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 October 30, 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 November 16, 2004: 140,076,823 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 October 30, 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 item relates to the balance sheet and cash flow presentation of our investments in Auction Rate Securities. 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 December 3, 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		Year to Date Ended	
	October 30, 2004	November 1, 2003	October 30, 2004	November 1, 2003
Net sales	$1,542,075	$1,409,109	$5,031,045	$4,529,430
Cost of sales and related buying and occupancy costs	(984,908)	(911,429)	(3,228,732)	(2,991,953)
Gross profit	557,167	497,680	1,802,313	1,537,477
Selling, general and administrative expenses	(465,769)	(439,006)	(1,454,736)	(1,351,628)
Operating income	91,398	58,674	347,577	185,849
Interest expense, net	(13,485)	(26,681)	(64,260)	(73,043)
Service charge income and other, net	45,000	42,576	127,489	114,289
Earnings before income taxes	122,913	74,569	410,806	227,095
Income tax expense	(45,085)	(29,100)	(157,336)	(88,600)
Net earnings	$ 77,828	$ 45,469	$ 253,470	$ 138,495
Basic earnings per share	$ 0.55	$ 0.33	$ 1.81	$ 1.02
Diluted earnings per share	$ 0.54	$ 0.33	$ 1.77	$ 1.01
Basic shares	140,698	136,304	140,181	135,907

Diluted shares	143,149	138,103	142,868	136,659
Cash dividends paid per share of common stock outstanding	$ 0.13	$ 0.10	$ 0.35	$ 0.30

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)

	October 30, 2004	January 31, 2004	November 1, 2003
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 240,407	$ 340,281	$ 128,666
Short-term investments	95,000	176,000	55,000
Accounts receivable, net	635,409	666,811	645,182
Retained interest in accounts receivable	382,325	272,294	227,340
Merchandise inventories	1,193,144	901,623	1,189,996
Current deferred tax assets	134,896	121,681	111,965
Prepaid expenses	49,439	46,153	46,565
Total current assets	2,730,620	2,524,843	2,404,714
Land, buildings and equipment (net of accumulated depreciation of $2,271,531, $2,121,158 and $2,061,619	1,773,258	1,807,778	1,820,921
Goodwill, net	51,714	51,714	51,714
Tradename, net	84,000	84,000	84,000
Other assets	111,406	100,898	100,025
TOTAL ASSETS	$4,750,998	$4,569,233	$4,461,374

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:			
Accounts payable	$ 672,847	$ 458,809	$ 627,469
Accrued salaries, wages and related benefits	252,022	276,007	211,584
Other accrued expenses	305,216	314,753	267,555
Income taxes payable	52,877	66,157	71,105
Current portion of long-term debt	103,021	6,833	6,198
Total current liabilities	1,385,983	1,122,559	1,183,911
Long-term debt	932,384	1,227,410	1,225,403
Deferred property incentives, net	393,807	407,856	407,040
Other liabilities	168,426	177,399	143,726
Shareholders' Equity:			
Common stock, no par: 500,000 shares authorized; 139,933, 138,377 and 136,971 shares issued and outstanding	529,284	424,645	384,193
Unearned stock compensation	(373)	(597)	(671)
Retained earnings	1,330,511	1,201,093	1,111,864
Accumulated other comprehensive earnings	10,976	8,868	5,908
Total shareholders' equity	1,870,398	1,634,009	1,501,294
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$4,750,998	$4,569,233	$4,461,374

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)

	Year to Date Ended	
	October 30, 2004	November 1, 2003
	As Restated, see Note 10	
OPERATING ACTIVITIES:		
Net earnings	$253,470	$138,495
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation and amortization	194,593	185,163
Amortization of deferred property incentives and other, net	(23,054)	(20,316)
Stock-based compensation expense	4,663	9,548

