

*Annual
Report
2001*



YEAR ENDED SEPTEMBER 2, 2001

2001

THE COMPANY

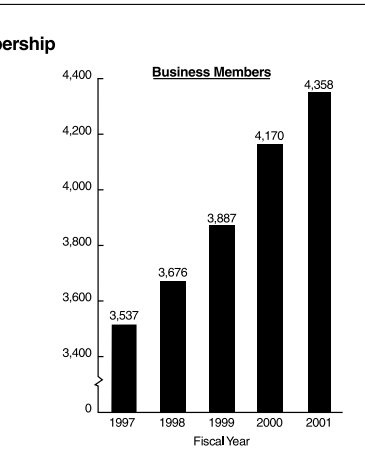
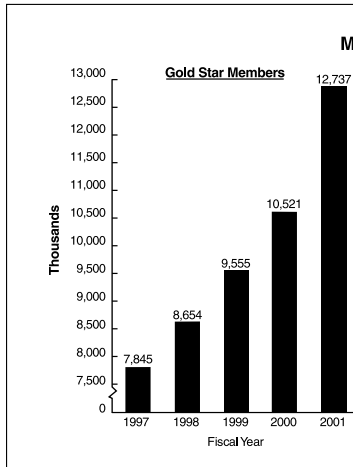
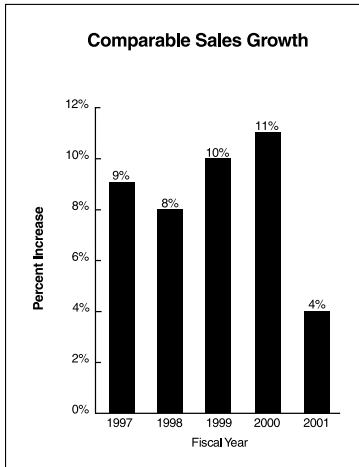
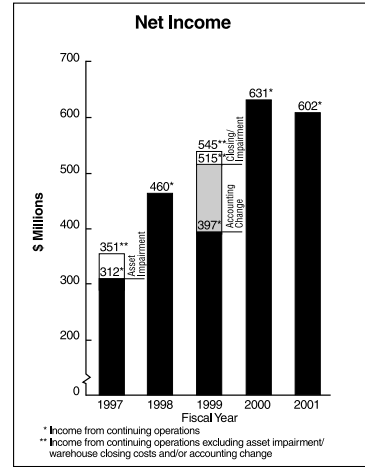
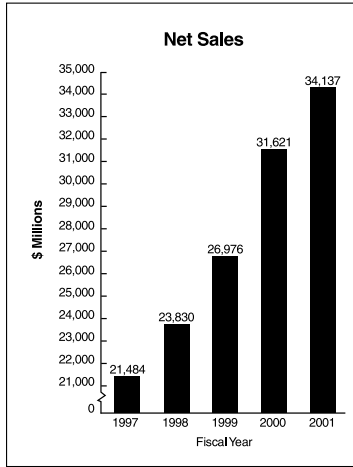
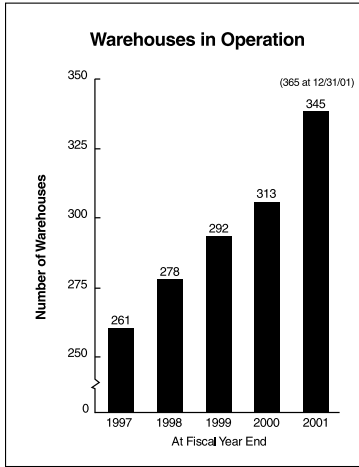
Costco Wholesale Corporation (“Costco” or the “Company”) began operations in 1983 in Seattle, Washington. In October 1993, Costco merged with The Price Company, which had pioneered the membership warehouse concept in 1976, to form Price/Costco, Inc., a Delaware corporation. In January 1997, after the 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 2001, the Company operated a chain of 385 warehouses in 35 states (284 locations), nine Canadian provinces (60 locations), the United Kingdom (11 locations, through an 80%-owned subsidiary), Korea (five locations), Taiwan (three locations, through a 55%-owned subsidiary) and Japan (two locations), as well as 20 warehouses in Mexico through a 50%-owned joint venture.

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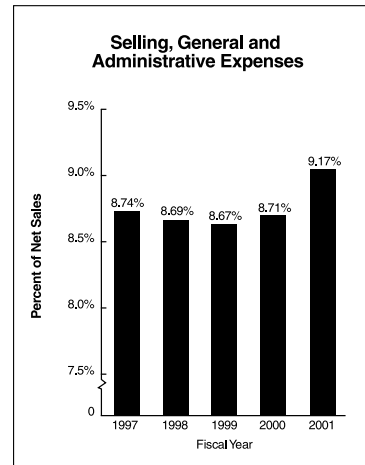
FINANCIAL HIGHLIGHTS



Average Sales Per Warehouse* (Sales In Millions)

Year Opened	# of Whses*	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
2001	32										\$57
2000	21							\$55			64
1999	14						\$65	77			86
1998	17				\$50	58	72	77			
1997	10				\$56	70	85	99	106		
1996	18			\$46	53	61	68	80	83		
1995	19		\$51	58	69	76	82	92	93		
1994	27		\$57	60	68	76	83	90	99	101	
1993	34	\$59	62	69	74	79	84	90	98	101	
1992 & Before	153	\$84	82	83	82	85	91	98	107	117	121
Totals	345	\$84	\$78	\$76	\$75	\$77	\$83	\$87	\$94	\$101	\$101

*First year sales annualized



December 13, 2001

Dear Costco Shareholder:

We had many things to keep us busy during the past year, and Costco was able to achieve several significant results despite the challenges of a weakened economy, both domestically and abroad; currency dilution in all six non-U.S. countries in which we operate; and significant costs related to our major ramp-up in warehouse club expansion. Some of the things that we are proud of this past year include: record sales of over \$34 billion, representing an eight percent increase over the prior year's 53 weeks of sales; record expansion of 39 warehouse openings, including seven relocations, six openings in existing markets, and 26 openings in a number of new markets; the consolidation of our Canadian administrative functions to a new Ottawa office; and the celebration of our 25th year of operations since our founding of the membership warehouse club industry in San Diego in 1976. We, of course, are not proud that our fiscal 2001 earnings were below our original operating budget, and 5% below earnings of the prior fiscal year; however, we firmly believe that our Company is strong and enters the new fiscal year very well positioned for earnings growth, both in fiscal 2002 and beyond.

In terms of expansion, fiscal 2001 represented the largest financial commitment to growth in Costco's corporate history. Nearly \$1.5 billion was expended during the fiscal year—including over \$1 billion for new warehouses and relocations; and over \$150 million on remodeling efforts to continually upgrade and expand our existing base of more than 300 warehouses. Of course this rapid expansion required that we strengthen our support facilities, and we spent approximately \$200 million on expanding our depot ("cross-dock") operations. New market openings in fiscal year 2001 included one warehouse in the greater Kansas City market, as well as one in St. Peters, Missouri; one in Minneapolis, Minnesota; seven warehouses in Texas, in the Dallas/Ft. Worth, Houston, and Austin markets; two units in North Carolina; our fifth Chicago unit; and one each in Charleston, South Carolina; Huntsville, Alabama; and Tampa and Jacksonville, Florida. Expansion plans for fiscal 2002 include three openings in Puerto Rico (two of which are now open); two additional units in both Kansas and North Carolina; two warehouses in the Pittsburgh, Pennsylvania market (one of which is open); two locations in San Antonio, Texas (one of which is open); three more in the United Kingdom; as well as infills in many existing markets, for a total of 45 new warehouses—including eight planned relocations of existing warehouses to bigger and better-located facilities. We believe we are well positioned to expand our operations and increase market share, given our competitive advantage and our strong financial position, despite the current turbulent economic conditions. And we feel that the value of the Costco membership and the quality of goods and services we provide our members are best evidenced by our 86% membership renewal rate, the highest rate of membership renewal in our Company's history, and the fact that despite heavy infilling in existing markets our warehouses that have been open for more than a year continue to improve. Comparable sales for last year grew by 4%, which is significant considering the average Costco warehouse does over \$100 million in annual sales.

In addition to actual physical expansion of our operations during fiscal 2001, considerable resources of both personnel and dollars were dedicated to activities that both strengthen our position with our members and distinguish us from the competition. On the merchandising front, new initiatives included the U.S. rollout of our Special Order Kiosk program, whereby we are able to offer our members, on a special-order basis, up to 40% savings on "big-ticket" items, such as Kohler and Grohe bathroom fixtures, Sealy mattresses, high performance tires, brand name furniture, and hundreds of additional products. We continued the rollout of our ancillary departments, such as pharmacy and optical shops and gasoline stations; introduced several new Kirkland Signature items, such as clothing items, baby formula, health products, and frozen food and delicatessen items, whereby additional savings on quality merchandise is offered to our members; and added several important new merchandise vendors including Titleist, Levi, Thomasville, Elizabeth Arden, and Sony computers.

Outside of merchandising, we have seen continued expansion in our e-commerce business, including the introduction of a new business-to-business (B2B) e-commerce offering to our Business Members. Our Executive Membership Program achieved our fiscal year target of having one million Executive Members (each paying Costco a \$100 annual membership fee) by fiscal year end. And as we commence fiscal 2002, Executive Member sign-ups (both new and through conversions) have averaged more than 10,000 per week during the first twelve weeks of this new fiscal year. Importantly, the number of additional services being offered under our Executive Membership Program continues to increase. Finally, our partnership with American Express, and the continuing

rollout of the Costco/American Express co-branded membership/credit cards have been great. As of this writing, nearly 1.9 million Costco members have signed up for the co-branded credit cards, which also serves as a Costco membership card; and we are proud to be the only retail company to offer these unique cards. Last year, these members earned millions of dollars in rebate rewards on their American Express Cash Rebate co-branded cards, providing significant additional value to being a Costco member.

In terms of merchandise sales, the foods and sundries departments, and particularly fresh foods, showed consistent, strong sales growth in fiscal 2001; while our hardlines and softlines sales increases, especially sales of discretionary, high-ticket items, were impacted by the weakening economy. Fiscal 2001 sales were also helped by strong sales comparisons in our ancillary departments. We had particularly strong sales increases in our pharmacy, optical and food court departments; and at fiscal year-end, had 139 high-volume gas stations in operation. The combined sales of these ancillary departments in fiscal 2001 exceeded \$3 billion—nearly 10% of our total sales—and grew at over twice the rate of total company sales growth.

We always consider expense control to be our biggest challenge. That was true this past year, and will again be the case in the new fiscal year. We will continue to question expenses at every level of our Company. We expect the leveraging of our sales growth and maturing of our many new warehouses will begin to reap benefits, as will the synergies derived from consolidating our Canadian Division administrative offices in Ottawa. Our shareholders can be certain that we are committed to evaluating and challenging expenses throughout the Company and bringing these cost savings to the bottom line. An example worth mentioning is the focus on energy conservation and exploring ways to reduce energy costs this past year. This has led to a reduction in energy consumption by nearly 15% throughout the Company, which is helping to mitigate increasing energy costs in many markets.

We would also like to share with you how Costco was directly involved in the relief efforts following the tragic attacks of September 11th in New York and Washington D.C. Our Pentagon City and New York area buildings, all of which were within eyesight or minutes away from the devastation that occurred, immediately began donating vital supplies to more than a dozen organizations, including fire and police departments, Red Cross, Staten Island Relief, Salvation Army, and others. Costco also donated \$1 million directly to the New York Trade Center Relief Fund and \$100,000 to support the families of those lost at the Pentagon. In addition, each U.S. and Canadian warehouse began accepting member and employee donations at its cash registers, raising in excess of \$3 million in the several weeks following September 11th, all of which was sent to the appropriate relief agencies.

