UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended February 16, 2020
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	**91-1223280**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

999 Lake Drive, Issaquah, WA 98027
(Address of principal executive offices) (Zip Code)
(Registrant’s telephone number, including area code): **(425) 313-8100**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $.01 Par Value	COST	The NASDAQ Global Select Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 4, 2020 was 441,579,952.

COSTCO WHOLESALE CORPORATION
INDEX TO FORM 10-Q

PART I—FINANCIAL INFORMATION

Item 1—Financial Statements

COSTCO WHOLESALE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(amounts in millions, except per share data) (unaudited)

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	February 17, 2019	February 16, 2020	February 17, 2019
REVENUE				
Net sales	$ 38,256	$ 34,628	$ 74,492	$ 68,939
Membership fees	816	768	1,620	1,526
Total revenue	39,072	35,396	76,112	70,465
OPERATING EXPENSES				
Merchandise costs	34,056	30,720	66,289	61,343
Selling, general and administrative	3,743	3,464	7,475	6,939
Preopening expenses	7	9	21	31
Operating income	1,266	1,203	2,327	2,152
OTHER INCOME (EXPENSE)				
Interest expense	(34)	(34)	(72)	(70)
Interest income and other, net	45	46	80	68
INCOME BEFORE INCOME TAXES	1,277	1,215	2,335	2,150
Provision for income taxes	330	314	532	472
Net income including noncontrolling interests	947	901	1,803	1,678
Net income attributable to noncontrolling interests	(16)	(12)	(28)	(22)
NET INCOME ATTRIBUTABLE TO COSTCO	$ 931	$ 889	$ 1,775	$ 1,656
NET INCOME PER COMMON SHARE ATTRIBUTABLE TO COSTCO:				
Basic	$ 2.10	$ 2.02	$ 4.02	$ 3.77
Diluted	$ 2.10	$ 2.01	$ 4.00	$ 3.74
Shares used in calculation (000s):				
Basic	442,021	440,284	441,920	439,721
Diluted	443,727	442,337	443,704	442,535

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

COSTCO WHOLESALE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(amounts in millions) (unaudited)

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	February 17, 2019	February 16, 2020	February 17, 2019
NET INCOME INCLUDING NONCONTROLLING INTERESTS	$ 947	$ 901	$ 1,803	$ 1,678
Foreign-currency translation adjustment and other, net	47	52	172	(82)
Comprehensive income	994	953	1,975	1,596
Less: Comprehensive income attributable to noncontrolling interests	22	13	44	21
COMPREHENSIVE INCOME ATTRIBUTABLE TO COSTCO	$ 972	$ 940	$ 1,931	$ 1,575

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

COSTCO WHOLESALE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in millions, except par value and share data) (unaudited)

	February 16, 2020	September 1, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,786	$ 8,384
Short-term investments	929	1,060
Receivables, net	1,988	1,535
Merchandise inventories	11,850	11,395
Other current assets	1,150	1,111
Total current assets	23,703	23,485
PROPERTY AND EQUIPMENT		
Land	6,696	6,417
Buildings and improvements	17,853	17,136
Equipment and fixtures	8,406	7,801
Construction in progress	906	1,272
Accumulated depreciation and amortization	(12,380)	(11,736)
Net property and equipment	21,481	20,890
OTHER ASSETS		
Operating lease right-of-use assets	2,596	0
Other long-term assets	1,002	1,025
TOTAL ASSETS	$ 48,782	$ 45,400
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 11,072	$ 11,679
Accrued salaries and benefits	3,415	3,176
Accrued member rewards	1,243	1,180
Deferred membership fees	1,865	1,711
Current portion of long-term debt	500	1,699
Other current liabilities	4,600	3,792
Total current liabilities	22,695	23,237
OTHER LIABILITIES		
Long-term debt, excluding current portion	5,099	5,124
Long-term operating lease liabilities	2,446	0
Other long-term liabilities	1,543	1,455
TOTAL LIABILITIES	31,783	29,816
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Preferred stock $0.01 par value; 100,000,000 shares authorized; no shares issued and outstanding	0	0
Common stock $0.01 par value; 900,000,000 shares authorized; 441,622,000 and 439,625,000 shares issued and outstanding	4	4
Additional paid-in capital	6,506	6,417
Accumulated other comprehensive loss	(1,280)	(1,436)
Retained earnings	11,384	10,258
Total Costco stockholders' equity	16,614	15,243
Noncontrolling interests	385	341
TOTAL EQUITY	16,999	15,584
TOTAL LIABILITIES AND EQUITY	$ 48,782	$ 45,400

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

COSTCO WHOLESALE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(amounts in millions) (unaudited)

	12 Weeks Ended February 16, 2020							
	Common Stock							
	Shares (000s)	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Costco Stockholders' Equity	Noncontrolling Interests	Total Equity
BALANCE AT NOVEMBER 24, 2019	441,778	$ 4	$ 6,391	$ (1,321)	$ 10,787	$ 15,861	$ 363	$ 16,224
Net income	—	—	—	—	931	931	16	947
Foreign-currency translation adjustment and other, net	—	—	—	41	—	41	6	47
Stock-based compensation	—	—	118	—	—	118	—	118
Release of vested restricted stock units (RSUs), including tax effects	6	—	(1)	—	—	(1)	—	(1)
Repurchases of common stock	(162)	—	(2)	—	(47)	(49)	—	(49)
Cash dividend declared	—	—	—	—	(287)	(287)	—	(287)
BALANCE AT FEBRUARY 16, 2020	441,622	$ 4	$ 6,506	$ (1,280)	$ 11,384	$ 16,614	$ 385	$ 16,999

BALANCE AT

BALANCE AT

	12 Weeks Ended February 17, 2019							
	Common Stock							
	Shares (000s)	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Costco Stockholders' Equity	Noncontrolling Interests	Total Equity
BALANCE AT NOVEMBER 25, 2018	440,546	$ 4	$ 6,107	$ (1,331)	$ 8,387	$ 13,167	$ 312	$ 13,479
Net income	—	—	—	—	889	889	12	901
Foreign-currency translation adjustment and other, net	—	—	—	51	—	51	1	52
Stock-based compensation	—	—	119	—	—	119	—	119
Release of vested RSUs, including tax effects	4	—	—	—	—	—	—	—
Repurchases of common stock	(561)	—	(8)	—	(109)	(117)	—	(117)
Cash dividend declared and other	—	—	—	—	(251)	(251)	—	(251)
BALANCE AT FEBRUARY 17, 2019	439,989	$ 4	$ 6,218	$ (1,280)	$ 8,916	$ 13,858	$ 325	$ 14,183

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

COSTCO WHOLESALE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(amounts in millions) (unaudited)

	24 Weeks Ended February 16, 2020							
	Common Stock							
	Shares (000s)	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Costco Stockholders' Equity	Noncontrolling Interests	Total Equity
BALANCE AT SEPTEMBER 1, 2019	439,625	$ 4	$ 6,417	$ (1,436)	$ 10,258	$ 15,243	$ 341	$ 15,584
Net income	—	—	—	—	1,775	1,775	28	1,803
Foreign-currency translation adjustment and other, net	—	—	—	156	—	156	16	172
Stock-based compensation	—	—	420	—	—	420	—	420
Release of vested restricted stock units (RSUs), including tax effects	2,259	—	(327)	—	—	(327)	—	(327)
Repurchases of common stock	(262)	—	(4)	—	(75)	(79)	—	(79)
Cash dividend declared	—	—	—	—	(574)	(574)	—	(574)
BALANCE AT FEBRUARY 16, 2020	441,622	$ 4	$ 6,506	$ (1,280)	$ 11,384	$ 16,614	$ 385	$ 16,999

	24 Weeks Ended February 17, 2019							
	Common Stock							
	Shares (000s)	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Costco Stockholders' Equity	Noncontrolling Interests	Total Equity
BALANCE AT SEPTEMBER 2, 2018	438,189	$ 4	$ 6,107	$ (1,199)	$ 7,887	$ 12,799	$ 304	$ 13,103
Net income	—	—	—	—	1,656	1,656	22	1,678
Foreign-currency translation adjustment and other, net	—	—	—	(81)	—	(81)	(1)	(82)
Stock-based compensation	—	—	391	—	—	391	—	391
Release of vested RSUs, including tax effects	2,511	—	(270)	—	—	(270)	—	(270)
Repurchases of common stock	(711)	—	(10)	—	(141)	(151)	—	(151)
Cash dividend declared and other	—	—	—	—	(486)	(486)	—	(486)
BALANCE AT FEBRUARY 17, 2019	439,989	$ 4	$ 6,218	$ (1,280)	$ 8,916	$ 13,858	$ 325	$ 14,183

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

COSTCO WHOLESALE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in millions) (unaudited)

	24 Weeks Ended	
	February 16, 2020	February 17, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income including noncontrolling interests	$ 1,803	$ 1,678
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	758	683
Non-cash lease expense	77	0
Stock-based compensation	419	389
Other non-cash operating activities, net	14	6
Deferred income taxes	1	(27)
Changes in operating assets and liabilities:		
Merchandise inventories	(394)	(449)
Accounts payable	(537)	(684)
Other operating assets and liabilities, net	580	362
Net cash provided by operating activities	2,721	1,958
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of short-term investments	(636)	(457)
Maturities and sales of short-term investments	777	621
Additions to property and equipment	(1,260)	(1,317)
Other investing activities, net	19	(18)
Net cash used in investing activities	(1,100)	(1,171)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in bank payments outstanding	(17)	262
Repayments of long-term debt	(1,200)	(89)
Tax withholdings on stock-based awards	(327)	(270)
Repurchases of common stock	(77)	(149)
Cash dividend payments	(573)	(501)
Other financing activities, net	(34)	(2)
Net cash used in financing activities	(2,228)	(749)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	9	(13)
Net change in cash and cash equivalents	(598)	25
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	8,384	6,055
CASH AND CASH EQUIVALENTS END OF PERIOD	$ 7,786	$ 6,080

