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COSTCO WHOLESALE CORP /NEW Form 10-Q March 18, 2009 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 15, 2009

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)

Washington (State or other jurisdiction of

91-1223280 (I.R.S. Employer

incorporation or organization)

Identification No.)

999 Lake Drive, Issaquah, WA 98027

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(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 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 x

Non-accelerated filer (Do not check if a smaller company)

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 x

The number of shares outstanding of the issuer s common stock as of March 6, 2009 was 434,027,431

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)

	Fel	oruary 15, 2009	Au	August 31, 2008	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$	2,705	\$	2,619	
Short-term investments		577		656	
Receivables, net		880		748	
Merchandise inventories		4,995		5,039	
Deferred income taxes and other current assets		534		400	
Total current assets		9,691		9,462	
		-,		-, -	
PROPERTY AND EQUIPMENT					
Land		3,189		3,217	
Buildings, leasehold and land improvements		7,771		7,749	
Equipment and fixtures		3,154		3,057	
Construction in progress		371		306	
		0			
		14,485		14,329	
Less accumulated depreciation and amortization		(4,131)		(3,974)	
Less accumulated depreciation and amortization		(4,131)		(3,974)	
		40.054		40.055	
Net property and equipment		10,354		10,355	
OTHER ASSETS		692		865	
	\$	20,737	\$	20,682	
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES					
Short-term borrowings	\$	134	\$	134	
Accounts payable		5,000		5,225	
Accrued salaries and benefits		1,405		1,321	
Accrued sales and other taxes		295		283	
Deferred membership fees		795		748	
Current portion of long-term debt		39		6	
Other current liabilities		1,330		1,157	
Total current liabilities		8,998		8,874	
LONG-TERM DEBT, excluding current portion		2,198		2,206	
DEFERRED INCOME TAXES AND OTHER LIABILITIES		332		328	
DEL ELLES HOUSE TRACO AND OTHER EMPIRITED		002		020	

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Total liabilities	11,528	11,408
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	88	82
STOCKHOLDERS' 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; 434,027,000 and		
432,513,000 shares issued and outstanding	2	2
Additional paid-in capital	3,661	3,543
Accumulated other comprehensive (loss) income	(218)	286
Retained earnings	5,676	5,361
Total stockholders' equity	9,121	9,192
,	-,	-,
	\$ 20,737	\$ 20,682

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

COSTCO WHOLESALE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, except per share data)

(unaudited)

	12 Weeks Ended February 15, February 17, 2009 2008			• .			led oruary 17, 2008	
REVENUE								
Net sales	\$	16,488	\$	16,616	\$	32,524	\$	32,088
Membership fees		355		343		714		681
Total variance		10 040		10.050		00 000		00.700
Total revenue		16,843		16,959		33,238		32,769
OPERATING EXPENSES		4 4 774		44.000		00 0 47		00.057
Merchandise costs		14,771		14,833		29,047		28,657
Selling, general and administrative		1,666		1,615		3,343		3,185
Preopening expenses		7		10		20		31
Provision for impaired assets and closing costs, net		1		(3)		8		(3)
Operating income		398		504		820		899
OTHER INCOME (EXPENSE)								
Interest expense		(25)		(23)		(50)		(46)
Interest income and other		8		41		26		74
INCOME BEFORE INCOME TAXES		381		522		796		927
Provision for income taxes		142		194		294		337
NET INCOME	\$	239	\$	328	\$	502	\$	590
	•		•		•		•	
NET INCOME PER COMMON SHARE:								
Basic	\$	0.55	\$	0.75	\$	1.16	\$	1.36
Diluted	\$	0.55	\$	0.74	\$	1.14	\$	1.33
Shares used in calculation (000 s)								
Basic	4	33,476		434,779	4	32,963		434,934
Diluted		39,688	444,925		440,095			445,148
Dividends per share	\$	0.16	\$	0.145	\$	0.32	\$	0.29

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)