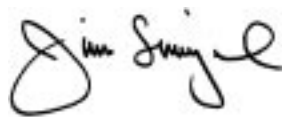
In summary, we want to thank all our fellow employees—now numbering over 90,000 worldwide—for their hard work and dedication; and you, our shareholders, for your on going support. We believe Costco made strong progress in fiscal 2001 and, with its strong financial position, experienced management team and dedicated employees, is well positioned for long-term growth, profitability, and increased shareholder value.

We look forward to seeing many of you at our Annual Meeting of Shareholders on January 30th in San Francisco. Best wishes for a happy, healthy and peaceful Holiday Season and New Year.

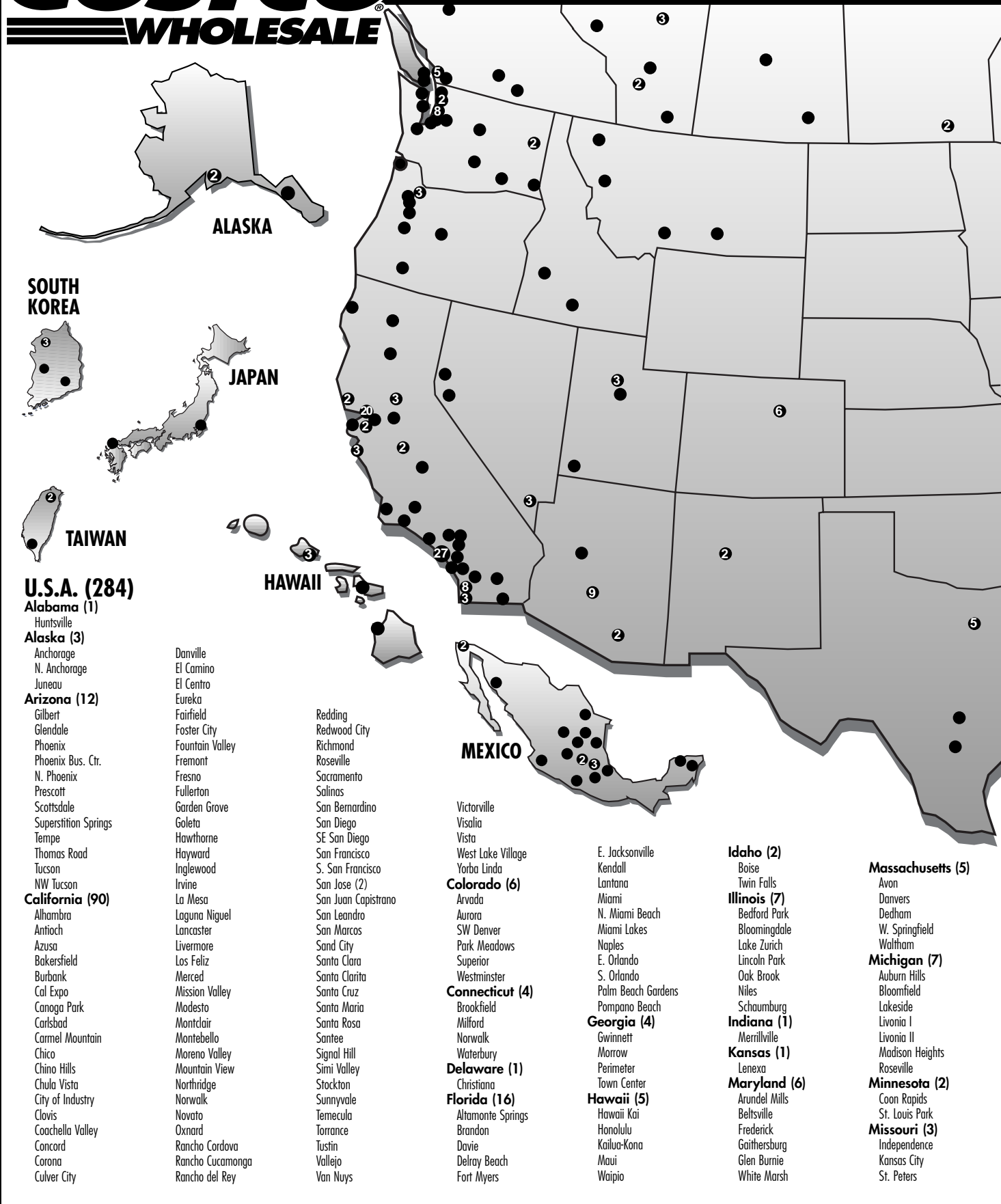
Cordially,



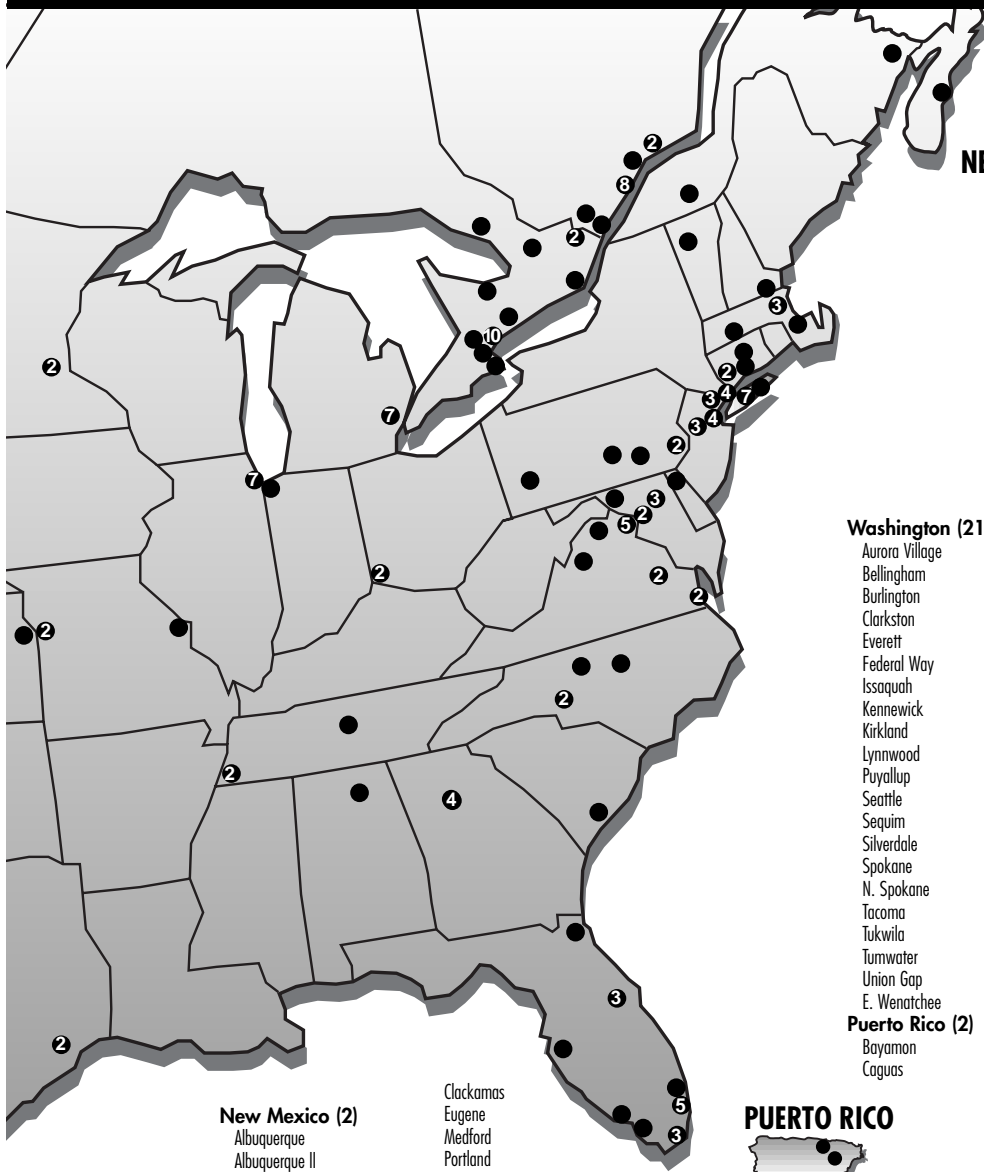
Jeff Brotman



Jim Sinegal



OF DECEMBER 31, 2001



NEWFOUNDLAND



UNITED KINGDOM

- Montana (4)**
 Billings
 Bozeman
 Kalispell
 Missoula
- Nevada (5)**
 Carson City
 Henderson
 Las Vegas
 Reno
 Summerlin
- New Hampshire (1)**
 Nashua
- New Jersey (10)**
 Brick Township
 Bridgewater
 Clifton
 Edison
 Hackensack
 E. Hanover
 Hazlet
 Union
 Wayne
 Wharton

- New Mexico (2)**
 Albuquerque
 Albuquerque II
- New York (12)**
 Brooklyn
 Commaack
 Halbrook
 Lawrence
 Melville
 Nanuet
 Nesconset
 New Rochelle
 Queens
 Staten Island
 Westbury
 Yonkers
- North Carolina (4)**
 Charlotte
 Durham
 Matthews
 Winston-Salem
- Ohio (2)**
 Deerfield Township
 Springdale
- Oregon (10)**
 Albany
 Aloha
 Bend

- Clackamas
 Eugene
 Medford
 Portland
 Salem
 Tigard
 Warrenton
- Pennsylvania (5)**
 Cranberry
 Harrisburg
 King of Prussia
 Lancaster
 Montgomeryville
- South Carolina (1)**
 Charleston
- Tennessee (3)**
 Brentwood
 NE Memphis
 SE Memphis
- Texas (9)**
 Arlington
 Austin
 Bunker Hill
 East Plano
 Fort Worth
 San Antonio
 Southlake
 West Plano
 Willowbrook

- Utah (5)**
 Midvale
 Orem
 St. George
 Salt Lake City
 Sandy
- Vermont (1)**
 Colchester
- Virginia (11)**
 Chesterfield
 Fairfax
 Harrisonburg
 W. Henrico
 Manassas
 Newington
 Newport News
 Norfolk
 Pentagon City
 Sterling
 Winchester



PUERTO RICO

- Washington (21)**
 Aurora Village
 Bellingham
 Burlington
 Clarkston
 Everett
 Federal Way
 Issaquah
 Kennewick
 Kirkland
 Lynnwood
 Puyallup
 Seattle
 Sequim
 Silverdale
 Spokane
 N. Spokane
 Tacoma
 Tukwila
 Tumwater
 Union Gap
 E. Wenatchee
- Puerto Rico (2)**
 Bayamon
 Caguas

- Canada (60)**
- Alberta (8)**
 N. Calgary
 S. Calgary
 Edmonton
 N. Edmonton
 S. Edmonton
 Grande Prairie
 Sherbrooke
 Trois-Rivières-Ouest
- Saskatchewan (2)**
 Regina
 Saskatoon
- Japan (2)**
 Hisayama
 Makuhari
- South Korea (5)**
 Daegu
 Daejeon
 Sang Bong
 Yang Jae
 Yang Pyung
- Taiwan (3)**
 Kaohsiung
 Neihu
 Shih Chih

- Manitoba (2)**
 E. Winnipeg
 Winnipeg
- New Brunswick (1)**
 Moncton
- Newfoundland (1)**
 St. John's
- Nova Scotia (1)**
 Halifax
- Ontario (20)**
 Ajax
 Ancaster
 Barrie
 Brampton
 Burlington
 Downsview
 Etobicoke
 Gloucester
 Kingston
 Kitchener
 London
 Markham
 Mississauga
 Mississauga N.
 Nepean
 St. Catharines
 Scarborough
 Sudbury
 Vaughan
 Windsor
- Québec (14)**
 Anjou
 Brossard
 Chicoutimi
 Gatineau
 Laval
 Marché Central
 Montréal
 Pointe Claire
 Québec
 Sainte-Foy
 Saint-Hubert
 Saint-Jérôme
 Sherbrooke

- United Kingdom (11)**
- England (8)**
 Derby
 Gateshead
 Haydock
 Leeds
 Liverpool
 Manchester
 Thurrock
 Watford
- Scotland (3)**
 Aberdeen
 Edinburgh
 Glasgow