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the first half of the year for:		
Interest	$ 60	$ 68
Income taxes, net	$ 380	$ 677
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:		
Cash dividend declared, but not yet paid	$ 287	$ 251

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

COSTCO WHOLESALE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in millions, except share, per share, and warehouse count data)
(unaudited)

Note 1—Summary of Significant Accounting Policies

Description of Business

Costco Wholesale Corporation (Costco or the Company), a Washington corporation, and its subsidiaries operate membership warehouses based on the concept that offering members low prices on a limited selection of nationally branded and private-label products in a wide range of merchandise categories will produce high sales volumes and rapid inventory turnover. For the period ended February 16, 2020, Costco operated 785 warehouses worldwide: 546 in the United States (U.S.) located in 44 states, Washington, D.C., and Puerto Rico, 100 in Canada, 39 in Mexico, 29 in the United Kingdom (U.K.), 26 in Japan, 16 in Korea, 13 in Taiwan, 11 in Australia, two in Spain, and one each in Iceland, France and China. The Company operates e-commerce websites in the U.S., Canada, Mexico, U.K., Korea, Taiwan, Japan, and Australia.

Basis of Presentation

The condensed consolidated financial statements include the accounts of Costco, its wholly owned subsidiaries, and subsidiaries in which it has a controlling interest. The Company reports noncontrolling interests in consolidated entities as a component of equity separate from the Company's equity. All material intercompany transactions between and among the Company and its consolidated subsidiaries have been eliminated in consolidation. The Company's net income excludes income attributable to the noncontrolling interest in Taiwan. Unless otherwise noted, references to net income relate to net income attributable to Costco.

These unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial reporting pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). While these statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report filed on Form 10-K for the fiscal year ended September 1, 2019.

Fiscal Year End

The Company operates on a 52/53 week fiscal year basis, with the fiscal year ending on the Sunday closest to August 31. Fiscal 2020 is a 52-week year ending on August 30, 2020. References to the second quarter of 2020 and 2019 relate to the 12-week fiscal quarters ended February 16, 2020, and February 17, 2019, respectively. References to the first half of 2020 and 2019 relate to the 24 weeks ended February 16, 2020, and February 17, 2019, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Leases

The Company leases land and/or buildings at warehouses and certain other office and distribution facilities. Leases generally contain one or more of the following options, which the Company can exercise at the end of the initial term: (a) renew the lease for a defined number of years at the then-fair market rental rate or rate stipulated in the lease agreement; (b) purchase the property at the then-fair market value; or (c) a right of first refusal in the event of a third-party offer.

Some leases include free-rent periods and step-rent provisions, which are recognized on a straight-line basis over the original term of the lease and any extension options that the Company is reasonably certain to exercise from the date the Company has control of the property. Certain leases provide for periodic rent increases based on price indices or the greater of minimum guaranteed amounts or sales volume. Our leases do not contain any material residual value guarantees or material restrictive covenants.

The Company determines at inception whether a contract is or contains a lease. The Company initially records right-of-use (ROU) assets and lease obligations for its finance and operating leases based on the discounted future minimum lease payments over the term. As the rate implicit in the Company's leases is not easily determinable, the present value of the sum of the lease payments is calculated by using the Company's incremental borrowing rate. The rate is determined using a portfolio approach based on the rate of interest the Company would pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term. The Company uses quoted interest rates from financial institutions to derive the incremental borrowing rate. The lease term is defined as the noncancelable period of the lease plus any options to extend when it is reasonably certain that the Company will exercise the option.

Recent Accounting Pronouncements Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02 - Leases (ASC 842), which required recognition on the balance sheet for the rights and obligations created by leases with terms greater than 12 months. The Company adopted ASC 842 using the modified retrospective transition method and elected to use the effective date of September 2, 2019, as the date of initial application. Consequently, the comparative periods presented continue to be in accordance with ASC 840, Leases, previously in effect.

The Company elected the package of practical expedients permitted under the transition guidance, allowing the Company to carry forward conclusions related to: (a) whether expired or existing contracts contain leases; (b) lease classification; and (c) initial direct costs for existing leases. The Company has elected not to record operating lease right-of-use assets or lease liabilities associated with leases with durations of 12 months or less. Lastly, the Company elected the practical expedient allowing aggregation of non-lease components with related lease components when evaluating accounting treatment for all classes of underlying assets.

Adoption of the new standard resulted in an initial increase to assets and liabilities of $2,632 related to recognition of operating lease right-of-use assets and operating lease obligations as of September 2, 2019. Other line item impacts in the Company's condensed consolidated balance sheet were not material. The standard did not materially impact the condensed consolidated statements of income and cash flows. For more information on the Company's lease arrangements refer to Note 5.

Note 2—Investments

The Company's investments were as follows:

February 16, 2020:	Cost Basis	Unrealized Gains, Net	Recorded Basis
Available-for-sale:			
Government and agency securities	$ 523	$ 6	$ 529
Held-to-maturity:			
Certificates of deposit	400		400
Total short-term investments	$ 923	$ 6	$ 929

September 1, 2019:	Cost Basis	Unrealized Gains, Net	Recorded Basis
Available-for-sale:			
Government and agency securities	$ 716	$ 6	$ 722
Held-to-maturity:			
Certificates of deposit	338		338
Total short-term investments	$ 1,054	$ 6	$ 1,060

Gross unrecognized holding gains and losses on available-for-sale securities were not material for the periods ended February 16, 2020, and September 1, 2019. At February 16, 2020, and September 1, 2019, available-for-sale securities that were in a continuous unrealized-loss position were not material. There were no sales of available-for-sale securities during the first half of 2020 or 2019.

The maturities of available-for-sale and held-to-maturity securities at February 16, 2020, are as follows:

	Available-For-Sale		
	Cost Basis	Fair Value	Held-To-Maturity
Due in one year or less	$ 196	$ 197	$ 400
Due after one year through five years	327	332	0
Total	$ 523	$ 529	$ 400

Note 3—Fair Value Measurement

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The table below presents information regarding financial assets and liabilities that are measured at fair value on a recurring basis and indicate the level within the fair value hierarchy reflecting the valuation techniques utilized to determine fair value.

	Level 2	
	February 16, 2020	September 1, 2019
Investment in government and agency securities[1]	$ 666	$ 766
Forward foreign-exchange contracts, in asset position[2]	6	15
Forward foreign-exchange contracts, in (liability) position[2]	(6)	(4)
Total	$ 666	$ 777

(1) At February 16, 2020, $137 cash and cash equivalents and $529 short-term investments are included in the accompanying condensed consolidated balance sheets. At September 1, 2019, $44 cash and cash equivalents and $722 short-term investments are included in the accompanying condensed consolidated balance sheets.
(2) The asset and liability values are included in other current assets and other current liabilities, respectively, in the accompanying condensed consolidated balance sheets.

At February 16, 2020, and September 1, 2019, the Company did not hold any Level 1 or 3 financial assets or liabilities that were measured at fair value on a recurring basis. There were no transfers between levels during the first half of 2020 or 2019.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities recognized and disclosed at fair value on a nonrecurring basis include items such as financial assets measured at amortized cost and long-lived nonfinancial assets. These assets are measured at fair value if determined to be impaired. There were no fair value adjustments to these items during the first half of 2020 or 2019.

Note 4—Debt

The carrying value of the Company’s long-term debt consisted of the following:

	February 16, 2020	September 1, 2019
1.70% Senior Notes due December 2019	$ 0	$ 1,200
1.75% Senior Notes due February 2020	500	500
2.15% Senior Notes due May 2021	1,000	1,000
2.25% Senior Notes due February 2022	500	500
2.30% Senior Notes due May 2022	800	800
2.75% Senior Notes due May 2024	1,000	1,000
3.00% Senior Notes due May 2027	1,000	1,000
Other long-term debt	824	852
Total long-term debt	5,624	6,852
Less unamortized debt discounts and issuance costs	25	29
Less current portion[1]	500	1,699
Long-term debt, excluding current portion	$ 5,099	$ 5,124

(1) Net of unamortized debt discounts and issuance costs.

The estimated fair value of Senior Notes is valued using Level 2 inputs. Other long-term debt consists of Guaranteed Senior Notes issued by the Company's Japan subsidiary, valued using Level 3 inputs. The fair value of the Company's long-term debt, including the current portion, was approximately $5,772 and $6,997 at February 16, 2020, and September 1, 2019, respectively.

In December 2019, the Company paid the outstanding principal balance and interest on the 1.70% Senior Notes. Subsequent to the end of the quarter, on February 18, 2020, the Company paid the outstanding principal balance and interest on the 1.75% Senior Notes. Existing cash and cash equivalents and short-term investments were used to satisfy these obligations.

