# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-K

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

**For the fiscal year ended September 3, 2023**

**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 | Name of each exchange on which registered |
| --- | --- | --- |
| Common Stock, $.005 Par Value | COST | The NASDAQ Global Select Market |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financials statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 12, 2023 was $221,351,787,419.

The number of shares outstanding of the registrant's common stock as of October 3, 2023, was 442,740,572.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company’s Proxy Statement for the Annual Meeting of Shareholders to be held on January 18, 2024, are incorporated by reference into Part III of this Form 10-K.

**COSTCO WHOLESALE CORPORATION**
**ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED SEPTEMBER 3, 2023**

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## INFORMATION RELATING TO FORWARD LOOKING STATEMENTS

Certain statements contained in this document constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For these purposes, forward-looking statements are statements that address activities, events, conditions or developments that the Company expects or anticipates 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. In some cases, forward-looking statements can be identified because they contain words such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “likely,” “may,” “might,” “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, including, without limitation, the factors set forth in the section titled “Item 1A-Risk Factors”, and other factors noted in the section titled “Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations” and in the consolidated financial statements and related notes in Item 8 of this Report. 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.

## PART I

### Item 1—Business

Costco Wholesale Corporation and its subsidiaries (Costco or the Company) began operations in 1983, in Seattle, Washington. We are principally engaged in the operation of membership warehouses in the United States (U.S.) and Puerto Rico, Canada, Mexico, Japan, the United Kingdom (U.K.), Korea, Australia, Taiwan, China, Spain, France, Iceland, New Zealand, and Sweden. Costco operated 861, 838, and 815 warehouses worldwide at September 3, 2023, August 28, 2022, and August 29, 2021. The Company operates e-commerce websites in the U.S., Canada, Mexico, the U.K., Korea, Taiwan, Japan, and Australia. Our common stock trades on the NASDAQ Global Select Market, under the symbol “COST.”

We report on a 52/53-week fiscal year, consisting of thirteen four-week periods and ending on the Sunday nearest the end of August. The first three quarters consist of three periods each, and the fourth quarter consists of four periods (five weeks in the thirteenth period in a 53-week year). The material seasonal impact in our operations is increased net sales and earnings during the winter holiday season. References to 2023 relate to the 53-week fiscal year ended September 3, 2023. References to 2022 and 2021 relate to the 52-week fiscal years ended August 28, 2022, and August 29, 2021.

### General

We operate membership warehouses and e-commerce websites based on the concept that offering our members low prices on a limited selection of nationally-branded and private-label products in a wide range of 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 often sell inventory before we are required to pay for it, even while taking advantage of early payment discounts.

We buy most of our merchandise directly from suppliers and route it to cross-docking consolidation points (depots) or directly to our warehouses. Our depots receive large shipments from suppliers and quickly ship these goods to warehouses. This process creates freight volume and handling efficiencies, lowering costs associated with traditional multiple-step distribution channels. Our e-commerce operations ship merchandise through our depots and logistics operations, as well as through drop-ship and other delivery arrangements with our suppliers.

Our average warehouse space is approximately 147,000 square feet, with newer units being slightly larger. Floor plans are designed for economy and efficiency in the use of selling space, the handling of merchandise, and the control of inventory. Because shoppers are attracted principally by the quality of merchandise and low prices, our warehouses are not elaborate. By strictly controlling the entrances and exits and using a membership format, we believe our inventory losses (shrinkage) are well below those of typical retail operations.

Our warehouses on average operate on a seven-day, 70-hour week. Gasoline operations generally have extended hours. Because the hours of operation are shorter than many other retailers, and due to other efficiencies inherent in a warehouse-type operation, labor costs are lower relative to the volume of sales. Merchandise is generally stored on racks above the sales floor and displayed on pallets containing large quantities, reducing labor required. In general, with variations by country, our warehouses accept certain credit cards, including Costco co-branded cards, debit cards, cash and checks, Executive member 2% reward certificates, co-brand cardholder rebates, and our proprietary stored-value card (shop card).

Our strategy is to provide our members with a broad range of high-quality merchandise at prices we believe are consistently lower than elsewhere. We seek to limit most items to fast-selling models, sizes, and colors. We carry less than 4,000 active stock keeping units (SKUs) per warehouse in our core warehouse business, significantly less than other broadline retailers. We average anywhere from 9,000 to 11,000 SKUs online, some of which are also available in our warehouses. Many consumable products are offered for sale in case, carton, or multiple-pack quantities only.

In keeping with our policy of member satisfaction, we generally accept returns of merchandise. On certain electronic items, we typically have a 90-day return policy and provide, free of charge, technical support services, as well as an extended warranty. Additional third-party warranty coverage is sold on certain electronic items.

We offer merchandise and services in the following categories:

**Core Merchandise Categories (or core business):**

- **Foods and Sundries** (including sundries, dry grocery, candy, cooler, freezer, deli, liquor, and tobacco)
- **Non-Foods** (including major appliances, electronics, health and beauty aids, hardware, garden and patio, sporting goods, tires, toys and seasonal, office supplies, automotive care, postage, tickets, apparel, small appliances, furniture, domestics, housewares, special order kiosk, and jewelry)
- **Fresh Foods** (including meat, produce, service deli, and bakery)

**Warehouse Ancillary** (includes gasoline, pharmacy, optical, food court, hearing aids, and tire installation) and **Other Businesses** (includes e-commerce[1], business centers[1], travel, and other)

Warehouse ancillary businesses operate primarily within or next to our warehouses, encouraging members to shop more frequently. The number of warehouses with gas stations varies significantly by country, and we have no gasoline business in Korea, China, or Sweden. We operated 692 gas stations at the end of 2023. Our gasoline business represented approximately 13% of total net sales in 2023.

Our other businesses sell products and services that complement our warehouse operations (core and warehouse ancillary businesses). Our e-commerce operations give members convenience and a broader selection of goods and services. Net sales for e-commerce represented approximately 6% of total net sales in 2023. This figure does not include other services we offer online in certain countries such as business delivery, travel, same-day grocery, and various other services. Our business centers carry items

[1] E-commerce and business centers are allocated to the appropriate merchandise categories in the Net Sales portion of Item 7.

tailored specifically for food services, convenience stores and offices, and offer walk-in shopping and deliveries. Business centers are included in our total warehouse count. Costco Travel offers vacation packages, car rentals, cruises, hotels, and other travel products exclusively for Costco members (offered in the U.S., Canada, and the U.K.).

We have direct buying relationships with many producers of brand-name merchandise. We do not obtain a significant portion of merchandise from any one supplier. When sources of supply become unavailable, we seek alternatives. We also purchase and manufacture private-label merchandise, as long as quality and member demand are high and the value to our members is significant.

Certain financial information for our segments and geographic areas is included in Note 11 to the consolidated financial statements included in Item 8 of this Report.

**Membership**

Our members may utilize their memberships at all of our warehouses and websites. Gold Star memberships are available to individuals; Business memberships are limited to businesses, including individuals with a business license, retail sales license, or comparable document. Business members may add additional cardholders (affiliates), to which the same annual fee applies. Affiliates are not available for Gold Star members. Our annual fee for these memberships is $60 in the U.S. and varies in other countries. All paid memberships include a free household card.

Our member renewal rate was 92.7% in the U.S. and Canada and 90.4% worldwide at the end of 2023. The majority of members renew within six months following their renewal date. Our renewal rate, which excludes affiliates of Business members, is a trailing calculation that captures renewals during the period seven to eighteen months prior to the reporting date. Our membership counts include active memberships as well as memberships that have not renewed within the 12 months prior to the reporting date.

Our membership was made up of the following (in thousands):

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Gold Star | 58,800 | 54,000 | 50,200 |
| Business, including affiliates | 12,200 | 11,800 | 11,500 |
| Total paid members | 71,000 | 65,800 | 61,700 |
| Household cards | 56,900 | 53,100 | 49,900 |
| Total cardholders | 127,900 | 118,900 | 111,600 |

Paid cardholders (except affiliates) are eligible to upgrade to an Executive membership in the U.S., for an additional annual fee of $60. Executive memberships are also available in Canada, Mexico, the U.K., Japan, Korea, Taiwan, and Australia, for which the additional fee varies. Executive members earn a 2% reward on qualified purchases (generally up to a maximum reward of $1,000 per year), redeemable at Costco warehouses. This program offers services that vary by state and country and provide access to additional savings and benefits on various business and consumer services, such as auto and home insurance, the

Costco auto purchase program, and check printing. Executive members totaled 32.3 million and represented 45.4% of paid members. The sales penetration of Executive members represented approximately 72.8% of worldwide net sales in 2023.

### Human Capital

Our Code of Ethics requires that we “Take Care of Our Employees,” which is fundamental to the obligation to “Take Care of Our Members.” We must also carefully control our selling, general and administrative (SG&A) expenses, so that we can sell high quality goods and services at low prices. Compensation and benefits for employees is our largest expense after the cost of merchandise and is carefully monitored.

Employee Base

At the end of 2023, we employed 316,000 employees worldwide. Approximately 95% are employed in our membership warehouses and distribution channels, and approximately 5% are represented by unions. We also utilize seasonal employees.

The total number of employees by segment was:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| United States | 208,000 | 202,000 | 192,000 |
| Canada | 51,000 | 50,000 | 47,000 |
| Other International | 57,000 | 52,000 | 49,000 |
| Total employees | 316,000 | 304,000 | 288,000 |

Growth and Engagement

We believe that our warehouses are among the most productive in the retail industry, owing largely to the commitment and efficiency of our employees. We seek to provide them not merely with employment but careers. Many attributes of our business contribute to the objective. The more significant include: competitive compensation and benefits for those working in our membership warehouses and distributions channels; a commitment to promoting from within; and a target ratio of at least 50% of our employee base being full-time employees. These attributes contribute to what we consider, especially for the industry, a high retention rate. In 2023, in the U.S. that rate was approximately 90% for employees who have been with us for at least one year.

Diversity, Equity and Inclusion

The commitment to “Take Care of Our Employees” is also the foundation of our approach to promoting diversity, equity and inclusion and creating an inclusive and respectful workplace. We strive for an environment where all employees feel that they belong, are accepted, included, respected and supported because of who they are. We demonstrate leadership commitment to equity through consistent communication, employee development and education, support of diversity and inclusion initiatives within the organization, community involvement, and supplier diversity. Costco continues its efforts to develop future leaders, including through the supervisor in training programs. In 2023, over 7,800 hourly employees completed the 6-week course.

Well Being

Costco strives to provide our employees with competitive wages and excellent benefits. In March 2023, we increased the top of the wage scales by 85 cents per hour in the U.S, Canada and Puerto Rico. In September of 2023, we increased the starting wage to at least $18.50 for all entry-level positions in the U.S. We have also expanded our benefits in the U.S. to include additional mental health support for children and adults at little to no cost to our employees. Costco is firmly committed to protecting the health and safety of our members and employees and to serving our communities.

For more detailed information regarding our programs and initiatives, see “Employees” within our Sustainability Commitment (located on our website). The Sustainability Commitment and other information on our website are not incorporated by reference into and do not form any part of this Annual Report.

**Competition**

Our industry is highly competitive, based on factors such as price, merchandise quality and selection, location, convenience, distribution strategy, and customer service. We compete on a worldwide basis with global, national, and regional wholesalers and retailers, including supermarkets, supercenters, online retailers, gasoline stations, hard discounters, department and specialty stores, and operators selling a single category or narrow range of merchandise. Walmart, Target, Kroger, and Amazon are among our significant general merchandise retail competitors in the U.S. We also compete with other warehouse clubs, including Walmart's Sam's Club and BJ's Wholesale Club in the U.S. Many of the major metropolitan areas in the U.S. and certain of our Other International locations have multiple competing clubs.

**Intellectual Property**

We believe that, to varying degrees, our trademarks, trade names, copyrights, proprietary processes, trade secrets, trade dress, domain names and similar intellectual property add significant value to our business and are important to our success. We have invested significantly in the development and protection of our well-recognized brands, including the Costco Wholesale trademarks and our private-label brand, Kirkland Signature. We believe that Kirkland Signature products are high quality, offered at prices that are generally lower than national brands, and help lower costs, differentiate our merchandise offerings, and generally earn higher margins. We expect to continue to increase the sales penetration of our private-label items.

We rely on trademark and copyright laws, trade-secret protection, and confidentiality, license and other agreements with our suppliers, employees and others to protect our intellectual property. The availability and duration of trademark registrations vary by country; however, trademarks are generally valid and may be renewed indefinitely as long as they are in use and registrations are maintained.

**Available Information**

Our U.S. website is www.costco.com. We make available through the Investor Relations section of that site, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and Forms 3, 4 and 5, and any amendments to those reports, as soon as reasonably practicable after filing such materials with or furnishing such documents to the Securities and Exchange Commission (SEC). The information found on our website is not part of this or any other report filed with or furnished to the SEC. The SEC maintains a site that contains reports, proxy and information statements, and other information regarding issuers, such as the Company, that file electronically with the SEC at www.sec.gov.

We have a code of ethics for senior financial officers, pursuant to Section 406 of the Sarbanes-Oxley Act. Copies of the code are available free of charge by writing to Secretary, Costco Wholesale Corporation, 999 Lake Drive, Issaquah, WA 98027. If the Company makes any amendments to this code (other than technical, administrative, or non-substantive amendments) or grants any waivers, including implicit waivers, to the Chief Executive Officer, Chief Financial Officer or principal accounting officer and controller, we will disclose (on our website or in a Form 8-K report filed with the SEC) the nature of the amendment or waiver, its effective date, and to whom it applies.

### Information about our Executive Officers

The executive officers of Costco, their position, and ages are listed below. All have over 25 years of service with the Company, with the exception of Mr. Sullivan who has 22 years of service.

| Name | Position | Executive Officer Since | Age |
|---|---|---|---|
| W. Craig Jelinek | Chief Executive Officer. Mr. Jelinek has been a director since February 2010. Mr. Jelinek previously was President and CEO from January 2012 to February 2022. He was President and Chief Operating Officer from February 2010 to December 2011. Prior to that he was Executive Vice President, Chief Operating Officer, Merchandising since 2004. | 1995 | 71 |
| Ron M. Vachris | President and Chief Operating Officer. Mr. Vachris has been a director since February 2022. Mr. Vachris previously served as Executive Vice President of Merchandising from June 2016 to January 2022, as Senior Vice President, Real Estate Development, from August 2015 to June 2016, and Senior Vice President, General Manager, Northwest Region, from 2010 to July 2015. | 2016 | 58 |
| Richard A. Galanti | Executive Vice President and Chief Financial Officer. Mr. Galanti has been a director since January 1995. | 1993 | 67 |
| Jim C. Klauer | Executive Vice President, Chief Operating Officer, Northern Division. Mr. Klauer was Senior Vice President, Non-Foods and E-commerce Merchandise, from 2013 to January 2018. | 2018 | 61 |
| Russ D. Miller | Senior Executive Vice President, U.S. Operations. Mr. Miller was Executive Vice President, Chief Operating Officer, Southwest Division and Mexico, from January 2018 to May 2022. Mr. Miller was Senior Vice President, Western Canada Region, from 2001 to January 2018. | 2018 | 66 |
| Patrick J. Callans | Executive Vice President, Administration. Mr. Callans was Senior Vice President, Human Resources and Risk Management, from 2013 to December 2018. | 2019 | 61 |
| Yoram B. Rubanenko | Executive Vice President, Chief Operating Officer, Eastern Division. Mr. Rubanenko was Senior Vice President and General Manager, Southeast Region, from 2013 to September 2021, and Vice President, Regional Operations Manager for the Northeast Region, from 1998 to 2013. | 2021 | 59 |
| John Sullivan | Executive Vice President, General Counsel & Corporate Secretary. Mr. Sullivan has been General Counsel since 2016 and Corporate Secretary since 2010. | 2021 | 63 |
| Claudine E. Adamo | Executive Vice President, Merchandising. Ms. Adamo was Senior Vice President, Non-Foods, from 2018 to February 2022, and Vice President, Non-Foods, from 2013 to 2018. | 2022 | 53 |
| Caton Frates | Executive Vice President, Chief Operating Officer, Southwest Division. Mr. Frates was Senior Vice President, Los Angeles Region, from 2015 to May 2022. | 2022 | 55 |
| Pierre Riel | Executive Vice President, Chief Operating Officer, International Division. Mr. Riel was Senior Vice President, Country Manager, Canada, from 2019 to March 2022, and Senior Vice President, Eastern Canada Region, from 2001 to 2019. | 2022 | 60 |

## Item 1A—Risk Factors

The risks described below could materially and adversely affect our business, financial condition and results of operations. We could also be affected by additional risks that apply to all companies operating in the U.S. and globally, as well as other risks that are not presently known to us or that we currently consider to be immaterial. These Risk Factors should be carefully reviewed in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and our consolidated financial statements and related notes in Item 8 of this Report.

**Business and Operating Risks**

**We are highly dependent on the financial performance of our U.S. and Canadian operations.**

Our financial and operational performance is highly dependent on our U.S. and Canadian operations, which comprised 87% and 84% of net sales and operating income in 2023. Within the U.S., we are highly dependent on our California operations, which comprised 27% of U.S. net sales in 2023. Our California market, in general, has a larger percentage of higher volume warehouses as compared to our other domestic markets. Any substantial slowing or sustained decline in these operations could materially adversely affect our business and financial results. Declines in financial performance of our U.S. operations, particularly in California, and our Canadian operations could arise from, among other things: slow growth or declines in comparable warehouse sales (comparable sales); negative trends in operating expenses, including increased labor, healthcare and energy costs; failing to meet targets for warehouse openings; cannibalizing existing locations with new warehouses; shifts in sales mix toward lower gross margin products; changes or uncertainties in economic conditions in our markets, including higher levels of unemployment and depressed home values; and failing to consistently provide high quality and innovative new products.