- Mexico (20)**
 (50% Joint Venture)
- Aguascalientes (1)**
 Aguascalientes
- Baja (2)**
 Mexicali
 Tijuana
- Guanajuato (1)**
 León
- Gerrero (1)**
 Acapulco
- Jalisco (1)**
 Guadalajara
- Mexico (2)**
 Interlomas
 Satélite
- Mexico, D.F. (3)**
 Coapa
 Mixcoac
 Polanco
- Michoacan (1)**
 Morelia
- Nuevo León (1)**
 Monterrey
- Puebla (1)**
 Puebla
- Querétaro (1)**
 Querétaro
- Quintana Roo (1)**
 Cancún
- San Luis Potosi (1)**
 San Luis Potosi
- Sonora (1)**
 Hermosillo
- Veracruz (1)**
 Xalapa
- Yucatán (1)**
 Mérida

NUMBER OF WAREHOUSES AT FISCAL YEAR END

	Own Land and Building	Lease Land and/or Building	Total
UNITED STATES	209	55	264
CANADA	52	8	60
UNITED KINGDOM	11	-	11
KOREA	2	3	5
TAIWAN	-	3	3
JAPAN	-	2	2
Total	<u>274</u>	<u>71</u>	<u>345</u>

The following schedule shows warehouse openings (net of warehouse closings) by region for the past five fiscal years and openings (net of closings) through December 31, 2001:

Openings by Fiscal Year	United States	Canada	Other International	Total	Total Warehouses in Operation
1997 and prior	200	54	7	261	261
1998	11	2	4	17	278
1999	10	2	2	14	292
2000	16	1	4	21	313
2001	27	1	4	32	345
2002 (through 12/31/01)	20	-	-	20	365
Total	<u>284</u>	<u>60</u>	<u>21</u>	<u>365</u>	

As of September 2, 2001, the Company operated (through a 50%-owned joint venture) 20 warehouses in Mexico. 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.

The Company's headquarters are located in Issaquah, Washington. Additionally, the Company maintains regional buying and administrative offices, operates regional cross-docking facilities (depots) for the consolidation and distribution of certain shipments to the warehouses, and operates various processing, packaging, and other facilities to support ancillary and other businesses.

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, 2001:

ANCILLARY BUSINESSES

	United States	Canada	Other International	Total
Pharmacy	272	22	0	294
Optical Dispensing Centers	274	54	13	341
One-Hour Photo	278	60	21	359
Food Court and Hot Dog Stands	282	60	21	363
Hearing Aid Centers	86	8	0	94
Copy Centers	7	0	0	7
Print Shops	2	0	1	3
Gas Stations	156	3	0	159

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 2001 and 2000. This information includes all adjustments which management considers necessary for a fair presentation.

	52 Weeks Ended September 2, 2001					53 Weeks Ended September 3, 2000				
	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 17 Weeks	Total 53 Weeks
REVENUE										
Net sales	\$7,498,979	\$8,159,980	\$7,563,494	\$10,914,568	\$34,137,021	\$6,824,197	\$7,613,601	\$6,768,608	\$10,414,317	\$31,620,723
Membership fees and other	138,299	146,329	155,401	219,987	660,016	119,315	123,386	126,000	174,872	543,573
Total revenue	<u>7,637,278</u>	<u>8,306,309</u>	<u>7,718,895</u>	<u>11,134,555</u>	<u>34,797,037</u>	<u>6,943,512</u>	<u>7,736,987</u>	<u>6,894,608</u>	<u>10,589,189</u>	<u>32,164,296</u>
OPERATING EXPENSES										
Merchandise costs	6,713,644	7,275,958	6,825,636	9,782,902	30,598,140	6,120,201	6,792,367	6,084,246	9,325,356	28,322,170
Selling, general and administrative	691,127	731,411	705,858	1,000,663	3,129,059	596,717	636,739	604,924	916,975	2,755,355
Preopening expenses	19,680	10,572	12,751	16,568	59,571	10,334	8,108	6,728	17,151	42,321
Provision for impaired assets and closing costs	1,000	1,000	—	16,000	18,000	1,000	1,500	1,500	3,000	7,000
Operating income	<u>211,827</u>	<u>287,368</u>	<u>174,650</u>	<u>318,422</u>	<u>992,267</u>	<u>215,260</u>	<u>298,273</u>	<u>197,210</u>	<u>326,707</u>	<u>1,037,450</u>
OTHER INCOME (EXPENSE)										
Interest expense	(6,964)	(8,902)	(9,023)	(7,135)	(32,024)	(10,397)	(10,576)	(9,604)	(8,704)	(39,281)
Interest income and other	11,005	15,829	9,801	6,603	43,238	10,667	14,983	12,943	15,633	54,226
INCOME BEFORE INCOME TAXES	<u>215,868</u>	<u>294,295</u>	<u>175,428</u>	<u>317,890</u>	<u>1,003,481</u>	<u>215,530</u>	<u>302,680</u>	<u>200,549</u>	<u>333,636</u>	<u>1,052,395</u>
Provision for income taxes	86,347	117,718	70,171	127,156	401,392	86,212	121,072	80,220	133,454	420,958
NET INCOME	<u>\$ 129,521</u>	<u>\$ 176,577</u>	<u>\$ 105,257</u>	<u>\$ 190,734</u>	<u>\$ 602,089</u>	<u>\$ 129,318</u>	<u>\$ 181,608</u>	<u>\$ 120,329</u>	<u>\$ 200,182</u>	<u>\$ 631,437</u>
NET INCOME PER COMMON SHARE:										
Basic Earnings per share:										
Net Income	\$ 0.29	\$ 0.39	\$ 0.23	\$ 0.42	\$ 1.34	\$ 0.29	\$ 0.41	\$ 0.27	\$ 0.45	\$ 1.41
Diluted earnings per share:										
Net Income	\$ 0.28	\$ 0.38	\$ 0.23	\$ 0.41	\$ 1.29	\$ 0.28	\$ 0.39	\$ 0.26	\$ 0.43	\$ 1.35
Shares used in calculation (000's):										
Basic	447,676	448,788	450,195	451,310	449,631	443,300	445,255	448,113	447,757	446,255
Diluted	<u>473,920</u>	<u>475,488</u>	<u>475,840</u>	<u>477,875</u>	<u>475,827</u>	<u>473,414</u>	<u>476,642</u>	<u>478,750</u>	<u>474,304</u>	<u>475,737</u>

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

WAREHOUSES IN OPERATIONS	2001		2000		1999		1998	
Beginning of year	313		292		278		261	
Openings	39		25		21		18	
Closings	(7)		(4)		(7)		(1)	
End of year	<u>345</u>		<u>313</u>		<u>292</u>		<u>278</u>	
OPERATING RESULTS								
Revenue								
Net Sales	\$34,137	100.00%	\$31,621	100.0%	\$26,976	100.0%	\$23,830	100.0%
Membership fees and other	660	1.9	543	1.7	480	1.8	440	1.8
Total revenue	<u>34,797</u>		<u>32,164</u>		<u>27,456</u>		<u>24,270</u>	
Operating expenses								
Merchandise costs	30,598	89.6	28,322	89.6	24,170	89.6	21,380	89.7
Selling, general and administrative expenses	3,129	9.2	2,756	8.7	2,338	8.7	2,070	8.7
Preopening expenses	60	0.2	42	0.1	31	0.1	27	0.1
Provision for impaired assets and closing costs	18	—	7	—	57	0.2	6	—
Operating expenses	<u>33,805</u>		<u>31,127</u>		<u>26,596</u>		<u>23,483</u>	
Operating income	<u>992</u>		<u>1,037</u>		<u>860</u>		<u>787</u>	
Other income (expenses)								
Interest expense	(32)	(0.1)	(39)	(0.1)	(45)	(0.2)	(48)	(0.2)
Interest income and other	43	0.1	54	0.2	44	0.2	27	0.1
Provision for merger and restructuring expenses	—	—	—	—	—	—	—	—
Income from continuing operations before income taxes and cumulative effect of accounting change	1,003	2.9	1,052	3.3	859	3.2	766	3.2
Provision for income taxes	401	1.1	421	1.3	344	1.3	306	1.3
Income from continuing operations before cumulative effect of accounting change	602	1.8	631	2.0	515	1.9	460	1.9
Cumulative effect of accounting change, net of tax	—	—	—	—	(118)	(0.4)	—	—
Income from continuing operations	<u>602</u>		<u>631</u>		<u>397</u>		<u>460</u>	
Discontinued operations:								
Income (loss), net of tax	—	—	—	—	—	—	—	—
Loss on disposal	—	—	—	—	—	—	—	—
Net income (loss)	<u>\$ 602</u>		<u>\$ 631</u>		<u>\$ 397</u>		<u>\$ 460</u>	
	<u>1.8%</u>		<u>2.0%</u>		<u>1.5%</u>		<u>1.9%</u>	
Per Share Data—Diluted								
Income from continuing operations before cumulative effect of accounting change	\$ 1.29		\$ 1.35		\$ 1.11		\$ 1.01	
Cumulative effect of accounting change, net of tax	—		—		(0.25)		—	
Income from continuing operations	1.29		1.35		0.86		1.01	
Discontinued operations:								
Income (loss), net of tax	—		—		—		—	
Loss on disposal	—		—		—		—	
Net income (loss)	<u>\$ 1.29</u>		<u>\$ 1.35</u>		<u>\$ 0.86</u>		<u>\$ 1.01</u>	
Shares used in calculation (000's)	475,827		475,737		471,120		463,371	
Balance Sheet Data								
Working capital (deficit)	\$ (230)		\$ 66		\$ 450		\$ 431	
Property and equipment, net	5,827		4,834		3,907		3,395	
Total assets	10,090		8,634		7,505		6,260	
Short-term debt	195		10		—		—	
Long-term debt and capital lease obligations	859		790		919		930	
Stockholders' equity	4,883		4,240		3,532		2,966	
SALES INCREASE (DECREASE) FROM PRIOR YEAR								
Total	8%		17%		13%		11%	
Comparable units	4%		11%		10%		8%	
MEMBERS AT YEAR END (000'S)								
Business (primary cardholders)	4,358		4,170		3,887		3,676	
Gold Star	12,737		10,521		9,555		8,654	

