Total	Balance	% of Total	Balance	% of Total
Current	**$ 1,863**	**92.1%**	$ 1,942	92.4%	$ 1,883	90.7%
1 29 days delinquent	**92**	**4.6%**	97	4.6%	104	5.1%
30+ days delinquent:						
30 59 days delinquent	**22**	**1.1%**	24	1.1%	27	1.3%
60 89 days delinquent	**17**	**0.8%**	17	0.8%	23	1.1%
Greater than 90 days delinquent	**29**	**1.4%**	23	1.1%	38	1.8%
Total 30+ days delinquent	**$ 68**	**3.3%**	$ 64	3.0%	$ 88	4.2%
Total credit card receivables	**$ 2,023**	**100.0%**	$ 2,103	100.0%	$ 2,075	100.0%