

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 31, 1997

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 0-20355

COSTCO COMPANIES, 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.)

999 LAKE DRIVE, ISSAQUAH, WA 98027

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (425) 313-8100

Securities registered pursuant to Section 12(b) of the Act: 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, 1997, was \$7,992,988,812.

The number of shares outstanding of the registrant's common stock as of
October 31, 1997 was 213,867,058.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on January 21, 1998 are incorporated by reference into Part III of this Form 10-K.

COSTCO COMPANIES, INC.

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED AUGUST 31, 1997

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PART I

ITEM 1--BUSINESS

Costco Companies, Inc. ("Costco" or the "Company") began operations in 1976 in San Diego, California as The Price Company, pioneering the membership warehouse concept. Costco Wholesale Corporation began operations in 1983 in Seattle, Washington with a similar membership warehouse concept. Costco Companies, Inc. (formerly Price/Costco, Inc. prior to a name change approved by the shareholders in January 1997), a Delaware corporation, publicly traded under the NASDAQ ticker symbol "COST", was formed in October 1993 as a result of a merger of Costco Wholesale Corporation and The Price Company. Costco Companies, Inc. is the parent company of Costco Wholesale Corporation and The Price Company which operate membership warehouses primarily under the Costco Wholesale name.

In the second quarter of fiscal 1995, the Company completed a spin-off of Price Enterprises, Inc. ("Price Enterprises"), consisting of Costco's discontinued non-club commercial real estate operations and certain other assets. (See "Note 2--Spin-off of Price Enterprises, Inc. and Discontinued

Operations").

GENERAL

Costco operates 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 high sales volumes and rapid inventory turnover. 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 Costco to operate profitably at significantly lower gross margins than traditional wholesalers, discount retailers and supermarkets.

Costco buys nearly all of its merchandise directly from manufacturers for shipment either directly to Costco's selling warehouses or to a consolidation point ("depot") where various shipments are combined so as to minimize freight and handling costs. As a result, Costco 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, Costco 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. Costco'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.

Because of its high sales volume and rapid inventory turnover, Costco 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 Costco 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.

Costco's typical warehouse format averages approximately 129,000 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, Costco's warehouses need not be located on prime commercial real estate sites or have elaborate facilities.

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By strictly controlling the entrances and exits of its warehouses and by limiting membership to selected groups and businesses, Costco 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. Losses associated with dishonored checks have also been minimal, 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 Costco.

Costco'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 lower marketing expenses as compared to typical discount retailers and supermarkets. In connection with new warehouse openings, Costco'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 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 to prospective wholesale members.

Costco'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., with earlier closing hours on the weekend. Because these hours of operation are shorter than those of traditional discount grocery retailers and supermarkets, 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 centralized, automated check-out stands. Items are not individually price marked; rather, each item is bar-coded so it can be scanned into electronic cash registers. This allows price changes without remarking merchandise. Substantially all manufacturers provide merchandise pre-marked with the item numbers and bar codes and many provide special, larger package sizes.

Costco'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 Costco can provide its members significant cost savings. Items which members may request but which cannot be purchased at prices low enough to pass along meaningful cost savings are usually not carried. Costco seeks to limit specific items in each product line to fast selling models, sizes and colors and therefore carries only an average of approximately 3,600 to 4,000 active stockkeeping units ("SKU's") per warehouse as opposed to discount retailers and supermarkets which normally stock 40,000 to 60,000 SKU's or more. These practices are consistent with Costco's membership policies of satisfying both the business and personal shopping needs of its wholesale members, thereby encouraging high volume shopping. Many consumable products are offered for sale in case, carton or multiple-pack quantities only. Appliances, equipment and tools often feature commercial and professional models. Costco's policy is to accept returns of merchandise within a reasonable time after purchase.

The following table indicates the approximate percentage of net sales accounted for by each major category of items sold by Costco during fiscal 1997, 1996 and 1995:

	1997	1996	1995
	-----	-----	-----
SUNDRIES (including candy, snack foods, health and beauty aids, tobacco, alcoholic beverages, soft drinks and cleaning and institutional supplies).....	31%	32%	32%
FOOD (including dry and fresh foods and institutionally packaged foods).....	32%	32%	32%
HARDLINES (including major appliances, video and audio tape, electronics, tools, office supplies, furniture and automotive supplies).....	20%	21%	22%
SOFTLINES (including apparel, domestics, cameras, jewelry, housewares, books and small appliances).....	12%	11%	11%
OTHER (including pharmacy, optical, one-hour photo, print shop, hearing aid and gas stations).....	5%	4%	3%
	---	---	---
	100%	100%	100%
	---	---	---

Costco has direct buying relationships with many producers of national brand name merchandise. No significant portion of merchandise is obtained by Costco from any one of these or any other single supplier. Costco 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. Costco also purchases different national brand name or selected private label merchandise of the same product, as long as cost, quality and customer demand are comparable.

Costco 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 Costco's operations, except an increased level of sales and earnings during the Christmas holiday season.

MEMBERSHIP POLICY

Costco's membership format is designed to reinforce customer loyalty and provide a continuing source of membership fee revenue. Costco 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. Costco promotes Business membership through its merchandise selection and its membership marketing programs. Business members generally pay an annual membership fee of \$30 for the primary membership card with additional membership cards available for an annual fee of \$20.

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 spouse card.

As of August 31, 1997, Costco had approximately 4.0 million Business memberships and approximately 7.7 million Gold Star memberships. Members can utilize their memberships at any wholesale location.

LABOR

As of August 31, 1997, Costco had approximately 57,000 employees, about 50% of which were part time. Approximately 12,500 hourly employees in California, Maryland, New Jersey, New York and one

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warehouse in Virginia are represented by the International Brotherhood of Teamsters. All remaining hourly employees are non-union. Costco considers its employee relations to be good.

COMPETITION

The Company operates in the rapidly changing and highly competitive merchandising industry. When The Price Company 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 has become the largest retailer in the United States and has expanded into food merchandising. Target has also emerged as a significant retail competitor. Approximately 750 warehouse clubs exist across the U.S. and Canada, including the 254 warehouses operated by the Company in North America; 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, have

significant 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 and electronic commerce over the Internet is becoming increasingly popular. Likewise, in the institutional food business, companies such as Smart & Final, which operates in Arizona, California and Florida, are 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. (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. While compliance with such laws may cause the Company to charge somewhat higher prices than it otherwise would charge, other retailers 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.

ITEM 2--PROPERTIES

WAREHOUSE PROPERTIES

At August 31, 1997, Costco operated 261 warehouse clubs: 200 in the United States (in 23 states); 54 in Canada (in 9 Canadian provinces); six in the United Kingdom; and one in Taiwan--mainly under the "Costco Wholesale" name. The following is a summary of owned and leased warehouses by region:

NUMBER OF WAREHOUSES

	OWN LAND AND BUILDING	LEASE LAND AND/OR BUILDING	TOTAL
	-----	-----	-----
UNITED STATES.....	160	40	200
CANADA.....	43	11	54
UNITED KINGDOM.....	6	--	6
TAIWAN.....	--	1	1
	---	---	---
Total.....	209	52	261
	---	---	---
	---	---	---

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, 1997:

OPENINGS BY FISCAL YEAR	UNITED STATES	CANADA	OTHER INTERNATIONAL	TOTAL	TOTAL WAREHOUSES IN OPERATION
-----	-----	-----	-----	-----	-----

1992 and prior.....	147	23	--	170	170
1993.....	23	7	--	30	200
1994.....	12	7	2	21	221
1995.....	9	8	2	19	240
1996.....	1	10	1	12	252
1997.....	8	(1)	2	9	261
1998 (through 12/31/97).....	4	2	1	7	268
	---	---	---	---	
Total.....	204	56	8(a)	268	
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(a) As of August 31, 1997, the Company operated (through a 50%-owned joint venture) thirteen warehouses in Mexico (one opened in fiscal 1992, two opened in fiscal 1993, five opened in fiscal 1994, and five opened in fiscal 1995). An additional warehouse was opened in Monterrey, Mexico in September, 1997. These warehouses are not included in the number of warehouses open in any period because the joint venture is accounted for on the equity basis and therefore their operations are not consolidated in the Company's financial statements. Additionally, the Company operates two warehouses in Korea under a licensing agreement. These warehouses are not included in the number of warehouses open in any period because the arrangement is accounted for as a licensing agreement.

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

DISCONTINUED OPERATIONS--NON-CLUB REAL ESTATE SEGMENT

As a result of the 1995 spin-off of Price Enterprises, the Company's business now 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.

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ITEM 3--LEGAL PROCEEDINGS

On April 6, 1992, The Price Company 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, The Price Company 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 Price Company's counsel, alleged substantially the same facts as the prior complaint. The Complaint alleged violation of certain state and federal laws during the time period prior to The Price Company's earnings release for the second quarter of fiscal year 1992. 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 filed an Appeal in the Ninth Circuit Court of Appeals. In an opinion dated November 20, 1995, the Ninth Circuit reversed and remanded the lawsuit. In February 1997, the Court granted the plaintiffs' motion for certification of a class consisting of all purchasers of the common stock of The Price Company from April 3, 1991 through April 2, 1992. The Company believes that this lawsuit is without merit and is vigorously defending the lawsuit. 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 21, 1998, at the Meydenbauer Center Hall 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.

NAME	AGE	POSITION WITH COMPANY
James D. Sinegal	61	President and Chief Executive Officer
Jeffrey H. Brotman	55	Chairman of the Board
Richard D. DiCerchio	54	Sr. Executive Vice President, Chief Operating Officer-- Merchandising, Distribution, Construction and Marketing
Richard A. Galanti	41	Executive Vice President and Chief Financial Officer
Franz E. Lazarus	50	Executive Vice President--International Operations
David B. Loge	55	Executive Vice President--Manufacturing and Ancillary Businesses
Walter C. Jelinek	45	Executive Vice President, Chief Operating Officer--Northern Division
Edward B. Maron	70	Executive Vice President, Chief Operating Officer--Canadian Division
Joseph P. Portera	44	Executive Vice President, Chief Operating Officer--Eastern Division
Dennis R. Zook	48	Executive Vice President, Chief Operating Officer--Southern Division

James D. Sinegal has been President, Chief Executive Officer and a director of the Company since October 1993 upon consummation of the Merger of Costco Wholesale Corporation and The Price Company. From its inception until 1993, he was President and Chief Operating Officer of Costco Wholesale Corporation and served as Chief Executive Officer from August 1988 until October 1993. Mr. Sinegal was a co-founder of Costco Wholesale Corporation and has been a director since its inception.

Jeffrey H. Brotman is a native of the Pacific Northwest and is a 1967 graduate of the University of Washington Law School. Mr. Brotman was a founder and Chairman of the Board of Costco Wholesale Corporation from its inception. Upon the consummation of the Merger, Mr. Brotman became the Vice Chairman of the Company, and has served as Chairman since December, 1994. Mr. Brotman is a founder of a number of other specialty retail chains. He is a director of Starbucks Corp., the Sweet Factory and Garden Botanika, and serves as an Advisory Board Member of Seafirst Bank.

Richard D. DiCerchio was named Senior Executive Vice President of the Company in 1997. He has been Executive Vice President and Chief Operating Officer--Merchandising, Distribution, Construction and Marketing and a director of the Company since October 1993. Until mid-August 1994, he also served as Executive Vice President, Chief Operating Officer--Northern Division. He was appointed Chief Operating Officer--Western Region of Costco Wholesale Corporation in August 1992 and was appointed Executive Vice President and director of Costco Wholesale Corporation in April 1986. From June 1985 to April 1986, he was Senior Vice President, Merchandising of Costco Wholesale Corporation. He joined Costco Wholesale Corporation as Vice President, Operations in May 1983.

Richard A. Galanti has been Executive Vice President and Chief Financial

Officer of the Company since the Merger and has been a director of the Company since January 1995. He was Senior Vice President, Chief Financial Officer and Treasurer of Costco Wholesale Corporation since January 1985, having joined Costco Wholesale Corporation as Vice President--Finance in March 1984. From 1978 to February 1984, Mr. Galanti was an Associate with Donaldson, Lufkin & Jenrette Securities Corporation. Mr. Galanti also currently serves as a director of Hollywood Entertainment Corporation.

Franz E. Lazarus was named Executive Vice President--International Operations in September 1995, prior to which he had served as Executive Vice President, Chief Operating Officer--Northern Division of the Company since August 1994 and 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 Wholesale Corporation in August 1992. Mr. Lazarus joined Costco Wholesale Corporation in November 1983 and has held various management positions prior to his current position.

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

Walter C. ("Craig") Jelinek has been Executive Vice President, Chief Operating Officer--Northern Division since September 1995. He had been Senior Vice President, Operations--Northwest Region since September 1992. From May 1986 to September 1994 he was Vice President, Regional Operations Manager--Los Angeles Region and has held various management positions since joining Costco Wholesale Corporation in April 1984.

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

Joseph P. Portera has been Executive Vice President, Chief Operating Officer--Eastern Division of the Company 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 Wholesale Corporation, and has held various management positions since joining Costco Wholesale Corporation in April 1984.

Dennis R. Zook has been Executive Vice President, Chief Operating Officer--Southern Division of the Company since the Merger. He was Executive Vice President of The Price Company since February 1989. Mr. Zook became Vice President of West Coast Operations of The Price Company in

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October 1988 and has held various management positions since joining The Price Company in October 1981.

PART II

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

Trading in Costco Common Stock commenced on October 22, 1993, as Price/Costco, Inc. quoted on The Nasdaq Stock Market's National Market under the symbol "PCCW". On January 29, 1997, the shareholders of the Company approved a name change to Costco Companies, Inc. The stock is now quoted on The Nasdaq Stock Market's National Market under the symbol "COST."

The following table sets forth the closing high and low sales prices of Costco Common Stock for the period January 1, 1995 through October 31, 1997. The quotations are as reported in published financial sources.

COSTCO COMMON STOCK

HIGH LOW
----- ---

Calendar Quarters--1995			
First Quarter.....	15	1/8	12
Second Quarter.....	16	5/8	13 5/16
Third Quarter.....	19	1/2	16 1/4
Fourth Quarter.....	17	3/4	14 3/8
Calendar Quarters--1996			
First Quarter.....	19	1/2	14 3/4
Second Quarter.....	21	5/8	17 1/2
Third Quarter.....	22	1/8	19 3/4
Fourth Quarter.....	25	5/8	19 1/8
Calendar Quarters--1997			
First Quarter.....	30		24 1/8
Second Quarter.....	35	3/16	26 7/8
Third Quarter.....	39	1/8	31 7/16
Fourth Quarter (through October 31, 1997).....	39	5/8	35 1/8

On October 31, 1997, the Company had 7,611 stockholders of record.

DIVIDEND POLICY

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

ITEM 6--SELECTED FINANCIAL DATA

SELECTED FINANCIAL AND OPERATING DATA

The following tables set forth selected financial and operating data for Costco for the ten fiscal years in the period ended August 31, 1997, giving effect to the merger of Costco Wholesale Corporation and The Price Company using the pooling-of-interests method of accounting and treating the non-club real estate segment as a discontinued operation prior to its spin-off in 1994. 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," and the consolidated financial statements of Costco for fiscal 1997.

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COSTCO COMPANIES, INC.
SELECTED CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	52 WEEKS ENDED AUGUST 31, 1997	52 WEEKS ENDED SEPTEMBER 1, 1996	53 WEEKS ENDED SEPTEMBER 3, 1995	52 WEEKS ENDED AUGUST 28, 1994	52 WEEKS ENDED AUGUST 29, 1993	52 WEEKS ENDED AUGUST 30, 1992	52 WEEKS ENDED SEPTEMBER 1, 1991
OPERATING DATA							
Revenue							
Net sales.....	\$21,484,118	\$19,213,866	\$17,905,926	\$16,160,911	\$15,154,685	\$13,820,380	\$11,813,509
Membership fees and other.....	390,286	352,590	341,360	319,732	309,129	276,998	228,742
Total revenue.....	21,874,404	19,566,456	18,247,286	16,480,643	15,463,814	14,097,378	12,042,251
Operating expenses							
Merchandise costs.....	19,314,485	17,345,315	16,225,848	14,662,891	13,751,153	12,565,463	10,755,823
Selling, General & Administrative.....	1,876,759	1,691,187	1,555,588	1,425,549	1,314,660	1,128,898	934,120
Preopening expenses.....	27,448	29,231	25,018	24,564	28,172	25,595	16,289
Provision for impaired assets and warehouse closing costs.....	75,000 (a)	10,000	7,500	7,500	5,000	2,000	1,850
Operating income.....	580,712	490,723	433,332	360,139	364,829	375,422	334,169
Other income (expense)							
Interest expense.....	(76,281)	(78,078)	(67,911)	(50,472)	(46,116)	(35,525)	(26,041)
Interest income and other.....	15,898	10,832	2,783	13,888	17,750	28,958	33,913
Provision for merger and							

restructuring expenses.....	--	--	--	(120,000)	--	--	--
Income from continuing operations before provision for income taxes.....	520,329	423,477	368,204	203,555	336,463	368,855	342,041
Provision for income taxes.....	208,132	174,684	150,963	92,657	133,620	145,833	134,748
Income from continuing operations....	312,197	248,793	217,241	110,898	202,843	223,022	207,293
Discontinued operations:							
Income (loss), net of tax.....	--	--	--	(40,766)	20,404	19,385	11,566
Loss on disposal.....	--	--	(83,363)	(182,500)	--	--	--
Extraordinary items.....	--	--	--	--	--	--	--
Net income (loss).....	\$ 312,197	\$ 248,793	\$ 133,878	\$ (112,368)	\$ 223,247	\$ 242,407	\$ 218,859
Per Share Data--Fully Diluted							
Income from continuing operations.....	\$ 1.46	\$ 1.22	\$ 1.05	\$ 0.51	\$ 0.92	\$ 0.98	\$ 0.93
Discontinued Operations:							
Income (loss), net of tax.....	--	--	--	(0.19)	0.08	0.08	0.05
Loss on Disposal.....	--	--	(0.37)	(0.83)	--	--	--
Extraordinary items.....	--	--	--	--	--	--	--
Net income (loss).....	\$ 1.46	\$ 1.22	\$ 0.68	\$ (0.51)	\$ 1.00	\$ 1.06	\$ 0.98
Shares used in calculation.....	226,195	218,363	224,079	219,334	240,162	245,090	234,202

	52 WEEKS ENDED SEPTEMBER 2, 1990	53 WEEKS ENDED SEPTEMBER 3, 1989	52 WEEKS ENDED AUGUST 28, 1988
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OPERATING DATA

Revenue			
Net sales.....	\$9,346,099	\$7,844,539	\$6,042,159
Membership fees and other.....	185,144	157,621	125,985
Total revenue.....	9,531,243	8,002,160	6,168,144
Operating expenses			
Merchandise costs.....	8,518,951	7,168,907	5,531,626
Selling, General & Administrative.....	719,446	590,465	458,013
Preopening expenses.....	11,691	11,685	6,509
Provision for impaired assets and warehouse closing costs.....	6,000	1,609	4,000
Operating income.....	275,155	229,494	167,996
Other income (expense)			
Interest expense.....	(18,769)	(24,583)	(20,949)
Interest income and other.....	19,239	24,275	22,341
Provision for merger and restructuring expenses.....	--	--	--
Income from continuing operations before provision for income taxes.....	275,625	229,186	169,388
Provision for income taxes.....	107,899	88,742	67,533
Income from continuing operations....	167,726	140,444	101,855
Discontinued operations:			
Income (loss), net of tax.....	6,854	3,600	--
Loss on disposal.....	--	--	--
Extraordinary items.....	--	--	2,856
Net income (loss).....	\$ 174,580	\$ 144,044	\$ 104,711
Per Share Data--Fully Diluted			
Income from continuing operations.....	\$ 0.79	\$ 0.69	\$ 0.56
Discontinued Operations:			
Income (loss), net of tax.....	0.03	0.02	--
Loss on Disposal.....	--	--	--
Extraordinary items.....	--	--	0.02
Net income (loss).....	\$ 0.82	\$ 0.71	\$ 0.58
Shares used in calculation.....	219,532	212,772	181,336

(a) Includes the effect of adopting SFAS 121, a \$65,000 pre-tax (\$38,675 after-tax or \$0.17 per share) charge for asset impairment.

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COSTCO COMPANIES, INC. SELECTED CONSOLIDATED FINANCIAL DATA (DOLLARS IN THOUSANDS, EXCEPT WAREHOUSE DATA)

	AUGUST 31, 1997	SEPTEMBER 1, 1996	SEPTEMBER 3, 1995	AUGUST 28, 1994	AUGUST 29, 1993	AUGUST 30, 1992
	-----	-----	-----	-----	-----	-----
BALANCE SHEET DATA						
Working capital (deficit).....	\$ 145,903	\$ 56,710	\$ 9,381	\$ (113,009)	\$ 127,312	\$ 281,592
Property and equipment, net.....	3,154,634	2,888,310	2,535,593	2,146,396	1,966,601	1,704,052
Total assets.....	5,476,314	4,911,861	4,437,419	4,235,659	3,930,799	3,576,543
Short-term debt.....	25,460	59,928	75,725	149,340	23,093	--
Long-term debt and capital lease obligations, net.....	917,001	1,229,221	1,094,615	795,492	812,576	813,976
Stockholders' equity(a) (b).....	\$ 2,468,116	\$ 1,777,798	\$ 1,530,744	\$ 1,684,960	\$ 1,796,728	\$ 1,593,943

WAREHOUSES IN OPERATION						
Beginning of year.....	252	240	221	200	170	140
Opened(c).....	17	20	24	29	37	31
Closed(d).....	(8)	(8)	(5)	(8)	(7)	(1)
End of Year.....	261	252	240	221	200	170

	SEPTEMBER 1, 1991	SEPTEMBER 2, 1990	SEPTEMBER 3, 1989	AUGUST 28, 1988
BALANCE SHEET DATA				
Working capital (deficit).....	\$ 304,703	\$ 14,342	\$ 103,252	\$ 208,569
Property and equipment, net.....	1,183,432	935,767	752,912	511,784
Total assets.....	2,986,094	2,029,931	1,740,332	1,445,814
Short-term debt.....	--	139,414	114,000	--
Long-term debt and capital lease obligations, net.....	500,440	199,506	234,017	327,760
Stockholders' equity(a) (b).....	\$ 1,429,703	\$ 988,458	\$ 777,730	\$ 585,598
WAREHOUSES IN OPERATION				
Beginning of year.....	119	104	84	77
Opened(c).....	23	19	20	10
Closed(d).....	(2)	(4)	--	(3)
End of Year.....	140	119	104	84

- (a) In 1989 The Price Company paid to its shareholders a one-time special cash dividend of \$74,621 or \$1.50 per share of The Price Company Common Stock.
- (b) In 1989 stockholders' equity reflects a \$20,100 reduction of retained earnings related to conforming The Price Company's accounting for income tax method to Costco Wholesale Corporation's accounting for income tax method as of fiscal 1989.
- (c) Includes relocations as well as new warehouse openings.
- (d) Includes relocations as well as outright closings.

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

COMPARISON OF FISCAL 1997 (52 WEEKS) AND FISCAL 1996 (52 WEEKS):
(DOLLARS IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

Net operating results for fiscal 1997 reflect net income of \$312,197 or \$1.46 per share (fully diluted), compared to a fiscal 1996 net income of \$248,793, or \$1.22 per share (fully diluted). The net income for fiscal 1997 includes a non-cash, pre-tax charge of \$65,000 (\$38,675 after-tax, or \$.17 per share) reflecting a provision for the impairment of long-lived assets as required by the Company's adoption of the Financial Accounting Standards Board Statement No. 121. In addition, net income was impacted by one-time, pre-tax charges of approximately \$13,000 (\$7,800 after-tax, or \$.03 per share) related to the call and majority redemption of \$764,000 of convertible subordinated debentures.

Net sales increased 12% to \$21,484,118 in fiscal 1997 from \$19,213,866 in fiscal 1996. This increase was due to: (i) first year sales at the 17 new warehouses opened during fiscal 1997, which increase was partially offset by eight warehouses closed during fiscal 1997 that were in operation during fiscal 1996; (ii) increased sales at 20 warehouses that were opened in fiscal 1996 and that were in operation for the entire 1997 fiscal year; and (iii) higher sales at existing locations opened prior to fiscal 1996. Changes in prices did not materially impact sales levels.

Comparable sales, that is sales in warehouses open for at least a year, increased at a 9% annual rate in fiscal 1997 compared to a 5% annual rate during fiscal 1996. The improvement in comparable sales levels in fiscal 1997, as compared to fiscal 1996, reflected continued marketing and merchandising efforts, including the expansion of various ancillary businesses at certain existing locations.

Membership fees and other revenue increased 11% to \$390,286, or 1.82% of net sales, in fiscal 1997 from \$352,590, or 1.84% of net sales, in fiscal 1996. This increase is primarily due to membership sign-ups at the 17 new warehouses opened in fiscal 1997. The decrease as percent of sales is due to increasing sales volumes.

Gross margin (defined as net sales minus merchandise costs) increased 16% to \$2,169,633, or 10.10% of net sales, in fiscal 1997 from \$1,868,551, or 9.73% of net sales, in fiscal 1996. Gross margin as a percentage of net sales increased due to greater purchasing power, favorable inventory shrink results, the expanded use of the Company's depot facilities, and improved performance of the Company's international operations. The gross margin figures reflect accounting for most U.S. merchandise inventories on the last-in, first-out (LIFO) method. For both fiscal 1997 and 1996 there was no LIFO charge due to the use of the LIFO method compared to the first-in, first-out (FIFO) method.

Selling, general and administrative expenses as a percent of net sales decreased to 8.74% during fiscal 1997 from 8.80% during fiscal 1996, primarily reflecting the increase in comparable warehouse sales noted above; and a year-over-year improvement at the Company's core warehouse operations and Central and Regional administrative offices, which was partially offset by higher expenses associated with international expansion and certain ancillary businesses.