1997		1996		1995		1994		1993		1992	
252		240		221		200		170		140	
17		20		24		29		37		31	
(8)		(8)		(5)		(8)		(7)		(1)	
<u>261</u>		<u>252</u>		<u>240</u>		<u>221</u>		<u>200</u>		<u>170</u>	
\$21,484	100.0%	\$19,214	100.0%	\$17,906	100.0%	\$16,161	100.0%	\$15,155	100.0%	\$13,820	100.0%
390	1.8	352	1.8	341	1.9	320	2.0	309	2.0	277	2.0
<u>21,874</u>	<u>101.8</u>	<u>19,566</u>	<u>101.8</u>	<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>
19,314	89.9	17,345	90.3	16,226	90.6	14,663	90.7	13,751	90.7	12,565	90.9
1,877	8.7	1,691	8.8	1,556	8.7	1,426	8.8	1,315	8.7	1,129	8.2
27	0.1	29	0.1	25	0.1	25	0.2	28	0.2	26	0.2
75	0.4	10	—	7	—	7	—	5	—	2	—
<u>21,293</u>	<u>99.1</u>	<u>19,075</u>	<u>99.2</u>	<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>
581	2.7	491	2.6	433	2.4	360	2.2	365	2.4	375	2.7
(76)	(0.4)	(78)	(0.4)	(68)	(0.4)	(50)	(0.3)	(46)	(0.3)	(35)	(0.2)
15	0.1	11	—	3	—	14	0.1	17	0.1	29	0.2
—	—	—	—	—	—	(120)	(0.7)	—	—	—	—
520	2.4	424	2.2	368	2.0	204	1.3	336	2.2	369	2.7
208	0.9	175	0.9	151	0.8	93	0.6	133	0.9	146	1.1
312	1.5	249	1.3	217	1.2	111	0.7	203	1.3	223	1.6
—	—	—	—	—	—	—	—	—	—	—	—
<u>312</u>	<u>1.5</u>	<u>249</u>	<u>1.3</u>	<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>
—	—	—	—	—	—	(41)	(0.3)	20	0.1	19	0.1
—	—	—	—	(83)	(0.5)	(182)	(1.1)	—	—	—	—
<u>\$ 312</u>	<u>1.5%</u>	<u>\$ 249</u>	<u>1.3%</u>	<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>
\$ 0.73		\$ 0.61		\$ 0.53		\$ 0.25		\$ 0.46		\$ 0.49	
—		—		—		—		—		—	
<u>0.73</u>		<u>0.61</u>		<u>0.53</u>		<u>0.25</u>		<u>0.46</u>		<u>0.49</u>	
—		—		(0.19)		(0.09)		0.04		0.04	
—		—		—		(0.42)		—		—	
<u>\$ 0.73</u>		<u>\$ 0.61</u>		<u>\$ 0.34</u>		<u>\$ (0.26)</u>		<u>\$ 0.50</u>		<u>\$ 0.53</u>	
449,336		435,781		447,219		438,664		480,324		490,180	
\$ 146		\$ 57		\$ 9		\$ (113)		\$ 127		\$ 282	
3,155		2,888		2,535		2,146		1,967		1,704	
5,476		4,912		4,437		4,236		3,931		3,577	
25		60		76		149		23		—	
917		1,229		1,095		795		813		814	
<u>2468</u>		<u>1,778</u>		<u>1,531</u>		<u>1,685</u>		<u>1,797</u>		<u>1,594</u>	
12%		7%		11%		7%		10%		17%	
9%		5%		2%		(3%)		(3%)		6%	
3,537		3,435		3,318		3,228		3,177		3,105	
<u>7,845</u>		<u>7,076</u>		<u>6,683</u>		<u>6,088</u>		<u>5,797</u>		<u>5,357</u>	

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, and other risks identified from time to time in the Company's public statements and reports filed with the SEC.

Comparison of Fiscal 2001 (52 weeks) and Fiscal 2000 (53 weeks): (dollars in thousands, except earnings per share)

Net income for fiscal 2001, a 52-week fiscal year, decreased 5% to \$602,089, or \$1.29 per diluted share, from \$631,437, or \$1.35 per diluted share during fiscal year 2000, a 53-week fiscal year.

Net sales increased 8% to \$34,137,021 in fiscal 2001 from \$31,620,723 in fiscal 2000. This increase was due to higher sales at existing locations opened prior to fiscal 2000; increased sales at 21 warehouses (25 opened, 4 closed) that were opened in fiscal 2000 and in operation for the entire 2001 fiscal year; and first year sales at the 32 new warehouses opened (39 opened, 7 closed) during fiscal 2001. 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 4% annual rate in fiscal 2001 compared to an 11% annual rate during fiscal 2000.

Membership fees and other revenue increased 21% to \$660,016, or 1.93% of net sales, in fiscal 2001 from \$543,573, or 1.72% of net sales, in fiscal 2000. This increase was primarily due to the increase in membership fees across most membership categories, averaging approximately \$5 per member, which became effective beginning with renewals on October 1, 2000. Additionally, membership sign-ups at the 32 new warehouses opened in fiscal 2001 were also a factor in this increase.

Gross margin (defined as net sales minus merchandise costs) increased 7% to \$3,538,881, or 10.37% of net sales, in fiscal 2001 from \$3,298,553, or 10.43% of net sales, in fiscal 2000. Gross margin as a percentage of net sales decreased by six basis points due to costs related to the Executive Membership two percent reward program, which was somewhat offset by gross margin improvement in the Company's core merchandising activities and ancillary operations. The gross margin figures reflect accounting for most U.S. merchandise inventories on the last-in, first-out (LIFO) method. If all inventories had been valued using the first-in, first-out (FIFO) method, inventories would have been higher by \$13,650 at September 2, 2001, and \$8,150 at September 3, 2000.

Selling, general and administrative expenses as a percent of net sales increased to 9.17% during fiscal 2001 from 8.71% during fiscal 2000, due to a number of factors, including an increase in the entry level wage rate of hourly employees beginning in the fourth quarter of fiscal 2000; continued expansion of the Company's co-branded credit card program; higher utility and energy costs; and higher expenses associated with an increase in new warehouse openings year-over-year (a net of 32 and 21 warehouses opened in fiscal 2001 and 2000, respectively) where expense ratios to sales are typically higher than in more mature warehouses.

Preopening expenses totaled \$59,571, or 0.17% of net sales, during fiscal 2001 and \$42,321, or 0.13% of net sales, during fiscal 2000. During fiscal 2001, the Company opened 39 new warehouses (including relocations) compared to 25 new warehouses (including relocations) during fiscal 2000. Pre-opening

expenses also include costs related to remodels and expanded ancillary operations at existing warehouses, as well as expanded international operations.

The provision for impaired assets and closing costs was \$18,000 in fiscal 2001 compared to \$7,000 in fiscal 2000. The fiscal 2001 provision includes charges of \$19,000 for the Canadian administrative reorganization (See—"Management's Discussion and Analysis of Financial Condition and Results of Operations"—Liquidity and Capital Resources), \$15,231 for the impairment of long-lived assets and \$2,412 for warehouse closing expense, which were offset by \$18,643 of gains on the sale of real property. At September 2, 2001, the reserve for warehouse closing costs was \$15,434, of which \$6,538 related to future lease obligations. This compares to a reserve for warehouse closing costs of \$11,762 at September 3, 2000, of which \$8,887 related to future lease obligations. (See—Notes to Consolidated Financial Statements—Note 1).

Interest expense totaled \$32,024 in fiscal 2001, and \$39,281 in fiscal 2000. The decrease in interest expense is primarily due to an increase in capitalized interest related to construction projects and a decrease related to the retirement of an unsecured note payable to banks with a principal amount totaling \$140,000 in April 2001.

Interest income and other totaled \$43,238 in fiscal 2001 compared to \$54,226 in fiscal 2000. The decrease was primarily due to lower rates of interest earned on lower balances of cash and cash equivalents and short-term investments during fiscal 2001 as compared to fiscal 2000, which was partially offset by improved earnings from Costco Mexico (a 50%-owned joint venture) on a year-over-year basis.

The effective income tax rate on earnings was 40% in both fiscal 2001 and fiscal 2000.

Comparison of Fiscal 2000 (53 weeks) and Fiscal 1999 (52 weeks):
(dollars in thousands, except earnings per share)

Net income for fiscal 2000, a 53-week fiscal year, increased 59% to \$631,437, or \$1.35 per diluted share, from \$397,298, or \$0.86 per diluted share during fiscal year 1999, a 52-week fiscal year. 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. Excluding the impact of these two charges, net income in fiscal 1999 would have been \$545,321, or \$1.18 per diluted share and would have resulted in a 16% increase in net income in fiscal 2000 compared to fiscal 1999.

Net sales increased 17% to \$31,620,723 in fiscal 2000 from \$26,976,453 in fiscal 1999. This increase was due to: (i) higher sales at existing locations opened prior to fiscal 1999; (ii) increased sales at 14 warehouses (21 opened, 7 closed) that were opened in fiscal 1999 and in operation for the entire 2000 fiscal year; (iii) first year sales at the 21 new warehouses opened (25 opened, 4 closed) during fiscal 2000; and (iv) fiscal 2000 being a 53-week fiscal year. 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 11% annual rate in fiscal 2000 compared to a 10% annual rate during fiscal 1999.

Membership fees and other revenue increased 13% to \$543,573, or 1.72% of net sales, in fiscal 2000 from \$479,578, or 1.78% of net sales, in fiscal 1999. This increase was primarily due to membership sign-ups at the 21 new warehouses opened in fiscal 2000.

Gross margin (defined as net sales minus merchandise costs) increased 18% to \$3,298,553, or 10.43% of net sales, in fiscal 2000 from \$2,806,254, or 10.40% of net sales, in fiscal 1999. Gross margin as a percentage of net sales increased due to increased sales penetration of certain higher gross margin ancillary businesses and private label products 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. If all inventories had been valued using the first-in, first-out (FIFO) method, inventories would have been higher by \$8,150 at September 3, 2000, and \$11,150 at August 29, 1999.

Selling, general and administrative expenses as a percent of net sales increased to 8.71% during fiscal 2000 from 8.67% during fiscal 1999, primarily reflecting higher expenses associated with international expansion, the rollout of certain ancillary businesses and an increase in credit card merchant fees associated with the rollout of a new co-branded credit card program which was partially offset by a year-over-year improvement in the Company's core warehouse operations driven by an increase in comparable warehouse sales and improvements within Central and Regional administrative offices.

Preopening expenses totaled \$42,321, or 0.13% of net sales, during fiscal 2000 and \$31,007, or 0.11% of net sales, during fiscal 1999. During fiscal 2000, the Company opened 25 new warehouses compared to 21 new warehouses during fiscal 1999. Pre-opening expenses also include costs related to remodels, expanded fresh foods and ancillary operations at existing warehouses, as well as expanded international operations, and the opening of two new regional offices.

The provision for impaired assets and closing costs was \$7,000 in fiscal 2000 compared to \$56,500 in fiscal 1999. The fiscal 2000 provision includes a charge of \$10,956 for the impairment of long-lived assets, which was offset by \$3,956 of gains on the sale of real property. The fiscal 1999 provision includes a charge of \$31,080 for the impairment of long-lived assets 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 closing costs in fiscal 1999 includes \$24,773 for future lease obligations and \$6,092 for other expenses directly related to the closedown of warehouses and other facilities. At September 3, 2000, the reserve for closing costs was \$11,762, of which \$8,887 related to future lease obligations.

Interest expense totaled \$39,281 in fiscal 2000, and \$45,527 in fiscal 1999. The decrease in interest expense is primarily due to an increase in capitalized interest related to construction projects and a decrease in the interest rate related to the 7.125% Senior Notes due to entering into a "fixed-to-floating" interest rate swap agreement in December 1999 that effectively converted the fixed rate of 7.125% to a floating rate indexed to the 30-day commercial paper rate. In August 2000, the swap agreement was amended to index the floating rate to the three-month LIBOR rate. Effective December 12, 2000, the Company terminated the swap agreement.

Interest income and other totaled \$54,226 in fiscal 2000 compared to \$44,266 in fiscal 1999. The increase was primarily due to higher rates of interest earned on higher balances of cash and cash equivalents and short-term investments during fiscal 2000 as compared to fiscal 1999 and improved earnings from Costco Mexico; a 50%-owned joint venture.

The effective income tax rate on earnings was 40% in both fiscal 2000 and fiscal 1999.

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 \$1,000,000 to \$1,150,000 during fiscal 2002 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, short-term borrowings under revolving credit facilities and other financing sources as required.

Expansion plans for the United States and Canada during fiscal 2002 are to open approximately 34 to 36 new warehouse clubs, including six to seven relocations 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 80%-owned subsidiary, and one additional unit in Korea through its 96%-owned subsidiary. Other international markets are being assessed.

Costco and its Mexico-based joint venture partner, Controladora Comercial Mexicana, each own a 50% interest in Costco Mexico. As of September 2, 2001, Costco Mexico operated 20 warehouses in Mexico and plans to open one or two new warehouse clubs during fiscal 2002.

Reorganization of Canadian Administrative Operations

On January 17, 2001, the Company announced plans to reorganize and consolidate the administration of its operations in Canada. Anticipated costs related to the reorganization are estimated to total \$26,000 pre-tax (\$15,600 after-tax, or \$.03 per diluted share), expensed as incurred in fiscal 2001 and to be incurred in the first quarter of fiscal 2002. During the current year the Company expensed \$19,000 related to this reorganization and consolidation process and has reported this charge as part of the provision for impaired assets and closing costs.