**We may be unsuccessful implementing our growth strategy, including expanding our business in existing markets and new markets, and integrating acquisitions, which could have an adverse impact on our business, financial condition and results of operations.**

Our growth is dependent, in part, on our ability to acquire property and build or lease new warehouses and depots. We compete with other retailers and businesses for suitable locations. Local land use and other regulations restricting the construction and operation of our warehouses and depots, as well as local community actions opposed to the location of our warehouses or depots at specific sites and the adoption of local laws restricting our operations and environmental regulations, may impact our ability to find suitable locations and increase the cost of sites and of constructing, leasing and operating warehouses and depots. We also may have difficulty negotiating leases or purchase agreements on acceptable terms. In addition, certain jurisdictions have enacted or proposed laws and regulations that would prevent or restrict the operation or expansion plans of certain large retailers and warehouse clubs, including us. Failure to effectively manage these and other similar factors may affect our ability to timely build or lease and operate new warehouses and depots, which could have a material adverse effect on our future growth and profitability.

We seek to expand in existing markets to attain a greater overall market share. A new warehouse may draw members away from our existing warehouses and adversely affect their comparable sales performance, member traffic, and profitability.

We intend to continue to open warehouses in new markets. Associated risks include difficulties in attracting members due to a lack of familiarity with us, attracting members of other wholesale club operators, our lesser familiarity with local member preferences, and seasonal differences in the market. Entry into new markets may bring us into competition with new competitors or with existing competitors with a large, established market presence.

We cannot ensure that new warehouses and new e-commerce websites will be profitable and future profitability could be delayed or otherwise materially adversely affected.

We have made and may continue to make investments and acquisitions to improve the speed, accuracy and efficiency of our supply chains and delivery channels. The effectiveness of these investments can be less predictable than opening new locations and might not provide the anticipated benefits or desired rates of return.

**Our failure to maintain membership growth, loyalty and brand recognition could adversely affect our results of operations.**

Membership loyalty and growth are essential to our business. The extent to which we achieve growth in our membership base, increase the penetration of Executive membership, and sustain high renewal rates materially influences our profitability. Damage to our brands or reputation may negatively impact comparable sales, diminish member trust, and reduce renewal rates and, accordingly, net sales and membership fee revenue, negatively impacting our results of operations.

We sell many products under our Kirkland Signature brand. Maintaining consistent product quality, competitive pricing, and availability of these products is essential to developing and maintaining member loyalty. These products also generally carry higher margins than national brand products and represent a growing portion of our overall sales. If the Kirkland Signature brand experiences a loss of member acceptance or confidence, our sales and gross margin results could be adversely affected.

**Disruptions in merchandise distribution or processing, packaging, manufacturing, and other facilities could adversely affect sales and member satisfaction.**

We depend on the orderly operation of the merchandise receiving and distribution process, primarily through our depots. We also rely upon processing, packaging, manufacturing and other facilities to support our business, which includes the production of certain private-label items. Although we believe that our operations are efficient, disruptions due to fires, tornadoes, hurricanes, earthquakes, pandemics or other extreme weather conditions or catastrophic events, labor issues or other shipping problems may result in delays in the production and delivery of merchandise to our warehouses, which could adversely affect sales and the satisfaction of our members. Our e-commerce operations depend heavily on third-party and in-house logistics providers and is negatively affected when these providers are unable to provide services in a timely fashion.

**We may not timely identify or effectively respond to consumer trends, which could negatively affect our relationship with our members, the demand for our products and services, and our market share.**

It is difficult to consistently and successfully predict the products and services that our members will desire. Our success depends, in part, on our ability to identify and respond to trends in demographics and consumer preferences. Failure to identify timely or effectively respond to changing consumer tastes, preferences (including those relating to environmental, social and governance practices) and spending patterns could negatively affect our relationship with our members, the demand for our products and services, and our market share. If we are not successful at predicting our sales trends and adjusting our purchases accordingly, we may have excess inventory, which could result in additional markdowns, or we may experience out-of-stock positions and delivery delays, which could result in higher costs, both of which would reduce our operating performance. This could have an adverse effect on net sales, gross margin and operating income.

**Availability and performance of our information technology (IT) systems are vital to our business. Failure to successfully execute IT projects and have IT systems available to our business would adversely impact our operations.**

IT systems play a crucial role in conducting our business. These systems are utilized to process a very high volume of transactions, conduct payment transactions, track and value our inventory and produce reports critical for making business decisions. Failure or disruption of these systems could have an adverse impact on our ability to buy products and services from our suppliers, produce goods in our manufacturing plants, move the products in an efficient manner to our warehouses and sell products to our members. We are undertaking large technology and IT transformation projects. The failure of these projects could adversely impact our business plans and potentially impair our day to day business operations. Given the high volume of transactions we process, it is important that we build strong digital resiliency to prevent disruption from events such as power outages, computer and telecommunications failures, viruses, internal or external security breaches, errors by employees, and catastrophic events such as fires, earthquakes, tornadoes and hurricanes. Any debilitating failure of our critical IT systems, data centers and backup systems would require significant investments in resources to restore IT services and may cause serious impairment in our business operations including loss of business services, increased cost of moving merchandise and failure to provide service to our members. We are currently making substantial investments in maintaining and enhancing our digital resiliency and failure or delay in these projects could be costly and harmful to our business. Failure to deliver IT transformation efforts efficiently and effectively could result in the loss of our competitive position and adversely impact our financial condition and results of operations. Insufficient IT capacity could also impact our capacity for timely, complete and accurate financial and non-financial reporting required by law.

**We are required to maintain the privacy and security of personal and business information amidst multiplying threat landscapes and in compliance with privacy and data protection regulations globally. Failure to do so could damage our business, including our reputation with members, suppliers and employees, cause us to incur substantial additional costs, and become subject to litigation and regulatory action.**

Increased security threats and more sophisticated cyber misconduct pose a risk to our systems, networks, products and services. We rely upon IT systems and networks, some of which are managed by or belong to third parties, including suppliers, partners, vendors, and service providers. Additionally, we collect, store and process sensitive information relating to our business, members, employees, and other third parties. Operating these IT systems and networks, and processing and maintaining this data, in a secure manner, is critical to our business operations and strategy. Increased remote work has also increased the possible attack surfaces. Attempts to gain unauthorized access to systems, networks and data, both ours and third parties with whom we work, are increasing in frequency and sophistication, and in some cases, these attempts are successful. Cybersecurity attacks may range from random attempts to coordinated and targeted attacks, including sophisticated computer crimes and advanced persistent threats. Phishing attacks have emerged as particularly prominent, including as vectors for ransomware attacks, which have increased in breadth and frequency. While we train our employees as part of our security efforts, that training cannot be completely effective. These threats pose a risk to the security of our systems and networks and the confidentiality, integrity, and availability of our data. Our IT systems and networks, or those managed by third parties such as cloud providers or suppliers that otherwise host or have access to confidential information, periodically have vulnerabilities, which may go unnoticed for a period of time. Our logging capabilities, or the logging capabilities of third parties, are also not always complete or sufficiently detailed, affecting our ability to fully investigate and understand the scope of security events. While our cybersecurity and compliance efforts seek to mitigate such risks, there can be no guarantee that the actions and controls we and our third-party service providers have implemented and are implementing, will be sufficient to protect our systems, information or other property.

The potential impacts of a cybersecurity attack include reputational damage, litigation, government enforcement actions, penalties, disruption to systems and operations, unauthorized release of confidential or otherwise protected information, corruption of data, diminution in the value of our investment in IT systems and increased cybersecurity protection and remediation costs. This could adversely affect our competitiveness, results of operations and financial condition and, critically in light of our business model, loss of member confidence. Further, the insurance coverage we maintain and indemnification arrangements with third parties may be inadequate to cover claims, costs, and liabilities relating to cybersecurity incidents. In addition, data we collect, store and process is subject to a variety of U.S. and international laws and regulations, such as the European Union's General Data Protection Regulation, California Consumer Privacy Act, Health Insurance Portability and Accountability Act, and other privacy and cybersecurity laws across the various states and around the globe, which may carry significant potential penalties for noncompliance.

**We are subject to payment-related risks.**

We accept payments using a variety of methods, including select credit and debit cards, cash and checks, co-brand cardholder rebates, Executive member 2% reward certificates, and our shop card. As we offer new payment options to our members, we may be subject to additional rules, regulations, compliance requirements, and higher fraud losses. For certain payment methods, we pay interchange and other related acceptance fees, along with additional transaction processing fees. We rely on third parties to provide payment transaction processing services for credit and debit cards and our shop card. It could disrupt our business if these parties become unwilling or unable to provide these services to us. We are also subject to fee increases by these service providers.

We must comply with evolving payment card association and network operating rules, including data security rules, certification requirements and rules governing electronic funds transfers. For example, we are subject to Payment Card Industry Data Security Standards, which contain compliance guidelines and standards with regard to our security surrounding the physical and electronic storage, processing and transmission of individual cardholder data. If our internal systems are breached or compromised, we may be liable for card re-issuance costs, subject to fines and higher transaction fees and lose our ability to accept card payments from our members, and our business and operating results could be adversely affected. Our failure to offer payment methods desired by our members could create a competitive disadvantage.

**We might sell products that cause illness or injury to our members, harm to our reputation, and expose us to litigation.**

If our merchandise, including food and prepared food products for human consumption, drugs, children's products, pet products and durable goods, do not meet or are perceived not to meet applicable safety or labeling standards or our members' expectations, we could experience lost sales, increased costs, litigation or reputational harm. The sale of these items involves the risk of illness or injury to our members. Such illnesses or injuries could result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, manufacturing, storage, handling and transportation phases, or faulty design. Our suppliers are generally contractually required to comply with product safety laws, and we are dependent on them to ensure that the products we buy comply with safety and other standards. While we are subject to governmental inspection and regulations and work to comply in all material respects with applicable laws and regulations, we cannot be sure that consumption or use of our products will not cause illness or injury or that we will not be subject to claims, lawsuits, or government investigations relating to such matters, resulting in costly product recalls and other liabilities that could adversely affect our business and results of operations. Even if a product liability claim is unsuccessful or is not fully pursued, negative publicity could adversely affect our reputation with existing and potential members and our corporate and brand image, and these effects could be long-term.

**If we do not successfully develop and maintain a relevant omnichannel experience for our members, our results of operations could be adversely impacted.**

Omnichannel retailing is rapidly evolving, and we must keep pace with changing member expectations and new developments by our competitors. Our members are increasingly using mobile phones, tablets, computers, and other devices to shop and to interact with us through social media. We are making investments in our websites and mobile applications. If we are unable to make, improve, or develop relevant member-facing technology in a timely manner, our ability to compete and our results of operations could be adversely affected.

**Inability to attract, train and retain highly qualified employees could adversely impact our business, financial condition and results of operations.**

Our success depends on the continued contributions of our employees, including members of our senior management and other key operations, IT, merchandising and administrative personnel. Failure to identify and implement a succession plan for senior management could negatively impact our business. We must attract, train and retain a large and growing number of qualified employees, while controlling related labor costs and maintaining our core values. Our ability to control labor and benefit costs is subject to numerous internal and external factors, including regulatory changes, prevailing wage rates, union relations and healthcare and other insurance costs. We compete with other retail and non-retail businesses for these employees and invest significant resources in training and motivating them. There is no assurance that we will be able to attract or retain highly qualified employees in the future, which could have a material adverse effect on our business, financial condition and results of operations.

**We may incur property, casualty or other losses not covered by our insurance.**

Claims for employee health care benefits, workers' compensation, general liability, property damage, directors' and officers' liability, vehicle liability, inventory loss, and other exposures are funded predominantly through self-insurance. Insurance coverage is maintained for certain risks to limit exposures arising from very large losses. The types and amounts of insurance may vary from time to time based on our decisions with respect to risk retention and regulatory requirements. Significant claims or events, regulatory changes, a substantial rise in costs of health care or costs to maintain our insurance or the failure to maintain adequate insurance coverage could have an adverse impact on our financial condition and results of operations.

Although we maintain specific coverages for catastrophic property losses, we still bear a significant portion of the risk of losses incurred as a result of any physical damage to, or the destruction of, any warehouses, depots, manufacturing or home office facilities, loss or spoilage of inventory, and business interruption. Such losses could materially impact our cash flows and results of operations.

**Market and Other External Risks**

**We face strong competition from other retailers and warehouse club operators, which could adversely affect our business, financial condition and results of operations.**

The retail business is highly competitive. We compete for members, employees, sites, products and services and in other important respects with a wide range of local, regional and national wholesalers and retailers, both in the United States and in foreign countries, including other warehouse-club operators, supermarkets, supercenters, online retailers, gasoline stations, hard discounters, department and specialty stores and operators selling a single category or narrow range of merchandise. Such retailers and warehouse club operators compete vigorously and in a variety of ways, including pricing, selection and availability, services, location, convenience, store hours, and the attractiveness and ease of use of websites and mobile applications. The evolution of retailing in online and mobile channels has improved the ability of customers to comparison shop, which has enhanced competition. Some competitors have greater financial resources and technology capabilities, better access to merchandise, and greater market penetration than we do. Our inability to respond effectively to competitive pressures, changes in the retail markets or customer expectations could result in lost market share and negatively affect our financial results.

**General economic factors, domestically and internationally, may adversely affect our business, financial condition, and results of operations.**

Higher energy and gasoline costs, inflation, levels of unemployment, healthcare costs, consumer debt levels, foreign-currency exchange rates, unsettled financial markets, weaknesses in housing and real estate markets, reduced consumer confidence, changes and uncertainties related to government fiscal, monetary and tax policies including changes in interest rates, tax rates, duties, tariffs, or other restrictions, sovereign debt crises, pandemics and other health crises, and other economic factors could adversely affect demand for our products and services, require a change in product mix, or impact the cost of or ability to purchase inventory. Additionally, trade-related actions in various countries, particularly China and the United States, have affected 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 is influenced in part by our merchandising and pricing strategies in response to potential cost increases. Higher tariffs could adversely impact our results.

Prices of certain commodities, including gasoline and consumable goods used in manufacturing and our warehouse retail operations, are historically volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, inflationary pressures, labor costs, competition, market speculation, government regulations, taxes and periodic delays in delivery. Rapid and significant changes in commodity prices and our ability and desire to pass them through to our members may affect our sales and profit margins. These factors could also increase our merchandise costs and selling, general and administrative expenses, and otherwise adversely affect our operations and financial results. General economic conditions can also be affected by events like the outbreak of hostilities, including but not limited to the Ukraine conflict, or acts of terrorism.

Inflationary factors such as increases in merchandise costs may adversely affect our business, financial condition and results of operations. We may not be able to adjust prices to sufficiently offset the effect of cost increases without negatively impacting consumer demand.

**Suppliers may be unable to timely supply us with quality merchandise at competitive prices or may fail to adhere to our high standards, resulting in adverse effects on our business, merchandise inventories, sales, and profit margins.**

We depend heavily on our ability to purchase quality merchandise in sufficient quantities at competitive prices. As the quantities we require continue to grow, we have no assurances of continued supply, appropriate pricing or access to new products, and any supplier has the ability to change the terms upon which they sell to us or discontinue selling to us. Member demands may lead to out-of-stock positions causing a loss of sales and profits.

We buy from numerous domestic and foreign suppliers and importers. Our inability to acquire suitable merchandise on acceptable terms or the loss of key suppliers could negatively affect us. We may not be able to develop relationships with new suppliers, and products from alternative sources, if any, may be of a lesser quality or more expensive. Because of our efforts to adhere to high-quality standards for which available supply may be limited, particularly for certain food items, the large volumes we demand may not be consistently available. Our efforts to secure supply could lead to commitments that prove to be unsuccessful in the short and long-term.

Our suppliers (and those they depend upon for materials and services) are subject to risks, including labor disputes, union organizing activities, financial liquidity, natural disasters, extreme weather conditions, public health emergencies, supply constraints and general economic and political conditions and other risks similar to those we face that could limit their ability to timely provide us with acceptable merchandise. One or more of our suppliers might not adhere to our quality control, packaging, legal, regulatory, labor, environmental or animal welfare standards. These deficiencies may delay or preclude delivery of merchandise to us and might not be identified before we sell such merchandise to our members. This failure could lead to recalls and litigation and otherwise damage our reputation and our brands, increase costs, and otherwise adversely impact our business.

**Fluctuations in foreign exchange rates may adversely affect our results of operations.**

During 2023, our international operations, including Canada, generated 27% and 34% of our net sales and operating income. Our international operations have accounted for an increasing portion of our warehouses, and we plan to continue international growth. To prepare our consolidated financial statements, we translate the financial statements of our international operations from local currencies into U.S. dollars using current exchange rates. Future fluctuations in exchange rates that are unfavorable to us may adversely affect the financial performance of our Canadian and Other International operations and have a corresponding adverse period-over-period effect on our results of operations. As we continue to expand internationally, our exposure to fluctuations in foreign exchange rates may increase.

A portion of the products we purchase is paid for in a currency other than the local currency of the country in which the goods are sold. Currency fluctuations may increase our merchandise costs and may not be passed on to members and thus may adversely affect our results of operations.