Deferred income taxes, net	(5,012)	(4,629)
Tax benefit on stock option exercises	19,906	2,664
Provision for bad debt expense	18,798	21,336
Change in operating assets and liabilities:		
Accounts receivable, net	13,153	(3,467)
Retained interest in accounts receivable	(110,569)	(100,814)
Merchandise inventories	(261,610)	(234,246)
Prepaid expenses	(1,116)	(4,003)
Other assets	(11,118)	(6,437)
Accounts payable	183,369	238,910
Accrued salaries, wages and related benefits	(26,126)	(14,440)
Other accrued expenses	(9,558)	(8,228)
Income taxes payable	(42,561)	9,935
Property incentives	10,806	37,157
Other liabilities	17,844	8,913
Net cash provided by operating activities	225,878	255,541
INVESTING ACTIVITIES:		
Capital expenditures	(164,681)	(204,536)
Proceeds from sale of assets	5,473	-
Sales of short-term investments	2,999,875	1,268,318
Purchases of short-term investments	(2,918,875)	(1,202,052)
Other, net	(959)	(1,037)
Net cash used in investing activities	(79,167)	(139,307)
FINANCING ACTIVITIES:		
Principal payments on long-term debt	(202,016)	(109,148)
Proceeds from sale of interest rate swap	-	2,341
(Decrease)increase in cash book overdrafts	(2,958)	10,284
Proceeds from exercise of stock options	69,549	16,577
Proceeds from employee stock purchases	12,892	8,861
Cash dividends paid	(49,091)	(40,736)
Repurchase of common stock	(74,961)	-
Net cash used in financing activities	(246,585)	(111,821)
Net decrease in cash and cash equivalents	(99,874)	4,413
Cash and cash equivalents at beginning of period	340,281	124,253
Cash and cash equivalents at end of period	$240,407	$128,666

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.

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.

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 the third quarter of 2004 are consistent with those discussed in our 2003 Amended Annual Report.

In October 2004, we completed a review of our current and deferred tax accounts, which resulted in a lower effective tax rate. This change increased net income by approximately $2,900 for the quarter and year to date periods ended October 30, 2004.

Nordstrom fsb, our wholly-owned bank subsidiary, offers a co-branded VISA credit card program to its customers. The balances due from the VISA cardholders are transferred to a third party trust, Nordstrom Credit Card Master Note Trust (the "Trust"). In 2002, the Trust issued $200,000 of notes to third parties; those notes are due in 2007 and are secured by a portion of the Trust's assets. We do not record the notes that the Trust sold to third parties or the pro-rata share of the Trust's assets on our financial statements. The remaining interest in the Trust is held by our wholly-owned subsidiaries. The remaining interest is held in certificated form; it is recorded as "Retained interest in accounts receivable" on our accompanying condensed consolidated balance sheets and accounted for as investments in debt securities under Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities".

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

In the third quarter of 2004, the U.S. Department of the Treasury Office of Thrift Supervision, which regulates Nordstrom fsb, directed Nordstrom, Inc. to change our accounting treatment for a portion of the remaining interest in the Trust. We asked the Securities and Exchange Commission ("SEC") staff to confirm that our existing accounting treatment for the remaining interest in the Trust is consistent with their interpretation of accounting principles generally accepted in the United States ("U.S. GAAP"). In October 2004, the SEC staff confirmed that our existing accounting treatment and financial statement presentations comply with U.S. GAAP. Therefore, we plan to continue to follow our existing accounting treatment for the remaining certificated interest in the Trust. The SEC staff also suggested that we voluntarily expand our quarterly disclosures related to the certificated interests; please see Note 5 for this additional disclosure.

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 Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees," in measuring compensation costs under our stock-based compensation programs, which is 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		Year to Date Ended	
	October 30, 2004	November 1, 2003	October 30, 2004	November 1, 2003
Net earnings, as reported	$77,828	$45,469	$253,470	$138,495
Add: stock-based compensation (income)/expense included in reported net earnings, net of tax	(500)	4,717	2,844	5,824
Deduct: stock-based compensation expense determined under fair value, net of tax	(4,160)	(7,492)	(16,460)	(18,219)
Pro forma net earnings	$73,168	$42,694	$239,854	$126,100
Earnings per share:				
Basic - as reported	$0.55	$0.33	$1.81	$1.02
Diluted - as reported	$0.54	$0.33	$1.77	$1.01
Basic - pro forma	$0.52	$0.31	$1.71	$0.93
Diluted - pro forma	$0.51	$0.31	$1.68	$0.93

NORDSTROM, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands except per share amounts)
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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		Year to Date Ended	
	October 30, 2004	November 1, 2003	October 30, 2004	November 1, 2003
Service cost	$372	$205	$1,116	$615
Interest cost	991	855	2,973	2,565
Amortization of net loss	386	173	1,158	564
Amortization of prior service cost	240	188	720	519
Total expense	$1,989	$1,421	$5,967	$4,263