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

The Company has in place a \$500,000 commercial paper program supported by a \$500,000 bank credit facility with a group of 10 banks, of which \$250,000 expires on November 12, 2002 and \$250,000 expires on November 15, 2005. At September 2, 2001, \$194,000 was outstanding under the commercial paper program and no amounts were outstanding under the loan facility.

In addition, a wholly owned Canadian subsidiary has a \$129,000 commercial paper program supported by a \$90,000 bank credit facility with three Canadian banks, which expires in March, 2002. At September 2, 2001, 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 \$590,000 combined amounts of the respective supporting bank credit facilities.

The Company's wholly-owned Japanese subsidiary has a short-term 3 billion Yen bank line of credit, equal to approximately \$25,000, expiring in November 2002. At September 2, 2001, no amounts were outstanding under the line of credit.

Letters of Credit

The Company has separate letter of credit facilities (for commercial and standby letters of credit), totaling approximately \$556,000. The outstanding commitments under these facilities at September 2, 2001 totaled approximately \$127,000, including approximately \$29,000 in standby letters of credit.

Financing Activities

During April 2001, the Company retired its unsecured note payable to banks of \$140,000 using cash provided from operations, cash and cash equivalents and short-term borrowings under its commercial paper program.

In October 2000, the Company's wholly-owned Japanese subsidiary issued 2.070% promissory notes in the aggregate amount of 3.5 billion Yen, equal to \$29,400, through a private placement. Interest is payable annually and principal is due on October 23, 2007.

In July 2001, the Company's wholly-owned Japanese subsidiary issued 1.187% promissory notes in the aggregate amount of 3 billion Yen, equal to \$25,200, through a private placement. Interest is payable semi-annually and principal is due on July 9, 2008.

In February 1996, the Company filed with the Securities and Exchange Commission a shelf registration statement for \$500,000 of senior debt securities. To date, no securities have been issued under this filing. On October 23, 2001, subsequent to fiscal 2001 year end, the Company filed with the Securities and Exchange Commission to offer up to an additional \$100,000 in debt securities, bringing the total amount of debt securities registered under shelf registration to \$600,000.

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 September 2, 2001 were not material to the Company's results of operations or its financial position. Effective December 10, 1999, the Company entered into a "fixed-to-floating" interest rate swap agreement on its \$300,000 7.125% Senior Notes, replacing the fixed interest rate with a floating rate indexed to the 30-day commercial paper rate. On August 11, 2000, the swap agreement was amended to index the floating rate to the three-month LIBOR rate. Effective December 12, 2000, the Company terminated the swap agreement, resulting in a gain of approximately \$5,000, the benefit of which is being amortized over the remaining term of the debt.

Financial Position and Cash Flows

The Company was in a negative working capital position at September 2, 2001 of approximately \$230,000, compared to a positive working capital position of approximately \$66,000 at September 3, 2000. The decrease in net working capital of approximately \$296,000 was primarily due to decreases in net inventory levels (inventories less accounts payable) of approximately \$282,000 and increases in short term borrowings of approximately \$185,000, offset by an increase in receivables of approximately \$150,000.

Net cash provided by operating activities totaled \$1,032,563 in fiscal 2001 compared to \$1,070,358 in fiscal 2000. The decrease in net cash from operating activities year-over-year is primarily a result of a 5% decrease in net income.

Net cash used in investing activities totaled \$1,339,843 in fiscal 2001 compared to \$1,045,664 in fiscal 2000. The investing activities primarily relate to additions to property and equipment for new and remodeled warehouses of \$1,447,549 and \$1,228,421 in fiscal 2001 and 2000, respectively. Property dispositions provided the Company with \$110,002 in fiscal 2001 and \$62,730 in the prior fiscal year. Net cash used in investing activities also reflects proceeds from sales of short-term investments of \$41,599 and \$208,959 during fiscal 2001 and fiscal 2000, respectively. Additionally, in fiscal 2001, no funds were used to acquire additional ownership in non-wholly owned subsidiaries, whereas in fiscal 2000 the Company purchased an additional 20% interest in Costco UK from Littlewoods Organisation PLC. The Company increased its investment in Costco Mexico; a 50% owned joint venture, by \$28,500 in fiscal 2001. Costco Mexico operates 20 warehouses in Mexico.

Net cash provided by financing activities totaled \$394,345 in fiscal 2001 compared to \$58,605 in fiscal 2000. The increase in financing activity for the current year relates to an increase in short-term borrowings (primarily through the Company's commercial paper program) of \$185,942, an increase in bank checks outstanding of \$216,661, net proceeds from long-term borrowings of \$81,951 and proceeds from stock

option exercises of \$62,000, offset by retirement of long-term debt in the current fiscal year of \$159,328. Included in this long-term debt retirement was the retirement of its \$140,000 unsecured notes payable to banks in April 2001.

The Company's balance sheet as of September 2, 2001 reflects a \$1,455,846 or 17% increase in total assets since September 3, 2000. The increase is primarily due to a net increase in property and equipment and merchandise inventory related to the Company's expansion program.

Stock Repurchase Program (dollars in thousands except per share data)

The Company's stock repurchase program, that was authorized by the Board of Directors to repurchase up to \$500,000 of Costco Common Stock over a three-year period commencing on November 5, 1998, has expired. Under the program, the Company could repurchase shares from time to time in the open market or in private transactions as market conditions warranted. 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 September 3, 2000, the Company had repurchased 3.13 million shares of common stock at an average price of \$31.96 per share, totaling approximately \$99,946 (excluding commissions). The Company did not acquire any additional shares under this program subsequent to fiscal 2000.

Membership Fee Increases

Effective September 1, 2000, the Company increased annual membership fees for its Gold Star (individual), Business, and Business Add-on Members. These fee increases averaged approximately \$5 per member across its member categories.

Recent Accounting Pronouncements

During June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative and Hedging Activities, and in June 2000 the FASB issued SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133. These standards require companies to record derivative financial instruments on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the fair value of those derivatives would be accounted for based on the use of the derivative and whether the instrument qualified for hedge accounting, as defined in SFAS 133 and 138. The Company was required to adopt the provisions of SFAS 133 and 138 on September 4, 2000, the first day of fiscal 2001. The Company's use of derivative instruments was limited to the fixed-to-floating swap contract on its 7.125% Senior Notes, which was terminated on December 12, 2000, and foreign exchange contracts. The impact of the adoption of this accounting standard in fiscal 2001 was not material.

In June 2001, the FASB issued SFAS No. 142, "Accounting for Goodwill and Other Intangibles", which specifies that goodwill and some intangible assets will no longer be amortized, but instead will be subject to periodic impairment testing. This pronouncement is effective for the Company beginning in fiscal 2003, but may be adopted in fiscal 2002. The Company is in the process of evaluating the financial statement impact of the adoption of SFAS No. 142.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," effective for the Company on January 1, 2003. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is in the process of evaluating the financial statement impact of the adoption of SFAS No. 143.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for the Company on January 1, 2002. This Statement supersedes FASB Statement

No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and other related accounting guidance. The Company is in the process of evaluating the financial statement impact of the adoption of SFAS No. 144.

Quantitative and Qualitative Disclosure of Market Risk

The Company is exposed to financial market risk resulting from changes in interest and currency rates. As a policy, the Company does not engage in speculative or leveraged transactions, nor hold or issue financial instruments for trading purposes.

The nature and amount of the Company's long and short-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. As of September 2, 2001, all of the Company's debt is fixed rate. The Company's long-term debt includes its \$851,877 principal amount at maturity Zero Coupon Subordinated Notes, Senior Notes with a principal amount of \$300,000 and additional notes and capital lease obligations totaling \$86,411. While fluctuations in interest rates may affect the fair value of this debt, interest expense will not be affected due to the fixed interest rate of the notes and capital lease obligations.

The Company's short-term investments as of September 2, 2001 include corporate notes and bonds with maturities of less than sixty days. These investments are classified as available for sale. If interest rates were to increase or decrease immediately, it could have a material impact on the fair value of these investments. However, changes in interest rates would not likely have a material impact on interest income.

Most foreign currency transactions have been conducted in local currencies, limiting the Company's exposure to changes in currency rates. The Company periodically enters into forward foreign exchange contracts to hedge the impact of fluctuations in foreign currency rates on inventory purchases. The foreign exchange contracts outstanding at September 2, 2001 were not material to the Company's results of operations or its financial position.

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 accounting principles generally accepted in the United States 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 auditing standards generally accepted in the United States, 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

We have audited the accompanying consolidated balance sheets of Costco Wholesale Corporation (a Washington corporation) and subsidiaries ("Costco") as of September 2, 2001 and September 3, 2000, and the related consolidated statements of income, stockholders' equity and cash flows for the 52 weeks ended September 2, 2001, the 53 weeks ended September 3, 2000 and the 52 weeks ended August 29, 1999. 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 auditing standards generally accepted in the United States. 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 September 2, 2001 and September 3, 2000, and the results of its operations and its cash flows for the 52 weeks ended September 2, 2001, the 53 weeks ended September 3, 2000 and the 52 weeks ended August 29, 1999, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the consolidated financial statements, during the year ended August 29, 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.



Seattle, Washington
October 8, 2001

COSTCO WHOLESALE CORPORATION
CONSOLIDATED BALANCE SHEETS
(dollars in thousands except par value)

ASSETS

	<u>September 2, 2001</u>	<u>September 3, 2000</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 602,585	\$ 524,505
Short-term investments	4,999	48,026
Receivables, net	324,768	174,375
Merchandise inventories, net	2,738,504	2,490,088
Other current assets	211,601	233,124
Total current assets	<u>3,882,457</u>	<u>3,470,118</u>
PROPERTY AND EQUIPMENT		
Land and land rights	1,877,158	1,621,798
Buildings, leaseholds and land improvements	3,834,714	3,007,752
Equipment and fixtures	1,529,307	1,311,110
Construction in progress	133,995	200,729
	<u>7,375,174</u>	<u>6,141,389</u>
Less-accumulated depreciation and amortization	(1,548,589)	(1,307,273)
Net property and equipment	<u>5,826,585</u>	<u>4,834,116</u>
OTHER ASSETS	<u>380,744</u>	<u>329,706</u>
	<u>\$10,089,786</u>	<u>\$ 8,633,940</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short term borrowings	\$ 194,552	\$ 9,500
Accounts payable	2,727,639	2,197,139
Accrued salaries and benefits	483,473	422,264
Accrued sales and other taxes	152,864	159,717
Deferred membership income	322,583	262,249
Other current liabilities	231,078	353,490
Total current liabilities	<u>4,112,189</u>	<u>3,404,359</u>
LONG-TERM DEBT	859,393	790,053
DEFERRED INCOME TAXES AND OTHER LIABILITIES	119,434	90,391
Total liabilities	<u>5,091,016</u>	<u>4,284,803</u>
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	<u>115,830</u>	<u>108,857</u>
STOCKHOLDERS' EQUITY		
Preferred stock \$.005 par value; 200,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock \$.005 par value; 1,800,000,000 shares authorized; 451,754,000 and 447,297,000 shares issued and outstanding	2,259	2,236
Additional paid-in capital	1,125,543	1,028,414
Other accumulated comprehensive loss	(173,610)	(117,029)
Retained earnings	3,928,748	3,326,659
Total stockholders' equity	<u>4,882,940</u>	<u>4,240,280</u>
	<u>\$10,089,786</u>	<u>\$ 8,633,940</u>