Preopening expenses totaled \$27,448, or 0.13% of net sales, during fiscal 1997 and \$29,231, or 0.15% of net sales, during fiscal 1996. During fiscal 1997, the Company opened 17 new warehouses compared to 20 new warehouses during fiscal 1996.

The provision for impaired assets and warehouse closing costs includes the non-cash, pre-tax charge of \$65,000 (\$38,675 after-tax, or \$.17 per share) for the impairment of long-lived assets, discussed above, and a pre-tax provision for warehouse closing costs of \$10,000, or \$.03 per share, during fiscal 1997. The provision for warehouse closing costs includes estimated closing costs for certain warehouses, which were or will be replaced by new warehouses. Warehouse closing costs were \$10,000 (pre-tax), or \$.03 per share, in fiscal 1996.

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Interest expense totaled \$76,281 in fiscal 1997, and \$78,078 in fiscal 1996. The decrease in interest expense is primarily related to the call for redemption of three convertible subordinated debenture issues during fiscal 1997. Both the Company's 6 3/4% (\$285,100 principal amount), and 5 1/2% (\$179,300 principal amount) debentures were called for redemption in the second quarter of fiscal 1997. Approximately \$302,000 of these two series of debentures were converted into common stock, thereby eliminating future interest payments associated therewith. The 5 3/4% (\$300,000 principal amount) debentures were called for redemption in the fourth quarter of fiscal 1997. The reduction in interest expense related to the three redemptions was partially offset by the one-time costs of the redemption call premiums and write-offs of unamortized issuance costs associated with the redemptions of these convertible subordinated debentures. Also, in the fourth quarter of fiscal 1997, the Company issued \$900,000 (principal amount at maturity) of Zero Coupon Convertible Subordinated Notes, priced with a yield to maturity of 3 1/2%, resulting in gross proceeds to the Company of \$449,600, approximately \$312,000 of which was used to redeem the 5 3/4% convertible subordinated debentures referred to above.

Interest income and other totaled \$15,898 in fiscal 1997 compared to \$10,832 in fiscal 1996. The increase was primarily due to the Company terminating certain unconsolidated joint ventures which had been incurring losses and improved earnings in its Mexico joint venture operation.

The effective income tax rate on earnings in fiscal 1997 was 40.0% compared to a 41.25% effective tax rate in fiscal 1996. The decrease in the effective tax rate was related primarily to decreases in foreign taxes.

COMPARISON OF FISCAL 1996 (52 WEEKS) AND FISCAL 1995 (53 WEEKS):
(DOLLARS IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

Net operating results for fiscal 1996 reflect net income of \$248,793, or \$1.22 per share (fully diluted), as compared to a fiscal 1995 net income of \$133,878, or \$.68 per share (fully diluted). The fiscal 1995 results include a non-cash charge of \$83,363, or \$.37 per share, reflecting the final calculation for the loss on the disposal of the discontinued real estate operations following the completion of the spin-off of Price Enterprises.

CONTINUING OPERATIONS

Income from continuing operations for fiscal 1996 was \$248,793, or \$1.22 per share (fully diluted), compared to income from continuing operations for fiscal 1995 of \$217,241, or \$1.05 per share.

Net sales increased 7% to \$19,213,866 in fiscal 1996 (a 52-week year) from \$17,905,926 in fiscal 1995 (a 53-week year). This increase was due to: (i) first year sales at the 20 new warehouses opened during fiscal 1996, which increase was partially offset by eight warehouses closed during fiscal 1996 that were in operation during fiscal 1995; (ii) increased sales at 24 warehouses that were opened in fiscal 1995 and that were in operation for the entire 1996 fiscal year; and (iii) higher sales at existing locations opened prior to fiscal 1995. Changes in prices did not materially impact sales levels.

Comparable sales, that is sales in warehouses open for at least a year, increased at a 5% annual rate in fiscal 1996, compared to a 2% annual rate during fiscal 1995. The improvement in comparable sales levels in fiscal 1996, as compared to fiscal 1995, reflects new marketing and merchandising efforts, including the rollout of fresh foods and various ancillary businesses to certain existing locations.

Membership fees and other revenue increased 3% to \$352,590, or 1.84% of net sales, in fiscal 1996 from \$341,360, or 1.91% of net sales, in fiscal 1995. This increase was primarily due to membership sign-ups at the 20 new warehouses opened in fiscal 1996. Effective with renewals in the United States, subsequent to April 1, 1996, the Company increased the annual membership fee for its Business "Add-on" members from \$15 to \$20. There were approximately 3.4 million "Add-on" members as of fiscal 1996 year-end.

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Gross margin (defined as net sales minus merchandise costs) increased 11% to \$1,868,551, or 9.73% of net sales, in fiscal 1996 from \$1,680,078, or 9.38% of net sales, in fiscal 1995. Gross margin as a percentage of net sales increased due to greater purchasing power realized since the merger of Costco Wholesale Corporation and The Price Company, favorable inventory shrink results, the expanded use of the Company's depot facilities and increased sales penetration of certain ancillary businesses. The gross margin figures reflect accounting for most U.S. merchandise inventories on the last-in, first-out (LIFO) method. For fiscal 1996 there was no LIFO charge due to the use of the LIFO method compared to the first-in, first-out (FIFO) method. This compares to a \$9,500 LIFO charge, or \$.03 per share (fully diluted), in fiscal 1995.

Selling, general and administrative expenses as a percent of net sales increased to 8.80% during fiscal 1996 from 8.69% during fiscal 1995, primarily reflecting higher expenses associated with international expansion and certain ancillary operations. In addition, as a result of a strong second half performance, the Company achieved its annual profit goals for the 1996 fiscal year, resulting in a year-over-year increase of \$11,200 in the employee bonus accrual, which covers bonuses payable to more than seven hundred management employees participating in the Company's Annual Bonus Plan.

Preopening expenses totaled \$29,231, or 0.15% of net sales, during fiscal 1996 and \$25,018, or 0.14% of net sales, during fiscal 1995. During fiscal 1996, the Company opened 20 new warehouses compared to 24 new warehouses opened during fiscal 1995. Fiscal 1996 preopening expenses also included an increased level of costs associated with remodeling and expanding fresh foods and ancillary operations at existing warehouses.

The Company recorded a pre-tax provision for warehouse closing costs of \$10,000, or \$.03 per share, on an after-tax basis (fully diluted) in fiscal 1996. The provision included estimated closing costs for certain warehouses, which were or will be replaced by new warehouses, the closing of a regional office and additional costs related to warehouse clubs closed in prior years. Warehouse closing costs were \$7,500 (pre-tax), or \$.02 per share, in fiscal 1995.

Interest expense totaled \$78,078 in fiscal 1996, and \$67,911 in fiscal 1995. 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. The increase in interest expense is primarily related to higher borrowings and interest rates under the Company's bank lines and commercial paper programs and the issuance of \$300,000 in Senior Notes in June 1995.

Interest income and other totaled \$10,832 in fiscal 1996, and \$2,783 in fiscal 1995. This increase was primarily due to the Company reflecting a reduction in its share of losses in certain unconsolidated joint ventures, (primarily PriceQuest) and an increase in income from its joint venture with Price Club Mexico.

In fiscal 1996 and 1995, the effective income tax rate on income from continuing operations before provision for income taxes was 41.25% and 41.00% respectively.

Discontinued operations in fiscal 1995 included a non-cash charge of \$83,363, or \$.37 per share, reflecting the final calculation for the loss on disposal of the discontinued real estate operations. These charges related 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. The Exchange Transaction was completed on December 20, 1994, and the estimated loss on disposal was adjusted to actual. For a more detailed discussion of the Exchange Transaction, see "Note 2--Spin-off of Price Enterprises, Inc. and Discontinued Operations."

RECENT SALES RESULTS (DOLLARS IN THOUSANDS)

Costco's net sales for the nine-week period ended November 2, 1997 were approximately \$3,860,000, an increase of 11% from approximately \$3,470,000 for the same nine-week period of the prior fiscal year.

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Comparable warehouse sales (sales in warehouses open for at least a year) increased by eight percent during the nine-week period.

LIQUIDITY AND CAPITAL RESOURCES (DOLLARS IN THOUSANDS)

The discussion below contains forward-looking statements that involve risks and uncertainties, and should be read in conjunction with the Company's reports filed previously with the Securities and Exchange Commission. Actual results may differ materially.

EXPANSION PLANS

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

While there can be no assurance that current expectations will be realized, and plans are subject to change upon further review, it is management's current intention to spend an aggregate of approximately \$400,000 to \$450,000 during fiscal 1998 in the United States and Canada for real estate, construction,

remodeling and equipment for warehouse clubs and related operations; and approximately \$80,000 to \$100,000 for international expansion, including Mexico, the United Kingdom, Asia and other potential ventures. These expenditures will be financed with a combination of cash provided from operations, the use of cash and cash equivalents (which totaled \$175,508 at August 31, 1997); if necessary, short-term borrowings under revolving credit facilities and/or commercial paper facilities; and other financing sources as required.

Expansion plans for the United States and Canada during fiscal 1998 are to open approximately 20 new warehouse clubs, including one or two relocations. The Company expects to continue expansion of its international operations and plans to open one or two additional units in the United Kingdom through its 60%-owned subsidiary during fiscal 1998. Additionally the Company expects to open one warehouse in Taiwan through a joint venture. Other international markets are being assessed, particularly in the Pacific Rim.

The Company has entered into a purchase agreement with Hechinger Company to acquire seven of Hechinger's locations in Michigan. The acquisition is subject to certain conditions including third party approvals and permits. The Company intends to invest approximately \$80,000 in these facilities, including the initial warehouse purchase and remodeling costs and working capital requirements.

Costco and its Mexico-based joint venture partner, Controladora Comercial Mexicana, each own a 50% interest in Price Club Mexico following the Company's acquisition of Price Enterprises' interest in Price Club Mexico in April 1995. As of August 31, 1997, Price Club Mexico operated 13 Price Club warehouses in Mexico and one additional warehouse was opened in September 1997.

COMMERCIAL PAPER PROGRAMS AND BANK CREDIT FACILITIES (ALL AMOUNTS STATED IN US DOLLARS)

The Company has in place a \$500,000 commercial paper program supported by a \$500,000 bank credit facility with a group of 12 banks, of which \$250,000 expires on January 26, 1998, and \$250,000 expires on January 30, 2001. At August 31, 1997, no amount was outstanding under the loan facility or the commercial paper program.

In addition, a wholly-owned Canadian subsidiary has a \$144,000 commercial paper program supported by a \$101,000 bank credit facility with three Canadian banks, of which \$61,000 expires in March 1998 and \$40,000 expires in March 1999. At August 31, 1997, no amount was outstanding under the bank credit facility and \$25,460 was outstanding under the Canadian commercial paper program.

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The Company has agreed to limit the combined amount outstanding under the U.S. and Canadian commercial paper programs to the \$601,000 combined amounts of the respective supporting bank credit facilities.

LETTERS OF CREDIT

The Company has separate letter of credit facilities (for commercial and standby letters of credit), totaling approximately \$254,000. The outstanding commitments under these facilities at August 31, 1997 totaled approximately \$184,000, including approximately \$42,000 in standby letters of credit for workers' compensation requirements.

REDEMPTION/CONVERSION OF CONVERTIBLE SUBORDINATED DEBENTURES

On November 19, 1996, The Price Company, a wholly-owned subsidiary of the Company, called for redemption all \$285,100 of its 6 3/4% Convertible Subordinated Debentures due 2001. On the redemption date, December 4, 1996, approximately \$159,400 principal amount of the Debentures were converted into approximately 7.1 million shares of Costco Common Stock and the remaining \$125,700 of Debentures were redeemed at a total cost of \$130,300 (including accrued interest and redemption premium). The redemption portion of the transaction was initially financed with short-term bank borrowings.

On December 16, 1996, The Price Company called for redemption all \$179,300 of its 5 1/2% Convertible Subordinated Debentures due 2012. On the redemption date, January 6, 1997, approximately \$142,700 principal amount of the Debentures were converted into approximately 6.0 million shares of Costco Common Stock and the remaining \$36,600 of Debentures were redeemed at a total cost of \$37,500 (including accrued interest and redemption premium). The redemption portion of the transaction was paid with cash on hand.

On August 4, 1997, Costco Wholesale Corporation, a wholly-owned subsidiary of the Company, called for redemption all \$300,000 of its 5 3/4% Convertible Subordinated Debentures due 2002. On the redemption date, August 21, 1997, virtually all of the Debentures were redeemed at a total cost of \$312,000 (including accrued interest and redemption premium). The transaction was financed with proceeds from the issuance of 3 1/2% Zero Coupon Convertible Subordinated Notes (see below).

On August 19, 1997, the Company completed the sale of \$900,000 principal amount at maturity of Zero Coupon Subordinated Notes (the "Notes") due August 19, 2017. The Notes were priced with a yield to maturity of 3 1/2%, resulting in gross proceeds to the Company of \$449,640. The Notes are convertible into a maximum of 10,219,090 shares of Costco Common Stock at an initial conversion price of \$44.00 per share. Holders of the notes may require the Company to purchase the Notes (at the discounted issue price plus accrued interest to date of purchase) on August 19, 2002, 2007, or 2012. The Company, at its option, may redeem the Notes (at the discounted issue price plus accrued interest to date of redemption) any time on or after August 19, 2002. Approximately \$312,000 of the proceeds from the offering were used to redeem Costco Wholesale Corporation's \$300,000 principal amount of 5 3/4% Convertible Subordinated Debentures due 2002, including the redemption premium and accrued interest. The remaining proceeds will be used for general corporate purposes.

The Company has limited involvement with derivative financial instruments and uses them only to manage well-defined interest rate and foreign exchange risks. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on inventory purchases. The amount of interest rate and foreign exchange contracts outstanding at year-end or in place during 1997 was immaterial to the Company's results of operations or its financial position.

FINANCIAL POSITION AND CASH FLOWS

Due to rapid inventory turnover, the Company's operations provide a higher level of supplier trade payables in relation to inventory than generally encountered in other forms of retailing. When combined with other current liabilities, the resulting amount typically approaches or exceeds the current assets needed to operate the business (e.g., merchandise inventories, accounts receivable and other current assets). Working capital totaled approximately \$146,000 at August 31, 1997, compared to working capital of \$57,000 at September 1, 1996. The increase in net working capital was primarily due to an increase in cash and cash equivalents of approximately \$74,000, an increase in owned inventories (inventories less accounts payable) of approximately \$27,000, increases in receivables and other current assets of approximately \$22,000, reductions in short-term borrowings of approximately \$34,000, offset by increases in accrued salaries and benefits of approximately \$46,000 and increases in other current liabilities of approximately \$23,000.

Net cash provided by operating activities totaled \$590,249 in fiscal 1997 compared to \$426,359 in fiscal 1996. The increase in net cash from operating activities is primarily a result of increased net income, adjusted for the non-cash provision for asset impairments, and decreased owned inventory during fiscal 1997 compared to fiscal 1996.

Net cash used in investing activities totaled \$543,173 in fiscal 1997 compared to \$543,249 in fiscal 1996. The investing activities primarily relate to additions to property and equipment for new and remodeled warehouses of

\$553,374 and \$506,782 in fiscal 1997 and 1996, respectively. Additionally, the Company received proceeds from the sale of property and equipment of \$40,946 in fiscal 1997 compared to \$4,665 in fiscal 1996.

Net cash provided by financing activities totaled \$25,144 in fiscal 1997 compared to \$173,749 in fiscal 1996. This decrease is due to the redemption of the convertible debentures in fiscal 1997, partially offset by utilizing short-term borrowings and issuing the Zero Coupon Subordinated Notes.

The Company's balance sheet as of August 31, 1997 reflects a \$564,453 or 11% increase in total assets since September 1, 1996. The increase is primarily due to a net increase in property and equipment and merchandise inventory related to the Company's expansion program.

ITEM 8--FINANCIAL STATEMENTS

Financial statements of Costco are as follows:

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Consolidated Statements of Operations, for the 52 weeks ended August 31, 1997 and September 1, 1996, and the 53 weeks ended September 3, 1995.....	24
Consolidated Statements of Stockholders' Equity, for the 52 weeks ended August 31, 1997 and September 1, 1996, and the 53 weeks ended September 3, 1995.....	25
Consolidated Statements of Cash Flows, for the 52 weeks ended August 31, 1997 and September 1, 1996, and the 53 weeks ended September 3, 1995.....	26
Notes to Consolidated Financial Statements.....	27

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 Costco's Proxy Statement for its Annual Meeting of Stockholders, to be held on January 21, 1998, to be filed with the Securities and Exchange Commission within 120 days of the end of the Company's fiscal year.

ITEM 11--EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to Costco's Proxy Statement for its Annual Meeting of Stockholders, to be held on January 21, 1998, to be filed with the Securities and Exchange Commission within 120 days of the end of the Company's fiscal year.

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

The information required by this Item is incorporated herein by reference to Costco's Proxy Statement for its Annual Meeting of Stockholders to be held on January 21, 1998 to be filed with the Securities and Exchange Commission within 120 days of the end of the Company's fiscal year.

ITEM 13--CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to Costco's Proxy Statement for its Annual Meeting of Stockholders, to be held on January 21, 1998 to be filed with the Securities and Exchange Commission within 120 days of the end of the Company's fiscal year.

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 Statement Schedules--None.

3. Exhibits:

The required exhibits are included at the end of the Form 10-K Annual Report and are described in the Exhibit Index immediately preceding the first exhibit.

(b) Current Report on Form 8-K was filed on August 18, 1997, reporting Item 5.

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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 7, 1997

COSTCO COMPANIES, 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 7, 1997

James D. Sinegal
PRESIDENT, CHIEF EXECUTIVE OFFICER
AND DIRECTOR

By /s/ JEFFREY H. BROTMAN November 7, 1997

Jeffrey H. Brotman
CHAIRMAN OF THE BOARD

By /s/ RICHARD D. DICERCHIO November 7, 1997

Richard D. DiCerchio
SR. EXECUTIVE VICE PRESIDENT, CHIEF OPERATING
OFFICER-MERCHANDISING, DISTRIBUTION,
CONSTRUCTION AND MARKETING AND DIRECTOR

By /s/ RICHARD A. GALANTI November 7, 1997

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

By /s/ DAVID S. PETTERSON November 7, 1997

David S. Petterson
SENIOR VICE PRESIDENT AND CONTROLLER
(PRINCIPAL ACCOUNTING OFFICER)

By /s/ HAMILTON E. JAMES November 7, 1997

Hamilton E. James
DIRECTOR

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By /s/ RICHARD M. LIBENSON November 7, 1997

Richard M. Libenson
DIRECTOR

By /s/ JOHN W. MEISENBACH November 7, 1997

John W. Meisenbach
DIRECTOR

By /s/ CHARLES T. MUNGER November 7, 1997

Charles T. Munger
DIRECTOR

By /s/ FREDERICK O. PAULSELL November 7, 1997

Frederick O. Paulsell
DIRECTOR

By /s/ JILL S. RUCKELSHAUS November 7, 1997

Jill S. Ruckelshaus
DIRECTOR

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Costco Companies, Inc.:

We have audited the accompanying consolidated balance sheets of Costco

Companies, Inc. (a Delaware corporation) and subsidiaries (Costco) as of August 31, 1997 and September 1, 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for the 52 weeks ended August 31, 1997 and September 1, 1996, and the 53 weeks ended September 3, 1995. These financial statements are the responsibility of Costco's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Costco as of August 31, 1997 and September 1, 1996, and the results of its operations and its cash flows for the 52 weeks ended August 31, 1997 and September 1, 1996, and the 53 weeks ended September 3, 1995 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Seattle, Washington
October 13, 1997

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COSTCO COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS EXCEPT PAR VALUE)
ASSETS

	AUGUST 31, 1997	SEPTEMBER 1, 1996
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 175,508	\$ 101,955
Receivables, net.....	147,133	137,467
Merchandise inventories, net.....	1,686,525	1,500,842
Other current assets.....	100,784	88,040
	-----	-----
Total current assets.....	2,109,950	1,828,304
	-----	-----
PROPERTY AND EQUIPMENT		
Land and land rights.....	1,094,607	1,055,208
Buildings and leasehold and land improvements.....	1,933,740	1,667,697
Equipment and fixtures.....	840,578	716,448
Construction in progress.....	81,417	104,183
	-----	-----
	3,950,342	3,543,536
Less-accumulated depreciation and amortization.....	(795,708)	(655,226)
	-----	-----
Net property and equipment.....	3,154,634	2,888,310
	-----	-----
OTHER ASSETS.....	211,730	195,247
	-----	-----
	\$ 5,476,314	\$ 4,911,861
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank checks outstanding.....	\$ 14,930	\$ 22,330
Short-term borrowings.....	25,460	59,928
Accounts payable.....	1,379,379	1,220,426
Accrued salaries and benefits.....	302,681	256,951
Accrued sales and other taxes.....	90,774	84,545
Other current liabilities.....	150,823	127,414
	-----	-----
Total current liabilities.....	1,964,047	1,771,594
LONG-TERM DEBT.....	917,001	1,229,221
DEFERRED INCOME TAXES.....	33,544	56,734
OTHER LIABILITIES.....	5,423	4,168
	-----	-----
Total liabilities.....	2,920,015	3,061,717
	-----	-----
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST.....	88,183	72,346

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; 213,593,000 and 196,436,000 shares issued and outstanding.....	2,136	1,964
Additional paid-in capital.....	706,324	321,832
Accumulated foreign currency translation.....	(78,426)	(71,883)
Retained earnings.....	1,838,082	1,525,885
Total stockholders' equity.....	2,468,116	1,777,798
	\$ 5,476,314	\$ 4,911,861

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

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

	52 WEEKS ENDED AUGUST 31, 1997	52 WEEKS ENDED SEPTEMBER 1, 1996	53 WEEKS ENDED SEPTEMBER 3, 1995
REVENUE			
Net sales.....	\$ 21,484,118	\$ 19,213,866	\$ 17,905,926
Membership fees and other.....	390,286	352,590	341,360
Total revenue.....	21,874,404	19,566,456	18,247,286
OPERATING EXPENSES			
Merchandise costs.....	19,314,485	17,345,315	16,225,848
Selling, general and administrative.....	1,876,759	1,691,187	1,555,588
Preopening expenses.....	27,448	29,231	25,018
Provision for impaired assets and warehouse closing costs.....	75,000	10,000	7,500
Operating income.....	580,712	490,723	433,332
OTHER INCOME (EXPENSE)			
Interest expense.....	(76,281)	(78,078)	(67,911)
Interest income and other.....	15,898	10,832	2,783
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES.....			
TAXES.....	520,329	423,477	368,204
Provision for income taxes.....	208,132	174,684	150,963
INCOME FROM CONTINUING OPERATIONS.....	312,197	248,793	217,241
DISCONTINUED OPERATIONS:			
Loss on disposal.....	--	--	(83,363)
NET INCOME.....	\$ 312,197 (a)	\$ 248,793	\$ 133,878
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE--			
PRIMARY:			
Continuing operations.....	\$ 1.47	\$ 1.24	\$ 1.06
FULLY DILUTED:			
Continuing operations.....	\$ 1.46	\$ 1.22	\$ 1.05
Discontinued operations:			
Loss on disposal.....	--	--	(0.37)
Net income.....	\$ 1.46 (a)	\$ 1.22	\$ 0.68

(a) Net income and net income per common and common equivalent share would have been \$350,872 and \$1.63, respectively, without the effect of adopting SFAS No. 121, using 226,195 fully-diluted shares.

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

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COSTCO COMPANIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE 52 WEEKS ENDED AUGUST 31, 1997 AND SEPTEMBER 1, 1996,
AND THE 53 WEEKS ENDED SEPTEMBER 3, 1995
(IN THOUSANDS)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED FOREIGN CURRENCY TRANSLATION	RETAINED EARNINGS	TOTAL
	SHARES	AMOUNT				
BALANCE AT AUGUST 28, 1994.....	217,795	\$ 2,178	\$ 582,148	\$ (42,580)	\$ 1,143,214	\$ 1,684,960
Stock options exercised including income tax benefits.....	593	6	4,071	--	--	4,077
Shares exchanged.....	(23,224)	(232)	(282,230)	--	--	(282,462)
Net income.....	--	--	--	--	133,878	133,878
Foreign currency translation adjustment.....	--	--	--	(9,709)	--	(9,709)
BALANCE AT SEPTEMBER 3, 1995.....	195,164	1,952	303,989	(52,289)	1,277,092	1,530,744
Stock options exercised including income tax benefits.....	1,272	12	17,843	--	--	17,855
Net income.....	--	--	--	--	248,793	248,793
Foreign currency translation adjustment.....	--	--	--	(19,594)	--	(19,594)
BALANCE AT SEPTEMBER 1, 1996.....	196,436	1,964	321,832	(71,883)	1,525,885	1,777,798
Stock options exercised including income tax benefits.....	4,077	41	78,186	--	--	78,227
Conversion of convertible debentures.....	13,080	131	306,306	--	--	306,437
Net income.....	--	--	--	--	312,197	312,197
Foreign currency translation adjustment.....	--	--	--	(6,543)	--	(6,543)
BALANCE AT AUGUST 31, 1997.....	213,593	\$ 2,136	\$ 706,324	\$ (78,426)	\$ 1,838,082	\$ 2,468,116

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

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

	52 WEEKS ENDED AUGUST 31, 1997	52 WEEKS ENDED SEPTEMBER 1, 1996	53 WEEKS ENDED SEPTEMBER 3, 1995
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income.....	\$ 312,197	\$ 248,793	\$ 133,878
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	182,326	161,632	142,022
Net (gain) loss on sale of property and equipment and other.....	(602)	3,494	(384)
Provision for asset impairments.....	65,000	--	--
Loss on disposal of discontinued operations.....	--	--	83,363
Decrease in deferred income taxes.....	(4,322)	(4,520)	(3,559)
Change in receivables, other current assets, accrued and other current liabilities.....	66,303	105,156	(81,729)
Increase in merchandise inventories.....	(189,323)	(82,411)	(160,114)
Increase (decrease) in accounts payable.....	162,628	(8,345)	155,851
Other.....	(3,958)	2,560	9,054
Total adjustments.....	278,052	177,566	144,504
Net cash provided by operating activities.....	590,249	426,359	278,382
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment.....	(553,374)	(506,782)	(530,638)
Proceeds from the sale of property and equipment.....	40,946	4,665	7,337
Investment in unconsolidated joint ventures.....	(4,750)	(5,312)	(11,487)
Decrease in short-term investments and restricted cash.....	--	--	9,268
Increase in other assets and other, net.....	(25,995)	(35,820)	(10,932)
Net cash used in investing activities.....	(543,173)	(543,249)	(536,452)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments under short-term credit facilities, net.....	(33,990)	(14,354)	(73,194)
Net proceeds from issuance of long-term debt.....	461,035	141,851	299,026
Repayments of long-term debt.....	(471,791)	(3,270)	(3,194)
Changes in bank overdraft.....	(7,244)	9,835	5,668
Proceeds from minority interests.....	15,119	21,832	16,603
Exercise of stock options.....	62,015	17,855	4,077
Net cash provided by financing activities.....	25,144	173,749	248,986
EFFECT OF EXCHANGE RATE CHANGES ON CASH.....	1,333	(592)	1,134
Net increase (decrease) in cash and cash equivalents.....	73,553	56,267	(7,950)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR.....	101,955	45,688	53,638
CASH AND CASH EQUIVALENTS END OF YEAR.....	\$ 175,508	\$ 101,955	\$ 45,688
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (excludes amounts capitalized and paid for redemption premiums).....	\$ 76,233	\$ 65,752	\$ 75,583
Income taxes.....	\$ 195,241	\$ 163,004	\$ 165,269

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

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COSTCO COMPANIES, 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 Costco Companies, Inc., a Delaware corporation, and its subsidiaries ("Costco" or the "Company"). On January 29, 1997, the shareholders of the Company approved a name change from Price/Costco, Inc. to Costco Companies, Inc. Costco is a holding company which operates primarily through its major subsidiaries, The Price Company and subsidiaries, and Costco Wholesale Corporation and subsidiaries. All intercompany transactions between the Company and its subsidiaries have been eliminated in consolidation. The Price Company and Costco Wholesale Corporation primarily operate membership warehouses under the Costco Wholesale name.