**Natural disasters, extreme weather conditions, or other catastrophic events could negatively affect our business, financial condition, and results of operations.**

Natural disasters and extreme weather conditions, including those impacted by climate change, such as hurricanes, typhoons, floods, earthquakes, wildfires, droughts; acts of terrorism or violence, including active shooter situations; and energy shortages; particularly in California or Washington state, where our centralized operating systems and administrative personnel are located, could negatively affect our operations and financial performance. Such events could result in physical damage to our properties, limitations on store operating hours, less frequent visits by members to physical locations, the temporary closure of warehouses, depots, manufacturing or home office facilities, the temporary lack of an adequate work force, disruptions to our IT systems, the temporary or long-term disruption in the supply of products from some local or overseas suppliers, the temporary disruption in the transport of goods to or from overseas, delays in the delivery of goods to our warehouses or depots, and the temporary reduction in the availability of products in our warehouses. These events could also reduce demand for our products or make it difficult or impossible to procure products. We may be required to suspend operations in some or all of our locations, which could have a material adverse effect on our business, financial condition and results of operations.

**Pandemics and other health crises, including COVID-19, could affect our business, financial condition and results of operations in many respects.**

The emergence, severity, magnitude and duration of global or regional health crises are uncertain and difficult to predict. A pandemic, such as COVID-19, could affect certain business operations, demand for our products and services, in-stock positions, costs of doing business, availability of labor, access to inventory, supply chain operations, our ability to predict future performance, exposure to litigation, and our financial performance, among other things. Other factors and uncertainties include, but are not limited to:

- The severity and duration of pandemics;
- Evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;
- Changes in labor markets affecting us and our suppliers;
- Unknown consequences on our business performance and initiatives stemming from the substantial investment of time and other resources to the pandemic response;
- The pace of post-pandemic recovery;
- The long-term impact of the pandemic on our business, including consumer behaviors; and
- Disruption and volatility within the financial and credit markets.

**Factors associated with climate change could adversely affect our business.**

We use natural gas, diesel fuel, gasoline, and electricity in our distribution and warehouse operations. Government regulations limiting carbon dioxide and other greenhouse gas emissions and other environmental restrictions may increase compliance and merchandise costs, and other regulation affecting energy inputs could materially affect our profitability. As the economy transitions to lower carbon intensity we cannot guarantee that we will make adequate investments or successfully implement strategies that will effectively achieve our climate-related goals, which could lead to negative perceptions among members and other stakeholders and result in reputational harm. Climate change, extreme weather conditions, wildfires, droughts and rising sea levels could affect our ability to procure commodities at costs and in quantities we currently experience.

We also sell a substantial amount of gasoline, the demand for which could be impacted by concerns about climate change and increased regulations. More stringent fuel economy standards, changing public policies aimed at increasing the adoption of zero-emission and alternative fuel vehicles and other regulations related to climate change, and evolving consumer preferences will affect our future operations and will adversely impact certain elements of our profitability and require significant capital expenditures.

**Failure to meet financial market expectations could adversely affect the market price and volatility of our stock.**

We believe that the price of our stock currently reflects high market expectations for our future operating results. Any failure to meet or delay in meeting these expectations, including our warehouse and e-commerce comparable sales growth rates, membership renewal rates, new member sign-ups, gross margin, earnings, earnings per share, new warehouse openings, or dividend or stock repurchase policies could cause the price of our stock to decline.

**Legal and Regulatory Risks**

**We are subject to risks associated with the legislative, judicial, accounting, regulatory, political and economic factors specific to the countries or regions in which we operate, which could adversely affect our business, financial condition and results of operations.**

At the end of 2023, we operated 270 warehouses outside of the U.S. (31% of all warehouse locations), and we plan to continue expanding our international operations. Future operating results internationally could be negatively affected by a variety of factors, many similar to those we face in the U.S., certain of which are beyond our control. These factors include political and economic conditions, regulatory constraints, currency regulations, policy changes, and other matters in any of the countries or regions in which we operate, now or in the future. Other factors that may impact international operations include foreign trade (including tariffs and trade sanctions), monetary and fiscal policies and the laws and regulations of the U.S. and foreign governments, agencies and similar organizations, and risks associated with having major facilities in locations which have been historically less stable than the U.S. Risks inherent in international operations also include, among others, the costs and difficulties of managing international operations, adverse tax consequences, and difficulty in enforcing intellectual property rights. New reporting obligations globally are increasing the cost and complexity of doing business.

**Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial condition and results of operations.**

Accounting principles and related pronouncements, implementation guidelines, and interpretations we apply to a wide range of matters that are relevant to our business, including self-insurance liabilities, are highly complex and involve subjective assumptions, estimates and judgments by our management. Changes in rules or interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance and have a material impact on our consolidated financial statements.

**We are exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act and otherwise.**

Section 404 of the Sarbanes-Oxley Act of 2002 requires management assessments of the effectiveness of internal control over financial reporting and disclosure controls and procedures. If we are unable to maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to record, process and report financial information accurately and to prepare financial statements within required time periods could be adversely affected, which could subject us to litigation or investigations requiring management resources and payment of legal and other expenses, negatively affect investor confidence in our financial statements and adversely impact our stock price. Uncertainties around our developing systems concerning controls for non-financial reporting also create risks.

**Changes in tax rates, new U.S. or foreign tax legislation, and exposure to additional tax liabilities could adversely affect our financial condition and results of operations.**

We are subject to a variety of taxes and tax collection and remittance obligations in the U.S. and numerous foreign jurisdictions. Additionally, at any point in time, we may be under examination for value added, sales-based, payroll, product, import or other non-income taxes. We may recognize additional tax expense, be subject to additional tax liabilities, or incur losses and penalties, due to changes in laws, regulations, administrative practices, principles, assessments by authorities and interpretations related to tax, including tax rules in various jurisdictions. We compute our income tax provision based on enacted tax rates in the countries in which we operate. As tax rates vary among countries, a change in earnings attributable to the various jurisdictions in which we operate could result in an unfavorable change in our overall tax provision. Additionally, changes in the enacted tax rates or adverse outcomes in tax audits, including transfer pricing disputes, could have a material adverse effect on our financial condition and results of operations.

**Changes in or failure to comply with regulations relating to the use, storage, discharge and disposal of hazardous materials, hazardous and non-hazardous wastes and other environmental matters (such as recycling and extended producer responsibility requirements) could adversely impact our business, financial condition and results of operations.**

We are subject to a wide and increasingly broad array of federal, state, regional, local and international laws and regulations relating to the use, storage, discharge and disposal of hazardous materials, hazardous and non-hazardous wastes and other environmental matters. Failure to comply with these laws could result in harm to our members, employees or others, significant costs to satisfy environmental compliance, remediation or compensatory requirements, or the imposition of severe penalties or restrictions on operations by governmental agencies or courts that could adversely affect our business, financial condition and results of operations.

Operations at our facilities require the treatment and disposal of wastewater, stormwater and agricultural and food processing wastes, the use and maintenance of refrigeration systems, including ammonia-based chillers, noise, odor and dust management, the operation of mechanized processing equipment, and other operations that potentially could affect the environment and public health and safety. Failure to comply with current and future environmental, health and safety standards could result in the imposition of fines and penalties, illness or injury of our employees, and claims or lawsuits related to such illnesses or injuries, and temporary closures or limits on the operations of facilities.

**We are involved in a number of legal proceedings and audits and some of these outcomes could adversely affect our business, financial condition and results of operations.**

Our business requires compliance with many laws and regulations. Failure to achieve compliance could subject us to lawsuits and other proceedings and lead to damage awards, fines, penalties, and remediation costs. We are or may become involved in a number of legal proceedings and audits, including grand jury investigations, government and agency investigations, and consumer, employment, tort, unclaimed property laws, and other litigation. We cannot predict with certainty the outcomes of these proceedings and other contingencies, including environmental remediation and other proceedings commenced by governmental authorities. The outcome of some of these proceedings, audits, unclaimed property laws, and other contingencies could require us to take, or refrain from taking, actions which could negatively affect our operations or could require us to pay substantial amounts of money, adversely affecting our financial condition and results of operations. Additionally, defending against these lawsuits and proceedings may involve significant expense and diversion of management's attention and resources.

## Item 1B—Unresolved Staff Comments

None.

## Item 2—Properties

### Warehouse Properties

At September 3, 2023, we operated 861 membership warehouses:

| | Own Land and Building | Lease Land and/or Building[1] | Total |
|---|---|---|---|
| United States and Puerto Rico | 477 | 114 | 591 |
| Canada | 90 | 17 | 107 |
| Other International | 110 | 53 | 163 |
| Total | 677 | 184 | 861 |

(1) 132 of the 184 leases are land-only leases, where Costco owns the building.

At the end of 2023, our warehouses contained approximately 126.3 million square feet of operating floor space: 87.6 million in the U.S.; 15.3 million in Canada; and 23.4 million in Other International. Total square feet associated with distribution and logistics facilities were approximately 33.1 million. Additionally, we operate various processing, packaging, manufacturing and other facilities to support our business, which includes the production of certain private-label items.

### Item 3—Legal Proceedings

See discussion of Legal Proceedings in Note 10 to the consolidated financial statements included in Item 8 of this Report.

### Item 4—Mine Safety Disclosures

Not applicable.

## PART II

### Item 5—Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information and Dividend Policy

Our common stock is traded on the NASDAQ Global Select Market under the symbol "COST." On October 3, 2023, we had 10,331 stockholders of record.

Payment of dividends is subject to declaration by the Board of Directors. Factors considered in determining dividends include our profitability and expected capital needs. Subject to these qualifications, we presently expect to continue to pay dividends on a quarterly basis.

#### Issuer Purchases of Equity Securities

The following table sets forth information on our common stock repurchase activity for the fourth quarter of 2023 (dollars in millions, except per share data):

| Period | Total Number of Shares Purchased | | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program[1] | | Maximum Dollar Value of Shares that May Yet be Purchased under the Program |
|---|---|---|---|---|---|---|
| May 8—June 4, 2023 | 107,000 | $ | 498.28 | 107,000 | $ | 3,740 |
| June 5—July 2, 2023 | 102,000 | | 523.05 | 102,000 | | 3,687 |
| July 3—July 30, 2023 | 97,000 | | 548.20 | 97,000 | | 3,634 |
| July 31—September 3, 2023 | 127,000 | | 550.58 | 127,000 | | 3,563 |
| Total fourth quarter | 433,000 | $ | 530.67 | 433,000 | | |

(1) The repurchase program is conducted under a $4,000 authorization approved by our Board of Directors in January 2023, which expires in January 2027. This authorization revoked previously authorized but unused amounts, totaling $2,568.

### Performance Graph

The following graph compares the cumulative total shareholder return assuming reinvestment of dividends on an investment of $100 in Costco common stock, S&P 500 Index, S&P Retail Select Index, and the previously selected S&P 500 Retail Index over the five years from September 2, 2018, through September 3, 2023. The S&P Retail Select Index will prospectively replace in the graph the S&P 500 Retail Index to show a broader representation of industry performance and a broader index of peers.

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The following graph provides information concerning average sales per warehouse over a 10-year period.

**Average Sales Per Warehouse***

**(Sales In Millions)**

| Year Opened | # of Whses | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2023** | **23** | | | | | | | | | | $ 151 |
| **2022** | **23** | | | | | | | | | $ 150 | 158 |
| **2021** | **20** | | | | | | | | $ 140 | 158 | 172 |
| **2020** | **13** | | | | | | | $ 132 | 152 | 184 | 193 |
| **2019** | **20** | | | | | | $ 129 | 138 | 172 | 208 | 216 |
| **2018** | **21** | | | | | $ 116 | 119 | 141 | 172 | 202 | 214 |
| **2017** | **26** | | | | $ 121 | 142 | 158 | 176 | 206 | 237 | 247 |
| **2016** | **29** | | | $ 87 | 97 | 118 | 131 | 145 | 173 | 204 | 212 |
| **2015** | **23** | | $ 83 | 85 | 94 | 112 | 122 | 136 | 163 | 189 | 199 |
| **2014 & Before** | **663** | $ 164 | 165 | 165 | 170 | 184 | 191 | 201 | 228 | 259 | 268 |
| **Totals** | **861** | $ 164 | $ 162 | $ 159 | $ 163 | $ 176 | $ 182 | $ 192 | $ 217 | $ 245 | $ 252 |

Fiscal Year

*First year sales annualized.

2017 and 2023 were 53-week fiscal years but have been normalized for purposes of comparability

### Item 6—Reserved

**Item 7—Management's Discussion and Analysis of Financial Conditions and Results of Operations** (amounts in millions, except per share, share, membership fee, and warehouse count data)

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to promote understanding of the results of operations and financial condition. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying Notes to Financial Statements (Part II, Item 8 of this Form 10-K). This section generally discusses the results of operations for 2023 compared to 2022. For discussion related to the results of operations and changes in financial condition for 2022 compared to 2021 refer to Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in our fiscal year 2022 Form 10-K, which was filed with the United States Securities and Exchange Commission (SEC) on October 5, 2022.

**Overview**

We believe that the most important driver of our profitability is increasing net sales, particularly comparable sales. Net sales includes our core merchandise categories (foods and sundries, non-foods, and fresh foods), warehouse ancillary (gasoline, pharmacy, optical, food court, hearing aids, and tire installation) and other businesses (e-commerce, business centers, travel and other). Comparable sales is defined 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. The measure is intended as supplemental information and is not a substitute for net sales presented in accordance with U.S. generally accepted accounting principles (U.S. GAAP). 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 our international operations); inflation or deflation and changes in the cost of gasoline and associated competitive conditions. The higher our comparable sales exclusive of these items, the more we can leverage our 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” –

consistently providing the most competitive values. Merchandise costs in 2023 continued to be impacted by inflation, however at a lower rate than what we experienced in 2022. The impact to our net sales and gross margin is influenced in part by our merchandising and pricing strategies in response to cost increases. Those strategies can include, but are not limited to, working with our suppliers to share in absorbing cost increases, earlier-than-usual purchasing and in greater volumes, as well as passing cost increases on to our members. 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 and gross margin as a percentage of net sales (gross margin percentage).

We believe our gasoline business enhances traffic in our warehouses, but it generally has a lower gross margin percentage and lower SG&A expense, relative to our non-gasoline businesses. 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.

Government actions in various countries relating to tariffs, particularly China and the United States, have affected 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. Higher tariffs could adversely impact 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 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, domestically and internationally, generally has a lower gross margin percentage than our warehouse operations.

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 SG&A expenses, can have substantial impacts on net income.

Our operating model is generally the same across our U.S., Canadian, and Other International operating segments (see Note 11 to the consolidated financial statements included in Item 8 of this Report). Certain operations in the Other International segment have relatively higher rates of square footage growth, lower wage and benefit costs as a percentage of sales, less or no direct membership warehouse competition, or lack e-commerce or business delivery.

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 differences between the foreign-exchange rates we use to convert the financial results of our international operations from local currencies into U.S. dollars. This impact of foreign-exchange rate changes is calculated based on the difference between the current and prior period's currency exchange rates. The impact of changes in gasoline prices on net sales is calculated based on the difference between the current and prior period's average price per gallon sold. Results expressed excluding the impacts of foreign exchange and gasoline prices should be reviewed in conjunction with results reported in accordance with U.S. GAAP.

Our fiscal year ends on the Sunday closest to August 31. References to 2023 relate to the 53-week fiscal year ended September 3, 2023. References to 2022 and 2021 relate to the 52-week fiscal years ended August 28, 2022, and August 29, 2021. 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 2023 versus 2022 include:

- We opened 26 new warehouses, including three relocations: 13 net new in the U.S. and 10 new in our Other International segment. We opened the same number of new warehouses, including relocations, in 2022;
- Net sales increased 7% to $237,710, driven by a 3% increase in comparable sales, sales at new warehouses opened in 2022 and 2023, and the benefit of one additional week of sales in 2023;
- Membership fee revenue increased 8% to $4,580, driven by new member sign-ups, upgrades to Executive membership, and one additional week of membership fees in 2023;
- Gross margin percentage increased nine basis points, driven primarily by a smaller LIFO charge in 2023 compared to 2022 and our core merchandise categories. This was partially offset by charges of $391, predominantly related to the discontinuation of our charter shipping activities;
- SG&A expenses as a percentage of net sales increased 20 basis points, due to increased costs in warehouse operations and other businesses, primarily wage increases effective in March and July 2022, and March 2023, as well as lower sales growth;
- The effective tax rate in 2023 was 25.9%, compared to 24.6% in 2022;
- Net income increased 8% to $6,292, or $14.16 per diluted share compared to $5,844, or $13.14 per diluted share in 2022;
- In January 2023, the Board of Directors authorized a new share repurchase program in the amount of $4,000; and
- In April 2023, the Board of Directors approved a 13% increase in the quarterly cash dividend.

## RESULTS OF OPERATIONS

### Net Sales

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Net Sales | $ 237,710 | $ 222,730 | $ 192,052 |
| Changes in net sales: | | | |
| U.S. | 7 % | 17 % | 16 % |
| Canada | 4 % | 16 % | 22 % |
| Other International | 9 % | 10 % | 23 % |
| Total Company | 7 % | 16 % | 18 % |
| Changes in comparable sales: | | | |
| U.S. | 3 % | 16 % | 15 % |
| Canada | 2 % | 15 % | 20 % |
| Other International | 3 % | 7 % | 19 % |
| Total Company | 3 % | 14 % | 16 % |
| E-commerce | (6)% | 10 % | 44 % |
| Changes in comparable sales excluding the impact of changes in foreign-currency and gasoline prices: | | | |
| U.S. | 4 % | 10 % | 14 % |
| Canada | 8 % | 12 % | 12 % |
| Other International | 8 % | 10 % | 13 % |
| Total Company | 5 % | 11 % | 13 % |
| E-commerce | (5)% | 10 % | 43 % |

Net Sales

Net sales increased $14,980 or 7% during 2023. The improvement was attributable to an increase in comparable sales of 3%, sales at new warehouses opened in 2022 and 2023, and one additional week of sales in 2023. Sales increased $12,761, or 7% in core merchandise categories, led by foods and sundries and fresh foods; while non-foods decreased. Sales increased $2,219, or 5% in warehouse ancillary and other businesses, led by pharmacy, food court, and travel.

