COSTCO WHOLESALE CORP /NEW Form 10-Q March 17, 2010 Table of Contents

## **UNITED STATES**

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## **FORM 10-Q**

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

For the quarterly period ended February 14, 2010

OR

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

Commission file number 0-20355

## **Costco Wholesale Corporation**

(Exact name of registrant as specified in its charter)

### Edgar Filing: COSTCO WHOLESALE CORP /NEW - Form 10-Q

Washington

(State or other jurisdiction of

incorporation or organization)

#### 999 Lake Drive, Issaquah, WA 98027

(Address of principal executive office)

#### (Zip Code)

(Registrant s telephone number, including area code): (425) 313-8100

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 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  $x = NO^{-1}$ 

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 definition of large accelerated filer, a ccelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

 Large accelerated filer x
 Accelerated filer "

 Non-accelerated filer " (Do not check if a smaller 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 x

The number of shares outstanding of the issuer s common stock as of March 5, 2010 was 440,506,789.

## **91-1223280** (I.R.S. Employer

Identification No.)

#### COSTCO WHOLESALE CORPORATION

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#### PART I FINANCIAL INFORMATION

#### Item 1 Financial Statements

#### COSTCO WHOLESALE CORPORATION

#### CONDENSED CONSOLIDATED BALANCE SHEETS

#### (dollars in millions, except par value and share data)

#### (unaudited)

ASSETS           CURRENT ASSETS           Cash and cash equivalents         \$ 4,134         \$ 3,157           Short-term investments         \$ 585         \$ 570           Receivables, net         951         834           Merchandise inventories         \$ 5,365         \$ 5,405           Deferred income taxes and other current assets         11,501         10,337           Total current assets         11,501         10,337           PROPERTY AND EQUIPMENT         U         1           Land         3,402         3,341           Buildings, leasehold and land improvements         8,869         8,463           Least accumulated depreciation and amortization         (4,752)         (4,423)           Net property and equipment         11,105         10,900           OTHER ASSETS         760         742           TOTAL ASSETS         5,938         5,598           Soft-term borrowings         \$ 46         \$ 16           Accrued salaries and benefits         1,560         1,418           Accrued salaries and benefits         1,560         1,418           Accrued salaries and other taxes         345         302           Deferend membership fees         912         844		February 14, 2010		August 30, 2009	
Cash and cash equivalents       \$ 4,134       \$ 3,157         Short-term investments       \$ 585       \$ 570         Receivables, net       951       \$ 834         Merchandise inventories       \$ 3,365       \$ 5,405         Deferred income taxes and other current assets       466       371         Total current assets       11,501       10,337         PROPERTY AND EQUIPMENT	ASSETS				
Short-term investments         585         570           Receivables, net         951         834           Merchandiss inventories         5,365         5,405           Deferred income taxes and other current assets         466         371           Total current assets         11,501         10,337           PROPERTY AND EQUIPMENT	CURRENT ASSETS				
Receivables, net         951         834           Merchandise inventories         5,365         5,405           Deferred income taxes and other current assets         466         371           Total current assets         11,501         10,337 <b>PROPERTY AND EQUIPMENT</b> -         -           Land         3,402         3,341           Buildings, leaschold and land improvements         8,869         8,453           Equipment and fixtures         3,436         3,265           Construction in progress         150         264           Less accumulated depreciation and amortization         (4,752)         (4,423)           Net property and equipment         11,105         10,900           OTHER ASSETS         760         742           TOTAL ASSETS         15         23,366         \$ 21,979           LIABILITIES AND EQUITY         -         -         -           Current payable         5,598         5,450         -           Accrued salaries and benefits         1,569         1,418           Accrued salaries and benefits         1,569         1,418           Accrued salaries and benefits         1,569         1,418           Accrued salaries and benefits         1,5	Cash and cash equivalents	\$	4,134	\$	3,157
Merchandise inventories         5,365         5,405           Deferred income taxes and other current assets         466         371           Total current assets         11,501         10,337           PROPERTY AND EQUIPMENT	Short-term investments		585		570
