

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE
ACT OF 1934 (FEE REQUIRED)

FOR THE FISCAL YEAR ENDED AUGUST 28, 1994

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
FOR THE TRANSITION PERIOD FROM _____ TO _____ .

COMMISSION FILE NUMBER 0-020355

PRICE/COSTCO, INC.

(Exact name of registrant as specified in its charter)

DELAWARE 33-0572969
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

10809 - 120TH AVENUE N.E., KIRKLAND, WASHINGTON 98033
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (206) 803-8100

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock \$.01 Par Value

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K.

The aggregate market value of the voting stock held by nonaffiliates of the
registrant at October 31, 1994, was \$2,936,443,000.

The number of shares outstanding of the registrant's common stock as of
October 31, 1994, was 217,824,520.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on January 27, 1995 are incorporated by reference into Part III of this Form 10-K.

PRICE/COSTCO, INC.

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED AUGUST 28, 1994

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PART I

ITEM 1 -- BUSINESS

DESCRIPTION OF THE MERGER

On October 21, 1993, the shareholders of both The Price Company ("Price") and Costco Wholesale Corporation ("Costco") approved the mergers of Price and Costco with and into separate, wholly owned subsidiaries of Price/Costco, Inc. ("PriceCostco" or the "Company"). The mergers are hereinafter called the "Merger." PriceCostco was formed to effect the Merger. Pursuant to the Merger, Price and Costco each became a wholly owned subsidiary of PriceCostco. In the Merger, shareholders of Price received 2.13 shares of PriceCostco common stock for each share of Price common stock and shareholders of Costco received one share of PriceCostco common stock for each share of Costco common stock.

The Merger qualified as a "pooling-of-interests" for accounting and financial reporting purposes. The pooling-of-interests method of accounting presents as a single interest two or more common shareholder interests which were previously independent. The pooling-of-interests method of accounting treats the combining companies as if they had been a single business entity from inception. Consequently, the historical financial statements for periods prior

to the consummation of the Merger have been restated as though the companies had been combined. The financial statements have also been adjusted to conform the accounting policies and interim reporting periods of the separate companies.

The fees and expenses related to the Merger and to the consolidation and restructuring of the combining companies (approximately \$120 million, or \$80 million after tax) were expensed as required under the pooling-of-interests accounting method and were reflected in the consolidated statement of income of PriceCostco in the first quarter of fiscal 1994, the period in which the Merger occurred. Such fees and expenses include direct transaction costs, expenses related to consolidating and restructuring certain functions, costs of the closing of certain excess facilities and sales of related properties, costs of severance and relocation and write-offs of certain redundant capitalized costs and other assets (See "Notes to Consolidated Financial Statements -- Note 2 -- Merger of Price and Costco" for an analysis of the provision for merger and restructuring).

GENERAL

PriceCostco operates cash and carry membership warehouses based on the concept that offering members very low prices on a limited selection of nationally branded and selected private label products in a wide range of merchandise categories will produce rapid inventory turnover and high sales volumes. This rapid inventory turnover, when combined with the operating efficiencies achieved by volume purchasing, efficient distribution and reduced handling of merchandise in no-frills, self-service warehouse facilities, enables PriceCostco to operate profitably at significantly lower gross margins than traditional wholesalers, discount retailers and supermarkets.

PriceCostco buys virtually all of its merchandise directly from manufacturers for shipment either directly to PriceCostco's selling warehouses or to a consolidation point where various shipments are combined so as to minimize freight and handling costs. As a result, PriceCostco eliminates many of the costs associated with multiple step distribution channels, which include purchasing from distributors as opposed to manufacturers, use of central receiving, storing and distributing warehouses and storage of merchandise in locations off the sales floor. By providing this more cost effective means of distributing goods, PriceCostco meets the needs of business customers who otherwise would pay a premium for small purchases and for the distribution services of traditional wholesalers, and who cannot otherwise obtain the full range of their product requirements from any single source. In addition, these business members will often combine personal shopping with their business purchases. Individuals shopping for their personal needs are primarily motivated by the cost savings on brand name merchandise. PriceCostco's merchandise selection is designed to appeal to both the business and consumer requirements of its members by offering a wide range of nationally branded and selected private label products, often in case, carton or multiple-pack quantities, at attractively low prices.

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Because of its high sales volume and rapid inventory turnover, PriceCostco generally has the opportunity to receive cash from the sale of a substantial portion of its inventory at mature warehouse operations before it is required to pay all its merchandise vendors, even though PriceCostco takes advantage of early payment terms to obtain payment discounts. As sales in a given warehouse increase and inventory turnover becomes more rapid, a greater percentage of the inventory is financed through payment terms provided by vendors rather than by working capital.

PriceCostco's typical warehouse format averages approximately 120,000 square feet. Floor plans are designed for economy and efficiency in the use of selling space, in the handling of merchandise and in the control of inventory. Because shoppers are attracted principally by the availability of low prices on brand name and selected private label goods, PriceCostco's warehouses need not be located on prime commercial real estate sites or have elaborate facilities.

By strictly controlling the entrances and exits of its warehouses and by

limiting membership to selected groups and businesses, PriceCostco has been able to limit inventory losses to less than one-half of one percent of net sales, well below those of typical discount retail operations. Problems associated with dishonored checks have also been insignificant, since individual memberships are limited primarily to members of qualifying groups, and bank information from business members is verified prior to establishing a check purchase limit. Memberships are invalidated at the point of sale for those members who have issued dishonored checks to PriceCostco.

PriceCostco's policy is generally to limit advertising and promotional expenses to new warehouse openings and occasional direct mail advertisements to prospective new members. These practices result in very low marketing expenses as compared to typical discount retailers and supermarkets. In connection with new warehouse openings, PriceCostco's marketing teams personally contact businesses in the area who are potential wholesale members. These contacts are supported by direct mailings during the period immediately prior to opening. Potential Gold Star (individual) members are contacted by direct mail generally distributed through credit unions, employee associations and other entities representing the individuals who are eligible for Gold Star membership. After a membership base is established in an area, most new memberships result from word of mouth advertising, follow-up contact by direct mail distributed through regular payroll or other organizational communications to employee groups, and ongoing direct solicitations of prospective wholesale members.

PriceCostco's warehouses generally operate on a seven-day, 68-hour week, and are open somewhat longer during the holiday season. Generally, warehouses are open weekdays between 10:00 a.m. and 8:30 p.m. Because these hours of operation are shorter than those of the traditional discount or grocery retailer, labor costs are lower relative to the volume of sales. Merchandise is generally stored on racks above the sales floor and displayed on pallets containing large quantities of each item, thereby reducing labor required for handling and stocking. In addition, sales are processed through an efficient centralized check-out facility. Items are not individually price marked, but are keyed or scanned into PriceCostco's electronic cash registers by an identifying item number, thereby allowing price changes without remarking merchandise. Substantially all manufacturers provide special, larger package sizes and merchandise pre-marked with the item numbers.

PriceCostco's merchandising strategy is to provide the customer with a broad range of high quality merchandise at prices consistently lower than could be obtained through traditional wholesalers, discount retailers or supermarkets. An important element of this strategy is to carry only those products on which PriceCostco can provide its members significant cost savings. Consequently, items which members may request but which cannot be purchased at prices sufficiently low enough to pass along meaningful cost savings to members are often not carried. PriceCostco seeks to limit specific items in each product line to fast selling models, sizes and colors and therefore carries only an average of approximately 3,500 to 4,000 active stockkeeping units ("SKU's") per warehouse as opposed to full-line discount retailers which normally stock 40,000 to 60,000 SKU's or more. These practices are consistent with PriceCostco's membership policies of satisfying both the business and personal shopping needs of its wholesale members, thereby encouraging high volume shopping. Many consumable

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products are offered for sale in case, carton or multiple-pack quantities only. Appliances, equipment and tools often feature commercial and professional models. PriceCostco's policy is to accept returns of merchandise within a reasonable time after purchase.

The following table indicates the approximate percentage of sales accounted for by each major category of items sold by PriceCostco during fiscal 1994, 1993 and 1992:

1994	1993	1992
-----	-----	-----

SUNDRIES (including candy, snack foods, health and beauty aids, tobacco, alcoholic beverages, soft drinks and cleaning and institutional supplies)....	32%	32%	32%
FOOD (including dry and fresh foods and institutionally packaged foods).....	31	31	31
HARDLINES (including major appliances, video and audio tape, electronics, tools, office supplies, furniture and automotive supplies).....	22	21	21
SOFTLINES (including apparel, linens, cameras, jewelry, housewares, books and small appliances).....	12	13	14
OTHER (including pharmacy, optical, tire installation, food concession, miscellaneous).....	3	3	2
	---	---	---
	100%	100%	100%
	---	---	---

PriceCostco has direct buying relationships with many producers of national brand name merchandise. No significant portion of merchandise is obtained by PriceCostco from any one of these or other suppliers. PriceCostco has not experienced any difficulty in obtaining sufficient quantities of merchandise, and believes that if one or more of its current sources of supply became unavailable, it would be able to obtain alternative sources without experiencing a substantial disruption of its business. Also, PriceCostco purchases on a competitive cost basis, stocking different national brand name or selected private label merchandise of the same product, as long as quality and customer demand are comparable.

PriceCostco is incorporated in the State of Delaware, and reports on a 52/53 week fiscal year, consisting of 13 four-week periods and ending on the Sunday nearest the end of August. The first, second and third quarters consist of three periods each, and the fourth quarter consists of four periods (five weeks in the thirteenth period in a 53-week year). There is no material seasonal impact on PriceCostco's operations, except an increased level of sales and earnings during the Christmas holiday season.

MEMBERSHIP POLICY

PriceCostco's membership format is designed to reinforce customer loyalty and also to provide a continuing source of membership fee revenue. PriceCostco has two primary types of members: Business and Gold Star (individual members).

Businesses, including individuals with a business license, retail sales license or other evidence of business existence, may become Business members. PriceCostco promotes Business membership through its merchandise selection and its membership marketing programs. Business members generally pay an annual membership fee of \$35 for the primary membership card with additional membership cards available for an annual fee of from \$10 to \$15.

Individual memberships are available to employees of federal, state and local governments, financial institutions, corporations, utility and transportation companies, public and private educational institutions, and other selected organizations. Individual members generally pay an annual membership fee of \$35 which includes a second membership card.

As of August 28, 1994, PriceCostco had approximately 3.4 million Business memberships and approximately 6.4 million Gold Star memberships. Members can utilize their memberships at any Price Club or Costco Wholesale location.

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LABOR

As of August 28, 1994, PriceCostco had approximately 47,000 employees, about 50% of which were part time. Substantially all of Price's hourly employees in California, Connecticut, Maryland, Massachusetts, New Jersey, New York and one Price Club warehouse in Virginia are represented by the International Brotherhood of Teamsters. Nearly all other employees are non-union. PriceCostco considers its employee relations to be good.

COMPETITION

The Company operates in the rapidly changing and highly competitive merchandising industry. When Price pioneered the membership warehouse club

concept in 1976, the dominant companies selling comparable lines of merchandise were department stores, grocery stores and traditional wholesalers. Since then, new merchandising concepts and aggressive marketing techniques have led to a more intense and focused competitive environment. Wal-Mart and Kmart have become the largest retailers in the United States and have recently expanded into food merchandising. Target has also emerged as a significant retail competitor. Approximately 800 warehouse clubs exist across the U.S. and Canada, including the 221 warehouses operated by the Company, and every major metropolitan area has some, if not several, club operations. Low cost operators selling a single category or narrow range of merchandise, such as Home Depot, Office Depot, Petsmart, Toys-R-Us, Circuit City and Barnes & Noble Books, have gained major market share in their respective categories. New forms of retailing involving modern technology are boosting sales in stores such as The Sharper Image, while home shopping is becoming increasingly popular. Likewise, in the food business, a competitor like Smart & Final, which operates in Arizona and California, is capturing an increasingly greater share of the institutional food business from wholesale operators and others; and many supermarkets now offer food lines in bulk sizes and at prices comparable to those offered by the Company. This factor, among others, has caused comparable warehouse sales to decline during fiscal 1994 resulting in lower average sales and earnings per location (see "Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations").

REGULATION

Certain state laws require that the Company apply minimum markups to its selling prices for specific goods, such as tobacco products and alcoholic beverages, and prohibit the sale of specific goods, such as tobacco and alcoholic beverages, at different prices in one location. While compliance with such laws may cause the Company to charge somewhat higher prices than it otherwise would charge, other mass merchandisers are also typically governed by the same restrictions, and the Company believes that compliance with such laws does not have a material adverse effect on its operations.

It is the policy of the Company to sell at lower than manufacturers' suggested retail prices. Some manufacturers attempt to maintain the resale price of their products by refusing to sell to the Company or to other purchasers that do not adhere to suggested retail prices. To date, the Company believes that it has not been materially affected by its inability to purchase directly from such manufacturers. Both federal and state legislation is proposed from time to time which, if enacted, would restrict the Company's ability to purchase goods or extend the application of laws enabling the establishment of minimum prices. The Company cannot predict the effect on its business of the enactment of such federal or state legislation.

DESCRIPTION OF THE EXCHANGE TRANSACTION

On July 28, 1994, PriceCostco entered into an Agreement of Transfer and Plan of Exchange (as amended and restated, the "Transfer and Exchange Agreement") with Price Enterprises, Inc., ("Price Enterprises"). Price Enterprises is a Delaware corporation and an indirect, wholly owned subsidiary of the Company. The transactions contemplated by the Transfer and Exchange Agreement are hereinafter referred to as the "Exchange Transaction."

Pursuant to the Transfer and Exchange Agreement and upon the terms and subject to the conditions set forth in an Offering Circular/Prospectus and related Letter of Transmittal (which will be mailed to stock holders of record of the Company's common stock), the Company will offer to

exchange one share of common stock of Price Enterprises for each share of common stock of the Company, up to a maximum of 27 million shares of Price Enterprises common stock (constituting all of the outstanding shares of Price Enterprises common stock) (the "Exchange Offer"). The Company currently anticipates that the Exchange Offer will be commenced prior to the end of November 1994. In connection therewith, the Offering Circular/Prospectus and the Letter of Transmittal, which will describe the Exchange Transaction in detail, will be

mailed to such holders. If more than 27 million shares of the Company's common stock are validly tendered and not withdrawn in the Exchange Offer prior to the expiration thereof, then, upon the terms and subject to the conditions set forth in such Offering Circular/Prospectus and such related Letter of Transmittal, the Company will accept 27 million shares for exchange on a pro rata basis, and shares of Price Enterprises common stock will be exchanged therefor.

If the number of shares of the Company's common stock validly tendered in the Exchange Offer by holders of the Company's common stock is less than 21.6 million, the Company will accept such validly tendered shares for exchange and will distribute the remaining shares of Price Enterprises common stock pro rata to the Company's stockholders. If the number of shares of the Company's common stock validly tendered in the Exchange Offer is greater than 21.6 million, but less than 27 million, the Company will accept such validly tendered shares for exchange and will, at its option, either (i) distribute the remaining shares of Price Enterprises common stock pro rata to the Company's stockholders or (ii) sell such remaining shares to Price Enterprises in exchange for a promissory note.

Pursuant to the Transfer and Exchange Agreement, as of August 28, 1994, the Company caused to be transferred, or, in certain cases, will cause to be transferred, to Price Enterprises certain assets, including the following:

(a) certain commercial real estate specified in the Transfer and Exchange Agreement that was not integral to the Company's merchandising operations (the "Commercial Properties");

(b) real estate comprising four of the Company's warehouse club facilities (which are adjacent to existing Commercial Properties) that are being leased back to the Company effective August 29, 1994 at collective annual rentals of approximately \$8.6 million;

(c) commercial real estate known as 4455 and 4649 Morena Boulevard, San Diego, California;

(d) 51% of the outstanding capital stock of each of Price Global and Price Quest (as defined and described below);

(e) a note in the principal amount of \$41 million made by Atlas Hotels, Inc., secured by hotel and convention center property in San Diego, California ("Atlas Note"); and

(f) notes receivable with an aggregate book value of approximately \$32 million, which were originally made and delivered by various governmental agencies in connection with the financing and development of certain warehouse club and adjacent real estate sites.

The Company and Price Enterprises have caused to be formed a limited liability company, Mexico Clubs, L.L.C. ("Mexico Clubs") of which the Company and Price Enterprises own 49% and 51% interests, respectively. The Company has caused to be formed two corporations, Price Global Trading, Inc. ("Price Global") and Price Quest, Inc. ("Price Quest" which, together with Mexico Clubs comprise the "Subsidiary Corporations". The Company has caused to be transferred and delivered to:

(a) Mexico Clubs: (i) all shares of capital stock of Price Venture Mexico owned, directly or indirectly, by the Company; (ii) all other noncurrent assets of the Company and its subsidiaries specifically related to the conduct of business in Mexico; and (iii) certain other assets (collectively, the "Mexico Assets"); provided, however, that the term "Mexico Assets" does not include (A) the

Agreement between Price, Price Venture Mexico and Controladora Comercial Mexicana, S.A. de C.V. to form a Corporate Joint Venture dated June 21, 1991, (B) any right, title or interest in or to the names "Price Club," "Price Club Costco" or "PriceCostco" and (C) any computer software.

(b) Price Global: (i) the right to develop a Club Business in certain international areas specified in the Transfer and Exchange Agreement (the "Specified Geographical Areas"); (ii) all shares of capital stock of Club Merchandising, Inc. owned, directly or indirectly, by the Company; (iii) all right, title and interest to, or, in certain cases, a long-term license to use, the names "Price Club," "Price Club Costco" and "Price Costco" in each of the Specified Geographical Areas (other than Mexico); and (iv) all other noncurrent assets of the Company and its subsidiaries (other than those included in Club Merchandising, Inc.) specifically related to the conduct of business in the Specified Geographical Areas (collectively, the "International Assets"); and

(c) Price Quest: (i) all of the noncurrent assets of the Company or any of its subsidiaries specifically related to the business and operations then conducted by the Company through its Quest interactive electronic shopping business, together with Price Club Travel, Price Club Realty and the Price Club automobile advertising/referral business; (ii) all right, title and interest, if any, of the Company or any of its subsidiaries to, or, in certain cases, a long-term license to use, the names "Price Club Quest" and "Quest"; and (iii) certain other assets (collectively, the "Quest Assets").

As used herein, the term "Club Business" refers to any merchandising activity utilizing 70,000 square feet or more in a single location operating with membership and selling food and non-food items through a central check-out.

Each of Price Global and Price Quest issued 100 shares of its common stock to Price, which constitutes all of the outstanding capital stock of each such Subsidiary Corporation. As of August 28, 1994, the Company caused to be transferred to Price Enterprises 51 shares of common stock of each of Price Global and Price Quest, representing 51% of the outstanding capital stock of each such Subsidiary Corporation.

As part of the Exchange Transaction, the Company and Price, on the one hand, and Price Enterprises and each of the Subsidiary Corporations, on the other, have entered into Operating Agreements to clarify the ongoing business relationship between the Company and the respective Subsidiary Corporations. The Company and Price, on the one hand, have also entered into Stockholders Agreements with Price Enterprises and each of Price Global and Price Quest, on the other, to clarify certain rights and obligations of the Company and Price Enterprises as stockholders of Price Global and Price Quest.

Price and Price Enterprises have entered into a Limited Liability Company Agreement with respect to Mexico Clubs which sets forth the rights and obligations of each of Price and Price Enterprises with respect to its membership interest in Mexico Clubs.

Also in connection with the Exchange Transaction, the Company and Price Enterprises entered into an unsecured revolving credit agreement, dated as of August 28, 1994 (the "Advance Agreement"), pursuant to which the Company has agreed to advance to Price Enterprises up to a maximum principal amount of \$85 million (reduced by an amount equal to the net proceeds from the sale of any of the Commercial Properties between August 28, 1994 and the date of the closing of the Exchange Transaction (the "Closing Date")) from time to time during the period from August 28, 1994 until six months following the earlier of (A) the Closing Date and (B) the date on which Price Enterprises stock is distributed to stockholders of the Company. The interest rate under the Advance Agreement is the weighted average commercial paper rate on borrowings by the Company during each four-week period (including, without limitation, amortization of lender commitment fees and other costs associated with the backup line of credit and all miscellaneous costs and fees), or if commercial paper is unavailable under the Company's commercial paper program, the bank rate on borrowings by the Company pursuant to its working capital credit facility (including, without limitation, amortization of lender commitment fees and other costs associated with such credit facility and all miscellaneous costs and fees).

Pursuant to the Transfer and Exchange Agreement, upon the earlier to occur of the Closing Date and the date that shares of Price Enterprises common stock are distributed to holders of the Company's common stock, the Bylaws of the Company will be amended to delete the corporate governance provisions that were enacted as part of the Merger to require that the Board of Directors of the Company and certain committees of the Board be comprised of an equal number of Price Designees and Costco Designees (as such terms are hereinafter defined). The form of such Bylaws, as amended, is filed as an Exhibit to this Annual Report on Form 10-K. In addition, at the Closing Date, without any further action on behalf of the Company or Price Enterprises, the resignations of all of the Price Designees from the Board of Directors of the Company, other than Richard M. Libenson and Duane Nelles (which resignations were submitted to the Board of Directors of the Company on July 28, 1994), will become effective. Pursuant to the Transfer and Exchange Agreement, unless removed for cause, each of Messrs. Libenson and Nelles shall serve on the Board of Directors of the Company until the earlier of (i) the date two years following the Closing Date and (ii) such time as Sol Price and Robert Price and their affiliates in the aggregate cease to beneficially own at least two million shares of PriceCostco Common Stock (including any such shares owned by charitable trusts established by either of them).

As used in the Bylaws of the Company, "Price Designees" means those persons specified by Price as initial members of the Board of Directors of the Company as of the effective time of the Merger, or their direct or indirect replacements. The current Price Designees are J. Paul Kinloch, Richard M. Libenson, Mitchell G. Lynn, Duane Nelles (who was elected to the Board on July 28, 1994 following the resignation of Joseph K. Kornwasser), Paul A. Peterson and Robert E. Price. As used in the Bylaws of the Company, "Costco Designees" means those persons specified by Costco as initial members of the Board of Directors of the Company as of the effective time of the Merger, or their direct or indirect replacements. The current Costco Designees are Jeffrey H. Brotman, Daniel Bernard, Richard D. DiCerchio, Hamilton E. James, John W. Meisenbach and James D. Sinegal.

FUTURE OPERATIONS

Expansion plans for the United States and Canada during fiscal 1995 are to open 30-35 new warehouse clubs. The Company also expects to continue expansion of its international operations. The Company opened two warehouses in the United Kingdom through a 60%-owned subsidiary, with a third location due to open in June 1995. In October 1994, under a licensing agreement with PriceCostco, a Price Club opened in Seoul, Korea. Other markets are being assessed, particularly in the Pacific Rim. As a result of the Exchange Transaction, the Company's 50% ownership interest in the Mexican joint venture was transferred to Mexico Clubs in which the Company owns a 49% interest. See "Part I -- Business - -- Description of the Exchange Transaction." As of August 28, 1994, there were 8 Price Clubs operating in Mexico through such joint venture. As of October 31, 1994, there were 10 Price Clubs operating in Mexico through such joint venture with one more scheduled to open prior to December 31, 1994.

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 \$600 million to \$700 million during fiscal 1995: for real estate, building and equipment for warehouse clubs and related operations (including remodels and expansions) in the United States and Canada; for international expansion, including additional investment in the United Kingdom and other potential ventures; and for activities such as business delivery and ancillary business operations.

While the availability of capital resources cannot be predicted with certainty and is dependent upon a number of factors, including factors outside of the Company's control, management believes that the Company's earnings, cash flow, and financing capacity should be adequate to fund ongoing operations, proposed expansion and other planned development efforts.

As a result of the Exchange Transaction, the Company will own a 49% interest in each of the Mexico Assets, the International Assets and the Quest Assets. See "Description of the Exchange Transaction" above.

ITEM 2 -- PROPERTIES

WAREHOUSE PROPERTIES

At August 28, 1994, PriceCostco operated warehouse clubs in 21 states, 7 Canadian provinces and the United Kingdom under the "Price Club" and "Costco Wholesale" names. The following is a summary of owned and leased warehouses by state and province:

NUMBER OF WAREHOUSES

	OWN LAND AND BUILDING			LEASE LAND AND/OR BUILDING			GRAND TOTALS		
	PRICE	COSTCO	TOTAL	PRICE	COSTCO	TOTAL	PRICE	COSTCO	TOTAL
UNITED STATES									
Arizona.....	5	--	5	2	--	2	7	--	7
Alaska.....	--	3	3	--	--	--	--	3	3
California (a).....	34	30	64	6	12	18	40	42	82
Colorado.....	3	--	3	--	--	--	3	--	3
Connecticut.....	--	2	2	1	1	2	1	3	4
Florida.....	--	10	10	--	1	1	--	11	11
Idaho.....	--	1	1	--	1	1	--	2	2
Hawaii.....	--	1	1	--	2	2	--	3	3
Massachusetts.....	--	4	4	--	--	--	--	4	4
Maryland.....	3	--	3	1	--	1	4	--	4
Montana.....	--	3	3	--	--	--	--	3	3
Nevada.....	--	2	2	--	1	1	--	3	3
New Jersey (a).....	5	2	7	--	--	--	5	2	7
New Hampshire.....	--	2	2	--	--	--	--	2	2
New Mexico.....	1	--	1	--	--	--	1	--	1
New York (a).....	4	2	6	1	--	1	5	2	7
Oregon.....	--	8	8	--	1	1	--	9	9
Utah.....	--	--	--	--	1	1	--	1	1
Vermont.....	--	--	--	--	1	1	--	1	1
Virginia (a).....	8	--	8	1	--	1	9	--	9
Washington.....	--	14	14	--	2	2	--	16	16
Total United States.....	63	84	147	12	23	35	75	107	182
CANADA									
Alberta.....	--	5	5	--	1	1	--	6	6
British Columbia.....	--	6	6	1	--	1	1	6	7
Ontario.....	3	1	4	4	1	5	7	2	9
Saskatchewan.....	--	1	1	1	--	1	1	1	2
Quebec.....	6	--	6	4	--	4	10	--	10
Manitoba.....	--	2	2	--	--	--	--	2	2
Nova Scotia.....	1	--	1	--	--	--	1	--	1
Total Canada.....	10	15	25	10	2	12	20	17	37
UNITED KINGDOM.....	--	2	2	--	--	--	--	2	2
Grand Totals.....	73	101	174	22	25	47	95	126	221

<FN>

(a) Effective August 28, 1994, the Company transferred to Price Enterprises real estate comprising four of the Company's warehouse club facilities (which are adjacent to Commercial Properties transferred or to be transferred to Price Enterprises as part of the Exchange Transaction). The

warehouse properties are being leased back to the Company by Price Enterprises effective August 29, 1994. The four warehouses are located in San Diego, California; Wayne, New Jersey; Westbury, New York; and Pentagon City, Virginia.

The following schedule shows warehouse openings (net of warehouse closings) by region for the past five fiscal years and expected openings (net of closings) through December 31, 1994:

OPENINGS BY FISCAL YEAR	UNITED STATES			CANADA	OTHER INTERNATIONAL	TOTAL	TOTAL WAREHOUSES IN OPERATION
	WESTERN	EASTERN	TOTAL				
1989 and prior.....	75	21	96	8	--	104	104
1990.....	9	2	11	4	--	15	119
1991.....	9	4	13	8	--	21	140
1992.....	15	12	27	3	--	30	170
1993.....	17	6	23	7	--	30	200
1994.....	8	4	12	7	2	21	221
1995 (through 12/31/94).....	4	--	4	6	--	10	231
Total.....	137	49	186	43	2 (a)	231	

<FN>

(a) As of August 28, 1994, the Company operated (through a 50%-owned joint venture) eight warehouses in Mexico (one opened in fiscal 1992, two opened in fiscal 1993, five opened in fiscal 1994). 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 its operations are not consolidated in the Company's financial statements. As described under "Description of the Exchange Transaction," such 50% ownership interest in such joint venture was transferred to Mexico Clubs as part of the Exchange Transaction.

The Company's home offices and headquarters are located in Kirkland, Washington and San Diego, California. Following consumation of the Exchange Transaction, the Company will no longer maintain a home office and headquarters in San Diego, California. Additionally, the Company maintains regional buying and administrative offices, operates regional cross-docking facilities for the consolidation and distribution of certain shipments to the warehouses and operates various processing and packaging facilities to support ancillary businesses.

DISCONTINUED OPERATIONS -- NON-CLUB REAL ESTATE SEGMENT

As a result of the Exchange Transaction, the Company's business consists primarily of its warehouse club operations in the United States, Canada and the United Kingdom, and the Company has ceased to have any significant real estate activities that are not directly related to its warehouse club business.

ITEM 3 -- LEGAL PROCEEDINGS

On April 6, 1992, Price was served with a complaint in an action entitled FECHT ET AL. V. THE PRICE COMPANY ET AL., Case No. 92-497, United States District Court, Southern District of California (the "Court"). Subsequently, on April 22, 1992, Price was served with a first amended complaint in the action. The case was dismissed without prejudice by the Court on September 21, 1992, on the grounds the plaintiffs had failed to state a sufficient claim against defendants.

Subsequently, plaintiffs filed a Second Amended Complaint which, in the opinion of the Company's counsel, alleged substantially the same facts as the prior complaint. The case was dismissed with prejudice by the Court on March 9, 1993, on grounds the plaintiffs had failed to state a sufficient claim against defendants. Plaintiffs have filed an Appeal in the Ninth Circuit Court of Appeals, which was argued on October 4, 1994. The Company is currently awaiting a Ninth Circuit Court of Appeals decision. If the Ninth Circuit Court of Appeals renders a decision that is adverse to the Company, the Company will continue its vigorous defense of the suit. The Company does not believe that the ultimate outcome of such litigation will have a material adverse effect on the Company's financial position or results of operations.

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 operations.

ITEM 4 -- SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's annual meeting is scheduled for 10:00 a.m. on January 27, 1995 at the Bellevue Inn in Bellevue, Washington. Matters to be voted on will be included in the Company's proxy statement to be filed with the Securities and Exchange Commission and distributed to stockholders prior to the meeting.

