

*Annual
Report
1999*

COSTCO[®]
WHOLESALE

YEAR ENDED AUGUST 29, 1999

1999

THE COMPANY

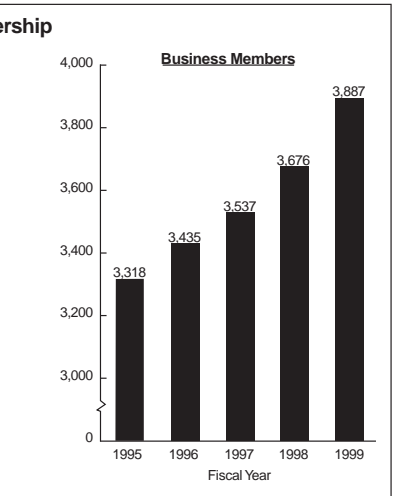
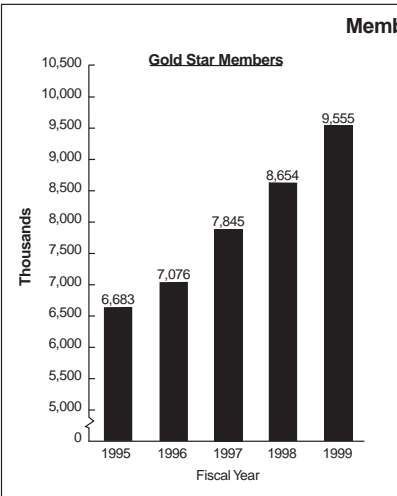
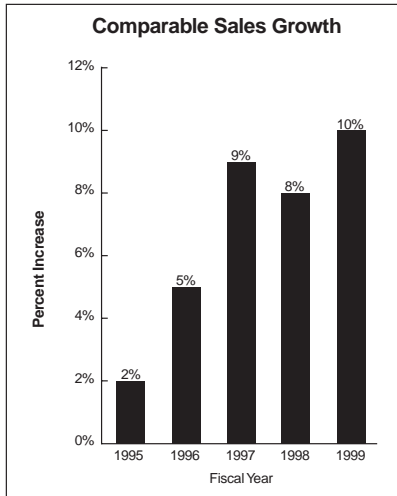
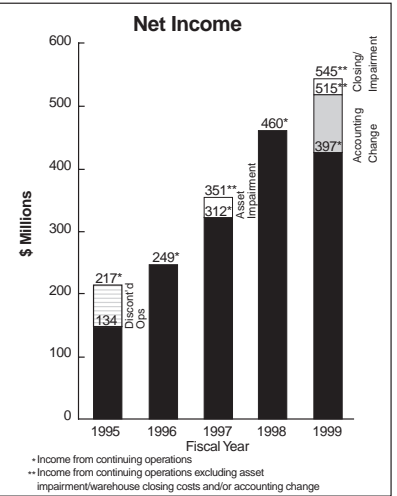
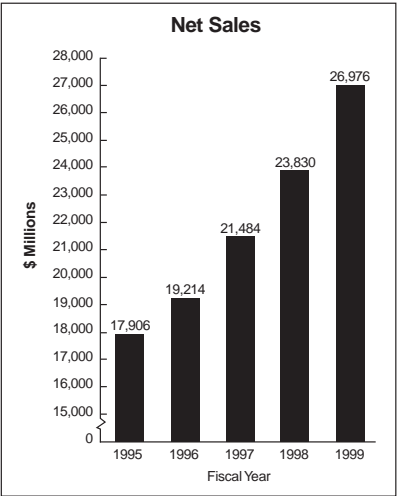
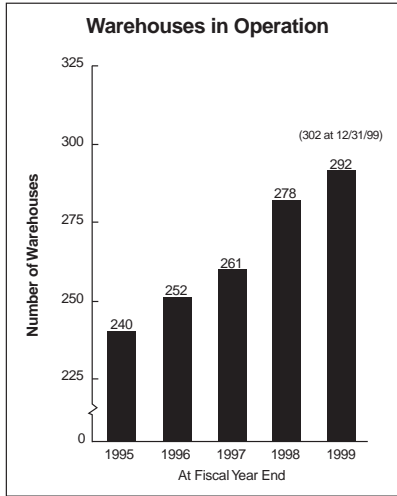
Costco Wholesale Corporation (“Costco” or the “Company”) began operations in 1983 in Seattle, Washington. In October 1993, Costco merged with The Price Company, which had pioneered the membership warehouse concept in 1976, to form Price/Costco, Inc., a Delaware corporation. In January 1997, after the spin-off of most of its non-warehouse assets to Price Enterprises, Inc., the Company changed its name to Costco Companies, Inc. On August 30, 1999, the Company reincorporated from Delaware to Washington and changed its name to Costco Wholesale Corporation, which trades on the NASDAQ under the symbol “COST”.

Costco operates a chain of membership warehouses that sell high quality, nationally branded and selected private label merchandise at low prices to businesses purchasing for commercial use, personal use, or resale, and also to individuals who are members of selected employee groups. The Company’s business is based upon achieving high sales volumes and rapid inventory turnover by offering a limited assortment of merchandise in a wide variety of product categories at very competitive prices. As of December 1999, the Company operated a chain of 302 warehouses in 27 states (230 locations), nine Canadian provinces (59 locations), the United Kingdom (seven locations, through a 60%-owned subsidiary), Korea (three locations), Taiwan (two locations, through a 55%-owned subsidiary) and Japan (one location). The Company also operates 17 warehouses in Mexico through a 50% joint venture partner.

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FINANCIAL HIGHLIGHTS

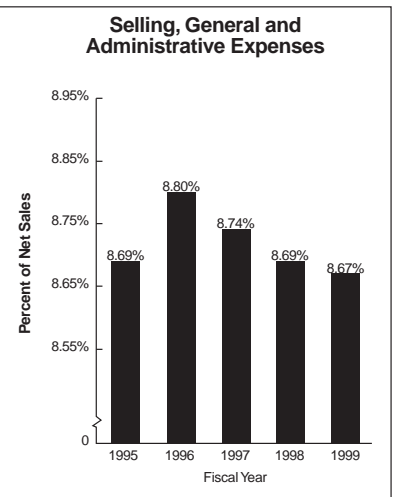


Average Sales Per Warehouse * (Sales In Millions)

Year Opened	# of Whses*	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1999	14										\$65
1998	17								\$50		58
1997	10							\$56	70		85
1996	18						\$46	53	61		68
1995	19					\$51	58	69	76		82
1994	27			\$57	60	68	76	83	90		
1993	34		\$59	62	69	74	79	84	90		
1992	26		\$48	54	61	65	69	75	80		87
1991	20	\$49	58	60	63	64	67	71	77		84
1990 & Before	107	\$83	93	98	93	91	89	92	99	106	116
Totals	292	\$83	\$86	\$84	\$78	\$76	\$75	\$77	\$83	\$87	\$94

Fiscal Year

*First year sales annualized



Dear Costco Shareholders,

Fiscal 1999 was a banner year for Costco in terms of revenues and earnings. We were able to achieve sales of \$27 billion, which was a 13% increase over the prior year. More importantly, warehouses that were open for more than 12 months realized a comparable sales growth rate of 10%. We believe this is an accurate indication of the health of our business, considering that our average sales per warehouse exceeded \$94 million per unit for the 292 locations open worldwide in 1999, including \$101 million per unit for the 221 warehouses in the U.S.

Our reported net income for fiscal 1999 was \$397 million, or \$1.73 per diluted share, compared to the prior year's reported net earnings of \$460 million, or \$2.03 per share. As reported to you earlier, and as described in the financial discussion detailed further in this annual report, fiscal 1999 net income was negatively impacted by a \$50 million (\$30 million after-tax) fourth quarter provision for impaired assets and warehouse closing costs, as well as a \$118 million after-tax charge recorded in the first quarter related to a change in accounting for membership fees. Excluding these two items, our fiscal 1999 net income would have been \$545 million, or \$2.36 per share. Similarly, if the new accounting treatment for membership fees had been in effect in fiscal 1998, net earnings for fiscal 1998 would have been \$444 million, or \$1.96 per share; and the year-over-year earnings and earnings per share increases would have been 23% and 20%, respectively.

Equally important in the performance of our Company this past year were the operational improvements we achieved throughout our business. We continue to show robust sales increases in the new markets of Atlanta and Detroit, and our newly opened Chicago warehouses are exceeding our sales expectations. The results in these three markets have encouraged us to open additional units in each of these communities. Our new units in Tennessee (one in Nashville and two in Memphis) are brand-new and also performing very well. Additionally, we are proceeding with plans to enter new markets in Texas, Ohio, Pennsylvania and Missouri during calendar year 2000. Depending upon permitting and construction, these new warehouses will open in the summer or fall of next year. We expect that we will open approximately 25 new units this fiscal year, with the bulk of these openings being in existing markets such as California, Florida, Arizona, Washington, New York and New Jersey. Four to six additional warehouses will be relocated this fiscal year to improved sites and facilities. This compares to fourteen new warehouses and seven relocations in all of fiscal 1999. The majority of the fourth quarter charge for impaired assets and closing costs is a result of these recently completed and planned relocations for 1999 and 2000. All told, we plan to spend nearly \$1 billion in fiscal 2000 on capital expenditures. While the majority of these expenditures will be directed towards new and relocation warehouse construction, approximately \$200 million is planned for remodelling and ancillary business expansion activities—activities that, we believe, allow Costco to maintain its leadership position in the marketplace.

Our gross margins continue to be strong, increasing from 10.28% of sales in fiscal 1998 to 10.40% in fiscal 1999. Overall, our gross margins have now improved for six consecutive years, despite the fact that we have consistently lowered the prices of our merchandise during that same period of time. This is the result of improved purchasing, better utilization of depots and logistics, increased sales penetration of certain higher margin businesses, and record performance in shrink control by our merchants and operators. In terms of our depot "cross docking" operations, which allow us to reduce even further the freight and handling costs of the merchandise we sell, we plan to spend nearly \$200 million in fiscal 2000 to add 1.5 million additional square feet to a business operation that we believe furthers our advantage over our competitors in bringing goods to market at the lowest possible prices.

Our operating expenses declined as a percent of sales from 8.69% in fiscal 1998 to 8.67% in the fiscal year just ended. This represents the fourth consecutive year of overall expense improvement, which is particularly gratifying after considering the added burden of entering four new markets; opening new regional offices in the Midwest and Southeast; starting a complete new operating and merchandising team in Japan; incurring increased marketing and development expenses for the Executive Membership Program and launch of the American Express Co-Branded Card Program; and starting up our e-Commerce website—www.costco.com—which just completed its first year of operations this November. We will touch on each of these new programs further in this letter. Notwithstanding these added costs for growth, we clearly recognize our need to be continually improving our process of cost containment at every level of our business. We still have a lot of work to do in this area.

Before discussing our new member services and initiatives, we should highlight a few of the merchandising successes that were, in large part, responsible for the strength in sales growth both in fiscal 1999 and into the new 2000 fiscal year.

As you all know, we are first and foremost a merchandising Company. We are confident that we understand how to buy and sell goods as well as anyone in the world. Our merchants know how to find the right merchandise, at the right time, and at the right price; and our operators understand how to run the businesses that profitably deliver these values to our members. In addition to our primary merchandising focus of bringing branded goods to market at the lowest possible price, our buyers have over the past five years developed more than 400 items in a variety of categories under our own "Kirkland Signature" private label. Our private label strategy is simple and straightforward: The item quality must be as good as, or better than, the leading national brand; and the value must be at least 20% better. Today we estimate that approximately 12% of our nearly \$30 billion in annual sales are sold under the "Kirkland Signature" name—a name that has become known for both high quality and great value. Private label successes in fiscal 1999 include co-branded Whirlpool appliances, co-branded chicken products with both Tyson and Foster Farms, and

“Kirkland Signature” men’s and women’s cashmere sweaters. These are just a few examples of how we have expanded and enhanced the Costco brand name. Additionally, we continue to grow our pharmacy operations, which this year should top \$1 billion in sales; and we expect to add 50 new gas stations to the 67 we operated at the beginning of fiscal year 2000. These two businesses, along with our very successful optical shops, one-hour photo labs, food courts and hearing aid centers have become a vital part of Costco’s appeal to its members and have created a discerning distinction between Costco and its competitors.

We continue to experiment with new member services for our Executive Members, and we now have in excess of 135,000 paid members in this program. We are confident that we are on the right track and that our Executive Member rolls will show substantial increases over the next several years. Overall, Costco membership rolls now include nearly four million Business Members and ten million Gold Star Members; and including Business Add-on cards and free spouse cards, over 30 million people in North America now carry a Costco card. Equally important, our members remain loyal to our business by renewing at a rate of 86% annually, which is the highest renewal rate ever achieved in our Company’s history.

Just before fiscal year-end, we announced a major alliance with American Express Company, whereby we would immediately begin accepting American Express cards in all U.S. Costco locations, and shortly thereafter jointly introduce two new co-branded cards. Just last month, the two co-branded cards were introduced, which bring unique features and benefits to our members. The consumer card is an American Express “fee-free” credit card (you still must pay for the Costco membership) that provides the cardholder with an annual rebate reward on all purchases made on the card—both at Costco and elsewhere—with the reward coupon redeemable at Costco. The business card is also an American Express “fee-free” charge card. In a “first” for American Express, these two co-branded cards will also serve as Costco membership cards with Costco membership information (including the member’s picture) on the back of the card. An agreement was announced just last month to offer a similar program to our more than 2.4 million members in Canada.