Note 3 - Earnings Per Share

	Quarter Ended		Year to Date Ended	
	October 30, 2004	November 1, 2003	October 30, 2004	November 1, 2003
Net earnings	$77,828	$45,469	$253,470	$138,495
Basic shares	140,698	136,304	140,181	135,907
Dilutive effect of stock options and performance share units	2,451	1,799	2,687	752
Diluted shares	143,149	138,103	142,868	136,659
Basic earnings per share	$0.55	$0.33	$1.81	$1.02
Diluted earnings per share	$0.54	$0.33	$1.77	$1.01
Antidilutive stock options	10	2,974	10	7,578

Note 4 - Accounts Receivable

The components of accounts receivable are as follows:

	October 30,	January 31,	November 1,

(amounts in thousands except per share amounts)

	2004	2004	2003
Trade receivables:			
Unrestricted	$35,988	$25,228	$32,669
Restricted	544,976	589,992	567,396
Allowance for doubtful accounts	(19,534)	(20,320)	(20,746)
Trade receivables, net	561,430	594,900	579,319
Other	73,979	71,911	65,863
Accounts receivable, net	$635,409	$666,811	$645,182

Note 4 - Accounts Receivable (Cont.)

The restricted trade receivables relate to our proprietary credit card and back the $300,000 Class A notes and the $150,000 variable funding note renewed in May 2004. Other accounts receivable consist primarily of credit card receivables due from third party financial institutions, vendor receivables and cosmetic rebate receivables, which are believed to be fully realizable as they are collected soon after they are earned.

Note 5 - Retained Interest in Accounts Receivable

Our investment in master trust certificates and off-balance sheet financing are described in Note 9 of our 2003 Annual Report. In 2004, the Trust issued $250,000 of Class A & B notes ("2004 Class A & B Notes") to Nordstrom Credit, Inc., our wholly-owned subsidiary. The following table summarizes our VISA credit card activities and the estimated fair values of our retained interests as well as the assumptions used:

	October 30, 2004	January 31, 2004
Total face value of Nordstrom VISA credit card principal receivables	$571,407	$465,198
Securities issued at fair value:		
Amounts not recorded on balance sheet (sold to third parties):		
2002 Class A & B Notes	$200,000	$200,000
Amounts recorded on balance sheet:		
Retained interest	132,325	272,294
2004 Class A & B Notes	250,000	-

(amounts in thousands except per share amounts)

Total retained interest in accounts receivable	382,325	272,294
Total fair value of securities issued by the Trust	$582,325	$472,294
Assumptions used to estimate the fair value of the retained interest:		
Weighted average remaining life (in months)	2.3	2.5
Average credit losses	5.4%	5.5%
Average gross yield	18.2%	17.8%
Weighted average coupon on issued securities	2.6%	1.4%
Average payment rates	22.0%	23.4%
Discount rates of retained interests	8.1%-14.3%	6.8%-12.6%

Note 5 - Retained Interest in Accounts Receivable (Cont.)

The following table summarizes the income earned by the retained interest that is included in service charge income and other, net on the condensed consolidated statements of earnings:

	Quarter Ended		Year to Date Ended	
	October 30, 2004	November 1, 2003	October 30, 2004	November 1, 2003
Income earned by retained interest	$16,236	$11,515	$48,376	$29,133

Note 6 - Debt

Year to date we have retired $196,770 of our 8.95% senior notes and $1,473 of our 6.7% medium-term notes for a total cash payment of $220,106. After considering non-cash items related to these debt retirements, our net expense for the three quarters ended October 30, 2004 was $20,862.

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 variable rate of interest increases to LIBOR plus a margin of 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.