ITEM 4A -- EXECUTIVE OFFICERS OF THE REGISTRANT

The following is a list of the names, ages and positions of the executive officers of the registrant.

	AGE	POSITION WITH COMPANY
	---	-----
Robert E. Price	52	Chairman of the Board
James D. Sinegal	58	President and Chief Executive Officer
Jeffrey H. Brotman	51	Vice Chairman of the Board
Mitchell G. Lynn	45	President of Price
Richard D. DiCerchio	51	Executive Vice President -- Merchandising, Distribution, Construction and Marketing
Richard A. Galanti	38	Executive Vice President and Chief Financial Officer
Franz E. Lazarus	47	Executive Vice President, Chief Operating Officer -- Northern Division
David B. Loge	52	Executive Vice President -- PriceCostco Industries
Edward B. Maron	67	Executive Vice President, Chief Operating Officer -- Canadian Division
Joseph P. Portera	41	Executive Vice President, Chief Operating Officer -- Eastern Division
Steven A. Velazquez	39	Executive Vice President -- Quest
Theodore Wallace	46	Executive Vice President -- International
Dennis R. Zook	45	Executive Vice President, Chief Operating Officer -- Southern Division

Robert E. Price has been the Chairman of the Board of PriceCostco since the Merger, although he has tendered his resignation effective as of the earlier of (i) the Closing Date and (ii) the date on which shares of Price Enterprises common stock are distributed to stockholders of PriceCostco (see "Description of the Exchange Transaction"). He was Chief Executive Officer and a director of Price since 1976, and was Chairman of the Board of Price since January 1989. Mr. Price was President of Price from 1976 until December 1990.

James D. Sinegal has been the President, Chief Executive Officer and a director of PriceCostco since the Merger. He was President and Chief Operating Officer of Costco since its inception and was elected Chief Executive Officer in August 1988. Mr. Sinegal is a co-founder of Costco and a director of Price Enterprises.

Jeffrey H. Brotman is a native of the Pacific Northwest and is a 1967 graduate of the University of Washington Law School. Mr. Brotman has been the Vice Chairman of the Board of PriceCostco since the Merger. He is a founder of Costco and a number of other specialty retail chains. Mr. Brotman is a director of Seafirst Bank; Carrefour, U.S.; Starbucks Corp.; The Sweet Factory and Garden Botanika.

Mitchell G. Lynn served as Senior Executive Vice President of PriceCostco from the Merger until mid July 1994 and has been a director of PriceCostco since the Merger, although he has tendered his resignation effective as of the earlier of (i) the Closing Date and (ii) the date on which shares of Price Enterprises common stock are distributed to stockholders of PriceCostco (see "Description of the

Exchange Transaction"). He has been President of Price since December 1990 and a director of Price since January 1991, although he has tendered his resignation as an officer and director of Price effective as of the earlier of (i) the

Closing Date and (ii) the date on which shares of Price Enterprises common stock are distributed to stockholders of PriceCostco. Mr. Lynn joined Price as Controller in September 1979 and became a Vice President in 1984. From August 1989 to December 1990 Mr. Lynn was an Executive Vice President of Price and President of Price Club Industries, a division of Price.

Richard D. DiCerchio has been Executive Vice President -- Merchandising, Distribution, Construction and Marketing of PriceCostco since the Merger and, until mid August 1994 also served as Executive Vice President, Chief Operating Officer -- Northern Division. He was elected Chief Operating Officer -- Western Region of Costco in August 1992 and was elected Executive Vice President and Director of Costco in April 1986. From June 1985 to April 1986, he was Senior Vice President, Merchandising of Costco. He joined Costco as Vice President, Operations in May 1983.

Richard A. Galanti has been Executive Vice President and Chief Financial Officer of PriceCostco since the Merger. He was Senior Vice President, Chief Financial Officer and Treasurer of Costco since January 1985, having joined Costco as Vice President -- Finance in March 1985. From 1978 to February 1984, Mr. Galanti was an Associate with Donaldson, Lufkin & Jenrette Securities Corporation.

Franz E. Lazarus has been Executive Vice President, Chief Operating Officer - -- Northern Division of PriceCostco since August 1994 and had previously served as Executive Vice President, Chief Operating Officer -- Eastern Division since the Merger. He was named Executive Vice President, Chief Operating Officer -- East Coast Operations of Costco in August 1992. Mr. Lazarus joined Costco in November 1983 and has held various positions prior to his current position.

David B. Loge has been an Executive Vice President -- PriceCostco Industries since August 1994. Mr. Loge joined Price as a Director of Price Club Industries in March 1989 and became Vice President of Price and President of Price Club Industries in December 1990. Prior to joining Price, he served as Vice President of Operations of Sundale Beverage in Belmont, California.

Edward B. Maron has been Executive Vice President, Chief Operating Officer - -- Canadian Division of PriceCostco since the Merger. He had been Senior Vice President, Canadian Division of Costco since April 1990. He previously held various management positions since joining Costco in June 1985.

Joseph P. Portera has been Executive Vice President, Chief Operating Officer - -- Eastern Division of Price Costco since August, 1994. He was Senior Vice President-Operations, Northern California Region from October, 1993 to August 1994. From August 1991 to October 1993 he was Senior Vice President Merchandising -- Non Foods of Costco, and held various management positions since joining Costco in April 1984.

Steven A. Velazquez was Executive Vice President -- Quest of PriceCostco from the Merger through early November 1994, overseeing the development of the Quest business. He is currently an Executive Vice President of Price Enterprises. He joined Price as a buyer in July 1981, became Vice President in February 1989, and became Executive Vice President of Merchandising in April 1990. Prior to joining Price, Mr. Velazquez was a buyer for Safeway Stores, San Diego Division.

Theodore Wallace was Executive Vice President -- International of PriceCostco from the Merger through early November 1994, overseeing international expansion into the Pacific rim and other markets. He is currently an Executive Vice President of Price Enterprises. Mr. Wallace became an Executive Vice President of Price in 1984 and, from 1988 until Fall 1992, he was Chief Operating Officer (East Coast) of Price. He was a director of Price from October 1988 to October 1993. He joined Price as a warehouse manager in September 1977 and was its Vice President of Operations from 1983 to 1988.

Dennis R. Zook has been Executive Vice President, Chief Operating Officer -- Southern Division of PriceCostco since the Merger. He was Executive Vice President of Price since February 1989. Mr. Zook became Vice President of West Coast Operations of Price in October 1988. He joined Price as a warehouse

manager in October 1982.

PART II

ITEM 5 -- MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

In the Merger, which occurred on October 21, 1993, each share of common stock, par value \$.10 per share, of Price ("Price Common Stock") was exchanged for 2.13 shares of PriceCostco Common Stock and each share of common stock, par value \$.0033 per share, of Costco ("Costco Common Stock") was exchanged for one share of PriceCostco Common Stock.

Prior to October 21, 1993, Price Common Stock was quoted on The Nasdaq Stock Market's National Market under the symbol "PCLB" and Costco Common Stock was quoted on The Nasdaq Stock Market's National Market under the symbol "COST." Trading in PriceCostco Common Stock commenced on October 22, 1993. PriceCostco Common Stock is quoted on The Nasdaq Stock Market's National Market under the symbol "PCCW."

The following table sets forth the high and low sales prices of PriceCostco Common Stock for the period October 22, 1993 through October 31, 1994, and Price Common Stock and Costco Common Stock for the periods indicated. The quotations are as reported in published financial sources.

	PRICE COMMON STOCK		COSTCO COMMON STOCK		PRICECOSTCO COMMON STOCK	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
Calendar Quarters -- 1991						
First Quarter.....	22 1/8	17 3/4	24 7/8	15 1/8	--	--
Second Quarter.....	27 1/2	21 1/2	30 1/2	22 7/8	--	--
Third Quarter.....	30 5/8	23 1/2	33 3/8	26 3/8	--	--
Fourth Quarter.....	29 1/8	20 1/2	39 1/2	24 5/8	--	--
Calendar Quarters -- 1992						
First Quarter.....	25 7/8	21	42 5/8	35 1/8	--	--
Second Quarter.....	21 7/8	13 3/4	38 1/4	25 1/2	--	--
Third Quarter.....	16 1/2	14	30	20 1/2	--	--
Fourth Quarter.....	21 1/8	14 1/2	30 1/2	20 1/4	--	--
Calendar Quarters -- 1993						
First Quarter.....	18 3/4	14 3/4	25 1/4	18 1/2	--	--
Second Quarter.....	18 1/2	13 1/4	19 3/4	15 3/4	--	--
Third Quarter.....	18	14 3/4	18 1/2	15	--	--
Fourth Quarter (through October 21, 1993).....	19 7/8	17 1/2	19 5/8	16 3/4	--	--
Fourth Quarter (October 22, 1993 through December 31, 1993).....	--	--	--	--	21 3/8	17 1/8
Calendar Quarters -- 1994						
First Quarter.....	--	--	--	--	21 5/8	16 7/8
Second Quarter.....	--	--	--	--	18 1/4	13
Third Quarter.....	--	--	--	--	16 1/2	13 3/4
Fourth Quarter (through October 31, 1994).....	--	--	--	--	16 3/4	14 7/8

All Costco common share data has been adjusted to reflect a two-for-one stock split effected April 30, 1991 and a three-for-two stock split effected March 6, 1992. All Price common share data has been adjusted to reflect the 2.13 exchange ratio in the Merger.

On October 31, 1994, the last reported sales price per share of PriceCostco Common Stock was \$15.75. On October 31, 1994, the Company had approximately 13,811 stockholders of record.

DIVIDEND POLICY

PriceCostco does not pay regular dividends and does not anticipate the declaration of a cash dividend in the foreseeable future. Under its two revolving credit agreements, PriceCostco 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.

ITEM 6 -- SELECTED FINANCIAL DATA

SELECTED FINANCIAL AND OPERATING DATA

The following tables set forth selected financial and operating data for the ten fiscal years in the period ended August 28, 1994 for PriceCostco, giving effect to the Merger using the pooling-of-interests method of accounting and treating the non-club real estate segment as a discontinued operation. This selected financial and operating data should be read in conjunction with "Item 7 - -- Management's Discussion and Analysis of Financial Condition and Results of Operations," consolidated financial statements of PriceCostco for fiscal 1994. As discussed in "Notes To Consolidated Financial Statements," certain adjustments and reclassifications have been made to conform the two companies' accounting practices.

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PRICE/COSTCO, INC.
 SELECTED CONSOLIDATED FINANCIAL DATA
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	52 WEEKS ENDED AUGUST 28, 1994	52 WEEKS ENDED AUGUST 29, 1993	52 WEEKS ENDED AUGUST 30, 1992	52 WEEKS ENDED SEPTEMBER 1, 1991	52 WEEKS ENDED SEPTEMBER 2, 1990
OPERATING DATA					
Revenue					
Net sales.....	\$16,160,911	\$15,154,685	\$13,820,380	\$11,813,509	\$9,346,099
Membership fees and other.....	319,732	309,129	276,998	228,742	185,144
Total revenue.....	16,480,643	15,463,814	14,097,378	12,042,251	9,531,243
Operating expenses					
Merchandise costs.....	14,662,891	13,751,153	12,565,463	10,755,823	8,518,951
S,G&A expenses.....	1,425,549	1,314,660	1,128,898	934,120	719,446
Preopening expenses.....	24,564	28,172	25,595	16,289	11,691
Provision for estimated warehouse closing costs.....	7,500	5,000	2,000	1,850	6,000
Operating income.....	360,139	364,829	375,422	334,169	275,155
Other income (expense)					
Interest expense.....	(50,472)	(46,116)	(35,525)	(26,041)	(18,769)
Interest income and other.....	13,888	17,750	28,958	33,913	19,239
Provision for merger and restructuring expenses.....	(120,000)	--	--	--	--
Income from continuing operations before provision for income taxes.....	203,555	336,463	368,855	342,041	275,625
Provision for income taxes.....	92,657	133,620	145,833	134,748	107,899
Income from continuing operations.....	110,898	202,843	223,022	207,293	167,726
Discontinued operations:					
Income (loss), net of tax.....	(40,766)	20,404	19,385	11,566	6,854
Loss on disposal.....	(182,500)	--	--	--	--
Extraordinary items.....	--	--	--	--	--
Net income (loss).....	\$ (112,368)	\$ 223,247	\$ 242,407	\$ 218,859	\$ 174,580
Per Share Data -- Fully Diluted					
Income (loss) from continuing operations.....	\$ 0.51	\$ 0.92	\$ 0.98	\$ 0.93	\$ 0.79
Discontinued Operations:					
Income (loss), net of tax.....	(.19)	.08	.08	.05	.03
Loss on Disposal.....	(.83)	--	--	--	--
Extraordinary items.....	--	--	--	--	--
Net income (loss).....	\$ (.51)	\$ 1.00	\$ 1.06	\$ 0.98	\$ 0.82
Shares used in calculation (000's).....	219,334	240,162	245,090	234,202	219,532
	53 WEEKS ENDED SEPTEMBER 3, 1989	52 WEEKS ENDED AUGUST 28, 1988	52 WEEKS ENDED AUGUST 30, 1987	52 WEEKS ENDED AUGUST 31, 1986	52 WEEKS ENDED SEPTEMBER 1, 1985
OPERATING DATA					
Revenue					
Net sales.....	\$7,844,539	\$6,042,159	\$4,606,352	\$3,337,361	\$2,200,338
Membership fees and other.....	157,621	125,985	98,201	70,695	40,795
Total revenue.....	8,002,160	6,168,144	4,704,553	3,408,056	2,241,133
Operating expenses					
Merchandise costs.....	7,168,907	5,531,626	4,198,768	3,040,115	1,989,621
S,G&A expenses.....	590,465	458,013	355,178	256,407	170,869
Preopening expenses.....	11,685	6,509	12,784	4,031	3,214
Provision for estimated warehouse closing costs.....	1,609	4,000	--	--	--
Operating income.....	229,494	167,996	137,823	107,503	77,429

Other income (expense)					
Interest expense.....	(24,583)	(20,949)	(13,840)	(8,249)	(7,684)
Interest income and other.....	24,275	22,341	20,936	21,281	15,183
Provision for merger and restructuring expenses.....	--	--	--	--	--
	-----	-----	-----	-----	-----
Income from continuing operations before provision for income taxes.....	229,186	169,388	144,919	120,535	84,928
Provision for income taxes.....	88,742	67,533	68,019	58,162	44,693
	-----	-----	-----	-----	-----
Income from continuing operations.....	140,444	101,855	76,900	62,373	40,235
Discontinued operations:					
Income (loss), net of tax.....	3,600	--	--	--	--
Loss on disposal.....	--	--	--	--	--
Extraordinary items.....	--	2,856	1,510	995	--
	-----	-----	-----	-----	-----
Net income (loss).....	\$ 144,044	\$ 104,711	\$ 78,410	\$ 63,368	\$ 40,235
	-----	-----	-----	-----	-----
Per Share Data -- Fully Diluted					
Income (loss) from continuing operations.....	\$ 0.69	\$ 0.56	\$ 0.42	\$ 0.37	\$ 0.31
Discontinued Operations:					
Income (loss), net of tax.....	.02	--	--	--	--
Loss on Disposal.....	--	--	--	--	--
Extraordinary items.....	--	0.02	0.01	0.01	--
	-----	-----	-----	-----	-----
Net income (loss).....	\$ 0.71	\$ 0.58	\$ 0.43	\$ 0.38	\$ 0.31
	-----	-----	-----	-----	-----
Shares used in calculation (000's).....	212,772	181,336	180,887	168,324	130,367

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PRICE/COSTCO, INC.
SELECTED CONSOLIDATED FINANCIAL DATA
(DOLLARS IN THOUSANDS, EXCEPT WAREHOUSE AND PER SHARE DATA)

	AUGUST 28, 1994	AUGUST 29, 1993	AUGUST 30, 1992	SEPTEMBER 1, 1991	SEPTEMBER 2, 1990	SEPTEMBER 3, 1989
	-----	-----	-----	-----	-----	-----
BALANCE SHEET DATA						
Working capital (deficit).....	\$ (113,009)	\$ 127,312	\$ 281,592	\$ 304,703	\$ 14,342	\$ 103,252
Property and equipment, net.....	2,146,396	1,966,601	1,704,052	1,183,432	935,767	752,912
Total assets.....	4,235,659	3,930,799	3,576,543	2,986,094	2,029,931	1,740,332
Short-term debt.....	149,340	23,093	--	--	139,414	114,000
Long-term debt and capital lease obligations, net.....	795,492	812,576	813,976	500,440	199,506	234,017
Stockholders' equity (a)(b).....	1,684,960	1,796,728	1,593,943	1,429,703	988,458	777,730
WAREHOUSES IN OPERATION						
Beginning of year.....	200	170	140	119	104	84
Opened.....	29	37	31	23	19	20
Closed.....	(8)	(7)	(1)	(2)	(4)	--
	-----	-----	-----	-----	-----	-----
End of Year.....	221	200	170	140	119	104
	-----	-----	-----	-----	-----	-----
	AUGUST 28, 1988	AUGUST 30, 1987	AUGUST 31, 1986	SEPTEMBER 1, 1985		
	-----	-----	-----	-----		
BALANCE SHEET DATA						
Working capital (deficit).....	\$ 208,569	\$ 244,783	\$ 173,765	\$ 114,924		
Property and equipment, net.....	511,784	411,590	234,813	134,404		
Total assets.....	1,445,814	1,205,843	769,799	476,945		
Short-term debt.....	--	--	--	--		
Long-term debt and capital lease obligations, net.....	327,760	333,503	124,475	100,425		
Stockholders' equity (a)(b).....	585,598	468,045	384,275	185,881		
WAREHOUSES IN OPERATION						
Beginning of year.....	77	47	36	22		
Opened.....	10	30	11	14		
Closed.....	(3)	--	--	--		
	-----	-----	-----	-----		
End of Year.....	84	77	47	36		
	-----	-----	-----	-----		

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- (a) In 1989 Price paid to its shareholders a one-time special cash dividend of \$74,621 or \$1.50 per share of Price Common Stock.
- (b) In 1989 stockholders' equity reflects a \$20,100 reduction of retained earnings related to conforming Price's accounting for income tax method to Costco's accounting for income tax method as of fiscal 1989.

ITEM 7 -- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

COMPARISON OF FISCAL 1994 (52 WEEKS) AND FISCAL 1993 (52 WEEKS):
(DOLLARS IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

Net operating results for fiscal 1994 reflect a net loss of \$112,368 or \$.51 per share (fully diluted), as compared to fiscal 1993 net income of \$223,247 or \$1.00 per share (fully diluted). This loss includes the previously announced provision for merger and restructuring costs of \$120,000 pre-tax (\$80,000 or \$.36 per share after tax) related to the Merger. The Merger was approved by Price and Costco shareholders on October 21, 1993. The fiscal 1994 net loss includes a \$40,766 or \$.19 per share loss from discontinued operations, compared to income of \$20,404 or \$.08 per share in fiscal 1993. The fiscal 1994 loss from discontinued operations includes a provision of \$80,500 pre-tax (\$47,500 or \$.22 per share after tax) arising from a change in accounting estimates caused by the Exchange Transaction. In addition, the fiscal 1994 net loss includes a charge of \$182,500, or \$.83 per share, reflecting the estimated loss on disposal of the discontinued non-club real estate operations.

CONTINUING OPERATIONS

Income from continuing operations for fiscal 1994 was \$110,898 or \$.51 per share, compared to income from continuing operations for fiscal 1993 of \$202,843 or \$.92 per share. Excluding the \$120,000 pre-tax merger and restructuring charge, income from continuing operations for fiscal 1994 would have been \$190,898 or \$.87 per share.

Net sales increased 6.6% to \$16,160,911 in fiscal 1994 from \$15,154,685 in fiscal 1993. This increase was due to: (i) first year sales at the 29 new warehouses opened during fiscal 1994, which increase was partially offset by 8 warehouses closed during fiscal 1994 that were in operation during fiscal 1993; and (ii) increased sales at thirty-seven warehouses that were opened in 1993 and that were in operation for the entire 1994 fiscal year, which increase was partially offset by lower sales at existing locations opened prior to fiscal 1993. Changes in prices did not materially impact sales levels.

Comparable sales, that is sales in warehouses open for at least a year, were a negative 3% annual rate in fiscal 1994 -- similar to the negative 3% annual rate during fiscal 1993. The negative rate of comparable sales was attributed to several factors, including the following: the effect of sales cannibalization by opening additional warehouses in existing markets; increased competition in several markets; deflation in several merchandise categories; a generally poor economic environment, especially in California; and a weak Canadian dollar where the Company derived 16% and 15% of net sales in fiscal 1994 and 1993, respectively.

Membership fees and other revenue increased 3.4% from \$309,129, or 2.04% of net sales, in fiscal 1993 to \$319,732, or 1.98% of net sales in fiscal 1994. This increase reflects membership signups at the twenty-nine new warehouses and the partial year effect of membership fee increases implemented in January 1994. As anticipated, the Company experienced a decline in membership renewals at existing warehouses due to overlapping memberships and offering Price and Costco members reciprocal member privileges effective November 1, 1993. The negative impact of the reciprocal member privileges on membership fee revenue is expected to be a less significant factor after November 1994.

Gross margin (defined as net sales minus merchandise costs) increased 6.7% from \$1,403,532, or 9.26% of net sales in fiscal 1993 to \$1,498,020, or 9.27% of net sales in fiscal 1994. The gross margin figures reflect accounting for merchandise inventory costs on the last-in, first-out (LIFO) method. For fiscal

1994 there was a \$2,600 LIFO benefit or \$.01 per share (fully diluted) to increase income after tax due to the use of the LIFO method compared to the first-in, first-out (FIFO) method. This compares to a \$5,350 LIFO benefit or \$.01 per share (fully diluted) in fiscal 1993.

Selling, general and administrative expenses as a percent of net sales increased from 8.67% during fiscal 1993 to 8.82% during fiscal 1994, reflecting a combination of comparable unit sales decreases in the 200 warehouses in operation during both fiscal periods; higher expense ratios at the

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29 units opened during fiscal 1994 (newer units generally operate at significantly lower annual sales volumes than mature units and, therefore, incur higher expense ratios than mature units); and higher expense factors associated with certain ancillary operations.

Preopening expenses totaled \$24,564 or 0.15% of net sales during fiscal 1994 and \$28,172 or 0.19% of net sales during fiscal 1993. During fiscal 1994, the Company opened 29 new warehouses compared to opening 37 new warehouses during fiscal 1993.

The Company recorded a pre-tax provision for warehouse closing costs of \$7,500 or \$.02 per share on an after-tax basis (fully diluted). The provision includes \$5,750 (pre-tax) related to settlement of a lease dispute and additional closing costs related to warehouse clubs closed in prior years, and \$1,750 (pre-tax) related to the estimated closing costs of six warehouses which were or will be replaced by new warehouses by December 31, 1994. This compares to \$5,000 (pre-tax) or .01 per share in fiscal 1993.

Interest expense totaled \$46,116 in fiscal 1993 and \$50,472 in fiscal 1994. In both fiscal years interest expense was incurred as a result of the interest on the convertible subordinated debentures and interest on borrowings on the Company's bank lines and commercial paper programs.

Interest income and other totaled \$17,750 in fiscal 1993, and \$13,888 in fiscal 1994. This decrease was primarily due to lower average investment balances and lower interest rates.

The effective income tax rate (excluding the merger and restructuring charge and loss on disposal of the discontinued operations) on earnings in fiscal 1994 was 41.0%, compared to 39.7% in the prior year. The Company's effective income tax rate increased due to a higher federal statutory rate implemented in the Company's fourth quarter of fiscal 1993 and by changes in the impact of foreign operations on the effective tax rate.

DISCONTINUED OPERATIONS

The loss on discontinued real estate operations (net of operating expenses and taxes) includes the results of income producing properties, gains on sale of property, interest income and a provision of \$90,200 pre-tax of which \$80,500 pre-tax (\$47,500 after tax or or \$.22 per share) relates to a change in calculating estimated losses for assets which are considered to be economically impaired. This change in accounting estimates results from the spin-off of the real estate segment assets into Price Enterprises, and Price Enterprises' decision to pursue business plans and operating strategies as a stand-alone entity which are significantly different than the strategies of the Company. Specifically, Price Enterprises' management believes that as a separate operating business it will not have the same access to capital as the Company or generate internal funds from operations to the same extent as the Company.

PriceCostco's accounting policies with respect to estimating the amount of impairments on individual real estate properties and related assets such that impairment losses if the carrying amount of the asset could not be recovered from estimated future cash flows on an undiscounted basis. Price Enterprises management believes that in view of its strategies with respect to the number and nature of properties that would be selected for potential disposition, it would be more appropriate to estimate impairment losses based on fair values of

the real estate properties as determined by appraisals and/or a risk-adjusted discounted cash flow approach. In determining impairment losses, individual real estate assets were reduced to estimated fair value, if lower than historical cost. For those assets which have an estimated fair value in excess of cost, the asset continues to be recorded at cost. The impairment losses recorded as a result of this change in accounting estimates reduced the book basis of certain of the real estate and related assets.

The loss on disposal of the discontinued real estate operations of \$182,500 or \$.83 per share, reflected in the fourth quarter of fiscal 1994, relates to the transfer of the Company's commercial real estate operations, together with certain other assets, to Price Enterprises as part of the Exchange Transaction. For a description of the Exchange Transaction, see "Part I -- Business -- Description of

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the Exchange Transaction." The estimated loss on disposal is a non-recurring special charge calculated as the difference between the aggregate book value of the net assets being spun-off of \$579,000 and the estimated market value of 27 million shares of Price Enterprises common stock of \$411,750 plus direct transaction costs of approximately \$15,250. The Exchange Transaction is expected to close before the end of the calendar year, at which time the estimated loss on disposal will be adjusted to actual. For a more detailed discussion of the estimated loss on disposal and the factors that will affect the amount of any adjustment to the loss after the Transaction is completed, see Note 3 -- Spin off of Price Enterprises, Inc. and Discontinued Operations.

COMPARISON OF FISCAL 1993 (52 WEEKS) AND FISCAL 1992 (52 WEEKS):
(DOLLARS IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

Net income during fiscal 1993 decreased 8% to \$223,247, or \$1.00 per share (fully diluted), as compared to fiscal 1992 net income of \$242,407 or \$1.06 per share (fully diluted).

CONTINUING OPERATIONS

Income from continuing operations for fiscal 1993 was \$202,843 or \$.92 per share, compared to fiscal 1992 income from continuing operations of \$223,022 or \$.98 per share.

Net sales increased 10% to \$15,154,685 in fiscal 1993 from \$13,820,380 in fiscal 1992. This increase was due to: (i) first year sales at the thirty-seven new warehouses opened during fiscal 1993; and (ii) increased sales at thirty-one warehouses that were opened in 1992 and that were in operation for the entire fiscal year, which increase was partially offset by lower sales at existing locations opened prior to fiscal 1992. Changes in prices did not materially affect sales levels.

Comparable sales, that is sales in warehouses open for at least a year, trended downward in fiscal 1993 -- from a positive 6% annual rate during fiscal 1992, to a negative 3% annual rate during fiscal 1993. The declining rate of comparable sales was attributed to several factors, including the following: the effect of sales cannibalization by opening additional warehouses in existing markets; increased competition in several markets; deflation in several merchandise categories; a generally poor economic environment, especially in California; and a weak Canadian dollar where the Company derived 15% and 14% of net sales in fiscal 1993 and 1992, respectively.

Membership fees and other revenue increased 12% from \$276,998, or 2.00% of net sales, in fiscal 1992 to \$309,129, or 2.04% of net sales in fiscal 1993. This increase reflects a continued strong membership base at existing warehouses, membership signups at the thirty-seven new warehouses and annualized effect of membership fee increases in certain markets implemented in fiscal 1992.

Gross margin (defined as net sales minus merchandise costs) increased 12% from \$1,254,917, or 9.08% of net sales in fiscal 1992 to \$1,403,532, or 9.26% of

net sales in fiscal 1993. The increased gross margin reflects improved shrinkage control and improved buying and distribution techniques afforded by the Company's increased sales volume, as well as increased levels of sales from ancillary businesses (pharmacy, one-hour photo, print shop, optical and food services), which carry a higher than average gross margin. The gross margin figures reflect accounting for merchandise inventory costs on the last-in, first-out (LIFO) method. For fiscal 1993 there was a \$5,350 LIFO benefit or \$.01 per share (fully diluted) to increase income after tax due to the use of the LIFO method compared to the first-in, first-out (FIFO) method. This compares to a \$300 LIFO provision in fiscal 1992.

Selling, general and administrative expenses as a percent of net sales increased from 8.17% during fiscal 1992 to 8.67% during fiscal 1993, reflecting a combination of comparable unit sales decreases in the 170 warehouses in operation during both fiscal periods; higher expense ratios at the 37 units opened during fiscal 1993 (newer units generally operate at significantly lower annual sales volumes than mature units and, therefore, incur higher expense ratios than mature units); and higher expense factors associated with certain ancillary operations.

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Preopening expenses totaled \$25,595 or 0.19% of net sales during fiscal 1992 and \$28,172 or 0.19% of net sales during fiscal 1993. During fiscal 1993, the Company opened 37 new warehouses. The Company opened 31 new warehouses during fiscal 1992.

During fiscal 1993, the Company announced and closed four warehouses and completed the closing and relocation of three warehouses announced in fiscal 1992. The costs associated with closing the four warehouses announced in fiscal 1993 will be approximately \$5,000, or \$.01 per share (fully diluted), and this amount was recognized as anticipated warehouse closing costs in the fourth quarter of fiscal 1993. This compares to \$2,000 in fiscal 1992, when the Company announced the closing of two warehouses, relocated one warehouse and announced the planned relocation of another warehouse.

Interest expense totaled \$35,525 in fiscal 1992 and \$46,116 in fiscal 1993. In fiscal 1992 interest expense was incurred as a result of the interest on the convertible subordinated debentures and interest on borrowings on the Company's bank lines. Fiscal 1993 includes a full year of interest expense on the \$300,000 5 3/4% convertible subordinated debentures which accounted for the increase in interest expense compared to fiscal 1992.