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

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

	<u>52 Weeks Ended September 2, 2001</u>	<u>53 Weeks Ended September 3, 2000</u>	<u>52 Weeks Ended August 29, 1999</u>
REVENUE			
Net sales	\$34,137,021	\$31,620,723	\$26,976,453
Membership fees and other	660,016	543,573	479,578
Total revenue	<u>34,797,037</u>	<u>32,164,296</u>	<u>27,456,031</u>
OPERATING EXPENSES			
Merchandise costs	30,598,140	28,322,170	24,170,199
Selling, general and administrative	3,129,059	2,755,355	2,338,198
Preopening expenses	59,571	42,321	31,007
Provision for impaired assets and closing costs	18,000	7,000	56,500
Operating income	<u>992,267</u>	<u>1,037,450</u>	<u>860,127</u>
OTHER INCOME (EXPENSE)			
Interest expense	(32,024)	(39,281)	(45,527)
Interest income and other	43,238	54,226	44,266
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	<u>1,003,481</u>	<u>1,052,395</u>	<u>858,866</u>
Provision for income taxes	401,392	420,958	343,545
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	602,089	631,437	515,321
Cumulative effect of accounting change, net of tax benefit of \$78,682	—	—	(118,023)
NET INCOME	<u>\$ 602,089</u>	<u>\$ 631,437</u>	<u>\$ 397,298</u>
NET INCOME PER COMMON SHARE:			
Basic earnings per share:			
Income before cumulative effect of accounting change . .	\$ 1.34	\$ 1.41	\$ 1.17
Cumulative effect of accounting change, net of tax	—	—	(0.27)
Net Income	<u>\$ 1.34</u>	<u>\$ 1.41</u>	<u>\$ 0.90</u>
Diluted earnings per share:			
Income before cumulative effect of accounting change . .	\$ 1.29	\$ 1.35	\$ 1.11
Cumulative effect of accounting change, net of tax	—	—	(0.25)
Net Income	<u>\$ 1.29</u>	<u>\$ 1.35</u>	<u>\$ 0.86</u>
Shares used in calculation (000's)			
Basic	449,631	446,255	439,253
Diluted	475,827	475,737	471,120

The accompanying notes are an integral part of these financial statements

COSTCO WHOLESALE CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the 52 weeks ended September 2, 2001, the 53 weeks ended September 3, 2000
and the 52 weeks ended August 29, 1999
(in thousands)

	Common Stock		Additional Paid-In Capital	Other Accumulated Comprehensive Income/(Loss)	Retained Earnings	Total
	Shares	Amount				
BALANCE AT AUGUST 30, 1998	435,178	\$2,176	\$ 817,628	\$(151,842)	\$2,297,924	\$2,965,886
Comprehensive Income						
Net Income	—	—	—	—	397,298	397,298
Other accumulated comprehensive income Foreign currency translation adjustment	—	—	—	33,758	—	33,758
Total comprehensive income	—	—	—	33,758	397,298	431,056
Stock options exercised including income tax benefits	6,468	33	110,282	—	—	110,315
Conversion of convertible debentures . .	1,090	5	24,848	—	—	24,853
BALANCE AT AUGUST 29, 1999	442,736	2,214	952,758	(118,084)	2,695,222	3,532,110
Comprehensive Income						
Net Income	—	—	—	—	631,437	631,437
Other accumulated comprehensive income Foreign currency translation adjustment	—	—	—	1,055	—	1,055
Total comprehensive income	—	—	—	1,055	631,437	632,492
Stock options exercised including income tax benefits	7,688	38	175,520	—	—	175,558
Conversion of convertible debentures . .	3	—	66	—	—	66
Repurchases of common stock	(3,130)	(16)	(99,930)	—	—	(99,946)
BALANCE AT SEPTEMBER 3, 2000 .	447,297	2,236	1,028,414	(117,029)	3,326,659	4,240,280
Comprehensive Income						
Net Income	—	—	—	—	602,089	602,089
Other accumulated comprehensive income/loss Foreign currency translation adjustment	—	—	—	(56,581)	—	(56,581)
Total comprehensive income	—	—	—	(56,581)	602,089	545,508
Stock options exercised including income tax benefits and other	4,457	23	97,129	—	—	97,152
BALANCE AT SEPTEMBER 2, 2001 .	451,754	\$2,259	\$1,125,543	\$(173,610)	\$3,928,748	\$4,882,940

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 September 2, 2001	53 Weeks Ended September 3, 2000	52 Weeks Ended August 29, 1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 602,089	\$ 631,437	\$ 397,298
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	301,297	254,397	224,811
Accretion of discount on zero coupon notes	16,654	16,222	16,064
Net gain on sale of property and equipment and other	(15,934)	(5,358)	(10,443)
Provision for impaired assets	15,231	10,956	31,080
Change in deferred income taxes	40,797	8,264	(22,666)
Tax benefit from exercise of stock options	32,552	76,730	48,392
Cumulative effect of accounting change, net of tax	—	—	118,023
Change in receivables, other current assets, deferred income, accrued and other current liabilities	(6,159)	115,909	147,136
Increase in merchandise inventories	(271,355)	(280,380)	(286,902)
Increase in accounts payable	335,110	253,031	284,238
Other	(17,719)	(10,850)	(6,168)
Total adjustments	430,474	438,921	543,565
Net cash provided by operating activities	1,032,563	1,070,358	940,863
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	(1,447,549)	(1,228,421)	(787,935)
Proceeds from the sale of property and equipment	110,002	62,730	58,670
Purchase of minority interest	—	(51,792)	—
Investment in unconsolidated joint venture	(28,500)	(5,000)	(15,000)
Decrease/(Increase) in short-term investments	41,599	208,959	(181,103)
Increase in other assets and other, net	(15,395)	(32,140)	(28,555)
Net cash used in investing activities	(1,339,843)	(1,045,664)	(953,923)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings net of repayments	185,942	9,435	—
Net proceeds from issuance of long-term debt	81,951	2,199	10,336
Repayments of long-term debt	(159,328)	(10,513)	(11,675)
Changes in bank checks outstanding	216,661	33,746	10,203
Proceeds from minority interests	7,119	24,856	15,058
Exercise of stock options	62,000	98,828	61,923
Repurchase of common stock	—	(99,946)	—
Net cash provided by financing activities	394,345	58,605	85,845
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(8,985)	620	5,827
Increase in cash and cash equivalents	78,080	83,919	78,612
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	524,505	440,586	361,974
CASH AND CASH EQUIVALENTS END OF YEAR	\$ 602,585	\$ 524,505	\$ 440,586
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (excludes amounts capitalized)	\$ 14,761	\$ 21,996	\$ 27,107
Income taxes	\$ 363,649	\$ 313,183	\$ 294,860

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 material inter-company transactions between the Company and its subsidiaries have been eliminated in consolidation. Costco primarily operates 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 September 2, 2001, Costco operated 365 warehouse clubs: 264 in the United States; 60 in Canada; 11 in the United Kingdom; five in Korea; three in Taiwan; two in Japan; and 20 warehouses in Mexico with a joint venture partner.

The Company’s investment in the Costco Mexico joint venture and in other unconsolidated joint ventures that are less than majority owned are accounted for under the equity method. The investment in Costco Mexico is included in other assets and was \$147,905 at September 2, 2001 and \$92,523 at September 3, 2000. The equity in earnings of Costco Mexico is included in interest income and other and for fiscal 2001, 2000 and 1999, was \$17,378, \$10,592 and \$5,978, respectively.

Fiscal Years

The Company reports on a 52/53-week fiscal year basis, which ends on the Sunday nearest August 31st. Fiscal year 2001 was 52 weeks, fiscal year 2000 was 53 weeks and fiscal year 1999 was 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 September 2, 2001 and September 3, 2000, short-term investments consisted of the following:

	2001	2000
Corporate notes and bonds	\$4,999	\$38,331
Certificates of deposit	—	9,667
Other	—	28
Total short-term investments	\$4,999	\$48,026

The Company’s short-term investments have been designated as being available-for-sale and, accordingly, are reported at fair value. The fair market value of short-term investments approximates their carrying value and unrealized holding gains and losses were not significant at September 2, 2001 or September 3, 2000. Realized gains and losses are included in interest income and were not significant in fiscal 2001, 2000, and 1999. Short-term investments held by the Company at September 2, 2001, mature between one and sixty days from the purchase date.

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, net

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 \$3,474 at September 2, 2001 and \$3,368 at September 3, 2000.

Merchandise Inventories, net

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 \$13,650 at September 2, 2001 and \$8,150 at September 3, 2000.

	September 2, 2001	September 3, 2000
Merchandise inventories consist of:		
United States (primarily LIFO)	\$2,244,986	\$2,035,097
Foreign (FIFO)	493,518	454,991
Total	\$2,738,504	\$2,490,088

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 \$19,157 in fiscal 2001, \$10,919 in fiscal 2000, and \$4,380 in fiscal 1999.

Goodwill

Goodwill, net of accumulated amortization, resulting from certain business combinations is included in other assets, and totaled \$43,831 at September 2, 2001 and \$49,230 at September 3, 2000. Goodwill is being amortized over 2 to 40 years using the straight-line method. Accumulated amortization was \$19,757 at September 2, 2001 and \$15,896 at September 3, 2000.

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

Note 1—Summary of Significant Accounting Policies (Continued)

Acquisition of Minority Interest

On May 26, 2000, the Company acquired from the Littlewoods Organisation PLC its 20% equity interest in Costco Wholesale UK Limited, bringing the Company's ownership in Costco Wholesale UK Limited to 80%. The acquisition was funded with cash and cash equivalents on hand. Costco Wholesale UK Limited currently operates eleven Costco warehouse locations.

Accounts Payable

The Company's banking system provides for the daily replenishment of major bank accounts as checks are presented. Accordingly, included in accounts payable at September 2, 2001 and September 3, 2000 are \$270,757 and \$55,002 respectively, representing the excess of outstanding checks over cash on deposit at the banks on which the checks were drawn.

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 2001 and 2000 was immaterial to the Company's results of operations or its financial position.

Effective December 10, 1999, the Company entered into a "fixed-to-floating" interest rate swap agreement on its \$300,000 7.125% Senior Notes. Effective December 12, 2000, the Company terminated the swap agreement resulting in a gain of approximately \$5,000, which is being amortized over the remaining term of the debt.

Foreign Currency Translations

Assets and liabilities recorded in foreign currencies, as well as the Company's investment in the Costco Mexico joint venture, are translated at the exchange rate on the balance sheet date. Translation adjustments resulting from this process are charged or credited to other comprehensive income (loss). Revenue and expenses of the Company's consolidated foreign operations are translated at average rates of exchange prevailing during the year. Gains and losses on foreign currency transactions are included in expenses.

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 \$.25 per diluted share) to reflect the cumulative effect of the accounting change as of the beginning of fiscal 1999.

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

Note 1—Summary of Significant Accounting Policies (Continued)

Marketing and Promotional Expenses

Costco's policy is generally to limit marketing and promotional expenses to new warehouse openings; occasional direct mail marketing to prospective new members and annual direct mail marketing programs to existing members promoting selected merchandise. Marketing and promotional costs are expensed as incurred.

Preopening Expenses

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

Impairment of Long-Lived Assets

The Company periodically evaluates the realizability of long-lived assets based on expected future cash flows. In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, the Company recorded pretax, non-cash charges of \$15,231, \$10,956 and \$31,080 in fiscal 2001, 2000 and 1999, 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 estimated market valuations for those assets whose carrying value was not recoverable through future cash flows.

Reorganization of Canadian Administrative Operations

On January 17, 2001, the Company announced plans to reorganize and consolidate the administration of its operations in Canada. Anticipated costs related to the reorganization are estimated to total \$26,000 pre-tax (\$15,600 after-tax, or \$.03 per diluted share), expensed as incurred in fiscal 2001 and to be incurred in the first quarter of fiscal 2002. During fiscal 2001 the Company expensed \$19,000 related to this reorganization and consolidation process. This charge is included in the provision for impaired assets and closing costs.

Closing Costs

Warehouse closing costs incurred relate principally to the Company's efforts to relocate certain warehouses that were not otherwise impaired to larger and better-located facilities. As of September 2, 2001, the Company's reserve for warehouse closing costs was \$15,434, of which \$6,538 related to lease obligations. This compares to a reserve for warehouse closing costs of \$11,762 at September 3, 2000, of which \$8,887 related to lease obligations.

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.

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

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.