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

We have an interest rate swap outstanding 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 receive a fixed rate of 5.63% and pay a variable rate based on LIBOR plus a margin of 2.3% set at six-month intervals (5.095% at October 30, 2004.) The fair value of our interest rate swap is as follows:

	October 30, 2004	January 31, 2004	November 1, 2003
Interest rate swap fair value	($5,365)	($8,091)	($10,884)

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

Note 7 - Comprehensive Net Earnings

	Year to Date Ended	
	October 30, 2004	November 1, 2003
Net earnings	$253,470	$138,495
Foreign currency translation adjustment	2,436	2,351
Securitization adjustment, net of tax of $210 and ($1,268)	(328)	1,983
SERP adjustment, net of tax of $0 and $720	-	(1,126)
Comprehensive net earnings	$255,578	$141,703

Note 8 - Segment Reporting

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

Quarter ended October 30, 2004	Retail Stores	Credit Operations	Catalog/ Internet	Corporate and Other	Eliminations	Tot
Net sales	$1,453,528	$-	$88,547	$-	$-	$1,542,0
Service charge income	-	40,065	-	-	-	40,0
Intersegment revenues	8,440	7,323	-	-	(15,763)	

Interest expense, net	(61)	(5,833)	26	(7,617)	-	(13,4
Earnings before taxes	158,592	8,538	7,452	(51,669)	-	122,9
Net earnings (loss)	100,540	5,406	4,669	(32,787)	-	77,8

Quarter ended November 1, 2003	Retail Stores	Credit Operations	Catalog/ Internet	Corporate and Other	Eliminations	Tot
Net sales	$1,341,041	$-	$68,068	$-	$-	$1,409,1
Service charge income	-	36,824	-	-	-	36,8
Intersegment revenues	6,245	6,942	-	-	(13,187)	
Interest expense, net	(390)	(5,549)	62	(20,804)	-	(26,6
Earnings before taxes	121,136	3,853	(482)	(49,938)	-	74,5
Net earnings (loss)	73,864	2,350	(295)	(30,450)	-	45,4

Year to date ended October 30, 2004	Retail Stores	Credit Operations	Catalog/ Internet	Corporate and Other	Eliminations	Tot
Net sales	$4,776,943	$-	$254,102	$-	$-	$5,031,0
Service charge income	-	119,275	-	-	-	119,2
Intersegment revenues	22,200	25,974	-	-	(48,174)	
Interest expense, net	(324)	(17,058)	113	(46,991)	-	(64,2
Earnings before taxes	547,308	28,498	17,689	(182,689)	-	410,8
Net earnings (loss)	337,693	17,583	10,914	(112,720)	-	253,4
Assets	2,908,449	961,738	127,715	753,096	-	4,750,9

Year to date ended November 1, 2003	Retail Stores	Credit Operations	Catalog/ Internet	Corporate and Other	Eliminations	Tot
Net sales	$4,323,933	$-	$205,497	$-	$-	$4,529,4
Service charge income	-	105,359	-	-	-	105,3
Intersegment revenues	20,766	24,180	-	-	(44,946)	
Interest expense, net	(508)	(16,364)	74	(56,245)	-	(73,0
Earnings before taxes	379,128	15,559	(1,967)	(165,625)	-	227,0
Net earnings (loss)	231,213	9,489	(1,200)	(101,007)	-	138,4
Assets	2,971,931	810,184	103,433	575,826	-	4,461,3

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

Note 8 - Segment Reporting (Cont.)

As of October 30, 2004, January 31, 2004, and November 1, 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 9 - 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 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

We have reclassified balances in our previously issued financial statements to conform to our current presentation. The principal reclassification item is 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 $95,000, $176,000 and $55,000 at the end of October 30, 2004, January 31, 2004 and November 1, 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.

(amounts in thousands except per share amounts)

In addition to this reclassification, 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 October 30, 2004			
	As Originally Reported	Restatement Adjustments	Reclass Adjustments	As Restated and Reclassified
Consolidated Statement of Cash Flows				
Net cash provided by operating activities	$ 215,072	$ 10,806	$ -	$ 225,878
Net cash used in investing activities	(149,361)	(10,806)	81,000	(79,167)
Consolidated Balance Sheet	October 30, 2004			
Cash and cash equivalents	$ 335,407	$ -	$ (95,000)	$ 240,407
Short-term investments	-	-	95,000	95,000
Prepaid expenses	53,231	(3,792)	-	49,439
Total current assets	2,734,412	(3,792)	-	2,730,620
Land, buildings and equipment net	1,692,202	81,056	-	1,773,258
Other assets	159,631	(48,225)	-	111,406
Total assets	4,721,959	29,039	-	4,750,998
Accounts payable	772,559	-	(99,712)	672,847
Other accrued expenses	205,504	-	99,712	305,216
Total current liabilities	1,385,983	-	-	1,385,983
Deferred property incentives, net	364,768	29,039	-	393,807
Total liabilities and shareholders' equity	4,721,959	29,039	-	4,750,998

Note 10 - Restatement and Reclassifications (cont.)