Interest income and other totaled \$28,958 in fiscal 1992, and \$17,750 in fiscal 1993. This decrease was primarily due to lower average investment balances and lower interest rates.

The effective income tax rate on earnings in fiscal 1993 was 39.7%, compared to 39.5% the prior year. The Company's effective income tax rate increased due to a higher federal statutory rate implemented in the Company's fourth quarter of 1993 offset by changes in state and foreign effective rates.

DISCONTINUED OPERATIONS

Discontinued real estate operations (net of operating expenses and taxes) includes the results of income producing properties as well as gains (losses) on sales of property. Income from discontinued real estate operations, net of income taxes, increased 5% from \$19,385 or \$0.08 per share in fiscal 1992 to \$20,404 or \$0.08 per share in fiscal 1993. The increase primarily represents nonrecurring gains recognized on sale of properties of \$21,500 in fiscal 1993 as compared to \$15,600 in fiscal 1992.

RECENT SALES RESULTS

PriceCostco's net sales for the eight-week period ended October 23, 1994 were approximately \$2,520,000 an increase of 11% from approximately \$2,280,000 for the same eight-week period of the prior fiscal year. Comparable warehouse sales (sales in warehouses open for at least a year) increased by one percent

during the eight-week period.

LIQUIDITY AND CAPITAL RESOURCES
(DOLLARS IN THOUSANDS)

PriceCostco'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. PriceCostco does not expect to make significant investments in non-club real estate in the future. Additional capital will be required for international expansion through investments in foreign subsidiaries and joint ventures.

In fiscal 1994, cash provided from operations was approximately \$248,000. These funds, combined with beginning fiscal year balances of cash, cash equivalents and short-term investments, along with borrowings under the Company's commercial paper program were used to finance additions to property, equipment for warehouse clubs and related operations of \$475,000 and net inventory investment (merchandise inventories less accounts payable) of \$66,000 and other investing activities related primarily to non-club real estate investments and investments in foreign joint ventures, which together totaled \$125,000.

Expansion plans for the United States and Canada during fiscal 1995 are to open 30-35 new warehouse clubs. The Company also expects to continue expansion of its international operations.

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The Company opened two warehouses in the United Kingdom through a 60%-owned subsidiary, with a third location due to open in June, 1995. In October 1994, under a licensing agreement with PriceCostco, a Price Club opened in Seoul, Korea. Other markets are being assessed, particularly in the Pacific Rim. As a result of the Exchange Transaction, the Company's 50% ownership interest in the Mexican joint venture was transferred to Mexico Clubs in which the Company owns a 49% interest. See "Part I -- Business -- Description of the Exchange Transaction." As of August 28, 1994, there were 8 Price Clubs operating in Mexico through such joint venture. As of October 31, 1994, there are 10 Price Clubs operating in Mexico through such joint venture with one more scheduled to open prior to December 31, 1994.

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 \$500,000 to \$600,000 during fiscal 1995 in the United States and Canada for real estate, construction, remodeling and equipment for warehouse clubs and related operations; and approximately \$50,000 to \$100,000 for international expansion, including the United Kingdom and other potential ventures. These expenditures will be financed with a combination of cash provided from operations, the use of cash, cash equivalents and short-term investments, which totaled \$63,000 at August 28, 1994; short-term borrowings under revolving credit facilities and/or commercial paper facilities; issuance of long-term debt; and other financing sources as required.

The Company has a domestic multiple option loan facility with a group of 14 banks which provides for borrowings of up to \$500,000 or for standby support for a \$500,000 commercial paper program. Of this amount, \$250,000 expires on January 30, 1995, and \$250,000 expires on January 30, 1998. The interest rate on bank borrowings is based on LIBOR or rates bid at auction by the participating banks. At August 28, 1994, in the amount outstanding under the Company's commercial paper program was \$149,340. The Company expects to renew the \$250,000 portion of the loan facility expiring on January 30, 1995, at substantially the same terms.

In addition, the Company's wholly-owned Canadian subsidiary has a \$65,800 line of credit with a group of three Canadian banks of which \$29,200 expires on December 1, 1994 (the short-term portion) and \$36,600 expires in various amounts through December 1, 1996 (the long-term portion). The interest rate on borrowings is based on the prime rate or the "Bankers' Acceptance" rate. At August 28, 1994, no amounts were outstanding under these programs. The Company

expects to renew the \$29,200 short-term portion of the line of credit expiring on December 1, 1994, at substantially the same terms.

The Company has separate letter of credit facilities (for commercial and standby letters of credit), totaling approximately \$193,000. The outstanding commitments under these facilities at August 28, 1994 was approximately \$118,000, including approximately \$53,000 in standby letters for workers' compensation requirements.

Due to rapid inventory turnover, the Company's operations provide a higher level of supplier trade payables than generally encountered in other forms of retailing. When combined with other current liabilities, the resulting amount typically approaches the current assets needed to operate the business (e.g., merchandise inventories, accounts receivable and other current assets). At August 28, 1994, the working capital (deficit) totaled (\$113,000) compared to working capital of \$127,000 at August 29, 1993. This change is primarily related to a reduction in cash and cash equivalents of \$67,000, a decrease in short-term investments and restricted cash of \$81,000 and an increase in notes payable of \$126,000 offset by other increases of \$34,000, as working capital was used to finance expansion and merger expenses during fiscal 1994.

In fiscal 1992, cash provided from operations was \$296,000. These funds combined with proceeds from issuance of \$300,000 5 3/4% convertible subordinated debentures in May 1992 and approximately \$144,000 generated from the sale of certain properties were used to finance additions to property and

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equipment for warehouse clubs and related operations of \$533,000; other investing activities related primarily to non-club real estate development, and investment in foreign joint ventures, which together totaled \$83,000.

ITEM 8 -- FINANCIAL STATEMENTS

The following financial statements of PriceCostco are as follows:

Report of Independent Public Accountants.....	29
Consolidated Balance Sheets, as of August 28, 1994 and August 29, 1993.....	30
Consolidated Statements of Operations, for the 52 weeks ended August 28, 1994, August 29, 1993, and August 30, 1992.....	31
Consolidated Statements of Stockholders' Equity, for the 52 weeks ended August 28, 1994, August 29, 1993, and August 30, 1992.....	32
Consolidated Statements of Cash Flows, for the 52 weeks ended August 28, 1994, August 29, 1993, and August 30, 1992.....	33
Notes to Consolidated Financial Statements.....	34

ITEM 9 -- CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10 -- DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

For information with respect to the executive officers of the Registrant, see Item 4A -- "Executive Officers of the Registrant" at the end of Part I of this report. The information required by this Item concerning the Directors and nominees for Director of the Company is incorporated herein by reference to PriceCostco's Proxy Statement for its Annual Meeting of Stockholders, to be held on January 27, 1995, to be filed with the Commission pursuant to Regulation 14A.

ITEM 11 -- EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to PriceCostco's Proxy Statement for its Annual Meeting of Stockholders, to be held on January 27, 1995, to be filed with the Commission pursuant to Regulation 14A.

ITEM 12 -- SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated herein by reference to PriceCostco's Proxy Statement for its Annual Meeting of Stockholders to be held on January 27, 1995, to be filed with the Commission pursuant to Regulation 14A.

ITEM 13 -- CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to PriceCostco's Proxy Statement for its Annual Meeting of Stockholders, to be held on January 27, 1995, to be filed with the Commission pursuant to Regulation 14A.

PART IV

ITEM 14 -- EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

1. Financial Statements:

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

2. Financial Statements Schedules:

Report of Independent Public Accountants.....	54
Schedule I Marketable Securities -- Other Investments.....	55
Schedule II Amounts Receivable from Related Parties and Underwriters, Promoters, and Employees other than Related Parties.....	56
Schedule V Property, Plant and Equipment.....	57
Schedule VI Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment.....	58
Schedule IX Short-term Borrowings.....	59

(b) Current Report on Form 8-K filed on August 5, 1994.

3. Exhibits

The following exhibits are filed as part of this Annual Report on Form 10-K or are incorporated herein by reference. Where an exhibit is incorporated by reference, the number which follows the description of the exhibit indicates the document to which cross reference is made (see page 22 for listing of cross reference documents).

- 2(a) Amended and Restated Agreement of Transfer and Plan of Exchange dated as of November 14, 1994 by and between Price/Costco, Inc. and Price Enterprises, Inc.
- 3(a) Restated Certificate of Incorporation of Price/Costco, Inc. (4)
- 3(b) Bylaws of Price/Costco, Inc. (9)
- 3(c) Form of Amended and Restated Bylaws of Price/Costco, Inc. to become effective as specified in the Amended and Restated Agreement of Transfer and Plan of Exchange (see Exhibit 2(a) above). (10)
- 4(a) (1) Specimen of 5 1/2% Convertible Subordinated Debenture. (1)
- 4(a) (2) Form of Indenture by and between Price and First Interstate Bank of California, as Trustee, with respect to the 5 1/2% Convertible Subordinated Debentures. (1)
- 4(a) (3) Supplemental Indenture dated as of October 21, 1993 by and among Price, PriceCostco and First Interstate Bank of California, as Trustee, with respect to the 5 1/2% Convertible Subordinated Debentures. (7)
- 4(a) (4) Supplemental Indenture dated as of October 22, 1993 by and among Price, PriceCostco and First Interstate Bank of California, as Trustee, with respect to the 5 1/2% Convertible Subordinated Debentures. (7)
- 4(a) (5) Incorporated by reference in Form 8-A filed with respect to the Registration Statement of the Company's 5 1/2% Convertible Subordinated Debentures dated December 21, 1993.
- 4(a) (6) Incorporated by reference in Form 15 with respect to the notice of termination of the Registration of Price's 5 1/2% Convertible Subordinated Debentures dated

January 3, 1994.

- 4(b) (1) Specimen of 6 3/4% Convertible Subordinated Debenture. (2)
- 4(b) (2) Form of Indenture by and between Price and First Interstate Bank of California, as Trustee, with respect to the 6 3/4% Convertible Subordinated Debentures. (2)
- 4(b) (3) Supplemental Indenture dated as of October 21, 1993 by and among Price, PriceCostco and First Interstate Bank of California, as Trustee, with respect to the 6 3/4% Convertible Subordinated Debentures. (7)

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- 4(b) (4) Supplemental Indenture dated as of October 22, 1993 by and among Price, PriceCostco and First Interstate Bank of California, as Trustee, with respect to the 6 3/4% Convertible Subordinated Debentures. (7)
- 4(b) (5) Notice and offer to purchase by PriceCostco, Inc. and The Price Company to First Interstate Bank of California, as trustee and Holders of 6 3/4% Convertible Subordinated Debentures of The Price Company. (6)
- 4(b) (6) Incorporated by reference in Form 8-A filed with respect to the Registration Statement of the Company's 6 3/4% Convertible Subordinated Debentures dated December 21, 1993.
- 4(b) (7) Incorporated by reference in Form 15 with respect to the notice of termination of the Registration of Price's 6 3/4% Convertible Subordinated Debentures dated January 3, 1994.
- 4(c) (1) Specimen of 5 3/4% Convertible Subordinated Debenture. (5)
- 4(c) (2) Copy of the form of Indenture dated as of May 15, 1992 between Costco and First Trust National Association, as Trustee. (5)
- 4(c) (3) Copy of First Supplemental Indenture dated as of October 21, 1993 between Costco, PriceCostco and First Trust National Association, as Trustee. (8)
- 4(c) (4) Incorporated by reference in Form 15 with respect to the notice of termination of the registration of Costco's 5 3/4% Convertible Subordinated Debentures dated December 21, 1993.
- 4(d) Form of Price/Costco, Inc. Stock Certificate (4)
- 10(a) The Price/Costco, Inc. 1993 Combined Stock Grant and Stock Option Plan. (4)
- 10(b) Form of Indemnification Agreement
- 10(c) Special Severance Agreement. (12)
- 10(j) (5) Agreement between The Price Company, Price Venture Mexico and Controladora Comercial Mexicana S.A. de C.V. to form a Corporate Joint Venture. (7)
- 10(z) (1) A \$250,000 Short-Term Revolving Credit Agreement among Price/Costco, Inc. and a group of fourteen banks dated January 31, 1994. (12)
- 10(z) (2) A 250,000 Extended Revolving Credit Agreement among Price/Costco, Inc. and a group of fourteen banks, dated January 31, 1994 (12)
- 10(z) (3) Revolving Credit Agreement, dated as of August 28, 1994, between Price/Costco, Inc. and Price Enterprises, Inc. (11)
- 23.1 Consent of Arthur Andersen LLP
- 23.2 Report of Ernst & Young LLP on The Price Company Fiscal 1993 Annual Report.

<FN>

- (1) Registration Statement of The Price Company on Form SE filed February 12, 1987 is hereby incorporated by reference.
- (2) Registration Statement of The Price Company on Form S-3 (File No. 33-38966) filed February 27, 1991 is hereby incorporated by reference.
- (3) Incorporated herein by reference to the identical exhibit filed as part of The Price Company's Form 10-K for the fiscal year ending August 31, 1991.
- (4) Incorporated by reference to the Registration Statement of Price/Costco, Inc. Form S-4 (File No. 33-50359) dated September 22, 1993.
- (5) Incorporated by reference to Costco's Registration Statement on Form S-3 (File No. 33-47750) filed May 22, 1992.
- (6) Incorporated by reference to Schedule 13E-4 of The Price Company and Price/Costco, Inc. filed November 4, 1993.
- (7) Incorporated by reference to the exhibits filed as part of Amendment No. 1 to the Registration Statement on Form 8-A of The Price Company.

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- (8) Incorporated by reference to the exhibits filed as part of Amendment No. 2 to the Registration Statement on Form 8-A of Costco.
- (9) Incorporated by reference to the exhibits filed as part of the Annual Report on Form 10-K/A of Price/Costco, Inc. for the fiscal year ended August 29, 1993.

- (10) Incorporated by reference to the exhibits filed as part of the Registration Statement on Form S-4 of Price Enterprises, Inc. (File No. 33-55481) filed on September 15, 1994.
- (11) Incorporated by reference to the exhibits filed as part of Amendment No. 1 to the Registration Statement on Form S-4 of Price Enterprises, Inc. (File No. 33-55481) filed on November 3, 1994.
- (12) Incorporated by reference to the exhibits filed as part of the Quarterly Report on Form 10-Q of Price/Costco, Inc. for the 12 weeks ended February 13, 1994.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

November 16, 1994

PRICE/COSTCO, INC.

(Registrant)

By /s/ RICHARD A. GALANTI

 Richard A. Galanti
 EXECUTIVE VICE PRESIDENT
 AND CHIEF FINANCIAL OFFICER

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

By /s/ JAMES D. SINEGAL November 16, 1994

 James D. Sinegal
 PRESIDENT, CHIEF EXECUTIVE OFFICER AND
 DIRECTOR

By /s/ ROBERT E. PRICE November 16, 1994

 Robert E. Price
 CHAIRMAN OF THE BOARD

By /s/ JEFFREY H. BROTMAN November 16, 1994

 Jeffrey H. Brotman
 VICE CHAIRMAN OF THE BOARD

By /s/ RICHARD A. GALANTI November 16, 1994

 Richard A. Galanti
 EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL
 OFFICER (PRINCIPAL FINANCIAL OFFICER AND
 PRINCIPAL ACCOUNTING OFFICER)

By November , 1994

 Daniel Bernard
 DIRECTOR

By /s/ RICHARD D. DICERCHIO November 16, 1994

Richard D. DiCerchio
EXECUTIVE VICE PRESIDENT
AND DIRECTOR

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By /s/ HAMILTON E. JAMES November 16, 1994

Hamilton E. James
DIRECTOR

By /s/ RICHARD M. LIBENSON November 16, 1994

Richard M. Libenson
DIRECTOR

By /s/ JOHN W. MEISENBACH November 16, 1994

John W. Meisenbach
DIRECTOR

By /s/ DUANE A. NELLES November 16, 1994

Duane A. Nelles
DIRECTOR

By /s/ PAUL A. PETERSON November 16, 1994

Paul A. Peterson
DIRECTOR

By /s/ J. PAUL KINLOCH November 16, 1994

J. Paul Kinloch
DIRECTOR

By /s/ MITCHELL G. LYNN November 16, 1994

Mitchell G. Lynn
PRESIDENT OF THE PRICE COMPANY AND DIRECTOR

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Price/Costco, Inc.:

We have audited the accompanying consolidated balance sheets of Price/Costco, Inc. (a Delaware corporation) and subsidiaries (PriceCostco) as of August 28, 1994 and August 29, 1993, and the related statements of operations, stockholders' equity and cash flows for the 52-week periods ended August 28, 1994, August 29, 1993 and August 30, 1992. These financial statements are the responsibility of PriceCostco's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of The Price Company and subsidiaries (Price), which statements reflect total assets of 52% of the consolidated totals as of August 29, 1993 and total revenues of 51% and 53% of the consolidated totals for the 52-week periods ended August 29, 1993 and August 30, 1992, respectively. Those statements were audited by other auditors whose

report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Price, is based solely on the report of the other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PriceCostco as of August 28, 1994 and August 29, 1993, and the results of its operations and its cash flows for the 52-week periods ended August 28, 1994, August 29, 1993 and August 30, 1992 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Seattle, Washington
November 14, 1994

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PRICE/COSTCO, INC.
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)
ASSETS

	AUGUST 28, 1994	AUGUST 29, 1993
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 53,638	\$ 120,227
Short-term investments and restricted cash.....	9,268	90,116
Receivables, net.....	130,278	114,828
Merchandise inventories.....	1,260,476	993,729
Deferred income taxes.....	54,717	34,901
Other current assets.....	25,921	35,233
Total current assets.....	1,534,298	1,389,034
PROPERTY AND EQUIPMENT		
Land, land rights, and land improvements.....	878,858	862,407
Buildings and leasehold improvements.....	1,091,073	880,113
Equipment and fixtures.....	523,310	433,502
Construction in progress.....	78,264	116,291
	2,571,505	2,292,313
Less -- accumulated depreciation and amortization.....	(425,109)	(325,712)
Net property and equipment.....	2,146,396	1,966,601
OTHER ASSETS.....	110,654	109,282
INVESTMENT IN PRICE CLUB MEXICO JOINT VENTURE.....	67,226	24,072
DISCONTINUED OPERATIONS -- NET ASSETS.....	377,085	441,810
	\$ 4,235,659	\$ 3,930,799
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank checks outstanding, less cash on deposit.....	\$ 6,804	\$ 18,361
Notes payable.....	149,340	23,093
Accounts payable.....	1,073,326	872,851
Accrued salaries and benefits.....	207,570	178,397
Accrued sales and other taxes.....	81,736	77,784
Income taxes payable.....	12,600	1,785
Other current liabilities.....	115,931	89,451
Total current liabilities.....	1,647,307	1,261,722
LONG-TERM DEBT.....	795,492	812,576
DEFERRED INCOME TAXES.....	65,679	51,540
OTHER LIABILITIES.....	7,442	8,233
Total liabilities.....	2,515,920	2,134,071
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST.....	34,779	--
STOCKHOLDERS' EQUITY		

Preferred stock \$.01 par value; 100,000,000 shares authorized; no shares issued and outstanding.....	--	--
Common stock \$.01 par value; 900,000,000 shares authorized; 217,795,000 and 217,074,000 shares issued and outstanding.....	2,178	2,171
Additional paid-in capital.....	582,148	571,268
Accumulated foreign currency translation.....	(42,580)	(32,293)
Retained earnings.....	1,143,214	1,255,582
Total stockholders' equity.....	1,684,960	1,796,728
	<u>\$ 4,235,659</u>	<u>\$ 3,930,799</u>

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

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PRICE/COSTCO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	52 WEEKS ENDED AUGUST 28, 1994	52 WEEKS ENDED AUGUST 29, 1993	52 WEEKS ENDED AUGUST 30, 1992
REVENUE			
Net sales.....	\$ 16,160,911	\$ 15,154,685	\$ 13,820,380
Membership fees and other.....	319,732	309,129	276,998
Total revenue.....	16,480,643	15,463,814	14,097,378
OPERATING EXPENSES			
Merchandise costs.....	14,662,891	13,751,153	12,565,463
Selling, general and administrative.....	1,425,549	1,314,660	1,128,898
Preopening expenses.....	24,564	28,172	25,595
Provision for estimated warehouse closing costs.....	7,500	5,000	2,000
Operating income.....	360,139	364,829	375,422
OTHER INCOME (EXPENSE)			
Interest expense.....	(50,472)	(46,116)	(35,525)
Interest income and other.....	13,888	17,750	28,958
Provision for merger and restructuring expenses.....	(120,000)	--	--
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES.....	203,555	336,463	368,855
Provision for income taxes.....	92,657	133,620	145,833
INCOME FROM CONTINUING OPERATIONS.....	110,898	202,843	223,022
DISCONTINUED OPERATIONS:			
Income (loss), net of tax.....	(40,766)	20,404	19,385
Loss on disposal.....	(182,500)	--	--
NET INCOME (LOSS).....	\$ (112,368)	\$ 223,247	\$ 242,407
NET INCOME (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE -- PRIMARY:			
Continuing operations.....	\$.51	\$.92	\$.98
Discontinued operations:			
Income (loss), net of tax.....	(.19)	.08	.08
Loss on disposal.....	(.83)	--	--
Net income (loss).....	\$ (.51)	\$ 1.00	\$ 1.06
FULLY DILUTED:			
Continuing operations.....	\$.51	\$.92	\$.98
Discontinued operations:			
Income (loss), net of tax.....	(.19)	.08	.08
Loss on disposal.....	(.83)	--	--
Net income (loss).....	\$ (.51)	\$ 1.00	\$ 1.06

The accompanying notes are an integral part of these statements.

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PRICE/COSTCO, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE 52 WEEKS ENDED AUGUST 28, 1994, AUGUST 29, 1993, AND AUGUST 30, 1992
(IN THOUSANDS)

ACCUMULATED

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	FOREIGN CURRENCY TRANSLATION	RETAINED EARNINGS	TOTAL
	SHARES	AMOUNT				
BALANCE AT SEPTEMBER 1, 1991.....	219,612	\$ 2,196	\$ 632,094	\$ 5,485	\$ 789,928	\$1,429,703
Stock options and warrants exercised including income tax benefits.....	2,210	22	25,828	--	--	25,850
Shares repurchased.....	(5,802)	(58)	(93,560)	--	--	(93,618)
Net income.....	--	--	--	--	242,407	242,407
Foreign currency translation adjustment.....	--	--	--	(10,399)	--	(10,399)
BALANCE AT AUGUST 30, 1992.....	216,020	2,160	564,362	(4,914)	1,032,335	1,593,943
Stock options exercised including income tax benefits.....	1,529	15	13,436	--	--	13,451
Shares repurchased.....	(475)	(4)	(6,530)	--	--	(6,534)
Net income.....	--	--	--	--	223,247	223,247
Foreign currency translation adjustment.....	--	--	--	(27,379)	--	(27,379)
BALANCE AT AUGUST 29, 1993.....	217,074	2,171	571,268	(32,293)	1,255,582	1,796,728
Stock options exercised including income tax benefits.....	748	7	11,376	--	--	11,383
Shares repurchased.....	(27)	--	(496)	--	--	(496)
Net loss.....	--	--	--	--	(112,368)	(112,368)
Foreign currency translation adjustment.....	--	--	--	(10,287)	--	(10,287)
BALANCE AT AUGUST 28, 1994.....	217,795	\$ 2,178	\$ 582,148	\$ (42,580)	\$1,143,214	\$1,684,960

The accompanying notes are an integral part of these statements.

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PRICE/COSTCO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	52 WEEKS ENDED AUGUST 28, 1994	52 WEEKS ENDED AUGUST 29, 1993	52 WEEKS ENDED AUGUST 30, 1992
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss).....	\$ (112,368)	\$ 223,247	\$ 242,407
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization.....	143,663	112,134	89,300
Net gain on sale of property and equipment and other.....	(2,192)	(18,128)	(15,324)
Provision for asset impairments.....	90,200	--	--
Loss on disposal of discontinued operations.....	182,500	--	--
Increase (decrease) in deferred income taxes.....	(41,623)	10,954	1,135
Change in receivables, other current assets, accrued expenses and other long-term liabilities.....	56,757	(25,655)	59,502
Increase in merchandise inventories.....	(271,332)	(137,855)	(150,945)
Increase in accounts payable.....	205,213	136,142	47,044
Other.....	(3,013)	(5,031)	(6,129)
Total adjustments.....	360,173	72,561	24,583
Net cash provided by operating activities.....	247,805	295,808	266,990
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment.....	(474,553)	(533,025)	(635,817)
Additions to non-club real estate investments.....	(85,628)	(60,778)	(76,638)
Proceeds from the sale of non-club real estate investments and property and equipment.....	67,867	143,548	140,707
Investment in foreign joint ventures.....	(39,795)	(21,905)	(2,690)
Decrease in short-term investments and restricted cash.....	80,848	31,018	183,093
Increase in other assets and other.....	(8,416)	(8,947)	(16,655)
Net cash used in investing activities.....	(459,677)	(450,089)	(408,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings from notes payable.....	130,344	31,845	21,018
Repayments of notes payable and long-term debt.....	(29,937)	(10,450)	(7,191)
Net proceeds from issuance of long-term debt.....	13,805	--	297,000
Changes in bank overdraft.....	(15,477)	(2,757)	7,856
Proceeds from minority partners.....	36,557	--	--
Exercise of stock options and warrants, including income tax benefit....	11,383	13,451	25,850
Repurchases of common stock.....	(496)	(6,534)	(93,618)
Net cash provided by financing activities.....	146,179	25,555	250,915
EFFECT OF EXCHANGE RATE CHANGES ON CASH.....	(896)	(5,039)	(1,277)
Net increase (decrease) in cash and cash equivalents.....	(66,589)	(133,765)	108,628
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR.....	120,227	253,992	145,364
CASH AND CASH EQUIVALENTS END OF YEAR.....	\$ 53,638	\$ 120,227	\$ 253,992

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:			
Interest (net of amount capitalized).....	\$ 50,787	\$ 44,944	\$ 29,259
Income taxes.....	\$ 97,685	\$ 149,150	\$ 143,937
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Owned property was transferred or invested as follows:			
Property and equipment.....	\$ (127,055)	\$ (68,758)	\$ 7,537
Discontinued operations -- net assets.....	127,055	72,093	1,807
Other assets.....	--	(3,335)	(9,344)

The accompanying notes are an integral part of these statements.

PRICE/COSTCO, INC.
 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 Price/Costco, Inc., a Delaware corporation, and its subsidiaries (PriceCostco or the Company). PriceCostco is a holding company which operates primarily through its major subsidiaries, The Price Company and subsidiaries (Price), and Costco Wholesale Corporation and subsidiaries (Costco). As described more fully in Note 2 -- Merger of Price and Costco, on October 21, 1993, Price and Costco became wholly-owned subsidiaries of PriceCostco.

As described more fully in "Note 3 -- Spin-off of Price Enterprises, Inc. and Discontinued Operations" the Company has treated the spin-off of its real estate operations as discontinued operations in the fourth quarter of fiscal 1994.

The Company's investment in the Mexico joint venture and in real estate joint ventures that are less than majority owned are accounted for under the equity method.

BUSINESS

The Company has operated in two reporting business segments, a cash and carry merchandising operation and as of July 1994 has discontinued its non-club real estate operations. The Company reports on a 52/53 week basis and ends on the Sunday nearest August 31st. Fiscal years 1994, 1993 and 1992 were each 52 weeks.

CASH AND CASH EQUIVALENTS

The Company considers all investments in highly liquid debt instruments maturing within 90 days when purchased as cash equivalents unless amounts are held in escrow for future property purchases or restricted by agreements.

SHORT-TERM INVESTMENTS AND RESTRICTED CASH

Short-term investments include highly liquid investments in United States and Canadian government obligations, along with other investment vehicles, some of which have maturities of three months or less at the time of purchase. The Company's policy is to classify these investments as short-term investments rather than cash equivalents if they are acquired and disposed of through its investment trading account, held for future property purchases, or restricted by agreement.

MERCHANDISE INVENTORIES

Merchandise inventories are valued at the lower of cost or market as determined primarily by the retail inventory method, and are stated using the last-in, first-out (LIFO) method for 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 \$6,650 at August 28, 1994, \$9,250 at August 29, 1993 and \$14,600 at August 30, 1992.

	AUGUST 28, 1994	AUGUST 29, 1993
	-----	-----
Merchandise inventories consist of:		
United States (primarily LIFO).....	\$ 1,089,924	\$ 869,445
Foreign (FIFO).....	170,552	124,284
	-----	-----
Total.....	\$ 1,260,476	\$ 993,729
	-----	-----

PRICE/COSTCO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

When required in the normal course of business, the Company enters into agreements securing vendor interests in inventories.

RECEIVABLES

Current receivables consist of vendor rebates and other miscellaneous amounts due to the Company, and are net of allowance for doubtful accounts of \$3,045 at August 28, 1994 and \$1,567 at August 29, 1993.

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 by 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 related to continuing operations was approximately \$7,170 in fiscal 1994, \$9,483 in fiscal 1993 and \$8,487 in fiscal 1992.

GOODWILL

Goodwill included in other assets totaled \$38,761 at August 28, 1994 and \$41,725 at August 29, 1993 resulted from certain previous business combinations. Goodwill is being amortized over 5 to 40 years using the straight-line method. Accumulated amortization was \$5,986 at August 28, 1994 and \$5,575 at August 29, 1993.

NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

The calculation of net income per common and common equivalent share for each period presented prior to the Merger reflects the issuance of 2.13 shares of PriceCostco Common Stock for each share of Price Common Stock used in such calculation and one share of PriceCostco Common Stock for each share of Costco

Common Stock used in such calculation. For fiscal 1993 and 1992, this calculation eliminates interest expense, net of income taxes, on the 5 1/2% convertible subordinated debentures (primary and fully diluted) and the 6 3/4% convertible subordinated debentures (fully diluted only), and includes the additional shares issuable upon conversion of these debentures. For fiscal 1994, the 6 3/4% and 5 1/2% convertible subordinated debentures were not dilutive for either primary or fully diluted purposes. For all periods presented, the 5 3/4% convertible subordinated debentures were not dilutive for either primary or fully diluted purposes. The weighted average number of common and common equivalent shares outstanding for primary and fully diluted share calculations for fiscal 1994, 1993 and 1992 were as follows (in thousands):

	1994	1993	1992
	-----	-----	-----
Primary.....	219,332	227,331	232,276
Fully diluted.....	219,334	240,162	245,090

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PRICE/COSTCO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
PREOPENING EXPENSES

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

MEMBERSHIP FEES

Membership fee revenue represents annual membership fees paid by substantially all of the Company's members. In accordance with industry practice, annual membership fees are recognized as income when received.