We and American Express are both very excited about our new partnership. We believe American Express is a fantastic company, with similar customer philosophies to Costco; a great degree of member/customer loyalty; and overall, an upscale consumer and small business focus. We believe that the card acceptance and co-branded card issuance are the first of many unique and strategic business opportunities that will benefit both Costco and American Express, along with the millions of members and cardholders of our two companies.

Costco’s e-Commerce site—www.costco.com—anniversaried on November 2nd, and we are very enthusiastic with our progress to date. We have a high quality website that has consistently received high marks for content and ease of use. We currently have over one million members registered with our site and expect that number will exceed two million by the Spring of 2000. Additionally, our special arrangement with Microsoft for unlimited internet access via MSN/Costco at a 40% discount (currently \$11.99 a month paid in three-month intervals) affords us the unique position as a retailer to offer a high speed internet portal site, at a great savings, to our members. Costco is committed to capturing the potential of this business, and we will not let this potential bypass us.

As evidence of the importance we place on Executive Membership, the Costco/American Express relationship and e-Commerce, we have recently named Paul Moulton to the position of Executive Vice President in charge of these Special Member Service areas. Paul has been with Costco for 14 years in a variety of positions...from Warehouse Manager, to Vice President—Treasurer, to Senior Vice President—UK Operations, to Senior Vice President—Asian Operations to Senior Vice President—Information Systems. Working with Paul are Bob Craves, Senior Vice President—e-Commerce, Publishing and Community Giving and Court Newberry, Senior Vice President—Marketing and Member Services. Both Bob and Court were part of the founding management team at Costco and, along with Paul, will assure strong leadership and focus in developing these valuable programs for Costco.

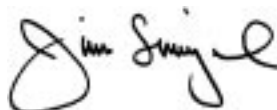
In summary, we firmly believe that our business is on course to show further growth for years to come. As always, we thank our 70,000 fellow employees who make all the good things happen. We are grateful not only for their hard work and dedication, but also for the loyalty they exhibit by staying with our Company despite being the targets of all our competitors. We believe that, together, we have created a truly valuable brand in the Costco name, a brand that we are committed to continually enhancing in the eyes of our member customers, our vendors and you, our shareholders.

We appreciate your support as a Costco shareholder and Costco Member. We hope we will see you at our annual meeting on January 27th in Bellevue, Washington.

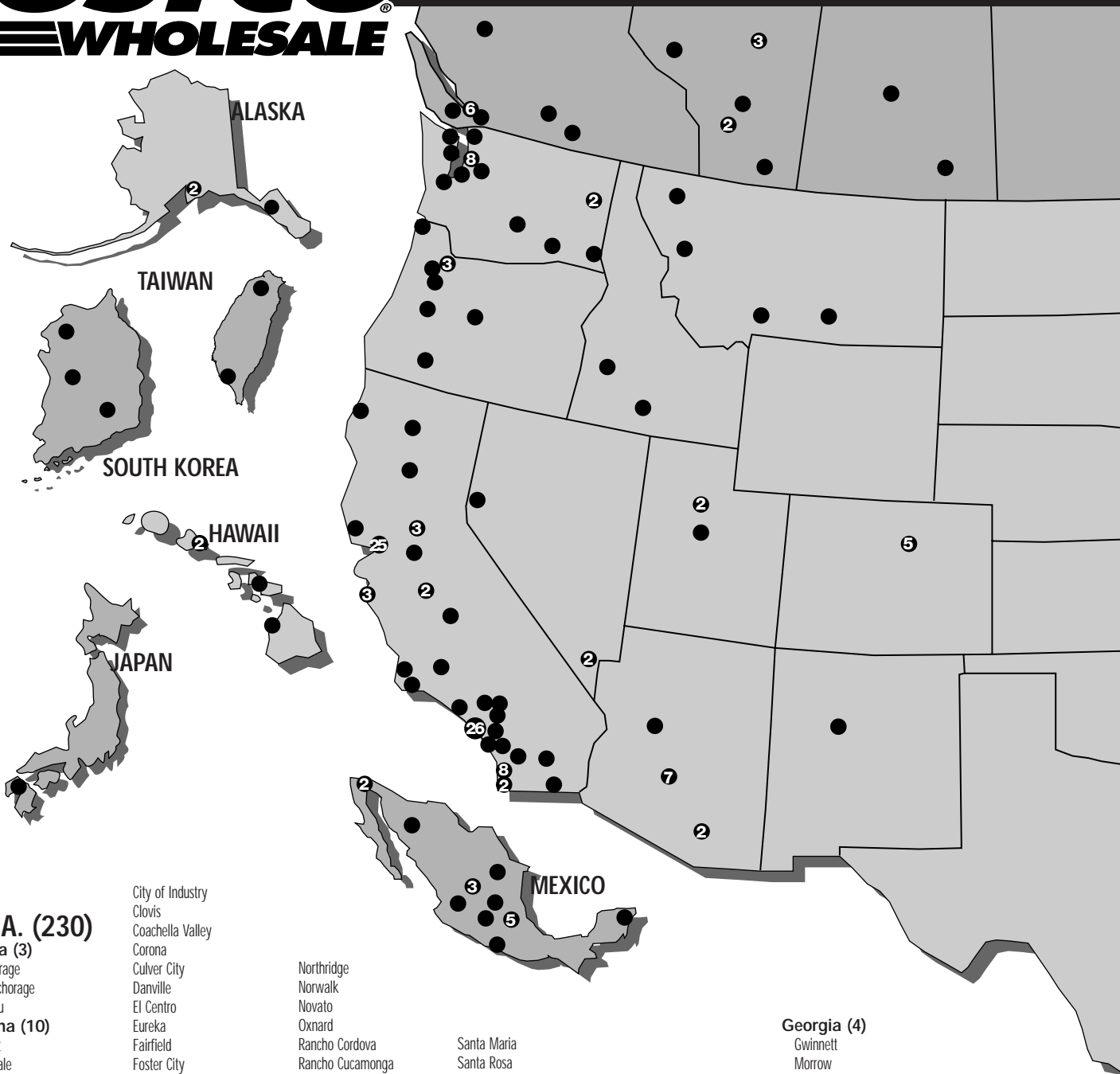
Cordially,



Jeff Brotman
Chairman of the Board



Jim Sinegal
President & CEO



U.S.A. (230)

Alaska (3)

- Anchorage
- N. Anchorage
- Juneau

Arizona (10)

- Gilbert
- Glendale
- Phoenix
- Prescott
- Scottsdale
- Superstition Springs
- Tempe
- Thomas Road
- Tucson
- NW Tucson

California (88)

- Alhambra
- Antioch
- Azusa
- Bakersfield
- Burbank
- Cal Expo
- Canoga Park
- Carlsbad
- Carmel Mountain
- Chico
- Chino Hills
- Chula Vista
- City of Industry
- Clovis
- Coachella Valley
- Corona
- Culver City
- Danville
- El Centro
- Eureka
- Fairfield
- Foster City
- Fountain Valley
- Fremont
- Fresno
- Fullerton
- Garden Grove
- Goleta
- Hawthorne
- Hayward
- Inglewood
- Irvine
- La Mesa
- Laguna Niguel
- Lancaster
- Livermore
- Los Feliz
- Martinez
- Merced
- Modesto
- Montebello
- Moreno Valley
- Mountain View

- Northridge
- Norwalk
- Novato
- Oxnard
- Rancho Cordova
- Rancho Cucamonga
- Rancho del Rey
- Redding
- Redwood City
- Richmond
- Roseville
- Sacramento
- Salinas
- San Bernardino
- San Bruno
- San Diego
- SE San Diego
- San Francisco
- S. San Francisco
- San Jose (2)
- San Juan Capistrano
- San Leandro
- San Marcos
- Sand City
- Santa Clara
- Santa Clarita
- Santa Cruz

- Santa Maria
- Santa Rosa
- Santee
- Signal Hill
- Simi Valley
- Stockton
- Sunnyvale
- Temecula
- Torrance
- Tustin
- Vallejo
- Van Nuys
- Victorville
- Visalia
- Vista
- West Lake Village
- Yorba Linda

Colorado (5)

- Aurora
- SW Denver
- Park Meadows
- Superior
- Westminster

Connecticut (3)

- Brookfield
- Milford
- Waterbury

Delaware (1)

- Christiana

Florida (14)

- Altamonte Springs
- Davie
- Delray Beach
- Fort Myers
- Kendall
- Lantana
- Miami
- Miami Lakes
- N. Miami Beach
- Naples
- E. Orlando
- S. Orlando
- Palm Beach Gardens
- Pompano Beach

Georgia (4)

- Gwinnett
- Morrow
- Perimeter
- Town Center

Hawaii (4)

- Hawaii Kai
- Honolulu
- Kailua-Kona
- Maui

Idaho (2)

- Boise
- Twin Falls

Illinois (2)

- Oak Brook
- Schaumburg

Maryland (4)

- Beltsville
- Gaithersburg
- Glen Burnie
- White Marsh

Massachusetts (5)

- Avon
- Danvers

- Dedham
- W. Springfield
- Waltham
- Michigan (5)**
- Bloomfield
- Livonia I
- Livonia II
- Madison Heights
- Roseville

Montana (4)

- Billings
- Bozeman
- Kalispell
- Missoula

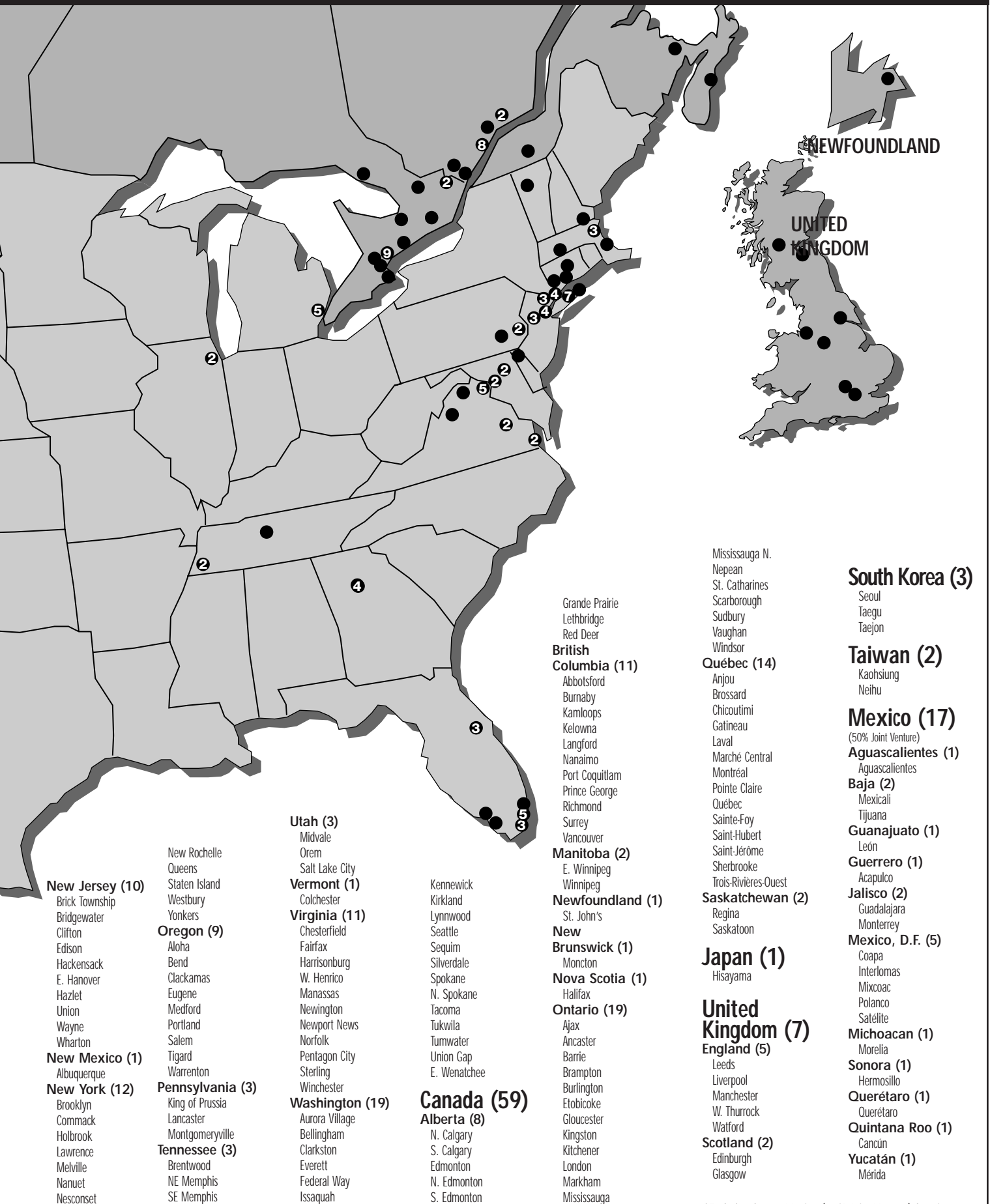
Nevada (3)

- Henderson
- Las Vegas
- Reno

New Hampshire (1)

- Nashua

AS OF DECEMBER 31, 1999



*Excludes the 17 Mexico (50% Joint Venture) locations.