Deferred income taxes and other current assets         466         371           Total current assets         11,501         10,337           PROPERTY AND EQUIPMENT         3,402         3,341           Land         3,402         3,435           Equipment and fixtures         3,436         3,265           Construction in progress         15,857         15,323           Less accumulated depreciation and amortization         (4,752)         (4,423)           Net property and equipment         11,105         10,900           OTHER ASSETS         760         742           TOTAL ASSETS         \$ 23,366         \$ 21,979           LLABILITIES AND EQUITY         5598         5,450           Current morrowings         \$ 466         \$ 16           Accounds payable         5,598         5,450           Accrued salers and obenefits         1,569         1,418           Accrued salers and obenefits         3,450         302           Deferred membership fees         912         824           Current portion of long-term debt         455         80           Other current liabilities         9,365         9,281           LONG-TERM DEBT, excluding current portion         2,134         2,130 <td>Receivables, net</td> <td></td> <td>951</td> <td></td> <td>834</td>	Receivables, net		951		834
Total current assets       11,501       10,337         PROPERTY AND EQUIPMENT       1         Land       3,402       3,341         Buildings, leasehold and land improvements       8,869       8,453         Equipment and fixtures       3,436       3,2436         Construction in progress       150       264         Less accumulated depreciation and amortization       (4,752)       (4,423)         Net property and equipment       11,105       10,900         OTHER ASSETS       760       742         TOTAL ASSETS       760       742         Sold tables       5,598       5,450         Accounts payable       5,598       5,450         Accounds salaries and benefits       1,569       1,418         Accounds salaries and benefits       1,569       1,418         Current portion of long-term debt       45       80         Other current liabilities       9,365       9,281         LONG-TERM DEBER       2,134       2,130	Merchandise inventories		5,365		5,405
PROPERTY AND EQUIPMENT         3,402         3,341           Land         3,402         3,341           Buildings, leasehold and land improvements         8,869         8,453           Equipment and fixtures         3,436         3,265           Construction in progress         150         264           Less accumulated depreciation and amortization         (4,752)         (4,423)           Net property and equipment         11,105         10,900           OTHER ASSETS         760         742           TOTAL ASSETS         760         742           CURRENT LIABILITIES AND EQUITY         V         V           CURRENT LIABILITIES         5,598         5,450           Accounts payable         5,598         5,450           Accounts payable         1,569         1,418           Accrued salaries and benefits         1,569         1,418           Accrued salaries and other taxes         345         302           Deferred membership fees         912         824           Current portion of long-term debt         45         80           Other current liabilities         1,350         1,191           Total current liabilities         9,865         9,281           LONG-TERM DEET,	Deferred income taxes and other current assets		466		371
PROPERTY AND EQUIPMENT         3,402         3,341           Land         3,402         3,341           Buildings, leasehold and land improvements         8,869         8,453           Equipment and fixtures         3,436         3,265           Construction in progress         150         264           Less accumulated depreciation and amortization         (4,752)         (4,423)           Net property and equipment         11,105         10,900           OTHER ASSETS         760         742           TOTAL ASSETS         760         742           CURRENT LIABILITIES AND EQUITY         V         V           CURRENT LIABILITIES         5,598         5,450           Accounts payable         5,598         5,450           Accounts payable         1,569         1,418           Accrued salaries and benefits         1,569         1,418           Accrued salaries and other taxes         345         302           Deferred membership fees         912         824           Current portion of long-term debt         45         80           Other current liabilities         1,350         1,191           Total current liabilities         9,865         9,281           LONG-TERM DEET,					
PROPERTY AND EQUIPMENT         3,402         3,341           Land         3,402         3,341           Buildings, leasehold and land improvements         8,869         8,453           Equipment and fixtures         3,436         3,265           Construction in progress         150         264           Less accumulated depreciation and amortization         (4,752)         (4,423)           Net property and equipment         11,105         10,900           OTHER ASSETS         760         742           TOTAL ASSETS         760         742           CURRENT LIABILITIES AND EQUITY         V         V           CURRENT LIABILITIES         5,598         5,450           Accounts payable         5,598         5,450           Accounts payable         1,569         1,418           Accrued salaries and benefits         1,569         1,418           Accrued salaries and other taxes         345         302           Deferred membership fees         912         824           Current portion of long-term debt         45         80           Other current liabilities         1,350         1,191           Total current liabilities         9,865         9,281           LONG-TERM DEET,	Total current assets		11.501		10.337