FOREIGN CURRENCY TRANSLATION

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

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.

RECLASSIFICATIONS

Certain reclassifications of expenses between merchandise costs and selling, general and administrative expenses have been reflected in the financial statements in order to conform the presentations of the combined entities.

NOTE 2 -- MERGER OF PRICE AND COSTCO

On October 21, 1993, the shareholders of both Price and Costco approved the mergers of Price and Costco into subsidiaries of PriceCostco (the Merger). Pursuant to the Merger, Price and Costco became subsidiaries of PriceCostco. Shareholders of Price received 2.13 shares of PriceCostco common stock for each share of Price common stock and shareholders of Costco received one share of PriceCostco common stock for each share of Costco.

The Merger qualified as a "pooling-of-interests" for accounting and financial reporting purposes. The pooling-of-interests method of accounting is intended to present as a single interest two or more common shareholder interests which were previously independent. Consequently, the historical financial statements for periods prior to the consummation of the combination were restated as though the companies had been combined. The restated financial statements were adjusted to conform the accounting policies of the separate companies.

All fees and expenses related to the Merger and to the consolidation and restructuring of the combined companies were expensed as required under the pooling-of-interests accounting method. In the first quarter of fiscal 1994, the Company recorded a provision for merger and restructuring costs of \$120,000 pre-tax (\$80,000 after tax) related to the Merger.

PRICE/COSTCO, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 2 -- MERGER OF PRICE AND COSTCO (CONTINUED)

Components of the \$120,000 provision for merger and restructuring expenses, including amounts expended in Fiscal 1994 and the remaining accrual related to completing the merger and restructuring effort at August 28, 1994, are as follows:

	FISCAL 1994 AMOUNTS EXPENDED	ESTIMATE TO COMPLETE
	-----	-----
Direct transaction expenses including investment banking, legal, accounting, printing, filing and other professional fees.....	\$ 24,548	\$ --
Cost of closing eight operating warehouses including property write-downs, severance, future lease costs, and other closing expenses; write-downs of abandoned warehouse projects and restructuring of redundant international expansion efforts.....	24,948	--
Costs of consolidating central administrative functions including information systems, accounting, merchandising and human resources and costs associated with restructuring regional and warehouse support activities including merchandise re-alignment and distribution, all of which is expected to be completed in fiscal 1995.....	30,178	8,822
Costs of converting management information systems, primarily merchandising, operating, and membership systems in fiscal 1994 and planned conversion of payroll, sales audit, and other systems in fiscal 1995.....	13,904	7,096
Other expenses.....	9,224	1,280
	-----	-----
Total.....	\$ 102,802	\$ 17,198
	-----	-----

PRICE/COSTCO, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 2 -- MERGER OF PRICE AND COSTCO (CONTINUED)

The following summarizes amounts reported by Price and Costco prior to the Merger for fiscal 1994, 1993 and 1992.

	CONTINUING OPERATIONS			INCOME (LOSS) FROM DISCONTINUED OPERATIONS
	NET SALES	MEMBERSHIP FEES AND OTHER	INCOME	
	-----	-----	-----	-----
Fiscal 1994				
Price (8 weeks prior to the Merger).....	\$ 1,092,891	\$ 28,525	\$ 10,145	\$ 3,092
Costco (8 weeks prior to the Merger).....	1,204,765	23,818	9,301	--

PriceCostco (44 weeks after the Merger).....	13,863,255	267,389	91,452	(43,858)
Combined.....	\$16,160,911	\$319,732	\$ 110,898 (a)	\$ (40,766) (b)
Fiscal 1993				
Price.....	\$ 7,648,470	\$165,960	\$ 93,410	\$ 20,404
Costco.....	7,506,215	143,169	109,433	--
Combined.....	\$15,154,685	\$309,129	\$ 202,843	\$ 20,404
Fiscal 1992				
Price.....	\$ 7,320,187	\$156,428	\$ 109,727	\$ 19,385
Costco.....	6,500,193	120,570	113,295	--
Combined.....	\$13,820,380	\$276,998	\$ 223,022	\$ 19,385

<FN>

- (a) Income from continuing operations in fiscal 1994 includes the provision for merger and restructuring expenses of \$120,000 pre-tax (\$80,000 after tax).
- (b) Loss from discontinued operations in fiscal 1994 includes a provision for asset impairments of \$80,500 pre-tax (\$47,500 after-tax) related to the change in accounting estimates (see "Note 3 -- Spin-off of Price Enterprises, Inc. and Discontinued Operations").

NOTE 3 -- SPIN-OFF OF PRICE ENTERPRISES, INC. AND DISCONTINUED OPERATIONS

SPIN-OFF OF PRICE ENTERPRISES, INC.

On July 28, 1994, PriceCostco entered into an Agreement of Transfer and Plan of Exchange (as amended and restated, the Transfer and Exchange Agreement) with Price Enterprises, Inc. (Price Enterprises). Price Enterprises is an indirect, wholly-owned subsidiary of PriceCostco, formed in July 1994. The transactions contemplated by the Transfer and Exchange Agreement are referred to herein as the "Exchange Transaction."

Pursuant to the Transfer and Exchange Agreement, PriceCostco will offer to exchange one share of Price Enterprises Common Stock for each share of PriceCostco Common Stock, up to a maximum of 27 million shares of Price Enterprises Common Stock (the Exchange Offer). If more than 27 million shares of PriceCostco Common Stock are validly tendered and not withdrawn in the Exchange Offer prior to the expiration thereof, then PriceCostco will accept 27 million shares on a pro rata basis and shares of Price Enterprises Common Stock will be exchanged therefor. If the number of shares of PriceCostco Common Stock validly tendered in the Exchange Offer by holders of PriceCostco Common Stock is less than 21.6 million, PriceCostco will accept such validly tendered shares for exchange and will distribute the remaining shares of Price Enterprises Common Stock pro rata to PriceCostco.

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PRICE/COSTCO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3 -- SPIN-OFF OF PRICE ENTERPRISES, INC. AND DISCONTINUED OPERATIONS (CONTINUED)

stockholders. If the number of shares of PriceCostco Common Stock validly tendered in the Exchange Offer by holders of PriceCostco Common Stock is greater than 21.6 million, but less than 27 million, PriceCostco will accept such validly tendered shares for exchange and will, at its option, either (i) distribute the remaining shares of Price Enterprises Common Stock pro rata to PriceCostco stockholders or (ii) sell such remaining shares to Price Enterprises in exchange for a promissory note.

The following real estate related assets have been or will be transferred to Price Enterprises:

- Substantially all of the real estate properties which historically formed the non-club real estate segment of PriceCostco.
- Four existing Price Club warehouses ("Warehouse Properties") which are adjacent to existing non-club real estate properties which are being

leased back to PriceCostco effective August 29, 1994, at initial collective annual rentals of approximately \$8,600.

- Notes receivable from various municipalities and agencies ("City Notes").
- Note receivable in the principal amount of \$41,000 made by Atlas Hotels, Inc., secured by a hotel and convention center property located in San Diego, California ("Atlas Note").

In addition, PriceCostco agreed to transfer to Price Enterprises 51% of the outstanding capital stock of two newly formed, wholly owned subsidiaries of the Company: Price Quest, Inc. (Price Quest) and Price Global Trading, Inc. (Price Global), Price and Price Enterprises also own 49% and 51% interests, respectively, in Mexico Clubs, L.L.C., a limited liability company (Mexico Clubs, which together with Price Quest and Price Global comprise the Subsidiary Corporations).

Mexico Clubs will own the Company's 50% interest in Price Club de Mexico and affiliates (Price Club Mexico), a 50-50 joint venture with Controladora Comercial Mexicana S.A. de C.V., which develops, owns and operates Price Clubs in Mexico. The investment in Price Club Mexico is accounted for under the equity method. At August 28, 1994, eight Price Clubs were in operation in Mexico. The Company owns a 49% interest in Mexico Clubs.

Price Quest will continue to operate the Quest interactive electronic shopping business of PriceCostco. The Quest business includes electronic shopping through kiosks located in certain PriceCostco club warehouses; Price Club Travel, which offers discount airline tickets and travel packages to PriceCostco members; Price Club Realty, a real estate brokerage business for PriceCostco members; and the Price Club automobile referral/advertising program, which publishes advertisements for automobile dealers who provide discount purchasing programs to PriceCostco members in the vicinity of certain PriceCostco warehouse clubs. The Company owns 49% of the capital stock of Price Quest.

Price Global has the rights to develop club businesses in certain geographical areas specified in the Transfer and Exchange Agreement and owns 100% of the outstanding shares of Club Merchandising, Inc. (CMI), which was acquired by the Company in March 1992. The Company owns 49% of the capital stock of Price Global.

For purposes of governing the ongoing relationships between PriceCostco, Price Enterprises, and the Subsidiary Corporations, PriceCostco and Price, on the one hand, and Price Enterprises and the Subsidiary Corporations, on the other, have entered into operating agreements. PriceCostco and Price, on the one hand, and Price Enterprises and each of Price Global and Price Quest, on the other, have entered into stockholders agreements to clarify certain rights and obligation of PriceCostco and Price Enterprises as stockholders of Price Global and Price Quest. Price and Price Enterprises have

PRICE/COSTCO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3 -- SPIN-OFF OF PRICE ENTERPRISES, INC. AND DISCONTINUED OPERATIONS (CONTINUED)

entered into a Limited Liability Company Agreement with respect to Mexico Clubs that sets forth the rights and obligations of each of Price and Price Enterprises with respect to its membership interest in Mexico Clubs. PriceCostco and Price Enterprises have entered into an unsecured revolving credit agreement under which PriceCostco has agreed to advance Price Enterprises up to a maximum principal amount of \$85 million (reduced by the net proceeds from the sale of certain commercial properties).

DISCONTINUED OPERATIONS

Historically, the Company has treated non-club real estate investments as a separate reportable business segment. The primary assets generating operating income for the segment have been non-club real estate properties, consisting of property owned directly and property owned by real estate joint venture partnerships in which the Company has a controlling interest. Real estate joint ventures relate to real estate partnerships that are less than majority owned. In fiscal 1994, the Atlas Note was purchased and the related interest income has been included in the non-club real estate segment.

Additionally, the Warehouse Properties, and City Notes transferred to Price Enterprises as of August 28, 1994 have been included in the net assets of the discontinued operations as of August 28, 1994 and August 29, 1993, in the accompanying consolidated balance sheets. However, the operating expenses of the Warehouse Properties and the interest income on the City Notes have not been included in the real estate segment operating results because historically these amounts have been included as part of merchandising operations and other income. The operating results and net assets of the Subsidiary Corporations transferred to Price Enterprises are included in continuing operations because they were not related to the discontinued real estate operations.

DISCONTINUED OPERATIONS -- NET ASSETS

Net assets related to discontinued real estate operations as shown on the consolidated balance sheets at August 28, 1994 and August 29, 1993 consist of the following:

	1994	1993
	-----	-----
Non-Club Real Estate properties, net of accumulated depreciation.....	\$ 351,958	\$ 323,922
Real Estate joint ventures.....	--	10,569
Warehouse Properties, net of accumulated depreciation.....	91,415	65,081
City and Atlas Notes.....	73,023	49,638
Other assets.....	8,672	5,281
Deferred tax assets (liabilities).....	23,282	(12,681)
Liabilities.....	(4,015)	--
	-----	-----
	544,335	441,810
Less: Reserve for estimated loss on disposal -- see "Estimated loss" below...	(167,250)	--
	-----	-----
Discontinued operations -- net assets.....	\$ 377,085	\$ 441,810
	-----	-----

PRICE/COSTCO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3 -- SPIN-OFF OF PRICE ENTERPRISES, INC. AND DISCONTINUED OPERATIONS (CONTINUED)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS

Components of net income (loss) from discontinued operations for fiscal 1994, 1993 and 1992 were as follows:

	1994	1993	1992
	-----	-----	-----
Real estate rentals.....	\$ 29,753	\$ 22,802	\$ 27,263
Operating expenses.....	(17,158)	(10,457)	(10,803)
Gains on sale of non-club real estate properties.....	6,135	21,500	15,600
Provision for asset impairments (including a change in estimate related to the Exchange Transaction).....	(90,200)	--	--
	-----	-----	-----
Operating income (loss).....	(71,470)	33,845	32,060
Interest income.....	2,319	--	--
Provision (benefit) for income taxes.....	(28,385)	13,441	12,675

Net income (loss).....	\$ (40,766)	\$ 20,404	\$ 19,385
------------------------	-------------	-----------	-----------

PROVISION FOR ASSET IMPAIRMENTS

The loss on discontinued real estate operations includes a provision of \$90,200 of which \$80,500 (\$47,500 after tax) relates to a change in calculating estimated losses for assets which are economically impaired. This change in accounting estimates results from the spin-off of the real estate segment assets into Price Enterprises and Price Enterprises' decision to pursue business plans and operating strategies as a stand-alone entity which are significantly different than the previous strategies of the Company. Price Enterprises' management believes that as a separate operating business it will not have the same access to capital as the Company or generate internal funds from operations to the same extent as the Company.

PriceCostco's accounting policies with respect to estimating the amount of impairments on individual real estate properties and related assets were such that impairment losses would be recorded if the carrying amount of the asset could not be recovered from estimated future cash flows on an undiscounted basis. Price Enterprises' management believes that in view of its strategies with respect to the number and nature of properties that would be selected for disposition, it would be more appropriate to estimate impairment losses based on fair values of the real estate properties as determined by appraisals and/or a risk-adjusted discounted cash flow approach. In determining impairment losses, individual real estate assets were reduced to estimated fair value, if lower than historical cost. For those assets which have an estimated fair value in excess of cost, the asset continues to be recorded at cost. The impairment losses recorded as a result of this change in accounting estimates reduced the book basis of certain of the real estate and related assets.

Under the previous policy, PriceCostco and Price Enterprise had determined that a provision for asset impairments of approximately \$9,700 was required relating to four properties which were under contract or in final negotiations for sale.

GAINS ON SALE OF NON-CLUB REAL ESTATE PROPERTIES

During fiscal 1994, the Company entered into a transaction with The Price REIT, Inc. (REIT). On October 1, 1993, the Company sold a single shopping center and adjacent Price Club (which is being leased back to the Company) for \$28,200. The Company recorded a \$4,210 pre-tax gain in connection with this sale.

PRICE/COSTCO, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3 -- SPIN-OFF OF PRICE ENTERPRISES, INC. AND DISCONTINUED OPERATIONS (CONTINUED)

During fiscal 1993, the Company entered into two transactions with the REIT:

(a) On December 18, 1992, the Company sold a former Price Club property for \$14,350. The Company recorded a pre-tax gain of \$6,710 in connection with this sale.

(b) On August 12, 1993, the Company sold three shopping centers and adjacent Price Clubs (which are being leased back to the Company) and its 49.6% interest in a joint venture which owns five shopping centers, for which the Company received proceeds of approximately \$117,000 and recognized a \$14,320 pre-tax gain.

During fiscal 1992, the Company entered into two transactions with the REIT:

(a) On December 1, 1991 the Company entered into a sale and leaseback

transaction, under which four Price Clubs were sold to the REIT for \$26,700 and leased back for annual rentals of \$2,470, increasing \$27 each year. The master lease has an initial term of 15 years with seven five-year renewal options. Additionally, the Company sold a 50.4% interest in five shopping centers, four of which are adjacent to the Price Clubs involved in the sale-leaseback. The Company agreed, for a specified period, to subordinate its portion of the operational cash flow of the joint venture to allow the REIT shareholders to receive a specified return on their investment (9% the first year, increasing to 9.5% in year five). The Company recorded a pretax gain of \$4,400 in connection with this sale.

(b) On April 29, 1992, the Company sold two shopping centers and one Price Club adjacent to one of the shopping centers for \$62,500. The Price Club is being leased back from the REIT for annual rentals of \$370, increasing \$4 per year, with an initial term of 15 years and seven five-year renewal options. The Company recorded a pre-tax gain of \$11,200 in connection with this sale.

For the real estate transactions referred to above, no gains were recognized for the portion of the sales involving Price Club warehouses which are being leased back.

ESTIMATED LOSS ON DISPOSAL AND SUBSEQUENT ADJUSTMENT

In the fourth quarter of fiscal 1994, the Company recorded an estimated loss on disposal of its discontinued operations (the non-club real estate segment) as a result of entering into the Transfer and Exchange Agreement. While the Exchange Transaction is not expected to be completed until December 1994, the Company determined that the Exchange Transaction will, in all likelihood, result in a significant loss for financial reporting purposes and that there is a reasonable basis for estimating the loss. The actual loss for financial reporting purposes will be determined following consummation of the Exchange Transaction. Such loss will be the product of: (a) the difference between the book value per share of the assets transferred to Price Enterprises (at historical cost), and the fair market value per share; and (b) the actual number of shares exchanged. The loss also includes the direct expenses related to the Exchange Transaction. For purposes of recording such estimated loss, the Company assumed that (i) the Exchange Offer would be fully subscribed, (ii) a per share price of Price Enterprises Common Stock of \$15.25 (the closing sales price of PriceCostco Common Stock on October 24, 1994) and (iii) direct expenses and other costs related to the Exchange Transaction of approximately \$15,250.

PRICE/COSTCO, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3 -- SPIN-OFF OF PRICE ENTERPRISES, INC. AND DISCONTINUED OPERATIONS (CONTINUED)

The following table explains how the estimated loss was computed:

Book value of net assets transferred to Price Enterprises.....	\$ 579,000
Estimated market value of Price Enterprises stock \$15.25 x 27 million shares.....	(411,750)

	167,250
Transaction and other costs.....	15,250

	\$ 182,500

The book value of the assets transferred to Price Enterprises (approximately

\$21 per share of Price Enterprises stock), reflects a provision for asset impairments of \$80,500 recorded as a change in accounting estimate in the fourth quarter of fiscal 1994.

The approximate \$6 per share difference between the \$21 book value per share of Price Enterprises and the assumed per share price of Price Enterprises is attributable to a combination of factors. These factors include an expectation that Price Enterprises' stock may trade at a discount from its book value (although the prices at which shares of Price Enterprises will trade cannot be predicted).

In making its determination to approve the Exchange Transaction, one of the factors considered by the Board of Directors of the Company was a range of illustrative high and low per share values for Price Enterprises and the implied per share premium in the Exchange Offer based on such illustrative values as compared to the per share price of PriceCostco common stock at July 14, 1994 of \$14.75 (assuming 27 million shares of Price Enterprises common stock outstanding and a one-for-one exchange ratio). While believing that some premium to tendering stockholders is included in the exchange ratio, the Board did not quantify any such premium, recognizing that it could not quantify any such premium since the range of prices at which Price Enterprises Common Stock may trade cannot be predicted. If any such premium could be objectively measured, it would be accounted for as a cost of the treasury shares to be acquired by the Company. Since any premium cannot be objectively measured, the Company believes that it is appropriate in the circumstances to include any premium as part of the estimated loss on the disposal of the non-club real estate segment, recognizing that the amount of the loss is subject to revision after the Exchange Offer closes.

As indicated above, the estimated loss was determined assuming that the Exchange Offer would be fully subscribed. Any subsequent adjustment to the estimated loss will be affected by the extent to which the Exchange Offer is subscribed. If the Exchange Offer is at least 80% subscribed and PriceCostco elects to sell the unsubscribed shares to Price Enterprises for a note, the loss on the Transaction will be the same as if it were fully subscribed. Any unsubscribed shares distributed to stockholders pro rata will be excluded from the loss determination and accounted for as a dividend. The dividend will be measured by the book value per share of Price Enterprises shares distributed and will be charged directly to retained earnings. Furthermore, to the extent that the Price Enterprises' fair market value per share differs from the estimated share price used above, the per share difference times the number of shares exchanged will be reclassified from the loss on disposal reflected in the income statement and included in the cost of the Company's treasury shares acquired. In measuring the actual loss on the Exchange Transaction, PriceCostco expects to measure the fair market value of Price Enterprises' stock based on the average closing sales price of Price Enterprises Common Stock during the 20 trading days commencing on the sixth trading day following the closing of the Exchange Offer. However, other factors may also need to be considered in making the final determination.

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PRICE/COSTCO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3 -- SPIN-OFF OF PRICE ENTERPRISES, INC. AND DISCONTINUED OPERATIONS (CONTINUED)

If the Exchange Offer is at least 80% subscribed and PriceCostco decides to sell the unsubscribed shares to Price Enterprises in exchange for a note, the loss on the Transaction will be the same as if it were fully subscribed. Otherwise, the actual loss will be reduced by approximately \$6 per share. The actual loss determination will also be affected by the fair market price of Price Enterprises stock. The fair market value of Price Enterprises stock will be used to measure the cost per share of each PriceCostco share acquired in the Exchange Offer. For each dollar per share difference in Price Enterprises' stock value from the \$15.25 amount used for purposes of estimating the loss, the actual loss will change by one dollar for every share exchanged. An increase in

Price Enterprises' stock value would reduce the amount of the loss, while a decrease in Price Enterprises' stock value would cause the loss to be greater.

Determination of the actual loss will not affect PriceCostco's pro forma balance sheet, because any change in the amount of the loss on disposal, as it is ultimately measured, will result in an offsetting change in stockholders' equity, either as dividends, as an adjustment to the cost of treasury shares being acquired, or both.

UNAUDITED PRO FORMA CONDENSED INFORMATION

The following unaudited pro forma condensed balance sheet of PriceCostco as of August 28, 1994 reflects the unaudited pro forma adjustments of the Exchange Transaction as if it had occurred on August 28, 1994 regardless of the ultimate treatment of the estimated loss on disposal as discussed above:

	HISTORICAL	PRO FORMA ADJUSTMENTS (A)	PRO FORMA
ASSETS			
Current assets.....	\$ 1,534,298	\$ (2,678)	\$ 1,531,620
Property and equipment, net.....	2,146,396	(4,014)	2,142,382
Discontinued operations -- net assets.....	377,085	(377,085)	--
Investment in Price Club Mexico.....	67,226	(34,285)	32,941
Other assets.....	110,654	2,585	113,239
Total assets.....	\$ 4,235,659	\$ (415,477)	\$ 3,820,182
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities.....	\$ 1,647,307	\$ (3,727)	\$ 1,643,580
Long-term debt.....	795,492	--	795,492
Deferred income taxes and other.....	73,121	--	73,121
Minority interests.....	34,779	--	34,779
Stockholders' equity.....	1,684,960	(411,750)	1,273,210
Total liabilities and stockholders equity.....	\$ 4,235,659	\$ (415,477)	\$ 3,820,182

<FN>

(a) The unaudited pro forma adjustments to the condensed balance sheet reflect the elimination of net assets of Price Enterprises including the discontinued operations net assets and the net assets of the Subsidiary Corporations.

Pro forma net income from continuing operations was reduced by \$2,580 or \$.01 per share for the net effect of assets transferred in the Exchange Transaction which were not accounted for as part of discontinued operations. This net effect was caused by rent expense on the Warehouse Properties, income on the City Notes, and equity in earnings of Price Club Mexico, which was offset by the losses on certain merchandising operations.

PRICE/COSTCO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 4 -- DEBT

BANK LINES OF CREDIT

The company has a domestic multiple option loan facility with a group of 14 banks which provides for borrowings of up to \$500,000 or for standby support for a \$500,000 commercial paper program. Of this amount, \$250,000 expires on January 30, 1995, and \$250,000 expires on January 30, 1998. The interest rate on bank borrowings is based on LIBOR or rates bid at auction by the participating banks. Notes payable at August 28, 1994, in the accompanying balance sheet consist of amounts outstanding under the Company's commercial paper program. The Company expects to renew the \$250,000 portion of the loan facility expiring on January 30, 1995, at substantially the same terms.

In addition, the Company's wholly-owned Canadian subsidiary has a \$65,800

line of credit with a group of three Canadian banks of which \$29,200 expires on December 1, 1994 (the short-term portion) and \$36,600 expires in various amounts through December 1, 1996 (the long-term portion). The interest rate on borrowings is based on the prime rate or the "Bankers' Acceptance" rate. At August 28, 1994, no amounts were outstanding under these programs. The Company expects to renew the \$29,200 short-term portion of the line of credit expiring on December 1, 1994, at substantially the same terms.

The Company has separate letter of credit facilities (for commercial and standby letters of credit), totaling approximately \$193,000. The outstanding commitments under these facilities at August 28, 1994 were approximately \$118,000 including approximately \$53,000 in standby letters for workers' compensation requirements.

LONG-TERM DEBT

Long-term debt at August 28, 1994 and August 29, 1993 consists of:

	1994	1993
5 3/4% Convertible subordinated debentures due May 15, 2002.....	\$ 300,000	\$ 300,000
6 3/4% Convertible subordinated debentures due March 1, 2001.....	285,079	287,500
5 1/2% Convertible subordinated debentures due February 28, 2012.....	179,338	179,338
Notes payable secured by trust deeds on real estate.....	31,235	39,853
Banker's Acceptances and other.....	6,266	10,177
	801,918	816,868
Less current portion (included in other current liabilities).....	6,426	4,292
Total long-term debt.....	\$ 795,492	\$ 812,576

Effective upon consummation of the Merger, PriceCostco became a co-obligor under each of the convertible subordinated debentures originally issued by Price and Costco. These debentures are convertible into shares of PriceCostco. Conversion rates of Price subordinated debentures have been adjusted for the exchange ratio pursuant to the Merger.

During the fourth quarter of fiscal 1992, Costco completed an offering of \$300,000 5 3/4% convertible subordinated debentures due 2002, which are convertible at any time prior to maturity, unless previously redeemed, into shares of PriceCostco common stock at a conversion price of \$41.25 per share, subject to adjustment in certain events. Interest on the debentures is payable semiannually on November 15 and May 15. Commencing on June 1, 1995, these debentures are redeemable at the option of the Company, in whole or in part, at certain redemption prices.

In fiscal 1991, Price issued \$287,500 6 3/4% convertible subordinated debentures, which are convertible into shares of PriceCostco common stock at any time on or before March 1, 2001, unless

PRICE/COSTCO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 4 -- DEBT (CONTINUED)

previously redeemed, at a conversion price of \$22.54 per share, subject to adjustment in certain events. The 6 3/4% debentures are unsecured and interest is payable semiannually on March 1 and September 1. The debentures are redeemable at the option of the Company after March 1, 1994 at certain redemption prices. On November 4, 1993 notice was given to the 6 3/4% convertible debenture holders that their option to redeem the debentures, for cash equal to the principal amount plus accrued interest, in the event of a change of control of Price was effective as a result of the Merger and that

holders had until December 6, 1993 to exercise such options. Approximately \$2,421 of debentures were purchased at their face value subsequent to November 21, 1993.

PriceCostco also has outstanding 5 1/2% convertible subordinated debentures are convertible into shares of PriceCostco common stock at a conversion price of \$23.77 per share, subject to adjustment in certain events. The 5 1/2% debentures provide for payments to an annual sinking fund in the amount of 5% of the original principal amount (\$10,000), commencing February 28, 1998, calculated to retire 70% of the principal amount prior to maturity. During fiscal 1990, the Company repurchased \$20,597 of the debentures for a total cost of \$17,507, resulting in a gain of approximately \$2,900 and will apply this purchase to the initial sinking fund payments. The debentures are unsecured and interest is payable semiannually on February 28 and August 31.

Due to the Exchange Offer, the possibility exists for a downward adjustment in the conversion price of each of the debentures. Such adjustment could occur in the event that (i) less than 21.6 million shares of PriceCostco common stock are validly tendered in the Exchange Offer and the Company distributes the remaining Price Enterprises shares pro rata to all PriceCostco stockholders or (ii) at least 21.6 million shares of PriceCostco common stock, but less than 27 million shares, are validly tendered, and the Company elects to make a pro rata distribution of the remaining shares to all PriceCostco stockholders.

At August 28, 1994, the fair values of the 5 3/4%, 6 3/4% and 5 1/2% convertible subordinated debentures, based on current market quotes, were approximately \$255,000, \$278,000 and \$154,000 respectively. Early retirement of these debentures would result in the Company paying a call premium.

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

1995.....	\$ 6,426
1996.....	2,023
1997.....	5,643
1998.....	1,577
1999.....	1,738
Thereafter.....	784,511

Total.....	\$ 801,918

NOTE 5 -- LEASES

The Company leases land and/or warehouse buildings at 47 warehouses open at August 28, 1994 and certain other office and distribution facilities under operating leases with remaining terms ranging from 2 to 30 years. These leases generally contain one or more of the following options which the Company can exercise at the end of the initial lease term: (a) renewal of the lease for a defined number of years at the then fair market rental rate; (b) purchase of the property at the then fair market value; (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

NOTE 5 -- LEASES (CONTINUED)

been material. Additionally, the Company leases certain equipment and fixtures

under short-term operating leases which 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 1994, 1993 and 1992 was \$44,900, \$38,700 and \$33,680, respectively. Future minimum payments (including annual rents on the four Warehouse Properties discussed in Note 3) during the next five fiscal years and thereafter under noncancelable leases with terms in excess of one year, at August 28, 1994, were as follows:

1995.....	\$ 54,293
1996.....	52,409
1997.....	50,257
1998.....	48,172
1999.....	46,584
Thereafter.....	538,808

Total minimum payments.....	\$ 790,523

NOTE 6 -- STOCK OPTIONS AND WARRANTS

Prior to the Merger, Price and Costco adopted various incentive and non-qualified stock option plans which allowed certain key employees and directors to purchase or be granted common stock of Price and Costco (collectively the Old Stock Option Plans). Options were granted for a maximum term of ten years, and were exercisable as they vest. Options granted under these plans generally vest ratably over five to nine years. Subsequent to the Merger, new grants of options are not being made under the Old Stock Option Plans.