Year to Date Ended November 1, 2003

	As Originally Reported	Restatement Adjustments	Reclass Adjustments	As Restated and Reclassified
Consolidated Statement of Cash Flows				
Net cash provided by operating activities	$ 218,384	$ 37,157	$ -	$ 255,541
Net cash used in investing activities	(168,416)	(37,157)	66,266	(139,307)
Consolidated Balance Sheet	November 1, 2003			
Cash and cash equivalents	$ 183,666	$ -	$ (55,000)	$ 128,666
Short-term investments	-	-	55,000	55,000
Prepaid expenses	50,083	(3,518)	-	46,565
Total current assets	2,408,232	(3,518)	-	2,404,714
Land, buildings and equipment net	1,736,617	84,304	-	1,820,921
Other assets	149,778	(49,753)	-	100,025
Total assets	4,430,341	31,033	-	4,461,374
Accounts payable	716,380	-	(88,911)	627,469
Other accrued expenses	178,644	-	88,911	267,555
Total current liabilities	1,183,911	-	-	1,183,911
Deferred property incentives, net	376,007	31,033	-	407,040
Total liabilities and shareholders' equity	4,430,341	31,033	-	4,461,374

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 third quarter of 2004 increased 71% to $77.8 or $0.54 per diluted share from $45.5 or $0.33 per diluted share for the same period in 2003. For the year to date period ended October 30, 2004, earnings increased 83% to $253.5 or $1.77 per diluted share from $138.5 or $1.01 per diluted share for the same period in 2003. Our results improved in the quarter and year to date periods due to strong sales momentum combined with gross profit and selling, general and administrative expense improvement.

Sales

Total sales increased 9.4% for the quarter and 11.5% year to date on a 4-5-4 comparable basis due to substantial same-store sales increases. Same-store sales on a 4-5-4 comparable basis increased 8.1% for the quarter and 9.1% year to date. The sales growth for the quarter and year to date is a result of our continuous improvement in merchandising efforts, supported by our enhanced information systems. Our merchandise offering continues to meet customers' preferences, which drove full-price sales. The year to date increase is also attributable to the improved overall retail environment, especially in the first quarter. See our GAAP sales reconciliation on page 17.

All of our geographic regions and major merchandise divisions reported same-store sales increases in the third quarter and year to date.

Gross Profit

	Third Quarter		Year to Date	
	2004	2003	2004	2003
Gross profit as a percent of sales	36.1%	35.3%	35.8%	33.9%

Gross profit as a percentage of sales improved 80 basis points for the quarter and 190 basis points for the year to date period ended October 30, 2004. The quarter to date performance was primarily due to buying and occupancy expense leverage resulting from stronger than expected sales. The year to date performance was primarily due to lower markdowns resulting from our ongoing improvement in managing our merchandise inventory and increased leverage on our buying and occupancy expenses.

Selling, General and Administrative Expense

	Third Quarter		Year to Date	
	2004	2003	2004	2003
Selling, general and administrative expense as a percent of sales	30.2%	31.1%	28.9%	29.8%

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

RESULTS OF OPERATIONS (CONT.)

Selling, general and administrative expense as a percentage of sales improved 90 basis points for the quarter and for the year to date period ended October 30, 2004. Our existing support functions have been able to manage our same-store sales growth. As a result, the significant year over year sales increases in relation to relatively flat SG&A costs on a same-store basis have resulted in significant improvements in SG&A as a percentage of sales. Costs associated with new stores, selling, and incentive compensation have increased in 2004 in line with our sales increases and our improved operating performance.

Interest Expense

Interest expense, net decreased by $13.2 to $13.5 for the quarter ended October 30, 2004 compared to the same period in 2003. The prior year expense includes debt prepayment costs of $7.9. Also, our long-term borrowings have been reduced by 16 percent in the past 12 months, leading to lower borrowing costs.

Interest expense, net decreased by $8.8 to $64.3 for the year to date period ended October 30, 2004. We incurred debt prepayment costs of $20.9 and $14.3 in 2004 and 2003, respectively. The decrease in our long-term borrowings in 2004 as compared to 2003 resulted in the overall interest expense reduction.