Note 5—Leases

The tables below present information regarding the Company's lease assets and liabilities:

		February 16, 2020
Assets		
Operating lease right-of-use assets	$	2,596
Finance lease assets[(1)]		523
Total lease assets	$	3,119
Liabilities		
Current		
Operating[(2)]	$	168
Finance[(2)]		18
Long-term		
Operating		2,446
Finance[(3)]		544
Total lease liabilities	$	3,176

(1) Included in net property and equipment in the accompanying condensed consolidated balance sheets.
(2) Included in other current liabilities in the accompanying condensed consolidated balance sheets.
(3) Included in other long-term liabilities in the accompanying condensed consolidated balance sheets.

	February 16, 2020
Weighted-average remaining lease term (years)	
Operating leases	22
Finance leases	19
Weighted-average discount rate	
Operating leases	2.24%
Finance leases	7.24%

The components of lease expense, excluding short-term lease costs and sublease income which were not material, were as follows:

	12 Weeks Ended February 16, 2020	24 Weeks Ended February 16, 2020
Operating lease costs(1)	$ 51	$ 102
Finance lease costs:		
Amortization of lease assets(1)	4	8
Interest on lease liabilities(2)	8	15
Variable lease costs(3)	22	36
Total lease costs	$ 85	$ 161

(1) Generally included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income.
(2) Included in interest expense in the accompanying condensed consolidated statements of income.
(3) Included in selling, general and administrative expenses and merchandise costs in the accompanying condensed consolidated statements of income. Amount excludes property taxes, which were immaterial.

Supplemental cash flow information related to leases was as follows:

	24 Weeks Ended February 16, 2020
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows — operating leases	$ 93
Operating cash flows — finance leases	15
Financing cash flows — finance leases	34
Leased assets obtained in exchange for operating lease liabilities	47
Leased assets obtained in exchange for finance lease liabilities	167

As of February 16, 2020, future minimum payments during the next five fiscal years and thereafter are as follows:

	Operating Leases(1)	Finance Leases
2020	$ 120	$ 23
2021	220	47
2022	212	47
2023	219	51
2024	194	47
Thereafter	2,462	723
Total(2)	3,427	938
Less amount representing interest	813	376
Present value of lease liabilities	$ 2,614	$ 562

(1) Operating lease payments have not been reduced by future sublease income of $101.
(2) Excludes $185 of lease payments for leases that have been signed but not commenced.

As of September 1, 2019, future minimum payments, net of sub-lease income of $105, under noncancelable operating leases with terms of at least one year and capital leases reported under ASC 840 were as follows:

	Operating Leases	Capital Leases
2020	$ 239	$ 51
2021	229	53
2022	202	38
2023	193	39
2024	181	39
Thereafter	2,206	544
Total	$ 3,250	764
Less amount representing interest		343
Net present value of minimum lease payments		$ 421

Note 6—Equity

Dividends

The Company's current quarterly dividend is $0.65 per share, compared to $0.57 in the second quarter of 2019. On January 23, 2020, the Board of Directors declared a quarterly dividend in the amount of $0.65 per share, which was paid on February 21, 2020.

Stock Repurchase Programs

Stock repurchase activity during the second quarter and first half of 2020 and 2019 is summarized below:

	Shares Repurchased (000s)	Average Price per Share	Total Cost
Second quarter of 2020	162	$ 301.50	$ 49
First half of 2020	262	$ 299.40	$ 79
Second quarter of 2019	561	$ 208.72	$ 117
First half of 2019	711	$ 213.08	$ 151

These amounts may differ from the stock repurchase balances in the accompanying condensed consolidated statements of cash flows due to changes in unsettled stock repurchases at the end of a quarter. The remaining amount available for stock repurchases under the approved plan was $3,864 at February 16, 2020. Purchases are made from time to time, as conditions warrant, in the open market or in block purchases and pursuant to plans under SEC Rule 10b5-1.

Note 7—Stock-Based Compensation

The 2019 Incentive Plan authorized the issuance of 17,500,000 shares (10,000,000 RSUs) of common stock for future grants, plus the remaining shares that were available for grant and the future forfeited shares from grants under the previous plan, up to a maximum aggregate of 27,800,000 shares (15,885,000 RSUs). The Company issues new shares of common stock upon vesting of RSUs. Shares for vested RSUs are generally delivered to participants annually, net of shares withheld for taxes.

Summary of Restricted Stock Unit Activity

At February 16, 2020, 13,535,000 shares were available to be granted as RSUs, and the following awards were outstanding:

- 5,133,000 time-based RSUs that vest upon continued employment over specified periods of time;
- 30,000 performance-based RSUs, granted to executive officers of the Company, for which the performance targets have been met. The awards vest upon continued employment over specified periods of time; and
- 123,000 performance-based RSUs, granted to executive officers of the Company, subject to achievement of performance targets for fiscal 2020, as determined by the Compensation Committee of the Board of Directors after the end of the fiscal year. These awards are included in the table below and the Company recognized compensation expense for these awards as it is currently deemed probable that the targets will be achieved.

The following table summarizes RSU transactions during the first half of 2020:

	Number of Units (in 000s)	Weighted-Average Grant Date Fair Value
Outstanding at September 1, 2019	6,496	$ 167.55
Granted	2,252	294.08
Vested and delivered	(3,351)	188.91
Forfeited	(111)	193.02
Outstanding at February 16, 2020	5,286	$ 207.40

The remaining unrecognized compensation cost related to nonvested RSUs at February 16, 2020, was $913, and the weighted-average period over which this cost will be recognized is 1.7 years.

Summary of Stock-Based Compensation

The following table summarizes stock-based compensation expense and the related tax benefits:

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	February 17, 2019	February 16, 2020	February 17, 2019
Stock-based compensation expense	$ 118	$ 119	$ 419	$ 389
Less recognized income tax benefit	21	23	87	84
Stock-based compensation expense, net	$ 97	$ 96	$ 332	$ 305

Note 8—Taxes

Other Taxes

The Company is undergoing multiple examinations for value-added, sales-based, payroll, product, import or other non-income taxes in various jurisdictions. In certain cases, the Company has received assessments from the authorities. In September 2019, the Company received an assessment related to a product tax audit covering multiple years. The Company recorded the charge in fiscal 2019 and is protesting the assessment. No adjustments have been made to this estimate in the first half of 2020. Other possible losses or range of possible losses associated with these matters are either immaterial or an estimate of the possible loss or range of loss cannot be made at this time. If certain matters or a group of matters were to be decided adversely to the Company, it could result in a charge that might be material to the results of an individual fiscal quarter or year.

Note 9—Net Income per Common and Common Equivalent Share

The following table shows the amounts used in computing net income per share and the weighted average number of shares of basic and potentially dilutive common shares outstanding (shares in 000s):

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	February 17, 2019	February 16, 2020	February 17, 2019
Net income attributable to Costco	$ 931	$ 889	$ 1,775	$ 1,656
Weighted average basic shares	442,021	440,284	441,920	439,721
RSUs	1,706	2,053	1,784	2,814
Weighted average diluted shares	443,727	442,337	443,704	442,535
Anti-dilutive RSUs	—	1,667	—	—

Note 10—Commitments and Contingencies

Legal Proceedings

The Company is involved in a number of claims, proceedings and litigation arising from its business and property ownership. In accordance with applicable accounting guidance, the Company establishes an accrual for legal proceedings if and when those matters reach a stage where they present loss contingencies that are both probable and reasonably estimable. There may be exposure to loss in excess of any amounts accrued. The Company monitors those matters for developments that would affect the likelihood of a loss (taking into account where applicable indemnification arrangements concerning suppliers and insurers) and the accrued amount, if any, thereof, and adjusts the amount as appropriate. As of the date of this Report, the Company has recorded immaterial accruals with respect to certain matters described below, in addition to other immaterial accruals for matters not described below. If the loss contingency at issue is not both probable and reasonably estimable, the Company does not establish an accrual, but will continue to monitor the matter for developments that will make the loss contingency both probable and reasonably estimable. In each case, there is a reasonable possibility that a loss may be incurred, including a loss in excess of the applicable accrual. For matters where no accrual has been recorded, the possible loss or range of loss (including any loss in excess of the accrual) cannot, in the Company's view, be reasonably estimated because, among other things: (i) the remedies or penalties sought are indeterminate or unspecified; (ii) the legal and/or factual theories are not well developed; and/or (iii) the matters involve complex or novel legal theories or a large number of parties.

The Company is a defendant in a class action alleging violation of California Wage Order 7-2001 for failing to provide seating to member service assistants who act as greeters in the Company's California warehouses. *Canela v. Costco Wholesale Corp., et al.* (Case No. 5:13-CV-03598, N.D. Cal. filed July 1, 2013). The complaint seeks relief under the California Labor Code, including civil penalties and attorneys' fees. The Company filed an answer denying the material allegations of the complaint. The action has been stayed pending review by the Ninth Circuit of the order certifying a class. In January 2019, an employee brought similar claims for relief concerning Costco employees engaged at member services counters in California. *Rodriguez v. Costco Wholesale Corp.* (Case No. RG19001310, Alameda Superior Court filed Jan. 4, 2019). The Company filed an answer denying the material allegations of the complaint. In December 2018, a depot employee raised similar claims, alleging that depot employees in California did not receive suitable seating or appropriate workplace temperature conditions. *Lane v. Costco Wholesale Corp.* (Dec. 6, 2018 Notice to California Labor and Workforce Development Agency). The Company filed an answer denying the material allegations of the complaint. In October the parties reached an agreement to settle the seating claims on a class basis, which received court approval in February 2020.