Costco operates membership warehouses that offer very low prices on a limited selection of nationally-branded and selected private label products in a wide range of merchandise categories in no-frills, self-service warehouse facilities. At August 31, 1997, Costco operated 261 warehouse clubs: 200 in the United States (in 23 states); 54 in Canada (in nine Canadian provinces); six in the United Kingdom; and one in Taiwan--primarily under the "Costco Wholesale" name. As of August 31, 1997, the Company also operated (through a 50%-owned joint venture) 13 warehouses in Mexico, and had a license agreement for the operation of two membership warehouses in Korea.

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

FISCAL YEARS

The Company reports on a 52/53 week fiscal year basis which ends on the Sunday nearest August 31st. Fiscal years 1997 and 1996 were 52 weeks, and fiscal year 1995 was 53 weeks.

CASH AND CASH EQUIVALENTS

The Company considers all investments in highly liquid debt instruments maturing within 90 days after purchase 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. Unrealized holding gains and losses were not significant.

RECEIVABLES

Receivables consist primarily of vendor rebates and promotional allowances and other miscellaneous amounts due to the Company, and are net of allowance for doubtful accounts of \$4,360 at August 31, 1997 and \$3,498 at September 1, 1996.

COSTCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

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

Merchandise inventories are valued at the lower of cost or market as determined primarily by the retail inventory method, and are stated using the last-in, first-out (LIFO) method for substantially all U.S. merchandise inventories. The Company believes the LIFO method more fairly presents the results of operations by more closely matching current costs with current revenues. If all merchandise inventories had been valued using the first-in, first-out (FIFO) method, inventories would have been higher by \$16,150 at both August 31, 1997 and September 1, 1996.

	AUGUST 31, 1997	SEPTEMBER 1, 1996
	-----	-----
Merchandise inventories consist of:		
United States (primarily LIFO).....	\$ 1,358,917	\$1,216,131
Foreign (FIFO).....	327,608	284,711
	-----	-----
Total.....	\$ 1,686,525	\$1,500,842
	-----	-----

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

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation and amortization expenses are computed using the straight-line method for financial reporting purposes and 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 \$4,097 in fiscal 1997, \$5,612 in fiscal 1996, and \$3,275 in fiscal 1995.

GOODWILL

Goodwill, included in other assets, totaled \$48,136 at August 31, 1997 and \$50,746 at September 1, 1996, resulting from certain previous business combinations and the purchase of Price Enterprises' interest in Price Club Mexico in March 1995. Goodwill is being amortized over 5 to 40 years using the straight-line method. Accumulated amortization was \$11,574 at August 31, 1997, and \$8,815 at September 1, 1996.

NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

The calculation of net income per common and common equivalent share for each period eliminates interest expense, net of income taxes, on the 5 1/2% convertible subordinated debentures (primary and fully diluted), the 6 3/4%

convertible subordinated debentures (fully diluted only), and includes the additional shares issuable upon conversion of these instruments for the portion of the year they were outstanding. In

COSTCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

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

fiscal year 1997, the calculation also eliminates the 5 3/4% convertible subordinated debentures (fully diluted only), and the 3 1/2% zero coupon subordinated notes and includes the additional shares issuable upon conversion of these instruments for the portion of the year they were outstanding. The weighted average number of common and common equivalent shares outstanding for primary and fully diluted share calculations for fiscal 1997, 1996, and 1995 were as follows (in thousands):

	1997	1996	1995
	-----	-----	-----
Primary.....	214,349	205,242	210,962
Fully diluted.....	226,195	218,363	224,079

PREOPENING EXPENSES

Preopening expenses related to new warehouses, major remodels/expansions, 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 historical and 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 as well as its investment in the Price Club Mexico joint venture (prior to the 1997 calendar year). Foreign currency translation is determined by application of the current rate method and included in the determination of consolidated stockholders' equity at the respective balance sheet dates.

Because cumulative inflation in Mexico exceeded 100% in the three-year calendar period 1994-1996, a hyper-inflation accounting treatment is required in calendar 1997, whereby foreign currency translation gains or losses are reflected in the Statement of Operations rather than as an adjustment to stockholders' equity. For the first nine months of calendar year 1997, translation gains and losses were not material.

INCOME TAXES

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

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES

FISCAL 1997 NON-CASH ACTIVITIES

- In December 1996, approximately \$159,400 principal amount of the \$285,100, 6 3/4% Convertible Subordinated Debentures were converted into approximately 7.1 million shares of Costco Common Stock as a result of a call for redemption of the \$285,100 Convertible Subordinated Debentures.

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COSTCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

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

- In January 1997, approximately \$142,700 principal amount of the \$179,300, 5 1/2% Convertible Subordinated Debentures were converted into approximately 6.0 million shares of Costco Common Stock as a result of the call for redemption of the Convertible Subordinated Debentures.
- In fiscal 1997, the Company recorded a pre-tax, non-cash charge of \$65,000 reflecting its estimate of impairment relating principally to excess property and closed warehouses in connection with the adoption of the Financial Accounting Standards Board Statement No. 121.

FISCAL 1996 NON-CASH ACTIVITIES

- None.

FISCAL 1995 NON-CASH ACTIVITIES

- During December 1994, the Company exchanged approximately 23.2 million shares of Price Enterprises common stock valued at \$282,462 for an equal number of shares of Price Costco common stock.
- In February 1995, the Company exchanged approximately 3.8 million shares of Price Enterprises common stock valued at \$45,925 for an interest-bearing note receivable from Price Enterprises.
- As of August 28, 1994, the net assets of Price Enterprises consisted primarily of the discontinued operations net assets of \$377,085 and certain other assets. In connection with the spin-off of Price Enterprises, all of these assets were eliminated from the Company's consolidated balance sheet during fiscal 1995. For additional information see "Note 2--Spin-off of Price Enterprises, Inc. and Discontinued Operations."
- In April 1995, the Company purchased Price Enterprises' 25.5% interest in Price Club Mexico for \$30,500 by a partial offset to the \$45,925 note receivable due from Price Enterprises.
- During fiscal 1995, the Company increased its investment in certain unconsolidated joint ventures by \$23,100 through reductions of accounts receivable due from those joint ventures.

DERIVATIVES

The Company has limited involvement with derivative financial instruments and only uses them to manage well-defined interest rate and foreign exchange risks. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on inventory purchases. The amount of interest rate and foreign exchange contracts outstanding at year-end or in place during fiscal 1997 was immaterial to the Company's results of operations or its financial position.

ADOPTION OF FINANCIAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 121

The Company adopted the Financial Accounting Standards Board Statement No.

121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), as of the first quarter of fiscal 1997. In accordance with SFAS No. 121, the Company recorded a pretax, non-cash charge of \$65,000 reflecting its estimate of impairment relating principally to excess property and

COSTCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

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

closed warehouses. The charge reflects the difference between carrying value and fair value, which was based on market valuations for those assets whose carrying value was not recoverable through future cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share" (SFAS No. 128). SFAS No. 128 establishes new standards for computing and presenting earnings per share (EPS) for entities with publicly-held common stock. The Company is required to adopt SFAS No. 128 at the beginning of fiscal 1998. If the provisions of SFAS No. 128 had been used to calculate EPS for the 1997 and 1996 fiscal years, proforma EPS would have been:

	52 WEEKS ENDED	
	AUGUST 31, 1997	SEPTEMBER 1, 1996
Basic.....	\$ 1.51	\$ 1.27
Diluted.....	\$ 1.47	\$ 1.22

Excluding the non-cash, pre-tax charge of \$65,000 (\$38,675 after-tax) for asset impairment, basic and diluted earnings per share for the 52 weeks ended August 31, 1997 would have been \$1.69 and \$1.64, respectively.

RECLASSIFICATIONS

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

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2--SPIN-OFF OF PRICE ENTERPRISES, INC. AND DISCONTINUED OPERATIONS

On July 28, 1994, the Company 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 was an indirect, wholly-owned subsidiary of Costco, formed in July 1994. The transactions contemplated by the Transfer and Exchange Agreement are referred to herein as the "Exchange Transaction."

The Exchange Transaction was completed on December 20, 1994, with 23,224,028 shares of Costco Common Stock tendered and exchanged for an equal number of

shares of Price Enterprises Common Stock. On February 9, 1995, Price Enterprises purchased from Costco 3,775,972 shares of Price Enterprises Common Stock, constituting all of the remaining shares of Price Enterprises Common Stock held by Costco. Based on the aggregate number of shares of Price Enterprises Common Stock (27 million shares)

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COSTCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 2--SPIN-OFF OF PRICE ENTERPRISES, INC. AND DISCONTINUED OPERATIONS
(CONTINUED)

exchanged for Costco Common Stock and sold to Price Enterprises for a secured promissory note and an average closing sales price of \$12.1625 per share for Price Enterprises Common Stock, the loss on disposal of the discontinued real estate operations increased by \$83,363 from the estimated loss recorded in fiscal 1994 (27 million shares multiplied by \$3.0875 per share representing the difference between the estimated and actual price per share). This non-cash charge was reflected as an additional loss on disposal of discontinued operations in 1995.

Costco transferred to Price Enterprises substantially all of the real estate properties which historically formed the non-club real estate segment of Costco, four warehouse facilities, notes receivable from various municipalities and agencies and a note receivable from Atlas Hotels, Inc. In addition, Costco transferred to Price Enterprises 51% of the outstanding capital stock of Price Quest, Inc. ("Price Quest") and Price Global Trading, Inc. ("Price Global"). Price Quest operated the Quest interactive electronic shopping business and provided other services to members. Price Global had the rights to develop membership warehouse club businesses in certain geographical areas specified in the Transfer and Exchange Agreement.

Costco also transferred to Price Enterprises a 25.5% interest in the Price Club Mexico joint venture. This interest was subsequently acquired from Price Enterprises in fiscal 1995. Price Club Mexico is a joint venture with Controladora Comercial Mexicana, S.A. de CV. operating Price Clubs in Mexico.

On or about September 1, 1996, Price Quest discontinued the Quest interactive electronic shopping business in the Company's warehouses, but continues to provide other services to members, including auto referral and travel related services.

As part of the resolution of a shareholder lawsuit arising from the spin-off and Exchange Transaction, Costco and Price Enterprises amended the Transfer and Exchange Agreement, effective May 28, 1997. Under the amendment to the Transfer and Exchange Agreement, Costco retained no ownership interest in Price Quest or Price Global.

NOTE 3--DEBT

SHORT-TERM BORROWINGS

The Company has in place a \$500,000 commercial paper program supported by a \$500,000 bank credit facility with a group of 12 banks, of which \$250,000 expires on January 26, 1998, and \$250,000 expires on January 30, 2001. At August 31, 1997, no amount was outstanding under the loan facility or the commercial paper program.

In addition, a wholly-owned Canadian subsidiary has a \$144,000 commercial paper program supported by a \$101,000 bank credit facility with three Canadian banks, of which \$61,000 expires in March 1998 and \$40,000 expires in March 1999. At August 31, 1997, no amount was outstanding under the bank credit facility and \$25,460 was outstanding under the Canadian commercial paper program.

The Company has agreed to limit the combined amount outstanding under the U.S. and Canadian commercial paper programs to the \$601,000 combined amounts of the respective supporting bank credit facilities.

COSTCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3--DEBT (CONTINUED)

The weighted average borrowings, highest borrowings and interest rate under all short-term borrowing arrangements were as follows for fiscal 1997, 1996, and 1995:

CATEGORY OF AGGREGATE SHORT-TERM BORROWINGS	MAXIMUM AMOUNT OUTSTANDING DURING THE PERIOD	AVERAGE AMOUNT OUTSTANDING DURING THE PERIOD	WEIGHTED AVERAGE INTEREST RATE DURING THE PERIOD
PERIOD ENDED AUGUST 31, 1997			
Bank borrowings:			
U.S.....	\$ --	\$ --	--%
Canadian.....	10,169	732	5.74
Commercial Paper:			
U.S.....	279,000	85,140	5.54
Canadian.....	100,716	52,486	3.43
PERIOD ENDED SEPTEMBER 1, 1996			
Bank borrowings:			
U.S.....	\$ --	\$ --	--%
Canadian.....	32,904	6,795	5.99
Commercial Paper:			
U.S.....	198,000	55,239	5.71
Canadian.....	102,368	69,775	5.40
PERIOD ENDED SEPTEMBER 3, 1995			
Bank borrowings:			
U.S.....	\$ --	\$ --	--%
Canadian.....	9,374	1,776	8.04
Commercial Paper:			
U.S.....	468,000	215,683	5.75
Canadian.....	23,760	3,912	5.56

The Company has separate letter of credit facilities (for commercial and standby letters of credit) totaling approximately \$254,000. The outstanding commitments under these facilities at August 31, 1997 totaled approximately \$184,000, including approximately \$42,000 in standby letters for workers' compensation requirements.

COSTCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3--DEBT (CONTINUED)

LONG-TERM DEBT

Long-term debt at August 31, 1997 and September 1, 1996 consists of:

5 3/4% Convertible subordinated debentures due May 2002.....	\$	--	\$	300,000
6 3/4% Convertible subordinated debentures due March 2001.....		--		285,079
5 1/2% Convertible subordinated debentures due February 2012.....		--		179,338
7 1/8% Senior Notes due June 2005.....		300,000		300,000
3 1/2% Zero Coupon convertible subordinated notes due August 2017...		450,207		--
Unsecured note payable to banks due April 2001.....		140,000		140,000
Notes payable secured by trust deeds on real estate.....		16,327		21,956
Capital lease obligations and other.....		19,426		12,247
		-----		-----
		925,960		1,238,620
Less current portion (included in other current liabilities).....		8,959		9,399
		-----		-----
Total long-term debt.....	\$	917,001	\$	1,229,221
		-----		-----

On August 4, 1997, Costco Wholesale Corporation, a wholly-owned subsidiary of the Company, called for redemption all \$300,000 of its 5 3/4% Convertible Subordinated Debentures due 2002. On the redemption date, August 21, 1997, virtually all of the Debentures were redeemed at a total cost of \$312,000 (including accrued interest and redemption premium). The transaction was financed with proceeds from the issuance of 3 1/2% Zero Coupon Convertible Subordinated Notes (see below).

On November 19, 1996, The Price Company, a wholly-owned subsidiary of the Company, called for redemption all \$285,100 of its 6 3/4% Convertible Subordinated Debentures due 2001. On the redemption date, December 4, 1996, approximately \$159,400 principal amount of the Debentures were converted into approximately 7.1 million shares of Costco Common Stock and the remaining \$125,700 of Debentures were redeemed at a total cost of \$130,300 (including accrued interest and redemption premium). The redemption portion of the transaction was financed with short-term bank borrowings.

On December 16, 1996, The Price Company called for redemption all \$179,300 of its 5 1/2% Convertible Subordinated Debentures due 2012. On the redemption date, January 6, 1997, approximately \$142,700 principal amount of the Debentures were converted into approximately 6.0 million shares of Costco Common Stock and the remaining \$36,600 of Debentures were redeemed at a total cost of \$37,500 (including accrued interest and redemption premium). The redemption portion of the transaction was paid with cash on hand.

The 7 1/8% Senior Notes were issued on June 7, 1995. Interest on the notes is payable semiannually on June 15 and December 15. The indentures contain certain limitations on the Company's and certain subsidiaries' ability to create liens securing indebtedness and to enter into certain sale leaseback transactions.

COSTCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 3--DEBT (CONTINUED)

On August 19, 1997, the Company completed the sale of \$900,000 principal amount at maturity of Zero Coupon Subordinated Notes (the "Notes") due August 19, 2017. The Notes were priced with a yield to maturity of 3 1/2%, resulting in gross proceeds to the Company of \$449,640. The Notes are convertible into a maximum of 10,219,090 shares of Costco Common Stock at an initial conversion price of \$44.00. Holders of the notes may require the Company to purchase the Notes (at the discounted issue price plus accrued interest to date of purchase) on August 19, 2002, 2007, or 2012. The Company, at its option, may redeem the Notes (at the discounted issue price plus accrued interest to date of redemption) any time on or after August 19, 2002.

In April 1996, the Company borrowed \$140,000 from a group of banks under a five-year unsecured term loan. Interest only is payable quarterly at rates based

on LIBOR. Proceeds of the loan were used to retire \$40,000 outstanding under the Canadian commercial paper program and \$100,000 outstanding under the U.S. commercial paper program.

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

At August 31, 1997, the fair value of the 7 1/8% Senior Notes, based on market quotes on August 31, 1997, was approximately \$305,000. The Senior Notes are not redeemable prior to maturity. The fair value of the 3 1/2% Zero Coupon Subordinated Notes at August 31, 1997 was approximately \$450,000.

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

1998.....	\$	8,959
1999.....		6,390
2000.....		3,676
2001.....		142,109
2002.....		1,275
Thereafter.....		763,551

Total.....	\$	925,960

NOTE 4--LEASES

The Company leases land and/or warehouse buildings at 52 of the 261 warehouses open at August 31, 1997 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 4--LEASES (CONTINUED)

Aggregate rental expense for fiscal 1997, 1996, and 1995, was \$54,019, \$55,686, and \$53,600, respectively. Future minimum payments during the next five fiscal years and thereafter under noncancelable leases with terms in excess of one year, at August 31, 1997, were as follows:

1998.....	\$	57,490
1999.....		54,513

2000.....	53,596
2001.....	51,905
2002.....	51,730
Thereafter.....	499,452

Total minimum payments....	\$ 768,686

NOTE 5--STOCK OPTIONS

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

The Costco Companies, Inc. 1993 Combined Stock Grant and Stock Option Plan (the New Stock Option Plan) provides for the issuance of up to 20 million shares of the Company's common stock pursuant to the exercise of stock options or up to 1,666,666 shares through stock grants.

The Company applies Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for stock options. Accordingly, no compensation cost has been recognized for the plans. In fiscal year 1997, the Company adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123 (SFAS No.123), "Accounting for Stock-Based Compensation." Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below:

	1997	1996
	-----	-----
Net income:		
As reported.....	\$ 312,197	\$ 248,793
Pro forma.....	\$ 301,947	\$ 246,208
Net income per share (fully diluted):		
As reported.....	\$ 1.46	\$ 1.22
Pro forma.....	\$ 1.41	\$ 1.21

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COSTCO COMPANIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 5--STOCK OPTIONS (CONTINUED)

The effects of applying SFAS No. 123 on pro forma disclosures of net income and earnings per share for fiscal 1997 and 1996 are not likely to be representative of the pro forma effects on net income and earnings per share in future years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1997 and 1996:

	1997	1996
	-----	-----
Risk free interest rate.....	6.40%	6.15%
Expected life.....	7 years	7 years
Expected volatility.....	34%	32%
Expected dividend yield.....	0%	0%

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

	1997		1996		1995	
	SHARES	PRICE (1)	SHARES	PRICE (1)	SHARES	PRICE (1)
	-----	-----	-----	-----	-----	-----
Under option at beginning of year.....	16,972	\$ 17.14	15,963	\$ 16.71	14,691	\$ 17.07
Granted(2).....	4,610	26.13	2,645	17.35	3,516	13.76
Exercised.....	(4,077)	15.24	(1,272)	10.60	(593)	5.72
Cancelled.....	(184)	18.37	(364)	18.26	(1,651)	17.59
	-----	-----	-----	-----	-----	-----
Under option at end of year.....	17,321	\$ 19.96	16,972	\$ 17.14	15,963	\$ 16.71
	-----	-----	-----	-----	-----	-----

(1) Weighted-average exercise price

(2) The weighted-average fair value of options granted during fiscal 1997 and 1996 was \$11.47 and \$7.46, respectively.

The following table summarizes information regarding stock options outstanding at August 31, 1997:

RANGE OF PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER	REMAINING CONTRACTUAL LIFE	PRICE (1)	NUMBER	PRICE (1)
	-----	-----	-----	-----	-----
\$2.75 - \$17.13.....	5,832	5.3	\$ 13.08	2,852	\$ 11.89
\$17.25 - \$24.00.....	5,977	5.7	19.32	2,891	19.69
\$24.53 - \$40.17.....	5,512	8.2	27.99	1,375	31.50
	-----	-----	-----	-----	-----
\$2.75 - \$40.17.....	17,321	6.4	\$ 19.96	7,118	\$ 18.85

(1) Weighted-average exercise price

NOTE 6--RETIREMENT PLANS

The Company has a 401(k) Retirement Plan which is available to all U.S. employees who have one year or more of service, except California union

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

	AUGUST 31, 1997	SEPTEMBER 1, 1996
	-----	-----
Accrued liabilities.....	\$ 79,663	\$ 64,809
Other.....	15,735	12,402
	-----	-----
Total deferred tax assets.....	95,398	77,211
	-----	-----
Property and equipment.....	45,647	53,590
Merchandise inventories.....	22,765	21,683
Other.....	1,208	3,220
	-----	-----
Total deferred tax liabilities.....	69,620	78,493
	-----	-----
Net deferred tax assets (liabilities).....	\$ 25,778	\$ (1,282)
	-----	-----

The deferred tax accounts at August 31, 1997 and September 1, 1996 include current deferred income tax assets of \$59,322 and \$55,452, respectively, and non-current deferred income tax liabilities of \$33,544 and \$56,734, respectively.

NOTE 8--COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The Company has entered into a purchase agreement with Hechinger Company to acquire seven of Hechinger's locations in Michigan. The acquisition is subject to certain conditions including third party approvals and permits. The Company intends to invest approximately \$80,000 in these facilities, including the initial warehouse purchase and remodeling costs and working capital requirements.

LEGAL PROCEEDINGS

On April 6, 1992, The Price Company 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, The Price Company 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 Price Company's counsel, alleged substantially the same facts as the prior complaint. The Complaint alleged violation of certain state and

NOTE 8--COMMITMENTS AND CONTINGENCIES (CONTINUED)

federal laws during the time period prior to The Price Company's earnings release for the second quarter of fiscal year 1992. 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 filed an Appeal in the

Ninth Circuit Court of Appeals. In an opinion dated November 20, 1995, the Ninth Circuit reversed and remanded the lawsuit. In February 1997, the Court granted the plaintiffs' motion for certification of a class consisting of all purchasers of the Common Stock of The Price Company from April 3, 1991 through April 2, 1992. The Company believes that this lawsuit is without merit and is vigorously defending the lawsuit. 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 9--GEOGRAPHIC INFORMATION

The following table indicates the relative amounts of total revenue, operating income and identifiable assets for the Company during fiscal 1997, 1996 and 1995:

	1997	1996	1995
	-----	-----	-----
Total revenue:			
United States.....	\$ 17,572,440	\$ 15,709,258	\$ 14,967,611
Foreign.....	4,301,964	3,857,198	3,279,675
	-----	-----	-----
	\$ 21,874,404	\$ 19,566,456	\$ 18,247,286
	-----	-----	-----
Operating income:			
United States.....	\$ 459,339	\$ 419,074	\$ 357,463
Foreign.....	121,373	71,649	75,869
	-----	-----	-----
	\$ 580,712	\$ 490,723	\$ 433,332
	-----	-----	-----
	-----	-----	-----
	AUGUST 31,	SEPTEMBER 1,	
	1997	1996	
	-----	-----	
Identifiable assets:			
United States.....	\$ 4,220,610	\$ 3,885,726	
Foreign.....	1,255,704	1,026,135	
	-----	-----	
	\$ 5,476,314	\$ 4,911,861	
	-----	-----	
	-----	-----	

NOTE 10--QUARTERLY FINANCIAL DATA (UNAUDITED)

The tables that follow on the next two pages reflect the unaudited quarterly results of operations for fiscal 1997 and 1996.

Shares used in the earnings per share calculation fluctuate by quarter depending primarily upon whether convertible subordinated debentures are dilutive during the respective period.