	<u>52 Weeks Ended September 2, 2001</u>	<u>53 Weeks Ended September 3, 2000</u>	<u>52 Weeks Ended August 29, 1999</u>
Net income available to common stockholders used in basic EPS	\$602,089	\$631,437	\$397,298
Interest on convertible bonds, net of tax	<u>9,992</u>	<u>9,772</u>	<u>9,640</u>
Net income available to common stockholders after assumed conversions of dilutive securities	<u>\$612,081</u>	<u>\$641,209</u>	<u>\$406,938</u>
Weighted average number of common shares used in Basic EPS (000's)	449,631	446,255	439,253
Stock options (000's)	6,851	10,135	11,890
Conversion of convertible bonds (000's)	<u>19,345</u>	<u>19,347</u>	<u>19,977</u>
Weighted number of common shares and dilutive Potential common stock used in diluted EPS (000's)	<u>475,827</u>	<u>475,737</u>	<u>471,120</u>

The diluted share base calculation for fiscal years ended September 2, 2001, September 3, 2000 and August 29, 1999 excludes 7,108,000, 3,659,000 and 4,797,000 stock options outstanding, respectively. These options are excluded due to their anti-dilutive effect as a result of their exercise prices being greater than the average market price of the common shares during those fiscal years.

The Company's stock repurchase program that was authorized by the Board of Directors to repurchase up to \$500,000 of Costco Common Stock over a three-year period, commencing on November 5, 1998, has expired. Under the program, the Company could repurchase shares from time to time in the open market or in private transactions as market conditions warranted. 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 September 3, 2000, the Company had repurchased 3.13 million shares of common stock at an average price of \$31.96 per share, totaling approximately \$99,946 (excluding commissions). The Company did not acquire any additional shares under this program subsequent to fiscal 2000.

Supplemental Disclosure of Significant Non-Cash Activities

Fiscal 2001 Non-Cash Activities

- None.

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

Note 1—Summary of Significant Accounting Policies (Continued)

Fiscal 2000 Non-Cash Activities

- None.

Fiscal 1999 Non-Cash Activities

- In March 1999, approximately \$48,000 principal amount of the \$900,000, 3.500% Zero Coupon Convertible Subordinated Notes were converted into approximately 1.09 million shares of Costco Common Stock.

Recent Accounting Pronouncements

During June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative and Hedging Activities, and in June 2000, issued SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133. These standards require companies to record derivative financial instruments on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the fair value of those derivatives would be accounted for based on the use of the derivative and whether the instrument qualified for hedge accounting, as defined in SFAS 133 and 138. The Company was required to adopt the provisions of SFAS 133 and 138 on September 4, 2000, the first day of fiscal 2001. The Company's use of derivative instruments is limited to the fixed-to-floating swap contract on its 7.125% Senior Notes, which was terminated on December 12, 2000, and foreign exchange contracts. The impact of adoption was not material.

In June 2001, the FASB issued SFAS No. 142, "Accounting for Goodwill and Other Intangibles" which specifies that goodwill and some intangible assets will no longer be amortized, but instead will be subject to periodic impairment testing. This pronouncement is effective for the Company beginning in fiscal 2003, but may be adopted in fiscal 2002. The Company is in the process of evaluating the financial statement impact of the adoption of SFAS No. 142.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," effective for the Company on January 1, 2003. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is in the process of evaluating the financial statement impact of the adoption of SFAS No. 143.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for the Company on January 1, 2002. This Statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and other related accounting guidance. The Company is in the process of evaluating the financial statement impact of the adoption of SFAS No. 144.

Use of Estimates

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

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

Note 1—Summary of Significant Accounting Policies (Continued)

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

Reclassifications

Certain reclassifications have been reflected in the financial statements in order to conform prior years to the current year presentation.

Note 2—Debt

Bank Lines of Credit and Commercial Paper Programs

The Company has in place a \$500,000 commercial paper program supported by a \$500,000 bank credit facility with a group of 10 banks, of which \$250,000 expires on November 12, 2002 and \$250,000 expires on November 15, 2005. At September 2, 2001, \$194,000 was outstanding under the commercial paper program and no amounts were outstanding under the loan facility. Covenants related to the credit facility place limitations on total company indebtedness. As of September 2, 2001, the Company was in compliance with all restrictive covenants.

In addition, a wholly owned Canadian subsidiary has a \$129,000 commercial paper program supported by a \$90,000 bank credit facility with three Canadian banks, which expires in March, 2002. At September 2, 2001, 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 \$590,000 combined amounts of the respective supporting bank credit facilities.

The Company's wholly-owned Japanese subsidiary has a short-term 3 billion Yen bank line of credit, equal to approximately \$25,000, expiring in November 2002. At September 2, 2001, no amounts were outstanding under the line of credit.

Letters of Credit

The Company has separate letter of credit facilities (for commercial and standby letters of credit), totaling approximately \$556,000. The outstanding commitments under these facilities at September 2, 2001 totaled approximately \$127,000 including approximately \$29,000 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 2001 and 2000:

<u>Category of Aggregate Short-term Borrowings</u>	<u>Maximum Amount Outstanding During the Fiscal Year</u>	<u>Average Amount Outstanding During the Fiscal Year</u>	<u>Weighted Average Interest Rate During the Fiscal Year</u>
Fiscal year ended September 2, 2001			
Bank borrowings:			
U.S.	\$ —	\$ —	—%
Canadian	7,308	439	6.97
Other International	16,000	10,680	1.38
Commercial Paper:			
U.S.	239,000	42,741	4.15
Canadian	—	—	—
Fiscal year ended September 3, 2000			
Bank borrowings:			
U.S.	\$ —	\$ —	—%
Canadian	5,080	206	6.93
Other International	9,500	731	1.38
Commercial Paper:			
U.S.	—	—	—
Canadian	69,265	846	5.10

Long-term Debt

Long-term debt at September 2, 2001 and September 3, 2000:

	<u>2001</u>	<u>2000</u>
7.125% Senior Notes due June 2005	\$300,000	\$300,000
2.070% Promissory notes due October 2007	29,400	—
1.187% Promissory notes due July 2008	25,200	—
3.500% Zero Coupon convertible subordinated notes due August 2017	489,659	473,005
Unsecured note payable to banks due April 2001	—	140,000
Notes payable secured by trust deeds on real estate	8,981	11,221
Capital lease obligations and other	22,830	14,576
	<u>876,070</u>	<u>938,802</u>
Less current portion (included in other current liabilities)	16,677	148,749
Total long-term debt	<u>\$859,393</u>	<u>\$790,053</u>

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

Note 2—Debt (Continued)

In June 1995, the Company issued \$300,000 of 7.125% Senior Notes due June 15, 2005. 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. In December 1999, the Company entered into a "fixed-to-floating" interest rate swap agreement, which, as amended, replaced the fixed interest rate with a floating rate indexed to LIBOR. In December 2000, the Company terminated the swap agreement, resulting in a gain of approximately \$5,000, which is being amortized over the remaining term of the debt. As of September 2, 2001, the Company was in compliance with all restrictive covenants.

In October 2000, the Company's wholly-owned Japanese subsidiary issued 2.070% promissory notes in the aggregate amount of 3.5 billion Yen, equal to \$29,400, through a private placement. Interest is payable annually and principal is due on October 23, 2007.

In July 2001, the Company's wholly-owned Japanese subsidiary issued 1.187% promissory notes in the aggregate amount of 3 billion Yen, equal to \$25,200, through a private placement. Interest is payable semi-annually and principal is due on July 9, 2008.

During April 2001, the Company retired its unsecured note payable to banks of \$140,000 using cash provided from operations, cash and cash equivalents, and short-term borrowings under its commercial paper program.

On August 19, 1997, the Company completed the sale of \$900,000 principal amount at maturity Zero Coupon Subordinated Notes (the "Notes") due August 19, 2017. The Notes were priced with a yield to maturity of 3.500%, resulting in gross proceeds to the Company of \$449,640. The Notes are convertible into a maximum of 20,438,180 shares of Costco Common Stock at an initial conversion price of \$22.00. 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. As of September 2, 2001, \$48,123 in principal amount of the Zero Coupon Notes had been converted by note holders to 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. To date, no securities have been issued under this filing. On October 23, 2001, subsequent to fiscal 2001 year end, the Company filed with the Securities and Exchange Commission to offer up to an additional \$100,000 in debt securities, bringing the total amount of debt securities registered under shelf registration to \$600,000.

At September 2, 2001, the fair value of the 7.125% Senior Notes, based on market quotes, was approximately \$317,460. The Senior Notes are not redeemable prior to maturity. The fair value of the 3.500% Zero Coupon Subordinated Notes at September 2, 2001, based on market quotes, was approximately \$755,615. The fair value of other long-term debt approximates carrying value.

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

Note 2—Debt (Continued)

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

2002	\$ 16,677
2003	3,880
2004	1,218
2005	301,344
2006	1,486
Thereafter	<u>551,465</u>
Total	<u>\$876,070</u>

Note 3—Leases

The Company leases land and/or warehouse buildings at 71 of the 345 warehouses open at September 2, 2001, and certain other office and distribution facilities under operating leases with remaining terms ranging from 1 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 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 2001, 2000, and 1999, was \$70,394, \$67,886, and \$59,263, respectively. Future minimum payments during the next five fiscal years and thereafter under non-cancelable leases with terms in excess of one year, at September 2, 2001, were as follows:

2002	\$ 70,936
2003	69,329
2004	67,380
2005	66,331
2006	65,827
Thereafter	<u>639,547</u>
Total minimum payments	<u>\$979,350</u>

Note 4—Stock Options

The Company's 1993 Combined Stock Grant and Stock Option Plan (the New Stock Option Plan) provides for the issuance of up to 60 million shares of its common stock upon the exercise of stock options and up to 3,333,332 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(dollars in thousands, except per share data)

Note 4—Stock Options (Continued)

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. At September 2, 2001, options for approximately 15.5 million shares were vested and 3.8 million shares were available for future grants under the plan.

The Company applies Accounting Principles Board Opinion (APB) No. 25 and related interpretations in accounting for stock options. The Company grants stock options to employees at exercise prices equal to fair market value on the date of grant, 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>2001</u>	<u>2000</u>	<u>1999</u>
Net income:			
As reported	\$602,089	\$631,437	\$397,298
Pro forma	\$537,012	\$570,669	\$352,660
Net income per share (diluted):			
As reported	\$ 1.29	\$ 1.35	\$.86
Pro forma	\$ 1.15	\$ 1.22	\$.77

The effects of applying SFAS No. 123 on pro forma disclosures of net income and earnings per share for fiscal 2001, 2000, and 1999 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 2001, 2000 and 1999:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Risk free interest rate	4.96%	6.56%	5.09%
Expected life	5 years	5 years	7 years
Expected volatility	43%	42%	37%
Expected dividend yield	0%	0%	0%

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

Note 4—Stock Options (Continued)

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

	2001		2000		1999	
	Shares	Price(1)	Shares	Price(1)	Shares	Price(1)
Under option at beginning of year	36,021	\$26.09	36,778	\$19.89	34,604	\$13.52
Granted(2)	8,822	34.18	7,501	42.76	9,106	36.90
Exercised	(4,457)	14.04	(7,688)	12.74	(6,468)	9.95
Cancelled	(808)	31.35	(570)	25.47	(464)	18.34
Under option at end of year	<u>39,578</u>	<u>\$29.15</u>	<u>36,021</u>	<u>\$26.09</u>	<u>36,778</u>	<u>\$19.89</u>

(1) Weighted-average exercise price/grant price

(2) The weighted-average fair value based on the Black-Scholes model of options granted during fiscal 2001, 2000 and 1999, were \$15.47, \$20.35, and \$15.50, respectively.