During 2023, changes in foreign currencies relative to the U.S. dollar negatively impacted net sales by approximately $3,484, 156 basis points, compared to 2022, attributable to our Canadian and Other International operations. The volume of gasoline sold increased approximately 7%, positively impacting net sales by $2,148, or 96 basis points. Lower gasoline prices negatively impacted net sales by $1,592, or 71 basis points, compared to 2022, with a 6% decrease in the average price per gallon.

Comparable Sales

Comparable sales increased 3% during 2023 and were positively impacted by increases in shopping frequency, partially offset by a decrease in average ticket.

**Membership Fees**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Membership fees | $ 4,580 | $ 4,224 | $ 3,877 |
| Membership fees increase | 8 % | 9 % | 9 % |

Membership fee revenue increased 8% in 2023, driven by new member sign-ups, upgrades to Executive membership, and the benefit of an additional week. Changes in foreign currencies relative to the U.S. dollar negatively impacted membership fees by $76 compared to 2022. At the end of 2023, our member renewal rates were 92.7% in the U.S. and Canada and 90.4% worldwide. More members auto renewing and higher penetration of Executive members benefit renewal rates. Our renewal rate, which excludes affiliates of Business members, is a trailing calculation that captures renewals during the period seven to eighteen months prior to the reporting date.

We account for membership fee revenue on a deferred basis, recognized ratably over the one-year membership period.

**Gross Margin**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Net sales | $ 237,710 | $ 222,730 | $ 192,052 |
| Less merchandise costs | 212,586 | 199,382 | 170,684 |
| Gross margin | $ 25,124 | $ 23,348 | $ 21,368 |
| Gross margin percentage | 10.57 % | 10.48 % | 11.13 % |

Gross margin percentage increased nine basis points compared to 2022. Excluding the impact of gasoline price deflation on net sales, gross margin was 10.50%, an increase of two basis points. This two basis point increase was positively impacted by: 18 basis points due to a smaller LIFO charge in 2023 compared to 2022, and seven basis points due to core merchandise categories, predominantly foods and sundries. These were offset by: 16 basis points due to the downsizing and then discontinuation of our charter shipping activities; four basis points due to increased 2% rewards; and three basis points due to warehouse ancillary and other businesses, predominantly e-commerce, partially offset by gasoline and business centers. Changes in foreign currencies relative to the U.S. dollar negatively impacted gross margin by approximately $349, compared to 2022, attributable to our Canadian and Other International Operations.

The gross margin in core merchandise categories, when expressed as a percentage of core merchandise sales (rather than total net sales), increased two basis points, driven by foods and sundries and non-foods, partially offset by fresh foods. This measure eliminates the impact of changes in sales penetration and gross margins from our warehouse ancillary and other businesses.

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), increased in our U.S. segment, due to a smaller LIFO charge and increases in core merchandise categories, primarily foods and sundries, partially offset by the charges related to the discontinuation of our charter shipping activities discussed above and warehouse ancillary and other businesses. Gross margin percentage increased in our Canada segment, attributable to increases in core merchandise categories and warehouse ancillary and other businesses. Our Other International gross margin percentage decreased, largely due to decreases in core merchandise categories, partially offset by warehouse ancillary and other businesses. All segments were negatively impacted by increased 2% rewards.

**Selling, General and Administrative Expenses**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| SG&A expenses | $ 21,590 | $ 19,779 | $ 18,537 |
| SG&A expenses as a percentage of net sales | 9.08 % | 8.88 % | 9.65 % |

SG&A expenses as a percentage of net sales increased 20 basis points compared to 2022. SG&A expenses as a percentage of net sales excluding the impact of gasoline price deflation was 9.02%, an increase of 14 basis points. The comparison to last year was negatively impacted by 16 basis points in warehouse operations and other businesses, largely driven by wage increases effective in March and July 2022, and March 2023, as well as lower sales growth. Central operating costs were also higher by six basis points. SG&A was positively impacted by eight basis points due to the prior year's write-off of information technology assets and a charge related to granting our employees additional vacation. Changes in foreign currencies relative to the U.S. dollar decreased SG&A expenses by approximately $281 compared to 2022, attributable to our Canadian and Other International Operations.

**Interest Expense**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Interest expense | $ 160 | $ 158 | $ 171 |

Interest expense is primarily related to Senior Notes and financing leases. For more information on our debt arrangements, refer to the consolidated financial statements included in Item 8 of this Report.

**Interest Income and Other, Net**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Interest income | $ 470 | $ 61 | $ 41 |
| Foreign-currency transaction gains, net | 29 | 106 | 56 |
| Other, net | 34 | 38 | 46 |
| Interest income and other, net | $ 533 | $ 205 | $ 143 |

The increase in interest income in 2023 was due to higher global interest rates and higher average cash and investment balances. Foreign-currency transaction gains, net include 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 Note 1 to the consolidated financial statements included in Item 8 of this Report.

**Provision for Income Taxes**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Provision for income taxes | $ 2,195 | $ 1,925 | $ 1,601 |
| Effective tax rate | 25.9 % | 24.6 % | 24.0 % |

The effective tax rate for 2023 was impacted by net discrete tax benefits of $62, primarily due to excess tax benefits related to stock compensation. Excluding discrete net tax benefits, the tax rate was 26.6%.

The effective tax rate for 2022 was impacted by net discrete tax benefits of $130, primarily due to excess tax benefits related to stock compensation. Excluding discrete net tax benefits, the tax rate was 26.2%.

## LIQUIDITY AND CAPITAL RESOURCES

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

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Net cash provided by operating activities | $ 11,068 | $ 7,392 | $ 8,958 |
| Net cash used in investing activities | (4,972) | (3,915) | (3,535) |
| Net cash used in financing activities | (2,614) | (4,283) | (6,488) |

Our primary sources of liquidity are cash flows from operations, cash and cash equivalents, and short-term investments. Cash and cash equivalents and short-term investments were $15,234 and $11,049 at September 3, 2023, and August 28, 2022. Of these balances, unsettled credit and debit card receivables represented $2,282 and $2,010. These receivables generally settle within four days. Changes in foreign exchange rates impacted cash and cash equivalents positively by $15 and $46 in 2023 and 2021, and negatively by $249 in 2022.

Material contractual obligations arising in the normal course of business primarily consist of purchase obligations, long-term debt and related interest payments, leases, and construction and land purchase obligations. See Notes 4 and 5 to the consolidated financial statements included in Item 8 of this Report for amounts outstanding on September 3, 2023, related to debt and leases.

Purchase obligations consist of contracts primarily related to merchandise, equipment, and third-party services, the majority of which are due in the next 12 months. Construction and land-purchase obligations consist of contracts primarily related to the development and opening of new and relocated warehouses, the majority of which (other than leases) are due in the next 12 months.

Management believes that our cash and investment position and operating cash flows, with capacity under existing and available credit agreements, 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.

**Cash Flows from Operating Activities**

Net cash provided by operating activities totaled $11,068 in 2023, compared to $7,392 in 2022. Our cash flow provided by operations is primarily from net sales and membership fees. Cash flow 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 inventory levels and turnover, the forward deployment of inventory to accelerate delivery times, payment terms with suppliers, and early payments to obtain discounts.

**Cash Flows from Investing Activities**

Net cash used in investing activities totaled $4,972 in 2023, compared to $3,915 in 2022, and is primarily related to capital expenditures. Net cash flows from investing activities also includes purchases and maturities of short-term investments.

Capital Expenditures

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 2023, we spent $4,323 on capital expenditures, and it is our current intention to spend approximately

$4,400 to $4,600 during fiscal 2024. These expenditures are expected to be financed with cash from operations, existing cash and cash equivalents, and short-term investments. We opened 26 new warehouses, including three relocations, in 2023, and plan to open up to 28 additional new warehouses, including one relocation, in 2024. There can be no assurance that current expectations will be realized, and plans are subject to change upon further review of our capital expenditure needs and the economic environment.

**Cash Flows from Financing Activities**

Net cash used in financing activities totaled $2,614 in 2023, compared to $4,283 in 2022. Cash flows used in financing activities primarily related to the payment of dividends, repurchases of common stock, and withholding taxes on stock-based awards. In 2022, cash flow used in financing activities included payments to our former joint-venture partner for a dividend and the purchase of their equity interest in Taiwan, totaling $1,050 in the aggregate, and repayments of our 2.300% Senior Notes.

Stock Repurchase Programs

On January 19, 2023, the Board of Directors authorized a new share repurchase program in the amount of $4,000, which expires in January 2027. During 2023 and 2022, we repurchased 1,341,000 and 863,000 shares of common stock, at average prices of $504.68 and $511.46, totaling approximately $677 and $442. These amounts may differ from the accompanying consolidated statements of cash flows due to changes in unsettled repurchases at the end of each fiscal year. 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. The remaining amount available to be purchased under our approved plan was $3,563 at the end of 2023.

Dividends

Cash dividends declared in 2023 totaled $3.84 per share, as compared to $3.38 per share in 2022. In April 2023, the Board of Directors increased our quarterly cash dividend from $0.90 to $1.02 per share.

**Bank Credit Facilities and Commercial Paper Programs**

We maintain bank credit facilities for working capital and general corporate purposes. At September 3, 2023, we had borrowing capacity under these facilities of $1,234. Our international operations maintain $756 of this capacity under bank credit facilities, of which $167 is guaranteed by the Company. Short-term borrowings outstanding under the bank credit facilities, which are included in other current liabilities on the consolidated balance sheets, were immaterial at the end of 2023 and 2022.

The Company has letter of credit facilities, for commercial and standby letters of credit, totaling $217. The outstanding commitments under these facilities at the end of 2023 totaled $182, most of which were standby letters of credit that do not expire or have expiration dates within one year. The bank credit facilities have various expiration dates, most 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.

**Off-Balance Sheet Arrangements**

In the opinion of management, we have no off-balance sheet arrangements that have had or are reasonably likely to have a material current or future effect on our financial condition or financial statements.

**Critical Accounting Estimates**

The preparation of our consolidated financial statements in accordance with U.S. GAAP requires that we 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. We base our estimates on historical experience and on assumptions that we believe to be reasonable, and we continue to review and evaluate these estimates. For further information on significant accounting policies, see discussion in Note 1 to the consolidated financial statements included in Item 8 of this Report.

Insurance/Self-insurance Liabilities

Claims for employee health-care benefits, workers' compensation, general liability, property damage, directors' and officers' liability, vehicle liability, inventory loss, and other exposures are funded predominantly through self-insurance. Insurance coverage is maintained for certain risks to seek to limit exposures arising from very large losses. We use various risk management mechanisms, including a wholly-owned captive insurance subsidiary, and participate in a reinsurance program. Liabilities associated with the risks that we retain are not discounted and are estimated using historical claims experience, demographic factors, severity factors, and other actuarial assumptions. The costs of claims are highly unpredictable and can fluctuate as a result of inflation rates, regulatory or legal changes, and unforeseen developments in claims. While we believe our estimates are reasonable, actual claims and costs could differ significantly from recorded liabilities. Historically, adjustments to our estimates have not been material.

**Recent Accounting Pronouncements**

We do not expect that any recently issued accounting pronouncements will have a material effect on our financial statements.

**Item 7A—Quantitative and Qualitative Disclosures About Market Risk** (amounts in millions)

Our exposure to financial market risk results from fluctuations in interest rates and foreign currency exchange rates. We do not engage in speculative or leveraged transactions or hold or issue financial instruments for trading purposes.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment holdings that are diversified among various instruments considered to be cash equivalents, as defined in Note 1 to the consolidated financial statements included in Item 8 of this Report, as well as short-term investments in government and agency securities with effective maturities of generally three months to five years at the date of purchase. The primary objective of our investment activities is to preserve principal and secondarily to generate yields. The majority of our short-term investments are in fixed interest-rate securities. These securities are subject to changes in fair value due to interest rate fluctuations.

Our policy limits investments in the U.S. to direct U.S. government and government agency obligations, repurchase agreements collateralized by U.S. government and government agency obligations, U.S. government and government agency money market funds, and insured bank balances. Our wholly-owned captive insurance subsidiary invests in U.S. government and government agency obligations and U.S. government and government agency money market funds. Our Canadian and Other International subsidiaries' investments are primarily in money market funds, bankers' acceptances, and bank certificates of deposit, generally denominated in local currencies.

A 100 basis point change in interest rates as of the end of 2023 would have had an immaterial incremental change in fair market value. For those investments that are classified as available-for-sale, the unrealized gains or losses related to fluctuations in market volatility and interest rates are reflected within stockholders' equity in accumulated other comprehensive income in the consolidated balance sheets.

The nature and amount of our long-term debt may vary as a result of business requirements, market conditions, and other factors. As of the end of 2023, long-term debt with fixed interest rates was $6,484. Fluctuations in interest rates may affect the fair value of the fixed-rate debt. See Note 4 to the consolidated financial statements included in Item 8 of this Report for more information on our long-term debt.

Foreign Currency Risk

Our foreign subsidiaries conduct certain transactions in non-functional currencies, which exposes us to fluctuations in exchange rates. We manage these fluctuations, in part, through the use of forward foreign-exchange contracts, seeking to economically hedge the impact of these fluctuations on known future expenditures denominated in a non-functional foreign-currency. The contracts are intended primarily to economically hedge exposure to U.S. dollar merchandise inventory expenditures made by our international subsidiaries. We seek to mitigate risk with the use of these contracts and do not intend to engage in speculative transactions. For additional information related to the Company's forward foreign-exchange contracts, see Notes 1 and 3 to the consolidated financial statements included in Item 8 of this Report. A hypothetical 10% strengthening of the functional currency compared to the non-functional currency exchange rates at September 3, 2023, would have decreased the fair value of the contracts by $109 and resulted in an unrealized loss in the consolidated statements of income for the same amount.

Commodity Price Risk

We are exposed to fluctuations in prices for energy, particularly electricity and natural gas, and other commodities used in retail and manufacturing operations, which we seek to partially mitigate through fixed-price contracts for certain of our warehouses and other facilities, predominantly in the U.S. and Canada. We also enter into variable-priced contracts for some purchases of electricity and natural gas, in addition to some of the fuel for our gas stations, on an index basis. These contracts meet the characteristics of derivative instruments, but generally qualify for the "normal purchases and normal sales" exception under authoritative guidance and require no mark-to-market adjustment.

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## Item 8—Financial Statements and Supplementary Data

### COSTCO WHOLESALE CORPORATION

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

Costco Wholesale Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Costco Wholesale Corporation and subsidiaries (the Company) as of September 3, 2023, and August 28, 2022, the related consolidated statements of income, comprehensive income, equity, and cash flows for the 53-week period ended September 3, 2023, and the 52-week periods ended August 28, 2022, and August 29, 2021, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 3, 2023, and August 28, 2022, and the results of its operations and its cash flows for each of the 53-week period ended September 3, 2023, and the 52-week periods ended August 28, 2022, and August 29, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of September 3, 2023, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated October 10, 2023, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of workers' compensation self-insurance liabilities

As discussed in Note 1 to the consolidated financial statements, the Company estimates its self-insurance liabilities by considering historical claims experience, demographic factors, severity factors, and other actuarial assumptions. The estimated self-insurance liabilities as of September 3, 2023, were $1,513 million, a portion of which related to workers' compensation self-insurance liabilities for the United States operations.