Adjustments to reconcile net income to net cash provided by operating activities: 16		24 Wee February 15, 2009	eeks Ended February 17, 2008	
Adjustments to reconcile net income to net cash provided by operating activities: 16				
Depreciation and amortization 316 287 Stock-based compensation 89 80 Undistributed equity earnings in joint ventures (14) (20) Net loss? (gail) on sale of property, equipment and other 5 (4) Provision on impaired assets 2 4 Accretion of discount on long-term debt 1 1 Excess tax benefit on share based awards (2) (15 Other-Inhan-temporary impairment loss on short-term investments 7 3 Other non-cash tilems, net 30 5 Deferred income tax provision (7) (20 Change in receivables, other current assets, deferred membership fees, accrued and other current liabilities 120 111 Increase in merchandise inventories (120) (319 Increase in merchandise inventories (20 111 Increase in merchandise inventories (20 111 Increase in merchandise inventories (20 (319 Increase in merchandise inventories (20 (671 (77 Net cash provided by operating activities 822 853 </td <td>Net income</td> <td>\$ 502</td> <td>\$ 590</td>	Net income	\$ 502	\$ 590	
Siock based compensation 88 88 88 80 80 80 80 8	Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed equity earnings in joint ventures (14) (20) Net loss / (gain) on sale of property, equipment and other 5 (4) Provision on impaired assets 2 4 Accretion of discount ton long-term debt 1 1 1 Excess tax benefit on share based awards (2) (15 0 1 3 3 5 0 1 1 1 1 0 3 5 0 1 3 3 5 0 5 0 6 7 3 3 5 0 1 1 1 0 3 5 0 1 1 1 1 2 0 1 1 1 2 0 1 1 1 2 2 1 1 1 2 1 1 1 2 2 1 1 1 1 2 2 1 1 1 1 2 2 1 2 2 3 <t< td=""><td>Depreciation and amortization</td><td>316</td><td>287</td></t<>	Depreciation and amortization	316	287	
Net loss / (gain) on sale of property, equipment and other	Stock-based compensation	89	80	
Provision on impaired assets 2 Accretion of discount on long-term debt 1 1 1 Excess tax benefit on share based awards (2) (15 Other-Inhan-temporary impairment loss on short-term investments 7 3 Ofter non-cash items, net 30 5 Deferred income tax provision (7) (20 Change in receivables, other current assets, deferred membership fees, accrued and other current liabilities 120 111 Increase in merchandise inventories (120) (319 Increase / (decrease) in accounts payable (7) 154 Net cash provided by operating activities 822 853 CASH FLOWS FROM INVESTING ACTIVITIES 822 853 CASH FLOWS FROM INVESTING ACTIVITIES (671) (779 Additions to property and equipment, net of \$12 and \$39 of non-cash capital expenditures in the first half of liscal 2009 and 2008, respectively (671) (779 Proceeds from the sale of property and equipment 4 11 11 Muturities of short-term investments (1,001) (655 52 Muturities of short-term investments <td< td=""><td></td><td></td><td>(20)</td></td<>			(20)	
Accretion of discount on long-term debt			(4)	
Excess tax benefit on share based awards	Provision on impaired assets	2		
Other Inch-cash Items, net 30 5 Deferred income tax provision (7) (20) Change in receivables, other current assets, deferred membership fees, accrued and other current liabilities liabilities liabilities (120) (319) Increase in merchandise inventories (120) (319) Increase in merchandise inventories (120) (319) Increase / (decrease) in accounts payable (7) 154 Net cash provided by operating activities 822 853 CASH FLOWS FROM INVESTING ACTIVITIES Additions to property and equipment, net of \$12 and \$39 of non-cash capital expenditures in the first half of fiscal 2009 and 2008, respectively (671) (779 Proceeds from the sale of property and equipment 4 11 11 Purchases of short-term investments (1,001) (655) Maturities of short-term investments (1,001) (655) Maturities of short-term investments (1,020) 522 Sales of short-term investments (4) (20) Change in certain other assets and other, net (4) (20) Investments transferred from cash and cash equivalents <td>Accretion of discount on long-term debt</td> <td></td> <td>1</td>	Accretion of discount on long-term debt		1	