	QUARTER 12 WEEKS	QUARTER 12 WEEKS	THIRD QUARTER 12 WEEKS	QUARTER 16 WEEKS	TOTAL 52 WEEKS
REVENUE					
Net sales.....	\$ 4,785,636	\$ 5,147,425	\$ 4,752,445	\$ 6,798,612	\$ 21,484,118
Membership fees and other.....	97,772	91,468	83,784	117,262	390,286
Total revenue.....	4,883,408	5,238,893	4,836,229	6,915,874	21,874,404
OPERATING EXPENSES					
Merchandise costs.....	4,308,369	4,619,208	4,283,157	6,103,751	19,314,485
Selling, general and administrative.....	426,104	436,036	426,980	587,639	1,876,759
Preopening expenses.....	10,197	6,087	2,458	8,706	27,448
Provision for impaired assets and warehouse closing costs.....	70,000	--	3,500	1,500	75,000
Operating income.....	68,738	177,562	120,134	214,278	580,712
OTHER INCOME (EXPENSE)					
Interest expense.....	(18,933)	(17,243)	(14,662)	(25,443)	(76,281)
Interest income and other.....	3,657	3,461	4,055	4,725	15,898
INCOME BEFORE PROVISION FOR INCOME TAXES.....					
	53,462	163,780	109,527	193,560	520,329
Provision for income taxes.....	21,652	66,331	43,262	76,887	208,132
NET INCOME.....	\$ 31,810 (a)	\$ 97,449	\$ 66,265	\$ 116,673	\$ 312,197 (b)
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE-- FULLY DILUTED:					
Net income.....	\$ 0.16 (a)	\$ 0.46	\$ 0.31	\$ 0.54	\$ 1.46 (b)
Shares used in calculation.....	199,630	223,296	216,362	225,949	226,195

(a) Net income and net income per common and common equivalent share would have been \$70,485 and \$.34, respectively, without the effect of adopting SFAS No. 121, using 227,096 fully-diluted shares.

(b) Net income and net income per common and common equivalent share would have been \$350,872 and \$1.63, respectively, without the effect of adopting SFAS No. 121, using 226,195 fully-diluted shares.

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COSTCO COMPANIES, INC.
QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	52 WEEKS ENDED SEPTEMBER 1, 1996				
	FIRST QUARTER 12 WEEKS	SECOND QUARTER 12 WEEKS	THIRD QUARTER 12 WEEKS	FOURTH QUARTER 16 WEEKS	TOTAL 52 WEEKS
REVENUE					
Net sales.....	\$ 4,295,862	\$ 4,606,070	\$ 4,236,207	\$ 6,075,727	\$ 19,213,866
Membership fees and other.....	87,702	82,625	75,281	106,982	352,590
Total revenue.....	4,383,564	4,688,695	4,311,488	6,182,709	19,566,456
OPERATING EXPENSES					
Merchandise costs.....	3,887,116	4,153,992	3,829,923	5,474,284	17,345,315
Selling, general and administrative.....	385,973	391,943	383,387	529,884	1,691,187
Preopening expenses.....	9,450	5,970	4,738	9,073	29,231
Provision for impaired assets and warehouse closing costs.....	--	--	6,000	4,000	10,000
Operating income.....	101,025	136,790	87,440	165,468	490,723
OTHER INCOME (EXPENSE)					
Interest expense.....	(17,771)	(17,501)	(19,194)	(23,612)	(78,078)
Interest income and other.....	1,091	2,287	2,007	5,447	10,832
INCOME BEFORE PROVISION FOR INCOME TAXES.....					
	84,345	121,576	70,253	147,303	423,477
Provision for income taxes.....	34,792	50,150	28,979	60,763	174,684
NET INCOME.....	\$ 49,553	\$ 71,426	\$ 41,274	\$ 86,540	\$ 248,793
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE-- FULLY DILUTED:					
Net income.....	\$ 0.25	\$ 0.35	\$ 0.21	\$ 0.42	\$ 1.22

Shares used in calculation.....	217,311	224,737	218,336	219,084	218,363
	-----	-----	-----	-----	-----
	-----	-----	-----	-----	-----

EXHIBIT INDEX

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 the end of this exhibit index for a listing of cross reference documents.

EXHIBIT NO.	DESCRIPTION
2.1.1	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.(1)
2.1.2	Agreement Concerning Transfer of certain assets between and among Price/Costco, Inc., Price Enterprises, Inc., The Price Company, Price Costco International, Inc., Costco Wholesale Corporation, Price Global Trading, L.L.C., PGT, Inc., Price Quest, L.L.C., and PQI, Inc., dated as of November 21, 1996, with an effective date of May 28, 1997
2.1.3	Amendment No. 1 to Agreement Concerning Transfer of Certain Assets dated May 29, 1997
3.1	Restated Certificate of Incorporation of Costco Companies, Inc.(2)
3.2	Bylaws of Costco Companies, Inc.(3)
4.1.1	Form of 7 1/8% Senior Notes(4)
4.1.2	Indenture between Price/Costco, Inc. and American National Association, as Trustee(4)
4.2.1	Form of Zero Coupon Note due 2017
4.2.2	Indenture dated as of August 19, 1997 between Costco Companies, Inc. and Firststar Bank of Minnesota as Trustee
4.2.3	Registration Rights Agreement dated August 19, 1997
4.3	Costco Companies, Inc. Stock Certificate
10.1.1	Costco Companies, Inc. 1993 Combined Stock Grant and Stock Option Plan(1)
10.1.2	Amendments to Stock Option Plan(8)
10.2	Form of Indemnification Agreement(5)
10.4	Restated Corporate Joint Venture Agreement between The Price Company, Price Venture Mexico and Controladora Comercial Mexicana S.A. de C.V. dated March 1995(6)
10.5.1	A \$250 million Short-Term Revolving Credit Agreement among Price/Costco, Inc. and a group of twelve banks dated January 31, 1994(7)
10.5.2	A \$250 million Extended Revolving Credit Agreement among Price/Costco, Inc. and a group of twelve banks, dated January 31, 1994(7)
10.5	A \$140 million Credit Agreement, dated as of April 11, 1996, among Price/Costco Nova Scotia Company, certain financial institutions and Canadian Imperial Bank of Commerce(6)
12.1	Statements re computation of ratios
21.1	Subsidiaries of the Company
23.1	Consent of Arthur Andersen LLP
27.1	Financial Data Schedule

-
- (1) Incorporated by reference to the exhibits filed as part of the Registration Statement of Price/Costco, Inc. on Form S-4 (File No. 33-50359) dated September 22, 1993
 - (2) Incorporated by reference to the exhibits filed as part of the Quarterly Report on Form 10-Q of Costco Companies, Inc. for the quarterly period ended February 16, 1997
 - (3) 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
 - (4) Incorporated by reference to the exhibits filed as part of the Registration Statement of Price/Costco, Inc. on Form S-3 (File No. 33-59403) dated May 17, 1995
 - (5) Incorporated by reference to the exhibits filed as part of the Annual Report on Form 10-K of Price/Costco, Inc. for the fiscal year ended August 28, 1994
 - (6) Incorporated by reference to the exhibits filed as part of the Annual Report on Form 10-K of Price/Costco, Inc. for the fiscal year ended September 1, 1996
 - (7) Incorporated by reference to the exhibits filed as part of the Quarterly Report on Form 10-Q of Price/Costco, Inc. for the quarterly period ended February 13, 1994
 - (8) Incorporated by reference to the exhibits filed as part of the Annual Report

on Form 10-K of Price/Costco, Inc. for the fiscal year ended September 3,
1995

AGREEMENT CONCERNING
TRANSFER OF CERTAIN ASSETS

BETWEEN AND AMONG

PRICE/COSTCO, INC., PRICE ENTERPRISES, INC.,
THE PRICE COMPANY, PRICE COSTCO INTERNATIONAL, INC.,
COSTCO WHOLESALE CORPORATION, PRICE GLOBAL TRADING, L.L.C.,
PGT, INC., PRICE QUEST, L.L.C., AND PQI, INC.

DATED AS OF

NOVEMBER _____, 1996

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AGREEMENT CONCERNING TRANSFER OF CERTAIN ASSETS

This AGREEMENT, dated as of November ____, 1996, is by and between Price/Costco, Inc. ("PRICECOSTCO"); Price Enterprises, Inc. ("PEI"); The Price Company, a California corporation and wholly-owned subsidiary of PriceCostco ("TPC"); Price Costco International, Inc., a Nevada corporation and wholly-owned subsidiary of PriceCostco ("PCII"); Costco Wholesale Corporation, a Washington corporation and a wholly-owned subsidiary of Price Costco ("CWC"); Price Global Trading, L.L.C., a Delaware limited liability company ("PRICE GLOBAL"); PGT, Inc., a Delaware corporation and wholly-owned subsidiary of PEI ("PGT"); Price Quest, L.L.C., a Delaware limited liability company ("PRICE QUEST"); and PQI, Inc., a Delaware corporation and wholly-owned subsidiary of PEI ("PQI").

WHEREAS:

A. PriceCostco and PEI are parties to an Amended and Restated Agreement of Transfer and Plan of Exchange dated as of November 14, 1994 (the "1994 TRANSFER AGREEMENT"). In connection with the 1994 Transfer Agreement, PriceCostco, TPC, PEI, and the predecessors of Price Global and Price Quest entered into various agreements (including operating agreements, stockholders agreements and trademark assignments and licenses), which set forth certain rights and obligations of the parties with respect to Price Quest, Inc., Price Global Trading, Inc. and their assets and operations, and which transferred several foreign trademarks and service marks from PriceCostco and its Affiliates to PEI and its Affiliates.

B. In November 1995, PriceCostco (through TPC) and PEI (through PGT and PQI) formed two limited liability companies, Price Quest and Price

Global, which succeeded to the rights, liabilities, assets, businesses and operations of Price Quest, Inc. and Price Global Trading, Inc., respectively.

C. This Agreement is being executed simultaneously with a Stipulation of Settlement of this date among PriceCostco, PEI and certain other parties to effect a settlement of litigation entitled IN RE PRICECOSTCO SHAREHOLDER LITIGATION, Case No. C-94-1874C, pending in the United States District Court for the Western District of Washington (the "STIPULATION OF SETTLEMENT").

D. On the terms set forth in this Agreement, PriceCostco and PEI now desire to modify their relationship, effective as of the Effective Date defined in the Stipulation of Settlement ("Effective Date"), by transferring and assigning certain

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trademarks and assets (including, in particular, a transfer of foreign trademarks and service marks back to PriceCostco and its Affiliates), by terminating certain of the non-compete agreements between the parties, and modifying or terminating certain other agreements between or among the parties concerning the operations of Price Quest and Price Global.

NOW, THEREFORE, for good and adequate consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. DEFINITIONS

1.1 "AUTO REFERRAL PROGRAM" and "TRAVEL PROGRAM" mean, respectively, (i) the automobile advertising/referral program and (ii) the travel program, both as operated by Price Quest under the "PriceCostco" name as of the date of this Agreement.

1.2 "EFFECTIVE DATE" shall have the meaning set forth in the Stipulation of Settlement.

1.3 "PRICECOSTCO WAREHOUSE" means a "Costco" or "Price Club" warehouse location at which PriceCostco or its Downstream Affiliates operate a Club Business.

1.4 "PRICE COSTCO GLOBAL MARKS" means all rights of Price Global, PGT and PEI and its Affiliates in and to the names, trade names, commercial names, trademarks and service marks "PRICE CLUB," "PRICE COSTCO" and "PRICE CLUB

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COSTCO" in the Specified Geographical Areas, including but not limited to all stylized presentations of PRICE CLUB, PRICE CLUB COSTCO and PRICE COSTCO, all designs, logos and marks containing those names, and all pending applications and registrations for the aforementioned names and marks that have been made by Price Global, PQI or PEI or its Affiliates.

1.5 "PRICE GLOBAL LLC AGREEMENT" means the Limited Liability Company Agreement of Price Global Trading, L.L.C. dated as of 27 November 1995, between TPC and PGT.

1.6 "PRICE GLOBAL LICENSE AGREEMENT" means The License Agreement made as of August 28, 1994 by and among PriceCostco, TPC, Price Global Trading, Inc. and PEI, relating among other things to the "PRICE CLUB" and "PRICE COSTCO" trademarks in the Northern Mariana Islands (including Guam and Saipan) and the U.S. Virgin Islands.

1.7 "PRICE GLOBAL OPERATING AGREEMENT" means the Operating

Agreement by and among Price Global Trading, Inc., PEI, PriceCostco and TPC dated as of August 28, 1994.

1.8 "PRICE GLOBAL'S JOETEN LICENSE" means the License, Software, Merchandise & Technical Support Agreement entered into as of December 12, 1994 by and among Price Global Trading, Inc. and Joeten Enterprises, Inc.

1.9 "PRICE GLOBAL'S PANAMA LICENSE" means the License, Software, Merchandise & Technical Support Agreement entered into as of September 21, 1995 by and between Price Global Trading, Inc. and PriceCostco Panama, S.A.

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1.10 "PRICE QUEST MARKS" means all rights of Price Quest, PQI and PEI and its Affiliates in and to the names, trademarks and service marks "PRICE CLUB QUEST," "PRICE QUEST" and "QUEST" worldwide, including but not limited to all stylized presentations of "PRICE CLUB QUEST," "PRICE QUEST" and "QUEST" and all pending applications and registrations for the aforementioned names and marks that have been made by Price Quest, PQI or PEI or its Affiliates.

1.11 "PRICE QUEST LLC AGREEMENT" means the Limited Liability Company Agreement of Price Quest, L.L.C. dated as of 27 November 1995, between TPC and PQI.

1.12 "PRICE QUEST LICENSE AGREEMENT" means The License Agreement made as of August 28, 1994 by and among PriceCostco, TPC, Price Quest, Inc. and PEI.

1.13 "PRICE QUEST OPERATING AGREEMENT" means the Operating Agreement by and among Price Quest, Inc., PEI, PriceCostco and TPC dated as of August 28, 1994.

1.14 "STIPULATION OF SETTLEMENT" shall have the meaning set forth in Recital C above.

1.15 "1994 TRANSFER AGREEMENT" shall have the meaning set forth in Recital A above.

1.16 The definitions in Article I of the 1994 Transfer Agreement, in Section 1 of the Price Global Operating Agreement and in Section 1 of the Price Quest Operating Agreement among certain of the parties to the extent not inconsistent with this

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Agreement, are hereby incorporated by reference and made a part of this Agreement; EXCEPT that

(a) "SPECIFIED GEOGRAPHICAL AREAS" shall no longer include Mexico and after the Effective Date shall mean only the Commonwealth of the Northern Mariana Islands, Guam, Costa Rica and Panama, and

(b) "SPECIFIED COMPANIES" shall mean after the Effective Date only Sam's Warehouse Club, BJ's Wholesale Club, and Wal-Mart Stores, Inc. and each of its Affiliates.

2. ACTIONS CONCERNING PRICE GLOBAL

2.1 PRICE COSTCO GLOBAL MARKS. As of the Effective Date, Price Global, PGT and PEI hereby convey, transfer and assign to PCII, free and clear of any liens or encumbrances (but without warranty of registrability, enforceability or lack of conflict with any third party's trademarks or service marks), all of their rights, title and interest to and in the Price

Costco Global Marks, and in all applications, registrations and claims relating to those marks; PROVIDED THAT the "PRICE COSTCO" mark in Costa Rica and Panama will be assigned only as set forth in paragraph 2.2 below. Contemporaneously with this Agreement, PEI, PGT and Price Global shall execute the Trademark Assignments at Exhibits 2.1A through 2.1H hereto, but PCII shall not attempt to file the Assignments with any governmental authority before the Effective Date.

2.2 FUTURE ASSIGNMENTS FOR COSTA RICA & PANAMA. As shown in Exhibit 5.2A, PGT has five pending applications in both Panama and Costa Rica for the

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"PRICE COSTCO" mark in classes 16, 37, 39, 40 and 42. The parties understand that (1) under present Panamanian law registrations on the five applications in Panama can issue only if registrations for those same marks first issue in Costa Rica in the name of Price Global Trading, Inc., (2) the five applications for those marks have been rejected in Costa Rica and those rejections have been appealed, and (3) it is in the interest of all of the parties to determine if the registrations will be issued on these pending applications before they are assigned to PriceCostco or its Affiliates hereunder. Based on these understandings, the parties agree as follows:

(a) As of the date of this Agreement and until both the "PRICE COSTCO" mark for Costa Rica and Panama is assigned to PCII and the rights of Price Global's joint venturer in Panama to use that mark are terminated, PEI, PGT and Price Global will have the rights and duties (i) diligently to pursue and prosecute the five pending applications and appeal in Costa Rica, and the five pending applications in Panama, listed in Exhibit 5.2A for Costa Rica and Panama covering the "PRICE COSTCO" mark, (ii) to promptly give PriceCostco notice of all government actions in Costa Rica and in Panama relating to such applications and appeal; (iii) to oppose Almacenes Cosco's use of and applications for tradenames, commercial names, service marks and trademarks in Panama which may in Price Global's view infringe upon the "PRICE COSTCO" mark or otherwise be confusingly similar thereto; (iv) to take all reasonable steps against Almacenes Cosco and any other Person using, or filing any application to register as a trademark, service mark, tradename or commercial name in Panama, the "PRICE COSTCO" mark or any mark or name which in Price Global's view

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is confusingly similar thereto; (v) to promptly inform PriceCostco of any use, application or registration in Panama of any mark or name of which it is aware and which infringes or is substantially similar to the "PRICE COSTCO" mark; and (vi) to promptly inform PriceCostco of the steps it takes to carry out its rights and duties under this paragraph 2.2, including providing PriceCostco with copies of all related correspondence and other documents;

(b) In the event PriceCostco believes that PEI, PGT or Price Global has not taken, but should be taking some action under paragraph 2.2(a), PriceCostco may so inform PEI; if then PEI, PGT or Price Global declines or fails to commence such action within fourteen (14) days thereafter, then PriceCostco may take such action. PEI, PGT and Price Global will provide any requested consents, and PriceCostco shall promptly inform Price Global of the steps it so takes, including providing PEI with copies of all related correspondence and other documents. PEI, PGT and Price Global (i) shall have liability under paragraph 2.2(a) only for gross negligence and willful acts or willful omissions where such negligence, acts or omissions materially adversely affect the "PRICE COSTCO" mark, or any right, application or registration in or for such mark, and (ii) may assert as a defense that any loss or damage could have been mitigated or avoided if

PriceCostco had taken action under this paragraph 2.2(b);

(c) As a "safety net" in case registrations on PGT's pending applications are denied, PriceCostco or PCII will (i) promptly file and diligently pursue and prosecute in Panama applications for the "PRICE COSTCO" mark in classes 16, 37, 39, 40 and 42, and PEI, PGT and Price Global will provide any requested consents;

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(ii) promptly give PEI notice of all government actions in Panama relating to such applications; (iii) promptly inform PEI of the steps it takes to carry out its rights and duties of any party under this paragraph 2.2(c), including providing PEI with copies of all related correspondence and other documents;

(d) Each party agrees to promptly sign, and to cause its Downstream Affiliates to promptly sign, any documentation (including consents) reasonably necessary to carry out the rights and duties of any party under paragraphs 2.2(a), (b) and (c), to provide all evidence reasonably necessary, and to otherwise cooperate, and to cause its Downstream Affiliates to cooperate, with the other party;

(e) PriceCostco, PCII and CWC may pursue applications in Panama for "COSTCO", "PRICE CLUB" and "PRICE CLUB COSTCO" trademarks, service marks, tradenames and commercial names, respond to oppositions thereto, and in consultation with Price Global oppose Almacenes Cosco's and other Persons' uses of and applications for tradenames, commercial names, service marks and trademarks in Panama which may in PriceCostco's view infringe upon any "COSTCO", "PRICE CLUB" and "PRICE CLUB COSTCO" names or marks; PROVIDED THAT PriceCostco, PCII and CWC will provide any requested consents regarding PGT's pending applications for the "PRICE COSTCO" mark in Panama; and PROVIDED also that nothing in this paragraph 2.2(e) shall be deemed to affect any party's position concerning any claim of right of PriceCostco and its Affiliates to operate a business in Panama while Price Global has the right to use the "PRICE COSTCO" mark in Panama;

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(f) All action undertaken by Price Global and its Affiliates pursuant to paragraphs 2.2(a) through (e) shall be at Price Global's expense, and all action undertaken by PriceCostco and its Affiliates pursuant to paragraphs 2.2(a) through (e) shall be at PriceCostco's expense; PROVIDED, however, that if there is a termination of all rights to use the "PRICE COSTCO" mark by Price Global's joint venturer in Panama before any of the dates listed below, the reasonable expenses that are described above and have been incurred solely with respect to the "PRICE COSTCO" marks will be totalled and PriceCostco and Price Global shall pay (and reimburse each other for) those expenses in the following proportions:

If Before	PriceCostco Pays	Price Global Pays
-----	-----	-----
10/31/97	100%	0%
10/31/98	66.7%	33.3%
10/31/99	33.3%	66.7%

PROVIDED ALSO THAT a party whose reasonable expenses are to be paid or reimbursed shall first provide to the reimbursing party detailed invoices from and proofs of payment to the payee of each such expense;

(g) As of the Effective Date, PEI, PGT, Price Global and their Affiliates will not use the "PRICE COSTCO" mark in Costa Rica (except to pursue the five pending applications there) or allow any other Person to use them;

(h) PEI, PGT and Price Global will promptly assign to PCII the "PRICE COSTCO" mark for Costa Rica and for Panama, and promptly execute

assignments in the form requested by PCII if, for all of the five Classes of marks for which applications are pending (whether in Costa Rica or in Panama), any of the following

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has occurred after the Effective Date: (1) a rejection that has become final after appeal of a pending application in Costa Rica or in Panama, (2) issuance of a registration in Panama, (3) a termination of rights to use the "PRICE COSTCO" mark by Price Global's joint venturer in Panama, or (4) a determination by an arbitrator that PEI or its Affiliates have materially breached any of its duties under paragraphs 2.2(a) through (g) subject to the standard set out in paragraph 2.2(b); PROVIDED THAT PCII shall not attempt to file the assignments in Panama until registrations have issued in Panama. As an example of the conditions described in items (1) and (2) of this paragraph, if registrations are issued in Panama for the marks in Classes 16 and 37 and if applications are denied in Costa Rica for marks in Classes 39, 40 and 42, the conditions for assignment to PCII under this paragraph 2.2(h) will have been satisfied; and

(i) Price Global shall use diligent and reasonable efforts to negotiate with its licensee in the Northern Mariana Islands and Guam and with its joint venturer in Panama termination dates of their rights to use the Price Costco Global Marks by October 3, 1998; and, if that does not occur, at the earliest possible date before December 12, 2009 for the Northern Mariana Islands and Guam and December 21, 2015 for Panama.

(j) PEI and its Downstream Affiliates shall use diligent and reasonable efforts to obtain from Price Global's joint venture partner in Panama, and from that partner's Affiliates, all applications, registrations, marks and commercial names containing the words "Price Costco" and "Price Club." Upon acquiring the same and at the time the "PRICE COSTCO" mark for Panama is to be assigned under paragraph 2.2(h)

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above, PEI and its Downstream Affiliates shall promptly assign to PCII such applications, registrations, marks and commercial names and promptly execute assignments in the form requested by PCII. Until and unless such marks and names have been assigned to Price Global or PGT, PriceCostco and its Downstream Affiliates may oppose or challenge such applications, registrations, marks or commercial names, but will discontinue any opposition or challenge upon such assignment to Price Global or PGT.

2.3 MARIANAS, GUAM & PANAMA LICENSE. As of the Effective Date, the Price Global License Agreement is hereby amended as follows:

(a) The definition of "Territory" in such license agreement is modified to mean only the Commonwealth of the Northern Mariana Islands and Guam and no other territory or country, PROVIDED THAT if the "PRICE COSTCO" mark for Panama is assigned to PCII, or if registration is granted upon the "safety net" applications described in paragraph 2.2(c) above, before the earliest of the dates determined under paragraph 2.3(c) below, then Panama shall also be included in the definition of "Territory" and the definition of "Marks" shall include the "PRICE COSTCO" mark in Panama;

(b) The Commonwealth of the Northern Mariana Islands and Guam shall be deleted from the definition of "Territory" in such license agreement on the earlier of (i) December 12, 2009 (or any earlier date negotiated under paragraph 2.2(i) above), or (ii) a termination of the rights of Price Global's licensee in the Northern Mariana Islands and Guam to use the Price Costco Global Marks under Price Global's Joeten License;

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(c) Panama shall be deleted from the definition of "Territory" in such license agreement on the earlier of (i) December 21, 2015 (or any earlier date negotiated under paragraph 2.2(i) above), or (ii) a termination of the rights of Price Global's joint venturer in Panama to use the "PRICE COSTCO" mark under Price Global's Panama License;

(d) With respect to Panama, the Marks licensed shall include only the "PRICE COSTCO" mark; and paragraphs 2.2(a), (b), (d), (e), (f) and (i) above are incorporated by reference and made a part of the Price Global License Agreement if and so long as Panama is a "Territory" under such license agreement;

(e) The Price Global License Agreement shall terminate without any right to renew when all of the Commonwealth of the Northern Mariana Islands, Guam and Panama have been deleted from, or are not included within, the definition of "Territory" in such license agreement;

(f) Except as expressly stated above, the Price Global License Agreement shall remain in full force and effect;

(g) Any party to the Price Global License Agreement will upon request sign a reasonable amendment to the Price Global License Agreement that incorporates the provisions of this paragraph 2.3.

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2.4 INTEREST IN PRICE GLOBAL. For one dollar and other good and valuable consideration the receipt of which is hereby acknowledged, and as of the Effective Date, TPC hereby sells, conveys, transfers and assigns to PEI (or to PEI's Downstream Affiliate that PEI has so designated by written notice to PriceCostco before the Effective Date), free and clear of any liens or encumbrances, TPC's 49% ownership interest in Price Global, at which time PEI (or such Downstream Affiliate that PEI has designated above) shall assume all rights and liabilities of TPC as an LLC member of Price Global; PROVIDED THAT, with respect to any act, occurrence or communication before the Effective Date, TPC shall be entitled to enforce Sections 3.15 and 7.5 of the Price Global LLC Agreement (respectively, concerning "Indemnification" and "Confidentiality") and shall remain subject to the obligations of said Section 7.5.