In January 2019, a former seasonal employee filed a class action, alleging failure to provide California seasonal employees meal and rest breaks, proper wage statements, and appropriate wages. *Jadan v. Costco Wholesale Corp.* (Case No. 19-CV-340438 Santa Clara Superior Court filed Jan. 3, 2019). The complaint seeks relief under the California Labor Code, including civil penalties and attorneys' fees. In October the parties reached an agreement on a class settlement, which is subject to court approval.

In March 2019, employees filed a class action against the Company alleging claims under California law for failure to pay overtime, to provide meal and rest periods and itemized wage statements, to timely pay wages due to terminating employees, to pay minimum wages, and for unfair business practices. Relief is sought under the California Labor Code, including civil penalties and attorneys' fees. *Nevarez v. Costco Wholesale Corp.* (Case No. 2:19-cv-03454 C.D. Cal. filed Mar. 25, 2019). The Company filed an answer denying the material allegations of the complaint. In May 2019, an employee filed a class action against the Company alleging claims under California law for failure to pay overtime, to provide itemized wage statements, to timely pay wages due to terminating employees, to pay minimum wages, and for unfair business practices. *Rough v. Costco Wholesale Corp*. (Case No. 2:19-cv-01340 E.D. Cal. filed May 28, 2019). Relief is sought under the California Labor Code, including civil penalties and attorneys' fees. In June 2019, an employee filed a class action against the Company alleging claims under California law for failure to pay overtime, to provide meal and rest periods, itemized wage statements, to timely pay wages due to terminating employees, to pay minimum wages, and for unfair business practices. *Martinez v. Costco Wholesale Corp*. (Case No. 3:19-cv-05624 N.D. Cal. filed June 11, 2019). The Company filed an answer denying the material allegations of the complaint. In August 2019, Rough filed a companion case in state court seeking penalties under the California Labor Code Private Attorneys General Act. *Rough v. Costco Wholesale Corp.* (Case No. FCS053454, Sonoma County Superior Court, filed August 23, 2019). Relief is sought under the California Labor Code, including civil penalties and attorneys' fees. In September 2019, an employee re-filed a class action against the Company alleging claims under California law for failure to pay wages, to provide meal and rest periods and itemized wage statements, to timely pay wages due to terminating employees, to pay minimum wages, and for unfair business practices. *Mosley v. Costco Wholesale Corp.* (Case No. 2:19-cv-07935, C.D. Cal. filed Sept. 12, 2019). Relief is sought under the California Labor Code, including civil penalties and attorneys' fees.

In December 2017, the United States Judicial Panel on Multidistrict Litigation consolidated numerous cases filed against various defendants by counties, cities, hospitals, Native American tribes, third-party payors, and others concerning the impacts of opioid abuse. *In re National Prescription Opiate Litigation* (MDL No. 2804) (N.D. Ohio). Included are federal cases that name the Company, including actions filed by counties and cities in Michigan, New Jersey, Oregon, Virginia and South Carolina, a third-party payor in Ohio, and class actions filed in thirty-eight states on behalf of infants born with opioid-related medical conditions. In 2019 similar actions were commenced against the Company in state courts in Utah and Arizona. Claims against the Company in state courts in New Jersey and Oklahoma have been dismissed. The Company is defending all of these matters.

The Company and its CEO and CFO are defendants in putative class actions brought on behalf of shareholders who acquired Company stock between June 6 and October 25, 2018. *Johnson v. Costco Wholesale Corp., et al.* (W.D. Wash. filed Nov. 5, 2018); *Chen v. Costco Wholesale Corp., et al.* (W.D. Wash. filed Dec. 11, 2018). The complaints allege violations of the federal securities laws stemming from the Company's disclosures concerning internal control over financial reporting. They seek unspecified damages, equitable relief, interest, and costs and attorneys' fees. On January 30, 2019, an order was entered consolidating the actions, and a consolidated amended complaint was filed on April 16. On November 26, the court entered an order dismissing the consolidated amended complaint and granting the plaintiffs leave to file a further amended complaint within 90 days.

Members of the Board of Directors, one other individual, and the Company are defendants in a shareholder derivative action related to the internal controls and related disclosures identified in the putative class actions, alleging that the individual defendants breached their fiduciary duties. *Wedekind v. Hamilton James, Susan Decker, Kenneth Denman, Richard Galanti, Craig Jelinek, Richard Libenson, John Meisenbach, Charles Munger, Jeffrey Raikes, John Stanton, Mary Agnes Wilderotter, and Costco Wholesale Corp.* (W.D. Wash. filed Dec. 11, 2018). The complaint seeks unspecified damages, disgorgement of compensation, corporate governance changes, and costs and attorneys' fees. Because the complaint is derivative in nature, it does not seek monetary damages from the Company, which is a nominal defendant. By agreement among the parties the action has been stayed pending further proceedings in the class actions. Similar actions were filed in King County Superior Court on February 20, 2019, *Elliott v. Hamilton James, Susan Decker, Kenneth Denman, Richard Galanti, Craig Jelinek, Richard Libenson, John Meisenbach, Charles Munger, Jeffrey Raikes, John Stanton, Mary Agnes Wilderotter, and Costco Wholesale Corp.* (Case No. 19-2-04824-7), April 16, 2019, *Brad Shuman, et ano. v. Hamilton James, Susan Decker, Kenneth Denman, Richard Galanti, Craig Jelinek, John Meisenbach, Charles Munger, Jeffrey Raikes, John Stanton, Mary Agnes Wilderotter, and Costco Wholesale Corp.* (Case No. 19-2-10460-1), and June 12, 2019, *Rahul Modi v. Hamilton James, Susan Decker, Kenneth Denman, Richard Galanti, Craig Jelinek, John Meisenbach, Charles Munger, Jeffrey Raikes, John Stanton, Mary Agnes Wilderotter, and Costco Wholesale Corp.* (Case No. 19-2-15514-1). These actions have also been stayed.

In November 2016 and September 2017, the Company received notices of violation from the Connecticut Department of Energy and Environmental Protection regarding hazardous waste practices at its Connecticut warehouses, primarily concerning unsalable pharmaceuticals. The relief to be sought is not known at this time. The Company is seeking to cooperate concerning the resolution of these notices.

The Company does not believe that any pending claim, proceeding or litigation, either alone or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations or cash flows; however, it is possible that an unfavorable outcome of some or all of the matters, however unlikely, could result in a charge that might be material to the results of an individual fiscal quarter or year.

Note 11—Segment Reporting

The Company and its subsidiaries are principally engaged in the operation of membership warehouses in the U.S., Canada, Mexico, U.K., Japan, Korea, Australia, Spain, Iceland, France and China and through a majority-owned subsidiary in Taiwan. Reportable segments are largely based on management’s organization of the operating segments for operational decisions and assessments of financial performance, which consider geographic locations. The material accounting policies of the segments are as described in the notes to the consolidated financial statements included in the Company's Annual Report filed on Form 10-K for the fiscal year ended September 1, 2019, and Note 1 above. Intersegment net sales and expenses have been eliminated in computing total revenue and operating income. Certain operating expenses, predominantly stock-based compensation, are incurred on behalf of the Company's Canadian and Other International operations, but are included in the U.S. operations because those costs generally come under the responsibility of the Company's U.S. management team.

The following table provides information for the Company's reportable segments:

	United States Operations	Canadian Operations	Other International Operations	Total
12 Weeks Ended February 16, 2020				
Total revenue	$ 28,523	$ 5,231	$ 5,318	$ 39,072
Operating income	821	202	243	1,266
12 Weeks Ended February 17, 2019				
Total revenue	$ 25,872	$ 4,792	$ 4,732	$ 35,396
Operating income	812	198	193	1,203
24 Weeks Ended February 16, 2020				
Total revenue	$ 55,588	$ 10,358	$ 10,166	$ 76,112
Operating income	1,456	430	441	2,327
Total assets	33,575	4,470	10,737	48,782
24 Weeks Ended February 17, 2019				
Total revenue	$ 51,422	$ 9,769	$ 9,274	$ 70,465
Operating income	1,372	412	368	2,152
Total assets	30,033	4,250	8,516	42,799
52 Weeks Ended September 1, 2019				
Total revenue	$ 111,751	$ 21,366	$ 19,586	$ 152,703
Operating income	3,063	924	750	4,737
Total assets	32,162	4,369	8,869	45,400

Disaggregated Revenue

The following table summarizes net sales by merchandise category:

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	February 17, 2019	February 16, 2020	February 17, 2019
Foods and Sundries	$ 14,984	$ 13,966	$ 29,516	$ 27,607
Hardlines	6,774	5,770	12,617	11,610
Fresh Foods	5,079	4,690	9,655	8,983
Softlines	4,504	4,224	8,801	8,347
Ancillary	6,915	5,978	13,903	12,392
Total Net Sales	$ 38,256	$ 34,628	$ 74,492	$ 68,939

Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations
(amounts in millions, except per share, share, and warehouse count data)

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. They include statements that address activities, events, conditions or developments that we expect or anticipate may occur in the future and may relate to such matters as net sales growth, changes in comparable sales, cannibalization of existing locations by new openings, price or fee changes, earnings performance, earnings per share, stock-based compensation expense, warehouse openings and closures, capital spending, the effect of adopting certain accounting standards, future financial reporting, financing, margins, return on invested capital, strategic direction, expense controls, membership renewal rates, shopping frequency, litigation, and the demand for our products and services. Forward-looking statements may also be identified by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "likely," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," or similar expressions and the negatives of those terms. Such forward-looking statements involve risks and uncertainties that may cause actual events, results, or performance to differ materially from those indicated by such statements. These risks and uncertainties include, but are not limited to, domestic and international economic conditions, including exchange rates, the effects of competition and regulation, uncertainties in the financial markets, consumer and small-business spending patterns and debt levels, breaches of security or privacy of member or business information, conditions affecting the acquisition, development, ownership or use of real estate, capital spending, actions of vendors, rising costs associated with employees (generally including health care costs), energy and certain commodities, geopolitical conditions (including tariffs), the ability to maintain effective internal control over financial reporting, global disease threats, and other risks identified from time to time in our public statements and reports filed with the SEC. Forward-looking statements speak only as of the date they are made, and we do not undertake to update these statements, except as required by law.