NUMBER OF WAREHOUSES

	Own Land and Building	Lease Land and/or Building	Total
UNITED STATES	171	50	221
CANADA	50	8	58
UNITED KINGDOM	7	-	7
KOREA	-	3	3
TAIWAN	-	2	2
JAPAN	-	1	1
Total	<u>228</u>	<u>64</u>	<u>292</u>

The following schedule shows warehouse openings (net of warehouse closings) by region for the past five fiscal years and expected openings (net of closings) through December 31, 1999:

Openings by Fiscal Year	United States	Canada	Other International	Total	Total Warehouses in Operation
1994 and prior	182	37	2	221	221
1995	9	8	2	19	240
1996	1	10	1	12	252
1997	8	(1)	2	9	261
1998	11	2	4	17	278
1999	10	2	2	14	292
2000 (through 12/31/99)	9	1	0	10	302
Total	<u>230</u>	<u>59</u>	<u>13(a)</u>	<u>302</u>	

(a) As of August 29, 1999, the Company operated (through a 50%-owned joint venture) 16 warehouses in Mexico (one opened in fiscal 1992, two opened in fiscal 1993, five opened in fiscal 1994, five opened in fiscal 1995, one opened in fiscal 1998, and two opened in fiscal 1999). An additional warehouse was opened in Cancun in September 1999, bringing the total as of 12/31/99 to 17 warehouses. These warehouses are not included in the number of warehouses open in any period because the joint venture is accounted for on the equity basis and therefore their operations are not consolidated in the Company's financial statements.

In addition to its broad range of high quality, nationally branded and private label merchandise, the Company has enhanced the warehouse club concept to include fresh products (meat, bakery, deli and produce) as well as a number of ancillary businesses, including the following as of December 31, 1999:

ANCILLARY BUSINESSES

	United States	Canada	Other International	Total
Pharmacy	216	21	1	238
Optical Dispensing Centers	218	48	7	273
One-Hour Photo	223	59	13	295
Food Court and Hot Dog Stands	228	59	13	300
Hearing Aid Centers	59	7	-	66
Copy Centers	9	1	2	12
Print Shops	1	1	1	3
Gas Stations	84	2	-	86

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)
(dollars in thousands, except per share data)

The following table sets forth the results of operations by quarter for fiscal 1999 and 1998. This information includes all adjustments which management considers necessary for a fair presentation.

	52 Weeks Ended August 29, 1999					52 Weeks Ended August 30, 1998				
	First Quarter 12 Weeks	Second Quarter 12 Weeks	Third Quarter 12 Weeks	Fourth Quarter 16 Weeks	Total 52 Weeks	First Quarter 12 Weeks	Second Quarter 12 Weeks	Third Quarter 12 Weeks	Fourth Quarter 16 Weeks	Total 52 Weeks
REVENUE										
Net sales	\$5,894,238	\$6,484,445	\$5,941,049	\$8,656,721	\$26,976,453	\$5,321,256	\$5,697,098	\$5,241,926	\$7,570,100	\$23,830,380
Membership fees and other	103,840	107,913	112,771	155,054	479,578	108,507	97,908	96,160	136,922	439,497
Total revenue	<u>5,998,078</u>	<u>6,592,358</u>	<u>6,053,820</u>	<u>8,811,775</u>	<u>27,456,031</u>	<u>5,429,763</u>	<u>5,795,006</u>	<u>5,338,086</u>	<u>7,707,022</u>	<u>24,269,877</u>
OPERATING EXPENSES										
Merchandise costs	5,287,785	5,788,653	5,341,716	7,752,045	24,170,199	4,779,296	5,098,992	4,715,755	6,785,648	21,379,691
Selling, general and administrative	518,990	543,565	528,158	747,485	2,338,198	470,711	478,732	466,987	653,470	2,069,900
Preopening expenses	10,707	3,951	6,120	10,229	31,007	7,343	4,071	8,884	6,712	27,010
Provision for impaired assets and warehouse closing costs	2,000	3,000	1,500	50,000	56,500	2,000	—	1,500	2,500	6,000
Operating income	<u>178,596</u>	<u>253,189</u>	<u>176,326</u>	<u>252,016</u>	<u>860,127</u>	<u>170,413</u>	<u>213,211</u>	<u>144,960</u>	<u>258,692</u>	<u>787,276</u>
OTHER INCOME (EXPENSE)										
Interest expense	(10,912)	(10,995)	(10,524)	(13,096)	(45,527)	(10,923)	(10,965)	(10,477)	(15,170)	(47,535)
Interest income and other	6,039	11,192	10,659	16,376	44,266	3,720	7,743	7,562	7,637	26,662
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE										
Provision for income taxes	173,723	253,386	176,461	255,296	858,866	163,210	209,989	142,045	251,159	766,403
Provision for income taxes	69,489	101,354	70,584	102,118	343,545	65,284	83,996	56,818	100,463	306,561
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE										
Cumulative effect of accounting change, net of tax	104,234	152,032	105,877	153,178	515,321	97,926	125,993	85,227	150,696	459,842
Cumulative effect of accounting change, net of tax	(118,023)	—	—	—	(118,023)	—	—	—	—	—
NET INCOME	<u>\$ (13,789)</u>	<u>\$ 152,032</u>	<u>\$ 105,877</u>	<u>\$ 153,178</u>	<u>\$ 397,298</u>	<u>\$ 97,926</u>	<u>\$ 125,993</u>	<u>\$ 85,227</u>	<u>\$ 150,696</u>	<u>\$ 459,842</u>
NET INCOME PER COMMON SHARE:										
Basic Earnings per share:										
Income before cumulative effect of accounting change	\$ 0.48	\$ 0.69	\$ 0.48	\$ 0.69	\$ 2.35	\$ 0.46	\$ 0.59	\$ 0.39	\$ 0.69	\$ 2.13
Cumulative effect of accounting change, net of tax	(0.54)	—	—	—	(0.54)	—	—	—	—	—
Net Income	<u>\$ (0.06)</u>	<u>\$ 0.69</u>	<u>\$ 0.48</u>	<u>\$ 0.69</u>	<u>\$ 1.81</u>	<u>\$ 0.46</u>	<u>\$ 0.59</u>	<u>\$ 0.39</u>	<u>\$ 0.69</u>	<u>\$ 2.13</u>
Diluted earnings per share										
Income before cumulative effect of accounting change	\$ 0.46	\$ 0.66	\$ 0.46	\$ 0.66	\$ 2.23	\$ 0.44	\$ 0.56	\$ 0.38	\$ 0.66	\$ 2.03
Cumulative effect of accounting change, net of tax	(0.51)	—	—	—	(0.50)	—	—	—	—	—
Net Income	<u>\$ (0.05)</u>	<u>\$ 0.66</u>	<u>\$ 0.46</u>	<u>\$ 0.66</u>	<u>\$ 1.73</u>	<u>\$ 0.44</u>	<u>\$ 0.56</u>	<u>\$ 0.38</u>	<u>\$ 0.66</u>	<u>\$ 2.03</u>
Shares used in calculation (000's):										
Basic	217,838	218,891	220,219	221,076	219,626	213,833	214,590	215,913	217,142	215,506
Diluted	233,387	235,227	236,785	236,480	235,560	229,413	230,482	232,378	233,501	231,685
Pro forma amounts assuming accounting change had been in effect in fiscal 1998:										
Net Income						\$ 87,966	\$ 123,586	\$ 84,730	\$ 148,169	\$ 444,451
Earnings per common share — basic						\$ 0.41	\$ 0.58	\$ 0.39	\$ 0.68	\$ 2.06
Earnings per common share — diluted						\$ 0.39	\$ 0.55	\$ 0.37	\$ 0.65	\$ 1.96

TEN YEAR OPERATING AND FINANCIAL HIGHLIGHTS
(dollars in millions, except per share data)

WAREHOUSES IN OPERATION	1999		1998		1997		1996	
Beginning of year	278		261		252		240	
Openings	21		18		17		20	
Closings	(7)		(1)		(8)		(8)	
End of year	<u>292</u>		<u>278</u>		<u>261</u>		<u>252</u>	
OPERATING RESULTS								
Revenue								
Net sales	\$26,976	100.0%	\$23,830	100.0%	\$21,484	100.0%	\$19,214	100.0%
Membership fees and other	480	1.8	440	1.8	390	1.8	352	1.8
Total revenue	<u>27,456</u>	<u>101.8</u>	<u>24,270</u>	<u>101.8</u>	<u>21,874</u>	<u>101.8</u>	<u>19,566</u>	<u>101.8</u>
Operating expenses								
Merchandise costs	24,170	89.6	21,380	89.7	19,314	89.9	17,345	90.3
Selling, general and administrative expenses	2,338	8.7	2,070	8.7	1,877	8.7	1,691	8.8
Preopening expenses	31	0.1	27	0.1	27	0.1	29	0.1
Provision for impaired assets and warehouse closing costs	57	0.2	6	0.0	75	0.4	10	—
Operating expenses	<u>26,596</u>	<u>98.6</u>	<u>23,483</u>	<u>98.5</u>	<u>21,293</u>	<u>99.1</u>	<u>19,075</u>	<u>99.2</u>
Operating income	860	3.2	787	3.3	581	2.7	491	2.6
Other income (expenses)								
Interest expense	(45)	(0.2)	(48)	(0.2)	(76)	(0.4)	(78)	(0.4)
Interest income and other	44	0.2	27	0.1	15	0.1	11	—
Provision for merger and restructuring expenses	—	—	—	—	—	—	—	—
Income from continuing operations before income taxes and cumulative effect of accounting change	859	3.2	766	3.2	520	2.4	424	2.2
Provision for income taxes	344	1.3	306	1.3	208	0.9	175	0.9
Income from continuing operations before cumulative effect of accounting change	515	1.9	—	—	—	—	—	—
Cumulative effect of accounting change, net of tax	(118)	(0.4)	—	—	—	—	—	—
Income from continuing operations	397	1.5	460	1.9	312	1.5	249	1.3
Discontinued operations:								
Income (loss), net of tax	—	—	—	—	—	—	—	—
Loss on disposal	—	—	—	—	—	—	—	—
Net income (loss)	<u>\$ 397</u>	<u>1.5%</u>	<u>\$ 460</u>	<u>1.9%</u>	<u>\$ 312</u>	<u>1.5%</u>	<u>\$ 249</u>	<u>1.3%</u>
Per Share Data—Diluted								
Income from continuing operations before cumulative effect of accounting change	\$ 2.23		\$ 2.03		\$ 1.47		\$ 1.22	
Cumulative effect of accounting change, net of tax	(0.50)		—		—		—	
Income from continuing operations	1.73		2.03		1.47		1.22	
Discontinued operations:								
Income (loss), net of tax	—		—		—		—	
Loss on disposal	—		—		—		—	
Net income (loss)	<u>\$ 1.73</u>		<u>\$ 2.03</u>		<u>\$ 1.47</u>		<u>\$ 1.22</u>	
Shares used in calculation (000's)	235,560		231,685		224,668		217,890	
Balance Sheet Data								
Working capital (deficit)	\$ 450		\$ 431		\$ 146		\$ 57	
Property and equipment, net	3,907		3,395		3,155		2,888	
Total assets	7,505		6,260		5,476		4,912	
Short-term debt	—		—		25		60	
Long-term debt and capital lease obligations	919		930		917		1,229	
Stockholders' equity	3,532		2,966		2,468		1,778	
SALES INCREASE (DECREASE) FROM PRIOR YEAR								
Total	13%		11%		12%		7%	
Comparable units	10%		8%		9%		5%	
MEMBERS AT YEAR END (000's)								
Business (primary cardholders)	3,887		3,676		3,537		3,435	
Gold Star	9,555		8,654		7,845		7,076	

1995		1994		1993		1992		1991		1990	
221		200		170		140		119		104	
24		29		37		31		23		19	
(5)		(8)		(7)		(1)		(2)		(4)	
<u>240</u>		<u>221</u>		<u>200</u>		<u>170</u>		<u>140</u>		<u>119</u>	
\$17,906	100.0%	\$16,161	100.0%	\$15,155	100.0%	\$13,820	100.0%	\$1,814	100.0%	\$9,346	100.0%
341	1.9	320	2.0	309	2.0	277	2.0	228	1.9	185	2.0
<u>18,247</u>	<u>101.9</u>	<u>16,481</u>	<u>102.0</u>	<u>15,464</u>	<u>102.0</u>	<u>14,097</u>	<u>102.0</u>	<u>12,042</u>	<u>101.9</u>	<u>9,531</u>	<u>102.0</u>
16,226	90.6	14,663	90.7	13,751	90.7	12,565	90.9	10,756	91.0	8,519	91.2
1,556	8.7	1,426	8.8	1,315	8.7	1,129	8.2	934	7.9	719	7.7
25	0.1	25	0.2	28	0.2	26	0.2	16	0.1	12	0.1
7	—	7	—	5	—	2	—	2	—	6	—
<u>17,814</u>	<u>99.5</u>	<u>16,121</u>	<u>99.8</u>	<u>15,099</u>	<u>99.6</u>	<u>13,722</u>	<u>99.3</u>	<u>11,708</u>	<u>99.1</u>	<u>9,256</u>	<u>99.0</u>
433	2.4	360	2.2	365	2.4	375	2.7	334	2.8	275	3.0
(68)	(0.4)	(50)	(0.3)	(46)	(0.3)	(35)	(0.2)	(26)	(0.2)	(18)	(0.2)
3	—	14	0.1	17	0.1	29	0.2	34	0.3	19	0.2
—	—	(120)	(0.7)	—	—	—	—	—	—	—	—
368	2.0	204	1.3	336	2.2	369	2.7	342	2.9	276	3.0
151	0.8	93	0.6	133	0.9	146	1.1	135	1.1	108	1.2
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
<u>217</u>	<u>1.2</u>	<u>111</u>	<u>0.7</u>	<u>203</u>	<u>1.3</u>	<u>223</u>	<u>1.6</u>	<u>207</u>	<u>1.8</u>	<u>168</u>	<u>1.8</u>
—	—	(41)	(0.3)	20	0.1	19	0.1	12	0.1	7	0.1
(83)	(0.5)	(182)	(1.1)	—	—	—	—	—	—	—	—
<u>\$ 134</u>	<u>0.7%</u>	<u>\$ (112)</u>	<u>(0.7%)</u>	<u>\$ 223</u>	<u>1.4%</u>	<u>\$ 242</u>	<u>1.7%</u>	<u>\$ 219</u>	<u>1.9%</u>	<u>\$ 175</u>	<u>1.9%</u>
\$ 1.05		\$.51		\$.92		\$.98		\$.93		\$.79	
—		—		—		—		—		—	
<u>1.05</u>		<u>.51</u>		<u>.92</u>		<u>.98</u>		<u>.93</u>		<u>.79</u>	
—		(.19)		.08		.08		.05		.03	
(.37)		(.83)		—		—		—		—	
<u>\$.68</u>		<u>\$ (.51)</u>		<u>\$ 1.00</u>		<u>\$ 1.06</u>		<u>\$.98</u>		<u>\$.82</u>	
223,610		219,332		240,162		245,090		234,202		219,532	
\$ 9		\$ (113)		\$ 127		\$ 282		\$ 305		\$ 14	
2,535		2,146		1,967		1,704		1,183		936	
4,437		4,236		3,931		3,577		2,986		2,030	
76		149		23		—		—		139	
1,095		795		813		814		500		200	
1,531		1,685		1,797		1,594		1,430		988	
11%		7%		10%		17%		26%		19%	
2%		(3%)		(3%)		6%		10%		7%	
3,318		3,228		3,177		3,105		2,717		2,170	
6,683		6,088		5,797		5,357		4,647		3,553	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. Such forward-looking statements involve risks and uncertainties that may cause actual events, results or performance to differ materially from those indicated by such statements. These risks and uncertainties include, but are not limited to, domestic and international economic conditions including exchange rates, the effects of competition and regulation, conditions affecting the acquisition, development, ownership or use of real estate, actions of vendors, Year 2000 issues, and other risks identified from time to time in the Company's public statements and reports filed with the SEC.

