

COSTCO WHOLESALE CORP /NEW

Form 10-Q

March 18, 2009

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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 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
incorporation or organization)

999 Lake Drive, Issaquah, WA 98027

91-1223280
(I.R.S. Employer
Identification No.)

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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 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 6, 2009 was 434,027,431

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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)

| | February 15, 2009 | 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 |
| | 14,485 | 14,329 |
| Less accumulated depreciation and amortization | (4,131) | (3,974) |
| 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 |

| | | |
|---|-----------|-----------|
| 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.

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COSTCO WHOLESALE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, except per share data)

(unaudited)

| | 12 Weeks Ended | | 24 Weeks Ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | February 15, 2009 | February 17, 2008 | February 15, 2009 | February 17, 2008 |
| REVENUE | | | | |
| Net sales | \$ 16,488 | \$ 16,616 | \$ 32,524 | \$ 32,088 |
| Membership fees | 355 | 343 | 714 | 681 |
| Total revenue | 16,843 | 16,959 | 33,238 | 32,769 |
| OPERATING EXPENSES | | | | |
| 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 | 433,476 | 434,779 | 432,963 | 434,934 |
| Diluted | 439,688 | 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.

Table of Contents**COSTCO WHOLESALE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(dollars in millions)

(unaudited)

| | 24 Weeks Ended | |
|--|----------------------|----------------------|
| | February 15, 2009 | February 17, 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 502 | \$ 590 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 316 | 287 |
| Stock-based compensation | 89 | 80 |
| 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 | |
| Accretion of discount on long-term debt | 1 | 1 |
| Excess tax benefit on share based awards | (2) | (15) |
| Other-than-temporary impairment loss on short-term investments | 7 | 3 |
| Other 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 | 20 | 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 | | |
| 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) |
| 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 | | |
| Change in bank checks outstanding | (61) | 61 |
| 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) |
| 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 | 2,619 | 2,780 |

| | | |
|--|-----------------|-----------------|
| CASH AND CASH EQUIVALENTS END OF PERIOD | \$ 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.

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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-