This management discussion should be read in conjunction with the management discussion included in our fiscal 2019 Annual Report on Form 10-K, previously filed with the SEC.

OVERVIEW

We operate membership warehouses and e-commerce websites based on the concept that offering low prices on a limited selection of nationally branded and private-label products in a wide range of merchandise categories will produce high sales volumes and rapid inventory turnover. When combined with the operating efficiencies achieved by volume purchasing, efficient distribution and reduced handling of merchandise in no-frills, self-service warehouse facilities, these volumes and turnover enable us to operate profitably at significantly lower gross margins (net sales less merchandise costs) than most other retailers.

We believe that the most important driver of our profitability is increasing net sales, particularly comparable sales growth. We define comparable sales as net sales from warehouses open for more than one year, including remodels, relocations and expansions, and sales related to e-commerce websites operating for more than one year. Comparable sales growth is achieved through increasing shopping frequency from new and existing members and the amount they spend on each visit (average ticket). Sales comparisons can also be particularly influenced by certain factors that are beyond our control: fluctuations in currency exchange rates (with respect to the consolidation of the results of our international operations); and changes in the cost of gasoline and associated competitive conditions (primarily impacting our U.S. and Canadian operations). The higher our comparable sales exclusive of these items, the more we can leverage certain of our selling, general and administrative (SG&A) expenses, reducing them as a percentage of sales and enhancing profitability. Generating comparable sales growth is foremost a question of making available to our members the right merchandise at the right prices, a skill that we believe we have repeatedly demonstrated over the long term. Another substantial factor in net sales growth is the health of the economies in which we do business, including the effects of inflation or deflation, especially the United States. Net sales growth and gross margins are also impacted by our competition, which is vigorous and widespread, across a wide range of global, national and regional wholesalers and retailers, including those with e-commerce operations. While we cannot control or reliably predict general economic health or changes in competition, we believe that we have been successful historically in adapting our business to these changes, such as through adjustments to our pricing and merchandise mix, including increasing the penetration of our private-label items and through online offerings.

Our philosophy is to provide our members with quality goods and services at competitive prices. We do not focus in the short term on maximizing prices charged, but instead seek to maintain what we believe is a perception among our members of our “pricing authority” on quality goods– consistently providing the most competitive values. Our investments in merchandise pricing may include reducing prices on merchandise to drive sales or meet competition and holding prices steady despite cost increases instead of passing the increases on to our members, all negatively impacting gross margin as a percentage of net sales (gross margin percentage). We believe our gasoline business draws members, but it generally has a lower gross margin percentage relative to our non-gasoline business. It also has lower SG&A expenses as a percent of net sales compared to our non-gasoline business. A higher penetration of gasoline sales will generally lower our gross margin percentage. Rapidly changing gasoline prices may significantly impact our near-term net sales growth. Generally, rising gasoline prices benefit net sales growth which, given the higher sales base, negatively impacts our gross margin percentage but decreases our SG&A expenses as a percentage of net sales. A decline in gasoline prices has the inverse effect. Additionally, actions in various countries, particularly China and the United States, have created uncertainty with respect to how tariffs will affect the costs of some of our merchandise. The degree of our exposure is dependent on (among other things) the type of goods, rates imposed, and timing of the tariffs. The impact to our net sales and gross margin will be influenced in part by our merchandising and pricing strategies in response to cost increases. While these potential impacts are uncertain, they could have an adverse impact on our results.

We also achieve net sales growth by opening new warehouses. As our warehouse base grows, available and desirable sites become more difficult to secure, and square footage growth becomes a comparatively less substantial component of growth. The negative aspects of such growth, however, including lower initial operating profitability relative to existing warehouses and cannibalization of sales at existing warehouses when openings occur in existing markets, are continuing to decline in significance as they relate to the results of our total operations. Our rate of operating floor space square footage growth is generally higher in foreign markets, due to the smaller base in those markets, and we expect that to continue. Our e-commerce business growth, domestically and internationally, has also increased our sales but it generally has a lower gross margin percentage relative to our warehouse business.

The membership format is an integral part of our business and has a significant effect on our profitability. This format is designed to reinforce member loyalty and provide continuing fee revenue. The extent to which we achieve growth in our membership base, increase the penetration of our Executive members, and sustain high renewal rates materially influences our profitability. Our paid membership growth rate may be adversely impacted when warehouse openings occur in existing markets as compared to new markets.

Our financial performance depends heavily on controlling costs. While we believe that we have achieved successes in this area, some significant costs are partially outside our control, particularly health care and utility expenses. With respect to the compensation of our employees, our philosophy is not to seek to minimize their wages and benefits. Rather, we believe that achieving our longer-term objectives of reducing employee turnover and enhancing employee satisfaction requires maintaining compensation levels that are better than the industry average for much of our workforce. This may cause us, for example, to absorb costs that other employers might seek to pass through to their workforces. Because our business operates on very low margins, modest changes in various items in the consolidated statements of income, particularly merchandise costs and selling, general and administrative expenses, can have substantial impacts on net income.

Our operating model is generally the same across our U.S., Canada, and Other International operating segments (see Note 11 to the condensed consolidated financial statements included in Part I, Item 1, of this Report). Certain countries in the Other International segment have relatively higher rates of square footage growth, lower wages and benefits costs as a percentage of country sales, and less or no direct membership warehouse competition.

In discussions of our consolidated operating results, we refer to the impact of changes in foreign currencies relative to the U.S. dollar, which are references to the differences between the foreign-exchange rates we use to convert the financial results of our international operations from local currencies into U.S. dollars for financial reporting purposes. This impact of foreign-exchange rate changes is calculated based on the difference between the current period's currency exchange rates and that of the comparable prior period. The impact of changes in gasoline prices on net sales is calculated based on the difference between the current period's average price per gallon sold and that of the comparable prior period.

Our fiscal year ends on the Sunday closest to August 31. References to the second quarters of 2020 and 2019 relate to the 12-week fiscal quarters ended February 16, 2020, and February 17, 2019, respectively. References to the first half of 2020 and 2019 relate to the 24 weeks ended February 16, 2020, and February 17, 2019, respectively. Certain percentages presented are calculated using actual results prior to rounding. Unless otherwise noted, references to net income relate to net income attributable to Costco.

Highlights for the second quarter of 2020 as compared to the second quarter of 2019 include:

- Net sales increased 10% to $38,256, driven by an increase in comparable sales of 9% and sales at 16 net new warehouses opened since the end of the second quarter of 2019;
- Membership fee revenue increased 6% to $816, primarily due to sign-ups at existing and new warehouses;
- Gross margin percentage decreased 31 basis points, primarily in our core merchandise categories driven by a shift in sales penetration to certain lower-margin warehouse ancillary and other businesses;
- SG&A expenses as a percentage of net sales decreased 22 basis points, primarily due to leveraging increased sales and a shift in sales penetration to certain warehouse ancillary and other businesses with lower SG&A as a percentage of net sales;
- Net income increased 5% to $931, or $2.10 per diluted share, compared to $889, or $2.01 per diluted share in 2019; and
- On January 23, 2020, our Board of Directors declared a quarterly cash dividend of $0.65 per share, which was paid on February 21, 2020.

RESULTS OF OPERATIONS

Net Sales

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	February 17, 2019	February 16, 2020	February 17, 2019
Net Sales	$ 38,256	$ 34,628	$ 74,492	$ 68,939
Changes in net sales:				
U.S	10%	9%	8%	11%
Canada	9%	1%	6%	3%
Other International	12%	4%	9%	6%
Total Company	10%	7%	8%	9%
Changes in comparable sales:				
U.S	9%	7%	7%	9%
Canada	9%	0%	6%	1%
Other International	8%	1%	6%	2%
Total Company	9%	5%	7%	7%
Changes in comparable sales excluding the impact of changes in foreign currency and gasoline prices [(1)]:				
U.S	8%	7%	7%	8%
Canada	7%	6%	6%	6%
Other International	7%	5%	6%	5%
Total Company	8%	7%	6%	7%

(1) Excludes the impact of the revenue recognition standard for the periods ended February 17, 2019.

Net Sales

Net sales increased $3,628 or 10%, and $5,553 or 8% during the second quarter and first half of 2020, respectively, compared to the second quarter and first half of 2019. These increases were attributable to an increase in comparable sales of 9% and 7% in the second quarter and first half of 2020, respectively, and sales at the 16 net new warehouses opened since the end of the second quarter of 2019.