Comparison of Fiscal 1999 (52 weeks) and Fiscal 1998 (52 weeks): (dollars in thousands, except earnings per share)

Net income for fiscal 1999 was impacted by both a \$50,000 fourth quarter pre-tax provision for impaired assets and warehouse closing costs, as well as the one-time \$118,023 non-cash, after-tax charge recorded in the first quarter of fiscal 1999, reflecting the cumulative effect of the Company's change in accounting for membership fees from a cash to a deferred method. The impact of these two charges resulted in net income for fiscal 1999 of \$397,298, or \$1.73 per diluted share compared to last year's reported net income of \$459,842, or \$2.03 per diluted share. Excluding the impact of these two charges, net income in fiscal 1999 would have been \$545,321, or \$2.36 per diluted share. Assuming the newly adopted accounting treatment for deferring membership fees had been in effect in fiscal 1998, net income for fiscal 1998 would have been \$444,451, or \$1.96 per diluted share; and the year-over-year earnings per share increase, adjusted for these items, would have been 20%.

Net sales increased 13% to \$26,976,453 in fiscal 1999 from \$23,830,380 in fiscal 1998. This increase was due to: (i) higher sales at existing locations opened prior to fiscal 1998; (ii) increased sales at 16 warehouses that were opened in fiscal 1998 and in operation for the entire 1999 fiscal year; and (iii) first year sales at the 14 new warehouses opened (21 opened, 7 closed) during fiscal 1999. Changes in prices did not materially impact sales levels.

Comparable sales, that is sales in warehouses open for at least a year, increased at a 10% annual rate in fiscal 1999 compared to an 8% annual rate during fiscal 1998.

Membership fees and other revenue increased 9% to \$479,578, or 1.78% of net sales, in fiscal 1999 from \$439,497, or 1.84% of net sales, in fiscal 1998. This increase is primarily due to membership sign-ups at the 14 new warehouses opened in fiscal 1999 and a five dollar increase in the annual membership fee for both Business and Gold Star members effective April 1, 1998 in the United States and May 1, 1998 in Canada.

Effective with the first quarter of fiscal 1999, the Company changed its method of accounting for membership fee income from a "cash basis" to a "deferred basis", whereby membership fee income is recognized ratably over the one-year life of the membership. If the deferred method had been used in fiscal 1998, membership fees and other would have been reduced by \$25,651 to \$413,846, or 1.74% of net sales, and the year-over-year increase would have been 16%.

Gross margin (defined as net sales minus merchandise costs) increased 15% to \$2,806,254, or 10.40% of net sales, in fiscal 1999 from \$2,450,689, or 10.28% of net sales, in fiscal 1998. Gross margin as a percentage of net sales increased due to increased sales penetration of certain higher gross margin ancillary businesses, favorable inventory shrink results, and improved performance of the Company's international operations. The gross margin figures reflect accounting for most U.S. merchandise inventories on the last-in, first-out (LIFO) method. In fiscal 1999 there was a \$4 million LIFO credit, due

primarily to deflation in most of the Company's LIFO pools, particularly in the electronics LIFO pool, coupled with a reduction of tobacco inventory levels resulting primarily from announced manufacturers' price increases just prior to fiscal year end. In fiscal 1998 there was no LIFO charge due to the use of the LIFO method compared to the first-in, first-out (FIFO) method.

Selling, general and administrative expenses as a percent of net sales decreased to 8.67% during fiscal 1999 from 8.69% during fiscal 1998, primarily reflecting the increase in comparable warehouse sales noted above, and a year-over-year improvement in the Company's core warehouse operations and Central and Regional administrative offices, which were partially offset by higher expenses associated with international expansion and certain ancillary businesses.

Preopening expenses totaled \$31,007, or 0.11% of net sales, during fiscal 1999 and \$27,010, or 0.11% of net sales, during fiscal 1998. During fiscal 1999, the Company opened 21 new warehouses compared to 16 new warehouses during fiscal 1998. Pre-opening expenses also include costs related to remodels, expanded fresh foods and ancillary operations at existing warehouses.

The provision for impaired assets and warehouse closing costs was \$56,500 in fiscal 1999 compared to \$6,000 in fiscal 1998. The fiscal 1999 provision includes a charge of \$31,080 for the impairment of long-lived assets as required by the Financial Accounting Standards Board Statement No. 121 (SFAS 121) and \$30,865 for warehouse and other facility closing costs, which were offset by \$5,445 of gains on the sale of real property. The provision for warehouse closing costs includes \$24,773 for lease obligations and \$6,092 for other expenses directly related to the closedown of warehouses and other facilities. As of August 29, 1999, the Company had expended \$828 for lease obligations and \$3,339 for other closedown expenses. The increase in warehouse closing costs is primarily attributable to the Company's decision in the fourth quarter of fiscal 1999 to relocate several warehouses (which were not otherwise impaired) to larger and better-located facilities.

Interest expense totaled \$45,527 in fiscal 1999, and \$47,535 in fiscal 1998. The decrease in interest expense is primarily due to an increase in capitalized interest related to construction projects.

Interest income and other totaled \$44,266 in fiscal 1999 compared to \$26,662 in fiscal 1998. The increase was primarily due to interest earned on higher balances of cash and cash equivalents and short-term investments during fiscal 1999 as compared to fiscal 1998.

The effective income tax rate on earnings was 40% in both fiscal 1999 and fiscal 1998.

**Comparison of Fiscal 1998 (52 weeks) and Fiscal 1997 (52 weeks):
(dollars in thousands, except earnings per share)**

Net operating results for fiscal 1998 reflect net income of \$459,842, or \$2.03 per share (diluted), as compared to a fiscal 1997 net income of \$312,197, or \$1.47 per share (diluted). The net income for fiscal 1997 includes a non-cash, pre-tax charge of \$65,000 (\$38,675 after-tax, or \$.17 per share) reflecting a provision for the impairment of long-lived assets as required by SFAS 121. In addition, fiscal 1997 net income was impacted by one-time, pre-tax charges of approximately \$13,000 (\$7,800 after-tax, or \$.03 per share) related to the call and redemption of \$764,000 of convertible subordinated debentures.

Net sales increased 11% to \$23,830,380 in fiscal 1998 from \$21,484,118 in fiscal 1997. This increase was due to: (i) higher sales at existing locations opened prior to fiscal 1997; (ii) increased sales at 17 warehouses that were opened in fiscal 1997 and in operation for the entire 1998 fiscal year; and (iii) first year sales at the 16 new warehouses opened during fiscal 1998, which increase was partially offset by one warehouse closed during fiscal 1998 that was in operation during fiscal 1997. Changes in prices did not materially impact sales levels.

Comparable sales, that is sales in warehouses open for at least a year, increased at an 8% annual rate in fiscal 1998, compared to a 9% annual rate during fiscal 1997. Comparable sales in fiscal 1998 were negatively impacted by approximately 1% due to a decline in the Canadian exchange rate.

Membership fees and other revenue increased 13% to \$439,497, or 1.84% of net sales, in fiscal 1998 from \$390,286, or 1.82% of net sales, in fiscal 1997. This increase is primarily due to membership sign-ups at the 18 new warehouses opened in fiscal 1998 and a five dollar increase in the annual membership fee for both Business and Gold Star members effective April 1, 1998 in the United States and May 1, 1998 in Canada.

Gross margin (defined as net sales minus merchandise costs) increased 13% to \$2,450,689, or 10.28% of net sales, in fiscal 1998 from \$2,169,633, or 10.10% of net sales, in fiscal 1997. Gross margin as a percentage of net sales increased due to increased sales penetration of certain higher gross margin ancillary businesses, the expanded use of the Company's depot facilities, and improved performance of the Company's international operations. The gross margin figures reflect accounting for most U.S. merchandise inventories on the last-in, first-out (LIFO) method. For both fiscal 1998 and 1997 there was no LIFO charge due to the use of the LIFO method compared to the first-in, first-out (FIFO) method.

Selling, general and administrative expenses as a percent of net sales decreased to 8.69% during fiscal 1998 from 8.74% during fiscal 1997, primarily reflecting the increase in comparable warehouse sales noted above, and a year-over-year improvement in the Company's core warehouse operations and Central and Regional administrative offices, which were partially offset by higher expenses associated with international expansion and certain ancillary businesses.

Preopening expenses totaled \$27,010, or 0.11% of net sales, during fiscal 1998 and \$27,448, or 0.13% of net sales, during fiscal 1997. During fiscal 1998, the Company opened 16 new warehouses (in addition, two warehouses were acquired during fiscal 1998 as part of the formation of the Korean joint venture) compared to 17 new warehouses during fiscal 1997.

The provision for impaired assets and warehouse closing costs was \$6,000 in fiscal 1998 compared to \$75,000 in fiscal 1997. The fiscal 1997 provision includes a \$65,000 impairment charge relating to the adoption of SFAS 121 and \$10,000 for warehouse closing costs. The provision for warehouse closing costs includes estimated closing costs for certain warehouses, which had been or were in the process of being replaced by new warehouses.

Interest expense totaled \$47,535 in fiscal 1998, and \$76,281 in fiscal 1997. The decrease in interest expense is primarily related to the call for redemption during fiscal 1997 of three convertible subordinated debenture issues. Both the Company's 6 $\frac{3}{4}$ % (\$285,100 principal amount), and 5 $\frac{1}{2}$ % (\$179,300 principal amount) debentures were called for redemption in the second quarter of fiscal 1997. Approximately \$302,000 of these two series of debentures was converted into common stock. The 5 $\frac{3}{4}$ % (\$300,000 principal amount) debentures were called for redemption in the fourth quarter of fiscal 1997. The reduction in interest expense related to the three redemptions was partially offset by the one-time costs of the redemption call premiums and write-offs of unamortized issuance costs associated with the redemptions of these convertible subordinated debentures. Also, in the fourth quarter of fiscal 1997, the Company issued \$900,000 (principal amount at maturity) of Zero Coupon Convertible Subordinated Notes, priced with a yield to maturity of 3 $\frac{1}{2}$ %, resulting in gross proceeds to the Company of \$449,640, approximately \$312,000 of which was used to redeem the 5 $\frac{3}{4}$ % convertible subordinated debentures referred to above.

Interest income and other totaled \$26,662 in fiscal 1998, and \$15,898 in fiscal 1997. The increase was primarily due to interest earned on higher balances of cash and cash equivalents and short-term investments during fiscal 1998 as compared to fiscal 1997.

The effective income tax rate on earnings was 40% in both fiscal 1998 and fiscal 1997.

Liquidity and Capital Resources **(dollars in thousands)**

Expansion Plans

Costco's primary requirement for capital is the financing of the land, building and equipment costs for new warehouses plus the costs of initial warehouse operations and working capital requirements, as well as additional capital for international expansion through investments in foreign subsidiaries and joint ventures.

While there can be no assurance that current expectations will be realized, and plans are subject to change upon further review, it is management's current intention to spend an aggregate of approximately \$800,000 to \$950,000 during fiscal 2000 in the United States and Canada for real estate, construction, remodeling and equipment for warehouse clubs and related operations; and approximately \$100,000 to \$150,000 for international expansion, including the United Kingdom, Asia, Mexico and other potential ventures. These expenditures will be financed with a combination of cash provided from operations, the use of cash and cash equivalents and short-term investments (which totaled \$697,274 at August 29, 1999), short-term borrowings under revolving credit facilities and other financing sources as required.

Expansion plans for the United States and Canada during fiscal 2000 are to open approximately 20 to 25 new warehouse clubs, including four to six relocations of existing warehouses to larger and better-located warehouses. The Company expects to continue expansion of its international operations and plans to open two to three additional units in the United Kingdom through its 60%-owned subsidiary and an additional unit in Taiwan through its 55%-owned subsidiary during the next year. Other international markets are being assessed.