Service Charge Income and Other, net

Service charge income and other, net increased by $2.4 for the quarter and $13.2 for the year to date periods ended October 30, 2004. The increase is primarily due to growth in our Nordstrom fsb VISA credit card transaction volume and finance charges.

Seasonality

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

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 year to date 2004 results 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)	YTD 2003	YTD 2004	Dollar Increase	% Change Total Sales	% Change Comp Sales
Number of days GAAP	274	273			
GAAP sales	$4,529.4	$5,031.0	$501.6	11.1%	N/A
Less Feb. 1, 2003 sales	($18.2)	--			
Reported 4-5-4 sales	$4,511.2	$5,031.0	$519.8	11.5%	9.1%

4-5-4 adjusted days	273	273

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

LIQUIDITY AND CAPITAL RESOURCES

Overall cash decreased by $180.9 in 2004 as compared to $61.9 in 2003, primarily due to additional debt prepayments and repurchases of our common stock.

Cash Flow from Operations

Cash flow provided by operating activities decreased by $29.7 to $225.9 in 2004. Higher net earnings were offset by our merchandise purchase and payment flow changes in 2004 as compared to 2003, the timing of income tax payments and decreased property incentive receipts. 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. Income tax payments have increased in 2004 as a result of our earnings growth. Deferred property incentive receipts have decreased as a result of fewer store openings.

Cash Flow Used in Investing

Net cash used in investing activities decreased in 2004 as compared to 2003 due to the reduction in our short-term investments, which was used to repurchase outstanding debt.

Year to date, we opened one full-line store in Charlotte, North Carolina. In addition, we opened one full-line store in Miami, Florida in November 2004. During the first three quarters of 2003, we opened three full-line stores and two Nordstrom Rack stores; in the last quarter of 2003, we opened one full-line store.

We plan to spend approximately $850.0 to $875.0, net of developer reimbursements, on capital projects during the next three fiscal years. We plan to use approximately 35% of this investment to build new stores, 30% on remodels and 15% toward information technology. The remaining 20% is planned for maintenance and other miscellaneous spending.

Cash Flow Used in Financing

For the year to date period ended October 30, 2004, cash used in financing activities increased primarily due to our debt retirements and common stock repurchases, partially offset by an increase in the cash received from employee stock option exercises.

Year to date we have retired $196.8 of our 8.95% senior notes and $1.5 of our 6.7% medium-term notes for a total cash payment of $220.1. After considering non-cash items related to these debt retirements, our net expense for the three quarters ended October 30, 2004 was $20.9.

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 variable rate of interest increases to LIBOR plus a margin of 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.

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

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

In August 2004, the Board of Directors authorized $300.0 of share repurchases. This authorization extends for three years to August 2007, although we expect the shares to be acquired through open market transactions during the next 12 months. This replaced the previous remaining share repurchase authority of $82.4. The actual number and timing of share repurchases will be subject to market conditions and applicable SEC rules. Year to date, we have purchased 1,925,700 shares for $75.0.

Liquidity

We maintain a level of liquidity to allow us to cover our seasonal cash needs and rely on short-term borrowings only as needed. 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. We plan to pay the remaining $96.5 of our 6.7% medium-term notes due in July 2005 with existing cash and cash from operations.

Over the long term, we manage our cash and capital structure to strengthen our financial position and maintain flexibility for future strategic initiatives. We continuously assess our debt and leverage levels, capital expenditure requirements, principal debt payments, dividend payouts, potential share repurchases, and future investments or acquisitions. We believe our operating cash flows, existing cash, and available credit facilities, as well as any potential future borrowing facilities will be sufficient to fund these scheduled future payments and potential long term initiatives.

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 the third quarter of 2004 are consistent with those discussed in our 2003 Amended Annual Report and our second quarter Form 10-Q.

In October 2004, we completed a review of our current and deferred tax accounts, which resulted in a lower effective tax rate. This change increased net income by approximately $2.9 for the quarter and year to date periods ended October 30, 2004.

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

Nordstrom fsb, our wholly-owned bank subsidiary, offers a co-branded VISA credit card program to its customers. The balances due from the VISA cardholders are transferred to a third party trust, Nordstrom Credit Card Master Note Trust (the "Trust"). In 2002, the Trust issued $200.0 of notes to third parties; those notes are due in 2007 and are secured by a portion of the Trust's assets. We do not record the notes that the Trust sold to third parties or the pro-rata share of the Trust's assets on our financial statements. The remaining interest in the Trust is held by our wholly-owned subsidiaries. The remaining interest is held in certificated form; it is recorded as "Retained interest in accounts receivable" on our accompanying condensed consolidated balance sheets and accounted for as investments in debt securities under Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities".