The following table summarizes information regarding stock options outstanding at September 2, 2001:

Range of Prices	Options Outstanding			Options Exercisable	
	Number	Remaining Contractual Life(1)	Price(1)	Number	Price(1)
\$6.00 - \$22.88	13,503	5.10	\$14.43	9,870	\$13.05
\$23.31 - \$36.91	19,047	8.39	34.24	4,049	33.50
\$43.00 - \$52.50	7,028	8.46	43.66	1,581	44.20
	<u>39,578</u>	<u>7.28</u>	<u>\$29.15</u>	<u>15,500</u>	<u>\$21.57</u>

(1) Weighted-average

At September 3, 2000 and August 29, 1999, there were 12,573 and 12,488 options exercisable at weighted average exercise prices of \$16.35 and \$21.19, respectively.

Note 5—Retirement Plans

The Company has a 401(k) Retirement Plan that is available to all U.S. employees who have completed 90 days of employment, 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. The Company also sponsors a 401(k) plan

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

Note 5—Retirement Plans (Continued)

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 \$108,256, \$97,830, and \$85,974 for fiscal 2001, 2000, and 1999, 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 2001, 2000, and 1999 are as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Federal:			
Current	\$285,460	\$290,995	\$259,104
Deferred	1,102	2,894	(70,248)
Total federal	<u>286,562</u>	<u>293,889</u>	<u>188,856</u>
State:			
Current	55,484	57,753	54,701
Deferred	(415)	2,072	(13,418)
Total state	<u>55,069</u>	<u>59,825</u>	<u>41,283</u>
Foreign:			
Current	19,161	64,210	52,416
Deferred	40,600	3,034	(17,692)
Total foreign	<u>59,761</u>	<u>67,244</u>	<u>34,724</u>
Total provision for income taxes	<u>\$401,392</u>	<u>\$420,958</u>	<u>\$264,863(a)</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.

Reconciliation between the statutory tax rate and the effective rate for fiscal 2001, 2000, and 1999 is as follows:

	<u>2001</u>		<u>2000</u>		<u>1999</u>	
Federal taxes at statutory rate	\$351,218	35.00%	\$368,338	35.00%	\$231,756	35.00%
State taxes, net	35,824	3.57	40,202	3.82	28,870	4.36
Foreign taxes, net	10,938	1.09	10,221	0.97	10,532	1.59
Other	3,412	0.34	2,197	0.21	(6,295)	(0.95)
Provision at effective tax rate	<u>\$401,392</u>	<u>40.00%</u>	<u>\$420,958</u>	<u>40.00%</u>	<u>\$264,863</u>	<u>40.00%</u>

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

Note 6—Income Taxes (Continued)

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

	<u>September 2, 2001</u>	<u>September 3, 2000</u>
Accrued liabilities	\$136,987	\$118,385
Deferred membership fees	111,391	108,331
Other	17,776	7,414
Total deferred tax assets	<u>266,154</u>	<u>234,130</u>
Property and equipment	127,243	98,149
Merchandise inventories	40,601	37,063
Other	40,976	297
Total deferred tax liabilities	<u>208,820</u>	<u>135,509</u>
Net deferred tax assets	<u>\$ 57,334</u>	<u>\$ 98,621</u>

The deferred tax accounts at September 2, 2001 and September 3, 2000 include current deferred income tax assets of \$160,662 and \$179,007, respectively, and non-current deferred income tax liabilities of \$103,328 and \$80,386, 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

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,

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

Note 8—Segment Reporting (Continued)

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 September 2, 2001				
Total revenue	\$28,636,483	\$4,695,778	\$1,464,776	\$34,797,037
Operating income (loss)	813,665	179,095	(493)	992,267
Depreciation and amortization	241,777	35,377	24,143	301,297
Capital expenditures	1,298,889	43,092	105,568	1,447,549
Total assets	8,216,242	1,093,789	779,755	10,089,786
Year Ended September 3, 2000				
Total revenue	\$26,170,108	\$4,743,657	\$1,250,531	\$32,164,296
Operating income (loss)	848,605	192,310	(3,465)	1,037,450
Depreciation and amortization	198,436	36,563	19,398	254,397
Capital expenditures	998,429	41,962	188,030	1,228,421
Total assets	6,833,440	1,134,998	665,502	8,633,940
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

MARKET FOR COSTCO COMMON STOCK

Costco Common Stock is 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, 1999 through November 30, 2001. The quotations are as reported in published financial sources.

	Costco Common Stock	
	High	Low
Calendar Quarters—1999		
First Quarter	\$45.906	\$35.625
Second Quarter	46.250	35.563
Third Quarter	43.281	33.063
Fourth Quarter	49.344	36.000
Calendar Quarters—2000		
First Quarter	55.953	42.063
Second Quarter	58.438	30.000
Third Quarter	38.375	31.313
Fourth Quarter	39.938	30.625
Calendar Quarters—2001		
First Quarter	46.250	36.500
Second Quarter	43.620	34.063
Third Quarter	44.500	31.220
Fourth Quarter (through November 30, 2001)	43.120	33.540

On November 30, 2001, the Company had 8,068 stockholders of record.

DIVIDEND POLICY

Costco has never paid 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, Administration & Chief Legal Officer

Jeffrey H. Brotman

Chairman of the Board

Donald Burdick

Senior Vice President, Information Systems

Charles V. Burnett

Senior Vice President, Pharmacy

Roger A. Campbell

Senior Vice President, General Manager—Southeast Region

Richard Chavez

Senior Vice President—Asia

Hubert de Suduiraut

Senior Vice President, Special Projects

Richard D. DiCerchio

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

John B. Gaherty

Senior Vice President, General 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—Bay Area Region

W. Craig Jelinek

Executive Vice President, COO—Northern Division

Dennis E. Knapp

Senior Vice President, GMM—Non-Foods

Franz E. Lazarus

Executive Vice President, COO—International Operations, Manufacturing & Ancillary Businesses

Jeffrey R. Long

Senior Vice President, General Manager—Northeast Region

John Matthews

Senior Vice President, Human Resources & Risk Management

John McKay

Senior Vice President, General Manager—Northwest Region

Russ Miller

Senior Vice President, General Manager—Western Canada Region

Paul G. Moulton

Executive Vice President, Real Estate Development

James P. Murphy

Senior Vice President—Europe

David S. Petterson

Senior Vice President, Corporate Controller

Joseph P. Portera

Executive Vice President, COO—Eastern & Canadian Divisions

Pierre Riel

Senior Vice President, General Manager—Eastern Canada Region

Ginnie Roeglin

Senior Vice President, Membership, Marketing, Member Services & Publishing

Timothy L. Rose
Senior Vice President, Merchandising—Foods,
Sundries & Fresh Foods
Doug Schutt
Senior Vice President, E-commerce, Business
Delivery & Special Order
James D. Sinegal
President & Chief Executive Officer
John D. Thelan
Senior Vice President, Depots

Thomas K. Walker
Senior Vice President, Construction, Purchasing
& Depots
Louise Wendling
Senior Vice President, General Manager—
Canadian Division
Dennis R. Zook
Executive Vice President, COO—Southwest
Division & Mexico

VICE PRESIDENTS

Jeffrey Abadir
Operations—Bay Area Region
Sandi Babins
GMM—Foods & Sundries—Western Canada
Region
Francis Ball
GMM—Foods & Sundries, Fresh Foods, Non-
Foods—U.K.
Joe E. Basse
GMM—Corporate Non-Foods
John Booth
Operations—Bay Area Region
Andree Brien
GMM—Non-Foods—Eastern Canada Region
Alan Bubitz
GMM—Food Services & Food Court
Debbie Cain
GMM—Foods—Northwest Region
Patrick Callans
Member Services
Susan Castillo
E-commerce & Publishing
Richard Chang
Country Manager—Taiwan
Richard Delie
GMM—Corporate Non-Foods
Gerard Dempsey
GMM—Non-Foods—Southeast Region
George Ed Dwyer
Operations—Depots
John T. Eagan
GMM—Foods—Los Angeles Region
Timothy K. Farmer
GMM—Corporate Non-Foods
Jack S. Frank
Director, Real Estate Development—West
Gary Giacomi
GMM—Non-Foods—Northwest Region
Cynthia Glaser
GMM—Private Label—Non-Foods
Joseph E. Grachek III
Merchandise Accounting Controller

Isaac Hamaoui
GMM—Softlines—Canadian Division
Lawrence Harder
Director, Real Estate Development—East
Robert Hardie
Internal Audit
Bill Hanson
GMM—Foods—Midwest Region
Doris Harley
GMM—Foods—Southeast Region
David Harruff
Operations—Northwest Region
Daniel M. Hines
Financial Accounting Controller
Mitzi Hu
GMM—Imports
Ross Hunt
Finance, Accounting, IS & Human
Resources—Canadian Division
Arthur D. Jackson, Jr.
Administration & Community Giving
Harold E. Kaplan
Corporate Treasurer
James Klauer
GMM—Corporate Non-Foods
Paul Latham
Costco Trading & Gas Stations
Robert Leuck
Operations—Northeast Region
Judith Logan
GMM—Foods—Northeast Region
Gerry Liben
GMM—Hardlines—Canadian Division
Phil Lind
Corporate Merchandising
Jeffrey Lyons
GMM—Corporate Fresh Foods
Mark Maushund
Operations—Los Angeles Region
Susan McConnaha
Director of Bakery Operations
John Minola
Construction

Ali Moayeri
Construction

Michael W. Mosteller
Operations—Security/Labor Relations

Robert E. Nelson
Financial Planning & Investor Relations

David Nickel
GMM—Non-Foods—Canadian Division

Gary F. Ojendyk
GMM—Corporate Non-Foods

Richard J. Olin
Legal, General Counsel

Mario Omoss
Operations—Texas Region

John R. Osterhaus
Photo, Optical & Hearing Aids

Steve Pappas
Country Manager—Korea

Shawn Parks
Operations—Los Angeles Region

Roger E. Peterson
Operations—San Diego Region

Robert L. Pugmire
GMM—Corporate Non-Foods

Aldyn Royes
Operations—Southeast Region

Yoram Rubanenko
Operations—Northeast Region

James W. Rutherford
Information Systems

Drew Sakuma
Operations—U.K.

Fernando Salvo
Marketing—Canadian Division

Janet Shanks
GMM—Fresh Foods & Ancillary Businesses—
Canadian Division

David Sinegal
Business Centers & Business Delivery

Michael Sinegal
Country Manager—Japan

David Skinner
Operations—Eastern Canada Region

Don H. Stacy
GMM—Foods—Texas Region

Kimberley L. Suchomel
GMM—International

Keith H. Thompson
Purchasing and Facility Audits

Scott Tyler
Operations—Western Canada Region

Richard Webb
Operations—Midwest Region

Ron Vachris
Operations—San Diego 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 reports on Form 10-Q will be provided to any shareholder upon written request directed to Investor Relations, Costco Wholesale Corporation, 999 Lake Drive, Issaquah, Washington 98027. Internet users can access recent sales and earnings releases, the annual report and SEC filings, as well as our Costco Online web site, at <http://www.costco.com>. E-mail users may direct their investor relations questions to investor@costco.com.

Corporate Office

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Division Offices

Northern Division

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Bay Area Region
2820 Independence Drive
Livermore, CA 94550
Midwest Region
1901 West 22nd Street, 2nd Floor
Oak Brook, IL 60523

Eastern Division

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Southeast Region
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Duluth, GA 30096

Southwest Division

Los Angeles Region
11000 Garden Grove, #201
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San Diego Region
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Arizona Region
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Glendale, AZ 85308
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Plano, TX 75093

Canadian Division

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415 W. Hunt Club
Ottawa, ON K2E 1C5
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Burnaby, BC V5A 4W3

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213 Hartspring Lane
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Japan Region
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Korea Region
65-3 KA Yang Pyungdong
Youngdongpo-Gu
Seoul, Korea
Taiwan Region
#57 Shing Jung Road
Neihu, Taipei, Taiwan 114
Mexico Region
Boulevard Magnocentro #4
Col. San Fernando
La Herradura 52760
Huixquilucan, Mexico

Annual Meeting

Wednesday, January 30, 2002 at 7:00 PM
Nob Hill Masonic Center
1111 California Street
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Transfer Agent

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Stock Exchange Listing

NASDAQ Stock Market
Stock Symbol: COST