Costco and its Mexico-based joint venture partner, Controladora Comercial Mexicana, each own a 50% interest in Price Club Mexico. As of August 29, 1999, Price Club Mexico operated 16 warehouses in Mexico and plans to open two or three new warehouse clubs during fiscal 2000, including one that opened in September 1999.

Bank Credit Facilities and Commercial Paper Programs (all amounts stated in US dollars)

The Company has in place a \$425,000 commercial paper program supported by a \$425,000 bank credit facility with a group of nine banks, of which \$175,000 expires on January 24, 2000, and \$250,000 expires on January 30, 2001. At August 29, 1999, no amounts were outstanding under the loan facility or the commercial paper program.

In addition, a wholly-owned Canadian subsidiary has a \$134,000 commercial paper program supported by a \$94,000 bank credit facility with three Canadian banks, of which \$57,000 expires in March 2000, and \$37,000 expires in March 2001. At August 29, 1999, no amounts were outstanding under the bank credit facility or the Canadian commercial paper program.

The Company has agreed to limit the combined amount outstanding under the U.S. and Canadian commercial paper programs to the \$519,000 combined amounts of the respective supporting bank credit facilities.

Letters of Credit

The Company has separate letter of credit facilities (for commercial and standby letters of credit), totaling approximately \$294,200. The outstanding commitments under these facilities at August 29, 1999 totaled approximately \$176,500, including approximately \$45,300 in standby letters of credit.

Derivatives

The Company has limited involvement with derivative financial instruments and uses them only to manage well-defined interest rate and foreign exchange risks. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on inventory purchases. The amount of interest rate and foreign exchange contracts outstanding at August 29, 1999 were not material to the Company's results of operations or its financial position.

Year 2000

The Company uses a number of computer software programs and embedded operating systems that were not originally designed to process dates beyond the year 1999. Like most automated companies, Costco has been addressing the Year 2000 challenge to make sure all of its systems are Year 2000 compliant and fully operational prior to the year 2000 and on into the 21st Century. As far back as the early 1990's, the Company began taking initial measures to ensure that its systems would function in the year 2000 and beyond, and in 1997 began a formal review of each of its applications to determine the Year 2000 compliance of its date-sensitive systems and equipment. This included assessments of both information technology, such as point-of-sale computer systems and financial software applications, as well as non-information technology equipment, including critical facilities systems, such as security systems, energy management, warehouse refrigeration, etc.

As of August 29, 1999 the Company has substantially completed the necessary remediation and testing of virtually all key systems, and believes that the Year 2000 issues will not present any significant operational problems. Total costs related to the Year 2000 effort are estimated to be less than \$7,500, of which the Company has incurred approximately 90% through August 29, 1999. While it is possible that the remaining systems currently being implemented, reviewed and/or tested may produce an unexpected cost increase, the Company does not believe it would add materially to the current estimated cost.

Additionally, Costco has contacted and will continue to contact significant vendors, suppliers, financial institutions and other third party providers upon which its business depends. These efforts are designed to minimize the impact to the Company should these third parties fail to remediate their Year 2000 issues. Although the Company has not received responses from all of its suppliers, the responses received have indicated that they are or will be Year 2000 compliant and that they are anticipating no significant problems related to Year 2000 preparedness. However, the Company can give no assurances that such third parties will in fact be successful in resolving all of their Year 2000 issues, and the failure of such third parties to comply on a timely basis could have an adverse effect on the Company. The Company anticipates minimal business disruption as a result of Year 2000 issues; however, possible consequences include, but are not limited to, loss of local or regional electric power, delays in delivery or receipt of merchandise, inability to process transactions, loss of communications, and similar interruptions of normal business activities. Where needed, the Company has established contingency plans based on assessment of its supplier base and evaluation of outside risks.

Financial Position and Cash Flows

Working capital totaled approximately \$450,000 at August 29, 1999, compared to working capital of \$431,000 at August 30, 1998. The increase in net working capital was primarily due to an increase in cash and cash equivalents and short-term investments of approximately \$260,000, and an increase in other current assets of approximately \$131,000. These increases were largely offset by increases in accrued and other current liabilities of approximately \$136,000 and an increase of \$226,000 due to the adoption of the deferred membership accounting method.

Net cash provided by operating activities totaled \$940,863 in fiscal 1999 compared to \$737,610 in fiscal 1998. The increase in net cash from operating activities is primarily a result of increased net income,

adjusted for the non-cash cumulative effect of accounting change, and a positive change in net receivables, other current assets and accrued and other current liabilities.

Net cash used in investing activities totaled \$953,923 in fiscal 1999 compared to \$609,446 in fiscal 1998. The investing activities primarily relate to additions to property and equipment for new and remodeled warehouses of \$787,935 and \$571,904 in fiscal 1999 and 1998, respectively. The Company opened 21 warehouses during fiscal 1999 compared to 16 warehouses opened during fiscal 1998. Net cash used in investing activities also reflects an increase in short-term investments of \$181,103 since the beginning of fiscal year 1999.

Net cash provided by financing activities totaled \$85,845 in fiscal 1999 compared to \$66,591 in fiscal 1998. This increase is primarily due to a decline in net repayments under short-term credit facilities.

The Company's balance sheet as of August 29, 1999 reflects a \$1,245,181 or 20% increase in total assets since August 30, 1998. The increase is primarily due to a net increase in property and equipment and merchandise inventory related to the Company's expansion program and an increase in cash and cash equivalents and short-term investments.

Stock Repurchase Program

On November 5, 1998, the Company announced that its Board of Directors had authorized a stock repurchase program of up to \$500 million of Costco Common Stock over the next three years. The Company expects to repurchase shares from time to time in the open market or in private transactions as market conditions warrant. The Company expects to fund stock purchases from cash and short-term investments on hand, as well as from future operating cash flows. The repurchased shares would constitute authorized, but unissued shares and would be used for general corporate purposes including stock option grants under stock option programs. As of August 29, 1999, the Company had not repurchased any stock under the program.

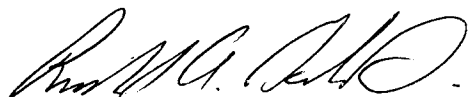
REPORT OF MANAGEMENT

The financial statements and related financial information in this Annual Report have been prepared by and are the responsibility of the management of Costco. These financial statements have been prepared in conformity with generally accepted accounting principles and necessarily include certain estimates and judgments based on the best information available to management.

The Company maintains a system of internal accounting controls, which is supported by an internal audit program, and is designed to provide reasonable assurance that the Company's assets are safeguarded and transactions are properly recorded. This system is continually reviewed and modified in response to changing business conditions and operations and as a result of recommendations by the external and internal auditors.

The financial statements of the Company have been audited by Arthur Andersen LLP, independent public accountants. Their accompanying report is based on an audit conducted in accordance with generally accepted auditing standards, including the related review of internal accounting controls and financial reporting matters.

The Audit Committee of the Board of Directors, consisting solely of outside Directors, meets periodically with the independent public accountants, the internal auditors and representatives of management to discuss auditing and financial reporting matters. The Audit Committee, acting on behalf of the shareholders, maintains an ongoing appraisal of the internal accounting controls, the activities of the external auditors and internal auditors and the financial condition of the Company. Both the Company's independent public accountants and internal auditors have complete access to the Audit Committee.



Richard A. Galanti
Executive Vice President
and Chief Financial Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Costco Wholesale Corporation:

We have audited the accompanying consolidated balance sheets of Costco Wholesale Corporation (a Washington corporation) and subsidiaries ("Costco") as of August 29, 1999 and August 30, 1998, and the related consolidated statements of income, stockholders' equity and cash flows for the 52 weeks ended August 29, 1999, August 30, 1998 and August 31, 1997. These financial statements are the responsibility of Costco's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Costco as of August 29, 1999 and August 30, 1998, and the results of its operations and its cash flows for the 52 weeks ended August 29, 1999, August 30, 1998 and August 31, 1997 in conformity with generally accepted accounting principles.

As explained in Note 1 to the consolidated financial statements, the Company changed its method of accounting for membership fee income from a cash basis to a deferred basis whereby membership fee income is recognized ratably over the one-year life of the membership.



Seattle, Washington
October 5, 1999

COSTCO WHOLESALE CORPORATION

CONSOLIDATED BALANCE SHEETS

(dollars in thousands except par value)

ASSETS

	<u>August 29, 1999</u>	<u>August 30, 1998</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 440,586	\$ 361,974
Short-term investments	256,688	75,549
Receivables, net	168,648	171,613
Merchandise inventories, net	2,210,475	1,910,751
Other current assets	239,516	108,343
Total current assets	<u>3,315,913</u>	<u>2,628,230</u>
PROPERTY AND EQUIPMENT		
Land and land rights	1,264,125	1,119,663
Buildings and leasehold and land improvements	2,444,640	2,170,896
Equipment and fixtures	1,138,568	948,515
Construction in progress	176,824	91,901
	5,024,157	4,330,975
Less-accumulated depreciation and amortization	<u>(1,117,269)</u>	<u>(935,603)</u>
Net property and equipment	<u>3,906,888</u>	<u>3,395,372</u>
OTHER ASSETS	282,200	236,218
	<u>\$7,505,001</u>	<u>\$6,259,820</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$1,912,632	\$1,605,533
Accrued salaries and benefits	414,276	352,903
Accrued sales and other taxes	122,932	102,367
Deferred membership income	225,903	—
Other current liabilities	190,490	136,139
Total current liabilities	2,866,233	2,196,942
LONG-TERM DEBT	918,888	930,035
DEFERRED INCOME TAXES AND OTHER LIABILITIES	66,990	61,483
Total liabilities	<u>3,852,111</u>	<u>3,188,460</u>
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	120,780	105,474
STOCKHOLDERS' EQUITY		
Preferred stock \$.01 par value; 100,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock \$.01 par value; 900,000,000 shares authorized; 221,368,000 and 217,589,000 shares issued and outstanding	2,214	2,176
Additional paid-in capital	952,758	817,628
Other accumulated comprehensive loss	(118,084)	(151,842)
Retained earnings	2,695,222	2,297,924
Total stockholders' equity	<u>3,532,110</u>	<u>2,965,886</u>
	<u>\$7,505,001</u>	<u>\$6,259,820</u>

The accompanying notes are an integral part of these balance sheets.

COSTCO WHOLESALE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share data)

	52 Weeks Ended August 29, 1999	52 Weeks Ended August 30, 1998	52 Weeks Ended August 31, 1997
REVENUE			
Net sales	\$26,976,453	\$23,830,380	\$21,484,118
Membership fees and other	479,578	439,497	390,286
Total revenue	<u>27,456,031</u>	<u>24,269,877</u>	<u>21,874,404</u>
OPERATING EXPENSES			
Merchandise costs	24,170,199	21,379,691	19,314,485
Selling, general and administrative	2,338,198	2,069,900	1,876,759
Preopening expenses	31,007	27,010	27,448
Provision for impaired assets and warehouse closing costs	56,500	6,000	75,000
Operating income	<u>860,127</u>	<u>787,276</u>	<u>580,712</u>
OTHER INCOME (EXPENSE)			
Interest expense	(45,527)	(47,535)	(76,281)
Interest income and other	44,266	26,662	15,898
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	858,866	766,403	520,329
Provision for income taxes	<u>343,545</u>	<u>306,561</u>	<u>208,132</u>
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	515,321	459,842	312,197
Cumulative effect of accounting change, net of tax benefit of \$78,682	<u>(118,023)</u>	<u>—</u>	<u>—</u>
NET INCOME	<u>\$ 397,298</u>	<u>\$ 459,842</u>	<u>\$ 312,197(a)</u>
NET INCOME PER COMMON SHARE:			
Basic earnings per share:			
Income before cumulative effect of accounting change	\$ 2.35	\$ 2.13	\$ 1.51
Cumulative effect of accounting change, net of tax	(0.54)	—	—
Net Income	<u>\$ 1.81</u>	<u>\$ 2.13</u>	<u>\$ 1.51</u>
Diluted earnings per share:			
Income before cumulative effect of accounting change	\$ 2.23	\$ 2.03	\$ 1.47
Cumulative effect of accounting change, net of tax	(0.50)	—	—
Net Income	<u>\$ 1.73</u>	<u>\$ 2.03</u>	<u>\$ 1.47(a)</u>
Shares used in calculation (000's)			
Basic	219,626	215,506	207,379
Diluted	235,560	231,685	224,668
Pro forma amounts assuming accounting change had been in effect in fiscal 1998 and 1997:			
Net Income	<u>\$ 515,321</u>	<u>\$ 444,451</u>	<u>\$ 302,969</u>
Earnings per common share - basic	<u>\$ 2.35</u>	<u>\$ 2.06</u>	<u>\$ 1.46</u>
Earnings per common share - diluted	<u>\$ 2.23</u>	<u>\$ 1.96</u>	<u>\$ 1.43</u>

(a) Net income and net income per common equivalent share (diluted) would have been \$350,872 and \$1.64, respectively, without the effect of adopting SFAS No. 121, using 224,668 diluted shares.