In the third quarter of 2004, the U.S. Department of the Treasury Office of Thrift Supervision, which regulates Nordstrom fsb, directed Nordstrom, Inc. to change our accounting treatment for a portion of the remaining interest in the Trust. We asked the Securities and Exchange Commission ("SEC") staff to confirm that our existing accounting treatment for the remaining interest in the Trust is consistent with their interpretation of accounting principles generally accepted in the United States ("U.S. GAAP"). In October 2004, the SEC staff confirmed that our existing accounting treatment and financial statement presentations comply with U.S. GAAP. Therefore, we plan to continue to follow our existing accounting treatment for the remaining certificated interest in the Trust. The SEC staff also suggested that we voluntarily expand our quarterly disclosures related to the certificated interests; please see Note 5 for this additional disclosure.

FORWARD-LOOKING INFORMATION CAUTIONARY STATEMENT

The preceding disclosures included forward-looking statements regarding our performance, liquidity, capital expenditures 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, trends in personal bankruptcies and bad debt write-offs, changes in interest rates, employee relations, our ability to continue our expansion plans, changes in governmental or regulatory requirements, 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. We undertake no obligation to update or revise any forward-looking statements to reflect subsequent events, new information or future circumstances. This discussion and analysis should be read in conjunction with the condensed consolidated financial statements.

Item 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, we performed an evaluation under the supervision and with the participation of management, including our President and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, our President and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures are effective in the timely recording, processing, summarizing and reporting of material financial and non-financial information.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Cosmetics

We were originally named as a defendant along with other department store and specialty retailers in nine separate but virtually identical class action lawsuits filed in various Superior Courts of the State of California in May, June and July 1998 that were consolidated in Marin County Superior Court. In May 2000, plaintiffs filed an amended complaint naming a number of manufacturers of cosmetics and fragrances and two other retailers as additional defendants. Plaintiffs' amended complaint 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 have been disseminated to class members. A hearing on whether the Court will grant final approval of the settlement has been scheduled for January 11, 2005. 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, awarded by the Court up to $24 million. 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.

Item 1. Legal Proceedings (cont.)

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. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Repurchases

(dollars in millions except per share amounts)

	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or 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
Mar. 2004 (2/29/04 to 4/3/04)	-	-	-	$82

Apr. 2004 (4/4/04 to 5/1/04)	672 (1)	$39.99	-	$82
May. 2004 (5/2/04 to 5/29/04)	-	-	-	$82
Jun. 2004 (5/30/04 to 7/3/04)	-	-	-	$82
Jul. 2004 (7/4/04 to 7/31/04)	-	-	-	$82
Aug. 2004 (8/1/04 to 8/28/04)	258,500	$37.31	258,500	$290
Sep. 2004 (8/29/04 to 10/2/04)	1,117,700	$38.51	1,117,700	$247
Oct. 2004 (10/3/04 to 10/30/04)	549,500	$40.53	549,500	$225

(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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (cont.)

(2) In May 1995, the Board of Directors authorized $1,100.0 of share repurchases, with no expiration date. In August 2004, the Board of Directors authorized $300.0 of share repurchases. This replaced the previous remaining share repurchase authority of $82.4. This authorization extends for three years to August 2007, although we expect the shares to be acquired through open market transactions during the next 12 months. The actual number and timing of share repurchases will be subject to market conditions and applicable SEC rules. Program to date, we have purchased 1,925,700 shares for $75.0 at an average price of $38.93 per share.

Item 6. Exhibits

3.2 Bylaws, as amended and restated on November 17, 2004.

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.

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.

SIGNATURES

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

NORDSTROM, INC.
(Registrant)

/s/ Michael G. Koppel

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

Date: June 3, 2005

NORDSTROM INC. AND SUBSIDIARIES

Exhibit Index

Exhibit	Method of Filing

3.2	Bylaws, as amended and restated on November 17, 2004	Incorporated by reference from Registrant's Form 10-Q for the quarter ended October 30, 2004, Exhibit 3.2
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 containing financial statements pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith electronically
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	Furnished herewith electronically