Land       3,402       3,341         Buildings, leasehold and land improvements       8,869       8,453         Equipment and fixtures       3,436       3,265         Construction in progress       150       264         Less accumulated depreciation and amortization       (4,752)       (4,423)         Net property and equipment       11,105       10,900         OTHER ASSETS       760       742         TOTAL ASSETS       8       23,366       \$       21,979         LIABILITIES AND EQUITY       5       5       46       \$       16         Accounds payable       5,598       5,450       302       22         Accrued salaries and benefits       1,569       1,418       302         Deferred membership fees       912       824       302<			,		
Land       3,402       3,341         Buildings, leasehold and land improvements       8,869       8,453         Equipment and fixtures       3,436       3,265         Construction in progress       150       264         Less accumulated depreciation and amortization       (4,752)       (4,423)         Net property and equipment       11,105       10,900         OTHER ASSETS       760       742         TOTAL ASSETS       8       23,366       \$       21,979         LIABILITIES AND EQUITY       5       5       46       \$       16         Accounds payable       5,598       5,450       302       22         Accrued salaries and benefits       1,569       1,418       302         Deferred membership fees       912       824       302<	PROPERTY AND EOUIPMENT				
Buildings, leasehold and land improvements         8,869         8,453           Equipment and fixtures         3,436         3,265           Construction in progress         150         264           Issert         15,857         15,323           Less accumulated depreciation and amortization         (4,752)         (4,423)           Net property and equipment         11,105         10,900           OTHER ASSETS         760         742           TOTAL ASSETS         760         742           Interpret CURRENT LIABILITIES         \$         23,366         \$         21,979           LIABILITIES AND EQUITY         \$         46         \$         16           Accounts payable         5,598         5,450         \$         302           Deferred membership fees         912         824         302           O			3.402		3.341
Equipment and fixtures       3,436       3,265         Construction in progress       150       264         Issert       15,857       15,323         Less accumulated depreciation and amortization       (4,752)       (4,423)         Net property and equipment       11,105       10,900         OTHER ASSETS       760       742         TOTAL ASSETS       760       742         Short-term borrowings       \$       46       \$         Accounts payable       5,598       5,450         Accrued salaries and other taxes       345       302         Deferred membership fees       912       824         Current portion of long-term debt       45       80         Other current liabilities       1,350       1,191					
Construction in progress150264Less accumulated depreciation and amortization15,85715,323Less accumulated depreciation and amortization(4,752)(4,423)Net property and equipment11,10510,900OTHER ASSETS760742TOTAL ASSETS760742CURRENT LIABILITIES AND EQUITYCURRENT LIABILITIES AND EQUITYCURRENT LIABILITIES\$46\$Short-term borrowings\$46\$16Accrued salaries and benefits1,5691,418302Deferred membership fees912824345302Current portion of long-term debt45800ther current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130			· · · · · · · · · · · · · · · · · · ·		
15,857       15,323         Less accumulated depreciation and amortization       (4,752)       (4,423)         Net property and equipment       11,105       10,900         OTHER ASSETS       760       742         TOTAL ASSETS       760       742         TOTAL ASSETS       8       23,366       \$       21,979         LIABILITIES AND EQUITY         CURRENT LIABILITIES         Short-term borrowings       \$       46       \$       16         Accounts payable       5,598       5,450       345       302         Accrued salaries and benefits       1,569       1,418       345       302       824         Current portion of long-term debt       45       80       0ther current liabilities       9,865       9,281         LONG-TERM DEBT, excluding current portion       2,134       2,130       2,134       2,130					
Less accumulated depreciation and amortization(4,752)(4,423)Net property and equipment11,10510,900OTHER ASSETS760742TOTAL ASSETS823,366\$23,366\$21,979LIABILITIES AND EQUITYCURRENT LIABILITIESShort-term borrowings\$46\$Accounds payable5,5985,450Accound salaries and benefits345302Deferred membership fees912824Current portion of long-term debt4580Other current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130			150		201