During the second quarter of 2020, changes in gasoline prices positively impacted net sales by $320, or 92 basis points, due to a 9% increase in the average sales price per gallon. Foreign currencies relative to the U.S. dollar also positively impacted net sales by approximately $85, or 25 basis points, compared to the second quarter of 2019, attributable to our Canadian and Other International operations.

During the first half of 2020, changes in gasoline prices positively impacted net sales by approximately $198, or 29 basis points, due to a 3% increase in the average price per gallon. Changes in foreign currencies relative to the U.S. dollar negatively impacted net sales by approximately 19, or three basis points, compared to the first half of 2019, attributable to our Other International operations.

Comparable Sales

Comparable sales increased 9% and 7% in the second quarter and first half of 2020, respectively, and were positively impacted by increases in shopping frequency and average ticket. Comparable sales were also positively impacted by the shift in timing of the Thanksgiving holiday to the second quarter of 2020.

Comparable sales for the second quarter and first half of 2020 were negatively impacted by cannibalization (established warehouses losing sales to our newly opened locations).

Membership Fees

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	February 17, 2019	February 16, 2020	February 17, 2019
Membership fees	$ 816	$ 768	$ 1,620	$ 1,526
Membership fees as a percentage of net sales	2.13%	2.22%	2.17%	2.21%
Total paid members (000s)	55,300	52,700	—	—
Total cardholders (000s)	100,900	96,300	—	—

Membership fees increased 6% in both the second quarter and first half of 2020. This was primarily due to signups at existing and new warehouses. At the end of the second quarter of 2020, our member renewal rates were 91% in the U.S. and Canada and 88% worldwide.

Gross Margin

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	February 17, 2019	February 16, 2020	February 17, 2019
Net sales	$ 38,256	$ 34,628	$ 74,492	$ 68,939
Less merchandise costs	34,056	30,720	66,289	61,343
Gross margin	$ 4,200	$ 3,908	$ 8,203	$ 7,596
Gross margin percentage	10.98%	11.29%	11.01%	11.02%

Quarterly Results

The gross margin of our core merchandise categories (food and sundries, hardlines, softlines, and fresh foods), when expressed as a percentage of core merchandise sales (rather than total net sales), decreased 15 basis points primarily in fresh foods and hardlines. The decrease in fresh foods was driven primarily by initial operating losses from our new poultry processing plant while hardlines decreased primarily due to timing of the Thanksgiving holiday, which shifted lower-margin activity into the current quarter as compared to the prior year second quarter. These decreases were partially offset by an increase in softlines. This measure eliminates the impact of changes in sales penetration and gross margins from our warehouse ancillary and other businesses.

Total gross margin percentage decreased 31 basis points compared to the second quarter of 2019. Excluding the impact of gasoline price inflation on net sales, gross margin as a percentage of adjusted net sales was 11.07%, a decrease of 22 basis points. This was primarily due to a shift in sales penetration to certain lower-margin warehouse ancillary businesses, and losses from our poultry processing plant discussed above.

Gross margin on a segment basis, when expressed as a percentage of the segment's own sales and excluding the impact of changes in gasoline prices on net sales (segment gross margin percentage), decreased in our U.S. and Canadian operations, primarily due to decreases in our core merchandise categories. The segment gross margin percentage in our Other International operations increased, primarily in our core merchandise categories.

Year-to-date Results

The gross margin of core merchandise categories, when expressed as a percentage of core merchandise sales, decreased six basis points. This was attributable to a decrease in fresh foods, which was driven primarily by initial operating losses from our new poultry processing plant, partially offset by an increase in softlines.

Total gross margin percentage decreased one basis-point compared to the first half of 2019. Excluding the impacts of gasoline price inflation on net sales, gross margin as a percentage of adjusted net sales was 11.04%, an increase of two basis points from the first half of 2019. This was primarily due to a nine basis-point increase in our warehouse ancillary and other businesses, as well as a six basis-point increase related to an adjustment in the first quarter of 2019 to our estimate of breakage on rewards earned under our co-branded credit card program. These increases were partially offset by a 14 basis-point decrease in our core merchandise categories, primarily due to losses from our poultry processing plant discussed above.

The segment gross margin percentage decreased in our U.S. operations, primarily due to core merchandise categories, partially offset by our warehouse ancillary and other businesses, as well as the breakage adjustment noted above. The segment gross margin percentage in our Canadian operations increased due to increases in our warehouse ancillary and other businesses partially offset by decreases in certain of our core merchandise categories. The segment gross margin percentage in our Other International operations increased, primarily in our core merchandise categories.

Selling, General and Administrative Expenses

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	February 17, 2019	February 16, 2020	February 17, 2019
SG&A expenses	$ 3,743	$ 3,464	$ 7,475	$ 6,939
SG&A expenses as a percentage of net sales	9.78%	10.00%	10.03%	10.06%

Quarterly Results

SG&A expenses as a percentage of net sales decreased 22 basis points compared to the second quarter of 2019. Excluding the impact of gasoline price inflation on net sales, SG&A expenses as a percentage of adjusted net sales was 9.87%, a decrease of 13 basis points compared to the prior year. Costs related to warehouse operations and other businesses, which include e-commerce and travel, decreased 10 basis points, primarily due to leveraging increased sales and a shift in sales penetration to certain warehouse ancillary and other businesses with lower SG&A as a percentage of net sales. This decrease was partially offset by the wage increases and bonding leave benefits for U.S. and Canadian hourly employees effective in March 2019. Stock compensation expense was lower by three basis points.

Year-to-date Results

SG&A expenses as a percentage of net sales decreased three basis points compared to the first half of 2019. Excluding the impact of gasoline price inflation on net sales, SG&A expenses as a percentage of adjusted net sales was flat despite the wage increases and bonding leave benefits for U.S. and Canadian hourly employees discussed above. Costs related to warehouse operations and other businesses, which include e-commerce and travel, were lower by two basis points, predominantly in our U.S. operations, due to leveraging increased sales. This decrease was offset by higher central operating costs of two basis points related to maintaining, upgrading and expanding our technology capabilities.

Preopening Expense

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	February 17, 2019	February 16, 2020	February 17, 2019
Preopening expenses	$ 7	$ 9	$ 21	$ 31
Warehouse openings, including relocations				
United States	0	2	3	8
Canada	0	0	1	2
Other International	0	0	0	0
Total warehouse openings, including relocations	0	2	4	10

Preopening expenses include startup costs related to new warehouses and relocations, developments in new international markets, new manufacturing and distribution facilities, and expansions at existing warehouses. Preopening expenses vary due to the number of warehouse openings, the timing of the openings relative to our quarter-end, whether the warehouse is owned or leased, and whether the opening is in an existing, new or international market. For the remainder of fiscal 2020, we expect to open 15 warehouses, including two relocations.

Interest Expense

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	February 17, 2019	February 16, 2020	February 17, 2019
Interest expense	$ 34	$ 34	$ 72	$ 70

Interest expense is primarily related to Senior Notes.

Interest Income and Other, Net

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	February 17, 2019	February 16, 2020	February 17, 2019
Interest income	$ 30	$ 33	$ 62	$ 54
Foreign-currency transaction gains, net	8	8	4	3
Other, net	7	5	14	11
Interest income and other, net	$ 45	$ 46	$ 80	$ 68

Interest income decreased for the second quarter of 2020 due to lower interest rates, and increased for the first half of 2020 due to higher average cash and investment balances. Foreign-currency transaction gains, net, include the revaluation or settlement of monetary assets and liabilities by our Canadian and Other International operations and mark-to-market adjustments for forward foreign-exchange contracts. See Derivatives and Foreign Currency sections in Item 8, Note 1 of our Annual Report on Form 10-K, for the fiscal year ended September 1, 2019.

Provision for Income Taxes

	12 Weeks Ended		24 Weeks Ended	
	February 16, 2020	**February 17, 2019**	**February 16, 2020**	**February 17, 2019**
Provision for income taxes	$ 330	$ 314	$ 532	$ 472
Effective tax rate	25.9%	25.8%	22.8%	21.9%

The effective tax rate for the first half of 2020 and 2019 included discrete net tax benefits of $79 and $90, respectively. Excluding the discrete net tax benefits, which largely related to excess tax benefits from stock compensation, the tax rate was 26.2% and 26.1% for the first half of 2020 and 2019, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our significant sources and uses of cash and cash equivalents:

	24 Weeks Ended	
	February 16, 2020	**February 17, 2019**
Net cash provided by operating activities	$ 2,721	$ 1,958
Net cash used in investing activities	(1,100)	(1,171)
Net cash used in financing activities	(2,228)	(749)

Our primary sources of liquidity are cash flows generated from warehouse operations, cash and cash equivalents, and short-term investments. Cash and cash equivalents and short-term investments were $8,715 and $9,444 at February 16, 2020, and September 1, 2019, respectively. Of these balances, unsettled credit and debit card receivables represented approximately $1,385 and $1,434 at February 16, 2020, and September 1, 2019, respectively. These receivables generally settle within four days. Cash and cash equivalents were positively impacted by foreign-exchange rate changes of $9 and negatively impacted by $13 in the first half of 2020 and 2019, respectively.

