

COSTCO WHOLESALE CORP /NEW

Form 10-Q

March 17, 2010

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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)

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Washington
(State or other jurisdiction of
incorporation or organization)

91-1223280
(I.R.S. Employer

Identification No.)

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

Large accelerated filer

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

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

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COSTCO WHOLESALE CORPORATION

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Table of Contents**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)

	February 14, 2010	August 30, 2009
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	466	371
Total current assets	11,501	10,337
PROPERTY AND EQUIPMENT		
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
	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
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$ 46	\$ 16
Accounts payable	5,598	5,450
Accrued salaries and benefits	1,569	1,418
Accrued sales 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 DEBT, excluding current portion	2,134	2,130
DEFERRED INCOME TAXES AND OTHER LIABILITIES	624	464

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Total liabilities	12,623	11,875
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.

Table of Contents**COSTCO WHOLESALE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(dollars in millions, except per share data)

(unaudited)

	12 Weeks Ended		24 Weeks Ended	
	February 14, 2010	February 15, 2009	February 14, 2010	February 15, 2009
REVENUE				
Net sales	\$ 18,356	\$ 16,488	\$ 35,278	\$ 32,524
Membership fees	386	355	763	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)				
Basic	439,786	433,476	438,475	432,963
Diluted	446,918	439,688	445,870	440,095
Dividends per share	\$ 0.18	\$ 0.16	\$ 0.36	\$ 0.32

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

Table of Contents**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	2	4
Purchases of short-term investments	(628)	(1,001)
Maturities of short-term investments	579	1,020
Sales of investments	45	93
Other investing items, net	2	(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