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2.5 PRICE GLOBAL OPERATING AGREEMENT. The Price Global Operating Agreement is hereby terminated and shall be of no further force and effect as of the Effective Date; EXCEPT that Section 2.2(e) thereof concerning "Confidentiality" shall remain in effect; EXCEPT that Price Global and PEI shall, within thirty (30) days of the Effective Date, return to PriceCostco any information received from PriceCostco or its Affiliates under Section 2.2(a), (f) & (g) thereof without retaining any copies thereof; and EXCEPT that PriceCostco and PEI (and their Downstream Affiliates) shall permit the continuation of reciprocal shopping privileges with respect to stores operated under the Price Costco Global Marks and owned (i) by Joeten Enterprises, Inc. in the Commonwealth of the Northern Mariana Islands or Guam, or (ii) by PriceCostco Panama, S.A. in Panama, until the Price Costco Global Marks are no longer licensed under paragraph 2.3 above for the territory in which the particular stores are located.

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3. ACTIONS CONCERNING PRICE QUEST

3.1 PRICE QUEST MARKS. As of the Effective Date, Price Quest, PQI and PEI hereby convey, transfer and assign to TPC, free and clear of any liens or encumbrances (but without warranty of registrability, enforceability or lack of conflict with any third party's trademarks or service marks), all

of their rights, title and interest to and in the Price Quest Marks, and in all applications, registrations and claims relating to those marks. Contemporaneously with this Agreement, PEI, PQI and Price Quest shall execute the Trademark Assignment at Exhibit 3.1 hereto, but TPC shall not attempt to file the Assignment with any governmental authority before the Effective Date. After the Effective Date, Price Quest, PEI and their Affiliates will not use the names "Quest," "Price Quest" or "Price Club Quest" as a trademark or service mark, but Price Quest may use the words "Price Quest" solely in its LLC name.

3.2 PRICE QUEST LICENSE. As of the Effective Date, the Price Quest License Agreement is hereby terminated.

3.3 INTEREST IN PRICE QUEST. For one dollar and other good and valuable consideration the receipt of which is hereby acknowledged, and as of the Effective Date, TPC hereby sells, conveys, transfers and assigns to PEI (or to PEI's Downstream Affiliate that PEI has so designated by written notice to PriceCostco before the Effective Date), free and clear of any liens or encumbrances, TPC's 49% ownership interest in Price Quest, at which time PEI (or such Downstream Affiliate that PEI has designated above) shall assume all rights and liabilities of TPC as an LLC member of Price Quest; PROVIDED THAT, with respect to any act, occurrence or communication before

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the Effective Date, TPC shall be entitled to enforce Sections 3.15 and 7.5 of the Price Quest LLC Agreement (respectively, concerning "Indemnification" and "Confidentiality") and shall remain subject to the obligations of said Section 7.5.

3.4 PRICE QUEST OPERATING AGREEMENT. The Price Quest Operating Agreement is hereby terminated and of no further force and effect as of the Effective Date; EXCEPT as stated in paragraph 3.6 below, and EXCEPT that Section 2.5(f) concerning "Confidentiality" shall remain in effect, and that Price Quest and PEI shall, within thirty (30) days of the Effective Date and subject to 3.6(j) below, return to PriceCostco any information and materials received from PriceCostco or its Affiliates under Section 2.2(a) and 2.3(a) thereof.

3.5 QUEST OPERATIONS AT PRICECOSTCO. From and after the Effective Date, neither PEI nor its Affiliates shall operate any part of the Quest Business in PriceCostco Warehouses or otherwise in connection with or with reference to PriceCostco except as stated in paragraph 3.6 below.

3.6 AUTO & TRAVEL OPERATIONS AT PRICECOSTCO. From and after the Effective Date, PEI (or PEI's Downstream Affiliate that PEI has so designated by written notice to PriceCostco) shall have the right and duty to operate the Auto Referral Program and the Travel Program, and shall do so only in those PriceCostco Warehouses in the United States in which they are currently operated by Price Quest (or which are added under paragraph 3.6(d) below), through advertisements published in The PriceCostco Connection and through promotional materials linked to and from PriceCostco's Internet home page, under the following terms and conditions:

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(a) The Auto Referral Program and the Travel Program shall be operated in substantially the same manner, at the same or higher level of quality and value, and using the same or equivalent space in PriceCostco Warehouses, as on the date of this Agreement (and, in each such warehouse, PriceCostco shall (i) provide sufficient space to display one brochure rack for the Auto Referral Program and one brochure rack and display panel for the Travel Program and (ii) use best efforts to provide sufficient space to display one automobile); PROVIDED THAT PEI (or its Downstream Affiliate) shall provide to PriceCostco, for PriceCostco's prior review and approval (which approval shall not be unreasonably withheld, or delayed if PriceCostco

has received reasonable advance notice), all brochures, flyers, display panels, advertisements in The PriceCostco Connection, promotional materials on the Internet, and other materials concerning these programs, prior to any publication or distribution thereof to PriceCostco members or to others when using any PriceCostco name or mark;

(b) PEI (or its Downstream Affiliate) may purchase advertising for these programs in The PriceCostco Connection on the same terms, net of discounts, as other advertisers for equivalent advertising space purchased;

(c) PriceCostco will, in PriceCostco Warehouses and in substantially the same manner as on the date of this Agreement, maintain and stock brochure racks for the Auto Referral Program and Travel Program and provide for security of these racks and of displayed automobiles;

(d) In each of the fiscal years ending August 1997, 1998 and 1999, PriceCostco shall permit the Auto Referral Program and the Travel Program to

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expand into as many as ten (10) additional PriceCostco Warehouses in the United States (to the extent they exist) which will be selected by PriceCostco with PEI's consent (which consent shall not be unreasonably withheld), utilizing space equivalent to the space so used in existing PriceCostco Warehouses, unless otherwise agreed by the parties.

(e) PEI (or its Downstream Affiliate) may without liability terminate its rights and duties set forth in this paragraph 3.6 with respect to either the Auto Referral Program or the Travel Program or both, upon sixty (60) days written notice to PriceCostco, and such rights and duties will terminate without any right to renew sixty (60) days from such notice. If not earlier terminated, all rights and duties under this paragraph 3.6 with respect to both the Auto Referral Program and the Travel Program will terminate on October 31, 1999, without any right to renew;

(f) From all operations of these programs that occur before these rights terminate, PEI (or its Downstream Affiliate) shall pay to PriceCostco each of the following: (i) for the Auto Program, 20% of the gross revenues derived from the PriceCostco Auto Program Internet site linked to and from PriceCostco's Internet home page, and 55% of the gross revenues derived from all other advertising or promotion via PriceCostco Warehouses, The PriceCostco Connection or other medium which utilizes the "PriceCostco" name or mark; (ii) for car rentals, hotel bookings and other travel services besides vacation packages and cruises, 15% of the received commissions derived from any advertising or promotion via PriceCostco Warehouses, The PriceCostco Connection, the PriceCostco Travel Program Internet site linked to and from PriceCostco's Internet home page, or other medium which utilizes the "PriceCostco" name or mark; and (iii) for

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vacation packages and cruises, 1% of the net sales derived from any advertising or promotion via PriceCostco Warehouses, The PriceCostco Connection, the PriceCostco Travel Program Internet site linked to and from PriceCostco's Internet home page, or other medium which utilizes the "PriceCostco" name or mark;

(g) All such amounts shall be paid within fourteen (14) calendar days of the end of PriceCostco's four-week accounting period in which the revenues, commissions or sales payments are received by PEI (or its Downstream Affiliate);

(h) Pursuant to and solely in accordance with the License Agreement at Exhibit 3.6(h) which PEI shall execute contemporaneously with this Agreement, PEI (or its Downstream Affiliate) (i) shall only use a

"PriceCostco Auto Program" mark and a "PriceCostco Travel Program" mark in connection with these programs, and (ii) shall use these marks solely in flyers and brochures and on brochure racks and display panels placed in PriceCostco Warehouses, in advertisements in The PriceCostco Connection and in promotional materials linked to and from the PriceCostco Internet home page, and in non-public communications with auto dealers and travel service providers;

(i) To the extent they are not inconsistent with the above or with any other provision of this Agreement, Sections 2.2(b), 2.4(a)(i), 2.5(a)(i), and 2.7 of the Price Quest Operating Agreement are hereby incorporated by reference EXCEPT that all references to the Quest Business shall be deemed to mean only the Auto Referral Program and the Travel Program;

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(j) Price Quest may retain only such membership information from PriceCostco's membership database that has become a part of its own customer database pursuant to Section 2.7 of the Price Quest Operating Agreement, and neither it nor PEI nor its Affiliates may market or describe its membership information to others as originating from or including data of PriceCostco or its Affiliates; and

(k) Notwithstanding any other provisions of this Agreement, PEI (and its Affiliates) may own and operate any automobile related businesses, any travel related businesses, and any other Quest Business, in any manner, using any medium, and in any location (and without any monetary obligation to PriceCostco), provided that such businesses do not use in any way the names or marks "PriceCostco," "Price Club" or "Costco," and provided further that any such activity is not precluded under Section 4.4 of this Agreement.

(l) Price Quest has registered Internet domain names containing the words "Price Costco Auto" and "Price Costco Travel." PEI and its Downstream Affiliates will promptly assign to Price Costco (or to a Downstream Affiliate designated by PriceCostco) or relinquish as directed by PriceCostco (i) the Internet domain name(s) containing the words "Price Costco Auto" upon any termination of the Auto Referral Program under paragraph 3.6(e) above or of the license to use the mark "Price Costco Auto Program" mentioned in paragraph 3.6(h), and (ii) the Internet domain name(s) containing the words "Price Costco Travel" upon any termination of the Travel Program under paragraph 3.6(e) above or of the license to use the mark "Price Costco Travel Program" mentioned in paragraph 3.6(h)

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4. NON-COMPETITION COVENANTS

4.1 TERMINATION OF NON-COMPETE AGREEMENTS. All agreements and covenants not to compete between (i) PriceCostco or its Affiliates and (ii) PEI or its Affiliates (including without limitation Section 6.6 of the 1994 Transfer Agreement) are hereby terminated as of the Effective Date and shall be of no further force and effect, except as explicitly stated in paragraphs 4.2, 4.3 and 4.4 below.

4.2 MARIANAS, GUAM & PANAMA NON-COMPETE. As of the Effective Date the covenants not to compete in Section 6.6(b)(i) of the 1994 Transfer Agreement and in Section 2.1(a) of the Price Global Operating Agreement shall continue only (i) within the Commonwealth of the Northern Mariana Islands, Guam and Panama, and (ii) in duration as follows:

(A) With respect to the Northern Mariana Islands and Guam, only until the earlier of October 31, 1999, or a termination of Price Global's Joeten License, and

(B) With respect to Panama, only until the earlier of October 31, 1999, or a termination of Price Global's Panama License.

4.3 AUTO/TRAVEL LIMITS ON PRICECOSTCO. As of the Effective Date until October 31, 1999, PriceCostco and its Downstream Affiliates may not conduct, and will not allow any third party to conduct, the Auto Referral Program and the Travel Program or substantially similar programs in the United States through PriceCostco Warehouses, The PriceCostco Connection or the Internet; PROVIDED THAT PriceCostco and its

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Downstream Affiliates may without restriction (i) sell directly to their members automobiles (but not by referral to a third party other than a PriceCostco Downstream Affiliate), vacation packages (but not cruises) and airline tickets, and (ii) investigate, experiment with and develop other concepts in the auto and travel businesses.

4.4 AUTO/TRAVEL LIMITS ON PEI AND PRICECOSTCO. From the Effective Date until October 31, 1999, neither PEI nor its Downstream Affiliates, nor PriceCostco nor its Downstream Affiliates, shall operate or conduct the Auto Referral Program, the Travel Program or a substantially similar program with, or from within a location that is owned or operated by, any of the Specified Companies.

4.5 INJUNCTIVE RELIEF. In the event of a breach or threatened breach of paragraphs 4.2, 4.3 or 4.4 by any party, the parties agree that money damages, alone, would be an inadequate remedy, and that the aggrieved party may, pending arbitration or as part of an arbitral award under paragraph 7.4 below, apply for and obtain injunctive and other equitable relief without necessity of bond or other security, to prevent or remedy such breach.

5. COSTS & OTHER MATTERS CONCERNING THE TRANSFERS

5.1 FEES & COSTS. Fees and costs shall be paid as follows:

(A) Paragraphs 5.4 below shall apply to certain fees and costs incurred between the date of this Agreement and the Effective Date with respect to interim safeguards;

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(B) Paragraph 2.2(f) above shall apply to certain fees and costs incurred with respect to Panama;

(C) Except as provided in paragraph 2.2(f) for Panama, TPC and PCII will prepare the documentation for, and cause the filing and recordation of, the assignments to them under this Agreement, and reimburse those reasonable fees and costs that PEI and its Affiliates incur to third parties in connection with such assignments after the Effective Date for acts taken at the express direction of TPC or PCII; PROVIDED THAT PEI provides detailed invoices from and proofs of payment to the payee of each expense covered by this paragraph 5.1(c); and

(D) Otherwise, each party shall be solely responsible for all fees and costs it incurs with respect to any act or transaction contemplated by this Agreement.

5.2 REPRESENTATIONS. PEI, PGT, PQI, Price Global and Price Quest warrant and represent that:

(A) Complete and accurate lists of all applications and registrations of the Price Costco Global Marks, and of the Price Quest Marks, that they or their Affiliates own or have filed with any governmental authority (or that were previously assigned by PriceCostco or its Affiliates), and of the file numbers, trademark or service mark classes, registration dates, application dates and status thereof, appear respectively in Exhibit 5.2A and Exhibit 5.2B hereof;

(B) PGT or Price Global own each of the Price Costco Global Marks, and neither they nor their Affiliates have (i) licensed or sub-licensed any of the Price Costco Global Marks except to Joeten Enterprises, Inc. pursuant to Price Global's

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Joeten License and to PriceCostco Panama, S.A. pursuant to Price Global's Panama License, or (ii) assigned any of the Price Costco Global Marks (except that PGT has previously assigned certain of these Marks to Price Global); and

(c) Neither PEI, PQI nor Price Quest nor their Affiliates have (i) licensed or sub-licensed any of the Price Quest Marks, or (ii) assigned any of the Price Quest Marks (except that PQI has previously assigned certain of these Marks to Price Quest).

5.3 TRADEMARK DOCUMENTS. After the Effective Date, PEI, Price Global and Price Quest shall (i) promptly deliver to PriceCostco all file wrappers, applications, registrations, files of trademark counsel, and correspondence to or from any governmental authority that are in their custody or control and that concern the Price Costco Global Marks and the Price Quest Marks, and (ii) will promptly sign, and to cause their Downstream Affiliates to promptly sign, any documentation reasonably necessary to file, perfect or transfer to PriceCostco and its Affiliates (e.g., PCII and TPC) any applications or registrations that concern those marks, to provide all evidence reasonably necessary for these purposes, and to otherwise cooperate, and to cause their Downstream Affiliates to cooperate, with PriceCostco and its Affiliates, and use diligent and reasonable efforts to cause their other Affiliates to do each of the foregoing; PROVIDED THAT this paragraph 5.3 will apply to the "PRICE COSTCO" mark in Costa Rica and Panama when assignment of such mark is required under paragraph 2.2(h) above.

5.4 INTERIM SAFEGUARDS. Between the date of this Agreement and the Effective Date, Price Global, Price Quest, PEI and their Downstream Affiliates shall

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(A) As to Panama, apply paragraphs 2.2(a) through 2.2(f) of this Agreement as if it applied between the date of this Agreement and the Effective Date; PROVIDED that no reimbursement of expenses will occur if the settlement referred to in Recital C does not become final;

(B) As to all other countries in the Specified Geographical Areas, take all necessary or appropriate steps to preserve all applications and registrations, including all rights and claims relating to those applications and registrations, with respect to the Price Costco Global Marks, or the Price Quest Marks, so that no such right, claim application or registration is abandoned or materially adversely affected, and will at the request of PriceCostco make filings to preserve rights with respect to the marks and take steps to oppose uses, applications and registrations that in PriceCostco's view conflict with any such marks, and PriceCostco will reimburse PEI for the costs of those steps which are taken between the date of this Agreement and the Effective Date, which PriceCostco has approved in advance (which approval may not be unreasonably withheld if PEI gives reasonable advance notice of the estimated costs and of the specific services

for which such costs will be incurred), and for which PEI provides detailed invoices from and proofs of payment to the payee of each such expense; PROVIDED THAT, whether or not the settlement referred to in Recital C becomes final, PriceCostco will reimburse such costs incurred for new applications filed at PriceCostco's request and for actions taken at PriceCostco's request to oppose uses, applications and registrations in countries where PGT or Price Global do not have applications listed in Exhibit 5.2A; and PROVIDED further that no other

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reimbursement will occur if the settlement referred to in Recital C does not become final; and

(C) Promptly inform PriceCostco of any use, application or registration in the Specified Geographical Areas (except Panama) of any mark or name of which they are aware and which infringes or is substantially similar to any of the Price Costco Global Marks, and, at PriceCostco's election, direction and expense, prosecute or oppose any such use, application or registration; PROVIDED, however that Price Global, Price Quest, PEI and their Affiliates may elect to so prosecute or oppose such use, at their own direction and expense.

5.6 Any reference to a "mark" in this Agreement shall be deemed to include any stylized form of the mark and any logo or design that includes the mark.

5.7 Nothing in this Agreement shall affect any rights or liabilities between or among the parties arising from any tax allocation agreement, or from any balances owed on previous commercial transactions between PriceCostco or any of its Downstream Affiliates and either Price Global, PGT, Price Quest, or PQI.

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6. CERTAIN "PRICE" MARKS

6.1 "PRICESMART" AGREEMENT. PriceCostco on behalf of itself and its Downstream Affiliates and PEI on behalf of itself and its Downstream Affiliates agree that PEI and its Downstream Affiliates may use the name "Price" in a "PriceSmart" mark, but they shall not use a "PriceSmart" mark for or in connection with a Club Business or any other membership activity named "PriceSmart" in the United States, Canada or Mexico; no such limitation applies outside the United States, Canada or Mexico.

This limitation as to use of the name "Price" and the mark "PriceSmart" shall no longer apply commencing 24 months after PriceCostco and its Downstream Affiliates cease their use of the names and marks "Price Costco" and "Price Club."

6.2 PROMOTION. PEI and its Downstream Affiliates shall not in any way promote their businesses using the "PriceCostco" or "Price Club" names or marks, or the goodwill associated with those names and marks except as otherwise in this Agreement provided.

Nothing contained herein shall restrict the employees of PEI or its Downstream Affiliates from truthfully referencing their prior employment and responsibilities with PriceCostco or its Downstream Affiliates if, at the same time, they expressly disclaim any present association with PriceCostco and Price Club.

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6.3 REGISTRATION PRECLUSION. PEI and its Downstream Affiliates and PriceCostco and its Downstream Affiliates shall each take reasonable steps and cooperate with each other so that

(A) any application or registration of the "PriceSmart" mark does not preclude any application or registration by PriceCostco or its Downstream Affiliates of the "Price Costco" or "Price Club" marks; and

(B) any application or registration of the "Price Costco" or "Price Club" marks does not preclude any application or registration by PEI or its Downstream Affiliates of the "PriceSmart" mark.

6.4 CLAIMS TO "PRICE" MARKS. Neither this Agreement, nor the License Agreement to be executed under paragraph 3.6(h) above, nor any trademark assignments to be executed pursuant to this Agreement, nor any Exhibit to this Agreement, nor the Stipulation of Settlement will

(A) Affect any existing or future rights or liabilities of any party, or between or among the parties, concerning PEI's or its Affiliates' application for, or registration or use of, or any claim of right or cause of action by any of them to apply for, register or use, currently or in the future, the "PRICE ONLINE" mark or any other mark or name of which the word "PRICE" is an element, or any claims, causes of action, oppositions, and objections of PriceCostco and its Affiliates with respect thereto -- except as explicitly provided in paragraphs 6.1 through 6.3 above and in the licenses and assignments to be executed pursuant to this Agreement (and said licenses and assignments

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shall not be deemed to affect marks or names other than those which are the subjects of those licenses and assignments); or

(B) Be deemed a waiver of or estoppel with respect to any rights or liabilities, or an acquiescence in any act or circumstance, with respect to any such marks.

7. GENERAL PROVISIONS

7.1 FURTHER ASSURANCES. Subject to the terms and conditions of this Agreement, parties shall (i) use all reasonable efforts to take or cause to be taken all actions, and do or cause to be done all things, that are necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement, (ii) to promptly execute any assignments, documents, instruments or conveyances of any kind which may be reasonably necessary or advisable to carry out any of the transactions contemplated hereunder, and (iii) to cooperate with each other in connection with the foregoing.

7.2 AFFILIATE COMPLIANCE. PriceCostco and PEI shall each cause each of their Downstream Affiliates, whether now existing or hereafter formed and whether or not named herein, and shall use best efforts to cause any Person who may hereafter control either of them as well as any such Person's Downstream Affiliates, (i) to comply with the terms of this Agreement, and (ii) to take no act that would interfere or be inconsistent with any of the terms of this Agreement; and shall use diligent and reasonable efforts to cause their other Affiliates to do each of the foregoing.

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7.3 GUARANTIES. To the extent any Downstream Affiliates of PEI or PriceCostco perform any duties or assume any liabilities hereunder, PEI and PriceCostco each hereby guarantee the performance of such duties and the

discharge of such liabilities by its respective Downstream Affiliates.

7.4 ARBITRATION. All claims and disputes between or among the parties to this Agreement relating in any way to this Agreement or its performance, interpretation, validity, breach or subject matter (including any contract, tort or statutory claim), shall be resolved by binding arbitration in the manner set forth in Section 10.3 of the 1994 Transfer Agreement, which is hereby incorporated by reference and made a part of this Agreement. Before a party commences any arbitration, it will give the opposing party or parties written notice of the claim or dispute, and, during the seven (7) days following the notice, the parties concerned will make diligent and reasonable efforts to confer at least once (by telephone or in person) in an attempt to resolve the claim or dispute.

7.5 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.

7.6 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 (5) business days after the day when mailed by certified or registered mail, postage prepaid, addressed to the

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following addresses (or at such other address as PriceCostco or PEI shall specify by like notice):

If to PriceCostco or TPC, to:

Price/Costco, Inc.
999 Lake Drive
Issaquah, Washington 95027

Attention: James D. Sinegal
and
Joel Benoliel

If to PEI, Price Global or Price Quest, to:

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

Attention: Robert E. Price
and
Robert M. Gans

Any matter or material for which consent or approval is sought or required under paragraph 5.4(b) of this Agreement shall first be sent under this notice provisions to the party from whom consent or approval is sought.

7.7 AMENDMENT; WAIVER. This Agreement may not be amended except by an instrument in writing signed by each of the parties hereto. Any agreement on the part of a party hereto to an extension or waiver with respect to any obligation or condition hereunder shall be valid only if set forth in an instrument in writing signed on behalf of such party.

7.8 BINDING EFFECT; NO ASSIGNMENTS. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and

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their respective successors and assigns. No party may assign any of its rights or delegate any of its duties hereunder, except as expressly stated herein or except to a party's Downstream Affiliate.

7.9 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.

7.10 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.

7.11 COMPLETE AGREEMENT. This Agreement and the Stipulation of Settlement constitute the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings with respect thereto.

7.12 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.

7.13 TERMINATION. This Agreement will terminate and be of no further force or effect if, before the Effective Date, the Stipulation of Settlement terminates.

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: _____
Name: _____
Title: _____

PRICE ENTERPRISES, INC.

By: _____
Name: _____
Title: _____

THE PRICE COMPANY

By: _____
Name: _____

Title: _____

PRICE COSTCO INTERNATIONAL, INC.

By: _____

Name: _____

Title: _____

COSTCO WHOLESALE CORPORATION

By: _____

Name: _____

Title: _____

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PRICE GLOBAL TRADING, L.L.C.

By: _____

Name: _____

Title: _____

PRICE QUEST, L.L.C.

By: _____

Name: _____

Title: _____

PGT, INC.

By: _____

Name: _____

Title: _____

PQI, INC.

By: _____

Name: _____

Title: _____

LIST OF EXHIBITS

Exhibit 2.1A	Assignment (for Australia)
Exhibit 2.1B	Assignment (for New Zealand)
Exhibit 2.1C	Assignment (for Costa Rica)
Exhibit 2.1D	Assignment (for Panama)
Exhibit 2.1E	Assignment (for Nicaragua)
Exhibit 2.1F	Assignment (for El Salvador)
Exhibit 2.1G	Assignment (for Guatemala)
Exhibit 2.1H	Assignment (for Honduras)
Exhibit 2.1J	Assignment (for Jamaica)
Exhibit 2.1K	Assignment (for Dominican Republic)
Exhibit 2.1L	Assignment (for Trinidad or Tobago)
Exhibit 2.1M	Assignment (for the Bahamas)
Exhibit 2.1N	Assignment (for Barbados)
Exhibit 3.1	Assignment (Price Quest Marks)
Exhibit 3.6(h)	License Agreement (for Auto/Travel)
Exhibit 5.2A	List of Applications and Registrations for Price Costco Global Marks
Exhibit 5.2B	List of Applications and Registrations by PEI and Its Downstream Affiliates for Price Quest Marks

AMENDMENT NO. 1 TO AGREEMENT CONCERNING TRANSFER
OF CERTAIN ASSETS

Costco Companies, Inc., formerly known as Price/Costco, Inc. ("Costco"), Price Enterprises, Inc ("PEI"), The Price Company ("TPC"), Price Costco International, Inc. ("PCII"), Costco Wholesale Corporation ("CWC"), Price Global Trading, L.L.C. ("Price Global"), PGT, Inc. ("PGT"), Price Quest, L.L.C. ("Price Quest") and PQI, Inc. ("PQI") hereby amend their Agreement Concerning Transfer of Certain Assets dated November 21, 1996 (the "Transfer Agreement"), as follows:

The references in paragraph 3.6(f) and 3.6(h) of the Transfer Agreement to the "Price Costco", "Price Costco Auto Program", and "Price Costco Travel Program" marks or names are hereby amended to refer, respectively, to the "Costco", "Costco Auto Program", and "Costco Travel" marks and names.

