



## Costco Companies, Inc. Releases Fourth Quarter and Fiscal Year 1998 Results of Operations and September Sales Results

October 8, 1998

**ISSAQUAH, Wash.--(BUSINESS WIRE)--Oct. 8, 1998--**Costco Companies, Inc. ("Costco" or the "Company") (Nasdaq:COST) announced today its results of operations for the 16 weeks (fourth quarter) and the 52 weeks (fiscal year) ended August 30, 1998.

Net sales for fiscal 1998, the 52 weeks ended August 30, 1998, were \$23.83 billion, an increase of 11% from \$21.48 billion during the prior 52-week fiscal year ended August 31, 1997. Comparable warehouse sales increased 8% over the comparable 52-week period of fiscal 1997. Net sales for the 16-week fourth quarter ended August 30, 1998 increased 11% to \$7.57 billion from \$6.80 billion during the 16-week fourth quarter ended August 31, 1997. Comparable warehouse sales during the 16-week fourth quarter of fiscal 1998 increased 7% over the comparable 16-week period in the prior fiscal year.

Net income for fiscal 1998 increased 47% to \$459.8 million or \$2.03 per share, from \$312.2 million or \$1.47 per share in fiscal 1997. Net income for fiscal 1997 had been impacted by a non-cash, pre-tax charge of \$65 million (\$38.7 million or \$.17 per share, after-tax) reflecting a provision for the impairment of long-lived assets as required by the Company's adoption of Financial Accounting Standard No. 121. Additionally, net income for fiscal 1997 was impacted in the second and fourth quarters by one-time, pre-tax charges of \$3.5 million and \$9.5 million respectively, related to the call and majority redemption of \$764 million of convertible subordinated debentures. Before the impact of these charges, fiscal 1997 net earnings were \$358.7 million or \$1.67 per diluted share, and the year-over-year earnings increase in fiscal 1998 would be 28%.

Net income in the 16-week fourth quarter of fiscal 1998 increased 29% to \$150.7 million, or \$.66 per share, compared to \$116.7 million or \$.54 per share in the fourth quarter of fiscal 1997. Excluding the fourth quarter \$9.5 million pre-tax charge (\$5.7 million after-tax, or \$.02 per diluted share) net earnings in the fourth quarter of fiscal 1997 were \$122.4 million, or \$.56 per share, and the year-over-year increase in the fourth quarter fiscal 1998 net earnings would be 23%.

In addition to reporting fourth quarter and fiscal year 1998 operating results, the Company today reported net sales of \$2.33 billion for the five weeks ended October 4, 1998, an increase of 12% from \$2.08 billion in the same five-week period of the prior fiscal year. On a comparable warehouse basis, that is warehouses open at least a year, sales increased 9 percent.

Consistent with its historical application of generally accepted accounting principles and in accordance with industry practice, the Company, since its inception in 1976, has recognized annual membership fees as income when received...that is, on a "cash basis" rather than a "deferred basis". The reported financial results reflect such recognition. Recently, the Company has become aware that other membership-type businesses have received inquiries from the staff of the Securities and Exchange Commission ("SEC") concerning membership revenue recognition policies, which are similar to those of the Company. While the Company has not been contacted by the SEC, the Company intends to contact the SEC staff in the near future to determine whether any change would be appropriate and, if appropriate, the timing of any such change. It is important to note that a change to the "deferred basis" method of accounting for membership fees would not have a material effect on the Company's financial condition, cash flows or ongoing operating results. If the Company were to adopt such an accounting change in the future, either voluntarily or because of a change in generally accepted accounting principles, it would record a one-time, non-cash charge at the time of adoption, and on an on-going basis, the effect on the Company's reported earnings would be immaterial. For the recently completed fiscal year, under the "deferred method" of revenue recognition for membership fees, reported earnings would have been lower by approximately three percent, while the Company's cash flows would not have been affected at all. A one-time, non-cash, cumulative effect to convert to such a method would be approximately \$118 million on an after-tax basis as of the beginning of the new fiscal year.

The Company currently has 280 warehouses in operation: 213 in the United States (including recent openings in Torrance, California and Christiana, Delaware), 56 in Canada, seven in the United Kingdom, three in Korea, and one warehouse in Taiwan. An additional six to seven warehouse openings (including two relocations) are planned for the U.S. and Canada in the Fall, prior to the Christmas holiday season. The Company also operates 14 warehouses in Mexico with a joint venture partner, and plans to open two additional warehouses in Mexico prior to the Christmas holiday season.