We identified the evaluation of the Company's workers' compensation self-insurance liabilities for the United States operations as a critical audit matter because of the extent of specialized skill and knowledge needed to evaluate the underlying assumptions and judgments made by the Company in the actuarial models. Specifically, subjective auditor judgment was required to evaluate the Company's selected loss rates and initial expected losses used in the actuarial models.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's self-insurance workers' compensation process. This included controls related to the development and selection of the assumptions listed above used in the actuarial calculation and review of the actuarial report. We involved actuarial professionals with specialized skills and knowledge who assisted in:

- Assessing the actuarial models used by the Company for consistency with generally accepted actuarial standards
- Evaluating the Company's ability to estimate self-insurance workers' compensation liabilities by comparing its historical estimates with actual incurred losses and paid losses
- Evaluating the above listed assumptions underlying the Company's actuarial estimates by developing an independent expectation of the self-insurance workers' compensation liabilities and comparing them to the amounts recorded by the Company.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Seattle, Washington

October 10, 2023

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

Costco Wholesale Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Costco Wholesale Corporation and subsidiaries' (the Company) internal control over financial reporting as of September 3, 2023, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 3, 2023, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of September 3, 2023, and August 28, 2022, the related consolidated statements of income, comprehensive income, equity, and cash flows for the 53-week period ended September 3, 2023, and the 52-week periods ended August 28, 2022, and August 29, 2021, and the related notes (collectively, the consolidated financial statements), and our report dated October 10, 2023, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Seattle, Washington

October 10, 2023

## COSTCO WHOLESALE CORPORATION
## CONSOLIDATED STATEMENTS OF INCOME
## (amounts in millions, except per share data)

| | 53 Weeks Ended September 3, 2023 | 52 Weeks Ended August 28, 2022 | 52 Weeks Ended August 29, 2021 |
|---|---|---|---|
| **REVENUE** | | | |
| Net sales | $ 237,710 | $ 222,730 | $ 192,052 |
| Membership fees | 4,580 | 4,224 | 3,877 |
| Total revenue | 242,290 | 226,954 | 195,929 |
| **OPERATING EXPENSES** | | | |
| Merchandise costs | 212,586 | 199,382 | 170,684 |
| Selling, general and administrative | 21,590 | 19,779 | 18,537 |
| Operating income | 8,114 | 7,793 | 6,708 |
| **OTHER INCOME (EXPENSE)** | | | |
| Interest expense | (160) | (158) | (171) |
| Interest income and other, net | 533 | 205 | 143 |
| **INCOME BEFORE INCOME TAXES** | 8,487 | 7,840 | 6,680 |
| Provision for income taxes | 2,195 | 1,925 | 1,601 |
| Net income including noncontrolling interests | 6,292 | 5,915 | 5,079 |
| Net income attributable to noncontrolling interests | — | (71) | (72) |
| **NET INCOME ATTRIBUTABLE TO COSTCO** | $ 6,292 | $ 5,844 | $ 5,007 |
| **NET INCOME PER COMMON SHARE ATTRIBUTABLE TO COSTCO:** | | | |
| Basic | $ 14.18 | $ 13.17 | $ 11.30 |
| Diluted | $ 14.16 | $ 13.14 | $ 11.27 |
| Shares used in calculation (000's) | | | |
| Basic | 443,854 | 443,651 | 443,089 |
| Diluted | 444,452 | 444,757 | 444,346 |

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

**COSTCO WHOLESALE CORPORATION**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(amounts in millions)**

| | 53 Weeks Ended September 3, 2023 | 52 Weeks Ended August 28, 2022 | 52 Weeks Ended August 29, 2021 |
|---|---|---|---|
| **NET INCOME INCLUDING NONCONTROLLING INTERESTS** | $ 6,292 | $ 5,915 | $ 5,079 |
| Foreign-currency translation adjustment and other, net | 24 | (721) | 181 |
| Comprehensive income | 6,316 | 5,194 | 5,260 |
| Less: Comprehensive income attributable to noncontrolling interests | — | 36 | 93 |
| **COMPREHENSIVE INCOME ATTRIBUTABLE TO COSTCO** | $ 6,316 | $ 5,158 | $ 5,167 |

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

**COSTCO WHOLESALE CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

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

| | | September 3, 2023 | | August 28, 2022 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | $ | 13,700 | $ | 10,203 |
| Short-term investments | | 1,534 | | 846 |
| Receivables, net | | 2,285 | | 2,241 |
| Merchandise inventories | | 16,651 | | 17,907 |
| Other current assets | | 1,709 | | 1,499 |
| Total current assets | | 35,879 | | 32,696 |
| **OTHER ASSETS** | | | | |
| Property and equipment, net | | 26,684 | | 24,646 |
| Operating lease right-of-use assets | | 2,713 | | 2,774 |
| Other long-term assets | | 3,718 | | 4,050 |
| **TOTAL ASSETS** | $ | 68,994 | $ | 64,166 |
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable | $ | 17,483 | $ | 17,848 |
| Accrued salaries and benefits | | 4,278 | | 4,381 |
| Accrued member rewards | | 2,150 | | 1,911 |
| Deferred membership fees | | 2,337 | | 2,174 |
| Current portion of long-term debt | | 1,081 | | 73 |
| Other current liabilities | | 6,254 | | 5,611 |
| Total current liabilities | | 33,583 | | 31,998 |
| **OTHER LIABILITIES** | | | | |
| Long-term debt, excluding current portion | | 5,377 | | 6,484 |
| Long-term operating lease liabilities | | 2,426 | | 2,482 |
| Other long-term liabilities | | 2,550 | | 2,555 |
| **TOTAL LIABILITIES** | | 43,936 | | 43,519 |
| **COMMITMENTS AND CONTINGENCIES** | | | | |
| **EQUITY** | | | | |
| Preferred stock $0.005 par value; 100,000,000 shares authorized; no shares issued and outstanding | | — | | — |
| Common stock $0.005 par value; 900,000,000 shares authorized; 442,793,000 and 442,664,000 shares issued and outstanding | | 2 | | 2 |
| Additional paid-in capital | | 7,340 | | 6,884 |
| Accumulated other comprehensive loss | | (1,805) | | (1,829) |
| Retained earnings | | 19,521 | | 15,585 |
| Total Costco stockholders’ equity | | 25,058 | | 20,642 |
| Noncontrolling interests | | — | | 5 |
| **TOTAL EQUITY** | | 25,058 | | 20,647 |
| **TOTAL LIABILITIES AND EQUITY** | $ | 68,994 | $ | 64,166 |

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

**COSTCO WHOLESALE CORPORATION**
**CONSOLIDATED STATEMENTS OF EQUITY**
**(amounts in millions)**

| | Common Stock | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares (000's) | Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Costco Stockholders' Equity | Noncontrolling Interests | Total Equity |
| BALANCE AT AUGUST 30, 2020 | 441,255 | $ 4 | $ 6,698 | $ (1,297) | $ 12,879 | $ 18,284 | $ 421 | $18,705 |
| Net income | — | — | — | — | 5,007 | 5,007 | 72 | 5,079 |
| Foreign-currency translation adjustment and other, net | — | — | — | 160 | — | 160 | 21 | 181 |
| Stock-based compensation | — | — | 668 | — | — | 668 | — | 668 |
| Release of vested restricted stock units (RSUs), including tax effects | 1,928 | — | (312) | — | — | (312) | — | (312) |
| Repurchases of common stock | (1,358) | — | (23) | — | (472) | (495) | — | (495) |
| Cash dividends declared | — | — | — | — | (5,748) | (5,748) | — | (5,748) |
| BALANCE AT AUGUST 29, 2021 | 441,825 | 4 | 7,031 | (1,137) | 11,666 | 17,564 | 514 | 18,078 |
| Net income | — | — | — | — | 5,844 | 5,844 | 71 | 5,915 |
| Foreign-currency translation adjustment and other, net | — | — | — | (686) | — | (686) | (35) | (721) |
| Stock-based compensation | — | — | 728 | — | — | 728 | — | 728 |
| Release of vested RSUs, including tax effects | 1,702 | — | (363) | — | — | (363) | — | (363) |
| Dividend to noncontrolling interest | — | — | — | — | — | — | (208) | (208) |
| Acquisition of noncontrolling interest | — | — | (499) | (6) | — | (505) | (337) | (842) |
| Repurchases of common stock | (863) | — | (15) | — | (427) | (442) | — | (442) |
| Cash dividends declared and | | | | | | | | |

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

**COSTCO WHOLESALE CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(amounts in millions)**

| | 53 Weeks Ended | 52 Weeks Ended | 52 Weeks Ended |
|---|---|---|---|
| | September 3, 2023 | August 28, 2022 | August 29, 2021 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income including noncontrolling interests | $ 6,292 | $ 5,915 | $ 5,079 |
| Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities: | | | |
| Depreciation and amortization | 2,077 | 1,900 | 1,781 |
| Non-cash lease expense | 412 | 377 | 286 |
| Stock-based compensation | 774 | 724 | 665 |
| Impairment of assets and other non-cash operating activities, net | 495 | 39 | 144 |
| Changes in operating assets and liabilities: | | | |
| Merchandise inventories | 1,228 | (4,003) | (1,892) |
| Accounts payable | (382) | 1,891 | 1,838 |
| Other operating assets and liabilities, net | 172 | 549 | 1,057 |
| Net cash provided by operating activities | 11,068 | 7,392 | 8,958 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of short-term investments | (1,622) | (1,121) | (1,331) |
| Maturities and sales of short-term investments | 937 | 1,145 | 1,446 |
| Additions to property and equipment | (4,323) | (3,891) | (3,588) |
| Other investing activities, net | 36 | (48) | (62) |
| Net cash used in investing activities | (4,972) | (3,915) | (3,535) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayments of short-term borrowings | (935) | (6) | — |
| Proceeds from short-term borrowings | 917 | 53 | 41 |
| Repayments of long-term debt | (75) | (800) | (94) |
| Tax withholdings on stock-based awards | (303) | (363) | (312) |
| Repurchases of common stock | (676) | (439) | (496) |
| Cash dividend payments | (1,251) | (1,498) | (5,748) |
| Financing lease payments | (291) | (176) | (67) |
| Dividend to noncontrolling interest | — | (208) | — |
| Acquisition of noncontrolling interest | — | (842) | — |
| Other financing activities, net | — | (4) | 188 |
| Net cash used in financing activities | (2,614) | (4,283) | (6,488) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | 15 | (249) | 46 |
| Net change in cash and cash equivalents | 3,497 | (1,055) | (1,019) |
| **CASH AND CASH EQUIVALENTS BEGINNING OF YEAR** | 10,203 | 11,258 | 12,277 |
| **CASH AND CASH EQUIVALENTS END OF YEAR** | $ 13,700 | $ 10,203 | $ 11,258 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:** | | | |
| Cash paid during the year for: | | | |
| Interest | $ 125 | $ 145 | $ 149 |
| Income taxes, net | $ 2,234 | $ 1,940 | $ 1,527 |

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

## COSTCO WHOLESALE CORPORATION
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## (amounts in millions, except share, per share, and warehouse count data)

### 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. At September 3, 2023, Costco operated 861 warehouses worldwide: 591 in the United States (U.S.) located in 46 states, Washington, D.C., and Puerto Rico, 107 in Canada, 40 in Mexico, 33 in Japan, 29 in the United Kingdom (U.K.), 18 in Korea, 15 in Australia, 14 in Taiwan, five in China, four in Spain, two in France, and one each in Iceland, New Zealand, and Sweden. The Company operates e-commerce websites in the U.S., Canada, the U.K., Mexico, Korea, Taiwan, Japan, and Australia.

Basis of Presentation

The consolidated financial statements include the accounts of Costco and its subsidiaries. The Company reports noncontrolling interests in consolidated entities as a component of equity separate from the Company's equity. All material inter-company transactions between and among the Company and its consolidated subsidiaries have been eliminated in consolidation. Unless otherwise noted, references to net income relate to net income attributable to Costco.

Fiscal Year End

The Company operates on a 52/53-week fiscal year basis with the year ending on the Sunday closest to August 31. References to 2023 relate to the 53-week fiscal year ended September 3, 2023. References to 2022 and 2021 relate to the 52-week fiscal years ended August 28, 2022, and August 29, 2021.

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. These estimates and assumptions take into account historical and forward-looking factors that the Company believes are reasonable. Actual results could differ from those estimates and assumptions.

Reclassification

Reclassifications were made to the 2022 and 2021 consolidated statements of cash flows to conform with current year presentation.

Cash and Cash Equivalents

The Company considers as cash and cash equivalents all cash on deposit, highly liquid investments with a maturity of three months or less at the date of purchase, and proceeds due from credit and debit card transactions with settlement terms of up to four days. Credit and debit card receivables were $2,282 and $2,010 at the end of 2023 and 2022.

Short-Term Investments

Short-term investments generally consist of debt securities (U.S. Government and Agency Notes), with maturities at the date of purchase of three months to five years. Investments with maturities beyond five years may be classified, based on the Company’s determination, as short-term based on their highly liquid nature and because they represent the investment of cash that is available for current operations. Short-term investments classified as available-for-sale are recorded at fair value using the specific identification method with the unrealized gains and losses reflected in accumulated other comprehensive income (loss) until realized. Realized gains and losses from the sale of available-for-sale securities, if any, are determined on a specific identification basis and are recorded in interest income and other, net in the consolidated statements of income. These available-for-sale investments have a low level of inherent credit risk given they are issued by the U.S. Government and Agencies. Changes in their fair value are primarily attributable to changes in interest rates and market liquidity. Short-term investments classified as held-to-maturity are financial instruments that the Company has the intent and ability to hold to maturity and are reported net of any related amortization and are not remeasured to fair value on a recurring basis.

The Company periodically evaluates unrealized losses in its investment securities for credit impairment, using both qualitative and quantitative criteria. In the event a security is deemed to be impaired as the result of a credit loss, the Company recognizes the loss in interest income and other, net in the consolidated statements of income.

Fair Value of Financial Instruments

The Company accounts for certain assets and liabilities at fair value. The carrying value of the Company’s financial instruments, including cash and cash equivalents, receivables and accounts payable, approximate fair value due to their short-term nature or variable interest rates. See Notes 2, 3, and 4 for the carrying value and fair value of the Company’s investments, derivative instruments, and fixed-rate debt.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying a fair value hierarchy, which requires maximizing the use of observable inputs when measuring fair value. The three levels of inputs are:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Significant unobservable inputs that are not corroborated by market data.

The Company’s valuation techniques used to measure the fair value of money market mutual funds are based on quoted market prices, such as quoted net asset values published by the fund as supported in an active market. Valuation methodologies used to measure the fair value of all other non-derivative financial instruments are based on independent external valuation information. The pricing process uses data from a variety of independent external valuation information providers, including trades, bid price or spread, two-sided markets, quotes, benchmark curves including but not limited to treasury benchmarks, Secured Overnight Financing Rate and swap curves, discount rates, and market data feeds. All are observable in the market or can be derived principally from or corroborated by observable market data. The Company reports transfers in and out of Levels 1, 2, and 3, as applicable, using the fair value of the individual securities as of the beginning of the reporting period in which the transfer(s) occurred.

Current financial liabilities have fair values that approximate their carrying values. Long-term financial liabilities include the Company's long-term debt, which are recorded on the balance sheet at issuance price and adjusted for unamortized discounts or premiums and debt issuance costs. Discounts, premiums and debt issuance costs are amortized to interest expense over the term of the loan. The estimated fair value of the Company's long-term debt is based primarily on reported market values, recently completed market transactions, and estimates based upon interest rates, maturities, and credit.

Receivables, Net

Receivables consist primarily of vendor, reinsurance, credit card incentive, third-party pharmacy and other receivables. Vendor receivables include discounts and volume rebates. Balances are generally presented on a gross basis, separate from any related payable due. In certain circumstances, these receivables may be settled against the related payable to that vendor, in which case the receivables are presented on a net basis. Reinsurance receivables are held by the Company’s wholly-owned captive insurance subsidiary and primarily represent amounts ceded through reinsurance arrangements gross of the amounts assumed under reinsurance, which are presented within other current liabilities in the consolidated balance sheets. Credit card incentive receivables primarily represent amounts earned under co-branded credit card arrangements. Third-party pharmacy receivables generally relate to amounts due from members’ insurers. Other receivables primarily consist of amounts due from governmental entities, mostly tax-related items.

The valuation allowance related to receivables was not material to our consolidated financial statements at the end of 2023 and 2022.

Merchandise Inventories

Merchandise inventories consist of the following:

| | 2023 | 2022 |
|---|---|---|
| United States | $ 12,153 | $ 13,160 |
| Canada | 1,579 | 1,966 |
| Other International | 2,919 | 2,781 |
| Merchandise inventories | $ 16,651 | $ 17,907 |

Merchandise inventories are stated at the lower of cost or market. U.S. merchandise inventories are valued by the cost method of accounting, using the last-in, first-out (LIFO) basis. The Company believes the LIFO method more fairly presents the results of operations by more closely matching current costs with current revenues. The Company records an adjustment each quarter, if necessary, for the projected annual effect of inflation or deflation, and these estimates are adjusted to actual results determined at year-end, after actual inflation or deflation rates and inventory levels have been determined. An immaterial LIFO charge was recorded in 2023. Due to inflation in 2022, a $438 charge was recorded to merchandise costs to increase the cumulative LIFO valuation on merchandise inventories at August 28, 2022. Canadian and Other International merchandise inventories are predominantly valued using the cost and retail inventory methods, respectively, using the first-in, first-out (FIFO) basis.

The Company provides for estimated inventory losses between physical inventory counts using estimates based on experience. The provision is adjusted periodically to reflect physical inventory counts, which generally occur in the second and fourth fiscal quarters. Inventory cost, where appropriate, is reduced by estimates of vendor rebates when earned or as the Company progresses towards earning those rebates, provided that they are probable and reasonably estimable.

Property and Equipment, Net

Property and equipment are stated at cost. Depreciation and amortization expense is computed primarily using the straight-line method over estimated useful lives. Leasehold improvements made after the beginning of the initial lease term are depreciated over the shorter of the estimated useful life of the asset or the remaining term of the initial lease plus any renewals that are reasonably certain at the date the leasehold improvements are made.

The Company capitalizes certain computer software and costs incurred in developing or obtaining software for internal use. During development, these costs are included in construction in progress. To the extent that the assets become ready for their intended use, these costs are included in equipment and fixtures and amortized on a straight-line basis over their estimated useful lives.

Repair and maintenance costs are expensed when incurred. Expenditures for remodels, refurbishments and improvements that add to or change asset function or useful life are capitalized. Assets removed during the remodel, refurbishment or improvement are retired. Assets classified as held-for-sale at the end of 2023 and 2022 were immaterial.