Management believes that our cash position and operating cash flows will be sufficient to meet our liquidity and capital requirements for the foreseeable future. We believe that our U.S. current and projected asset position is sufficient to meet our U.S. liquidity requirements. We no longer consider earnings after 2017 of our non-U.S. consolidated subsidiaries to be indefinitely reinvested.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled $2,721 in the first half of 2020, compared to $1,958 in the first half of 2019. Cash provided by operations is primarily derived from net sales and membership fees. Cash used in operations generally consists of payments to merchandise suppliers, warehouse operating costs, including payroll and employee benefits, utilities, and credit and debit card processing fees. Cash used in operations also includes payments for income taxes. Changes in our net investment in merchandise inventories (the difference between merchandise inventories and accounts payable) is impacted by several factors, including how fast inventory is sold, payment terms with our suppliers, and the amount of early payments to obtain discounts from suppliers.

Cash Flows from Investing Activities

Net cash used in investing activities totaled $1,100 in the first half of 2020, compared to $1,171 in the first half of 2019, and is primarily related to capital expenditures. Net cash from investing activities also includes purchases and maturities of short-term investments.

Capital Expenditure Plans

Our primary requirements for capital are acquiring land, buildings, and equipment for new and remodeled warehouses. Capital is also required for information systems, manufacturing and distribution facilities, initial warehouse operations, and working capital. In the first half of 2020, we spent $1,260 on capital expenditures, and it is our current intention to spend approximately $3,000 during fiscal 2020. We opened four new warehouses, including one relocation, in the first half of 2020 and plan to open 15 additional new warehouses, including two relocations, in the remainder of fiscal 2020. There can be no assurance that current expectations will be realized; plans are subject to change upon further review of our capital expenditure needs.

Cash Flows from Financing Activities

Net cash used in financing activities totaled $2,228 in the first half of 2020, compared to $749 in the first half of 2019. Cash flow used in financing activities was primarily related to the $1,200 repayment of our 1.70% Senior Notes, payment of dividends, and withholding taxes on stock-based awards. Dividends totaling $573 were paid during the first half of 2020, of which $286 related to the dividend declared in August 2019. Subsequent to the end of the quarter, on February 18, 2020, the Company paid the outstanding principal balance of $500 and associated interest on the 1.75% Senior Notes using cash and cash equivalents and short-term investments.

Stock Repurchase Programs

During the first half of 2020 and 2019, we repurchased 262,000 and 711,000 shares of common stock, at an average price per share of $299.40 and $213.08, respectively, totaling approximately $79 and $151, respectively. These amounts may differ from the stock repurchase balances in the accompanying condensed consolidated statements of cash flows due to changes in unsettled stock repurchases at the end of a quarter. Purchases are made from time to time, as conditions warrant, in the open market or in block purchases, pursuant to plans under SEC Rule 10b5-1. Repurchased shares are retired, in accordance with the Washington Business Corporation Act.

Dividends

On January 23, 2020, our Board of Directors declared a quarterly dividend of $0.65 per share payable to shareholders of record on February 7, 2020. The dividend was paid subsequent to the end of the quarter on February 21, 2020.

Bank Credit Facilities and Commercial Paper Programs

We maintain bank credit facilities for working capital and general corporate purposes. At February 16, 2020, we had borrowing capacity under these facilities of $875, including a $400 revolving line of credit, which expires in June 2020. Our international operations maintain $362 of the borrowing capacity under bank credit facilities, of which $146 is guaranteed by the Company. There were no outstanding short-term borrowings under the bank credit facilities at the end of the second quarter of 2020 or at the end of 2019.

The Company has letter of credit facilities, for commercial and standby letters of credit, totaling $225. The outstanding commitments under these facilities at the end of the second quarter of 2020 totaled $150, most of which were standby letters of credit with expiration dates within one year. The bank credit facilities have various expiration dates, most of which are within one year, and we generally intend to renew these facilities. The amount of borrowings available at any time under our bank credit facilities is reduced by the amount of standby and commercial letters of credit outstanding.

Contractual Obligations

As of the date of this Report, there were no material changes to our contractual obligations outside the ordinary course of business since the end of our last fiscal year.

Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with U.S. GAAP requires that we make estimates and judgments. We base these on historical experience and on assumptions that we believe to be reasonable. Our critical accounting policies are discussed in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report on Form 10-K, for the fiscal year ended September 1, 2019. There have been no material changes to the critical accounting policies previously disclosed in that Report.

Recent Accounting Pronouncements

See discussion of Recent Accounting Pronouncements in Note 1 to the condensed consolidated financial statements included in Part I, Item 1 of this Report.

Item 3—Quantitative and Qualitative Disclosures about Market Risk

Our direct exposure to financial market risk results from fluctuations in foreign currency exchange rates and interest rates. There have been no material changes to our market risks as disclosed in our Annual Report on Form 10-K, for the fiscal year ended September 1, 2019.

Item 4—Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding disclosure. The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of February 16, 2020, and based on their evaluation have concluded the disclosure controls and procedures were effective as of that date.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) that occurred during the second quarter of fiscal 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1—Legal Proceedings

See discussion of Legal Proceedings in Note 10 to the condensed consolidated financial statements included in Part I, Item 1 of this Report.

Item 1A—Risk Factors

In addition to the other information set forth in the Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K, for the fiscal year ended September 1, 2019. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K.

Item 2—Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information on our common stock repurchase program activity for the second quarter of 2020 (amounts in millions, except share and per share data):

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs(1)	Maximum Dollar Value of Shares that May Yet be Purchased Under the Programs(1)
November 25, 2019 — December 22, 2019	40,000	$ 295.58	40,000	$ 3,901
December 23, 2019 — January 19, 2020	61,000	296.01	61,000	3,883
January 20, 2020 — February 16, 2020	61,000	310.88	61,000	3,864
Total second quarter	162,000	$ 301.50	162,000	

(1) Our stock repurchase program is conducted under a $4,000 authorization approved by our Board of Directors in April 2019, which expires in April 2023.

Item 3—Defaults Upon Senior Securities

None.

Item 4—Mine Safety Disclosures

Not applicable.

Item 5—Other Information

None.

Table of Contents

Item 6—Exhibits

The following exhibits are filed as part of this Quarterly Report on Form 10-Q or are incorporated herein by reference.

			Incorporated by Reference		
Exhibit Number	**Exhibit Description**	**Filed Herewith**	**Form**	**Period Ending**	**Filing Date**
3.1	Articles of Incorporation as amended of Costco Wholesale Corporation	x			
3.2	Bylaws as amended of Costco Wholesale Corporation		8-K		1/29/2020
31.1	Rule 13(a) – 14(a) Certifications	x			
32.1	Section 1350 Certifications	x			
101.INS	Inline XBRL Instance Document	x			
101.SCH	Inline XBRL Taxonomy Extension Schema Document	x			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	x			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	x			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	x			
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	x			
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	x			

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.

COSTCO WHOLESALE CORPORATION
(Registrant)

March 11, 2020	By	/s/ W. CRAIG JELINEK
Date		W. Craig Jelinek *President, Chief Executive Officer and Director*
March 11, 2020	By	/s/ RICHARD A. GALANTI
Date		Richard A. Galanti *Executive Vice President, Chief Financial Officer and Director*

Exhibit 3.1

ARTICLES OF AMENDMENT AND RESTATEMENT
OF THE
ARTICLES OF INCORPORATION
OF
COSTCO WHOLESALE CORPORATION

ARTICLE I

The name of this corporation is:

COSTCO WHOLESALE CORPORATOIN

ARTICLE II

2.1 Classes. The total number of shares of all classes of stock which this corporation shall have authority to issue is one billion (1,000,000,000), consisting of:

(a) Nine hundred million (900,000,000) shares of common stock, the par value of each of which is $0.01 (the “Common Stock”).

(b) One hundred million (100,000,000) shares of preferred stock, the par value of each of which is $0.01 (the “Preferred Stock”).

2.2 Preferred Stock. The preferences, limitations and relative rights of the Preferred Stock are undesignated. The board of directors is authorized to designate one or more series within the Preferred Stock, and the designation and number of shares within each series, and shall determine the preferences, limitations, and relative rights of any shares of Preferred Stock, or of any series of Preferred Stock, before issuance of any shares of that class or series. The board of directors is authorized to amend these Articles as provided in RCW 23B.06.020 to effect the designation of rights of any series of Preferred Stock.

ARTICLE III

3.1 No Preemptive Rights. The shareholders of this corporation have no preemptive rights to acquire additional shares of this corporation.

3.2 No Cumulative Voting. The right to cumulate votes in the election of directors shall not exist with respect to shares of stock of this corporation.

3.3 Special Meetings of Shareholders. The shareholders of this corporation shall have no right to call a special meeting of the shareholders of this corporation for any purpose or purposes and special meetings of shareholders of this corporation may only be called by a majority of the board of directors or the Chairman, the President, any Executive Vice President or the Secretary of this corporation of shareholders owning aggregate at least 10% of all votes entitled to be cast on any issue proposed to be considered at the proposed special meeting.

ARTICLE IV

The number of directors which shall constitute the whole board of directors of this corporation shall be fixed by, or in the manner provided in the bylaws of this corporation, as the same may be amended from time to time.