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Deferred income tax provision (7) (20) Change in receivables, other current assets, deferred membership fees, accrued and other current liabilities 120 111 Increase in merchandise inventories (120) (319 Increase / (decrease) in accounts payable (7) 154 Net cash provided by operating activities 822 853 CASH FLOWS FROM INVESTING ACTIVITIES 822 853 Additions to property and equipment, net of \$12 and \$39 of non-cash capital expenditures in the first half of fiscal 2009 and 2008, respectively (671) (779 Proceeds from the sale of property and equipment 4 11 Purchases of short-term investments (1,001) (655) Muturities of short-term investments 93 94 Kalarities of short-term investments 93 94 Change in cartain other assets and other, net (4) (20 Investments transferred from cash and cash equivalents (559) (1,198 CASH FLOWS FROM FINANCING ACTIVITIES (559) (1,198 CASH FLOWS FROM FINANCING ACTIVITIES (559) (1,344) (1,050) Change in bank checks outstandi	Other-than-temporary impairment loss on short-term investments	7	3	
Change in receivables, other current assets, deferred membership fees, accrued and other current incibabilities 20 111 increase in merchandise inventories (120) (319 increase) (150) (559 increase) (559 increase)<	Other non-cash items, net	30	5	
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Increase in merchandise inventories (120) (319) (170) (154) (170) (154) (154) (154) (155) (154) (155)	Change in receivables, other current assets, deferred membership fees, accrued and other current			
Increase / (decrease) in accounts payable (7) 154 Net cash provided by operating activities 822 853 CASH FLOWS FROM INVESTING ACTIVITIES Additions to property and equipment, net of \$12 and \$39 of non-cash capital expenditures in the first half of fiscal 2009 and 2008, respectively (671) (779 Proceeds from the sale of property and equipment 4 111 Purchases of short-term investments (1,001) (655) Maturities of short-term investments 1,020 522 Sales of short-term investments 1,020 522 Sales of short-term investments (4) (20) Investments transferred from cash and cash equivalents (559) (1,198) CASH FLOWS FROM FINANCING ACTIVITIES Change in bank checks outstanding (61) 61 Repayments of short-term borrowings (1,344) (1,050) Proceeds from isourace of long-term debt, net 72 Repayments of long-term debt, net (2) (35) Cash dividend payments (69) (63) Change in minority interests 7 4 Excess tax benefit on share based awards 2 115 Repurchases of common stock (67) (407)	liabilities	20	111	
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CASH FLOWS FROM INVESTING ACTIVITIES Additions to property and equipment, net of \$12 and \$39 of non-cash capital expenditures in the first (671) (779 Proceeds from the sale of property and equipment 4 11 Purchases of short-term investments (1,001) (655 Maturities of short-term investments 1,020 522 Sales of short-term investments 93 94 Change in certain other assets and other, net (4) (20 Investments transferred from cash and cash equivalents (371 Net cash used in investing activities (559) (1,198 CASH FLOWS FROM FINANCING ACTIVITIES (559) (1,198 Change in bank checks outstanding (61) 61 Repayments of short-term borrowings (1,344) (1,050) Proceeds from issuance of long-term debt, net 7 7 Repayments of long-term debt (2) (35 Cash dividend payments (69) (63 Change in minority interests 7 4 Excess tax benefit on share based awards 2 15 Proceeds from exercise of s				
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Change in bank checks outstanding(61)61Repayments of short-term borrowings(1,344)(1,050)Proceeds from short-term borrowings1,3591,100Proceeds from issuance of long-term debt, net72Repayments of long-term debt(2)(35)Cash dividend payments(69)(63)Change in minority interests74Excess tax benefit on share based awards215Proceeds from exercise of stock options52119Repurchases of common stock(67)(407)Net cash used in financing activities(123)(184)	half of fiscal 2009 and 2008, respectively Proceeds from the sale of property and equipment Purchases of short-term investments Maturities of short-term investments Sales of short-term investments Change in certain other assets and other, net Investments transferred from cash and cash equivalents Net cash used in investing activities	4 (1,001) 1,020 93 (4)	(779) 11 (655) 522 94 (20) (371)	