Stock option transactions relating to the Old Stock Option Plans are summarized below:

	STOCK OPTIONS	RANGE OF EXERCISE PRICE PER SHARE
	-----	-----
Under option at August 30, 1992.....	12,882	\$.17 - \$40.17
Granted.....	2,295	15.38 - 26.63
Exercised.....	(1,538)	.17 - 19.67
Cancelled.....	(735)	5.67 - 40.17

Under option at August 29, 1993.....	12,904	.17 - 40.17
Granted.....	68	18.00
Exercised.....	(748)	1.46 - 19.00
Cancelled.....	(507)	5.67 - 40.17

Under option at August 28, 1994.....	11,717	.17 - 40.17

Options exercisable at August 28, 1994.....	6,765	

PRICE/COSTCO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 6 -- STOCK OPTIONS AND WARRANTS (CONTINUED)

The PriceCostco 1993 Combined Stock Grant and Stock Option Plan (the New Stock Option Plan) provides for the issuance of up to 10 million shares of the Company's common stock pursuant to the exercise of stock options or up to

1,666,666 through stock grants. Stock option and grant transactions relating to the New Stock Option Plan are summarized below:

	STOCK OPTIONS	STOCK GRANTS	RANGE OF EXERCISE PRICE PER SHARE
Under option at August 29, 1993.....	--	--	\$ --
Granted.....	3,252	--	14.00 - 19.00
Exercised.....	--	--	--
Cancelled.....	(278)	--	14.00 - 19.00
	----	--	
Under option at August 28, 1994.....	2,974	--	14.00 - 19.00
	----	--	
	----	--	
Options exercisable at August 28, 1994.....	32	--	
	----	--	
	----	--	

In 1986 and 1987, Price granted warrants to purchase a total of 1,065,000 shares of common stock at \$17.37 per share to a joint venture partner. The warrants granted in 1987 vested over a five year period from the date of issuance and are exercisable up to eight years and one month from the grant date. A total of 532,500 warrants have been exercised.

NOTE 7 -- RETIREMENT PLANS

The Company has a defined contribution retirement plan for all United States employees of Price except California union employees on whose behalf contributions are made to the Western Conference of Teamsters Pension Trust Fund. Contributions to such retirement plan totaled \$11,018, \$10,665 and \$9,375 for fiscal 1994, 1993 and 1992, respectively. Contributions to the Teamsters Pension Trust Fund were \$11,293, \$11,588 and \$11,196 for fiscal 1994, 1993 and 1992, respectively. During fiscal 1992, a 401(k) Plan was established for all Price employees eligible for the retirement plan. The Company matches 50% of eligible employee contributions up to a maximum Company contribution per employee per year. Contributions to the 401(k) Plan were \$971, \$752 and \$650 in fiscal 1994, 1993 and 1992, respectively. The Company has a defined contribution plan for Canadian Price employees and contributes a percentage of each employee's salary. Contributions were \$1,884, \$1,640 and \$1,331 in fiscal 1994, 1993 and 1992, respectively.

The Company has a 401(k) retirement plan for the benefit of all Costco employees. After one year of service, an employee is eligible to participate in this plan. Employee contributions are matched 10% by the Company until the employee has completed five years of service, at which time the matching contribution increases to 25%. Contributions were \$2,677, \$1,964 and \$1,515 in fiscal 1994, 1993 and 1992, respectively.

PRICE/COSTCO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 8 -- INCOME TAXES

The provisions for income taxes from continuing operations for fiscal 1994, 1993 and 1992 are as follows:

	1994	1993	1992
Federal:			
Current.....	\$ 64,721	\$ 87,933	\$ 102,043
Deferred.....	(5,920)	6,924	127
Total federal.....	58,801	94,857	102,170

State:			
Current.....	15,402	20,149	24,531
Deferred.....	(963)	2,321	438
	-----	-----	-----
Total state.....	14,439	22,470	24,969
Foreign:			
Current.....	18,211	14,639	19,314
Deferred.....	1,206	1,654	(620)
	-----	-----	-----
Total foreign.....	19,417	16,293	18,694
	-----	-----	-----
Total provision for income taxes.....	\$ 92,657	\$ 133,620	\$ 145,833
	-----	-----	-----

A reconciliation between the statutory tax rate and the effective rate from continuing operations for fiscal 1994, 1993 and 1992 is as follows:

	1994		1993		1992	
	-----	-----	-----	-----	-----	-----
Federal taxes at statutory rate.....	\$ 71,244	35.0%	\$ 116,652	34.7%	\$ 125,411	34.0%
State taxes, net.....	8,753	4.3	15,141	4.5	17,336	4.7
Foreign taxes, net.....	1,074	0.5	1,878	0.6	3,377	0.9
Increase in deferred income taxes due to statutory rate change.....	--	--	600	0.2	--	--
Other.....	2,386	1.2	(651)	(.3)	(291)	(0.1)
Tax effect of merger-related expenses....	9,200	4.5	--	--	--	--
	-----	-----	-----	-----	-----	-----
Provision at effective tax rate.....	\$ 92,657	45.5 %	\$ 133,620	39.7 %	\$ 145,833	39.5 %
	-----	-----	-----	-----	-----	-----

The components of the deferred tax assets and liabilities related to continuing operations are as follows:

	AUGUST 28, 1994	AUGUST 29, 1993
	-----	-----
Accrued liabilities.....	\$ 75,697	\$ 60,613
Other.....	6,145	4,356
	-----	-----
Total deferred tax assets.....	81,842	64,969
Property and equipment.....	66,118	61,589
Merchandise inventories.....	21,199	11,684
Other.....	5,487	8,335
	-----	-----
Total deferred tax liabilities.....	92,804	81,608
	-----	-----
Net deferred tax liabilities.....	\$ 10,962	\$ 16,639
	-----	-----

PRICE/COSTCO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 8 -- INCOME TAXES (CONTINUED)

The net deferred tax liabilities at August 28, 1994 and August 29, 1993 include current deferred income tax assets of \$54,717 and \$34,901, respectively, and non-current deferred income tax liabilities of \$65,679 and \$51,540, respectively.

NOTE 9 -- COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

On April 6, 1992, Price was served with a complaint in an action entitled FECHT ET AL. V. THE PRICE COMPANY ET AL., Case No. 92-497, United States

District Court, Southern District of California (the Court). Subsequently on April 22, 1992, Price was served with a first amended complaint in the action. The case was dismissed without prejudice by the Court on September 21, 1992, on the grounds the plaintiffs had failed to state a sufficient claim against defendants. Subsequently, plaintiffs filed a Second Amended Complaint which, in the opinion of Price's counsel, alleged substantially the same facts as the prior complaint. The case was dismissed with prejudice by the Court on March 9, 1993, on grounds the plaintiffs had failed to state a sufficient claim against defendants. Plaintiffs have filed a Notice of Appeal in the Ninth Circuit Court of Appeals, which was argued on October 4, 1994. The Company is currently awaiting a Ninth Circuit Court of Appeals decision. If the Ninth Circuit Court of Appeals renders a decision that is adverse to the Company, the Company intends to vigorously defend the suit. The Company does not believe that the ultimate outcome of such litigation will have a material adverse effect on the Company's financial position or results of operations.

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 operations.

NOTE 10 -- RELATED PARTY TRANSACTIONS

Joseph Kornwasser, a director of PriceCostco until July 28, 1994, is a general partner and has a two-thirds ownership interest in Kornwasser and Friedman Shopping Center Properties (K & F). K & F was a partner with Price in two partnerships. As of August 28, 1994, Price's total capital contributions to the partnerships were \$83,000. Aggregate cumulative distributions from these partnerships were \$14,300 at August 28, 1994. Price had also entered into a Development Agreement with K & F for the development of four additional properties. As of August 28, 1994, Price's total capital expenditures for these properties were \$58,000. Aggregate cumulative distributions from these properties were \$4,500 at August 28, 1994. Both partnership agreements and the Development Agreement provided for a preferred return to Price on a varying scale from 9% to 10% on its invested capital after which operating cash flows or profits are distributed 75% to Price and 25% to K & F. On August 12, 1993, Mr. Kornwasser became Chief Executive Officer and director of the REIT. On that date, the REIT also obtained the right to acquire certain of the partnership interests of K & F described above. On August 28, 1994, the Company purchased both K & F's interests in the two partnerships and its rights under the Development Agreement for a total of \$2.5 million.

PRICE/COSTCO, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 11 -- GEOGRAPHIC INFORMATION

The following table indicates the relative amounts of total revenue, operating income and identifiable assets for the Company during fiscal 1994, 1993 and 1992:

	1994	1993	1992
	-----	-----	-----
Total revenue:			
United States.....	\$ 13,770,316	\$ 13,167,175	\$ 12,058,694
Foreign.....	2,710,327	2,296,639	2,038,684
	\$ 16,480,643	\$ 15,463,814	\$ 14,097,378
	-----	-----	-----
Operating income:			
United States.....	\$ 298,303	\$ 321,084	\$ 326,321
Foreign.....	61,836	43,745	49,101
	\$ 360,139	\$ 364,829	\$ 375,422
	-----	-----	-----

Identifiable assets:		
United States.....	\$ 3,221,210	\$ 3,003,494
Foreign.....	637,364	485,495
Discontinued operations -- net assets (all United States).....	377,085	441,810
	\$ 4,235,659	\$ 3,930,799

NOTE 12 -- QUARTERLY FINANCIAL DATA (UNAUDITED)

The tables on the next two pages reflect the unaudited quarterly results of operations for fiscal 1994 and 1993.

All information has been restated for discontinued real estate operations and various reclassifications have been made to conform Price and Costco's classification of merchandise costs and selling, general and administrative expenses. Shares used in the earnings per share calculation fluctuate by quarter depending primarily upon whether convertible subordinated debentures are dilutive during the respective period.

PRICE/COSTCO, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	52 WEEKS ENDED AUGUST 28, 1994				
	FIRST QUARTER 12 WEEKS	SECOND QUARTER 12 WEEKS	THIRD QUARTER 12 WEEKS	FOURTH QUARTER 16 WEEKS	TOTAL 52 WEEKS
REVENUE					
Net sales.....	\$ 3,599,797	\$ 4,019,417	\$ 3,546,445	\$ 4,995,252	\$ 16,160,911
Membership fees and other.....	81,330	78,245	69,367	90,790	319,732
Total revenue.....	3,681,127	4,097,662	3,615,812	5,086,042	16,480,643
OPERATING EXPENSES					
Merchandise costs.....	3,272,170	3,640,174	3,226,011	4,524,536	14,662,891
S,G&A expenses.....	316,559	342,279	328,314	438,397	1,425,549
Preopening expenses.....	11,130	4,915	1,967	6,552	24,564
Provision for estimated warehouse closings costs.....	--	--	--	7,500	7,500
Operating income.....	81,268	110,294	59,520	109,057	360,139
OTHER INCOME (EXPENSE)					
Interest expense.....	(10,823)	(11,655)	(12,155)	(15,839)	(50,472)
Interest income and other.....	2,522	2,573	2,542	6,251	13,888
Provision for merger and restructuring expenses.....	(120,000)	--	--	--	(120,000)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES.....	(47,033)	101,212	49,907	99,469	203,555
Provision for income taxes.....	(10,095)	41,503	20,467	40,782	92,657
INCOME (LOSS) FROM CONTINUING OPERATIONS.....	(36,938)	59,709	29,440	58,687	110,898
DISCONTINUED OPERATIONS:					
Income (loss), net of tax.....	3,947	2,566	2,600	(49,879)	(40,766)
Loss on disposal.....	--	--	--	(182,500)	(182,500)
NET INCOME (LOSS).....	\$ (32,991)	\$ 62,275	\$ 32,040	\$ (173,692)	\$ (112,368)
NET INCOME (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE -- FULLY DILUTED					
Continuing operations.....	\$ (0.17)	\$ 0.27	\$ 0.14	\$ 0.27	\$ 0.51
Discontinued operations:					
Income (loss), net of tax.....	0.02	0.01	0.01	(.23)	(.19)
Loss on disposal.....	--	--	--	(.83)	(.83)
Net income (loss).....	\$ (0.15)	\$ 0.28	\$ 0.15	\$ (0.79)	\$ (0.51)
Shares used in the calculation.....	217,191	240,011	219,516	219,279	219,334

PRICE/COSTCO, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

52 WEEKS ENDED AUGUST 29, 1993

	FIRST QUARTER 12 WEEKS	SECOND QUARTER 12 WEEKS	THIRD QUARTER 12 WEEKS	FOURTH QUARTER 16 WEEKS	TOTAL 52 WEEKS
REVENUE					
Net sales.....	\$ 3,422,457	\$ 3,736,234	\$ 3,348,255	\$ 4,647,739	\$ 15,154,685
Membership fees and other.....	80,014	75,125	67,092	86,898	309,129
Total revenue.....	3,502,471	3,811,359	3,415,347	4,734,637	15,463,814
OPERATING EXPENSES					
Merchandise costs.....	3,121,324	3,382,337	3,047,712	4,199,780	13,751,153
S,G&A expenses.....	292,758	312,422	303,195	406,285	1,314,660
Preopening expenses.....	11,551	4,834	3,465	8,322	28,172
Provision for estimated warehouse closings costs.....	--	--	--	5,000	5,000
Operating income.....	76,838	111,766	60,975	115,250	364,829
OTHER INCOME (EXPENSE)					
Interest expense.....	(9,444)	(10,963)	(11,445)	(14,264)	(46,116)
Interest income and other.....	4,713	4,264	3,825	4,948	17,750
INCOME BEFORE PROVISION FOR INCOME TAXES.....					
TAXES.....	72,107	105,067	53,355	105,934	336,463
Provision for income taxes.....	28,843	42,027	21,443	41,307	133,620
INCOME FROM CONTINUING OPERATIONS.....					
DISCONTINUED OPERATIONS:					
Income, net of tax.....	1,064	5,989	2,039	11,312	20,404
Loss on disposal.....	--	--	--	--	--
NET INCOME.....	\$ 44,328	\$ 69,029	\$ 33,951	\$ 75,939	\$ 223,247
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE -- FULLY DILUTED					
Continuing operations.....	\$ 0.20	\$ 0.28	\$ 0.15	\$ 0.29	\$ 0.92
Discontinued operations:					
Income.....	0.00	0.02	0.01	0.05	0.08
Loss on disposal.....	--	--	--	--	--
Net income.....	\$ 0.20	\$ 0.30	\$ 0.16	\$ 0.34	\$ 1.00
Shares used in the calculation.....	227,879	240,341	226,976	239,495	240,162

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Price/Costco, Inc.:

We have audited, in accordance with generally accepted auditing standards, the financial statements included in Price/Costco, Inc.'s annual report to stockholders included in this Form 10-K, and have issued our report thereon dated November 14, 1994. As noted in our report to the accompanying financial statements, The Price Company and subsidiaries (Price) have been audited by other auditors whose report thereon has been forwarded to us and our opinion expressed herein, insofar as it relates to the amounts included in the accompanying schedules related to Price for fiscal 1993 and 1992, is based solely on the report of the other auditors. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedules of Price/Costco, Inc. listed in Part IV, Item 14 are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Seattle, Washington
November 14, 1994

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SCHEDULE I

PRICE/COSTCO, INC.
MARKETABLE SECURITIES--OTHER INVESTMENTS
FOR THE PERIODS ENDED AUGUST 28, 1994, AUGUST 29, 1993 AND AUGUST 30, 1992
(DOLLARS IN THOUSANDS)

NAME OF ISSUER AND TITLE OF EACH ISSUE	PRINCIPAL AMOUNT	COST	MARKET VALUE AT BALANCE SHEET DATE	AMOUNT AT WHICH CARRIED IN THE BALANCE SHEET
AUGUST 28, 1994				
U.S. Government Obligations.....	\$ 9,345	\$ 9,253	\$ 9,253	\$ 9,253
Other.....	15	15	15	15
	\$ 9,360	\$ 9,268	\$ 9,268	\$ 9,268
AUGUST 29, 1993				
U.S. Government Obligations.....	\$ 90,096	\$ 89,854	\$ 89,840	\$ 89,854
Other.....	262	262	262	262
	\$ 90,358	\$ 90,116	\$ 90,102	\$ 90,116
AUGUST 30, 1992				
U.S. Government Obligations.....	\$ 78,660	\$ 78,488	\$ 78,628	\$ 78,488
Other.....	20,879	20,837	20,837	20,837
	\$ 99,539	\$ 99,325	\$ 99,465	\$ 99,325

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SCHEDULE II

PRICE/COSTCO, INC.

AMOUNTS RECEIVABLE FROM RELATED PARTIES
FOR THE 52-WEEK PERIODS ENDED AUGUST 28, 1994, AUGUST 29, 1993 AND AUGUST 30,
1992
(DOLLARS IN THOUSANDS)

DEBTOR	BALANCE AT BEGINNING OF PERIOD	ADDITIONS	DEDUCTIONS	BALANCE AT END OF	
			AMOUNTS COLLECTED	PERIOD	CURRENT
PERIOD ENDED AUGUST 28, 1994					
Roseway Partners (a).....	\$ 9,800	\$ --	\$ --	\$ --	\$ 9,800
Sol Price.....	34	973	1,007	--	--
The Price REIT, Inc.....	84	29	113	--	--
PERIOD ENDED AUGUST 29, 1993					
Roseway Partners (a).....	9,600	200	--	--	9,800
Sol Price.....	115	833	914	34	--
The Price REIT, Inc.....	85	330	331	84	--
PERIOD ENDED AUGUST 30, 1992					
Roseway Partners (a).....	9,600	--	--	--	9,600
Sol Price.....	75	1,082	1,042	115	--

<FN>
(a) Original interest rate at 9.875%. Rate adjusted to 8.5% on 1/1/93.

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SCHEDULE V

PRICE/COSTCO, INC.

PROPERTY, PLANT AND EQUIPMENT
FOR THE 52-WEEK PERIODS ENDED AUGUST 28, 1994, AUGUST 29, 1993 AND AUGUST 30,
1992
(DOLLARS IN THOUSANDS)

ADDITIONS

CLASSIFICATION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	RETIREMENTS	OTHER CHARGES ADD (DEDUCT) DESCRIBE (1)	BALANCE AT END OF PERIOD
PERIOD ENDED AUGUST 28, 1994:					
Land and land improvements.....	\$ 862,407	\$ 100,235	\$ 8,706	\$ (75,078)	\$ 878,858
Buildings and leasehold improvements.....	880,113	59,342	6,020	157,638	1,091,073
Equipment and fixtures.....	433,502	99,428	8,469	(1,151)	523,310
Construction in progress.....	116,291	218,113	1,398	(254,742)	78,264
Total.....	\$ 2,292,313	\$ 477,118	\$ 24,593	\$ (173,333)	\$ 2,571,505
PERIOD ENDED AUGUST 29, 1993:					
Land and land improvements.....	\$ 773,699	\$ 146,010	\$ 1,406	\$ (55,896)	\$ 862,407
Buildings and leasehold improvements.....	736,463	26,713	594	117,531	880,113
Equipment and fixtures.....	343,983	97,266	13,477	5,730	433,502
Construction in progress.....	96,654	260,045	146	(240,262)	116,291
Total.....	\$ 1,950,799	\$ 530,034	\$ 15,623	\$ (172,897)	\$ 2,292,313
PERIOD ENDED AUGUST 30, 1992:					
Land and land improvements.....	\$ 519,528	\$ 246,797	\$ 17,067	\$ 24,441	\$ 773,699
Buildings and leasehold improvements.....	553,154	47,156	19,692	155,845	736,463
Equipment and fixtures.....	238,150	109,241	12,803	9,395	343,983
Construction in progress.....	56,858	235,781	2,597	(193,388)	96,654
Total.....	\$ 1,367,690	\$ 638,975	\$ 52,159	\$ (3,707)	\$ 1,950,799

<FN>

(1) Other changes for fiscal 1994, 1993 and 1992 are as follows:

	1994	1993	1992
Foreign currency rate differentials			
Land and land improvements.....	\$ (4,837)	\$ (9,346)	\$ (2,056)
Buildings and leasehold improvements.....	(6,255)	(9,008)	(2,857)
Equipment and fixtures.....	(2,053)	(4,916)	(1,594)
Construction in progress.....	(886)	(17)	(389)
Total foreign currency rate differential.....	(14,031)	(23,287)	(6,896)
Transfer to other assets.....	(159,302)	(149,610)	3,189
Total other changes.....	\$ (173,333)	\$ (172,897)	\$ (3,707)

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SCHEDULE VI
PRICE/COSTCO, INC.
ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION
OF PROPERTY, PLANT AND EQUIPMENT

FOR THE 52-WEEK PERIODS ENDED AUGUST 28, 1994, AUGUST 29, 1993 AND AUGUST 30, 1992

(DOLLARS IN THOUSANDS)

CLASSIFICATION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	RETIREMENTS	OTHER CHARGES ADD (DEDUCT) DESCRIBE (1)	BALANCE AT END OF PERIOD
PERIOD ENDED AUGUST 28, 1994:					
Land and land improvements.....	\$ 4,079	\$ 4,056	\$ 160	\$ 5,549	\$ 13,524
Buildings and leasehold improvements....	118,312	52,639	2,462	(30,168)	138,321
Equipment and fixtures.....	203,321	82,529	6,203	(6,383)	273,264
Total.....	\$ 325,712	\$ 139,224	\$ 8,825	\$ (31,002)	\$ 425,109
PERIOD ENDED AUGUST 29, 1993:					
Land and land improvements.....	\$ --	\$ 4,079	\$ --	\$ --	\$ 4,079
Buildings and leasehold improvements....	96,947	32,663	128	(6,732)	118,312
Equipment and fixtures.....	149,800	65,484	9,115	(2,848)	203,321
Total.....	\$ 246,747	\$ 102,226	\$ 9,243	\$ (9,580)	\$ 325,712
PERIOD ENDED AUGUST 30, 1992:					
Land and land improvements.....	\$ --	\$ --	\$ --	\$ --	\$ --

Buildings and leasehold improvements....	73,351	29,986	6,081	(309)	96,947
Equipment and fixtures.....	110,907	49,522	9,856	(773)	149,800
Total.....	\$ 184,258	\$ 79,508	\$ 15,937	\$ (1,082)	\$ 246,747

<FN>

(1) Other changes for fiscal 1994, 1993 and 1992 are as follows:

	1994	1993	1992
Foreign currency rate differentials			
Land and land improvements.....	\$ --	\$ --	\$ --
Buildings and leasehold improvements.....	(372)	(791)	(216)
Equipment and fixtures.....	(822)	(1,695)	(781)
Total foreign currency rate differential.....	(1,194)	(2,486)	(997)
Transfers to other assets.....	(29,808)	(7,094)	(85)
Total other changes.....	\$ (31,002)	\$ (9,580)	\$ (1,082)

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SCHEDULE IX
PRICE/COSTCO, INC.
SHORT-TERM BORROWINGS

FOR THE 52-WEEK PERIODS ENDED AUGUST 28, 1994, AUGUST 29, 1993 AND AUGUST 30, 1992

(DOLLARS IN THOUSANDS)

CATEGORY OF AGGREGATE SHORT-TERM BORROWINGS	BALANCE AT END OF PERIOD	WEIGHTED AVERAGE INTEREST RATE (1)	MAXIMUM AMOUNT OUTSTANDING DURING THE PERIOD	AVERAGE AMOUNT OUTSTANDING DURING THE PERIOD (2)	WEIGHTED AVERAGE INTEREST RATE DURING THE PERIOD (2) (3)
PERIOD ENDED AUGUST 28, 1994					
Bank borrowings:					
U.S. (4).....	\$ --	--	\$ 142,000	\$ 16,786	3.46 %
Canadian (5).....	--	--	25,369	8,072	6.47
Commercial Paper (6).....	149,340	4.84	149,340	35,655	3.92
PERIOD ENDED AUGUST 29, 1993					
Bank borrowings:					
U.S. (4).....	\$ --	--	\$ 55,000	\$ 15,455	3.56 %
Canadian (5).....	4,097	5.75	12,358	3,295	6.05
Commercial Paper (6).....	18,996	3.30	55,000	16,119	3.29
PERIOD ENDED AUGUST 30, 1992					
Bank borrowings.....	\$ --	--	\$ --	\$ --	-- %
Commercial Paper.....	--	--	--	--	--

<FN>

- The interest rate effective on borrowings at the end of the period.
- The average amount outstanding during the period was computed by dividing the total of daily outstanding principal balances by 364 days.
- The weighted average interest rate during the period was computed by dividing the actual interest expense by average short-term debt outstanding.
- U.S. bank borrowings represent borrowings under a senior revolving credit agreement with a termination date of March 30, 1994.
- Canadian bank borrowings represent borrowings under a senior revolving credit agreement with a termination date of December 31, 1993.
- Commercial paper maturities range from overnight to 8 weeks from date of issuance.

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EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
-------------	-------------

	by and between Price/Costco, Inc. and Price Enterprises, Inc.....
3(a)	Restated Certificate of Incorporation of Price/Costco, Inc. (4)
3(b)	Bylaws of Price/Costco, Inc. (9)
3(c)	Form of Amended and Restated Bylaws of Price/Costco, Inc. to become effective as specified in the Amended and Restated Agreement of Transfer and Plan of Exchange (see Exhibit 2(a) above). (10)
4(a)(1)	Specimen of 5 1/2% Convertible Subordinated Debenture. (1)
4(a)(2)	Form of Indenture by and between Price and First Interstate Bank of California, as Trustee, with respect to the 5 1/2% Convertible Subordinated Debentures. (1)
4(a)(3)	Supplemental Indenture dated as of October 21, 1993 by and among Price, PriceCostco and First Interstate Bank of California, as Trustee, with respect to the 5 1/2% Convertible Subordinated Debentures. (7)
4(a)(4)	Supplemental Indenture dated as of October 22, 1993 by and among Price, PriceCostco and First Interstate Bank of California, as Trustee, with respect to the 5 1/2% Convertible Subordinated Debentures. (7)
4(a)(5)	Incorporated by reference in Form 8-A filed with respect to the Registration Statement of the Company's 5 1/2% Convertible Subordinated Debentures dated December 21, 1993
4(a)(6)	Incorporated by reference in Form 15 with respect to the notice of termination of the Registration of Price's 5 1/2% Convertible Subordinated Debentures dated January 3, 1994
4(b)(1)	Specimen of 6 3/4% Convertible Subordinated Debenture (2)
4(b)(2)	Form of Indenture by and between Price and First Interstate Bank of California, as Trustee, with respect to the 6 3/4% Convertible Subordinated Debentures (2)
4(b)(3)	Supplemental Indenture dated as of October 21, 1993 by and among Price, PriceCostco and First Interstate Bank of California, as Trustee, with respect to the 6 3/4% Convertible Subordinated Debentures (7)
4(b)(4)	Supplemental Indenture dated as of October 22, 1993 by and among Price, PriceCostco and First Interstate Bank of California, as Trustee, with respect to the 6 3/4% Convertible Subordinated Debentures (7)
4(b)(5)	Notice and offer to purchase by PriceCostco, Inc. and The Price Company to First Interstate Bank of California, as trustee and Holders of 6 3/4% Convertible Subordinated Debentures of The Price Company (6)
4(b)(6)	Incorporated by reference in Form 8-A filed with respect to the Registration Statement of the Company's 6 3/4% Convertible Subordinated Debentures dated December 21, 1993
4(b)(7)	Incorporated by reference in Form 15 with respect to the notice of termination of the Registration of Price's 6 3/4% Convertible Subordinated Debentures dated January 3, 1994
4(c)(1)	Specimen of 5 3/4% Convertible Subordinated Debenture (5)
4(c)(2)	Copy of the form of Indenture dated as of May 15, 1992 between Costco and First Trust National Association, as Trustee (5)
4(c)(3)	Copy of First Supplemental Indenture dated as of October 21, 1993 between Costco, PriceCostco and First Trust National Association, as Trustee (8)
4(c)(4)	Incorporated by reference in Form 15 with respect to the notice of termination of the registration of Costco's 5 3/4% Convertible Subordinated Debentures dated December 21, 1993
4(d)	Form of Price/Costco, Inc. Stock Certificate (4)
10(a)	The Price/Costco, Inc. 1993 Combined Stock Grant and Stock Option Plan (4).....
10(b)	Form of Indemnification Agreement.....
10(c)	Special Severance Agreement (12)
10(j)(5)	Agreement between The Price Company, Price Venture Mexico and Controladora Comercial Mexicana S.A. de C.V. to form a Corporate Joint Venture (7)
10(z)(1)	A \$250,000 Short-Term Revolving Credit Agreement among Price/Costco, Inc. and a group of fourteen banks dated January 31, 1994 (12)
10(z)(2)	A 250,000 Extended Revolving Credit Agreement among Price/Costco, Inc. and a group of fourteen banks, dated January 31, 1994 (12)
10(z)(3)	Revolving Credit Agreement, dated as of August 28, 1994, between Price/ Costco, Inc. and Price Enterprises, Inc. (11)
23.1	Consent of Arthur Andersen LLP.....
23.2	Report of Ernst & Young LLP on The Price Company Fiscal 1993 Annual Report.....
27.1	Financial Data Schedule.....