ARTICLE V

The board of directors shall be divided into three classes: Class I, Class II, and Class III. Such classes shall be as nearly equal in number of directors as possible. Each director shall serve for a term ending at the third annual shareholders' meeting following the annual meeting at which such director was elected. The directors, the class to which they are elected, and the year in which their term expires, are as follows:

Director	**Class**	**Year in Which Term Expires**
James D. Sinegal	I	2000
Jeffrey H. Brotman	I	2000
Richard A. Galanti	I	2000
Hamilton E. James	II	2001
Frederick O. Paulsell, Jr.	II	2001
Jill S. Ruckelshaus	II	2001
Benjamin S. Carson	II	2001
Richard M. Libenson	III	2002
John W. Meisenbach	III	2002
Charles T. Munger	III	2002
Richard D. DiCerchio	III	2002

At each annual election, the directors chosen to succeed those whose terms then expire shall be identified as being of the same class as the directors they succeed, unless, by reason of any intervening changes in the authorized number of directors, the board of directors shall designate one or more directorships whose terms then expire as directorships of another class in order more nearly to achieve equality in the number of directors among the classes. When the board of directors fills a vacancy resulting from the death, resignation or removal of a director, the director chosen to fill that vacancy shall be of the same class as the director he succeeds.

Notwithstanding any of the foregoing provisions of Article V, in all cases, including upon any change in the authorized number of directors, each director then continuing to serve as such will nevertheless continue as a director of the class of which he is a member, until the expiration of his current term or his earlier death, resignation or removal. Any vacancy to be filled by reason of an increase in the number of directors may be filled by the board of directors for a term of office continuing only until the next election of directors by the shareholders.

Notwithstanding anything contained in this Article V to the contrary, the classification of directors as provide in this Article V may be altered or eliminated only by an amendment to this Article approved by two-third of the votes entitled to be cast by each voting group entitled to vote on such amendment.

ARTICLE VI

A director of this corporation shall not be personally liable to the corporation or its shareholders for monetary damages for conduct as a director, except for liability of the director (i) for acts or omissions that involve intentional misconduct by the director or a knowing violation of law by the director, (ii) for conduct violating RCW 23B.08.310 of the Washington Business Corporation Act, or (iii) for any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled. If the Washington Business Corporation Act is amended in the future to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of this corporation shall be eliminated or limited to the full extent permitted by the Washington Business Corporation Act, as so amended, without any requirement of further action by the shareholders.

ARTICLE VII

The corporation shall indemnify any individual made a party to a proceeding because that individual is or was a director of the corporation and shall advance or reimburse the reasonable expenses incurred by such individual in advance of final disposition of the proceeding, without regard to the limitations in RCW 23B.08.510 through 23B.08.550 of the Washington Business Corporation Act, or any other limitation which may hereafter be enacted to the extent such limitation may be disregarded if authorized by the Articles of Incorporation, to the full extent and under all circumstances permitted by applicable law.

Any repeal or modification of this Article by the shareholders of this corporation shall not adversely affect any right of any individual who is or was a director of the corporation which existed at the time of such repeal or modification.

ARTICLE VIII

Subject to the rights of holders of any series of Preferred Stock then outstanding, any director, or the entire board of directors, may be removed from office only for cause and only by the affirmative vote of the holders of a majority of the voting power of all shares of this corporation entitled to vote for the election of directors. As used herein, “for cause" means either (i) conviction of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal or (ii) adjudication for gross negligence or dishonest conduct in the performance of a director's duty to this corporation by a court of competent jurisdiction and such adjudication is no longer subject to direct appeal. Notwithstanding anything to the contrary, this Article may be altered or eliminated only by amendment to this Article approved by two-thirds of the votes entitled to be cast by each voting group entitled to vote on such amendment.

ARTICLE IX

Amendment of the articles of incorporation, approval of a plan of merger or share exchange, authorization of the sale, lease, exchange or other disposition of all, or substantially all of the corporation's property, otherwise than in the usual and regular course of business, and authorization of the dissolution of the corporation, shall be approved by each voting group entitled to vote thereon by a simple majority of all the votes entitled to be cast by that voting group.

ARTICLE X

The street address of the registered office of this corporation is:

999 Lake Drive
Issaquah, WA 98027

and the name of its registered agent at that address is:

Patrick J. Callans

EXECUTED this 27th day of August, 1999.

/s/ Joel Benoliel
By: Joel Benoliel
Title: Corporate Secretary

ARTICLES OF AMENDMENT
OF
COSTCO WHOLESALE CORPORATION

The following Articles of Amendment are executed by the undersigned, a Washington corporation:

1. The name of the corporation is Costco Wholesale Corporation.

2. Article VIII of the Amended and Restated Articles of Incorporation of the corporation is amended in its entirety to read as follows:

ARTICLE VIII

"Subject to the rights of holders of any series of Preferred Stock then outstanding, any or every director may be removed from office only for cause and only if the number of votes cast to remove the director exceeds the number of votes cast not to remove the director. As used herein, "for cause" means either (i) conviction of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal or (ii) adjudication for gross negligence or dishonest conduct in the performance of a director's duty to this corporation by a court of competent jurisdiction and such adjudication is no longer subject to direct appeal."

3. The amendment was adopted by the Board of Directors of the corporation in accordance with the provisions of RCW 23B.10.030 on October 28, 2014.

4. The amendment was approved by the shareholders of the corporation in accordance with the provisions of RCW 23B.10.030 and 23B.10.040 on January 29, 2015.

COSTCO WHOLESALE CORPORATION

Dated: March 6, 2015

By: /s/ John Sullivan
Name: John Sullivan
Title: Corporate Secretary

ARTICLES OF AMENDMENT

OF

COSTCO WHOLESALE CORPORATION

The following Articles of Amendment are executed by the undersigned, a Washington corporation:

1. The name of the corporation is Costco Wholesale Corporation.

2. Article V of the Amended and Restated Articles of Incorporation, as amended, of the corporation is amended in its entirety to read as follows:

ARTICLE V

"Subject to the rights of holders of any series of Preferred Stock then outstanding, commencing with the annual meeting of shareholders in 2020, directors shall be elected annually for terms expiring at the next annual meeting of shareholders; provided, however, that any director elected prior to the annual meeting of shareholders in 2020 for a term that expires at the annual meeting of shareholders in 2021 or the annual meeting of shareholders in 2022 shall continue to hold office until the end of the term for which such director was elected. The division of directors into classes shall terminate at the annual meeting of shareholders in 2022, from and after which all directors will stand for election annually. In the case of any vacancy on the board of directors, including a vacancy created by an increase in the number of directors, the vacancy may be filled by the board of directors for a term of office continuing until the next election of directors by the shareholders.

Notwithstanding anything contained in this Article V to the contrary, each director shall serve until his successor is duly elected and qualified, until there is a decrease in the number of directors or until the director's earlier death, resignation or removal; provided, however, that no reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires."

3. The amendment was adopted by the Board of Directors of the corporation in accordance with the provisions of RCW 23B.10.030 on September 24, 2018.

4. The amendment was approved by the shareholders of the corporation in accordance with the provisions of RCW 23B.10.030 and 23B.10.040 on January 24, 2019.

COSTCO WHOLESALE CORPORATION

Dated: March 10, 2019

By: /s/ John Sullivan
Name: John Sullivan
Title: Senior Vice President, General Counsel and Secretary

ARTICLES OF AMENDMENT
OF
COSTCO WHOLESALE CORPORATION

The following Articles of Amendment are executed by the undersigned, a Washington corporation:

1. The name of the corporation is Costco Wholesale Corporation.

2. Article VIII of the Amended and Restated Articles of Incorporation of the corporation is amended in its entirety to read as follows:

ARTICLE VIII

"Subject to the rights of holders of any series of Preferred Stock then outstanding, any or every director may be removed from office with or without cause if the number of votes cast to remove the director exceeds the number of votes cast not to remove the director."

3. The amendment was adopted by the Board of Directors of the corporation in accordance with the provisions of RCW 23B.10.030 on September 3, 2019.

4. The amendment was approved by the shareholders of the corporation in accordance with the provisions of RCW 23B.10.030 and 23B.10.040 on January 22, 2020.

COSTCO WHOLESALE CORPORATION

Dated: January 24, 2020

By: /s/ John Sullivan
Name: John Sullivan
Title: Senior Vice President, General Counsel and Secretary

Exhibit 31.1

CERTIFICATIONS

I, W. Craig Jelinek, certify that:

1) I have reviewed this Quarterly Report on Form 10-Q of Costco Wholesale Corporation (“the registrant”);

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5) The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

March 11, 2020

/s/ W. CRAIG JELINEK

W. Craig Jelinek

President, Chief Executive Officer and Director

CERTIFICATIONS

I, Richard A. Galanti, certify that:

1) I have reviewed this Quarterly Report on Form 10-Q of Costco Wholesale Corporation (“the registrant”);

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5) The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

March 11, 2020

/s/ RICHARD A. GALANTI

Richard A. Galanti

Executive Vice President, Chief Financial Officer and Director

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Costco Wholesale Corporation (the Company) on Form 10-Q for the quarter ended February 16, 2020, as filed with the Securities and Exchange Commission (the Report), I, W. Craig Jelinek, President, Chief Executive Officer and Director of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ W. CRAIG JELINEK	Date: March 11, 2020
W. Craig Jelinek	
President, Chief Executive Officer and Director	

A signed original of this written statement has been provided to and will be retained by Costco Wholesale Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Costco Wholesale Corporation (the Company) on Form 10-Q for the quarter ended February 16, 2020, as filed with the Securities and Exchange Commission (the Report), I, Richard A. Galanti, Executive Vice President, Chief Financial Officer and Director of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD A. GALANTI

Richard A. Galanti

Executive Vice President, Chief Financial Officer and Director

Date: March 11, 2020

A signed original of this written statement has been provided to and will be retained by Costco Wholesale Corporation and furnished to the Securities and Exchange Commission or its staff upon request.