The following table summarizes the Company's property and equipment balances at the end of 2023 and 2022:

| | **Estimated Useful Lives** | **2023** | **2022** |
|---|---|---|---|
| Land | N/A | $ 8,590 | $ 7,955 |
| Buildings and improvements | 5-50 years | 22,001 | 20,120 |
| Equipment and fixtures | 3-20 years | 11,512 | 10,275 |
| Construction in progress | N/A | 1,266 | 1,582 |
| | | 43,369 | 39,932 |
| Accumulated depreciation and amortization | | (16,685) | (15,286) |
| Property and equipment, net | | $ 26,684 | $ 24,646 |

The Company evaluates long-lived assets for impairment on an annual basis, when relocating or closing a facility, or when events or changes in circumstances may indicate the carrying amount of the asset group, generally an individual warehouse, may not be fully recoverable. For asset groups held and used, including warehouses to be relocated, the carrying value of the asset group is considered recoverable when the estimated future undiscounted cash flows generated from the use and eventual disposition of the asset group exceed the respective carrying value. In the event that the carrying value is not considered recoverable, an impairment loss is recognized for the asset group to be held and used equal to the excess of the carrying value above the estimated fair value of the asset group. For asset groups classified as held-for-sale (disposal group), the carrying value is compared to the disposal group’s fair value less costs to sell. The Company estimates fair value by obtaining market appraisals from third party brokers or using other valuation techniques. Impairment charges recognized in 2023 were immaterial. In 2022 and 2021, the Company recognized write-offs of $118 and $84 for information technology assets which are reflected in SG&A.

Leases

The Company leases land, buildings, and/or equipment 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 purchase price stated in the agreement; 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, which are recognized as variable lease payments. 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. Non-lease components and the lease components to which they relate are accounted for together as a single lease component for all asset classes. 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. 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. 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 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. Impairment of ROU assets is evaluated in a similar manner as described in Property and Equipment, Net above. During 2023, the Company recognized charges totaling $391, primarily related to the impairment of certain leased assets associated with charter shipping activities. This charge is included in merchandise costs.

The Company's asset retirement obligations (ARO) primarily relate to leasehold improvements that must be removed at the end of a lease. These obligations are generally recorded as a discounted liability, with an offsetting asset at the inception of the lease term, based upon the estimated fair value of the costs to remove the improvements. These liabilities are accreted over time to the projected future value of the obligation. The ARO assets are depreciated using the same depreciation method as the leasehold improvement assets and are included with buildings and improvements. Estimated ARO liabilities associated with these leases are included in other liabilities in the accompanying consolidated balance sheet.

Goodwill and Acquired Intangible Assets

Goodwill represents the excess of acquisition cost over the fair value of the net assets acquired and is not subject to amortization. The Company reviews goodwill annually in the fourth quarter for impairment or when circumstances indicate carrying value may exceed the fair value. This evaluation is performed at the reporting unit level. If a qualitative assessment indicates that it is more likely than not that the fair value is less than carrying value, a quantitative analysis is completed using either the income or market approach, or a combination of both. The income approach estimates fair value based on expected discounted future cash flows, while the market approach uses comparable public companies and transactions to develop metrics to be applied to historical and expected future operating results.

Goodwill is included in other long-term assets in the consolidated balance sheets. The following table summarizes goodwill by reportable segment:

| | United States | Canada | Other International | Total |
|---|---|---|---|---|
| Balance at August 29, 2021 | $ 953 | $ 28 | $ 15 | $ 996 |
| Changes in currency translation | — | (1) | (2) | (3) |
| Balance at August 28, 2022 | $ 953 | $ 27 | $ 13 | $ 993 |
| Changes in currency translation | — | (1) | 2 | 1 |
| Balance at September 3, 2023 | $ 953 | $ 26 | $ 15 | $ 994 |

Definite-lived intangible assets, which are not material, are included in other long-term assets on the consolidated balance sheets and are amortized on a straight-line basis over their estimated lives, which approximates the pattern of expected economic benefit.

Insurance/Self-insurance Liabilities

Claims for employee health-care benefits, workers' compensation, general liability, property damage, directors' and officers' liability, vehicle liability, inventory loss, and other exposures are funded predominantly through self-insurance. Insurance coverage is maintained for certain risks to limit exposures arising from very large losses. The Company uses various risk management mechanisms, including a wholly-owned captive insurance subsidiary (the captive) and participates in a reinsurance program. Liabilities associated with the risks that are retained by the Company are not discounted and are estimated using historical claims experience, demographic factors, severity factors, and other actuarial assumptions. The estimated accruals for these liabilities could be significantly affected if future occurrences, claims, or expenses differ from these assumptions and historical trends. At the end of 2023 and 2022, these insurance liabilities were $1,513 and $1,364 in the aggregate, and were included in accrued salaries and benefits and other current liabilities in the consolidated balance sheets, classified based on their nature.

The captive receives direct premiums, which are netted against the Company’s premium costs in SG&A expenses in the consolidated statements of income. The captive participates in a reinsurance program that includes third-party participants. The participant agreements and practices of the reinsurance program are designed to limit a participating members’ individual risk. Income statement adjustments related to the reinsurance program and related impacts to the consolidated balance sheets are recognized as information becomes known. In the event the Company leaves the reinsurance program, the Company retains its primary obligation to the policyholders for prior activity.

Derivatives

The Company is exposed to foreign-currency exchange-rate fluctuations in the normal course of business. It manages these fluctuations, in part, through the use of forward foreign-exchange contracts, seeking to economically hedge the impact of fluctuations of foreign exchange on known future expenditures denominated in a non-functional foreign-currency. The contracts relate primarily to U.S. dollar merchandise inventory expenditures made by the Company’s international subsidiaries with functional currencies other than the U.S. dollar. Currently, these contracts do not qualify for derivative hedge accounting. The Company seeks to mitigate risk with the use of these contracts and does not intend to engage in speculative transactions. Some of these contracts contain credit-risk-related contingent features that require settlement of outstanding contracts upon certain triggering events. The aggregate fair value amounts of derivative instruments in a net liability position and the amount needed to settle the instruments immediately if the credit-risk-related contingent features were triggered were immaterial at the end of 2023 and 2022. The aggregate notional amounts of open, unsettled forward foreign-exchange contracts were $1,068 and $1,242 at the end of 2023 and 2022. See Note 3 for information on the fair value of unsettled forward foreign-exchange contracts at the end of 2023 and 2022.

The unrealized gains or losses recognized in interest income and other, net in the accompanying consolidated statements of income relating to the net changes in the fair value of unsettled forward foreign-exchange contracts were immaterial in 2023, 2022 and 2021.

The Company is exposed to fluctuations in prices for energy, particularly electricity and natural gas, and other commodity products used in retail and manufacturing operations, which it seeks to partially mitigate through the use of fixed-price contracts for certain of its warehouses and other facilities, primarily in the U.S. and Canada. The Company also enters into variable-priced contracts for some purchases of natural gas, in addition to fuel for its gas stations, on an index basis. These contracts meet the characteristics of derivative instruments, but generally qualify for the “normal purchases and normal sales” exception under authoritative guidance and require no mark-to-market adjustment.

Foreign Currency

The functional currencies of the Company’s international subsidiaries are their local currencies. Assets and liabilities recorded in foreign currencies are translated at the exchange rate on the balance sheet date. Translation adjustments are recorded in accumulated other comprehensive loss. Revenues and expenses of the Company’s consolidated foreign operations are translated at average exchange rates prevailing during the year.

The Company recognizes foreign-currency transaction gains and losses related to revaluing or settling monetary assets and liabilities denominated in currencies other than the functional currency in interest income and other, net in the consolidated statements of income. Generally, these include the U.S. dollar cash and cash equivalents and the U.S. dollar payables of consolidated subsidiaries revalued to their functional currency. Also included are realized foreign-currency gains or losses from settlements of forward foreign-exchange contracts. These items were $46 and $84 in 2023 and 2022 and immaterial in 2021.

Revenue Recognition

The Company recognizes sales for the amount of consideration collected from the member, which includes gross shipping fees where applicable, and is net of sales taxes collected and remitted to government agencies and member returns. The Company reserves for estimated returns based on historical trends in merchandise returns and reduces sales and merchandise costs accordingly. The Company records, on a gross basis, a refund liability and an asset for recovery, which are included in other current liabilities and other current assets, respectively, in the consolidated balance sheets.

The Company offers merchandise in the following core merchandise categories: foods and sundries, non-foods, and fresh foods. The Company also provides expanded products and services through warehouse ancillary and other businesses. The majority of revenue from merchandise sales is recognized at the point of sale. Revenue generated through e-commerce or special orders is generally recognized upon shipment to the member. For merchandise shipped directly to the member, shipping and handling costs are expensed as incurred as fulfillment costs and included in merchandise costs in the consolidated statements of income. In certain ancillary businesses, revenue is deferred until the member picks up merchandise at the warehouse. Deferred sales are included in other current liabilities in the consolidated balance sheets.

The Company is the principal for the majority of its transactions and recognizes revenue on a gross basis. The Company is the principal when it has control of the merchandise or service before it is transferred to the member, which generally is established when Costco is primarily responsible for merchandising decisions, pricing discretion, and maintains the relationship with the member, including assurance of member service and satisfaction.

The Company accounts for membership fee revenue, net of refunds, on a deferred basis, ratably over the one-year membership period. Deferred membership fees at the end of 2023 and 2022 were $2,337 and $2,174.

In most countries, the Company's Executive members qualify for a 2% reward on qualified purchases, subject to an annual maximum value, which does not expire and is redeemable at Costco warehouses. The Company accounts for this reward as a reduction in sales, net of the estimated impact of non-redemptions (breakage), with the corresponding liability classified as accrued member rewards in the consolidated balance sheets. Estimated breakage is computed based on redemption data. For 2023, 2022, and 2021, the net reduction in sales was $2,576, $2,307, and $2,047.

The Company sells and otherwise provides proprietary shop cards that do not expire and are redeemable at the warehouse or online for merchandise or membership. Revenue from shop cards is recognized upon redemption, and estimated breakage is recognized based on redemption data. The Company accounts for outstanding shop card balances as a shop card liability, net of estimated breakage. Shop card liabilities are included in other current liabilities in the consolidated balance sheets.

Citibank, N.A. is the exclusive issuer of co-branded credit cards to U.S. members. The Company receives various forms of consideration from Citibank, including a royalty on purchases made on the card outside of Costco. A portion of the royalty is used to fund the rebate that cardholders receive, after taking into consideration breakage, which is calculated based on rebate redemption data. The rebates are issued in February and expire on December 31. The Company also maintains co-branded credit card arrangements in Canada and certain other International subsidiaries.

Merchandise Costs

Merchandise costs consist of the purchase price or manufacturing costs of inventory sold, inbound and outbound shipping charges and all costs related to the Company’s depot, fulfillment and manufacturing operations, and are reduced by vendor consideration. Merchandise costs also include salaries, benefits, depreciation, and utilities in fresh foods departments and certain ancillary businesses.

Vendor Consideration

The Company receives funds from vendors for discounts and a variety of other programs. These programs are evidenced by agreements that are reflected in the carrying value of the inventory when earned or as the Company progresses towards earning the rebate or discount, and as a component of merchandise costs as the merchandise is sold. Other vendor consideration is generally recorded as a reduction of merchandise costs upon completion of contractual milestones, terms of the related agreement, or by another systematic approach.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of salaries, benefits and workers’ compensation costs for warehouse employees (other than fresh foods departments and certain ancillary businesses which are reflected in merchandise costs) as well as all regional and home office employees, including buying personnel. Selling, general and administrative expenses also include substantially all building and equipment depreciation, stock compensation expense, credit and debit card processing fees, utilities, preopening, as well as other operating costs incurred to support warehouse and e-commerce website operations.

Retirement Plans

The Company's 401(k) retirement plan is available to all U.S. employees over the age of 18 who have completed 90 days of employment. The plan allows participants to make wage deferral contributions, a portion of which the Company matches. In addition, the Company provides each eligible participant an annual discretionary contribution. The Company also has a defined contribution plan for employees in Canada and contributes a percentage of each employee's wages. Certain subsidiaries in the Company's Other International operations have defined benefit and defined contribution plans, which are not material. Amounts expensed under all plans were $914, $824, and $748 for 2023, 2022, and 2021, and are predominantly included in SG&A expenses in the consolidated statements of income.

Stock-Based Compensation

The Company grants stock-based compensation, primarily to employees and non-employee directors. Grants to executive officers are generally performance-based. Through a series of shareholder approvals, there have been amended and restated plans and new provisions implemented by the Company. Restricted Stock Units (RSUs) granted to employees and to non-employee directors generally vest over five years and three years and are subject to quarterly vesting in the event of retirement or voluntary termination. Employees who attain at least 25 years of service with the Company receive shares under accelerated vesting provisions on the annual vesting date. Forfeitures are recognized as they occur.

Compensation expense for awards is predominantly recognized using the straight-line method over the requisite service period for the entire award. The terms of the RSUs, including performance-based awards, provide for accelerated vesting for employees and non-employee directors who have attained 25 or more and five or more years of service with the Company, respectively. Recipients are not entitled to vote or receive dividends on unvested and undelivered shares. Compensation expense for the accelerated shares is recognized upon achievement of the long-service term. The cumulative amount of compensation cost recognized at any point in time equals at least the portion of the grant-date fair value of the award that is vested at that date. The fair value of RSUs is calculated as the market value of the common stock on the measurement date less the present value of the expected dividends forgone during the vesting period.

Stock-based compensation expense is predominantly included in SG&A expenses in the consolidated statements of income. Certain stock-based compensation costs are capitalized or included in the cost of merchandise. See Note 7 for additional information on the Company’s stock-based compensation plans.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases, credits and loss carry-forwards. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences and carry-forwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to amounts that are more likely than not expected to be realized.

The timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions requires significant judgment. The benefits of uncertain tax positions are recorded in the Company’s consolidated financial statements only after determining a more-likely-than-not probability that the uncertain tax positions will withstand challenge from tax authorities. When facts and circumstances change, the Company reassesses these probabilities and records changes as appropriate.

Net Income per Common Share Attributable to Costco

The computation of basic net income per share uses the weighted average number of shares that were outstanding during the period. The computation of diluted net income per share uses the weighted average number of shares in the basic net income per share calculation plus the number of common shares that would be issued assuming vesting of all potentially dilutive common shares outstanding using the treasury stock method for shares subject to RSUs.

Stock Repurchase Programs

Repurchased shares of common stock are retired, in accordance with the Washington Business Corporation Act. The par value of repurchased shares is deducted from common stock and the excess repurchase price over par value is deducted by allocation to additional paid-in capital and retained earnings. The amount allocated to additional paid-in capital is the current value of additional paid-in capital per share outstanding and is applied to the number of shares repurchased. Any remaining amount is allocated to retained earnings. See Note 6 for additional information.

**Note 2—Investments**

The Company’s investments were as follows:

| **2023:** | **Cost Basis** | **Unrealized Losses, Net** | **Recorded Basis** |
|---|---|---|---|
| Available-for-sale: | | | |
| Government and agency securities | $ 650 | $ (17) | $ 633 |
| Held-to-maturity: | | | |
| Certificates of deposit | 901 | — | 901 |
| Total short-term investments | $ 1,551 | $ (17) | $ 1,534 |

| 2022: | Cost Basis | Unrealized Losses, Net | Recorded Basis |
|---|---|---|---|
| Available-for-sale: | | | |
| Government and agency securities | $ 534 | $ (5) | $ 529 |
| Held-to-maturity: | | | |
| Certificates of deposit | 317 | — | 317 |
| Total short-term investments | $ 851 | $ (5) | $ 846 |

Gross unrecognized holding gains and losses on available-for-sale securities were not material for the years ended September 3, 2023, and August 28, 2022. At those dates, there were no available-for-sale securities in a material continuous unrealized-loss position. There were no sales of available-for-sale securities during 2023 or 2022.

The maturities of available-for-sale and held-to-maturity securities at the end of 2023 are as follows:

| | Available-For-Sale | | |
|---|---|---|---|
| | Cost Basis | Fair Value | Held-To-Maturity |
| Due in one year or less | $ 111 | $ 110 | $ 901 |
| Due after one year through five years | 337 | 330 | — |
| Due after five years | 202 | 193 | — |
| Total | $ 650 | $ 633 | $ 901 |

**Note 3—Fair Value Measurement**

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

| | Level 2 | |
|---|---|---|
| | 2023 | 2022 |
| Investment in government and agency securities | $ 633 | $ 529 |
| Forward foreign-exchange contracts, in asset position[1] | 18 | 34 |
| Forward foreign-exchange contracts, in (liability) position[1] | (7) | (2) |
| Total | $ 644 | $ 561 |

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(1) The asset and the liability values are included in other current assets and other current liabilities, respectively, in the consolidated balance sheets.

At September 3, 2023, and August 28, 2022, 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 2023 or 2022.

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. Please see Note 1 for additional information.

**Note 4—Debt**

Short-Term Borrowings

The Company maintains various short-term bank credit facilities, with a borrowing capacity of $1,234 and $1,257, in 2023 and 2022. Short-term borrowings outstanding were immaterial at the end of 2023 and 2022.

Long-Term Debt

The Company's long-term debt consists primarily of Senior Notes, described below. The Company at its option may redeem the Senior Notes at any time, in whole or in part, at a redemption price plus accrued interest. The redemption price is equal to the greater of 100% of the principal amount or the sum of the present value of the remaining scheduled payments of principal and interest to maturity. Additionally, upon certain events, a holder has the right to require a repurchase at a price of 101% of the principal amount plus accrued and unpaid interest. Interest on all outstanding long-term debt is payable semi-annually. 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 Japanese subsidiary, valued using Level 3 inputs. In May 2023, the Japanese subsidiary repaid $75 of its Guaranteed Senior Notes.