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

COSTCO WHOLESALE CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the 52 weeks ended August 29, 1999, August 30, 1998 and August 31, 1997
(in thousands)

	Common Stock		Additional Paid-In Capital	Other Accumulated Comprehensive Income/(Loss)	Retained Earnings	Total
	Shares	Amount				
BALANCE AT SEPTEMBER 1, 1996 . . .	196,436	\$1,964	\$321,832	\$ (71,883)	\$1,525,885	\$1,777,798
Comprehensive Income						
Net Income	—	—	—	—	312,197	312,197
Other accumulated comprehensive loss						
Foreign currency translation						
adjustment	—	—	—	(6,543)	—	(6,543)
Total comprehensive income	—	—	—	(6,543)	312,197	305,654
Stock options exercised including income						
tax benefits	4,077	41	78,186	—	—	78,227
Conversion of convertible debentures . . .	13,080	131	306,306	—	—	306,437
BALANCE AT AUGUST 31, 1997	213,593	2,136	706,324	(78,426)	1,838,082	2,468,116
Comprehensive Income						
Net Income	—	—	—	—	459,842	459,842
Other accumulated comprehensive loss						
Foreign currency translation						
adjustment	—	—	—	(73,416)	—	(73,416)
Total comprehensive income	—	—	—	(73,416)	459,842	386,426
Stock options exercised including income						
tax benefits	3,996	40	111,304	—	—	111,344
BALANCE AT AUGUST 30, 1998	217,589	2,176	817,628	(151,842)	2,297,924	2,965,886
Comprehensive Income						
Net Income	—	—	—	—	397,298	397,298
Other accumulated comprehensive loss						
Foreign currency translation						
adjustment	—	—	—	33,758	—	33,758
Total comprehensive income	—	—	—	33,758	397,298	431,056
Stock options exercised including income						
tax benefits	3,234	33	110,282	—	—	110,315
Conversion of convertible debentures . . .	545	5	24,848	—	—	24,853
BALANCE AT AUGUST 29, 1999	221,368	\$2,214	\$952,758	\$(118,084)	\$2,695,222	\$3,532,110

The accompanying notes are an integral part of these financial statements

COSTCO WHOLESALE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	52 Weeks Ended August 29, 1999	52 Weeks Ended August 30, 1998	52 Weeks Ended August 31, 1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 397,298	\$ 459,842	\$ 312,197
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	224,811	196,315	181,759
Accretion of discount on zero coupon notes	16,064	15,875	567
Net gain on sale of property and equipment and other	(10,443)	(3,459)	(602)
Provision for impaired assets	31,080	5,629	65,000
Change in deferred income taxes	(22,666)	20,420	(4,322)
Cumulative effect of accounting change, net of tax	118,023	—	—
Change in receivables, other current assets, accrued and other current liabilities	195,528	60,315	66,303
Increase in merchandise inventories	(286,902)	(255,140)	(189,323)
Increase in accounts payable	284,238	243,164	162,628
Other	(6,168)	(5,351)	(3,958)
Total adjustments	543,565	277,768	278,052
Net cash provided by operating activities	940,863	737,610	590,249
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	(787,935)	(571,904)	(553,374)
Proceeds from the sale of property and equipment	58,670	80,698	40,946
Investment in unconsolidated joint ventures	(15,000)	(11,595)	(4,750)
Increase in short-term investments	(181,103)	(75,549)	—
Increase in other assets and other, net	(28,555)	(31,096)	(25,995)
Net cash used in investing activities	(953,923)	(609,446)	(543,173)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments under short-term credit facilities, net	—	(24,404)	(33,990)
Net proceeds from issuance of long-term debt	10,336	9,928	461,035
Repayments of long-term debt	(11,675)	(9,307)	(471,791)
Changes in bank overdraft	10,203	(3,321)	(7,244)
Proceeds from minority interests	15,058	19,580	15,119
Exercise of stock options	61,923	74,115	62,015
Net cash provided by financing activities	85,845	66,591	25,144
EFFECT OF EXCHANGE RATE CHANGES ON CASH	5,827	(8,289)	1,333
Net increase in cash and cash equivalents	78,612	186,466	73,553
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	361,974	175,508	101,955
CASH AND CASH EQUIVALENTS END OF YEAR	\$ 440,586	\$ 361,974	\$ 175,508
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (excludes amounts capitalized and paid for redemption premiums)	\$ 27,107	\$ 29,191	\$ 76,233
Income taxes	\$ 294,860	\$ 257,352	\$ 195,241

The accompanying notes are an integral part of these financial statements

COSTCO WHOLESALE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data)

Note 1—Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Costco Wholesale Corporation, a Washington corporation, and its subsidiaries (“Costco” or the “Company”). All inter-company transactions between the Company and its subsidiaries, including The Price Company, have been eliminated in consolidation. The Price Company and Costco Wholesale Corporation primarily operate membership warehouses under the Costco Wholesale name.

Costco operates membership warehouses that offer very low prices on a limited selection of nationally branded and selected private label products in a wide range of merchandise categories in no-frills, self-service warehouse facilities. At August 29, 1999, Costco operated 292 warehouse clubs: 221 in the United States; 58 in Canada; seven in the United Kingdom; three in Korea; two in Taiwan; and one in Japan. As of August 29, 1999, the Company also operated (through a 50%-owned joint venture) 16 warehouses in Mexico.

The Company’s investment in the Price Club Mexico joint venture and in other unconsolidated joint ventures that are less than majority owned are accounted for under the equity method.

Fiscal Years

The Company reports on a 52/53-week fiscal year basis, which ends on the Sunday nearest August 31st. Fiscal years 1999, 1998, and 1997 were 52 weeks.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Short-term Investments

At August 29, 1999 and August 30, 1998, short-term investments consisted of the following:

	<u>1999</u>	<u>1998</u>
Municipal securities	\$ 97,966	\$ —
Corporate notes and bonds	89,872	14,008
U.S. Treasury/Agency securities	43,699	32,566
Certificates of deposit	24,841	28,883
Other	310	92
Total short-term investments	<u>\$256,688</u>	<u>\$75,549</u>

The Company’s short-term investments have been designated as being available-for-sale. The fair market value of short term investments approximates their carrying value and unrealized holding gains and losses were not significant at August 29, 1999 or August 30, 1998. Realized gains and losses are included in interest income and were not significant in fiscal 1999 or 1998.

COSTCO WHOLESALE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 1—Summary of Significant Accounting Policies (Continued)

Receivables

Receivables consist primarily of vendor rebates and promotional allowances and other miscellaneous amounts due to the Company, and are net of allowance for doubtful accounts of \$4,582 at August 29, 1999 and \$4,297 at August 30, 1998.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market as determined primarily by the retail inventory method, and are stated using the last-in, first-out (LIFO) method for substantially all U.S. merchandise inventories. The Company believes the LIFO method more fairly presents the results of operations by more closely matching current costs with current revenues. If all merchandise inventories had been valued using the first-in, first-out (FIFO) method, inventories would have been higher by \$12,150 at August 29, 1999 and \$16,150 at August 30, 1998.

	August 29, 1999	August 30, 1998
Merchandise inventories consist of:		
United States (primarily LIFO)	\$1,799,101	\$1,587,285
Foreign (FIFO)	411,374	323,466
Total	\$2,210,475	\$1,910,751

The Company provides for estimated inventory losses between physical inventory counts on the basis of a standard percentage of sales. This provision is adjusted periodically to reflect the actual shrinkage results of the physical inventory counts, which generally occur in the second and fourth quarters of the Company's fiscal year.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization expenses are computed using the straight-line method for financial reporting purposes and accelerated methods for tax purposes. Buildings are depreciated over twenty-five to thirty-five years; equipment and fixtures are depreciated over three to ten years; and land rights and leasehold improvements are amortized over the initial term of the lease.

Interest costs incurred on property and equipment during the construction period are capitalized. The amount of interest costs capitalized was \$4,380 in fiscal 1999, \$3,542 in fiscal 1998, and \$4,097 in fiscal 1997.

Goodwill

Goodwill, included in other assets, totaled \$42,568 at August 29, 1999 and \$43,229 at August 30, 1998, resulting from certain previous business combinations. Goodwill is being amortized over 5 to 40 years using the straight-line method. Accumulated amortization was \$14,787 at August 29, 1999 and \$12,686 at August 30, 1998.

COSTCO WHOLESALE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 1—Summary of Significant Accounting Policies (Continued)

Net Income Per Common and Common Equivalent Share

In the second quarter of fiscal 1998, the Company adopted the Financial Accounting Standards Board (FASB) Statement No. 128, "Earnings per Share" (SFAS No. 128). SFAS No. 128 established new standards for computing and presenting earnings per share (EPS) for entities with publicly held common stock.

The following data show the amounts used in computing earnings per share and the effect on income and the weighted average number of shares of dilutive potential common stock.

	52 Weeks Ended		
	<u>August 29, 1999</u>	<u>August 30, 1998</u>	<u>August 31, 1997</u>
Net income available to common stockholders used in basic EPS	\$397,298	\$459,842	\$312,197
Interest on convertible bonds, net of tax	<u>9,640</u>	<u>9,529</u>	<u>17,325</u>
Net income available to common stockholders after assumed conversions of dilutive securities . . .	<u>\$406,938</u>	<u>\$469,371</u>	<u>\$329,522</u>
Weighted average number of common shares used in basic EPS . .	219,626	215,506	207,379
Stock options	5,946	5,960	4,001
Conversion of convertible bonds	<u>9,988</u>	<u>10,219</u>	<u>13,288</u>
Weighted number of common shares and dilutive potential common stock used in diluted EPS	<u>235,560</u>	<u>231,685</u>	<u>224,668</u>

In November, 1998, the Company's Board of Directors authorized a stock repurchase program of up to \$500,000 of Costco Common Stock over the next three years. The Company expects to repurchase shares from time to time in the open market or in private transactions as market conditions warrant. The Company expects to fund stock purchases from cash and short-term investments on hand, as well as from future operating cash flows. The repurchased shares would constitute authorized but unissued shares and would be used for general corporate purposes including stock option grants under stock option programs. As of August 29, 1999, the Company had not repurchased any stock under the program.

Preopening Expenses

Preopening expenses related to new warehouses, major remodels/expansions, regional offices and other startup operations are expensed as incurred.

COSTCO WHOLESALE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 1—Summary of Significant Accounting Policies (Continued)

Membership Fees

Membership fee revenue represents annual membership fees paid by substantially all of the Company's members. Effective with the first quarter of fiscal 1999, the Company changed its method of accounting for membership fee income from a "cash basis" to a "deferred basis" whereby membership fee income is recognized ratably over the one-year life of the membership. The change to the deferred method of accounting for membership fees resulted in a one-time, non-cash, pre-tax charge of approximately \$196,705 (\$118,023 after-tax, or \$.50 per diluted share) to reflect the cumulative effect of the accounting change as of the beginning of fiscal 1999. If the deferred method of accounting for membership fee income had been in effect in fiscal 1998 and 1997, net income would have been \$444,451, or \$1.96 per diluted share and \$302,969, or \$1.43 per diluted share respectively.

Foreign Currency Translation

The accumulated foreign currency translation relates to the Company's consolidated foreign operations as well as its investment in the Price Club Mexico joint venture. Foreign currency translation is determined by application of the current rate method and included in the determination of consolidated stockholders' equity and comprehensive income at the respective balance sheet dates.

Cumulative inflation in Mexico exceeded 100% in the three-year calendar period 1994-1996, requiring a hyper-inflationary accounting treatment for the Company's Mexico joint venture operations in calendar year 1997. Foreign currency translation gains or losses were reflected in the Statement of Income rather than as an adjustment to stockholders' equity during this period.

Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." That standard requires companies to account for deferred income taxes using the asset and liability method.

Supplemental Disclosure of Non-Cash Activities

Fiscal 1999 Non-Cash Activities

- In March 1999, approximately \$48,000 principal amount of the \$900,000, 3½% Zero Coupon Convertible Subordinated Notes were converted into approximately 545 thousand shares of Costco Common Stock.

Fiscal 1998 Non-Cash Activities

- None.

Fiscal 1997 Non-Cash Activities

- In December 1996, approximately \$159,400 principal amount of the \$285,100, 6¾% Convertible Subordinated Debentures were converted into approximately 7.1 million shares of Costco Common Stock as a result of a call for redemption of the Convertible Subordinated Debentures.

COSTCO WHOLESALE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 1—Summary of Significant Accounting Policies (Continued)

- In January 1997, approximately \$142,700 principal amount of the \$179,300, 5½% Convertible Subordinated Debentures were converted into approximately 6.0 million shares of Costco Common Stock as a result of the call for redemption of the Convertible Subordinated Debentures.

Derivatives

The Company has limited involvement with derivative financial instruments and only uses them to manage well-defined interest rate and foreign exchange risks. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on inventory purchases. The amount of interest rate and foreign exchange contracts outstanding at year-end or in place during fiscal 1999 was immaterial to the Company's results of operations or its financial position.

Impairment of Long-Lived Assets

The Company adopted the SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), as of the first quarter of fiscal 1997. In accordance with SFAS No. 121, the Company recorded pretax, non-cash charges of \$31,080, \$5,629 and \$65,000 in fiscal 1999, 1998 and 1997, respectively, reflecting its estimate of impairment relating principally to excess property and closed warehouses. The charge reflects the difference between carrying value and fair value, which was based on market valuations for those assets whose carrying value was not recoverable through future cash flows. The Company periodically evaluates the realizability of long-lived assets based on expected future cash flows.

Warehouse Closing Costs

The Company recorded a charge of \$30,865 for warehouse and other facility closing costs in fiscal 1999. This charge includes \$24,773 for lease obligations and \$6,092 for other expenses directly related to the closedown of warehouses and other facilities. As of August 29, 1999, the Company had expended \$828 for lease obligations and \$3,339 for other closedown expenses. Warehouse closing costs incurred relate principally to the Company's decision in the fourth quarter of fiscal 1999 to relocate several warehouses that were not otherwise impaired to larger and better-located facilities.