<FN>

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- (1) Registration Statement of The Price Company on Form SE filed February 12, 1987 is hereby incorporated by reference
 - (2) Registration Statement of The Price Company on Form S-3 (File No. 33-38966) filed February 27, 1991 is hereby incorporated by reference
 - (3) Incorporated herein by reference to the identical exhibit filed as part of The Price Company's Form 10-K for the fiscal year ending August 31, 1991
 - (4) Incorporated by reference to the Registration Statement of Price/Costco, Inc. Form S-4 (File No. 33-50359) dated September 22, 1993
 - (5) Incorporated by reference to Costco's Registration Statement on Form S-3 (File No. 33-47750) filed May 22, 1992
 - (6) Incorporated by reference to Schedule 13E-4 of The Price Company and Price/Costco, Inc. filed November 4, 1993
 - (7) Incorporated by reference to the exhibits filed as part of Amendment No. 1 to the Registration Statement on Form 8-A of The Price Company
 - (8) Incorporated by reference to the exhibits filed as part of Amendment No. 2 to the Registration Statement on Form 8-A of Costco
 - (9) Incorporated by reference to the exhibits filed as part of the Annual Report on Form 10-K/A of Price/Costco, Inc. for the fiscal year ended August 29, 1993
 - (10) Incorporated by reference to the exhibits filed as part of the Registration Statement on Form S-4 of Price Enterprises, Inc. (File No. 33-55481) filed on September 15, 1994
 - (11) Incorporated by reference to the exhibits filed as part of Amendment No. 1 to the Registration Statement on Form S-4 of Price Enterprises, Inc. (File No. 33-55481) filed on November 3, 1994
 - (12) Incorporated by reference to the exhibits filed as part of the Quarterly Report on Form 10-Q of Price/Costco, Inc. for the 12 weeks ended February 13, 1994

AMENDED AND RESTATED
AGREEMENT OF TRANSFER
AND
PLAN OF EXCHANGE
BY AND BETWEEN
PRICE/COSTCO, INC.
AND
PRICE ENTERPRISES, INC.
DATED AS OF NOVEMBER 14, 1994

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AMENDED AND RESTATED AGREEMENT OF TRANSFER AND PLAN OF EXCHANGE, dated as of November 14, 1994, between Price/Costco, Inc., a Delaware corporation (the "Company"), and Price Enterprises, Inc., a Delaware corporation ("Newco").

WHEREAS, on July 28, 1994, the Board of Directors of the Company considered and approved a restructuring of the Company (the "Transaction") whereby, among other things, subject to the terms and conditions hereof (i) the Company will transfer or cause to be transferred to Newco certain assets in exchange for 27 million shares of common stock, par value \$.0001 per share, of Newco ("Newco Common Stock") and the assumption by Newco of certain liabilities related to such transferred assets; (ii) the Company will distribute such shares of Newco Common Stock to the stockholders of the Company by means of an exchange offer and/or a pro rata distribution; (iii) the Company may sell certain shares of Newco Common Stock to Newco; and (iv) the Company will make certain advances to Newco to enable Newco to conduct its business and operations as a stand-alone company (subject to repayment of such advances, as set forth herein);

WHEREAS, Newco desires to acquire the assets comprising the business and operations of the Company and certain of its subsidiaries relating to the development of certain real estate (and certain real estate activities incident thereto) as well as certain other assets relating to certain other businesses and operations, as set forth herein;

WHEREAS, Newco is willing to issue such shares of Newco Common Stock and to assume such liabilities in exchange for such transferred assets and to take such other actions as set forth herein;

WHEREAS, the Company and Newco are willing to indemnify each other against certain liabilities, as set forth herein;

WHEREAS, as part of the Transaction, the Company intends to offer to each of its stockholders the right to exchange one share of common stock of the Company, par value \$.01 per share ("Company Common Stock"), for one share of Newco Common Stock;

WHEREAS, if less than 21.6 million shares of Company Common Stock are exchanged for shares of Newco Common Stock, the Company shall distribute to holders of Company Common Stock all the remaining shares of Newco Common Stock held by the Company on a pro rata basis;

WHEREAS, if at least 21.6 million shares of Company Common Stock, but less than 27 million shares are so exchanged, the Company shall, at its option, either (i) distribute the remaining shares of Newco Common Stock held by the Company, as set forth above or (ii) sell such shares to Newco in exchange for a promissory note; and

WHEREAS, the Company and Newco have previously entered into an Agreement of

Transfer and Plan of Exchange dated July 28, 1994, providing for the foregoing, and the parties now wish to provide for certain amendments and modifications to such Agreement of Transfer and Plan of Exchange.

NOW, THEREFORE, in consideration of the foregoing premises and the respective representations, warranties, covenants, agreements and conditions hereinafter set forth, and intending to be legally bound hereby, the parties hereto agree that the aforementioned Agreement of Transfer and Plan of Exchange shall be amended and restated in its entirety as follows:

ARTICLE I
CERTAIN DEFINITIONS

For the purposes of this Agreement, the following terms shall have the following meanings:

Section 1.1 "Additional Agreements" shall mean the Advance Agreement, the Leases, the Office Lease, the Operating Agreements, the Reciprocal Easement Agreements, the Stockholders' Agreements and the Tax Allocation Agreements.

Section 1.2 "Advance Agreement" shall have the meaning set forth in Section 6.11 hereof.

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Section 1.3 "Agreement" shall mean this Amended and Restated Agreement of Transfer and Plan of Exchange.

Section 1.4 "Assets" shall mean properties (including personal property), assets, Contracts, rights and entitlements.

Section 1.5 "Assumed Construction Costs" shall mean all costs to complete construction of the Commercial Properties, as set forth on Schedule 1.14 hereto.

Section 1.6 "Assumed Liabilities" shall mean (i) all Liabilities of the Company and its subsidiaries relating to or arising out of the Transferred Assets and which arise out of events occurring at or after the Transfer Closing Date; (ii) the Environmental Liabilities; and (iii) the Assumed Construction Costs.

Section 1.7 "Atlas Note" shall mean the note receivable described on Schedule 1.7 hereto.

Section 1.8 "City Notes" shall mean the notes receivable described on Schedule 1.8 hereto.

Section 1.9 "Closing" shall have the meaning set forth in Section 4.1 hereof.

Section 1.10 "Closing Date" shall have the meaning set forth in Section 4.1 hereof.

Section 1.11 "Club Business" shall mean any merchandising activity utilizing 70,000 square feet or more in a single location, operated with membership and selling food and non-food items through a central checkout.

Section 1.12 "CMI Stock" shall have the meaning set forth in Section 1.32 hereof.

Section 1.13 "Code" shall mean the Internal Revenue Code of 1986, as amended.

Section 1.13A__"Comercial Mexicana" shall mean Controladora Comercial Mexicana, S.A., de C.V., a corporation organized under the laws of Mexico.

Section 1.14 "Commercial Properties" shall mean the commercial real estate listed on Schedule 1.14 hereto.

Section 1.15 "Company" shall have the meaning set forth in the introductory clause hereto.

Section 1.16 "Company Common Stock" shall have the meaning set forth in the introductory clauses hereto.

Section 1.17 "Company Executive Committee" shall have the meaning set forth in Section 6.1 hereof.

Section 1.18 "Company Option" shall have the meaning set forth in Section 7.4 hereof.

Section 1.19 "Company Option Plans" shall have the meaning set forth in Section 7.4 hereof.

Section 1.20 "Company Plans" shall mean each "employee pension benefit plan," as such term is defined in section 3(2) of ERISA, maintained or contributed to by the Company.

Section 1.21 "Company Welfare Plans" shall have the meaning set forth in Section 7.3 hereof.

Section 1.22 "Contract" shall mean any contract, agreement, commitment, indenture, lease, note, bond, mortgage, license, plan, arrangement or understanding.

Section 1.23 "Costco Designees" shall have the meaning set forth in the Bylaws of the Company.

Section 1.24 "Distribution" shall have the meaning set forth in Section 3.3 hereof.

Section 1.25 "Distribution Record Date" shall have the meaning set forth in Section 3.3 hereof.

Section 1.26 "Environmental Liabilities" shall mean all Liabilities relating to or arising in respect of Materials of Environmental Concern and violations or purported violations of Environmental Laws, which relate to or arise out of the Real Properties and which arise out of events occurring prior to, at or after the Transfer Closing Date.

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Section 1.27 "Environmental Laws" shall mean all Federal, state, local and foreign laws and regulations relating to pollution or protection of human health or the environment, including, without limitation, laws and regulations relating to emissions, discharges, releases, or threatened releases of toxic or hazardous substances, materials or wastes, or petroleum and petroleum products ("Materials of Environmental Concern"), or otherwise relating to the generation, storage, disposal, transport or handling of Materials of Environmental Concern.

Section 1.28 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as from time to time amended.

Section 1.29 "Exchange Offer" shall have the meaning set forth in Section 3.1 hereof.

Section 1.30 "Finance Committee" shall have the meaning set forth in Section 6.2 hereof.

Section 1.31 "Instrument of Assignment and Assumption" shall have the

meaning set forth in Section 2.5 hereof.

Section 1.32 "International Assets" shall mean (i) the right to develop a Club Business in the Specified Geographical Areas (other than Mexico); (ii) all shares of capital stock of Club Merchandising, Inc. owned, directly or indirectly, by the Company (the "CMI Stock"); (iii) all right, title and interest in and to the names "Price Club," "Price Club Costco" and "Price Costco" in each of the Specified Geographical Areas (other than Mexico, the Northern Mariana Islands (including Guam and Saipan) and the U.S. Virgin Islands); (iv) an exclusive license to use the names "Price Club" and "Price Costco" in the Northern Mariana Islands (including Guam and Saipan) and the U.S. Virgin Islands pursuant to the terms of a license agreement entered into by the Company, Price, Subsidiary Corporation #2 and Newco at the Transfer Closing; and (v) all other noncurrent Assets of the Company and its subsidiaries (other than those included in CMI) specifically related to the conduct of business in the Specified Geographical Areas.

Section 1.33 "Leases" shall mean agreements substantially in the form attached hereto as Exhibit A pursuant to which the Company will lease back each of the Warehouse Properties following the transfer of such properties to Newco.

Section 1.34 "Liabilities" shall mean liabilities and obligations, secured or unsecured, whether absolute, accrued, contingent or otherwise, and whether or not due, including without limitation all such liabilities relating to or arising in respect of Materials of Environmental Concern and violations or purported violations of Environmental Laws.

Section 1.35 "Materials of Environmental Concern" shall have the meaning set forth in Section 1.27.

Section 1.36 "Mexico Assets" shall mean (i) all shares of capital stock of Primex owned, directly or indirectly, by the Company; (ii) the assets listed on Schedule 1.36 hereto (the "Scheduled Mexico Assets"); and (iii) all other noncurrent Assets of the Company and its subsidiaries specifically related to the conduct of business in the United Mexican States; PROVIDED, HOWEVER, that the term "Mexico Assets" shall not include (A) the Agreement between Price, Primex and Comercial Mexicana to Form a Corporate Joint Venture dated June 21, 1991, as amended, (B) any right, title or interest in or to the names "Price Club," "Price Club Costco" or "Price Costco" and (C) any computer software.

Section 1:36A "Mexico Interest" shall have the meaning set forth in Section 2.6(b).

Section 1.37 "net proceeds" shall mean the proceeds remaining from any sale after the payment of all direct costs and expenses associated with such sale, including, without limitation, all Federal, state and local income and transfer taxes payable in connection therewith.

Section 1.38 "Newco" shall have the meaning set forth in the introductory clauses hereto.

Section 1.39 "Newco Assets" shall mean all furniture, fixtures and equipment used by employees of the Company who will become Retained Employees and (excluding the Company's AS-400 data center) located at the San Diego Property.

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Section 1.40 "Newco Common Stock" shall have the meaning set forth in the introductory clauses hereto.

Section 1.41 "Newco Employees" shall have the meaning set forth in Section

7.1 hereof.

Section 1.42 "Newco Executive Committee" shall have the meaning set forth in Section 6.1 hereof.

Section 1.43 "Newco Option" shall have the meaning set forth in Section 7.4 hereof.

Section 1.44 "Newco Option Plan" shall have the meaning set forth in Section 7.4 hereof.

Section 1.45 "Newco Plans" shall have the meaning set forth in Section 7.2 hereof.

Section 1.46 "Northridge Mortgage" shall mean outstanding indebtedness in an original principal amount of \$5,000,000 with an outstanding principal amount as of July 28, 1994 of approximately \$3,500,000, which is secured by the Commercial Property located in Northridge, California (denoted as item number 6 on Schedule 1.14 hereto) and the Company's Club Business real estate located adjacent thereto.

Section 1.47 "Note" shall have the meaning set forth in Section 3.3 hereof.

Section 1.48 "Notes Receivable" shall mean the Atlas Note and the City Notes.

Section 1.49 "Office Lease" shall mean an agreement pursuant to which the Company will lease certain office space located at 4649 Morena Boulevard, San Diego, California (not to exceed the square footage currently being used by the business and operations of the Company excluding the business and operations of Newco) substantially in the form attached hereto as Exhibit A except that (i) the term thereof shall end on or about July 1997, (ii) the rent with respect thereto shall be included within the rent charged pursuant to the Warehouse Property located at Morena Boulevard, San Diego, California and (iii) such agreement shall not be assignable or subleaseable by the Company.

Section 1.50 "Operating Agreements" shall mean agreements substantially in the forms attached hereto as Exhibits B, C and D.

Section 1.51 "person" shall mean any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof, or any other entity.

Section 1.51A "Price" shall mean The Price Company, a California corporation and a wholly owned subsidiary of the Company.

Section 1.51B "Price Club Mexico" shall mean Price Club de Mexico, S.A. de C.V., a corporation organized under the laws of Mexico.

Section 1.52 "Price Designees" shall have the meaning set forth in the Bylaws of the Company.

Section 1.52A "Primex" shall mean Price Venture Mexico, a California corporation and a wholly owned subsidiary of Price.

Section 1.53 "Quest Assets" shall mean (i) all of the noncurrent Assets of the Company or any of its subsidiaries specifically related to the Quest Business as currently conducted; (ii) an exclusive license to use the service

mark "Price Club Quest" in the United States and throughout the world (except for the Specified Geographical Areas other than Mexico) pursuant to the terms of a license agreement entered into by the Company, Price, Subsidiary Corporation #3 and Newco at the Transfer Closing; (iii) all right, title and interest (to the extent such exists) in and to the common law interests in and to the trademark and service mark "Quest"; and (iv) the Assets listed on Schedule 1.53 hereto.

Section 1.54 "Quest Business" shall mean all of the business and operations currently conducted by the Company or any of its subsidiaries through its Quest interactive electronic shopping business, together with Price Club Travel, Price Club Realty and the Price Club automobile advertising/referral business and as such business may be expanded from time to time; PROVIDED, HOWEVER, that any expansions into new concepts in the Company's warehouse operations shall be subject to the prior approval of the Chief Executive Officer of the Company (which approval shall not be unreasonably withheld).

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Section 1.55 "Real Estate Committee" shall have the meaning set forth in Section 6.1 hereof.

Section 1.56 "Real Properties" shall mean the Commercial Properties, the Warehouse Properties and the San Diego Property.

Section 1.57 "Reciprocal Easement Agreements" shall have the meaning set forth in Section 6.20 hereof.

Section 1.58 "Registration Statement" shall have the meaning set forth in Section 3.1 hereof.

Section 1.59 "Retained Employees" shall have the meaning set forth in Section 7.1 hereof.

Section 1.60 "Retained Liabilities" shall mean all Liabilities of the Company and its subsidiaries relating to or arising out of (i) the Mexico Assets (other than shares of capital stock of Price Venture Mexico), the International Assets (other than the CMI Stock) and the Quest Assets, which arise out of events occurring prior to the Transfer Closing Date and (ii) the Transferred Assets which arise out of events occurring prior to the Transfer Closing Date, but excluding the Environmental Liabilities and the Assumed Construction Costs.

Section 1.61 "San Diego Office Space" shall mean certain office space located in the San Diego Property, as described in the Lease.

Section 1.62 "San Diego Property" shall mean the commercial real estate known as 4455 and 4649 Morena Boulevard, San Diego, California.

Section 1.63 "Scheduled Mexico Assets" shall have the meaning set forth in Section 1.29 hereof.

Section 1.64 "Securities Act" shall mean the Securities Act of 1933, as amended.

Section 1.65 "SEC" shall mean the Securities and Exchange Commission.

Section 1.65A "Specified Companies" shall mean Wal-Mart Stores Inc., Target Stores, Kmart Corporation, The Home Depot, Inc. and Office Depot, Inc. and each of their affiliates (as such term is defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended).

Section 1.66 "Specified Geographical Areas" shall mean Australia, New Zealand, the Northern Mariana Islands (including Guam and Saipan), the Republic of Panama, those Central American countries situated north of the Republic of Panama and south of Mexico, Mexico and those islands situated in the Western Hemisphere north of the Equator and lying within the area marked on the map attached hereto as Exhibit E (including Bermuda but excluding Puerto Rico and

any portion of the United States (other than the U.S. Virgin Islands) or Canada lying within such marked area).

Section 1.67 "Stockholders' Agreements" shall mean agreements substantially in the form attached hereto as Exhibits F, G and H.

Section 1.68 "subsidiary" of any person shall mean any corporation or other entity of which outstanding securities having ordinary voting power to elect a majority of the board of directors of such corporation or a majority of the voting equity interest of such other entity is owned directly or indirectly by such person.

Section 1.69 "Subsidiary Corporations" shall mean, collectively, Subsidiary Corporation #1, Subsidiary Corporation #2 and Subsidiary Corporation #3.

Section 1.70 "Subsidiary Corporation #1" shall mean Mexico Clubs, L.L.C., a Delaware limited liability company, to which the Company shall cause to be contributed the Mexico Assets.

Section 1.71 "Subsidiary Corporation #2" shall mean Price Global Trading, Inc., a Delaware corporation, to which the Company caused to be contributed the International Assets.

Section 1.72 "Subsidiary Corporation #3" shall mean Price Quest, Inc., a Delaware corporation, to which the Company caused to be contributed the Quest Assets.

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Section 1.73 "Subsidiary Interests" shall mean, collectively, 51 percent of the outstanding capital stock of each of Subsidiary Corporation #2 and Subsidiary Corporation #3.

Section 1.74 "Tax Allocation Agreements" shall mean tax allocation agreements to be entered into between the Company, on the one hand, and each of Newco and each Subsidiary Corporation, on the other, pursuant to which Newco or such Subsidiary Corporation, as the case may be, will be required to make payments to the Company in respect of its Federal, state, local and foreign income tax liabilities on and after the Transfer Closing Date, as if Newco, and its subsidiaries or such Subsidiary Corporation, as the case may be, were separate corporations for Federal income tax purposes on and after such date.

Section 1.75 [Intentionally omitted.]

Section 1.76 "Third Party Claim" shall have the meaning set forth in Section 9.2 hereof.

Section 1.77 "Transaction" shall have the meaning set forth in the introductory clauses hereto.

Section 1.78 "Transfer" shall have the meaning set forth in Section 2.2 hereof.

Section 1.79 "Transferred Assets" shall mean (i) the Commercial Properties, other than any Commercial Property that is sold to a third party prior to the Transfer Closing Date (A) pursuant to an agreement in existence as of July 28, 1994 or (B) following approval of such sale by the Real Estate Committee; (ii)

the net proceeds from the sale of any Commercial Property occurring prior to the actual transfer of such Commercial Property by the Company to Newco; (iii) the Warehouse Properties; (iv) the San Diego Property; (v) the Notes Receivable; (vi) the Newco Assets; (vii) the Subsidiary Interests; (viii) the Mexico Interest; and (ix) all claims, rights, entitlements and causes of action of the Company and its Subsidiaries in respect of the Transferred Assets (other than any such claims, rights, entitlements and cause of action arising out of or relating to the Retained Liabilities).

Section 1.80 "Transfer Closing" shall have the meaning set forth in Section 2.4 hereof.

Section 1.81 "Transfer Closing Date" shall have the meaning set forth in Section 2.4 hereof.

Section 1.82 "Transition Period" shall have the meaning set forth in Section 7.1 hereof.

Section 1.83 "Warehouse Properties" shall mean the commercial real estate comprising the Company's warehouse club operations at Pentagon City in Arlington, Virginia; Wayne, New Jersey; Westbury, New York; and Morena Boulevard in San Diego, California (including fixtures permanently attached to such structures, but excluding inventory, furniture, trade fixtures and equipment).

ARTICLE II TRANSFER OF ASSETS; ASSUMPTION OF LIABILITIES

Section 2.1 TRANSACTIONS OCCURRING PRIOR TO THE TRANSFER CLOSING DATE. (a) Prior to the Transfer Closing Date the Company caused to be formed Subsidiary Corporation #2 and Subsidiary Corporation #3.

(b) Prior to the Transfer Closing Date, the Company caused (i) the International Assets to be conveyed, assigned, transferred and delivered to Subsidiary Corporation #2; and (ii) the Quest Assets to be conveyed, assigned, transferred and delivered to Subsidiary Corporation #3. Each such conveyance, assignment, transfer and delivery was effected by such bills of sale, endorsements, assignments or other instruments of transfer and conveyance, as appropriate.

(c) In full consideration for the conveyances, assignments, transfers and deliveries described in subsection (b) above, each of Subsidiary Corporation #2 and Subsidiary Corporation #3 issued 100 shares of its common stock to Price, which constituted all of the outstanding capital stock of such Subsidiary Corporation.

Section 2.2 CONVEYANCE OF TRANSFERRED ASSETS. At the Transfer Closing, the Company caused to be conveyed, assigned, transferred and delivered to Newco (or to a subsidiary of Newco, as agreed to by the parties) the Transferred Assets, other than certain Real Properties (together with the transfer to Newco of all

Real Properties not heretofore transferred and the conveyance, assignment, transfer and delivery contemplated by Section 2.6(e), the "Transfer"). With respect to certain Transferred Assets that the Company was unable to convey, assign, transfer or deliver (or cause to occur) as of the Transfer Closing Date, the Company will take all reasonable actions to preserve for, or transfer to, Newco the benefits of such Transferred Asset, pending the conveyance,

assignment, transfer or delivery thereof to Newco. In the event that the Company is unable to convey, assign, transfer or deliver (or cause such action to occur) any of the Real Properties to Newco on or prior to February 28, 1995, Newco and the Company shall agree to either (i) an arrangement, if legally permissible, pursuant to which the Company shall lease such Real Property to Newco pursuant to a long-term lease for an annual rent of \$1.00 per year or (ii) a conveyance by the Company to Newco of other real property owned by the Company or its subsidiaries satisfactory to Newco in substitution thereof; PROVIDED, that if both of such alternatives shall deprive either party of the benefits of transferring ownership of the property contemplated by this Agreement by February 28, 1995, then the Company shall remit to Newco in cash the value of such property, as listed on Schedule 1.14 hereto under the column entitled "Est. Value @ Sept 1, 1994."

Section 2.3 CONSIDERATION FOR TRANSFER. In full consideration for the Transfer, on the Transfer Closing Date, Newco (i) issued to Price 27 million shares of Newco Common Stock; (ii) assumed the Assumed Liabilities; and (iii) made all other deliveries required to be made by Newco pursuant to this Agreement.

Section 2.4 TIME AND PLACE OF THE TRANSFER CLOSING. The closing of the Transfer (the "Transfer Closing") took place at the offices of Skadden, Arps, Slate, Meagher & Flom, 300 South Grand Avenue, Los Angeles, California and at the offices of the Company, 4649 Morena Boulevard, San Diego, California at 10:00 a.m., local time, on October 28, 1994. The date and time at which the Transfer Closing actually occurred is hereinafter referred to as the "Transfer Closing Date;" PROVIDED, HOWEVER, that in any case, and regardless of the actual date and time at which the Transfer Closing actually occurred, the Transfer Closing Date shall be deemed to have occurred at the close of business on August 28, 1994.

Section 2.5 DELIVERIES AT THE TRANSFER CLOSING. At the Transfer Closing:

(a) Newco delivered to the Company:

(i) a duly executed counterpart of a bill of sale in substantially the form attached hereto as Exhibit K (the "Bill of Sale");

(ii) a duly executed counterpart of an instrument of assignment and assumption in substantially the form attached hereto as Exhibit L (the "Instrument of Assignment and Assumption");

(iii) duly executed counterparts of the Additional Agreements;

(iv) all other documents, instruments and writings required to be delivered by Newco at or prior to the Transfer Closing Date pursuant to this Agreement.

(b) The Company delivered or caused to be delivered to Newco:

(i) the books and records included in the Transferred Assets;

(ii) deeds in recordable form conveying to Newco all of the Company's right, title and interest in and to the owned real properties included in the Transferred Assets;

(iii) immediately available funds in an amount equal to the net proceeds from the sale of any Commercial Property occurring prior to the Transfer Closing Date;

(iv) stock certificates representing the Subsidiary Interests;

(v) a duly executed counterpart of the Instrument of Assignment and Assumption;

(vi) duly executed counterparts of the Additional Agreements;

(vii) such bills of sale, endorsements, assignments and other instruments of transfer and conveyance as were necessary to effect the conveyance, assignment, transfer and delivery of the Transferred Assets (other than the owned real property included in the Transferred Assets);

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(viii) all other documents, instruments and writings required to be delivered by the Company at or prior to the Transfer Closing Date pursuant to this Agreement; and

(ix) ALTA owner's title insurance policies for all Real Properties transferred and conveyed at the Transfer Closing showing title consistent with this Agreement.

Section 2.6__CONVEYANCE OF MEXICO ASSETS.__(a) Prior to the date hereof the Company and Newco have caused to be formed Subsidiary Corporation #1.

(b)_As soon as practicable following the execution of this Agreement, (i) the Company shall cause 51 percent of the Mexico Assets to be contributed to Newco, (ii) the Company shall cause the remaining Mexico Assets to be conveyed, assigned, transferred and delivered to Subsidiary Corporation #1 and (iii) Newco shall convey, assign, transfer and deliver to Subsidiary Corporation #1 the portion of the Mexico Assets referred to in clause (i) of this Subsection (b). Such conveyances, assignments, transfers and deliveries shall be effected by such bills of sales, endorsements, assignments or other instruments of transfer and conveyance as appropriate. As a result of such conveyances, assignments, transfers and deliveries, the Company and Newco will own 49% and 51% membership interests, respectively, in Subsidiary Corporation #1 (such 51% interest, the "Mexico Interest").

(c)_Concurrently with such conveyances, assignments, transfers and deliveries, the Company and Newco shall, and the Company shall cause Subsidiary #1 to, execute and deliver the Additional Agreements to which such entities are parties.

ARTICLE III THE EXCHANGE OFFER; THE DISTRIBUTION

Section 3.1 COMMENCEMENT OF THE EXCHANGE OFFER. As soon as practicable after the date hereof, Newco shall file with, and use its best efforts to cause to be declared effective by, the SEC, a registration statement on Form S-4 (such registration statement, as the same may be amended from time to time, the "Registration Statement") pursuant to which it will register under the Securities Act, 27 million shares of Newco Common Stock to be issued in the Exchange Offer. As soon as practicable after the Registration Statement has been declared effective under the Securities Act, the Company shall file with the SEC an Issuer Tender Offer Statement on Schedule 13E-4 and commence an issuer tender

offer (the "Exchange Offer") pursuant to which the Company will offer to exchange, subject to the terms and conditions set forth in this Agreement and in Exhibit M hereto, one share of Newco Common Stock for each share of Company Common Stock up to a maximum of 27 million shares of Newco Common Stock.

Section 3.2 TERM OF EXCHANGE OFFER. The Exchange Offer shall have a scheduled expiration date 20 business days following the date of commencement. Subject to the terms and conditions of the Exchange Offer, the Company shall accept for payment all shares of Company Common Stock which have been validly tendered and not withdrawn pursuant to the Exchange Offer (up to a maximum of 27 million such shares), and shall pay for each such share by issuing in exchange therefor one share of Newco Common Stock, at the earliest time following expiration of the Exchange Offer that all conditions to the Exchange Offer shall have been satisfied. If more than 27 million shares of Company Common Stock are validly tendered and not withdrawn in the Exchange Offer prior to the expiration thereof, 27 million shares of Company Common Stock so tendered shall be accepted for payment, and shares of Newco Common Stock issued in exchange therefor, on a pro rata basis. The Company shall not extend the term of the Exchange Offer, except that the Company Executive Committee or the Newco Executive Committee may extend the term of the Exchange Offer to comply with applicable law; PROVIDED, HOWEVER, that in no event shall the time of expiration be extended beyond January 31, 1995.

Section 3.3 THE DISTRIBUTION. (a) If the Exchange Offer is terminated with no shares exchanged or is consummated and the number of shares validly tendered by holders of Company Common Stock, and exchanged by the Company for shares of Newco Common Stock, is less than 21.6 million, the Board of Directors of the Company will declare a distribution on each share of Company Common Stock payable to holders of record of shares of Company Common Stock as of a date no more than 20 business days after the

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Closing Date (the "Distribution Record Date"), such distribution to consist of a portion of a share of Newco Common Stock equal to a fraction, the numerator of which is the number of shares of Newco Common Stock owned by the Company following termination or consummation of the Exchange Offer and the denominator of which is the number of shares of Company Common Stock outstanding on the Distribution Record Date (the "Distribution Fraction").

(b) If the Exchange Offer is consummated and the number of shares validly tendered by holders of Company Common Stock, and exchanged by the Company for shares of Newco Common Stock, is greater than 21.6 million, but less than 27 million, the Company, at its option, shall take one of the following actions:

(i) the Board of Directors of the Company will cause to occur a distribution on each share of Company Common Stock payable to holders of record of shares of Company Common Stock as of the Distribution Record Date, such dividend to consist of a portion of a share of Newco Common Stock equal to the Distribution Fraction; or

(ii) on the thirtieth business day following the Closing Date, the Company shall sell to Newco all shares of Newco Common Stock owned by the Company following consummation of the Exchange Offer, including, without limitation, such shares representing aggregated fractional shares which would have been distributed to holders of Company Common Stock but for subsection (c) below (and Newco shall be required to purchase such shares by delivering in exchange therefor its Promissory Note substantially in the form attached hereto as Exhibit N), at a price per share equal to the average of the closing sales price of Newco Common Stock for the 20 trading days commencing on the sixth trading day following the expiration of the Exchange Offer (or if Newco Common Stock does not trade on any such day, the average of the high bid and low asked price per share on such day), which right of the Company to so sell shall be exercised by delivering written notice to Newco within 20 business days after the Closing Date specifying (A) the number of shares of Newco Common Stock owned by the Company and (B)

that the Company desires to sell such shares to Newco.