All obligations of PEI and its Downstream Affiliates under paragraph 3.6(l) of the Transfer Agreement with respect to Internet domain names shall apply also to Internet domain names containing (a) the term "Costcoauto", or (b) the word "Costco" either alone or as part of any other term.

Except as explicitly stated in paragraph 1 and 2 above, all of the other provisions, terms and conditions of the Transfer Agreement remain unchanged.

Dated the 29th day of May, 1997.

COSTCO COMPANIES, INC.

By: _____
Name:
Title:

PRICE ENTERPRISES, INC.

By: _____
1

Name:
Title:

THE PRICE COMPANY

By: _____
Name:
Title:

PRICE COSTCO INTERNATIONAL, INC.

By: _____
Name:
Title:

COSTCO WHOLESALE CORPORATION

By: _____
Name:
Title:

PRICE GLOBAL TRADING, L.L.C.

By: -----

Name:

2

Title:

3

PRICE QUEST, L.L.C.

By: -----

Name:

Title:

PQI, INC.

By: -----

Name:

Title:

4

Cede & Co., or registered assigns, the Principal Amount of \$200,000,000.00 Dollars on August 19, 2017.

This Security shall not bear interest except as specified on the other side of this Security. Original Issue Discount will accrue as specified on the other side of this Security. This Security is convertible as specified on the other side of this Security. All capitalized terms used herein without definition shall have the respective meanings assigned thereto in the Indenture referred to on the other side of this Security.

Additional provisions of this Security are set forth on the other side of this Security.

COSTCO COMPANIES, INC.

By: _____
Title:

ATTEST:

Date: _____

TRUSTEE'S CERTIFICATE OF
AUTHENTICATION

as Trustee, certifies that this Security is one of the Securities referred to in the within-mentioned Indenture.

By: _____
Authorized Signatory

[FORM OF REVERSE SIDE OF NOTE]

ZERO COUPON CONVERTIBLE SUBORDINATED NOTE DUE 2017

Unless and until it is exchanged in whole or in part for Securities in definitive form, this Security may not be transferred except as a whole by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository. Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Company or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made

to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest therein.

1. INTEREST

This Security shall not bear interest except as specified in this paragraph. If the Principal Amount hereof or any portion of such Principal Amount is not paid when due (whether upon acceleration pursuant to Section 6.02 of the Indenture, upon the date set for payment of the Redemption Price pursuant to paragraph 5 hereof, upon the date set for payment of a Purchase Price or Change of Control Purchase Price pursuant to paragraph 6 hereof or upon the Stated Maturity of this Security) or if shares of Common Stock (or cash in lieu of fractional shares) in respect of a conversion of this Security in accordance with the terms of Article 10 of the Indenture is not delivered when due, then in each such case the overdue amount shall bear interest at the rate of 3.50% per annum, compounded semiannually (to the extent that the payment of such interest shall be legally enforceable), which interest shall accrue from the date such overdue amount was due to the date payment of such amount, including interest thereon, has been made or duly provided for. All such interest shall be payable on demand.

Original Issue Discount (the difference between the Issue Price and the Principal Amount of the Security), in the period during which a Security remains outstanding, shall accrue at 3.50% per annum, on a semiannual bond equivalent basis using a 360-day year composed of twelve 30-day months, commencing on the Issue Date of this Security, and cease to accrue on the earlier of (a) the date on which the Principal Amount at Stated Maturity hereof or any portion of such

Include if Global certificate.

Principal Amount at Stated Maturity becomes due and payable and (b) any Redemption Date, Conversion Date, Change of Control Purchase Date, Purchase Date or other date on which such Original Issue Discount shall cease to accrue in accordance with Section 2.08 of the Indenture.

2. METHOD OF PAYMENT

Subject to the terms and conditions of the Indenture, Costco Companies, Inc. (the "Company") will make payments in respect of the Securities to the persons who are registered Holders of Securities at the close of business on the Business Day preceding the Redemption Date or Stated Maturity, as the case may be, or at the close of business on a Purchase Date, Change of Control Purchase Date or Conversion Date, as the case may be. Holders must surrender Securities to a Paying Agent to collect such payments in respect of the Securities. The Company will pay cash amounts in money of The United States of America that at the time of payment is legal tender for payment of public and private debts. However, the Company may make such cash payments in respect of a certificated Security, if applicable, by check payable in such money; provided that payment by wire transfer of immediately available funds will be required with respect to payments in respect of all Global Securities and all other Securities the Holders of which shall have provided written wire transfer instructions to the Company or the Paying Agent five days before the payment date.

3. PAYING AGENT, CONVERSION AGENT AND REGISTRAR

Initially, Firststar Bank of Minnesota, N.A., as trustee (the "Trustee"), will act as Paying Agent, Conversion Agent and Registrar. The Company may appoint and change any Paying Agent, Conversion Agent, Registrar or co-registrar, upon notice to the Trustee and the Holders. The Company or any of its Subsidiaries or any of their Affiliates may act

as Paying Agent, Conversion Agent, Registrar or co-registrar.

4. INDENTURE

The Company issued the Securities under an Indenture, dated as of August 19, 1997 (the "Indenture"), between the Company and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended by the Trust Indenture Reform Act of 1990, and, as in effect on the date of the Indenture (the "TIA"), except as provided in Section 9.03 of the Indenture. Capitalized terms used herein or on the face hereof and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Securityholders are referred to the Indenture and the TIA for a statement of those terms.

The Securities are general, unsecured obligations of the Company limited to the aggregate Principal Amount specified in Section 2.02 of the Indenture (subject to Section 2.07 of the Indenture). The

Indenture does not limit other indebtedness of the Company, secured or unsecured.

5. REDEMPTION AT THE OPTION OF THE COMPANY

No sinking fund is provided for the Securities. The Securities are redeemable as a whole, or from time to time in part, at any time at the option of the Company at the Redemption Prices set forth below, PROVIDED, that the Securities are not redeemable prior to August 19, 2002.

The table below shows the Redemption Prices of a Security per \$1,000 Principal Amount on the dates shown below and at Stated Maturity, which prices reflect accrued Original Issue Discount calculated to each such date. The Redemption Price of a Security redeemed between such dates would include an additional amount reflecting the additional Original Issue Discount accrued from and including the next preceding date in the table through the actual Redemption Date.

REDEMPTION DATE	REDEMPTION PRICE
- - - - -	- - - - -
August 19, 2002.....	\$594.25
August 19, 2003.....	615.23
August 19, 2004.....	636.95
August 19, 2005.....	659.44
August 19, 2006.....	682.72
August 19, 2007.....	706.82
August 19, 2008.....	731.78
August 19, 2009.....	757.62
August 19, 2010.....	784.36
August 19, 2011.....	812.06
August 19, 2012.....	840.73
August 19, 2013.....	870.41
August 19, 2014.....	901.14
August 19, 2015.....	932.96
August 19, 2016.....	965.90
At maturity.....	1,000.00

6. PURCHASE BY THE COMPANY AT THE OPTION OF THE HOLDER

Subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase, at the option of the Holder, the Securities held by such Holder on the following Purchase Dates and at the following Purchase Prices per \$1,000 Principal Amount at Stated Maturity

of such Securities, upon delivery of a Purchase Notice containing the information set forth in the Indenture, at any time from the opening of business on the date that is 20 Business Days prior to

such Purchase Date until the close of business on such Purchase Date and upon delivery of the Securities to the Paying Agent by the Holder as set forth in the Indenture. Such Purchase Price (equal to the Issue Price plus accrued Original Issue Discount through such Purchase Date) may be paid, at the option of the Company, in cash or by the issuance and delivery of shares of Common Stock of the Company, or in any combination thereof.

Purchase Date	Purchase Price
-----	-----
August 19, 2002	\$594.25
August 19, 2007	\$706.82
August 19, 2012	\$840.73

Subject to the terms and conditions of the Indenture, if any Change of Control occurs on or prior to August 19, 2002, the Company shall, at the option of the Holder, purchase all Securities for which a Change of Control Purchase Notice shall have been delivered as provided in the Indenture and not withdrawn, on the date that is 35 Business Days after the occurrence of such Change of Control, for a Change of Control Purchase Price equal to the Issue Price, plus accrued Original Issue Discount through the Change of Control Purchase Date, which Change of Control Purchase Price shall be paid in cash.

Holder have the right to withdraw any Purchase Notice or Change of Control Purchase Notice, as the case may be, by delivering to the Paying Agent a written notice of withdrawal in accordance with the provisions of the Indenture prior to the close of business on the Purchase Date or Change of Control Purchase Date, as the case may be.

If cash sufficient to pay the Purchase Price or Change of Control Purchase Price of all Securities or portions thereof to be purchased as of the Purchase Date or the Change of Control Purchase Date, as the case may be, is deposited with the Paying Agent on the Business Day following the Purchase Date or the Change of Control Purchase Date, as the case may be, Original Issue Discount ceases to accrue on such Securities (or portions thereof) on and after such date, and the Holders thereof shall have no other rights as such (other than the right to receive the Purchase Price or Change of Control Purchase Price, as the case may be, upon surrender of such Security).

7. NOTICE OF REDEMPTION

Notice of redemption will be mailed at least 20 days but not more than 60 days before the Redemption Date to each Holder of Securities to be redeemed at the Holder's registered address. If money sufficient to pay the Redemption Price of all Securities (or portions thereof) to be redeemed on the Redemption Date is deposited with the Paying Agent prior to or on the Redemption Date, on and after such date Original Issue Discount ceases to accrue on such Securities or portions thereof. Securities in denominations larger than \$1,000 of Principal Amount may

be redeemed in part but only in integral multiples of \$1,000 of Principal Amount.

8. CONVERSION

Subject to the next two succeeding sentences, a Holder of a Security may convert it into Common Stock of the Company at any time before the close of business on August 19, 2017; PROVIDED, HOWEVER, that if a Security is called for redemption, the Holder may convert it at any time before the close of business on the date that is seven days prior to the Redemption Date. The

number of shares of Common Stock to be delivered upon conversion of a Security into Common Stock per \$1,000 of Principal Amount shall be equal to the Conversion Rate. A Security in respect of which a Holder has delivered a Purchase Notice or Change of Control Purchase Notice exercising the option of such Holder to require the Company to purchase such Security may be converted only if the notice of exercise is withdrawn in accordance with the terms of the Indenture.

The initial Conversion Rate is 11.3545 shares of Common Stock per \$1,000 Principal Amount, subject to adjustment in certain events described in the Indenture. The Company will deliver cash or a check in lieu of any fractional share of Common Stock.

To convert a Security a Holder must (i) complete and manually sign the conversion notice on the back of the Security (or complete and manually sign a facsimile of such notice) and deliver such notice to the Conversion Agent (or the office or agency referred to in Section 4.05 of the Indenture), (ii) furnish appropriate endorsements and transfer documents if required by the Conversion Agent, the Company or the Trustee and (iii) pay any transfer or similar tax, if required.

If the Holder converts more than one Security at the same time, the number of shares of Common Stock issuable upon the conversion shall be based on the total Principal Amount of the Securities converted.

A Holder may convert a portion of a Security if the Principal Amount of such portion is \$1,000 or an integral multiple of \$1,000. No payment or adjustment will be made for dividends on the Common Stock, except as provided in the Indenture. On conversion of a Security, that portion of accrued Original Issue Discount attributable to the period from the Issue Date to the Conversion Date with respect to the converted Security shall not be cancelled, extinguished or forfeited, but rather shall be deemed paid in full to the Holder thereof through the delivery of the Common Stock in exchange for the Security being converted pursuant to the terms hereof, and the fair market value of such Common Stock (together with any cash payment in lieu of fractional shares of Common Stock) shall be treated as issued, to the extent thereof, first in exchange for Original Issue Discount accrued through the Conversion Date, and the balance, if any, of such fair market value of such shares of Common Stock (and any such cash payment) shall be

treated as issued in exchange for the Issue Price of the Security being converted pursuant to the provisions hereof.

The Conversion Rate will be adjusted for dividends or distributions on Common Stock payable in Common Stock or other Capital Stock; subdivisions, combinations or certain reclassifications of Common Stock; distributions to all holders of Common Stock of certain rights to purchase Common Stock for a period expiring within 60 days at less than the Market Price at the Time of Determination; and distributions to such holders of assets or debt securities of the Company or certain rights to purchase securities of the Company (excluding certain cash dividends or distributions). However, no adjustment need be made if Securityholders may participate in the transaction or in certain other cases. The Company from time to time may voluntarily increase the Conversion Rate.

If the Company is a party to a consolidation, merger or binding share exchange of the type specified in the Indenture, or certain transfers of all or substantially all of its assets to another person, or in certain other circumstances described in the Indenture, the right to convert a Security into Common Stock may be changed into a right to convert it into securities, cash or other assets of the Company or another person.

9. CONVERSION ARRANGEMENT ON CALL FOR REDEMPTION

Any Securities called for redemption, unless surrendered for conversion before the Redemption Date, may be deemed to be purchased from the Holders of

such Securities at an amount not less than the Redemption Price, together with accrued interest if any, to the Redemption Date, by one or more investment bankers or other purchasers who may agree with the Company to purchase such Securities from the Holders and to make payment for such Securities to the Trustee in trust for such Holders.

10. DENOMINATIONS; TRANSFER; EXCHANGE

The Securities are in fully registered form, without coupons, in denominations of \$1,000 of Principal Amount and integral multiples of \$1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not transfer or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or any Securities in respect of which a Purchase Notice or Change of Control Purchase Notice has been given and not withdrawn (except, in the case of a Security to be purchased in part, the portion of the Security not to be purchased) or any Securities for a period of 15 days before a selection of Securities to be redeemed.

11. PERSONS DEEMED OWNERS

The registered Holder of this Security may be treated as the owner of this Security for all purposes.

12. UNCLAIMED MONEY OR SECURITIES

The Trustee and the Paying Agent shall return to the Company upon written request any money or securities held by them for the payment of any amount with respect to the Securities that remains unclaimed for two years, PROVIDED, HOWEVER, that at the Company's request, the Trustee or such Paying Agent, before being required to make any such return, shall at the expense of the Company cause to be published once in THE WALL STREET JOURNAL or another newspaper of national circulation or mail to each such Holder notice that such money or securities remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication or mailing, any unclaimed money or securities then remaining will be returned to the Company. After return to the Company, Holders entitled to the money or securities must look to the Company for payment as general creditors unless an applicable abandoned property law designates another person, and the Trustee and the Paying Agent shall have no further liability with respect to such money or securities for that period commencing after the return thereof.

13. AMENDMENT; WAIVER

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended with the written consent of the Holders of at least a majority in aggregate Principal Amount of the Securities at the time outstanding and (ii) certain defaults or noncompliance with certain provisions may be waived with the written consent of the Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company and the Trustee may amend the Indenture or the Securities to cure any ambiguity, defect or inconsistency, or to comply with Article 5 or Section 10.14 of the Indenture or to make any change that does not adversely affect the rights of any Securityholder.

14. DEFAULTS AND REMEDIES

Under the Indenture, Events of Default include (i) default in payment of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price or Change of Control Purchase Price, as the case may be, in respect of the Securities when the same becomes due and payable; (ii) failure either to deliver shares of Common Stock (or cash in lieu of fractional shares) in accordance with the terms of the Indenture when such Common Stock (or cash in lieu of fractional shares) is required to be delivered following conversion of a Security and such failure is not remedied for a period of 10 days; (iii) failure by the Company to comply with other agreements in the Indenture or the Securities, subject to notice and lapse of time; (iv) default (A) in the payment of any principal on any debt for borrowed money of the Company, in an aggregate principal amount in excess of \$10 million when due at its final maturity, or (B) in the performance of any term or provision of any debt for borrowed money of the Company in an aggregate principal amount in excess of \$10 million that results in such debt becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; or (v) certain events of bankruptcy or insolvency. If an Event of Default occurs and is continuing, the Trustee, or the Holders of at least 25% in aggregate Principal Amount of the Securities at the time outstanding, may declare all the Securities to be due and payable immediately. Certain events of bankruptcy or insolvency are Events of Default that will result in the Securities becoming due and payable immediately upon the occurrence of such Events of Default.

Securityholders may not enforce the Indenture or the Securities, except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Securities unless it receives reasonable indemnity or security. Subject to certain limitations, Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing Default (except a Default in payment of amounts specified in clause (i) above) if it determines that withholding notice is in their interests.

15. TRUSTEE DEALINGS WITH THE COMPANY

Subject to certain limitations imposed by the TIA, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

16. NO RECOURSE AGAINST OTHERS

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company

under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

17. ADDITIONAL RIGHTS OF HOLDERS OF TRANSFER RESTRICTED SECURITIES

In addition to the rights provided to Holders of Securities under the Indenture, Holders of Securities shall have all the rights set forth in the Registration Rights Agreement.

18. SUBORDINATION

The Securities are subordinated to Senior Indebtedness (as defined in the Indenture), and all obligations of the Company with respect to the Senior Indebtedness. To the extent provided in the Indenture, Senior Indebtedness

must be paid before the Securities may be paid. The Company agrees, and each Holder by accepting a Security consents and agrees, to the subordination provided in the Indenture and authorizes the Trustee to give it effect.

19. AUTHENTICATION

This Security shall not be valid until an authorized signatory of the Trustee manually signs the Certificate of Authentication on the other side of this Security.

20. ABBREVIATIONS

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with right of survivorship and not as tenants in common) and CUST (=custodian), and UNIF TRANS MIN ACT (=Uniform Transfers to Minors Act).

21. GOVERNING LAW

THE INDENTURE AND THIS SECURITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND TO BE PERFORMED WITHIN THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS. THE COMPANY HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY NEW YORK STATE COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK OR

- - - - -

This certificate shall be included only for the Transfer Restricted Securities.

ANY FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, AND IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, JURISDICTION OF THE AFORESAID COURTS. THE COMPANY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

- - - - -

The Company will furnish to any Securityholder upon written request and without charge a copy of the Indenture which has in it the text of this Security in larger type. Requests may be made to:

Costco Companies, Inc.
999 Lake Drive
Issaquah, Washington 98027
Attn: Treasurer

ASSIGNMENT FORM

CONVERSION NOTICE

To assign this Security, fill in the form below:

To convert this Security into Common Stock of the Company, check the box:

I or we assign and transfer

: :

this Security to

: :

(Insert assignee's soc.
sec. or tax ID no.)

To convert only part of this
Security, state the Principal
Amount to be converted (which
must be \$1,000 or an integral
multiple of \$1,000):

: \$:

(Print or type assignee's
name, address and zip code)

If you want the stock
certificate made out in
another person's name, fill
in the form below:

and irrevocably appoint
_____ agent
to transfer this Security on
the books of the Company. The
agent may substitute another
to act for him.

: :

EXCHANGE FORM

(Insert person's soc.
sec. or tax ID no.)

To exchange its beneficial
interest in Global Security
held by the Depositary for a
Security or Securities in
definitive, registered form of
authorized denominations and an
aggregate principal amount equal
to its beneficial interest in
such Global Security, a Holder
should check the box

(Print or type person's name,
address and zip code)

: :
: :

Date: _____ Your Signature: _____ *

(Sign exactly as your name appears on the other side of this Security)

* Your signature must be guaranteed by an "eligible guarantor institution"
meeting the requirements of the Registrar, which requirements include
membership or participation in the Security Transfer Agent Medallion Program
("STAMP") or such other "signature guarantee program" as may be determined by
the Registrar in addition to, or in substitution for, STAMP, all in
accordance with the Securities Exchange Act of 1934, as amended.

The following exchanges of a part of this Global Security for Definitive Securities have been made:

Date of Exchange	Amount of decrease in Principal Amount at Maturity of this Global Security	Amount of increase in Principal Amount at Maturity of this Global Security	Principal Amount at Maturity of this Global Security following such decrease (or increase)	Signature of authorized signatory of Trustee or Securities Custodian
------------------	--	--	--	--

*** This schedule should only be added if the Security is issued in global form.

CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR REGISTRATION OF TRANSFER OF SECURITIES

Re: ZERO COUPON CONVERTIBLE SUBORDINATED NOTES DUE 2017 OF COSTCO COMPANIES, INC.

This Certificate relates to \$_____ principal amount of Securities held in (check applicable box) _____ book-entry or _____ definitive form by _____ (the "Transferor").

The Transferor (check applicable box):

// has requested the Registrar by written order to deliver in exchange for its beneficial interest in the Global Security held by the Depositary a Security or Securities in definitive, registered form of authorized denominations and an aggregate principal amount equal to its beneficial interest in such Global Security (or the portion thereof indicated above); or

// has requested the Registrar by written order to exchange or register the transfer of a Security or Securities.

In connection with such request and in respect of each such Security, the Transferor does hereby certify that Transferor is familiar with the Indenture relating to the above-captioned Securities and as provided in Section 2.06 of such Indenture, the transfer of this Security does not require registration under the Securities Act (as defined below) because:

// Such Security is being acquired for the Transferor's own account, without transfer (in satisfaction of Section 2.06(a)(ii)(A) or Section 2.06(d)(i)(A) of the Indenture).

// Such Security is being transferred to a "qualified institutional buyer" (within the meaning of Rule 144A promulgated under the Securities Act), that is aware that any sale of Securities to it will be made in reliance on Rule 144A under the Securities Act and that is acquiring such Transfer Restricted Security for its own account, or for the account of another such "qualified institutional buyer" (in satisfaction of Section 2.06(a)(ii)(B) or Section 2.06(d)(i)(B) of the Indenture).

// Such Security is being transferred pursuant to an exemption from registration in accordance with Rule 144, or Regulation S under the Securities Act, or pursuant to an effective registration statement under the Securities Act (in satisfaction of Section 2.06(a)(ii)(C) or Section

2.06(d)(i)(C) of the Indenture).

/ / Such Security is being transferred to an institutional "accredited investor" within the meaning of subparagraph (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act, that is purchasing such Security for its own account or for the account of such an institutional "accredited investor" in each case in a minimum principal amount of \$250,000, not with a view to or for offer for sale in connection with any distribution in violation of the Securities Act. A signed transferee letter of representation accompanies this Certificate (in satisfaction of Section 2.06(a)(ii)(D) or Section 2.06(d)(i)(D) of the Indenture)

[INSERT NAME OF TRANSFEROR]

By: -----

Date: -----

COSTCO COMPANIES, INC.,

ISSUER,

and

Firststar Bank of Minnesota, N.A.,
Trustee

INDENTURE

Dated as of August 19, 1997

ZERO COUPON CONVERTIBLE SUBORDINATED NOTES DUE 2017

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CROSS-REFERENCE TABLE*

TIA Section -----	Indenture Section -----
310 (a) (1)	7.09
(a) (2)	7.09
(a) (3)	N.A.
(a) (4)	N.A.
(b)	7.07; 7.09
(c)	N.A.
311 (a)	7.10
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312 (a)	2.05
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314 (a)	4.02; 12.02
(b)	N.A.

(c) (1)	12.04
(c) (2)	12.04
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(d)	N.A.
(e)	12.05
(f)	N.A.
315(a)	7.01
(b)	7.04; 12.02
(c)	7.01
(d)	7.01
(e)	6.11
316(a) (last sentence)	2.08
(a) (1) (A)	6.05
(a) (1) (B)	6.04
(a) (2)	N.A.
(b)	6.07
317(a) (1)	6.08
(a) (2)	6.09
(b)	2.04
318(a)	12.01

N.A. means Not Applicable.

* Note: This Cross Reference Table shall not, for any purpose, be deemed to be part of the Indenture.

INDENTURE, dated as of August 19, 1997, between COSTCO COMPANIES, INC., a Delaware corporation ("COMPANY"), and Firststar Bank of Minnesota, N.A., as trustee (the "TRUSTEE").

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Company's Zero Coupon Convertible Subordinated Notes due 2017 (the "SECURITIES"):

ARTICLE 1

DEFINITIONS AND INCORPORATION BY REFERENCE

SECTION 1.01. DEFINITIONS.

"AFFILIATE" of any specified person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition, "CONTROL", when used with respect to any specified person, means the power to direct or cause the direction of the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "CONTROLLING" and "CONTROLLED" have meanings correlative to the foregoing.

"AUTHORIZED NEWSPAPER" means the WALL STREET JOURNAL or other national newspaper, printed in the English language, customarily published on each Business Day, whether or not published on Saturdays, Sundays or holidays, and of general circulation. Whenever successive publications are required to be made in Authorized Newspapers, the successive publications may be made in the same or in different Authorized Newspapers in the same city meeting the foregoing requirements and in each case on any Business Day.

"BANKRUPTCY LAW" means Title 11, United States Code, or any similar Federal or state law for the relief of debtors generally.

"BOARD OF DIRECTORS" or "BOARD" means, with respect to any matter,

either the board of directors of the Company or any committee of such board duly authorized, with respect to such matter, to exercise the powers of such board.

"BUSINESS DAY" means each day of the year on which banking institutions in The City of New York are not required or authorized to close.

"CAPITAL STOCK" for any corporation means any and all shares, interests, rights to purchase, warrants, options, participations or

other equivalents of or interests in (however designated) capital stock issued by that corporation.

"CASH" or "CASH" means such coin or currency of The United States of America as at any time of payment is legal tender for the payment of public and private debts.