Repayments of short-term borrowings (1,344) (1,050) Proceeds from short-term borrowings 1,359 1,100 Proceeds from issuance of long-term debt, net 72 Repayments of long-term debt (2) (35) Cash dividend payments (69) (63) Change in minority interests 7 4 Excess tax benefit on share based awards 2 15 Proceeds from exercise of stock options 52 119 Repurchases of common stock (67) (407) Net cash used in financing activities (123) (184)	CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings 1,359 1,100 Proceeds from issuance of long-term debt, net 72 Repayments of long-term debt (2) (35) Cash dividend payments (69) (63) Change in minority interests 7 4 Excess tax benefit on share based awards 2 15 Proceeds from exercise of stock options 52 119 Repurchases of common stock (67) (407) Net cash used in financing activities (123) (184)		()	61	
Proceeds from issuance of long-term debt, net Repayments of long-term debt Cash dividend payments Change in minority interests The excess tax benefit on share based awards Proceeds from exercise of stock options Repurchases of common stock The example of	Repayments of short-term borrowings	(1,344)	(1,050)	
Repayments of long-term debt(2)(35)Cash dividend payments(69)(63)Change in minority interests74Excess tax benefit on share based awards215Proceeds from exercise of stock options52119Repurchases of common stock(67)(407)Net cash used in financing activities(123)(184)	Proceeds from short-term borrowings	1,359	1,100	
Cash dividend payments(69)(63)Change in minority interests74Excess tax benefit on share based awards215Proceeds from exercise of stock options52119Repurchases of common stock(67)(407)Net cash used in financing activities(123)(184)	Proceeds from issuance of long-term debt, net		72	
Change in minority interests74Excess tax benefit on share based awards215Proceeds from exercise of stock options52119Repurchases of common stock(67)(407)Net cash used in financing activities(123)(184)	Repayments of long-term debt	(2)	(35)	
Excess tax benefit on share based awards 2 15 Proceeds from exercise of stock options 52 119 Repurchases of common stock (67) (407) Net cash used in financing activities (123) (184)	Cash dividend payments	(69)	(63)	
Proceeds from exercise of stock options 52 119 Repurchases of common stock (67) (407) Net cash used in financing activities (123) (184)	Change in minority interests	7	4	
Repurchases of common stock (67) (407) Net cash used in financing activities (123) (184)	Excess tax benefit on share based awards	2	15	
Net cash used in financing activities (123)	Proceeds from exercise of stock options	52	119	
	Repurchases of common stock	(67)	(407)	
EFFECT OF EXCHANGE RATE CHANGES ON CASH (54)	Net cash used in financing activities	(123)	(184)	
	EFFECT OF EXCHANGE RATE CHANGES ON CASH	(54)	16	

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Net increase / (decrease) in cash and cash equivalents		86		(513)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	2	2,619		2,780
CASH AND CASH EQUIVALENTS END OF PERIOD	\$ 2	2.705	\$	2.267
		_,	*	_,
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest (reduced by \$4 and \$7 interest capitalized in the first half of fiscal 2009 and 2008, respectively)	\$	52	\$	57
Income taxes	\$	176	\$	286
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:				
Cash dividend declared, but not yet paid	\$	69	\$	63
Common stock issued upon conversion of 3.5% Zero Coupon Convertible Subordinated Notes	\$	2	\$	

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

COSTCO WHOLESALE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except as noted and per share data)

(unaudited)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-