At the end of 2023 and 2022, the fair value of the Company's long-term debt, including the current portion, was approximately $5,738 and $6,033. The carrying value of long-term debt consisted of the following:

| | **2023** | **2022** |
|---|---|---|
| 2.750% Senior Notes due May 2024 | $ 1,000 | $ 1,000 |
| 3.000% Senior Notes due May 2027 | 1,000 | 1,000 |
| 1.375% Senior Notes due June 2027 | 1,250 | 1,250 |
| 1.600% Senior Notes due April 2030 | 1,750 | 1,750 |
| 1.750% Senior Notes due April 2032 | 1,000 | 1,000 |
| Other long-term debt | 484 | 590 |
| Total long-term debt | 6,484 | 6,590 |
| Less unamortized debt discounts and issuance costs | 26 | 33 |
| Less current portion[1] | 1,081 | 73 |
| Long-term debt, excluding current portion | $ 5,377 | $ 6,484 |

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

Maturities of long-term debt during the next five fiscal years and thereafter are as follows:

| | | |
|---|---|---|
| 2024 | $ | 1,081 |
| 2025 | | 103 |
| 2026 | | 76 |
| 2027 | | 2,250 |
| 2028 | | — |
| Thereafter | | 2,974 |
| Total | $ | 6,484 |

## Note 5—Leases

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

| | 2023 | 2022 |
|---|---|---|
| **Assets** | | |
| Operating lease right-of-use assets | $ 2,713 | $ 2,774 |
| Finance lease assets[1] | 1,325 | 1,620 |
| Total lease assets | $ 4,038 | $ 4,394 |
| **Liabilities** | | |
| Current | | |
| Operating lease liabilities[2] | $ 220 | $ 239 |
| Finance lease liabilities[2] | 129 | 245 |
| Long-term | | |
| Operating lease liabilities | 2,426 | 2,482 |
| Finance lease liabilities[3] | 1,303 | 1,383 |
| Total lease liabilities | $ 4,078 | $ 4,349 |

(1) Included in other long-term assets in the consolidated balance sheets.

(2) Included in other current liabilities in the consolidated balance sheets.

(3) Included in other long-term liabilities in the consolidated balance sheets.

| | 2023 | 2022 |
|---|---|---|
| Weighted-average remaining lease term (years) | | |
| Operating leases | 20 | 20 |
| Finance leases | 24 | 17 |
| Weighted-average discount rate | | |
| Operating leases | 2.47 % | 2.26 % |
| Finance leases | 4.47 % | 3.97 % |

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

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Operating lease costs[1] | $ 309 | $ 297 | $ 296 |
| Finance lease costs: | | | |
| Amortization of lease assets[1] | 169 | 128 | 50 |
| Interest on lease liabilities[2] | 54 | 45 | 37 |
| Variable lease costs[1] | 160 | 157 | 151 |
| Total lease costs | $ 692 | $ 627 | $ 534 |

(1) Included in selling, general and administrative expenses and merchandise costs in the consolidated statements of income.

(2) Included in interest expense and merchandise costs in the consolidated statements of income.

Supplemental cash flow information related to leases was as follows:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | | |
| Operating cash flows — operating leases | $ 287 | $ 277 | $ 282 |
| Operating cash flows — finance leases | 54 | 45 | 37 |
| Financing cash flows — finance leases | 291 | 176 | 67 |
| Operating lease assets obtained in exchange for new or modified leases | 202 | 231 | 350 |
| Financing lease assets obtained in exchange for new or modified leases | 100 | 794 | 399 |

As of September 3, 2023, future minimum payments during the next five fiscal years and thereafter are as follows:

| | Operating Leases[(1)] | Finance Leases |
|---|---|---|
| 2024 | $ 277 | $ 180 |
| 2025 | 230 | 175 |
| 2026 | 226 | 100 |
| 2027 | 206 | 91 |
| 2028 | 191 | 92 |
| Thereafter | 2,271 | 1,579 |
| Total[(2)] | 3,401 | 2,217 |
| Less amount representing interest | 755 | 785 |
| Present value of lease liabilities | $ 2,646 | $ 1,432 |

(1) Operating lease payments have not been reduced by future sublease income of $83.

(2) Excludes $843 of lease payments for leases that have been signed but not commenced.

**Note 6—Equity**

Dividends

Cash dividends declared in 2023 totaled $3.84 per share, as compared to $3.38 in 2022. The Company's current quarterly dividend rate is $1.02 per share.

Stock Repurchase Programs

The Company's stock repurchase program is conducted under a $4,000 authorization by the Board of Directors, which expires in January 2027. As of the end of 2023, the remaining amount available under the authorization was $3,563. The following table summarizes the Company’s stock repurchase activity:

| | Shares Repurchased (000’s) | Average Price per Share | Total Cost |
|---|---|---|---|
| 2023 | 1,341 | $ 504.68 | $ 677 |
| 2022 | 863 | 511.46 | 442 |
| 2021 | 1,358 | 364.39 | 495 |

These amounts may differ from repurchases of common stock in the consolidated statements of cash flows due to changes in unsettled stock repurchases at the end of each fiscal year. 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 the end of 2023, 8,747,000 shares were available to be granted as RSUs, and the following awards were outstanding:

- 2,869,000 time-based RSUs, which vest upon continued employment or service over specified periods of time; and
- 176,000 performance-based RSUs, of which 135,000 were granted to executive officers subject to the determination of the attainment of performance targets for 2023. This determination occurred in September 2023, at which time at least 33% of the units vested, as a result of the long service of all executive officers, with the exception of one executive officer who has less than 25 years of service. The remaining awards vest upon continued employment over specified periods of time. Please refer to Note 1 for accelerated vesting requirements.

The following table summarizes RSU transactions during 2023:

| | **Number of Units (in 000's)** | **Weighted-Average Grant Date Fair Value** |
|---|---|---|
| Outstanding at the end of 2022 | 3,449 | $ 338.41 |
| Granted | 1,814 | 471.47 |
| Vested and delivered | (2,102) | 352.53 |
| Forfeited | (116) | 398.31 |
| Outstanding at the end of 2023 | 3,045 | $ 405.63 |

The weighted-average grant date fair value of RSUs granted was $471.47, $476.06, and $369.15 in 2023, 2022, and 2021. The remaining unrecognized compensation cost related to non-vested RSUs at the end of 2023 was $790 and the weighted-average period of time over which this cost will be recognized is 1.6 years. Included in the outstanding balance at the end of 2023 were approximately 1,050,000 RSUs vested but not yet delivered.

Summary of Stock-Based Compensation

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

| | 2023 | | 2022 | | 2021 | |
|---|---|---|---|---|---|---|
| Stock-based compensation expense | $ | 774 | $ | 724 | $ | 665 |
| Less recognized income tax benefit | | 163 | | 154 | | 140 |
| Stock-based compensation expense, net | $ | 611 | $ | 570 | $ | 525 |

**Note 8— Taxes**

Income Taxes

Income before income taxes is comprised of the following:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Domestic | $ 6,264 | $ 5,759 | $ 4,931 |
| Foreign | 2,223 | 2,081 | 1,749 |
| Total | $ 8,487 | $ 7,840 | $ 6,680 |

The provisions for income taxes are as follows:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Federal: | | | |
| Current | $ 1,056 | $ 798 | $ 718 |
| Deferred | 33 | (35) | 84 |
| Total federal | 1,089 | 763 | 802 |
| State: | | | |
| Current | 374 | 333 | 265 |
| Deferred | 10 | (5) | 11 |
| Total state | 384 | 328 | 276 |
| Foreign: | | | |
| Current | 732 | 851 | 557 |
| Deferred | (10) | (17) | (34) |
| Total foreign | 722 | 834 | 523 |
| Total provision for income taxes | $ 2,195 | $ 1,925 | $ 1,601 |

The reconciliation between the statutory tax rate and the effective rate for 2023, 2022, and 2021 is as follows:

| | 2023 | | 2022 | | 2021 | |
|---|---|---|---|---|---|---|
| Federal taxes at statutory rate | $ 1,782 | 21.0 % | $ 1,646 | 21.0 % | $ 1,403 | 21.0 % |
| State taxes, net | 302 | 3.6 | 267 | 3.4 | 243 | 3.6 |
| Foreign taxes, net | 160 | 1.9 | 231 | 3.0 | 92 | 1.4 |
| Employee stock ownership plan (ESOP) | (25) | (0.3) | (23) | (0.3) | (91) | (1.3) |
| Other | (24) | (0.3) | (196) | (2.5) | (46) | (0.7) |
| Total | $ 2,195 | 25.9 % | $ 1,925 | 24.6 % | $ 1,601 | 24.0 % |

The Company recognized total net tax benefits of $62, $130 and $163 in 2023, 2022 and 2021. These include benefits of $54, $94 and $75, related to stock-based compensation. During 2021, there was a net tax benefit of $70 related to the portion of the special dividend paid through the Company's 401(k) plan.

The components of the deferred tax assets (liabilities) are as follows:

| | 2023 | 2022 |
|---|---|---|
| Deferred tax assets: | | |
| Equity compensation | $ 89 | $ 84 |
| Deferred income/membership fees | 309 | 302 |
| Foreign tax credit carry forward | 250 | 201 |
| Operating lease liabilities | 678 | 727 |
| Accrued liabilities and reserves | 761 | 694 |
| Other | 20 | 5 |
| Total deferred tax assets | 2,107 | 2,013 |
| Valuation allowance | (422) | (313) |
| Total net deferred tax assets | 1,685 | 1,700 |
| Deferred tax liabilities: | | |
| Property and equipment | (867) | (962) |
| Merchandise inventories | (380) | (231) |
| Operating lease right-of-use assets | (655) | (701) |
| Foreign branch deferreds | (87) | (85) |
| Total deferred tax liabilities | (1,989) | (1,979) |
| Net deferred tax liabilities | $ (304) | $ (279) |

The deferred tax accounts at the end of 2023 and 2022 include deferred income tax assets of $491 and $445, included in other long-term assets; and deferred income tax liabilities of $795 and $724, included in other long-term liabilities.

In 2023 and 2022, the Company had valuation allowances of $422 and $313, primarily related to foreign tax credits that the Company believes will not be realized due to carry forward limitations. The foreign tax credit carry forwards are set to expire beginning in fiscal 2030.

The Company generally no longer considers fiscal year earnings of non-U.S. consolidated subsidiaries after 2017 to be indefinitely reinvested (other than China and Taiwan) and has recorded the estimated incremental foreign withholding taxes (net of available foreign tax credits) and state income taxes payable assuming a hypothetical repatriation to the U.S. The Company considers undistributed earnings of certain non-U.S. consolidated subsidiaries, which totaled $3,225, to be indefinitely reinvested and has not provided for withholding or state taxes.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for 2023 and 2022 is as follows:

| | 2023 | 2022 |
|---|---|---|
| Gross unrecognized tax benefit at beginning of year | $ 16 | $ 33 |
| Gross increases—current year tax positions | 1 | 1 |
| Gross increases—tax positions in prior years | 11 | 12 |
| Gross decreases—tax positions in prior years | (11) | (12) |
| Gross decreases—settlements | — | (12) |
| Lapse of statute of limitations | (1) | (6) |
| Gross unrecognized tax benefit at end of year | $ 16 | $ 16 |

The gross unrecognized tax benefit includes tax positions for which the ultimate deductibility is highly certain but there is uncertainty about the timing of such deductibility. At the end of 2023 and 2022, these amounts were immaterial. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of these tax positions would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority. The total amount of such unrecognized tax benefits that if recognized would favorably affect the effective income tax rate in future periods is $14 and $15 at the end of 2023 and 2022.

Accrued interest and penalties related to income tax matters are classified as a component of income tax expense. Accrued interest and penalties recognized during 2023 and 2022, and accrued at the end of each respective period were not material.

The Company is currently under audit by several jurisdictions in the United States and abroad. Some audits may conclude in the next 12 months, and the unrecognized tax benefits recorded in relation to the audits may differ from actual settlement amounts. It is not practical to estimate the effect, if any, of any amount of such change during the next 12 months to previously recorded uncertain tax positions in connection with the audits. The Company does not anticipate that there will be a material increase or decrease in the total amount of unrecognized tax benefits in the next 12 months.

The Company files income tax returns in the United States, various state and local jurisdictions, in Canada, and in several other foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state or local examination for years before fiscal 2018. The Company is currently subject to examination in California for fiscal years 2013 to present.

Other Taxes

The Company is subject to 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. 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 of potentially dilutive common shares outstanding (shares in 000’s):

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Net income attributable to Costco | $ 6,292 | $ 5,844 | $ 5,007 |
| Weighted average basic shares | 443,854 | 443,651 | 443,089 |
| RSUs | 598 | 1,106 | 1,257 |
| Weighted average diluted shares | 444,452 | 444,757 | 444,346 |

**Note 10—Commitments and Contingencies**

Legal Proceedings

The Company is involved in many claims, proceedings and litigations 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 present loss contingencies that are both probable and reasonably estimable. There may be losses in excess of 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. 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 monitors for developments that make the 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: the remedies or penalties sought are indeterminate or unspecified; the legal and/or factual theories are not well developed; and/or the matters involve complex or novel legal theories or a large number of parties.

The Company is a defendant in an action commenced in July 2013 under the California Labor Code Private Attorneys General Act (PAGA) alleging violation of California Wage Order 7-2001 for failing to provide seating to employees who work at entrance and exit doors in California warehouses. Canela v. Costco Wholesale Corp. (Case No. 2013-1-CV-248813; Santa Clara Superior Court). The complaint sought relief under the California Labor Code, including civil penalties and attorneys’ fees. On April 26, 2023, the court entered a final judgment in favor of the Company. The plaintiff appealed the judgment in June 2023.

In June 2022, a business center employee raised similar claims, alleging failure to provide seating to employees who work at membership refund desks in California warehouses and business centers. Rodriguez v. Costco Wholesale Corp. (Case No. 22CV012847; Alameda Superior Court). 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.

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 was 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.). The Company filed an answer denying the material allegations of the complaint. In December 2019, the court issued an order denying class certification. In January 2020, the plaintiffs dismissed their Labor Code claims without prejudice, and the court remanded the action to state court. Settlement for an immaterial amount was agreed upon in February 2021. Final court approval of the settlement was granted on May 3, 2022. A proposed intervenor appealed the denial of her motion to intervene, and the appeal was dismissed on February 15, 2023.

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.). Relief is sought under the California Labor Code, including civil penalties and attorneys' fees. In September 2021, the court granted the Company's motion for partial summary judgment and denied class certification. In August 2019, the plaintiff filed a companion case in state court seeking penalties under PAGA. Rough v. Costco Wholesale Corp. (Case No. FCS053454; Sonoma County Superior Court). Relief is sought under the California Labor Code, including civil penalties and attorneys' fees. The state court action has been stayed pending resolution of the federal action. In September 2023 the parties reached an agreement in principle on a settlement for an immaterial amount.

In December 2020, a former employee filed suit against the Company asserting collective and class claims on behalf of non-exempt employees under the Fair Labor Standards Act and New York Labor Law for failure to pay for all hours worked, failure to pay certain non-exempt employees on a weekly basis, and failure to provide proper wage statements and notices. The plaintiff also asserted individual retaliation claims. Cappadora v. Costco Wholesale Corp. (Case No. 1:20-cv-06067; E.D.N.Y.). Based on an agreement in principle concerning settlement of the matter, involving a proposed payment by the Company of an immaterial amount, the federal action has been dismissed. In April 2022, Cappadora and a second plaintiff filed an action against the Company in New York state court, asserting the same class claims asserted in the federal action under the New York Labor Law and seeking preliminary approval of the class settlement. Cappadora and Sancho v. Costco Wholesale Corp. (Index No. 604757/2022; Nassau County Supreme Court). Following final approval of the settlement, the case was dismissed on April 14, 2023.

In August 2021, a former employee filed a similar suit, asserting class claims on behalf of certain non-exempt employees under New York Labor Law for failure to pay on a weekly basis. Umadat v. Costco Wholesale Corp. (Case No. 2:21-cv-4814; E.D.N.Y.). The Company filed an answer, denying the material allegations of the complaint. In August 2023, the parties reached an agreement in principle on a settlement for an immaterial amount. In April 2022, a former employee filed a similar suit, asserting class claims on behalf of certain non-exempt employees under New York Labor Law, as well as under the Fair Labor Standards Act, for failure to pay on a weekly basis and failure to pay overtime. Burian v. Costco Wholesale Corp. (Case No. 2:22-cv-02108; E.D.N.Y.). The case was settled for an immaterial amount and was dismissed with prejudice in May 2023.

In February 2021, a former employee filed a class action against the Company alleging violations of California Labor Code regarding payment of wages, meal and rest periods, wage statements, reimbursement of expenses, payment of final wages to terminated employees, and for unfair business practices. Edwards v. Costco Wholesale Corp. (Case No. 5:21-cv-00716: C.D. Cal.). On September 27, 2022, the parties reached a settlement for an immaterial amount, which is subject to court approval.

In July 2021, a former temporary staffing employee filed a class action against the Company and a staffing company alleging violations of the California Labor Code regarding payment of wages, meal and rest periods, wage statements, the timeliness of wages and final wages, and for unfair business practices. Dimas v. Costco Wholesale Corp. (Case No. STK-CV-UOE-2021-0006024; San Joaquin Superior Court). The Company has moved to compel arbitration of the plaintiff's individual claims and to dismiss the class action complaint. On September 7, 2021, the same plaintiff filed a separate representative action under PAGA, asserting the same Labor Code violations and seeking civil penalties and attorneys' fees. The case has been stayed pending arbitration of the plaintiff's individual claims.