"CHANGE OF CONTROL" occurs upon any of the following events: (i) upon any merger or consolidation of the Company with or into any person or any sale, transfer or other conveyance, whether direct or indirect, of all or substantially all of the assets of the Company, on a consolidated basis, in one transaction or a series of related transactions, if, immediately after giving effect to such transaction, any "person" or "group" is or becomes the "beneficial owner," directly or indirectly, of more than 50% of the total voting power in the aggregate normally entitled to vote in the election of directors, managers, or trustees, as applicable, of the transferee or surviving entity, or (ii) when any "person" or "group" is or becomes the "beneficial owner," directly or indirectly, of more than 50% of the total voting power in the aggregate normally entitled to vote in the election of directors of the Company. For purposes of this definition of "Change of Control," (i) the terms "person" and "group" shall have the meaning used for purposes of Rules 13d-3 and 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as in effect on the date of this Indenture, whether or not applicable; and (ii) the term "beneficial owner" shall have the meaning used in Rules 13d-3 and 13d-5 under the Exchange Act as in effect on the date of this Indenture, whether or not applicable, except that a "person" shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time or upon the occurrence of certain events.

"COMMON STOCK" means the Common Stock, \$0.01 par value per share, of the Company as it exists on the date of this Indenture or any other shares of capital stock of the Company into which such common stock shall be reclassified or changed.

"COMPANY" means the party named as the "Company" in the first paragraph of this Indenture until a successor replaces it pursuant to the applicable provisions of this Indenture and, thereafter, shall mean such successor. The foregoing sentence shall likewise apply to any subsequent such successor or successors.

"COMPANY REQUEST" or "COMPANY ORDER" means a written request or order signed in the name of the Company by either of its Chairman or Vice Chairman of the Board, its President, any Vice President, its Treasurer, or any Assistant Treasurer, and by its Secretary or an Assistant Secretary, and delivered to the Trustee.

"CONSOLIDATED SUBSIDIARY" means, at any date, any Subsidiary the

accounts of which are consolidated with those of the Company as of such date for public financial reporting purposes.

"CUSTODIAN" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

"DEFAULT" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"DEFINITIVE SECURITIES" means Securities that are in the form of Security attached hereto as Exhibit A that does not include the paragraph and schedule referred to in footnotes 1 and 2, respectively.

"DEPOSITARY" means, with respect to the Securities issuable or issued in whole or in part in global form, the person specified in Section 2.3 as the Depositary with respect to the Securities, until a successor shall have been appointed and become such pursuant to the applicable provision of this Indenture, and, thereafter, "Depositary" shall mean or include such successor.

"EXTRAORDINARY CASH DIVIDENDS" means, a cash distribution (other than repurchases of shares of Common Stock) which when combined with all other cash distributions (other than repurchases of shares of Common Stock) during the 12-month period immediately preceding and ending on the date of such distribution, would be in excess of 12.5% of the Market Capitalization of the Common Stock. "Market Capitalization" for this purpose shall mean the number of shares of the Company's publicly traded Common Stock multiplied by the Sale Price of the Common Stock on the Trading Day immediately prior to such distribution.

"GLOBAL SECURITY" means a Security that contains the paragraph and the schedule referred to in footnotes 1 and 2, respectively, in the form of Security attached hereto as Exhibit A.

"HOLDER" or "SECURITYHOLDER" means a person in whose name a Security is registered on the Registrar's books.

"INDENTURE" means this Indenture as amended or supplemented from time to time in accordance with the terms hereof, including the provisions of the TIA that are deemed to be a part hereof.

"INITIAL PURCHASERS" means Donaldson Lufkin & Jenrette Securities Corporation and J.P. Morgan Securities Inc.

"ISSUE DATE" of any Security means the date on which the Security was originally issued or deemed issued as set forth on the face of the Security.

"ISSUE PRICE" of any Security means, in connection with the original issuance of such Security, the initial issue price at which the Security is sold as set forth on the face of the Security.

"MARKET PRICE" means the average of the Sale Price of the Common Stock for the five Trading Day period ending on and including the third Trading Day immediately prior to but not including, the applicable Purchase Date for purposes of Section 3.08 or date of Time of Determination for purposes of Article 10, appropriately adjusted to take into account the actual occurrence, during the seven Trading Days preceding such Purchase Date for purposes of Section 3.08 or date of Time of Determination for purposes of Article 10, of any event described in Section 10.06, 10.07 or 10.08; SUBJECT, HOWEVER, to the conditions set forth in Sections 10.09 and 10.10.

"OFFICER" means either Chairman or Vice Chairman of the Board, the President, any Vice President, the Treasurer, the Secretary, any Assistant Treasurer or Assistant Secretary of the Company.

"OFFICERS' CERTIFICATE" means a written certificate containing the information specified in Sections 12.04 and 12.05, (i) signed in the name of the Company by either its Chairman of the Board, Vice Chairman of the Board, President, any Vice President, Treasurer, any Assistant Treasurer, Controller, or any Assistant Controller, and (ii) attested to by its Secretary or any Assistant Secretary, and delivered to the Trustee.

"OPINION OF COUNSEL" means a written opinion containing the information specified in Sections 12.04 and 12.05, if applicable, rendered by legal counsel who may be (i) an employee of, or counsel to, the Company or (ii) other counsel designated by the Company and reasonably acceptable to the Trustee.

"ORIGINAL ISSUE DISCOUNT" of any Security means the difference between the Issue Price and the Principal Amount of the Security as set forth on the face of the Security.

"PERSON" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"PRINCIPAL," "PRINCIPAL AMOUNT" OR "PRINCIPAL AMOUNT" of a Security means the principal amount due at the maturity date of the Security as set forth on the face of the Security.

"PURCHASE AGREEMENT" means the agreement dated August 14, 1997 between the Company and the Initial Purchasers relating to the offer and sale of the Securities.

"REDEMPTION DATE" or "REDEMPTION DATE" shall mean the date specified for redemption of any of the Securities in accordance with the terms of the Securities and this Indenture.

"REDEMPTION PRICE" or "REDEMPTION PRICE" shall have the meaning set forth in paragraph 5 of the Securities.

"REGISTRATION RIGHTS AGREEMENT" means that certain agreement among the Company and the Initial Purchasers of even date herewith relating to the registration of the Securities under the Securities Act.

"SALE PRICE" of a single share of Common Stock on any Trading Date means the closing per share sale price (or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case the average of the average bid and the average ask prices) on such Trading Date as reported in composite transactions for the principal United States securities exchange on which the Common Stock is traded or, if the Common Stock is not listed on a United States national or regional stock exchange, as reported by the National Association of Securities Dealers Automated Quotation System.

"SEC" means the Securities and Exchange Commission.

"SECURITIES" or "SECURITY" means any of the Company's Zero Coupon Convertible Subordinated Notes due 2017, as amended or supplemented from time to time in accordance with the terms hereof, issued under this Indenture.

"SECURITIES CUSTODIAN" means the Registrar as custodian with respect to the Securities in global form, or any successor entity thereto.

"SECURITYHOLDER" or "HOLDER" means a person in whose name a Security is registered on the Registrar's books.

"SENIOR INDEBTEDNESS" means, without duplication, the principal, premium (if any) and unpaid interest on all present and future (i) indebtedness of

the Company for borrowed money, (ii) obligations of the Company evidenced by bonds, debentures, notes or similar instruments, (iii) indebtedness incurred, assumed or guaranteed by the Company in connection with the acquisition by it or a Subsidiary of any business, properties or assets (except trade debt classified as accounts payable under generally accepted accounting principals), (iv) obligations of the Company as lessee under leases required to be capitalized on the balance sheet of the

lessee under generally accepted accounting principals, (v) reimbursement obligations of the Company in respect of letters of credit relating to indebtedness or other obligations of the Company that qualify as indebtedness or obligations of the kind referred to in clauses (i) through (iv) above, and (vi) obligations of the Company under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clauses (i) through (v) above, in each case unless the instrument creating or evidencing the indebtedness or obligation or pursuant to which the same is outstanding provides that such indebtedness or obligation is not senior in right of payment to the Notes.

"STATED MATURITY", when used with respect to any Security, means the date specified in such Security as the final fixed date on which the Principal of such Security is due and payable.

"SUBSIDIARY" means (i) a corporation, a majority of whose Capital Stock with voting power, under ordinary circumstances, to elect directors is, at the date of determination, directly or indirectly owned by the Company, by one or more subsidiaries of the Company or by the Company and one or more subsidiaries of the Company, (ii) a partnership in which the Company or a subsidiary of the Company holds a majority interest in the equity capital or profits of such partnership, or (iii) any other person (other than a corporation) in which the Company, a subsidiary of the Company or the Company and one or more subsidiaries of the Company, directly or indirectly, at the date of determination, has (x) at least a majority ownership interest or (y) the power to elect or direct the election of a majority of the directors or other governing body of such person.

"TIA" means the Trust Indenture Act of 1939, as amended by the Trust Indenture Reform Act of 1990, and as in effect on the date of this Indenture, except as provided in Section 9.03.

"TIME OF DETERMINATION" means the time and date of the determination of stockholders entitled to receive rights, warrants, options or a distribution, in each case, to which Sections 10.07 or 10.08 apply.

"TRADING DAY" means each day on which the primary securities exchange or quotation system which is used to determine the Sale Price is open for trading or quotation.

"TRANSFER RESTRICTED SECURITY" shall have the meaning set forth in the Registration Rights Agreement.

"TRUST OFFICER" means any officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

"TRUSTEE" means the party named as the "Trustee" in the first paragraph of this Indenture until a successor replaces it pursuant to the applicable provisions of this Indenture and, thereafter, shall mean such successor.

SECTION 1.02. OTHER DEFINITIONS.

Term -----	Defined in Section -----
"BENEFICIAL OWNER"	3.09 (a)
"CHANGE OF CONTROL PURCHASE DATE"	3.09 (a)
"CHANGE OF CONTROL PURCHASE NOTICE".....	3.09 (c)
"CHANGE OF CONTROL PURCHASE PRICE"	3.09 (a)
"COMPANY NOTICE"	3.08 (e)
"COMPANY NOTICE DATE"	3.08 (e)
"CONVERSION AGENT"	2.03
"CONVERSION DATE"	10.02
"CONVERSION RATE"	10.01
"DTC"	2.03
"EVENT OF DEFAULT"	6.01
"EXCHANGE ACT"	3.08 (d)
"LEGAL HOLIDAY"	11.08
"MARKET PRICE"	3.08 (d)
"NOTICE OF DEFAULT"	6.01
"OPTION".....	2.02
"PAYING AGENT".....	2.03
"PURCHASE DATE"	3.08 (a)
"PURCHASE NOTICE"	3.08 (a)
"PURCHASE PRICE"	3.08 (a)
"REPRESENTATIVE".....	11.2
"REGISTRAR"	2.03
"SECURITIES ACT"	3.08 (d)
"SENIOR INDEBTEDNESS".....	11.2
"TIME OF DETERMINATION"	10.01

SECTION 1.03. INCORPORATION BY REFERENCE OF TRUST INDENTURE ACT.
Whenever this Indenture refers to a provision of the TIA, such provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

"COMMISSION" means the SEC.

"INDENTURE SECURITIES" means the Securities.

"INDENTURE SECURITY HOLDER" means a Securityholder.

"INDENTURE TO BE QUALIFIED" means this Indenture.

"INDENTURE TRUSTEE" or "INSTITUTIONAL TRUSTEE" means the Trustee.

"OBLIGOR" on the indenture securities means the Company.

All other TIA terms used in this Indenture that are defined by the TIA or defined by TIA reference to another statute or regulation have the meanings assigned to them by such definitions.

SECTION 1.04. RULES OF CONSTRUCTION. Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles as in effect from time to time in The United States of America;

(3) "or" is not exclusive;

(4) "including" means including, without limitation; and

(5) words in the singular include the plural, and words in the plural include the singular.

ARTICLE 2

THE SECURITIES

SECTION 2.01. FORM AND DATING. The Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A, which is a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule or usage (PROVIDED that any such notation, legend or endorsement required by usage is in a form acceptable to the Company and the Trustee). Each Security shall be dated the date of its authentication.

The Securities are being offered and sold by the Company pursuant to a Purchase Agreement, dated August 14, 1997, between the Company and the Initial Purchasers (the "Purchase Agreement").

SECTION 2.02. EXECUTION AND AUTHENTICATION. The Securities shall be executed by the Company by either of its Chairman or Vice Chairman of the Board, its President or one of its Vice Presidents, under its corporate seal reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper Officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the Issue Date of such Securities.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein duly executed by the Trustee by manual signature of an authorized signatory, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder.

The Trustee shall authenticate and deliver Securities for original issue in an aggregate Principal Amount of up to \$800,000,000 upon a Company Order without any further action by the Company; PROVIDED, HOWEVER, that in the event that the Initial Purchasers buy any Additional Securities pursuant to the overallotment option (the "Option") granted pursuant to the Purchase Agreement, then the Trustee shall authenticate and deliver Securities for original issue in an aggregate Principal Amount of up to \$800,000,000, plus up to \$100,000,000 in aggregate Principal Amount or such lesser amount of Securities in either case, sold pursuant to the Option upon a Company Order. The aggregate Principal Amount of Securities outstanding at any time may not exceed the amount set forth in the foregoing sentence, subject to the proviso set forth therein, except as provided in Section 2.07.

The Securities shall be issued only in registered form without coupons and only in denominations of \$1,000 Principal Amount and only integral multiples thereof.

SECTION 2.03. REGISTRAR, PAYING AGENT AND CONVERSION AGENT. The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange ("REGISTRAR"), an office or agency where Securities may be presented for purchase or payment ("PAYING AGENT") and an office or agency where Securities may be presented for

conversion ("CONVERSION AGENT"). The Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may have one or more co-registrars, one or more additional paying agents and one or more additional conversion agents. The term Paying Agent includes any additional paying agent. The term Conversion Agent includes any additional conversion agent.

The Company shall enter into an appropriate agency agreement with any Registrar, Paying Agent, Conversion Agent or co-registrar other than the Trustee. The agreement shall implement the provisions of this Indenture that relate to such agent. The

Company shall notify the Trustee and the Holders of the name and address of any such agent and of any change in the office or agency referred to in Section 4.05. If the Company fails to maintain a Registrar, Paying Agent or Conversion Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.06. The Company or any Subsidiary or an Affiliate of either of them may act as Paying Agent, Registrar, Conversion Agent or co-registrar.

The Company initially appoints the Trustee as Registrar, Conversion Agent and Paying Agent in connection with the Securities.

The Company initially appoints The Depository Trust Company ("DTC") to act as Depository with respect to the Global Securities.

The Company initially appoints the Registrar to act as Securities Custodian with respect to the Global Securities.

SECTION 2.04. PAYING AGENT TO HOLD MONEY AND SECURITIES IN TRUST. In accordance with Section 4.05 and except as otherwise provided herein, prior to 12:00 noon, New York City time, or on each due date of payments in respect of any Security, the Company shall deposit with the Paying Agent a sum of money or, if permitted by the terms hereof, securities sufficient to make such payments when so becoming due. The Company shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust for the benefit of Securityholders or the Trustee all money and securities held by the Paying Agent for the making of payments in respect of the Securities and shall notify the Trustee of any default by the Company in making any such payment. At any time during the continuance of any default by the Company in making any payments in respect of the Securities, the Paying Agent shall, upon the written request of the Trustee, forthwith pay to the Trustee all money and securities so held in trust. If the Company, a Subsidiary or an Affiliate of any of them acts as Paying Agent, it shall segregate the money and securities held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money and securities held by it to the Trustee and to account for any money and securities disbursed by it. Upon doing so, the Paying Agent shall have no further liability for the money and securities.

SECTION 2.05. SECURITYHOLDER LISTS. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Trustee is not the Registrar, the Company shall furnish or cause to be furnished to the Trustee (i) at least semiannually on June 1 and December 1 a list of the names and addresses of Securityholders dated within 15 days of the date on which the list is furnished and (ii) at such other times as the

Trustee may request in writing a list, in such form and as of such date as the Trustee may reasonably require, of the names and addresses of Securityholders.

SECTION 2.06. TRANSFER AND EXCHANGE.

(a) TRANSFER AND EXCHANGE OF DEFINITIVE SECURITIES. (i) Upon surrender for registration of transfer of any Definitive Security, together with a written instrument of transfer satisfactory to the Trustee duly executed by the Securityholder or such Securityholder's attorney duly authorized in writing, at the office or agency of the Company designated as Registrar or co-registrar pursuant to Section 2.03 or at the office or agency referred to in Section 4.05, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Definitive Securities of any authorized denomination or denominations, of a like aggregate Principal Amount. The Company shall not charge a service charge for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to pay all taxes, assessments or other governmental charges that may be imposed in connection with the transfer or exchange of the Definitive Securities from the Securityholder requesting such transfer or exchange (other than any exchange of a temporary Security for a Definitive Security not involving any change in ownership) and (ii) in the case of Transfer Restricted Securities that are Definitive Securities, the request for transfer shall be accompanied by the following additional information and documents, as applicable:

(A) if such Transfer Restricted Security is being delivered to the Registrar by a Holder for registration in the name of such Holder, without transfer, a certification from such Holder (to that effect (in substantially the form set forth on the reverse of the Security)); or

(B) if such Transfer Restricted Security is being transferred to a "qualified institutional buyer" (within the meaning of Rule 144A promulgated under the Securities Act), that is aware that any sale of Securities to it will be made in reliance on Rule 144A under the Securities Act and that is acquiring such Transfer Restricted Security for its own account, or for the account of another such "qualified institutional buyer", a certification from such Holder to that effect (in substantially the form set forth on the reverse of the Security); or

(C) if such Transfer Restricted Security is being transferred pursuant to an exemption from registration in accordance with Rule 144, or Regulation S under the Securities Act, or pursuant to an effective

registration statement under the Securities Act, a certification from such Holder to that effect (in substantially the form set forth on the reverse of the Security); or

(D) if such Transfer Restricted Security is being transferred to an institutional "accredited investor" within the meaning of subparagraph (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act, that is purchasing the Security for its own account or for the account of such an institutional "accredited investor", in each case in a minimum purchase price of \$250,000, not with a view to or for offer for sale in connection with any distribution in violation of the Securities Act, a certification from such Holder to that effect (in substantially the form set forth on the reverse of the Security) and a signed transferee letter of representation in substantially the form set forth in the Offering Memorandum.

(b) RESTRICTIONS ON TRANSFER OF A DEFINITIVE SECURITY FOR A BENEFICIAL INTEREST IN A GLOBAL SECURITY. A Definitive Security may not be exchanged for a beneficial interest in a Global Security, except upon satisfaction of the requirements set forth below. Upon receipt by the Registrar of a Definitive Security, duly endorsed or accompanied by appropriate instruments of transfer, in form satisfactory to the Registrar, together with written instructions of the Holder directing the Registrar to make, or to direct the Securities Custodian to make, an endorsement on the Global Security to

reflect an increase in the aggregate principal amount of the Securities represented by the Global Security, then the Registrar shall cancel such Definitive Security and cause, or direct the Securities Custodian to cause, in accordance with the standing instructions and procedures existing between the Depository and the Securities Custodian, the aggregate principal amount of Securities represented by the Global Security to be increased accordingly.

If no Global Securities are then outstanding, the Company shall issue and the Trustee shall authenticate a new Global Security in the appropriate principal amount.

(c) TRANSFER AND EXCHANGE OF GLOBAL SECURITIES. The transfer and exchange of Global Securities or beneficial interests therein shall be effected through the Depository, in accordance with this Indenture and the procedures of the Depository therefor.

(d) TRANSFER OF A BENEFICIAL INTEREST IN A GLOBAL SECURITY FOR A DEFINITIVE SECURITY.

(i) Any Person having a beneficial interest in a Global Security may upon request exchange such beneficial interest for a Definitive Security. Upon receipt by the Registrar of written instructions or such other form of instructions as is

customary for the Depository from the Depository or its nominee on behalf of any Person having a beneficial interest in a Global Security, and, if such beneficial interest is being transferred to the Person designated by the Depository as being the beneficial owner, a certification from such person to that effect and in the case of a Transfer Restricted Security only, the following additional information and documents (all of which may be submitted by facsimile):

(A) if such beneficial interest is being transferred to the Person designated by the Depository as being the beneficial owner, a certification from such person to that effect (in substantially the form set forth on the reverse of the Security); or

(B) if such beneficial interest is being transferred to a "qualified institutional buyer" (within the meaning of Rule 144A promulgated under the Securities Act), that is aware that any sale of Securities to it will be made in reliance on Rule 144A under the Securities Act and that is acquiring such Transfer Restricted Security for its own account, or for the account of another such "qualified institutional buyer", a certification to that effect from the transferor (in substantially the form set forth on the reverse of the Security); or

(C) if such beneficial interest is being transferred pursuant to an exemption from registration in accordance with Rule 144, or Regulation S under the Securities Act, or pursuant to an effective registration statement under the Securities Act, a certification to that effect (in substantially the form set forth on the reverse of the Security); or

(D) if such beneficial interest is being transferred to an institutional "accredited investor" within the meaning of subparagraph (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act, that is purchasing the Security for its own account or for the account of such an institutional "accredited investor", in each case in a minimum principal amount of \$250,000, not with a view to or for offer for sale in connection with any distribution in violation of the Securities Act, a certification from such Holder to that effect (in substantially the form set forth on the reverse of the Security) and a signed transferee letter of representation in substantially the form set forth in the Offering Memorandum. (in substantially the form set forth on the reverse of the Security) (all of which may be submitted by facsimile), then the

Registrar or the Securities Custodian, at the direction of the Trustee, will cause, in accordance with the standing instructions and

procedures existing between the Depositary and the Securities Custodian, the aggregate principal amount of the Global Security to be reduced and, following such reduction, the Company will execute and, upon receipt of an authentication order in the form of an Officers' Certificate, the Trustee or the Trustee's authenticating agent will authenticate and deliver to the transferee a Definitive Security.

(ii) Definitive Securities issued in exchange for a beneficial interest in a Global Security pursuant to this Section 2.6(d) shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Registrar. The Registrar shall deliver such Definitive Securities to the persons in whose names such Securities are so registered.

(e) RESTRICTIONS ON TRANSFER AND EXCHANGE OF GLOBAL SECURITIES. Notwithstanding any other provisions of this Indenture (other than the provisions set forth in subsection (f) of this Section 2.6), a Global Security may not be transferred as a whole, except by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary.

(f) AUTHENTICATION OF DEFINITIVE SECURITIES IN ABSENCE OF DEPOSITARY. If at any time:

(i) the Depositary for the Securities notifies the Company that the Depositary is unwilling or unable to continue as Depositary for the Global Securities and a successor Depositary for the Global Securities is not appointed by the Company within 90 days after delivery of such notice; or

(ii) the Company, in its sole discretion, notifies the Trustee and the Registrar in writing that it elects to cause the issuance of Definitive Securities under this Indenture,

then the Company will execute, and the Trustee, upon receipt of an Officers' Certificate requesting the authentication and delivery of Definitive Securities, will, or its authenticating agent will, authenticate and deliver Definitive Securities, in an aggregate principal amount equal to the principal amount of the Global Securities, in exchange for such Global Securities.

(g) CANCELLATION AND/OR ADJUSTMENT OF GLOBAL SECURITY. At such time as all beneficial interests in a Global Security have either been exchanged for Definitive Securities, redeemed, repurchased or cancelled, such Global Security shall be returned to or retained and cancelled by the Registrar. At any time prior to such cancellation, if any beneficial interest in a Global Security

is exchanged for Definitive Securities, redeemed, repurchased or cancelled, the principal amount of Securities represented by such Global Security shall be reduced and an endorsement shall be made on such Global Security, by the Registrar or the Securities Custodian, at the direction of the Registrar, to reflect such reduction.

(h) OBLIGATIONS WITH RESPECT TO TRANSFERS AND EXCHANGES. At the option of the Holder, Securities may be exchanged for other Securities of any authorized denomination or denominations, of a like aggregate Principal

Amount, upon surrender of the Securities to be exchanged, together with a written instrument of transfer satisfactory to the Registrar duly executed by the Securityholder or such Securityholder's attorney duly authorized in writing, at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

The Company shall not be required to make, and the Registrar need not register, transfers or exchanges of (a) Definitive Securities selected for redemption (except, in the case of Securities to be redeemed in part, the portion thereof not to be redeemed), (b) any Securities in respect of which a Purchase Notice or a Change in Control Purchase Notice has been given and not withdrawn by the Holder thereof in accordance with the terms of this Indenture (except, in the case of Securities to be purchased in part, the portion thereof not to be purchased) or (c) any Securities for a period of 15 days before the mailing of a notice of redemption.

Successive registrations and registrations of transfers and exchanges as aforesaid may be made from time to time as desired, and each such registration shall be noted on the register for the Securities.

Any Registrar appointed pursuant to Section 2.03 hereof shall provide to the Trustee such information as the Trustee may reasonably require in connection with the delivery by such Registrar of Securities upon transfer or exchange of Securities.

No Registrar shall be required to make registrations of transfer or exchange of Securities during any periods designated in the text of the Securities or in this Indenture as periods during which such registration of transfers and exchanges need not be made.

(i) LEGENDS. (i) Except as permitted by the following paragraph (ii), each Security certificate evidencing the Global Securities and the Definitive Securities (and all Securities issued in exchange therefor or substitution thereof) shall bear a legend in substantially the following form:

"THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB"), (B) IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (C) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT) (AN "IAI"), (2) AGREES THAT IT WILL NOT, WITHIN THE TIME PERIOD REFERRED TO UNDER RULE 144(k) (TAKING INTO ACCOUNT THE PROVISIONS OF RULE 144(d) UNDER THE SECURITIES ACT, IF APPLICABLE) UNDER THE SECURITIES ACT AS IN EFFECT ON THE DATE OF THE TRANSFER OF THIS NOTE, RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO THE COMPANY OR ANY GUARANTOR, (B) TO A PERSON WHOM THE HOLDER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 904 OF THE SECURITIES ACT, (D) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (E) TO AN IAI WHICH PRIOR TO SUCH TRANSFER, FURNISHES TO THE TRUSTEE A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS RELATING TO THE REGISTRATION OF TRANSFER OF THIS NOTE (THE FORM OF WHICH LETTER CAN BE OBTAINED FROM THE TRUSTEE) AND, IF SUCH TRANSFER IS IN RESPECT OF AN AGGREGATE PRINCIPAL AMOUNT OF NOTES AT THE TIME OF TRANSFER OF LESS

THAN \$250,000, AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY THAT SUCH TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT OR (F) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND, IN EACH CASE, IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS, AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN THEM BY RULE 902 OF REGULATIONS UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS."