Less accumulated depreciation and amortization(4,752)(4,423)Net property and equipment11,10510,900OTHER ASSETS760742TOTAL ASSETS823,366\$23,366\$21,979LIABILITIES AND EQUITYCURRENT LIABILITIESShort-term borrowings\$46\$Accounds payable5,5985,450Accound salaries and benefits345302Deferred membership fees912824Current portion of long-term debt4580Other current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130			15 857		15 323
Net property and equipment11,10510,900OTHER ASSETS760742TOTAL ASSETS823,366\$21,979LIABILITIES AND EQUITYCURRENT LIABILITIESShort-term borrowings\$46\$16Accounts payable5,5985,450Accounts payable5,5985,450Accrued salaries and benefits1,5691,418Accrued salaries and other taxes912824Current portion of long-term debt4580Other current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130	Less accumulated depreciation and amortization				
OTHER ASSETS760742OTHER ASSETS\$ 23,366\$ 21,979LIABILITIES AND EQUITYCURRENT LIABILITIESShort-term borrowings\$ 46\$ 16Accounts payable5,5985,450Accrued salaries and benefits1,5691,418Accrued salaries and other taxes345302Deferred membership fees912824Current portion of long-term debt4580Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130			(4,752)		(4,423)
OTHER ASSETS760742OTHER ASSETS\$ 23,366\$ 21,979LIABILITIES AND EQUITYCURRENT LIABILITIESShort-term borrowings\$ 46\$ 16Accounts payable5,5985,450Accrued salaries and benefits1,5691,418Accrued salaries and other taxes345302Deferred membership fees912824Current portion of long-term debt4580Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130	Net property and equipment		11 105		10.000
TOTAL ASSETS\$23,366\$21,979LIABILITIES AND EQUITYCURRENT LIABILITIESShort-term borrowings\$46\$16Accounts payable5,5985,45046\$1,418Accrued salaries and benefits1,5691,418302Deferred membership fees912824302Deferred membership fees91282480Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130	Net property and equipment		11,105		10,900
TOTAL ASSETS\$23,366\$21,979LIABILITIES AND EQUITYCURRENT LIABILITIESShort-term borrowings\$46\$16Accounts payable5,5985,45046\$1,418Accrued salaries and benefits1,5691,418302Deferred membership fees912824302Deferred membership fees91282480Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130	OTHER ASSETS		760		742
LIABILITIES AND EQUITYCURRENT LIABILITIESShort-term borrowings\$ 46\$ 16Accounts payable5,5985,450Accrued salaries and benefits1,5691,418Accrued salaries and other taxes345302Deferred membership fees912824Current portion of long-term debt4580Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130	0111111100210		, 00		, . <u> </u>
LIABILITIES AND EQUITYCURRENT LIABILITIESShort-term borrowings\$ 46\$ 16Accounts payable5,5985,450Accrued salaries and benefits1,5691,418Accrued salaries and other taxes345302Deferred membership fees912824Current portion of long-term debt4580Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130	TOTAL ASSETS	\$	23 366	\$	21 979
CURRENT LIABILITIESShort-term borrowings\$46\$16Accounts payable5,5985,450Accrued salaries and benefits1,5691,418Accrued sales and other taxes345302Deferred membership fees912824Current portion of long-term debt4580Other current liabilities1,3501,191Total current portion9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130		Ψ	25,500	φ	21,777
CURRENT LIABILITIESShort-term borrowings\$46\$16Accounts payable5,5985,450Accrued salaries and benefits1,5691,418Accrued sales and other taxes345302Deferred membership fees912824Current portion of long-term debt4580Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130	LIABILITIES AND EQUITY				
Accounts payable5,5985,450Accrued salaries and benefits1,5691,418Accrued sales and other taxes345302Deferred membership fees912824Current portion of long-term debt4580Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130					
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Accrued salaries and benefits1,5691,418Accrued sales and other taxes345302Deferred membership fees912824Current portion of long-term debt4580Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130	Accounts payable		5,598		5,450
Deferred membership fees912824Current portion of long-term debt4580Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130			1,569		1,418
Current portion of long-term debt4580Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130	Accrued sales and other taxes		345		302
Current portion of long-term debt4580Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130	Deferred membership fees		912		824
Other current liabilities1,3501,191Total current liabilities9,8659,281LONG-TERM DEBT, excluding current portion2,1342,130			45		80
Total current liabilities         9,865         9,281           LONG-TERM DEBT, excluding current portion         2,134         2,130			1,350		1,191
LONG-TERM DEBT, excluding current portion 2,134 2,130					
LONG-TERM DEBT, excluding current portion 2,134 2,130	Total current liabilities		9.865		9.281
			,		
	DEFERRED INCOME TAXES AND OTHER LIABILITIES		, , , , , , , , , , , , , , , , , , ,		