Recent Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which established accounting and reporting standards for derivative instruments and for hedging activities. In June 1999, the FASB issued SFAS No. 137 which deferred the effective date of SFAS No. 133 for the Company to the beginning of its fiscal 2001. Presently, the Company has limited use of derivative financial instruments and believes that SFAS No. 133 will not have a material impact on its results of operations or financial position.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and

COSTCO WHOLESALE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 1—Summary of Significant Accounting Policies (Continued)

liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2—Debt

Bank Lines of Credit and Commercial Paper Programs

The Company has in place a \$425,000 commercial paper program supported by a \$425,000 bank credit facility with a group of nine banks, of which \$175,000 expires on January 24, 2000, and \$250,000 expires on January 30, 2001. At August 29, 1999, no amount was outstanding under the loan facility or the commercial paper program.

In addition, a wholly-owned Canadian subsidiary has a \$134,000 commercial paper program supported by a \$94,000 bank credit facility with three Canadian banks, of which \$57,000 expires in March 2000, and \$37,000 expires in March 2001. At August 29, 1999, no amount was outstanding under the bank credit facility or the Canadian commercial paper program.

The Company has agreed to limit the combined amount outstanding under the U.S. and Canadian commercial paper programs to the \$519,000 combined amounts of the respective supporting bank credit facilities.

Letters of Credit

The Company also has separate letter of credit facilities (for commercial and standby letters of credit), totaling approximately \$294,200. The outstanding commitments under these facilities at August 29, 1999 totaled approximately \$176,500, including approximately \$45,300 in standby letters of credit.

COSTCO WHOLESALE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 2—Debt (Continued)

Short-Term Borrowings

The weighted average borrowings, highest borrowings and interest rate under all short-term borrowing arrangements were as follows for fiscal 1999 and 1998:

<u>Category of Aggregate Short-Term Borrowings</u>	<u>Maximum Amount Outstanding During the Period</u>	<u>Average Amount Outstanding During the Period</u>	<u>Weighted Average Interest Rate During the Period</u>
Period ended August 29, 1999			
Bank borrowings:			
U.S.	\$ —	\$ —	— %
Canadian	5,753	87	6.50
Commercial Paper:			
U.S.	—	—	—
Canadian	13,380	682	4.84
Period ended August 30, 1998			
Bank borrowings:			
U.S.	\$ —	\$ —	— %
Canadian	5,399	215	6.85
Commercial Paper:			
U.S.	—	—	—
Canadian	34,390	5,841	3.61

Long-term Debt

Long-term debt at August 29, 1999 and August 30, 1998:

	<u>1999</u>	<u>1998</u>
7½% Senior Notes due June 2005	\$300,000	\$300,000
3½% Zero Coupon convertible subordinated notes due August 2017	456,783	466,082
Unsecured note payable to banks due April 2001	140,000	140,000
Notes payable secured by trust deeds on real estate	12,723	13,667
Capital lease obligations and other	21,213	21,030
	<u>930,719</u>	<u>940,779</u>
Less current portion (included in other current liabilities)	<u>11,831</u>	<u>10,744</u>
Total long-term debt	<u>\$918,888</u>	<u>\$930,035</u>

The Company issued \$300,000 of 7½% Senior Notes in fiscal 1995. Interest on the notes is payable semiannually on June 15 and December 15. The indentures contain certain limitations on the Company's and certain subsidiaries' ability to create liens securing indebtedness and to enter into certain sale leaseback transactions.

COSTCO COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 2—Debt (Continued)

In April 1996, the Company borrowed \$140,000 from a group of banks under a five-year unsecured term loan. Interest only is payable quarterly at rates based on LIBOR. Proceeds of the loan were used to retire \$40,000 outstanding under the Canadian commercial paper program and \$100,000 outstanding under the U.S. commercial paper program.

On August 19, 1997, the Company completed the sale of \$900,000 principal amount at maturity of Zero Coupon Subordinated Notes (the “Notes”) due August 19, 2017. The Notes were priced with a yield to maturity of 3½%, resulting in gross proceeds to the Company of \$449,640. The Notes are convertible into a maximum of 10,219,090 shares of Costco Common Stock at an initial conversion price of \$44.00. Holders of the Notes may require the Company to purchase the Notes (at the discounted issue price plus accrued interest to date of purchase) on August 19, 2002, 2007, or 2012. The Company, at its option, may redeem the Notes (at the discounted issue price plus accrued interest to date of redemption) any time on or after August 19, 2002. On March 29, 1999, \$48,000 principal amount of the Zero Coupon Notes were converted by note holders to 545,016 shares of Costco Common Stock.

In February, 1996, the Company filed with the Securities and Exchange Commission a shelf registration statement for \$500,000 of senior debt securities. Although the registration statement was declared effective, no securities have been issued under this filing.

At August 29, 1999, the fair value of the 7¼% Senior Notes, based on market quotes, was approximately \$300,900. The Senior Notes are not redeemable prior to maturity. The fair value of the 3½% Zero Coupon Subordinated Notes at August 29, 1999, based on market quotes, was approximately \$781,369. The fair value of other long-term debt approximates carrying value.

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

2000	\$ 11,831
2001	146,330
2002	3,067
2003	1,133
2004	1,249
Thereafter	767,109
Total	<u>\$930,719</u>

Note 3—Leases

The Company leases land and/or warehouse buildings at 64 of the 292 warehouses open at August 29, 1999, and certain other office and distribution facilities under operating leases with remaining terms ranging from 2 to 30 years. These leases generally contain one or more of the following options which the Company can exercise at the end of the initial lease term: (a) renewal of the lease for a defined number of years at the then fair market rental rate; (b) purchase of the property at the then fair market value; or (c) right of first refusal in the event of a third party purchase offer. Certain leases provide for periodic rental increases based on the price indices and some of the leases provide for rents based on the greater of minimum guaranteed amounts or sales volume. Contingent rents have not been material. Additionally, the Company leases certain equipment and fixtures under short-term operating leases that permit the

COSTCO COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 3—Leases (Continued)

Company to either renew for a series of one-year terms or to purchase the equipment at the then fair market value.

Aggregate rental expense for fiscal 1999, 1998, and 1997, was \$59,263, \$55,375, and \$54,019, respectively. Future minimum payments during the next five fiscal years and thereafter under non-cancelable leases with terms in excess of one year, at August 29, 1999, were as follows:

2000	\$ 64,406
2001	62,508
2002	62,153
2003	60,645
2004	59,160
Thereafter	<u>619,690</u>
Total minimum payments	<u>\$928,562</u>

Note 4—Stock Options

The Costco Companies, Inc. 1993 Combined Stock Grant and Stock Option Plan (the New Stock Option Plan) provides for the issuance of up to 30 million shares of the Company's common stock upon the exercise of stock options or up to 1,666,666 shares through stock grants. Prior to the merger of The Price Company and Costco Wholesale Corporation, various incentive and non-qualified stock option plans existed which allowed certain key employees and directors to purchase or be granted common stock of The Price Company and Costco Wholesale Corporation (collectively the Old Stock Option Plans). Options were granted for a maximum term of ten years, and were exercisable upon vesting. Options granted under these plans generally vest ratably over five to nine years. Subsequent to the merger, new grants of options have not been made under the Old Stock Option Plans.

The Company applies Accounting Principles Board Opinion (APB) No. 25 and related Interpretations in accounting for stock options. Accordingly, no compensation cost has been recognized for the plans. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with Statement of Financial Accounting Standards No. 123 (SFAS No.123), "Accounting for Stock-Based Compensation", the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net income:			
As reported	\$397,298	\$459,842	\$312,197
Pro forma	\$352,660	\$438,053	\$301,947
Net income per share (diluted):			
As reported	\$ 1.73	\$ 2.03	\$ 1.47
Pro forma	\$ 1.54	\$ 1.93	\$ 1.42

COSTCO COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 4—Stock Options (Continued)

The effects of applying SFAS No. 123 on pro forma disclosures of net income and earnings per share for fiscal 1999, 1998 and 1997 are not likely to be representative of the pro forma effects on net income and earnings per share in future years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1999, 1998 and 1997:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Risk free interest rate	5.09%	5.60%	6.40%
Expected life	7 years	7 years	7 years
Expected volatility	37%	34%	34%
Expected dividend yield	0%	0%	0%

Stock option transactions relating to the aggregate of the Old and New Stock Option Plans are summarized below (shares in thousands):

	<u>1999</u>		<u>1998</u>		<u>1997</u>	
	<u>Shares</u>	<u>Price(1)</u>	<u>Shares</u>	<u>Price(1)</u>	<u>Shares</u>	<u>Price(1)</u>
Under option at beginning of year	17,302	\$27.03	17,321	\$19.96	16,972	\$17.14
Granted (2)	4,553	73.79	4,214	47.67	4,610	26.13
Exercised	(3,262)	19.89	(3,996)	18.59	(4,077)	15.24
Cancelled	(204)	36.68	(237)	19.81	(184)	18.37
Under option at end of year	<u>18,389</u>	<u>\$39.77</u>	<u>17,302</u>	<u>\$27.03</u>	<u>17,321</u>	<u>\$19.96</u>

(1) Weighted-average exercise price.

(2) The weighted-average fair value of options granted during fiscal 1999, 1998 and 1997, were \$31.00, \$19.71, and \$11.47, respectively.

The following table summarizes information regarding stock options outstanding at August 29, 1999:

<u>Range of Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number</u>	<u>Remaining Contractual Life(1)</u>	<u>Price(1)</u>	<u>Number</u>	<u>Price(1)</u>
\$9.88 - \$25.50	6,226	4.4	\$17.22	4,100	\$33.52
\$26.63 - \$45.75	6,280	7.6	34.65	1,799	52.87
\$46.63 - \$89.94	5,883	9.3	69.11	345	59.66
	<u>18,389</u>	<u>7.1</u>	<u>\$39.77</u>	<u>6,244</u>	<u>\$42.37</u>

(1) Weighted-average.

COSTCO COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 4—Stock Options (Continued)

At August 30, 1998 and August 31, 1997, there were 5,926 and 7,118 options exercisable at weighted average exercise prices of \$19.65 and \$18.85, respectively.

Note 5—Retirement Plans

The Company has a 401(k) Retirement Plan that is available to all U.S. employees who have one year or more of service, except California union employees. The plan allows pre-tax deferral against which the Company matches 50% of the first one thousand dollars of employee contributions. In addition, the Company will provide each eligible participant a contribution based on salary and years of service. The Company has a defined contribution plan for Canadian and United Kingdom employees and contributes a percentage of each employee's salary.

California union employees participate in a defined benefit plan sponsored by their union. The Company makes contributions based upon its union agreement. In June 1995, the Company also established a 401(k) plan for the California union employees. The plan currently allows pre-tax deferral against which the Company matches 50% of the first four hundred dollars of employee contributions.

Amounts expensed under these plans were \$85,974, \$73,764, and \$59,960 for fiscal 1999, 1998, and 1997, respectively. The Company has defined contribution 401(k) and retirement plans only, and thus has no liability for post-retirement benefit obligations under the SFAS No. 106 "Employer's Accounting for Post-retirement Benefits Other than Pensions."

Note 6—Income Taxes

The provisions for income taxes for fiscal 1999, 1998, and 1997 are as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Federal:			
Current	\$259,104	\$214,788	\$151,433
Deferred	(70,248)	(3,415)	(13,249)
Total federal	<u>188,856</u>	<u>211,373</u>	<u>138,184</u>
State:			
Current	54,701	49,881	34,666
Deferred	(13,418)	(2,231)	(3,178)
Total state	<u>41,283</u>	<u>47,650</u>	<u>31,488</u>
Foreign:			
Current	52,416	47,096	40,192
Deferred	(17,692)	442	(1,732)
Total foreign	<u>34,724</u>	<u>47,538</u>	<u>38,460</u>
Total provision for income taxes	<u>\$264,863(a)</u>	<u>\$306,561</u>	<u>\$208,132</u>

(a) Total provision for income taxes includes a provision on income before the cumulative effect of accounting change of \$343,545 and a tax benefit of \$78,682 resulting from the cumulative effect of accounting change.

COSTCO WHOLESALE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 6—Income Taxes (Continued)

Reconciliation between the statutory tax rate and the effective rate for fiscal 1999, 1998, and 1997 is as follows:

	<u>1999</u>		<u>1998</u>		<u>1997</u>	
Federal taxes at statutory rate	\$231,756	35.00%	\$ 268,241	35.00%	\$182,115	35.00%
State taxes, net	28,870	4.36	33,722	4.40	22,374	4.30
Foreign taxes, net	10,532	1.59	8,543	1.11	5,452	1.05
Other	(6,295)	(0.95)	(3,945)	(0.51)	(1,809)	(.35)
Provision at effective tax rate	<u>\$264,863</u>	<u>40.00%</u>	<u>\$ 306,561</u>	<u>40.00%</u>	<u>\$208,132</u>	<u>40.00%</u>

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

	<u>August 29, 1999</u>	<u>August 30, 1998</u>
Accrued liabilities	\$118,912	\$93,158
Deferred membership fees	78,151	—
Other	15,589	14,010
Total deferred tax assets	<u>212,652</u>	<u>107,168</u>
Property and equipment	52,795	67,293
Merchandise inventories	42,551	33,589
Other	10,684	1,022
Total deferred tax liabilities	<u>106,030</u>	<u>101,904</u>
Net deferred tax assets	<u>\$106,622</u>	<u>\$ 5,264</u>

The deferred tax accounts at August 29, 1999 and August 30, 1998 include current deferred income tax assets of \$164,839 and \$59,667, respectively, and non-current deferred income tax liabilities of \$58,217 and \$54,403, respectively. Current deferred income tax assets are included in other current assets.