In September 2021, an employee filed a class action against the Company alleging violations of the California Labor Code regarding failure to provide sick pay, failure to timely pay wages due at separation from employment, and for violations of California's unfair competition law. De Benning v. Costco Wholesale Corp. (Case No. 34-2021-00309030-CU-OE-GDS; Sacramento Superior Court). In April 2022, a settlement for an immaterial amount was agreed upon, subject to court approval. Final approval of the settlement was granted on February 10, 2023.

In March 2022, an employee filed a class action against the Company alleging violations of the California Labor Code regarding the failure to: pay wages, provide meal and rest periods, provide accurate wage statements, timely pay final wages, and reimburse business expenses. Diaz v. Costco Wholesale Corp. (Case No. 22STCV09513; Los Angeles Superior Court). In December 2022, the case was settled for an immaterial amount, and the case was dismissed.

In May 2022, an employee filed a PAGA action against the Company alleging claims under the California Labor Code regarding the payment of wages, meal and rest periods, the timeliness of wages and final wages, wage statements, accurate records and business expenses. Gonzalez v. Costco Wholesale Corp. (Case No. 22AHCV00255; Los Angeles Superior Court). The Company filed an answer denying the allegations.

Beginning in December 2017, the United States Judicial Panel on Multidistrict Litigation consolidated numerous cases concerning the impacts of opioid abuses filed against various defendants by counties, cities, hospitals, Native American tribes, third-party payors, and others. In re National Prescription Opiate Litigation (MDL No. 2804) (N.D. Ohio). Included are cases filed against the Company by counties and cities in Michigan, New Jersey, Oregon, Virginia and South Carolina, a third-party payor in Ohio, and a hospital in Texas, class actions filed on behalf of infants born with opioid-related medical conditions in 40 states, and class actions and individual actions filed on behalf of individuals seeking to recover alleged increased insurance costs associated with opioid abuse in 43 states and American Samoa. Claims against the Company filed in federal court outside the MDL have been asserted by certain counties and cities in Florida and Georgia; claims filed by certain cities and counties in New York are pending in state court. Claims against the Company in state courts in New Jersey, Oklahoma, Utah, and Arizona have been dismissed. The Company is defending all of the pending matters.

Members of the Board of Directors, six corporate officers and the Company were defendants in a shareholder derivative action filed in June 2022 related to chicken welfare and alleged breaches of fiduciary duties. Smith, et ano. v. Vachris, et al., Superior Court of the State of Washington, County of King, No, 22-2-08937-7SEA. The complaint sought from the individual defendants' damages, injunctive relief, costs, and attorneys' fees. On March 28, 2023, the court granted the defendants' motion to dismiss the action. The plaintiffs subsequently made a demand that the Board of Directors take various actions, including among other things, pursuing claims against directors and officers of the type asserted in the litigation. A demand review committee of the Board has been appointed to make a recommendation to the Board as to the demand.

In February 2023, Go Green Norcal, LLC filed an arbitration demand against the Company. The demand alleged a breach of a supply agreement and sought unspecified damages and cancellation of a loan from the Company. In March 2023, the Company filed its answer, denying any breach by the Company, along with counterclaims against Go Green and an affiliate for breach of contract, negligent misrepresentation, and an accounting. In August 2023 the plaintiff asserted that its damages exceed $70 million.

In January 2023 the Company received a Civil Investigative Demand from the U.S. Attorney's Office, Western District of Washington, requesting documents. The government is conducting a False Claims Act investigation concerning whether the Company presented or caused to be presented to the federal government for payment false claims relating to prescription medications.

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; 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 is principally engaged in the operation of membership warehouses through wholly owned subsidiaries in the U.S., Canada, Mexico, Japan, the U.K., Korea, Australia, Taiwan, China, Spain, France, Iceland, New Zealand, and Sweden. Reportable segments are largely based on management’s organization of the operating segments for operational decisions and assessments of financial performance, which considers geographic locations. The material accounting policies of the segments are as described in Note 1. Inter-segment net sales and expenses have been eliminated in computing total revenue and operating income.

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

| | United States | Canada | Other International | Total |
|---|---|---|---|---|
| **2023** | | | | |
| Total revenue | $ 176,630 | $ 33,056 | $ 32,604 | $ 242,290 |
| Operating income | 5,392 | 1,448 | 1,274 | 8,114 |
| Depreciation and amortization | 1,599 | 183 | 295 | 2,077 |
| Additions to property and equipment | 3,288 | 281 | 754 | 4,323 |
| Property and equipment, net | 18,760 | 2,443 | 5,481 | 26,684 |
| Total assets | 49,189 | 6,420 | 13,385 | 68,994 |
| **2022** | | | | |
| Total revenue | $ 165,294 | $ 31,675 | $ 29,985 | $ 226,954 |
| Operating income | 5,268 | 1,346 | 1,179 | 7,793 |
| Depreciation and amortization | 1,436 | 180 | 284 | 1,900 |
| Additions to property and equipment | 2,795 | 388 | 708 | 3,891 |
| Property and equipment, net | 17,205 | 2,459 | 4,982 | 24,646 |
| Total assets | 44,904 | 6,558 | 12,704 | 64,166 |
| **2021** | | | | |
| Total revenue | $ 141,398 | $ 27,298 | $ 27,233 | $ 195,929 |
| Operating income | 4,470 | 1,093 | 1,145 | 6,708 |
| Depreciation and amortization | 1,339 | 177 | 265 | 1,781 |
| Additions to property and equipment | 2,612 | 272 | 704 | 3,588 |
| Property and equipment, net | 15,993 | 2,317 | 5,182 | 23,492 |
| Total assets | 39,589 | 5,962 | 13,717 | 59,268 |

Disaggregated Revenue

The following table summarizes net sales by merchandise category; sales from e-commerce websites and business centers have been allocated to the applicable merchandise categories:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Foods and Sundries | $ 96,175 | $ 85,629 | $ 77,277 |
| Non-Foods | 60,865 | 61,100 | 55,966 |
| Fresh Foods | 31,977 | 29,527 | 27,183 |
| Warehouse Ancillary and Other Businesses | 48,693 | 46,474 | 31,626 |
| Total net sales | $ 237,710 | $ 222,730 | $ 192,052 |

## Item 9—Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

## Item 9A—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 SEC 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 and the Chief Financial Officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of September 3, 2023, and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

### Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets; (2) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of and with the participation of our management, we assessed the effectiveness of our internal control over financial reporting as of September 3, 2023, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013).

Based on its assessment, management has concluded that our internal control over financial reporting was effective as of September 3, 2023. The attestation of KPMG LLP, our independent registered public accounting firm, on the effectiveness of our internal control over financial reporting is included with the consolidated financial statements in Item 8 of this Report.

### 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 fourth quarter of 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### Item 9B—Other Information (amounts in whole dollars)

Disclosure pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 and Section 13(r) of the Securities Exchange Act of 1934, as amended.

During 2023 we had three individual cardholders under a business membership in the name of the Embassy of the Islamic Republic of Iran at our subsidiary in Mexico. Gross revenue during 2023 attributable to the membership was approximately $1,276, and our estimated profit on these transactions was approximately $100. The membership was canceled during the second quarter of 2023. The Company does not intend to continue these activities.

During the fiscal quarter ended September 3, 2023, no director or officer of the Company adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement, as each term is defined in Item 408(a) of Regulation S-K.

### Item 9C—Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not Applicable.

## PART III

### Item 10—Directors, Executive Officers and Corporate Governance

Information relating to the availability of our code of ethics for senior financial officers and a list of our executive officers appear in Part I, Item 1 of this Report. The information required by this Item concerning our directors and nominees for director is incorporated herein by reference to the sections entitled “Proposal 1: Election of Directors,” “Directors” and “Committees of the Board” in Costco’s Proxy Statement for its 2024 annual meeting of shareholders, which will be filed with the SEC within 120 days of the end of our fiscal year (“Proxy Statement”).

### Item 11—Executive Compensation

The information required by this Item is incorporated herein by reference to the sections entitled “Compensation of Directors,” “Executive Compensation,” and “Compensation Discussion and Analysis” in Costco’s Proxy Statement.

### Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the section entitled “Principal Shareholders” and “Equity Compensation Plan Information” in Costco’s Proxy Statement.

### Item 13—Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the sections entitled “Proposal 1: Election of Directors,” “Directors,” “Committees of the Board,” “Shareholder Communications to the Board,” “Meeting Attendance,” “Report of the Compensation Committee of the Board of Directors,” “Certain Relationships and Transactions” and “Report of the Audit Committee” in Costco’s Proxy Statement.

### Item 14—Principal Accounting Fees and Services

Our independent registered public accounting firm is KPMG LLP, Seattle, WA, Auditor Firm ID: 185.

The information required by this Item is incorporated herein by reference to the sections entitled “Independent Public Accountants” in Costco’s Proxy Statement.

## PART IV

### Item 15—Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report are as follows:

1. Financial Statements:

   See the listing of Financial Statements included as a part of this Form 10-K in Item 8 of Part II.

2. Financial Statement Schedules:

   All schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements, including the notes thereto.

(b) Exhibits: The required exhibits are filed as part of this Annual Report on Form 10-K or are incorporated herein by reference.

| Exhibit Number | Exhibit Description | Filed Herewith | Incorporated by Reference Form | Period Ended | Filing Date |
|---|---|---|---|---|---|
| 3.1 | Articles of Incorporation as amended of Costco Wholesale Corporation | | 10-K | 8/28/2022 | 10/5/2022 |
| 3.2 | Bylaws as amended of Costco Wholesale Corporation | | 8-K | | 8/10/2023 |
| 4.1 | First Supplemental Indenture between Costco Wholesale Corporation and U.S. Bank National Association, as Trustee, dated as of March 20, 2002 (incorporated by reference to Exhibits 4.1 and 4.2 to the Company's Current Report on the Form 8-K filed on March 25, 2002) | | 8-K | | 3/25/2002 |
| 4.2 | Form of 1.375% Senior Notes due June 20, 2027 | | 8-K | | 4/17/2020 |
| 4.3 | Form of 1.600% Senior Notes due April 20, 2030 | | 8-K | | 4/17/2020 |
| 4.4 | Form of 1.750% Senior Notes due April 20, 2032 | | 8-K | | 4/17/2020 |
| 4.5 | Form of 2.300% Senior Notes due May 18, 2022 | | 8-K | | 5/16/2017 |
| 4.6 | Form of 2.750% Senior Notes due May 18, 2024 | | 8-K | | 5/16/2017 |
| 4.7 | Form of 3.000% Senior Notes due May 18, 2027 | | 8-K | | 5/16/2017 |
| 4.8 | Description of Common Stock | | 10-K | 8/28/2022 | 10/5/2022 |
| 10.1* | Costco Wholesale Executive Health Plan | | 10-K | 9/2/2012 | 10/19/2012 |
| 10.2* | 2019 Incentive Plan | | DEF 14 | | 12/17/2019 |

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| Exhibit Number | Exhibit Description | Filed Herewith | Incorporated by Reference | | |
|---|---|---|---|---|---|
| | | | Form | Period Ended | Filing Date |
| 10.3* | Seventh Restated 2002 Stock Incentive Plan | | DEF 14A | | 12/19/2014 |
| 10.3.1* | 2019 Stock Incentive Plan Restricted Stock Unit Award Agreement-Employee | | 10-Q | 11/24/2019 | 12/23/2019 |
| 10.3.2* | 2019 Stock Incentive Plan Restricted Stock Unit Award Agreement - Non-U.S. Employee | | 10-Q | 11/24/2019 | 12/23/2019 |
| 10.3.3* | 2019 Stock Incentive Plan Restricted Stock Unit Award Agreement-Non-Executive Director | | 10-Q | 11/24/2019 | 12/23/2019 |
| 10.3.4* | 2019 Stock Incentive Plan Letter Agreement for 2020 Performance-Based Restricted Stock Units-Executive | | 10-Q | 11/24/2019 | 12/23/2019 |
| 10.4* | Fiscal 2023 Executive Bonus Plan | | 8-K | | 11/9/2022 |
| 10.5* | Executive Employment Agreement, effective January 1, 2017, between W. Craig Jelinek and Costco Wholesale Corporation | | 10-Q | 11/20/2016 | 12/16/2016 |
| 10.5.1* | Extension of the Term of the Executive Employment Agreement, effective January 1, 2019, between W. Craig Jelinek and Costco Wholesale Corporation | | 10-Q | 11/25/2018 | 12/20/2018 |
| 10.5.2* | Extension of the Term of the Executive Employment Agreement, effective January 1, 2020, between W. Craig Jelinek and Costco Wholesale Corporation | | 10-Q | 11/24/2019 | 12/23/2019 |
| 10.5.3* | Extension of the Term of the Executive Employment Agreement, effective January 1, 2021, between W. Craig Jelinek and Costco Wholesale Corporation | | 10-Q | 11/22/2020 | 12/16/2020 |
| 10.5.4* | Extension of the Term of the Executive Employment Agreement, effective January 1, 2022, between W. Craig Jelinek and Costco Wholesale | | 10-Q | 11/21/2021 | 12/22/2021 |

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| Exhibit Number | Exhibit Description | Filed Herewith | Incorporated by Reference | | |
|---|---|---|---|---|---|
| | | | Form | Period Ended | Filing Date |
| 10.6 | Form of Indemnification Agreement | | 14A | | 12/13/1999 |
| 10.7* | Deferred Compensation Plan | | 10-K | 9/1/2013 | 10/16/2013 |
| 10.8** | Citibank, N.A. Co-Branded Credit Card Agreement | | 10-Q/A | 5/10/2015 | 8/31/2015 |
| 10.8.1** | First Amendment to Citi, N.A. Co-Branded Credit Card Agreement | | 10-Q | 11/22/2015 | 12/17/2015 |
| 10.8.2** | Second Amendment to Citi, N.A. Co-Branded Credit Card Agreement | | 10-Q | 2/14/2016 | 3/9/2016 |
| 10.8.3** | Third Amendment to Citi, N.A. Co-Branded Credit Card Agreement | | 10-K | 8/28/2016 | 10/12/2016 |
| 10.8.4** | Fourth Amendment to Citi, N.A. Co-Branded Credit Card Agreement | | 10-Q | 2/18/2018 | 3/15/2018 |
| 10.8.5** | Fifth Amendment to Citi, N.A. Co-Branded Credit Card Agreement | | 10-Q | 2/17/2019 | 3/13/2019 |
| 10.8.6[#] | Sixth Amendment to Citi, N.A. Co-Branded Credit Card Agreement | | 10-K | 9/1/2019 | 10/11/2019 |
| 10.8.7 | Seventh Amendment to Citi, N.A. Co-Branded Credit Card Agreement | | 10-Q | 2/14/2021 | 3/10/2021 |
| 10.8.8 | Eighth Amendment to Citi, N.A. Co-Branded Credit Card Agreement | | 10-Q | 2/13/2022 | 3/10/2022 |
| 10.8.9 | Ninth Amendment to Citi, N.A. Co-Branded Credit Card Agreement | | 10-Q | 11/20/2022 | 12/29/2022 |
| 10.8.10 | Tenth Amendment to Citi, N.A. Co-Branded Credit Card Agreement | | 10-Q | 11/20/2022 | 12/29/2022 |
| 10.8.11 | Eleventh Amendment to Citi, N.A. Co-Branded Credit Card Agreement | | 10-Q | 2/12/2023 | 3/9/2023 |
| 10.8.12[#] | Twelfth Amendment to Citi, N.A. Co-Branded Credit Card Agreement | x | | | |
| 21.1 | Subsidiaries of the Company | x | | | |
| 23.1 | Consent of Independent Registered Public Accounting Firm | x | | | |

| Exhibit Number | Exhibit Description | Filed Herewith | Incorporated by Reference | | |
|---|---|---|---|---|---|
| | | | Form | Period Ended | Filing Date |
| 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 | | | |

* Management contract, compensatory plan or arrangement.

** Portions of this exhibit have been omitted under a confidential treatment order issued by the Securities and Exchange Commission.

# Certain information in this exhibit has been omitted because it is both (i) not material and (ii) customarily and actually treated by the registrant as private or confidential.

(c) Financial Statement Schedules—None.

**Item 16—Form 10-K Summary**

None.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

October 10, 2023

COSTCO WHOLESALE CORPORATION
(Registrant)

By /s/ RICHARD A. GALANTI

Richard A. Galanti
Executive Vice President, Chief Financial Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

October 10, 2023

| | | | |
|---|---|---|---|
| By | /s/ W. CRAIG JELINEK | By | /s/ HAMILTON E. JAMES |
| | W. Craig Jelinek<br>Chief Executive Officer and Director | | Hamilton E. James<br>Chairman of the Board |
| By | /s/ RICHARD A. GALANTI | By | /s/ DANIEL M. HINES |
| | Richard A. Galanti<br>Executive Vice President, Chief Financial Officer and Director<br>(Principal Financial Officer) | | Daniel M. Hines<br>Senior Vice President and Corporate Controller<br>(Principal Accounting Officer) |
| By | /s/ RON M. VACHRIS | By | /s/ SUSAN L. DECKER |
| | Ron M. Vachris<br>President, Chief Operating Officer and Director | | Susan L. Decker<br>Director |
| By | /s/ KENNETH D. DENMAN | By | /s/ SALLY JEWELL |
| | Kenneth D. Denman<br>Director | | Sally Jewell<br>Director |
| By | /s/ CHARLES T. MUNGER | By | /s/ JEFFREY S. RAIKES |
| | Charles T. Munger<br>Director | | Jeffrey S. Raikes<br>Director |
| By | /s/ JOHN W. STANTON | By | /s/ MARY (MAGGIE) A. WILDEROTTER |
| | John W. Stanton<br>Director | | Mary (Maggie) A. Wilderotter<br>Director |