(c) Notwithstanding any other provision of this Agreement, no certificates or scrip for fractional shares of Newco Common Stock shall be issued in any distribution of such shares as set forth above, and no dividend or other distribution, stock split or interest with respect to shares of Newco Common Stock shall relate to any fractional security, and such fractional interests shall not entitle the owner thereof to vote or to any other rights of a stockholder. In lieu of such fractional shares, each holder of shares of Company Common Stock who would otherwise have been entitled to a fraction of a share of Newco Common Stock shall be entitled to receive a cash payment (without interest) in lieu of such fractional share equal to such fraction multiplied by the average closing price per share of Newco Common Stock on the National Association of Securities Dealers Inc. Automated Quotation/National Market System (or on such other quotation service or exchange as the Newco Common Stock shall be quoted or listed), during the ten trading days immediately following the date of distribution of shares of Newco Common Stock by the Company. If, following any distribution of shares of Newco Common Stock by the Company, as set forth in this Section 3.3, the Company shall own any shares of Newco Common Stock representing aggregated fractional shares which would have been distributed to holders of Company Common Stock but for this subsection (c), the Company shall sell such shares to Newco, in the manner and valued in accordance with subsection (b)(ii) above.

ARTICLE IV THE CLOSING

Section 4.1 CLOSING. The closing (the "Closing") of the transactions contemplated by this Agreement, other than those actions that are taken and transactions that were consummated pursuant to Article II hereof at the Transfer Closing and that will be consummated pursuant to section 2.6 hereof, shall take place on the date immediately following the expiration of the Exchange Offer, or if such date is not a business day, and the Company so elects, on the next business day thereafter (the "Closing Date"). The Closing shall take place at the offices of Skadden, Arps, Slate, Meagher & Flom, 300 South Grand Avenue, Los Angeles, California at 10:00 a.m., local time, or at such other time and place as the parties may mutually agree.

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Section 4.2 ACTIONS TO BE TAKEN AT THE CLOSING. At the Closing the following actions shall be taken (if such actions have not been taken prior to the Closing):

(a) the Company will deliver to a bank or trust company (designated by the Company to serve as the agent of the Company for exchanging shares of Newco Common Stock for shares of Company Common Stock in the Exchange Offer), a number of shares of Newco Common Stock (up to a maximum of 27 million such shares) equal to the number of shares of Company Common Stock validly tendered and not withdrawn in the Exchange Offer and accepted for payment by the Company;

(b) the amended Certificate of Incorporation of Newco shall be filed with the Secretary of State of the State of Delaware;

(c) the amendments to the Bylaws of Newco, which shall have been amended in accordance with Section 6.2 hereof, shall become effective;

(d) the amendment of the Bylaws of the Company to read in their entirety as set forth in Exhibit O hereto shall become effective;

(e) the Board of Directors of Newco shall be expanded and the newly created directorships shall be filled, as described in Section 6.4 hereof;

(f) the resignations of certain Price Designees from the Board of Directors of the Company, as described in Section 6.5 hereof, shall become

effective; and

(g) each of the Company and Newco shall deliver or cause to be delivered all other documents, instruments and writings required to be delivered by the Company or Newco, as the case may be, at or prior to the Closing Date pursuant to this Agreement.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to Newco as follows:

Section 5.1 TITLE TO PROPERTY. All of the real and personal property owned by the Company or any of its subsidiaries and included in the Transferred Assets, the Scheduled Mexico Assets, the International Assets or the Quest Assets is owned by the Company or such subsidiary free and clear of any minority interest (in the case of all owned Commercial Properties) and free and clear of all liens except for (i) liens imposed by operation of law for current taxes not yet due and payable in the ordinary course of business, (ii) mechanics', repairmen's, materialmen's and other like liens in respect of liabilities which are not yet due or which are being contested in good faith, (iii) liens arising out of or relating to Environmental Liabilities, (iv) liens which have been previously disclosed by the Company or any of its subsidiaries to Newco or with respect to which Newco has knowledge, and (v) those liens that do not materially and adversely affect the marketability or intended use of such property.

Section 5.2 BROKERS AND FINDERS. Other than Donaldson, Lufkin & Jenrette Securities Corporation and Lehman Brothers, none of the Company or any of its subsidiaries nor any of their respective directors, officers or employees has employed any broker or finder (including, without limitation, any real estate broker) or incurred any liability for any financial advisory fees, commissions or similar payments in connection with the transactions contemplated by this Agreement.

Section 5.3 NO OTHER REPRESENTATIONS OR WARRANTIES. Except as set forth in Sections 5.1 and 5.2, the Company is not, in this Agreement nor in any other agreement or document contemplated by this Agreement, making any representations or warranties with respect to the Transferred Assets, the Mexico Assets, the International Assets or the Quest Assets.

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ARTICLE VI
ADDITIONAL MATTERS RELATED TO THE
TRANSFER AND THE EXCHANGE OFFER

Section 6.1 CERTAIN COMMITTEES. (a) The Board of Directors of the Company has heretofore taken all necessary actions so that, at the Transfer Closing Date

(i) there shall be formed an executive committee of the Board of Directors of Newco (the "Newco Executive Committee"), the charter of which shall read as set forth in Exhibit P hereto, consisting of James D. Sinegal and two persons designated by the Price Designees then serving on the Board of Directors of the Company;

(ii) the charter of the current Executive Committee of such Board will be amended to read as set forth in Exhibit P hereto and such Executive Committee will be reconstituted, the members thereof to consist of (A) Richard M. Libenson; (B) Duane Nelles; and (C) all of the Costco Designees then serving on the Board of Directors of the Company (such committee, as reconstituted, the "Company Executive Committee");

(iii) the charter of the current Audit and Compensation Committees of such Board will be amended to read as set forth in Exhibit Q and each such committee will consist of two Costco Designees and two Price Designees; and

(iv) there shall be formed a real estate committee (the "Real Estate Committee") and a finance committee (the "Finance Committee"), the charters

of which shall read as set forth in Exhibit Q, each such committee to consist of two Costco Designees and two Price Designees.

(b) Each of the Newco Executive Committee, the Company Executive Committee, the Audit Committee, the Compensation Committee, the Real Estate Committee and the Finance Committee shall exist from the time of execution of this Agreement until the earliest to occur of (i) the consummation of the Exchange Offer, (ii) January 31, 1995 or (iii) the date on which Newco Common Stock is first distributed to the stockholders of the Company.

Section 6.2 CERTIFICATE OF INCORPORATION AND BYLAWS OF NEWCO. At or prior to the Closing Date the Certificate of Incorporation and Bylaws of Newco shall be amended in a manner specified by Newco prior to the Transfer Closing Date.

Section 6.3 AMENDMENT OF BYLAWS OF THE COMPANY. The Board of Directors of the Company has heretofore taken all necessary actions so that the Bylaws of the Company shall be amended to read in their entirety as set forth in Exhibit O hereto, which amendment shall become effective as of the earlier to occur of (A) the Closing Date or (B) the date that shares of Newco Common Stock are distributed to holders of Company Common Stock.

Section 6.4 BOARD OF DIRECTORS OF NEWCO. At the Closing Date, the existing Board of Directors of Newco shall cause such Board to be expanded and the Board of Directors of Newco, by a majority vote, shall fill such newly created directorships.

Section 6.5 BOARD OF DIRECTORS OF THE COMPANY. (a) At the Closing Date, the resignation of each Price Designee other than Richard M. Libenson and Duane Nelles shall become effective. Each such resignation shall be set forth in a letter from each such Price Designee (in the form attached hereto as Exhibit R), which shall be executed concurrently with the execution of this Agreement.

(b) Unless removed for cause, each of Messrs. Libenson and Nelles shall serve on the Board of Directors of the Company until the earlier of (i) the date two years following the Closing Date and (ii) such time as Sol Price and Robert Price and their affiliates in the aggregate cease to beneficially own at least two million shares of Company Common Stock (including any such shares owned by charitable trusts established by either of them).

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Section 6.6 AGREEMENT NOT TO COMPETE. (a) For a period of five years following the Closing Date, Newco shall not, nor shall it permit or suffer any of its subsidiaries to: (i) directly or indirectly engage in or conduct any Club Business in any geographical area other than the Specified Geographical Areas, own any interest in another company that conducts a Club Business in any area other than the Specified Geographical Areas (PROVIDED that none of Newco, Subsidiary Corporation #2 or any of their subsidiaries shall be prohibited from purchasing and owning securities of any such company as a passive investment so long as such securities in the aggregate represent no more than 10% of the equity securities of such company) or knowingly sell to or provide services to a Club Business in any such area, and in the Specified Geographical Areas shall conduct a Club Business only through the relevant Subsidiary Corporation; (ii) sell, assign, lease, transfer or otherwise convey (A) any Commercial Property, or any portion thereof, to any person for use as a Club Business (other than the Company), if any Club Business operated by the Company as of the date hereof is located on, adjacent to or within the same development as such latter Club Business or (B) any of the Commercial Properties listed on Schedule 6.6 hereto to any person for use as a Club Business so long as the Company or one of its subsidiaries shall operate a Club Business in the same trade area; (iii) conduct a Quest Business from within a location that is owned or operated by any of the Specified Companies or in any Club Business other than a Club Business operated by the Company, Newco, the Subsidiary Corporations or any of the licensees of the Subsidiary Corporations; or (iv) without the prior written consent of the Company (which shall not unreasonably be withheld), engage in any business with any of the Specified Companies, except that Newco and its subsidiaries may (A)

except as provided in clause (ii) above, sell, assign, lease, transfer or otherwise convey any real property to, or purchase, lease or otherwise take possession of any real property from, any of the Specified Companies and (B) purchase merchandise from any of the Specified Companies in the ordinary course of business and consistent with the Company's past practice.

(b) For a period of five years following the Closing Date, the Company shall not, nor shall it permit or suffer any of its subsidiaries to: (i) directly or indirectly conduct a Club Business in any of the Specified Geographical Areas other than through the Subsidiary Corporations, own any interest in another company that conducts a Club Business in any of the Specified Geographical Areas (PROVIDED that neither the Company nor any of its subsidiaries shall be prohibited from purchasing and owning securities of any such company as a passive investment so long as such securities in the aggregate represent no more than 10% of the equity securities of such company) or transfer to any person (other than Newco or the relevant Subsidiary Corporation) the right to conduct a Club Business in any of the Specified Geographical Areas, including, without limitation, any right to use the name "Costco" in such Specified Geographical Areas, PROVIDED, HOWEVER, that, with respect to Mexico, the foregoing restrictions set forth in this clause (i) shall terminate and have no further force or effect upon any sale of all of the shares of capital stock of Primex, or all of the shares of capital stock of Price Club Mexico, owned, directly or indirectly, by Subsidiary Corporation #1 to Comercial Mexicana or any of its affiliates (as such term is defined under Rule 12b-2 promulgated pursuant to the Securities Exchange Act of 1934, as amended); (ii) conduct a Quest Business; PROVIDED, HOWEVER, that nothing herein shall prohibit the Company or its subsidiaries from conducting business (other than any business conducted through the Quest Assets) in the manner heretofore conducted or, with Newco's consent (which shall not be unreasonably withheld), from conducting interactive promotional and advertising activities other than through an electronic interactive shopping format; or (iii) without the prior consent of Newco (which shall not unreasonably be withheld), engage in any business with any of the Specified Companies, except that the Company and its subsidiaries may (A) sell, assign, lease, transfer or otherwise convey any Club Business or any real property to, or purchase, lease or otherwise take possession of any Club Business or any real property from, any of the Specified Companies and (B) purchase merchandise from any of the Specified Companies in the ordinary course of business and consistent with past practice.

(c) Prior to entering into any agreement or arrangement with any person (other than the Company) to own, operate or develop a Club Business in any Specified Geographical Area, whether pursuant to a joint venture, license, equity investment by such person in Subsidiary Corporation #2 or otherwise, Newco or Subsidiary Corporation #2 shall obtain the agreement of such person that such person will not directly or indirectly use any proprietary information or know-how acquired from Subsidiary Corporation #2 with respect to the ownership and operation of a Club Business in such person's other business activities (other

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than the Club Business owned, operated or developed with Subsidiary Corporation #2 in the Specified Geographical Area), and such agreement shall expressly state that the Company shall be a third party beneficiary of such agreement. In addition, any such agreement with Coles Myer Ltd shall also provide that Coles Myer Ltd will not enter into a Club Business outside the Specified Geographical Areas.

Section 6.7 CONTINUANCE OF EXISTING INDEMNIFICATION RIGHTS. (a) From and after the Closing Date, and for a period of six years thereafter, the Company shall continue the indemnification rights of present and former directors and officers of the Company provided for in the Restated Certificate of Incorporation and Bylaws of the Company as in effect on the date hereof, with respect to indemnification for acts and omissions occurring prior to the Closing Date, including, without limitation, with respect to the litigation entitled

FECHT ET AL. V. THE PRICE COMPANY ET AL, for so long as such matters which have arisen prior to the end of such six-year period remain outstanding.

(b) For two years after the Closing Date the Company shall cause to be maintained the current policies of the officers' and directors' liability insurance maintained by the Company covering the persons who are presently covered by the Company's officers' and directors' liability insurance policies with respect to actions and omissions occurring prior to the Closing Date to the extent available; PROVIDED, that policies of at least the same coverage containing terms and conditions which are no less advantageous to the insureds may be substituted therefor; and PROVIDED, FURTHER, that in no event shall the Company, utilizing its best efforts, be required to expend to maintain or procure insurance coverage pursuant to this Section 6.7(a) in any amount per annum in excess of 125% of the current annual premiums for the twelve-month period ended December 31, 1993 (the "Maximum Premium") with respect to such insurance, or, if the cost of such coverage exceeds the Maximum Premium, the maximum amount of coverage that can be purchased for the Maximum Premium.

Section 6.8 [Intentionally omitted]

Section 6.9 [Intentionally omitted]

Section 6.10 CERTAIN ADVANCES BY THE COMPANY TO NEWCO. During the period commencing on the Transfer Closing Date and ending six months after the Closing Date, the Company shall advance to Newco funds in accordance with the terms and conditions set forth on Exhibit S hereto to enable Newco to conduct its business and operations during such period, which advances shall be repaid by Newco in accordance with the terms and conditions of such Exhibit. The terms and conditions set forth on such Exhibit are reflected in a definitive loan agreement entered into by the Company and Newco at the Transfer Closing Date (the "Advance Agreement").

Section 6.11 EXPENSES. All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby or arising in respect hereof (including any taxes arising from the transfer of the Transferred Assets to Newco) shall be paid by the Company, except that, if the Transaction is consummated, all costs and expenses of Latham & Watkins, counsel to Newco, and Kenneth Leventhal & Company, an advisor to Newco, shall be paid by Newco.

Section 6.12 FURTHER ASSURANCES. Subject to the terms and conditions of this Agreement, each of the parties hereto shall use all reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement. In case at any time after the Closing Date any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and directors of each party to this Agreement shall take all necessary actions to the extent not inconsistent with their other duties and obligations or applicable law.

Section 6.13 ACCESS. Upon reasonable notice, the Company shall afford to Newco and its officers, employees, accountants, counsel, advisors and other representatives access during normal business hours to all of the real properties included in the Transferred Assets and all of the Company's contracts, commitments, books and records relating thereto and all of the Company's contracts, commitments, books and records relating to the International Assets, the Mexico Assets and the Quest Assets. Unless otherwise required by law, Newco will, and will cause each of its officers, employees, accountants, counsel and advisors

to, hold any such information which is nonpublic in confidence until such time as such information otherwise becomes publicly available through no wrongful act of Newco or any such person and in the event of termination of this Agreement for any reason, Newco will promptly return, or cause to be returned, all nonpublic documents obtained from the Company.

Section 6.14 APPORTIONMENT. The Company and Newco shall, as of the Transfer Closing Date, apportion (i) the real property taxes on all real property included in the Transferred Assets and transferred to Newco hereunder and (ii) other similar recurring municipal and state charges and assessments relating to the Transferred Assets. All such prorations shall be allocated so that items relating to time periods ending prior to the Transfer Closing Date shall be allocated to the Company and items relating to time periods beginning on or after the Transfer Closing Date shall be allocated to Newco. The amount of all such prorations shall be settled and paid on the Transfer Closing Date; PROVIDED, HOWEVER, that final payments with respect to prorations that are not able to be calculated as of the Transfer Closing Date will be calculated and paid as soon as practicable thereafter. The parties hereto agree to furnish each other with such documents and other records as shall be reasonably requested to confirm all proration calculations.

Section 6.15 CONSENTS. Each of the Company and Newco shall use its reasonable efforts to obtain consents of all persons and governmental and regulatory authorities necessary for the consummation of the transactions contemplated by this Agreement.

Section 6.16 FILINGS. The Company shall make or cause to be made all filings and submissions under laws and regulations applicable to the Company, if any, as may be required by the Company for the consummation of the transactions contemplated by this Agreement. Newco shall make or cause to be made all such other filings and submissions under laws and regulations applicable to Seller for the consummation of transactions contemplated by this Agreement. The Company and Newco shall coordinate and cooperate with one another in exchanging such information and reasonable assistance as may be requested by either of them in connection with this Section 6.16.

Section 6.17 STANDSTILL AGREEMENTS. (a) The Company agrees and covenants that, until five years after the Closing Date, without Newco's prior written consent, the Company will not and will cause each of its subsidiaries not to acquire, offer or propose to acquire, or agree to acquire, directly or indirectly, by purchase or otherwise, any Newco Common Stock or direct or indirect rights or options to acquire (through purchase, exchange, conversion or otherwise), any Newco Common Stock; PROVIDED, HOWEVER, that the foregoing shall not limit any rights of Newco pursuant to the Security and Pledge Agreement which may be entered into by the Company and Newco pursuant to the Note.

(b) Newco agrees and covenants that, until five years after the Closing Date, without the Company's prior written consent, Newco will not and will cause each of its subsidiaries not to acquire, offer or propose to acquire, or agree to acquire, directly or indirectly, by purchase or otherwise, any Company Common Stock, or direct or indirect rights or options to acquire (through purchase, exchange, conversion or otherwise), any Company Common Stock.

Section 6.18 CERTAIN MATTERS WITH RESPECT TO CITY NOTES. If the Company should cease to operate a Club Business at any site with respect to which any governmental agency has executed and delivered one of the City Notes in connection with the development of such site, or the Company should take any other action that would entitle such governmental agency to withhold payment of all or any portion of the unpaid principal of or interest payable on such City Note, Newco shall have the right to sell to the Company such City Note (and the Company shall be required to purchase such City Note from Newco) for an amount of cash equal to 72% of the sum of (a) the outstanding book balance shown on Schedule 1.8 owed on each such City Note, reduced by any principal repayment since the date of such book balance, plus (b) all accrued and unpaid interest from the date of such book balance. Newco shall be entitled to any principal

payments to the Company with respect to the City Notes made between June 5, 1994 and the Transfer Closing Date.

Section 6.19 CERTAIN INSURANCE PROCEEDS. If, at or after the Transfer Closing Date, the Company receives proceeds pursuant to any insurance policy maintained by the Company or any of its subsidiaries in respect of Liabilities relating to or arising in respect of Materials of Environmental Concern and violations

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or purported violations of Environmental Laws, which relate to or arise out of any Real Property transferred to Newco hereunder and which arise out of events occurring prior to the Transfer Closing Date, then the Company agrees to remit, or cause to be remitted, such proceeds to Newco. The Company shall cooperate with Newco and shall take all actions to vest in Newco the right to receive any such proceeds.

Section 6.20 CERTAIN REAL ESTATE MATTERS. (a) To the extent not heretofore undertaken or completed, as soon as practicable after the date hereof, the Company shall (i) engage local counsel, as appropriate, in jurisdictions where the Real Properties are situated, to prepare local addenda to this Agreement to be executed by the Company and Newco where reasonably necessary or appropriate for the transfer of any Real Properties in such jurisdictions; (ii) cause to be commenced and completed the subdivision (in accordance with applicable law) of any of the Real Properties as may be required to effect the transfers of any such Real Property; (iii) cause to be commenced and completed such surveys as may be required to effect the transfer of any Real Property hereunder; and (iv) seek to obtain environmental reports in Real Properties to the extent requested by the Company or Newco.

(b) At or prior to the transfer to Newco of any of the Real Properties not heretofore transferred, the parties shall enter into appropriate agreements covering access, parking and similar matters with respect to such Real Properties, as appropriate, consistent with the current operation of such Real Properties (the "Reciprocal Easement Agreements").

(c) The Company shall be entitled to receive all condemnation proceeds payable due to condemnation proceedings occurring prior to the Transfer Closing Date with respect to the Commercial Property located in Santee, California (denoted as item Number 34 on Schedule 1.14 hereto).

(d) The Company shall satisfy in full all Liabilities pursuant to the Northridge Mortgage at the earliest time that it may do so without incurring any prepayment penalty and, upon such satisfaction, will use all reasonable efforts to secure the release of all liens relating to such mortgage.

Section 6.21 CERTAIN MATTERS WITH RESPECT TO SUBSIDIARY CORPORATION #1. If a sale by Subsidiary Corporation #1 of all of the shares of capital stock of Primex, or all of the shares of capital stock of Price Club Mexico, owned directly or indirectly by Subsidiary Corporation #1 to Comercial Mexicana shall not have been consummated on or before October 1, 1995, then, at the election of either PriceCostco or Price Enterprises (delivered to the other in writing), PriceCostco and Price Enterprises shall, and shall cause Subsidiary Corporation #1 to, (i) take all necessary actions so that Subsidiary Corporation #1 shall cease to be a limited liability company and shall instead become a corporation organized under the laws of the State of Delaware, the certificate of incorporation and bylaws of which shall be substantially in the forms attached hereto as Exhibits ____ and ____ and (ii) execute and deliver a Stockholders' Agreement substantially in the form attached hereto as Exhibit ____.

ARTICLE VII
EMPLOYEE MATTERS

Section 7.1 EMPLOYEES. As of January 1, 1995, Newco shall offer to employ each employee of the Company who is listed on a Schedule previously delivered to the Company, and who remains an employee of the Company immediately prior to January 1, 1995. Each such employee who accepts such offer of employment shall, as of January 1, 1995, be transferred to the employment, and become an employee, of Newco (each such employee and each person who becomes an employee of Newco during the two-year period following the Closing Date, a "Newco Employee"). During the period beginning on the Transfer Closing Date and ending on December 31, 1994 (the "Transition Period"), the Company shall continue to employ each employee listed on the foregoing Schedule (collectively, and together with any additional persons who become employees of the Company during the Transition Period at the request of Newco, hereinafter referred to in connection with the Transition Period as "Retained Employees") and shall provide employee benefits to the Retained Employees under substantially the same terms and conditions as those under which such employees are employed as of the Transfer Closing Date; PROVIDED, HOWEVER, that the Company shall retain the right, at Newco's request, to terminate a Retained Employee for any reason. During the Transition

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Period, Newco shall lease from the Company the services of the Retained Employees and shall be liable, and reimburse the Company, for the cost of such services based on the Company's actual cost in respect thereof, including without limitation salary, wages, vacation accrual, fringe benefits and employee benefit costs and related expenses payable to or on behalf of the Retained Employees in accordance with the terms of this Article VII; PROVIDED, HOWEVER, that the Company shall be solely liable and retain sole responsibility for the payment of bonuses to the Retained Employees in respect of the 1994 fiscal year.

Section 7.2 COMPANY PLANS.

(a) With respect to the Company Plans, including, but not limited to, the plans listed on Schedule 7.2(a), Newco shall, effective as of January 1, 1995, take, or cause to be taken, all action necessary and appropriate to establish and maintain substantially equivalent employee benefit plans (the "Newco Plans") for the benefit of Newco Employees who participated in the respective, comparable Company Plan. Newco agrees that each Newco Employee eligible to participate in a Company Plan shall immediately become eligible to participate in the comparable Newco Plan, and, for all purposes under such Newco Plan, each Newco Employee shall be entitled to service and any accrued benefit or account balance, as the case may be, credited to such Newco Employee as of January 1, 1995 under the terms of the comparable Company Plan as if such service had been rendered to Newco and as if such accrued benefit or account balance had originally been credited to such Newco Employee under such Newco Plan. The Company agrees to provide Newco, as soon as practicable after the Transfer Closing Date (with the cooperation of Newco to the extent that relevant information is in the possession of Newco or its subsidiaries), with a list of the Retained Employees who were, to the best knowledge of the Company, participants in the Company Plans immediately prior to the Transfer Closing Date, together with a listing of each such employee's service for eligibility, vesting and benefit accrual purposes under such plan and a list of each such Retained Employee's accrued benefit or account balance thereunder. The Company shall, as soon as practicable after the Transfer Closing Date, provide Newco with such additional information (not already in the possession of Newco or its subsidiaries) as may be reasonably requested by Newco and necessary in order for Newco and its subsidiaries to effectively maintain and administer the Newco Plans.

(b) In the case of each Company Plan that is a defined contribution plan, the Company agrees to direct the trustee of each such plan to transfer, on, or as soon as is practicable after, January 1, 1995, to the trustee or other funding agent of the applicable Newco Plan, in cash, securities, other property

or a combination thereof, as determined by the Company, subject to approval by Newco (which approval shall not be unreasonably withheld), the respective account balances of the Newco Employees as of the date of transfer, plus that portion of any unallocated contributions that is attributable to the Newco Employees.

(c) The Company and Newco shall, in connection with the transfers described in Section 7.2(b), cooperate in making any filings required under the Code or ERISA, and the regulations thereunder and any applicable securities laws, and take all such action as may be necessary and appropriate to cause such transfers to take place as soon as practicable after the Transfer Closing Date.

(d) Except as specifically set forth in this Section 7.2 and in Section 7.7, from and after January 1, 1995, the Company and its subsidiaries shall cease to have any liability or obligation whatsoever with respect to Newco Employees under the Company Plans, and Newco and its subsidiaries shall assume and be solely responsible for all liabilities and obligations whatsoever of the Company and its subsidiaries with respect to Newco Employees under the Company Plans and shall be solely responsible for all liabilities and obligations whatsoever under the Newco Plans. Without limiting the generality of the foregoing, the Company and its subsidiaries shall contribute or cause to be contributed to each Company Plan not later than such time as may be required by law or such earlier time as may be required under the applicable plan, the contribution with respect to the 1994 plan year required to be made under the terms of such plan and applicable law, and Newco shall reimburse the Company for that portion of such contribution attributable to the Retained Employees during the Transition Period.

Section 7.3 WELFARE PLANS; CERTAIN OTHER PLANS.

(a) The Company and its subsidiaries shall be solely responsible for, or cause their insurance carriers to be responsible for, the satisfaction of all claims for medical, life insurance, health, accident, workers'

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compensation or disability benefits brought by or in respect to any of the Newco Employees under each "employee welfare benefit plan," as such term is defined in Section 3(1) of ERISA, including, but not limited to, the plans, programs, and arrangements listed in Schedule 7.3(a) (the "Company Welfare Plans"), which claims relate to events occurring prior to the Transfer Closing Date, regardless of when notices of such claims are properly filed, without interruption as a result of the employment by Newco or any of its subsidiaries of any such employees.

(b) During the Transition Period, and thereafter until the second anniversary of the Closing Date, the Company shall continue to provide coverage under the Company Welfare Plans to Retained Employees, directors of Newco and Newco Employees, respectively, on the same terms and conditions as were in effect prior to the Transfer Closing Date except for changes in such terms and conditions that apply to similarly situated employees of the Company or provide such coverage under an alternative arrangement. The Company shall take all action necessary and appropriate to amend the Company Welfare Plans or provide for such an alternative arrangement to provide for such continued coverage. Newco shall be liable, and reimburse the Company, for the provision of such coverage based on the Company's actual cost, on an average per capita basis (not including any incremental costs attributable to the use of an alternative arrangement), with respect to claims relating to events occurring on or after the Transfer Closing Date.

(c) Newco and its subsidiaries shall be liable, and reimburse the Company and its subsidiaries, for or indemnify the Company and its subsidiaries against any and all liabilities and obligations whatsoever in connection with claims for medical, life insurance, health, accident or disability benefits brought by or in respect of Newco Employees under the Company Welfare Plans or otherwise, which claims relate to events occurring on or after the second anniversary of the Closing Date.

(d) Newco shall assume all obligations and liabilities with respect to any

other employment-related right, claim, cause of action, expense, obligation, liability or cost ("Costs") with respect to a Retained Employee or Newco Employee (including but not limited to such Costs arising under the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, the WARN Act and other federal, state or local laws respecting the terms and conditions of employment not otherwise provided for in this Article VII), which Costs are attributable to events occurring on or after the Transfer Closing Date; and the Company shall retain all obligations and liabilities with respect to such Costs that are attributable to events occurring prior to the Transfer Closing Date.

(e) On, or as soon as practicable after, January 1, 1995, the Company shall transfer to Newco an amount in cash equal to the dollar value of any accrued but unused vacation days attributable to Newco Employees as determined as of the Transfer Closing Date.

Section 7.4 EMPLOYEE STOCK OPTIONS. Each outstanding option ("Company Option") for the purchase of shares of Common Stock granted under the Company's stock option plans (the "Company Option Plans"), which Company Option is held, as of January 1, 1995, by a Newco Employee and is then exercisable or would have been exercisable using the formula set forth in any of the Company Option Plans had the employment of the Newco Employee been terminated on such date, shall continue to be exercisable on the same terms and conditions set forth in the agreement evidencing the grant of the Company Option; PROVIDED, HOWEVER, that the term of the Company Option shall expire no later than the date that is 30 days following the date on which the holder ceases to be a Newco Employee; and PROVIDED FURTHER, HOWEVER, that, to the extent a Company Option is not exercisable as set forth above, it shall expire as of such date, it being understood that the Exchange Offer shall not constitute an event causing the acceleration of the exercisability of any such Company Option. The Company shall take all action necessary and appropriate to amend the Company Option Plan to provide for the continued exercise of Company Options as described in this Section 7.4; PROVIDED, HOWEVER, that to the extent that such amendment would adversely affect the status of any Company Option Plan under Rule 16b-3 of the Securities Exchange Act of 1934, as amended, alternate adjustments shall be made (which may include the grant of a substituted option to purchase Company Common Stock outside the Company Option Plans).

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Section 7.5 SEVERANCE PAY.

(a) The Company and Newco agree that the employment of Newco Employees by Newco or any of its subsidiaries on or after January 1, 1995, shall not be deemed a severance of employment from the Company and its subsidiaries for purposes of the payment of severance, salary continuation or similar benefits pursuant to any policy, plan, program or agreement of the Company or its subsidiaries to the extent that any such policy, plan, program or agreement now exists.