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Total liabilities	12,623	11,875
Total hadmites	12,025	11,075
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Preferred stock \$.005 par value; 100,000,000 shares authorized; no shares issued and outstanding		
Common stock \$.005 par value; 900,000,000 shares authorized; 440,379,000		
and 435,974,000 shares issued and outstanding	2	2
Additional paid-in capital	4,009	3,811
Accumulated other comprehensive income	145	110
Retained earnings	6,495	6,101
Total Costco stockholders equity	10,651	10,024
Noncontrolling interests	92	80
Total equity	10,743	10,104
TOTAL LIABILITIES AND EQUITY	\$ 23,366	\$ 21,979

The accompanying notes are an integral part of these condensed consolidated financial statements.

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#### COSTCO WHOLESALE CORPORATION

#### CONDENSED CONSOLIDATED STATEMENTS OF INCOME

#### (dollars in millions, except per share data)

#### (unaudited)

REVENUE		12 Wee ruary 14, 2010	eks Ended February 15, 2009		24 Wee February 14, 2010		ks Ended February 15, 2009	
Net sales	¢	18,356	\$	16,488	¢	35,278	\$	32,524
Membership fees	φ	386	φ	355	φ	763	φ	52,524 714
•								
Total revenue		18,742		16,843		36,041		33,238
OPERATING EXPENSES								
Merchandise costs		16,396		14,771		31,477		29,047
Selling, general and administrative		1,873		1,666		3,650		3,343
Preopening expenses		3		7		14		20
Provision for impaired assets and closing costs, net				1		2		8
Operating income		470		398		898		820
OTHER INCOME (EXPENSE)								
Interest expense		(26)		(25)		(50)		(50)
Interest income and other, net		30		12		48		33
INCOME BEFORE INCOME TAXES		474		385		896		803
Provision for income taxes		169		142		321		294
Net income including noncontrolling interests		305		243		575		509
Net income attributable to noncontrolling interests		(6)		(4)		(10)		(7)
NET INCOME ATTRIBUTABLE TO COSTCO	\$	299	\$	239	\$	565	\$	502
NET INCOME PER COMMON SHARE ATTRIBUTABLE TO								
COSTCO:								
Basic	\$	0.68	\$	0.55	\$	1.29	\$	1.16
Diluted	\$	0.67	\$	0.55	\$	1.27	\$	1.14
Shares used in calculation (000 s)		<b>20 70</b> /						100.045
Basic	439,786		433,476		438,475		432,963	
Diluted		46,918	¢	439,688		45,870	<i>•</i>	440,095
Dividends per share The accompanying notes are an integral part of t	\$	0.18	\$	0.16	\$	0.36	\$	0.32

The accompanying notes are an integral part of these condensed consolidated financial statements.

#### COSTCO WHOLESALE CORPORATION

#### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

#### (dollars in millions)

#### (unaudited)

	24 Weeks Ended			
	February 14, 2010	February 15, 2009		
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income including noncontrolling interests	\$ 575	\$ 509		
Adjustments to reconcile net income including noncontrolling interests to net cash provided by				
operating activities:				
Depreciation and amortization	369	316		
Stock-based compensation	100	89		
Undistributed equity earnings in joint ventures	(22)	(14)		
Excess tax benefit on stock-based awards	(6)	(2)		
Other non-cash items, net	(6)	45		
Deferred income taxes	(3)	(7)		
Change in receivables, other current assets, deferred membership fees, accrued and other current				
liabilities	186	41		
Decrease (increase) in merchandise inventories	63	(120)		
Increase (decrease) in accounts payable	104	(7)		
Net cash provided by operating activities	1,360	850		
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment, net of \$54 and \$12 of non-cash capital expenditures in the				
first half of fiscal 2010 and 2009, respectively	(506)	(671)		
Proceeds from the sale of property and equipment	(506)	(071)		
Purchases of short-term investments	(628)	(1,001)		
Maturities of short-term investments	579	1,020		
Sales of investments	45	93		
	43			
Other investing items, net	Z	(4)		
Net cash used in investing activities	(506)	(559)		
CASH FLOWS FROM FINANCING ACTIVITIES				
Change in bank checks outstanding	76	(61)		
Repayments of short-term borrowings	(51)	(1,344)		
Proceeds from short-term borrowings	80	1,359		
Repayments of long-term debt	(39)	(2)		
Cash dividend payments	(79)	(69)		
Excess tax benefit on stock-based awards	6	2		
Proceeds from stock-based awards, net	86 &n			