Note 7—Commitments and Contingencies

Legal Proceedings

The Company is involved from time to time in claims, proceedings and litigation arising from its business and property ownership. The Company does not believe that any such claim, proceeding or litigation, either alone or in the aggregate, will have a material adverse effect on the Company's financial position or results of its operations.

Note 8—Segment Reporting

In fiscal 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which established reporting and disclosure standards for an enterprise's operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and regularly reviewed by the Company's senior management.

COSTCO WHOLESALE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 8—Segment Reporting (Continued)

The Company and its subsidiaries are principally engaged in the operation of membership warehouses in the United States, Canada, Japan and through majority-owned subsidiaries in the United Kingdom, Taiwan and Korea and through a 50%-owned joint venture in Mexico. The Company's reportable segments are based on management responsibility.

	<u>United States Operations</u>	<u>Canadian Operations</u>	<u>Other International Operations</u>	<u>Total</u>
Year Ended August 29, 1999				
Total revenue	\$22,404,026	\$4,104,662	\$947,343	\$27,456,031
Operating income (loss)	723,375	146,839	(10,087)	860,127
Depreciation and amortization	177,661	32,559	14,591	224,811
Capital expenditures	655,924	79,583	52,428	787,935
Total assets	5,984,537	992,943	527,521	7,505,001
Year Ended August 30, 1998				
Total revenue	\$19,620,552	\$4,030,766	\$618,559	\$24,269,877
Operating income (loss)	648,429	142,807	(3,960)	787,276
Depreciation and amortization	154,680	32,113	9,522	196,315
Capital expenditures	448,173	55,373	68,358	571,904
Total assets	4,984,571	847,430	427,879	6,259,820
Year Ended August 31, 1997				
Total revenue	\$17,544,247	\$3,907,185	\$422,972	\$21,874,404
Operating income (loss)	458,600	124,761	(2,649)	580,712
Depreciation and amortization	144,506	30,874	6,379	181,759
Capital expenditures	454,267	34,803	64,304	553,374
Total assets	4,224,668	851,103	400,543	5,476,314

Note 9—Subsequent Event

On December 9, 1999 the Company announced that its Board of Directors approved for a 2-for-1 split of its common stock. Shareholders will receive one additional share of common stock for every share held on the record date of December 24, 1999. Additional shares will be mailed or delivered on or about January 13, 2000, by the Company's transfer agent, ChaseMellon Shareholder Services. The common stock will begin trading at a post-split price on January 14, 2000.

MARKET FOR COSTCO COMMON STOCK

Trading in Costco Common Stock commenced on October 22, 1993, as Price/Costco, Inc., quoted on The Nasdaq Stock Market's National Market under the symbol "PCCW". Since January 29, 1997, following a name change to Costco Companies, Inc. (and a subsequent re-incorporation and name change to Costco Wholesale Corporation in August 1999), the stock has been quoted on The Nasdaq Stock Market's National Market under the symbol "COST."

The following table sets forth the closing high and low sales prices of Costco Common Stock for the period January 1, 1997 through November 30, 1999. The quotations are as reported in published financial sources.

	Costco Common Stock	
	High	Low
Calendar Quarters—1997		
First Quarter	30	24 ¹ / ₈
Second Quarter	35 ³ / ₁₆	26 ⁷ / ₈
Third Quarter	39 ¹ / ₈	31 ⁷ / ₁₆
Fourth Quarter	44 ¹⁵ / ₁₆	35 ¹ / ₈
Calendar Quarters—1998		
First Quarter	58 ³ / ₁₆	42 ¹ / ₈
Second Quarter	63 ⁷ / ₃₂	51 ³ / ₈
Third Quarter	65	45 ¹ / ₁₆
Fourth Quarter	74 ⁷ / ₈	44 ⁵ / ₁₆
Calendar Quarters—1999		
First Quarter	91 ¹³ / ₁₆	71 ¹ / ₄
Second Quarter	92 ¹ / ₂	71 ¹ / ₈
Third Quarter	86 ⁹ / ₁₆	66 ³ / ₈
Fourth Quarter (through November 30, 1999)	92 ³ / ₄	72

On November 30, 1999, the Company had 7,575 stockholders of record.

DIVIDEND POLICY

Costco does not pay regular dividends and presently has no plans to declare a cash dividend. Under its two revolving credit agreements, Costco is generally permitted to pay dividends in any fiscal year up to an amount equal to 50% of its consolidated net income for that fiscal year.

DIRECTORS AND OFFICERS

DIRECTORS

Jeffrey H. Brotman

Chairman of the Board

Dr. Benjamin S. Carson, Sr., M.D.

Director

Richard D. DiCerchio

Senior Executive Vice President, COO—
Merchandising, Distribution and Construction
and Director

Richard A. Galanti

Executive Vice President, Chief
Financial Officer and Director

Hamilton E. James

Director

Richard M. Libenson

Director

John W. Meisenbach

Director

Charles T. Munger

Director

Frederick O. Paulsell, Jr.

Director

Jill S. Ruckelshaus

Director

James D. Sinegal

President, Chief Executive
Officer and Director

EXECUTIVE AND SENIOR OFFICERS

Joel Benoliel

Senior Vice President, Real Estate & Law,
Corporate Secretary

Jeffrey H. Brotman

Chairman of the Board

Charles V. Burnett

Senior Vice President, Pharmacy

Roger A. Campbell

Senior Vice President, General Manager—
Southeast Region

Vincent P. Carney

Senior Vice President, Information Systems

Richard Chavez

Senior Vice President—Asia

Robert E. Craves

Senior Vice President, e-Commerce, Publishing
and Community Giving

Hubert de Suduiraut

Senior Vice President, General Manager—Western
Canada Region

Richard D. DiCerchio

Senior Executive Vice President, COO—
Merchandising, Distribution and Construction

John B. Gaherty

Senior Vice President, Regional Manager—
Midwest Region

Richard A. Galanti

Executive Vice President—Chief Financial Officer

Jaime Gonzalez

Senior Vice President, General Manager—Mexico

Bruce Greenwood

Senior Vice President, General Manager—Los
Angeles Region

Robert D. Hicok

Senior Vice President, General Manager—San
Diego Region

Dennis A. Hoover

Senior Vice President, General Manager—
Northern California Region

W. Craig Jelinek

Executive Vice President, COO—Northern
Division

Franz E. Lazarus

Executive Vice President, COO—International
Operations

David B. Loge

Executive Vice President, Manufacturing and
Ancillary Business

Jeffrey R. Long

Senior Vice President, Northeast Region

Edward B. Maron, Jr.

Executive Vice President, COO—Canadian
Division

John Matthews

Senior Vice President, Human Resources and Risk
Management

Paul G. Moulton

Executive Vice President, Marketing, e-Commerce,
Member Services and Community Giving

James P. Murphy

Senior Vice President—Europe

Courtland L. Newberry

Senior Vice President, Marketing and Member
Services

David S. Petterson

Senior Vice President, Corporate Controller

Joseph P. Portera

Executive Vice President, COO—Eastern Division

Timothy L. Rose

Senior Vice President, Merchandising—Foods,
Sundries and Fresh Foods

Douglas W. Schutt

Senior Vice President, Merchandising—
Non-Foods

James D. Sinegal

President and Chief Executive Officer

John D. Thelan

Senior Vice President, Depots

Thomas K. Walker

Senior Vice President, Construction, Purchasing
and Depots

Louise Wendling

Senior Vice President, General Manager—Eastern
Canada Region

Dennis R. Zook

Executive Vice President, COO—Southern
Division and Mexico

VICE PRESIDENTS

- Jeff Abadir**
Operations—Northern California Region
- Sandi Babins**
GMM-Foods & Sundries—Western Canada Region
- Francis Ball**
GMM-Foods—U.K.
- Joe F. Basse**
GMM-Softlines
- Gilbert H. Bishop**
GMM-Foods—Eastern Division
- John Booth**
Operations—Northern California Region
- Andree Brien**
GMM-Softlines—Eastern Canada Region
- Alan Bubitz**
Director Food Services, Business Delivery & Catalog
- Don Burdick**
Country Manager—Korea
- Debbie Cain**
Corporate Foods & Sundries
- Susan Castillo**
e-Commerce
- Richard Chang**
Operations—Taiwan
- Gerard Dempsey**
Operations—Southeast Region
- Glen Drain**
GMM-Hardlines/Softlines—Western Canada
- Keith D. Durham**
Operations—Northeast Region
- George Ed Dwyer**
Operations—Depots
- John T. Eagan**
GMM-Foods—Los Angeles Region
- Timothy K. Farmer**
GMM—Hardlines
- John W. Gedney**
Gas Stations
- Gary Giacomi**
Operations—Northwest Region
- Cynthia Glaser**
GMM-Private Label—Non Foods
- Isaac Hamaoui**
GMM—Foods and Sundries—Eastern Canada Region
- Bill Hanson**
GMM—Foods—Midwest Region
- Dave Harruff**
Operations—Northwest Region
- Daniel M. Hines**
Financial Accounting Controller
- Mitzi Hu**
GMM—Imports
- Ross Hunt**
Finance, Accounting, & IS—Eastern Canada Region
- Harold E. Kaplan**
Corporate Treasurer
- Dennis E. Knapp**
GMM-Non-Foods
- Paul Latham**
Costco Trading
- Gerry Liben**
GMM-Hardlines—Eastern Canada Region
- Phil Lind**
GMM-Non-Foods—U.K.
- Judith Logan**
Operations—Southeast Region
- Jeff Lyons**
GMM-Corporate Foods & Sundries
- Mark Maushund**
Operations—Los Angeles Region
- Susan McConnaha**
Director of Bakery Operations
- John McKay**
GMM-Fresh Foods
- Russ Miller**
Operations—Northeast Region
- Michael W. Mosteller**
Operations—Security/Labor Relations
- Robert E. Nelson**
Financial Planning & Investor Relations
- Gary F. Ojendyk**
GMM-Hardlines
- Richard J. Olin**
Real Estate & Law, General Counsel
- John R. Osterhaus**
Photo, Optical & Hearing Aids
- Shawn Parks**
Operations—Los Angeles Region
- Roger E. Peterson**
Operations—San Diego Region
- Robert L. Pugmire**
GMM-Softlines
- C.J. Ray**
GMM-Foods—Northern California Region
- Pierre Riel**
GMM-Fresh Foods & Ancillary Sales—Eastern Canada Region
- George R. Roe**
Operations—Pharmacy
- Ginnie Roeglin**
Marketing Manager
- Yoram Rubanenko**
Operations—Northeast Region
- James W. Rutherford**
Information Systems
- Fernando Salvo**
Operations—Eastern Canada Region
- Janet Shanks**
GMM-Fresh Foods & Ancillary Businesses—Western Canada Region
- David Sinegal**
GMM-Foods—Northwest Region
- Michael Sinegal**
Country Manager—Japan
- Donald H. Stacy**
GMM—Mexico
- Kimberly Suchomel**
GMM—International
- Keith H. Thompson**
Director of Construction
- Scott Tyler**
Operations—Western Canada Region
- Francois Villeneuve**
Marketing & Human Resources—Eastern Canada Region
- Stanley D. Winberg**
GMM-Foods—San Diego Region
- Charlie A. Winters**
Director of Meat Operations

ADDITIONAL INFORMATION

A copy of Costco's annual report to the Securities and Exchange Commission on Form 10-K and quarterly report on Form 10-Q will be provided to any shareholder upon written request directed to Investor Relations, Costco Companies, Inc., 999 Lake Drive, Issaquah, Washington 98027. Internet users can access recent sales and earnings press releases and SEC filings, as well as our new Costco Online web site at <http://www.costco.com>. E-mail users may direct their investor relation questions to investor@costco.com.

Corporate Office

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Division Offices

Northern Division

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Livermore, CA 94550

Southern Division

Los Angeles Region
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Garden Grove, CA 92843
San Diego Region
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San Diego, CA 92117

Eastern Division

Eastern Region
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Midwest Region
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Lombard, IL 60148

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3000 Jacques Bureau
Laval, Quebec H7P 5P7
Western Region
3550 Brighton St.
Burnaby, BC V5A-4W3

International Division

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213 Hartspring Lane
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England, UK WD2 8JS
Japan Region
4F Komahara Bldg.
1-4-3 Yakumo, Meguro-ku
Tokyo, Japan 152-0023
Korea Region
65-3 ka Yangpyungdong
Youngdeunpoka
Seoul, Korea
Taiwan Region
656 Chung Hwa 5th Rd
Kaohsiung, Taiwan

Annual Meeting

Thursday, January 27, 2000 at 10:00 AM
Doubletree Hotel
300 - 112th Ave S.E.
Bellevue, Washington 98004

Transfer Agent

ChaseMellon Shareholder Services, L.L.C.
Shareholder Relations
P. O. Box 3315
South Hackensack, New Jersey 07606
Telephone: (800) 522-6645
TDD for Hearing Impaired: (800) 231-5469
Outside U.S.: (201) 329-8660

Independent Public Accountants

Arthur Andersen LLP
Norton Building
801 Second Avenue, Suite 800
Seattle, Washington 98104

Legal Counsel

Foster Pepper & Shefelman
1111 Third Avenue
Seattle, Washington 98101

Stock Exchange Listing

NASDAQ Stock Market
Stock Symbol: COST

COSTCO SHAREHOLDERS ARE ELIGIBLE FOR GOLD STAR MEMBERSHIP

All Costco shareholders are eligible for Costco Gold Star membership, which is good at all Costco Wholesale locations worldwide. To become a Costco member, please present a copy of your current broker's statement showing ownership of shares, or your stock certificate, at any Costco Wholesale membership counter. You will need to bring a form of picture identification, and normal membership fees will apply.