(b) Newco and its subsidiaries shall assume and be solely responsible for all liabilities and obligations whatsoever in connection with claims made by or on behalf of the Retained Employees and the Newco Employees in respect of severance pay, salary continuation and similar obligations relating to the termination or alleged termination of any such person's employment on or after the Transfer Closing Date, and the Company shall remain responsible for such liabilities and obligations in connection with Company employees who do not become Retained Employees.

Section 7.6 SENIORITY. If the Company rehires any Newco Employee at any time during the one-year period following the Transfer Closing Date, such person shall be reinstated without any loss of seniority; PROVIDED, HOWEVER, that this Section 7.6 shall not be construed to obligate the Company to offer to rehire any Newco Employee.

Section 7.7 ADMINISTRATIVE SERVICES. Newco shall pay the Company the sum

of \$500,000 in two equal installments of \$250,000 each (which shall be due on June 30, 1995 and June 30, 1996) for making available to Newco administrative services in connection with the Newco Plans and the Company Welfare Plans whether or not any such services are used by Newco. At the request of Newco, the Company shall provide to Newco such administrative services in connection with the Newco Plans as Newco and the Company shall mutually agree upon, during the two-year period following the Closing Date. During such period, if the Company shall incur any incremental, third-party out-of-pocket expenses in connection with procuring or providing employee benefits to any employee of Newco, Newco shall reimburse the Company for any such expenses.

Section 7.8 MEMBERSHIP PRIVILEGES. Newco Employees shall be entitled to free PriceCostco warehouse club memberships so long as they remain in the employ of Newco or one of its subsidiaries.

ARTICLE VIII
[Intentionally omitted]

ARTICLE IX
INDEMNIFICATION

Section 9.1 INDEMNIFICATION.

(a) The Company shall indemnify Newco against and hold Newco harmless from any loss, liability, claim, damage or expense (including reasonable legal fees and expenses) suffered or incurred by Newco arising from, relating to or otherwise in respect of (i) any material breach of, or inaccuracy in, any representation or warranty of the Company contained in this Agreement; (ii) any material breach of any covenant of the Company contained in this Agreement; (iii) one-half of all Liabilities relating to Materials of Environmental Concern and violations or purported violations of Environmental Laws arising out of or relating to the Commercial Property located in Phoenix, Arizona and known as the Phoenix Fry's property (denoted as item number 4 on Schedule 1.14 hereto); (iv) the Retained Liabilities; (v) the Northridge Mortgage; and (vi) all Liabilities to which Newco may become subject under the Securities Act or any other statute or common law (including any amount paid in settlement of any litigation, commenced or threatened, if such settlement is effected with the written consent of the Company) insofar as any such Liabilities arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or the Tender Offer Statement on Schedule 13E-4, or the omission or alleged omission to state therein a material fact required to be stated herein or necessary to make the

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statements therein not misleading; PROVIDED, HOWEVER, that the indemnification agreement contained in this clause shall not apply to any losses, liabilities, claims, damages, or expenses arising out of, or based upon, any such untrue statement or alleged untrue statement, or any such omission or alleged omission, which was made in reliance upon and in conformity with information furnished to the Company by Newco for use in connection with the Registration Statement or the Tender Offer Statement on Schedule 13E-4.

(b) The Company shall indemnify Newco and Subsidiary Corporation #1 against and hold Newco and Subsidiary Corporation #1 harmless from any loss, liability, claim, damage or expense (including reasonable legal fees and expenses) suffered or incurred by Subsidiary Corporation #1 arising from, relating to or otherwise in respect of any Retained Liabilities relating to or arising out of the Mexico Assets.

(c) The Company shall indemnify Newco and Subsidiary Corporation #2 against and hold Newco and Subsidiary Corporation #2 harmless from any loss, liability, claim, damage or expense (including reasonable legal fees and expenses) suffered or incurred by Subsidiary Corporation #2 arising from, relating to or otherwise in respect of any Retained Liabilities relating to or arising out of the International Assets.

(d) The Company shall indemnify Newco and Subsidiary Corporation #3 against and hold Newco and Subsidiary Corporation #3 harmless from any loss, liability, claim, damage or expense (including reasonable legal fees and expenses) suffered or incurred by Subsidiary Corporation #3 arising from, relating to or otherwise in respect of any Retained Liabilities relating to or arising out of the Quest Assets.

(e) Newco shall indemnify the Company against and hold the Company harmless from any loss, liability, claim, damage or expense (including reasonable legal fees and expenses) suffered or incurred by the Company arising from, relating to or otherwise in respect of (i) any material breach of any covenant of Newco contained in this Agreement; (ii) the Assumed Liabilities; and (iii) all Liabilities to which the Company may become subject under the Securities Act or any other statute or common law (including any amount paid in settlement of any litigation, commenced or threatened, if such settlement is effected with the written consent of Newco) insofar as any such Liabilities arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or the Tender Offer Statement on Schedule 13E-4, or the omission or alleged omission to state therein a material fact required to be stated herein or necessary to make the statements therein not misleading; PROVIDED, HOWEVER, that the indemnification agreement contained in this clause shall not apply to any losses, liabilities, claims, damages, or expenses arising out of, or based upon, any such untrue statement or alleged untrue statement, or any such omission or alleged omission, which was made in reliance upon and in conformity with information furnished to Newco by the Company for use in connection with the Registration Statement or the Tender Offer Statement on Schedule 13E-4.

(f) Newco shall cause Subsidiary Corporation #1 to indemnify the Company against and hold the Company harmless from any loss, liability, claim, damage or expense (including reasonable legal fees and expenses) suffered or incurred by the Company arising from, relating to or otherwise in respect of the Mexico Assets which arise out of events occurring at or after the Transfer Closing Date.

(g) Newco shall cause Subsidiary Corporation #2 to indemnify the Company against and hold the Company harmless from any loss, liability, claim, damage or expense (including reasonable legal fees and expenses) suffered or incurred by the Company arising from, relating to or otherwise in respect of the International Assets which arise out of events occurring at or after the Transfer Closing Date.

(h) Newco shall cause Subsidiary Corporation #3 to indemnify the Company against and hold the Company harmless from any loss, liability, claim, damage or expense (including reasonable legal fees and expenses) suffered or incurred by the Company arising from, relating to or otherwise in respect of the Quest Assets which arise out of events occurring at or after the Transfer Closing Date.

(i) Newco guarantees to the Company the full and prompt performance by each Subsidiary Corporation of each and every obligation required of each of them pursuant to this Section 9.1. Newco hereby waives presentment demand and similar defenses to the enforcement of this guarantee.

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Section 9.2 PROCEDURES RELATING TO INDEMNIFICATION.

(a) Each person to be indemnified pursuant to Section 9.1 (an "indemnified party") shall give prompt notice to the indemnifying party of the assertion of any claim, or the commencement of any suit, action or proceeding, brought against or sought to be collected from such indemnified party (each a "Third Party Claim"), in respect of which indemnity may be sought by such indemnified party under Section 9.1; PROVIDED that the omission so to promptly notify the indemnifying party with respect to a Third Party Claim brought against or sought

to be collected from such indemnified party will not relieve the indemnifying party from any liability which it may have to such indemnified party under Section 9.1 except to the extent that such indemnifying party demonstrates that such failure has materially prejudiced such indemnifying party with respect to the defense of such Third Party Claim. If any indemnified party shall seek indemnity under Section 9.1 with respect to a Third Party Claim brought against or sought to be collected from such indemnified party, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, to assume and direct the defense and settlement thereof with counsel satisfactory to such indemnified party; PROVIDED that if such indemnifying party shall so assume the defense and settlement of any Third Party Claim brought against or sought to be collected from such indemnified party, such Third Party Claim shall be conclusively deemed a matter in respect of which such indemnified party is entitled to be indemnified by such indemnifying party under Section 9.1; and PROVIDED FURTHER that if any Third Party Claim brought against or sought to be collected from any indemnified party includes a request for injunctive or other equitable relief that, if granted, is reasonably likely to have a material adverse effect on the business, assets, financial or other condition, results of operations or prospects on such indemnified party, such indemnified party shall be entitled to control and direct the defense and settlement thereof and in such event the legal and other expenses subsequently incurred by such indemnified party in connection with the defense thereof shall be paid by the indemnifying party. After notice from the indemnifying party to an indemnified party of its election to assume and direct the defense and settlement of a Third Party Claim brought against or sought to be collected from such indemnified party which such indemnifying party is entitled to assume and direct under the terms hereof, the indemnifying party shall not be liable to such indemnified party under Section 9.1 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation; PROVIDED that such indemnified party shall have the right to employ counsel to represent such party if such party is advised by counsel that a conflict exists between the interests of such party and the indemnifying party such that, as a result, such party should be represented by separate counsel, and in such event the fees and expenses of such separate counsel shall be paid by the indemnifying party. Notwithstanding the foregoing provisions of this Section 9.2(a), the indemnifying party shall not (A) without the prior written consent of an indemnified party, effect any settlement of any pending or threatened proceeding in respect of which such indemnified party is, or with reasonable foreseeability, could have been a party and indemnity could have been sought hereunder by such indemnified party for a Third Party Claim brought against or sought to be collected from such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability arising out of such proceeding (PROVIDED that, whether or not such a release is required to be obtained, the indemnifying party shall remain liable to such indemnified party in accordance with Section 9.1 in the event that a Third Party Claim is subsequently brought against or sought to be collected from such indemnified party) or (B) be liable for any settlement of any Third Party Claim brought against or sought to be collected from an indemnified party effected without such indemnifying party's written consent (which shall not be unreasonably withheld), but if settled with such indemnifying party's written consent, or if there is a final judgment for the plaintiff in any such Third Party Claim, such indemnifying party agrees (to the extent stated above) to indemnify the indemnified party from and against any loss, liability, claim, damage or expense by reason of such settlement or judgment. The indemnification required by Section 9.1 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or loss, liability, claim, damage or expense is incurred.

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(b) In the event any indemnified party should have a claim against any indemnifying party under Section 9.1 that does not involve a Third Party Claim being asserted against or sought to be collected from such indemnified party, the indemnified party shall deliver notice of such claim with reasonable promptness to the indemnifying party. The failure by any indemnified party to so notify the indemnifying party shall not relieve the indemnifying party from any liability that it may have to such indemnified party under Section 9.1 except to the extent that the indemnifying party demonstrates that it has been materially

prejudiced by such failure. If the indemnifying party does not notify the indemnified party within 15 calendar days following its receipt of such notice that the indemnifying party disputes its liability to the indemnified party under Section 9.1, such claim specified by the indemnified party in such notice will be conclusively deemed a liability of the indemnifying party under Section 9.1 and the indemnifying party shall pay the amount of such liability to the indemnified party on demand or, in the case of any notice in which the amount of the claim (or any portion thereof) is estimated, on such later date when the amount of such claim (or such portion thereof) becomes finally determined. If the indemnifying party has timely disputed its liability with respect to such claim, as provided above, the indemnifying party and the indemnified party agree to proceed in good faith to negotiate a resolution of such dispute and, if not resolved through negotiations, such dispute will be resolved by arbitration in accordance herewith.

ARTICLE X
MISCELLANEOUS

Section 10.1 AMENDMENT AND MODIFICATION. This Agreement may be amended, modified or supplemented only by written agreement of the Company and Newco.

Section 10.2 WAIVER OF COMPLIANCE. Except as otherwise provided in this Agreement, any failure of any party hereto to comply with any obligation, covenant, agreement or condition herein may be waived by the party entitled to the benefits thereof only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

Section 10.3 ARBITRATION.

(a) In the event that, from time of time, any controversy or claim shall arise out of or relate to this Agreement, any of the Additional Agreements, the transactions contemplated hereby or thereby or any documents or agreements contemplated by or delivered hereunder or thereunder, or any substantive issue or dispute shall be raised by either the Company or Newco with the amount in controversy believed in good faith by both parties to be \$15 million or less, such controversy, claim, substantive issue or dispute shall be settled by arbitration in San Francisco, California in accordance herewith and with the then prevailing Commercial Arbitration Rules of the American Arbitration Association, Expedited Procedures. Each of the Company and Newco shall use reasonable efforts, acting in good faith, to mutually select one person prior to the Transfer Closing Date who shall serve as the arbitrator with respect to any such arbitration proceeding.

(b) In the event that, from time to time, any controversy or claim shall arise out of or relate to this Agreement, any of the Additional Agreements, the transactions contemplated hereby or thereby or any documents or agreements contemplated by or delivered hereunder or thereunder, or any substantive issue or dispute shall be raised by either the Company or Newco, with the amount in controversy believed in good faith by either party to be in excess of \$15 million, such controversy, claim, substantive issue or dispute shall be settled by arbitration in San Francisco, California in accordance herewith and with the then prevailing Commercial Arbitration Rules of the American Arbitration Association. The parties will have 14 days from service of the arbitration demand to mutually agree on and select an arbitrator. If no such agreement and selection occurs, the arbitrator shall be a member of the AAA's Large Complex Case Panel, and shall be selected under the AAA Commercial Arbitration Rule. All documents and information relevant to the claim or dispute in the possession of any party shall be made available to the other party not later than sixty (60) days after the demand for arbitration is served, and the arbitrator may permit such depositions or other discovery deemed necessary for a fair hearing. The hearing may not exceed two days. The award shall be

rendered within 120 days of the demand and may not include punitive damages. The decision of the arbitrator or arbitrators shall be in writing and, where appropriate, shall be presented in separate findings of fact and conclusions of law.

(c) The decision of the arbitrator or arbitrators hereunder shall be final and binding on the parties from which no appeal may be taken. The prevailing party in any arbitration hereunder (or if there is no prevailing party, the party, if any, designated by the arbitrator) shall be entitled to recover reasonable attorneys' fees and expenses from the other party, which fees and expenses shall be in addition to any other relief that may be awarded.

Section 10.4 NOTICES. Any notices or other communications required or permitted hereunder shall be in writing and shall be deemed duly given upon (a) transmitter's confirmation of a receipt of a facsimile transmission, (b) confirmed delivery by a standard overnight carrier or (c) the expiration of five business days after the day when mailed by certified or registered mail, postage prepaid, addressed at the following addresses (or at such other address as the Company or Newco shall specify by like notice):

If to the Company, to:

Price/Costco, Inc.
10809 120th Avenue NE
Kirkland, Washington 98033

Attention: Donald E. Burdick, Esq.

Copy to:

Skadden, Arps, Slate, Meagher & Flom
300 South Grand Avenue
Suite 3400
Los Angeles, California 90071

Attention: Joseph J. Giunta, Esq.

and

Gibson, Dunn & Crutcher
333 South Grand Avenue
Los Angeles, California 90071

Attention: Jonathan K. Layne, Esq.

If to Newco, to:

Price Enterprises, Inc.
4649 Morena Boulevard
San Diego, California 92117

Attention: Robert E. Price

Copy to:

Latham & Watkins
701 "B" Street
Suite 2100
San Diego, California 92101

Attention: Scott N. Wolfe, Esq.

Section 10.5 ASSIGNMENT. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the Company and Newco and their respective successors and permitted assigns, but

neither this Agreement nor any of the rights, interests, or obligations hereunder shall be assigned by either the Company or Newco without the prior written consent of the other party, except as otherwise provided in the Operating Agreements.

Section 10.6 INTERPRETATION. The descriptive headings contained in this Agreement are solely for convenience of reference, and do not constitute a part of this Agreement and shall not in any way affect the meaning or interpretation of this Agreement.

Section 10.7 GOVERNING LAW. This Agreement shall be governed by the laws of the State of New York (regardless of the laws that might be applicable under principles of conflicts of law) as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies.

Section 10.8 COUNTERPARTS. This Agreement may be executed in two or more counterparts all of which shall be considered one and the same agreement and each of which shall be deemed an original.

Section 10.9 THIRD PARTIES. Nothing herein expressed or implied is intended or shall be construed to confer upon or give any person other than the parties hereto and their successors and assigns, any rights or remedies under or by reason of this Agreement. Notwithstanding the foregoing, each of the Subsidiary Corporations is intended to be, and hereby expressly is constituted, a third party beneficiary of the agreements of the Company contained in Article IX hereof that relate to such Subsidiary Corporation.

Section 10.10 COMPLETE AGREEMENT. This Agreement constitutes the entire agreement of the Company and Newco with respect to the subject matter hereof and supersedes all prior arrangements or understandings with respect thereto. There are no restrictions, agreements, promises, warranties, covenants or undertakings other than those expressly set forth herein.

Section 10.11 SEVERABILITY. If any provision of this Agreement shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by its duly authorized officers as of the day and year first above written.

PRICE/COSTCO, INC.

By: /s/ RICHARD A. GALANTI

Name: Richard A. Galanti
Title: Executive Vice President,
Chief Financial Officer

PRICE ENTERPRISES, INC.

By: /s/ ROBERT E. PRICE

Name: Robert E. Price
Title: President

FORM OF INDEMNITY AGREEMENT

This Indemnity Agreement is made and entered into as of the _____ day of _____, 199 by and between PRICE/COSTCO, INC, a Delaware corporation (the "Company"), and ("Indemnitee").

WHEREAS, Indemnitee is currently serving as a director, officer, employee and/or agent of the Company and/or, at the Company's request, as a director, officer, employee and/or agent of another corporation, partnership, joint venture, trust or other enterprise, and the Company wishes Indemnitee to continue in such capacity(ies);

WHEREAS, the Restated Certificate of Incorporation (the "Restated Certificate of Incorporation") and the Bylaws (the "Bylaws") of the Company each provide that the Company shall indemnify, in the manner and to the fullest extent permitted by the Delaware General Corporation Law (the "DGCL"), certain persons, including directors, officers, employees or agents of the Company, against specified expenses and losses arising out of certain threatened, pending or completed actions, suits or proceedings;

WHEREAS, Indemnitee has indicated that he or she may not be willing to continue to serve as a director, officer, employee and/or agent of the Company and/or, at the Company's request, as a director, officer, employee and/or agent of another corporation, partnership, joint venture, trust or other enterprise in the absence of indemnification in addition to that provided in the Restated Certificate of Incorporation and the Bylaws of the Company;

WHEREAS, DGCL Section 145(f) expressly recognizes that the indemnification provisions of the DGCL are not exclusive of any other rights to which a person seeking indemnification may be entitled under the Restated Certificate of Incorporation or Bylaws of the Company, or an agreement providing for indemnification, or a resolution of stockholders or directors, or otherwise;

WHEREAS, the Company, in order to induce Indemnitee to continue to serve in such capacity, has agreed to provide Indemnitee with the benefits contemplated by this Indemnity Agreement, and, as a result of the provision of such benefits, Indemnitee has agreed to continue to serve in such capacity; and

WHEREAS, the Restated Certificate of Incorporation and Bylaws each expressly recognizes that the indemnification provisions of the Restated Certificate of Incorporation and Bylaws shall not be deemed exclusive of, and shall not affect, any other rights to which a person seeking indemnification may be entitled under any agreement, and this Indemnity Agreement is being entered into pursuant to the Restated Certificate of Incorporation and Bylaws as permitted by the DGCL, and as authorized by the stockholders of the Company.

NOW, THEREFORE, in consideration of the promises, conditions and representations set forth herein, including Indemnitee's continued service as a director, officer, employee and/or agent of the Company and/or, at the Company's request, as a director, officer, employee and/or agent of another corporation, partnership, joint venture, trust or other enterprise, the Company and Indemnitee hereby agree as follows:

Section 1. DEFINITIONS. The following terms, as used herein, shall have the following meanings:

(a) "Covered Claim" shall mean any claim against Indemnitee based upon or arising out of any past, present or future act, omission, neglect or breach of duty, including, without limitation, any actual or alleged error, omission, misstatement or misleading statement, that Indemnitee may commit or suffer while serving in his or her capacity as a director, officer, employee and/or agent of the Company and/or, at the Company's request, as a director, officer, employee and/or agent of another corporation,

partnership, joint venture, trust or other enterprise, provided that such claim:

(i) is not solely based upon and does not arise solely out of Indemnatee gaining in fact any personal profit or advantage to which Indemnatee is not legally entitled;

(ii) is not for an accounting of profits made from the purchase or sale by Indemnatee of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of any state law; and

(iii) is not based solely upon and does not arise solely out of Indemnatee's knowingly fraudulent, deliberately dishonest or willful misconduct.

(b) "Determination" shall mean a determination, based upon the facts known at the time, made by:

(i) the Board of Directors of the Company, by the vote of a majority of the directors who are not parties to the action, suit or proceeding in question, at a meeting at which there is a quorum consisting solely of such disinterested directors;

(ii) if such a quorum is not obtainable, or, even if obtainable, if directed by a majority of such disinterested directors at a meeting of the Board of Directors of the Company at which there is a quorum consisting solely of such disinterested directors, by independent legal counsel in a written opinion;

(iii) the stockholders of the Company; or

(iv) a court of competent jurisdiction in a final, nonappealable adjudication.

(c) "Payment" shall mean any and all amounts that Indemnatee is or becomes legally obligated to pay in connection with a Covered Claim, including, without limitation, damages, judgments, amounts paid in settlement, reasonable costs of investigation, reasonable fees of attorneys, costs of investigative, judicial or administrative proceedings or appeals, and costs of attachment or similar bonds.

Section 2. INDEMNIFICATION. The Company shall indemnify and hold harmless Indemnatee against and from any and all Payments to the extent that:

(a) the Company shall not have advanced expenses to Indemnatee pursuant to the provisions of Article TENTH of the Company's Certificate of Incorporation or otherwise and no determination shall have been made pursuant to such Article or the DGCL that the Indemnatee is not entitled to indemnification;

(b) Indemnatee shall not already have received payment on account of such Payments pursuant to one or more valid and collectible insurance policies; and

(c) such indemnification by the Company is not unlawful.

Notwithstanding anything contained in this Agreement to the contrary, except for proceedings to enforce rights to indemnification or advancement of expenses pursuant to Section 4 hereof, the Company shall have no obligation to indemnify Indemnatee in connection with a proceeding (or part thereof) initiated by Indemnatee unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Company. Further, the Company shall have no obligation to indemnify Indemnatee under this Indemnity Agreement for any amounts paid in a settlement of any action, suit or proceeding effected without the Company's prior written consent, which consent shall not be unreasonably withheld. The Company shall not settle any claim in any manner that would impose any obligation on Indemnatee without Indemnatee's prior written consent.

Indemnitee shall not unreasonably withhold his consent to any proposed settlement.

Section 3. INDEMNIFICATION PROCEDURE; ADVANCEMENTS OF COSTS AND EXPENSES.

(a) Promptly after receipt by Indemnitee of notice of the commencement or threat of commencement of any action, suit or proceeding, Indemnitee shall, if indemnification with respect thereto may be sought from the Company under this Indemnity Agreement, notify the Company thereof in writing.

(b) If, at the time of receipt of such notice the Company has directors' and officers' liability insurance in effect, the Company shall give prompt notice of the commencement of such action, suit or proceeding to the

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insurers in accordance with the procedures set forth in the respective policies in favor of Indemnitee. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all Payments payable as a result of such action, suit or proceeding in accordance with the terms of such policies.

(c) All costs and expenses, including reasonable fees of attorneys, incurred by Indemnitee in defending or investigating such action, suit or proceeding shall be paid by the Company in advance of the final disposition of such action, suit or proceeding; provided, however, that no such costs or expenses shall be paid by the Company if, with respect to such action, suit or proceeding, a Determination is made that:

(i) Indemnitee did not act in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company;

(ii) in the case of any criminal action or proceedings, Indemnitee had reasonable cause to believe his or her conduct was unlawful; or

(iii) Indemnitee intentionally breached his or her duty to the Company or its stockholders.

Indemnity hereby undertakes to and agrees that he or she will repay the Company for any costs or expenses advanced by or on behalf of the Company pursuant to this Section 3(c) if it shall ultimately be determined by a court of competent jurisdiction in a final, nonappealable adjudication that Indemnitee is not entitled to indemnification under this Indemnity Agreement.

(d) If the Company shall advance the costs and expenses of any such action, suit or proceeding pursuant to Section 3(c) of this Indemnity Agreement, it shall be entitled to assume the defense of such action, suit or proceeding, if appropriate, with counsel reasonably satisfactory to Indemnitee, upon delivery to Indemnitee of written notice of its election so to do. After delivery of such notice, the Company shall not be liable to Indemnitee under this Indemnity Agreement for any costs or expenses subsequently incurred by Indemnitee in connection with such defense other than reasonable costs and expenses of investigation; provided, however, that:

(i) Indemnitee shall have the right to employ separate counsel in any such action, suit or proceeding provided that the fees and expenses of such counsel incurred after delivery of notice by the Company of its assumption of such defense shall be at Indemnitee's own expense; and

(ii) the fees and expenses of counsel employed by Indemnitee shall be at the expense of the Company if (aa) the employment of counsel by Indemnitee has previously been authorized by the Company, (bb) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense (provided that the Company shall not be required to pay for more than one counsel to represent two or more Indemnitees where such Indemnitees have reasonably concluded that there is no conflict of interest among them in the conduct of such

defense), or (cc) the Company shall not, in fact, have employed counsel to assume the defense of such action, suit or proceeding.

(e) All payments on account on the Company's advancement obligations under Section 3(c) of this Indemnity Agreement shall be made within twenty (20) days of Indemnitee's written request therefor. All other payments on account of the Company's obligations under this Indemnity Agreement shall be made within sixty (60) days of Indemnitee's written request therefor, unless a Determination is made that the claims giving rise to Indemnitee's request are not payable under this Indemnity Agreement. Each request for payment hereunder shall be accompanied by evidence reasonable satisfactory to the Company of Indemnitee's incurrence of the costs and expenses for which such payment is sought.

Section 4. ENFORCEMENT OF INDEMNIFICATION; BURDEN OF PROOF. If a claim for indemnification or advancement of costs and expenses under this Indemnity Agreement is not paid in full by or on behalf of the Company within the time period specified in Section 3(e) of this Indemnity Agreement, Indemnitee may at any time thereafter bring suit against the Company to recover the unpaid amount of such claim. In any such action, the Company shall have the burden of proving that indemnification is not required under this Indemnity Agreement.

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Section 5. EMPLOYEE BENEFIT PLANS. The term "other enterprises," as used in this Indemnity Agreement, shall include employee benefit plans. All references in this Indemnity Agreement to "serving...at the Company's request" shall include any service by Indemnitee as a director, officer, employee and/or agent of the Company which imposes duties on, or involves services by, Indemnitee with respect to an employee benefit plan, its participates or beneficiaries. If Indemnitee acts in good faith and in a manner he or she reasonably believes to be in the interests of the participants and beneficiaries of an employee benefit plan, then, for purposes of Section 3(c)(i) hereof, Indemnitee shall be deemed to have acted in a manner he or she "reasonably believed to be in or not opposed to the best interests of the Company".

Section 6. RIGHTS NOT EXCLUSIVE. The rights to indemnification and advancement of costs and expenses provided hereunder shall not be deemed exclusive of any other rights to which Indemnitee may be entitled under any charter document, bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

Section 7. SUBROGATION. In the event of payment under this Indemnity Agreement by or on behalf of the Company, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers that may be required and shall do all things that may be necessary to secure such rights, including, without limitation, the execution of such documents as may be necessary to enable the Company effectively to bring suit to enforce such rights.

Section 8. CHOICE OF LAW. This Indemnity Agreement shall be governed by and constructed and enforced in accordance with the laws of the State of Delaware.

Section 9. JURISDICTION. The Company and Indemnitee hereby irrevocably consent to the jurisdiction of the courts of the State of Delaware for all purposes in connection with any action, suit or proceeding which arises out of or relates to this Indemnity Agreement, and agree that any action instituted under this Indemnity Agreement shall be brought only in the state courts of the State of Delaware.

Section 10. ATTORNEYS' FEES. If any action, suit or proceeding is commenced in connection with or related to this Indemnity Agreement, the prevailing party shall be entitled to have its costs and expenses, including, without limitation, reasonable fees of attorneys and reasonable expenses of investigation, paid by the losing party.

Section 11. SEVERABILITY. In the event that any provision of this Indemnity Agreement is determined by a court to require the Company to do or to fail to do an act that is in violation of any applicable law, such provision shall be

limited or modified in its application to the minimum extent necessary to avoid a violation of law, and, as so limited or modified, such provision and the balance of this Indemnity Agreement shall be enforceable in accordance with their terms.

Section 12. SUCCESSORS AND ASSIGNS. This indemnity Agreement shall be binding upon all successors and assigns of the Company, including any transferee of all or substantially all of its assets and any successor by merger or otherwise by operation of law, and shall be binding upon and inure to the benefit of the heirs, executors and administrators of Indemnatee.

Section 13. DESCRIPTIVE HEADINGS. The descriptive headings in this Indemnity Agreement are included for the convenience of the parties only and shall not affect the construction of this Indemnity Agreement.

Section 14. COUNTERPARTS. This Indemnity Agreement may be executed in two counterparts, both of which taken together shall constitute one document.

Section 15. AMENDMENT. No amendment, modification, termination or cancellation of this Indemnity Agreement shall be effective unless made in writing and signed by each of the parties hereto.

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IN WITNESS WHEREOF, the Company and Indemnatee have executed this Indemnity Agreement as of the day and year first above written.

PRICE/COSTCO, INC.

By _____

INDEMNITEE

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CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Price/Costco, Inc.'s previously filed Registration Statement File No. 33-50799.

Arthur Andersen LLP

Seattle, Washington
November 14, 1994

CONSENT OF INDEPENDENT AUDITORS

Board of Directors
Price/Costco, Inc.

We consent to the incorporation by reference in Price/Costco, Inc. Registration Statement Number 33-50799 on Form S-8 of our report dated November 19, 1993, with respect to the consolidated financial statements and schedules of The Price Company included in Price/Costco's Annual Report (Form 10-K/A) for the year ended August 29, 1993.

Ernst & Young LLP

San Diego, California

<ARTICLE> 5

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This schedule information contains summary financial information extracted from PriceCostco's annual report on form 10K for the fiscal year ended August 28, 1994.

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