(1) Upon any sale or transfer of a Transfer Restricted Security (including any Transfer Restricted Security represented by a Global Security) pursuant to Rule 144 under the Act or an effective registration statement under the Act:

(A) in the case of any Transfer Restricted Security that is a Definitive Security, the Registrar shall permit the Holder thereof to exchange such Transfer Restricted Security for a Definitive Security that does not bear the legend set forth above and rescind any restriction on the transfer of such Transfer Restricted Security; and

(B) any such Transfer Restricted Security represented by a Global Security shall not be subject to the provisions set forth in (i) above (such sales or transfers being subject only to the provisions of Section 2.6(c) of this Indenture); PROVIDED, HOWEVER, that with respect to any request for an exchange of a Transfer Restricted Security that is represented by a Global Security for a Definitive Security that does not bear a legend, which request is made in reliance upon Rule 144, the Holder thereof shall certify in writing to the Registrar that such request is being made pursuant to Rule 144 (such certification to be substantially in the form set forth on the reverse of the Security).

SECTION 2.07. REPLACEMENT SECURITIES. If (a) any mutilated Security is surrendered to the Company or the Trustee, or (b) the Company and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, and there is delivered to the Company and the Trustee such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a BONA FIDE purchaser, the Company shall execute, and upon its written request the Trustee shall authenticate and deliver, in exchange for any such mutilated Security or in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and Principal Amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, or is about to be purchased by the Company pursuant to Article 3 hereof, the Company in its discretion may, instead of issuing a new Security, pay or purchase such Security, as the case may be.

Upon the issuance of any new Securities under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) in connection therewith.

Every new Security issued pursuant to this Section in lieu of any mutilated, destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company,

whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 2.08. OUTSTANDING SECURITIES; DETERMINATIONS OF HOLDERS' ACTION. Securities outstanding at any time are all the Securities authenticated by the Trustee (including any Security represented by a Global Security) except for those cancelled by it, those delivered to it for cancellation, mutilated, destroyed, lost or stolen Securities for which the Trustee has authenticated and delivered a new Security in lieu thereof pursuant to Section 2.07, those paid pursuant to Section 2.07, those reductions in the interest in a Global Security effected by the Registrar hereunder and those described in this Section 2.08 as not outstanding. A Security does not cease to be outstanding because the Company or an Affiliate thereof holds the Security; PROVIDED, HOWEVER, that in determining whether the Holders of the requisite Principal Amount of Securities have given or concurred in any request, demand, authorization, direction, notice, consent or waiver hereunder, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or such other obligor shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which the Trustee actually knows to be so owned shall be so disregarded. Subject to the foregoing, only Securities outstanding at the time of such determination shall be considered in any such determination (including, without limitation, determinations pursuant to Articles 6 and 9).

If a Security is replaced pursuant to Section 2.07, it ceases to be outstanding, unless the Trustee receives proof satisfactory to it that the replaced Security is held by a BONA FIDE purchaser.

If the Paying Agent holds, in accordance with this Indenture, on a Redemption Date, or on the Business Day following a Purchase Date or a Change in Control Purchase Date, or at Stated Maturity, money or, if permitted by the terms hereof including, without limitation, Section 3.08, securities sufficient to pay the Securities payable on that date, then on and after that date such Securities shall cease to be outstanding and Original Issue Discount and interest, if any, on such Securities shall cease to accrue and all other rights of the Holder shall terminate (other than the right to receive the applicable Redemption Price, Purchase Price or Change in Control Purchase Price, as the case may be, upon delivery of the Security in accordance with the terms of this

Indenture); PROVIDED that if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made.

If a Security is converted in accordance with Article 10, then from and after the Conversion Date such Security shall cease to be outstanding and Original Issue Discount and interest, if any, shall cease to accrue on such Security.

SECTION 2.09. TEMPORARY SECURITIES. Pending the preparation of definitive Securities, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the Officers executing such Securities may determine, as conclusively evidenced by their execution of such Securities.

If temporary Securities are issued, the Company will cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at the office or agency of the Company designated for such purpose pursuant to Section 2.03 or 4.05, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like Principal Amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

SECTION 2.10. CANCELLATION. All Securities surrendered for payment, redemption or purchase by the Company pursuant to Article 3, conversion pursuant to Article 10, registration of transfer or exchange shall, if surrendered to any person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Securities so delivered shall be promptly cancelled by the Trustee. The Company may not issue new Securities to replace Securities it has paid or delivered to the Trustee for cancellation or that any Holder has converted pursuant to Article 10. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section 2.10, except as expressly permitted by this Indenture. All cancelled Securities held by the Trustee shall be delivered to the Company.

SECTION 2.11. CUSIP NUMBERS. The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; PROVIDED that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the CUSIP numbers.

ARTICLE 3

REDEMPTION AND PURCHASES

SECTION 3.01. RIGHT TO REDEEM; NOTICES TO TRUSTEE. The Company, at its option, may redeem the Securities for cash in accordance with the provisions set forth in paragraphs 5 and 7 of the Securities. If the Company elects to redeem Securities pursuant to paragraph 5 of the Securities, it shall notify the Trustee in writing of the Redemption Date, the Principal Amount of Securities to be redeemed and the Redemption Price.

The Company shall give the notice to the Trustee provided for in this Section 3.01 at least 30 days but not more than 60 days before the Redemption Date (unless a shorter notice shall be satisfactory to the Trustee). If fewer than all the Securities are to be redeemed, the record date relating to such redemption shall be selected by the Company and given to the Trustee, which record date shall not be less than ten days after the date of notice to the Trustee.

SECTION 3.02. SELECTION OF SECURITIES TO BE REDEEMED. If less than all the Securities are to be redeemed, the Trustee shall select the Securities to be redeemed by lot, PRO RATA or by any other method

the Trustee considers fair and appropriate (so long as such method is not prohibited by the rules of any stock exchange on which the Securities are then listed). The Trustee shall make the selection at least 30 but not more than 60 days before the Redemption Date from outstanding Securities not previously called for redemption. The Trustee may select for redemption portions of the Principal Amount of Securities that have denominations larger than \$1,000. Securities and portions of them the Trustee selects shall be in Principal Amounts of \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called

for redemption. The Trustee shall notify the Company promptly of the Securities or portions of Securities to be redeemed.

If any Security selected for partial redemption is thereafter surrendered for conversion in part before termination of the conversion right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed (so far as may be), solely for purposes of determining the aggregate Principal Amount of Securities to be redeemed by the Company, to be the portion selected for redemption. Securities that have been converted during a selection of Securities to be redeemed may be treated by the Trustee as outstanding for the purpose of such selection. Nothing in this Section 3.02 shall affect the right of any Holder to convert any Security pursuant to Article 10 before the termination of the conversion right with respect thereto.

SECTION 3.03. NOTICE OF REDEMPTION. At least 20 days but not more than 60 days before a Redemption Date, the Trustee, in the name and at the expense of the Company, shall cause notice of redemption to be mailed, first-class postage prepaid, to each Holder of Securities to be redeemed at his address as it appears on the list of Securityholders maintained pursuant to Section 2.05. At the Company's written request, the Trustee shall, in the name and at the expense of the Company, cause a similar notice to be published at least once in an Authorized Newspaper in each place of payment.

The notice shall identify the Securities to be redeemed and shall state:

- (1) the Redemption Date (upon which the Redemption Price shall be paid);
- (2) the Redemption Price;
- (3) the Conversion Rate;
- (4) the name and address of the Paying Agent and Conversion Agent and of the office or agency referred to in Section 4.05;
- (5) that Securities called for redemption may be converted at any time before the close of business on the date that is seven days immediately prior to the Redemption Date;
- (6) that Holders who want to convert Securities must satisfy the requirements set forth in paragraph 8 of the Securities;
- (7) that Securities called for redemption must be surrendered to the Paying Agent or at the office or agency referred to in Section 4.05 to collect the Redemption Price;
- (8) the CUSIP number of the Securities;

(9) if fewer than all the outstanding Securities are to be redeemed, the certificate numbers and Principal Amounts of the particular Securities to be redeemed; and

(10) that, unless the Company defaults in payment of the Redemption Price, Original Issue Discount on Securities called for redemption and interest, if any, will cease to accrue on and after the Redemption Date.

At the Company's written request, the Trustee shall give the notice of redemption in the Company's name and at the Company's expense, PROVIDED that the Company makes such request at least three Business Days prior to such notice of redemption.

SECTION 3.04. EFFECT OF NOTICE OF REDEMPTION. Once notice of redemption is given, Securities called for redemption become due and payable on the Redemption Date stated in the notice and at the Redemption Price therefor except for Securities that are converted in accordance with the terms of this Indenture. Upon the later of the Redemption Date and the date such Securities are surrendered to the Paying Agent or at the office or agency referred to in Section 4.05, such Securities called for redemption shall be paid at the Redemption Price therefor.

SECTION 3.05. DEPOSIT OF REDEMPTION PRICE. Prior to or on the Redemption Date, the Company shall deposit with the Paying Agent (or if the Company or a Subsidiary or an Affiliate of either of them is the Paying Agent, shall segregate and hold in trust) money sufficient to pay the Redemption Price of all Securities to be redeemed on that date other than Securities or portions of Securities called for redemption which prior thereto have been delivered by the Company to the Trustee for cancellation. The Paying Agent shall as promptly as practicable return to the Company any money, with interest, if any, thereon (subject to the provisions of Section 7.01(f)), not required for that purpose because of conversion of Securities pursuant to Article 10. If such money is then held by the Company or a Subsidiary or an Affiliate of the Company in trust and is not required for such purpose it shall be discharged from such trust.

SECTION 3.06. SECURITIES REDEEMED IN PART. Upon surrender of a Security that is redeemed in part, the Company shall execute, and the Trustee shall authenticate and deliver to the Holder, a new Security in an authorized denomination equal in Principal Amount to the unredeemed portion of the Security surrendered.

SECTION 3.07. CONVERSION ARRANGEMENT ON CALL FOR REDEMPTION. In connection with any redemption of Securities, the Company may arrange, in lieu of redemption, for the purchase and conversion of any Securities called for redemption by an agreement with one or more investment bankers or other purchasers to purchase all or a portion of such Securities by paying to the Trustee in trust for the Securityholders whose Securities are to be so purchased, on or before the close of business on the Redemption Date, an amount that, together with any amounts deposited with the Trustee by the Company for redemption of such Securities, is not less than the Redemption Price, together with interest, if any, accrued to the Redemption Date, of such Securities. Notwithstanding anything to the contrary contained in this Article 3, the obligation of the Company to pay the Redemption Price of such Securities, including all accrued interest, if any, shall be deemed to be satisfied and discharged to the extent such amount is so paid by such purchasers, but no such agreement shall relieve the Company of its obligation to pay such Redemption Price and interest, if any. If such an agreement is entered into, any Securities not duly surrendered for conversion by the Holders thereof may, at the option of the Company, be deemed, to the fullest extent permitted by law, acquired by such purchasers from such Holders and

(notwithstanding anything to the contrary contained in Article 10) surrendered by such purchasers for conversion, all as of immediately prior to the close of business on the Redemption Date, subject to payment of the above amount as aforesaid. The Trustee shall hold and pay to the Holders whose Securities are selected for redemption any such amount paid to it for purchase and conversion in the same manner as it would moneys deposited with it by the Company for the redemption of Securities. Without the Trustee's prior written consent, no arrangement between the Company and such purchasers for the purchase and conversion of any Securities shall increase or otherwise affect any of the powers, duties, responsibilities or obligations of the Trustee as set forth in this Indenture, and the Company agrees to indemnify the Trustee from, and hold it harmless against, any loss, liability or expense arising out of or in connection with any such arrangement for the purchase and conversion of any Securities between the Company and such purchasers, including the costs and expenses incurred by the Trustee in the defense of any claim or liability arising out of or in connection with the exercise or performance of any of its powers, duties, responsibilities or obligations under this Indenture.

SECTION 3.08. PURCHASE OF SECURITIES AT THE OPTION OF THE HOLDER. (a) GENERAL. Securities shall be purchased by the Company pursuant to paragraph 6 of the Securities as of August 19, 2002, August 19, 2007 and August 19, 2012 (each, a "PURCHASE DATE"), at the purchase price specified therein (each, a "PURCHASE PRICE"), at the option of the Holder thereof, upon:

(1) delivery to the Paying Agent or to the office or agency referred to in Section 4.05 by the Holder of a written notice of purchase (a "PURCHASE NOTICE") at any time from the opening of business on the date that is 20 Business Days prior to a Purchase Date until the close of business on such Purchase Date stating:

(A) the certificate number of the Security that the Holder will deliver to be purchased;

(B) the portion of the Principal Amount of the Security which the Holder will deliver to be purchased, which portion must be \$1,000 or an integral multiple thereof;

(C) that such Security shall be purchased on the Purchase Date pursuant to the terms and conditions specified in this Indenture and in paragraph 6 of the Securities; and

(D) if the Company elects pursuant to Section 3.08(b) to pay the Purchase Price on such Purchase Date, in whole or in part, in shares of Common Stock, but such portion of the Purchase Price to be paid in Common Stock is ultimately to be paid in cash because any condition in Section 3.08(d) is not satisfied, such Holder elects (i) to withdraw such Purchase Notice as to some or all of the Securities to which it relates (stating the Principal Amount and certificate numbers of the Securities as to which such withdrawal shall relate), or (ii) to receive cash in respect of the Purchase Price for all Securities subject to such Purchase Notice; and

(2) delivery of such Security prior to, on or after the Purchase Date (together with all necessary endorsements) to the Paying Agent at the offices of the Paying Agent or to the office or agency referred to in Section 4.05, such delivery being a condition to receipt by the Holder of the Purchase Price therefor; PROVIDED, HOWEVER, that such Purchase Price shall be so paid pursuant to this Section 3.08 only if the Security so delivered conforms in all respects to the description thereof in

the related Purchase Notice.

If a Holder, in such Holder's Purchase Notice and in any written notice of withdrawal delivered by such Holder pursuant to the terms of Section 3.10, fails to indicate such Holder's choice with respect to the election set forth in clause (D) of Section 3.08(a)(1) above, such Holder shall be deemed to have elected to receive cash in respect of the Purchase Price otherwise payable in Common Stock.

The Company shall purchase from the Holder thereof, pursuant to this Section 3.08, a portion of a Security if the Principal

Amount of such portion is \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

Any purchase by the Company contemplated pursuant to the provisions hereof shall be consummated by the delivery of the consideration to be received by the Holder promptly following the later of the Purchase Date and the time of delivery of the Security.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent or the office or agency referred to in Section 4.05 the Purchase Notice contemplated by this Section 3.08(a) shall have the right to withdraw at any time prior to the close of business on the Purchase Date such Purchase Notice by delivery of a written notice of withdrawal to the Paying Agent or such office or agency in accordance with Section 3.10.

The Paying Agent shall promptly notify the Company of the receipt by it of any Purchase Notice or written notice of withdrawal thereof.

(b) COMPANY'S RIGHT TO ELECT MANNER OF PAYMENT OF PURCHASE PRICE. The Securities to be purchased pursuant to Section 3.08(a) may be paid for, at the election of the Company, in cash or Common Stock, or in any combination of cash and Common Stock, subject to the conditions set forth in this Section 3.08. The Company shall designate, in the notice from the Company delivered pursuant to Section 3.08(e), whether the Company will purchase the Securities for cash or Common Stock, and, if a combination thereof, the percentages of the Purchase Price of Securities in respect of which it will pay in cash or Common Stock; PROVIDED that the Company will pay cash for fractional interests of shares of Common Stock. For purposes of determining the existence of potential fractional interests, all Securities subject to purchase by the Company held by a Holder shall be considered together (no matter how many separate certificates are to be presented). Each Holder whose Securities are purchased pursuant to this Section 3.08 shall receive the same percentage of cash or Common Stock in payment of the Purchase Price for such Securities, except (i) as provided in Section 3.08(d) with regard to the payment of cash in lieu of fractional shares of Common Stock and (ii) in the event that the Company is unable to purchase the Securities of a Holder or Holders for Common Stock because any necessary qualifications or registrations of the Common Stock under applicable state securities laws cannot be obtained, the Company may purchase the Securities of such Holder or Holders for cash. The Company may not change its election with respect to the consideration (or components or percentages of components thereof) to be paid once the Company has given notice thereof to Securityholders except pursuant to this Section 3.08(b) or Section 3.08(d).

At least five Business Days before the Company Notice Date (as defined below), the Company shall deliver an Officers' Certificate to the Trustee specifying:

(i) the manner of payment selected by the Company;

(ii) the information required by Section 3.08(e);

(iii) that the conditions to such manner of payment set forth in Section 3.08(d) have or will be complied with; and

(iv) whether the Company desires the Trustee to give the notice required by Section 3.08(e).

(c) PURCHASE WITH CASH. On each Purchase Date, at the option of the Company, the Principal Amount of the Securities in respect of which a Purchase Notice pursuant to Section 3.08(a) has been given, or a specified percentage thereof, may be purchased by the Company with cash equal to the aggregate Purchase Price of such Securities.

(d) PAYMENT BY COMMON STOCK. On each Purchase Date, at the option of the Company, the Principal Amount of the Securities in respect of which a Purchase Notice pursuant to Section 3.08(a) has been given, or a specified percentage thereof, may be purchased by the Company by the issuance of a number of shares of Common Stock equal to the quotient obtained by dividing (i) the amount of cash to which the Securityholders would have been entitled had the Company elected to pay all or such specified percentage, as the case may be, of the Purchase Price of such Securities in cash by (ii) the Market Price (as defined below) of a share of Common Stock, subject to the next succeeding paragraph.

The Company will not issue a fractional share of Common Stock in payment of the Purchase Price. Instead the Company will pay cash for the current market value of the fractional share. The current market value of a fraction of a share shall be determined by multiplying the Market Price by such fraction and rounding the product to the nearest whole cent, with one-half cent being rounded upward. It is understood that if a Holder elects to have more than one Security purchased, the number of shares of Common Stock shall be based on the aggregate amount of Securities to be purchased.

The Company's right to exercise its election to purchase the Securities pursuant to this Section 3.08 through the issuance of shares of Common Stock shall be conditioned upon:

(i) the Company's not having given notice of an election to pay entirely in cash and its giving of timely notice of election to purchase all or a specified percentage of the Securities with Common Stock as provided herein;

(ii) the registration of the shares of Common Stock to be issued in respect of the payment of the Purchase Price under the Securities Act of 1933, as amended (the "SECURITIES ACT") and the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), in each case if required for the initial issuance thereof;

(iii) any necessary qualification or registration under applicable state securities laws or the availability of an exemption from such qualification and registration; and

(iv) the receipt by the Trustee of an Officers' Certificate and an Opinion of Counsel each stating that (A) the terms of the issuance of the Common Stock are in conformity with this Indenture and (B) the shares of Common Stock to be issued by the Company in payment of the Purchase Price in respect of Securities have been duly authorized and, when issued and delivered pursuant to the terms of this Indenture in payment of the Purchase Price in respect of the Securities, will be validly issued, fully paid and nonassessable and shall be free of any preemptive rights and

any lien or adverse claim (PROVIDED that such Opinion of Counsel may state that, insofar as it relates to the absence of such preemptive rights, liens and adverse claims, it is given upon the best knowledge of such counsel), and, in the case of such Officers' Certificate, that conditions (i), (ii) and (iii) above have been satisfied and, in the case of such Opinion of Counsel, that conditions (ii) and (iii) above have been satisfied.

Such Officers' Certificate shall also set forth the number of shares of Common Stock to be issued for each \$1,000 Principal Amount of Securities and the Sale Price of a share of Common Stock on each of the seven Business Days prior to the Purchase Date. The Company may elect to pay in Common Stock only if the information necessary to calculate the Market Price is reported in THE WALL STREET JOURNAL or another daily newspaper of national circulation. If such conditions are not satisfied prior to or on the Purchase Date and the Company elected to purchase the Securities pursuant to this Section 3.08 through the issuance of shares of Common Stock, the Company shall pay, without further notice, the Purchase Price in cash.

(e) NOTICE OF ELECTION. The Company shall send notices of its election (the "COMPANY NOTICE") to purchase with cash or Common Stock or any combination thereof to the Holders (and to beneficial owners as required by applicable law) in the manner provided in Section 3.03. The Company Notice shall be sent to Holders (and to beneficial owners as required by applicable law) on a date not less than 20 Business Days prior to the Purchase Date (such date not less than 20 Business Days prior to the Purchase Date being herein referred to as the "COMPANY NOTICE DATE"). Such notices shall

state the manner of payment elected and shall contain the following information:

In the event the Company has elected to pay the Purchase Price (or any specified percentage thereof) with Common Stock, the notice shall:

(1) state that each Holder will receive Common Stock with a Market Price determined as of a specified date prior to the Purchase Date equal to such specified percentage of the Purchase Price of the Securities held by such Holder (except for any cash amount to be paid in lieu of fractional shares);

(2) set forth the method of calculating the Market Price of the Common Stock; and

(3) state that because the Market Price of Common Stock will be determined prior to the Purchase Date, Holders will bear the market risk with respect to the value of the Common Stock to be received from the date such Market Price is determined to the Purchase Date.

In any case, each notice shall include a form of Purchase Notice to be completed by the Securityholder and shall state:

(i) the Purchase Price and Conversion Rate;

(ii) the name and address of the Paying Agent and the Conversion Agent and of the office or agency referred to in Section 4.05;

(iii) that Securities as to which a Purchase Notice has been given may be converted into Common Stock at any time prior to the close of business on the applicable Purchase Date only if the applicable Purchase Notice has been withdrawn in accordance with the terms of this Indenture;

(iv) that Securities must be surrendered to the Paying Agent or to the office or agency referred to in Section 4.05 to collect payment;

(v) that the Purchase Price for any security as to which a Purchase Notice has been given and not withdrawn will be paid promptly following the later of the Purchase Date and the time of surrender of such Security as described in (iv);

(vi) the procedures the Holder must follow to exercise rights under Section 3.08 and a brief description of those rights;

(vii) briefly, the conversion rights of the Securities and that Holders who want to convert Securities must satisfy the requirements set forth in paragraph 8 of the Securities; and

(viii) the procedures for withdrawing a Purchase Notice (including, without limitation, for a conditional withdrawal pursuant to the terms of Section 3.08(a)(1)(D) or Section 3.10).

At the Company's written request, the Trustee shall give such notice in the Company's name and at the Company's expense; PROVIDED, HOWEVER, that, in all cases, the text of such notice shall be prepared by the Company.

Upon determination of the actual number of shares of Common Stock to be issued for each \$1,000 Principal Amount of Securities, the Company will publish such determination in THE WALL STREET JOURNAL or another daily newspaper of national circulation and furnish the Trustee with an affidavit of publication.

(f) COVENANTS OF THE COMPANY. All shares of Common Stock delivered upon purchase of the Securities shall be newly issued shares or treasury shares, shall be duly authorized, validly issued, fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim.

The Company shall use its best efforts to list or cause to have quoted any shares of Common Stock to be issued to purchase Securities on the principal national securities exchange or over-the-counter or other domestic market on which any other shares of the Common Stock are then listed or quoted. The Company will promptly inform the Trustee in writing of any such listing.

(g) PROCEDURE UPON PURCHASE. The Company shall deposit cash (in respect of a cash purchase under Section 3.08(c) or for fractional interests, as applicable) or shares of Common Stock, or any combination thereof, as applicable, at the time and in the manner as provided in Section 3.11, sufficient to pay the aggregate Purchase Price of all Securities to be purchased pursuant to this Section 3.08. As soon as practicable after the later of the Purchase Date and the date such Securities are surrendered to the Paying Agent or at the office or agency referred to in Section 4.05, the Company shall deliver to each Holder entitled to receive Common Stock through the Paying Agent a certificate for the number of full shares of Common Stock issuable in payment of the Purchase Price and cash in lieu of any fractional interests. The person in whose name the certificate for Common Stock is registered shall be treated as a holder of record of such Common Stock on the Business Day following the related Purchase Date. Subject to Section 3.08(d), no payment or adjustment will be made for dividends on the Common Stock the record date for which occurred prior to the Purchase Date.

(h) TAXES. If a Holder of a Security is paid in Common Stock, the Company shall pay any documentary, stamp or similar issue or

transfer tax due on such issue of shares of Common Stock. However, the Holder shall pay any such tax which is due because

the Holder requests the shares of Common Stock to be issued in a name other than the Holder's name. The Paying Agent may refuse to deliver the certificates representing the Common Stock being issued in a name other than the Holder's name until the Paying Agent receives a sum sufficient to pay any tax which will be due, as set forth in an Officers' Certificate, because the shares of Common Stock are to be issued in a name other than the Holder's name. Nothing herein shall preclude any income tax withholding required by law or regulations.

SECTION 3.09. PURCHASE OF SECURITIES AT OPTION OF THE HOLDER UPON CHANGE OF CONTROL. (a) If on or prior to August 19, 2002 there shall have occurred a Change of Control, Securities shall be purchased, at the option of the Holder thereof, by the Company at the purchase price specified in paragraph 6 of the Securities (the "CHANGE OF CONTROL PURCHASE PRICE"), on the date that is 35 Business Days after the occurrence of the Change of Control (the "CHANGE OF CONTROL PURCHASE DATE"), subject to satisfaction by or on behalf of the Holder of the requirements set forth in Section 3.09(c).

Notwithstanding the foregoing provisions of this Section 3.09, a Change of Control shall not be deemed to have occurred if at any time the Company, any Subsidiary, any employee stock ownership plan or any other employee benefit plan of the Company or any Subsidiary, or any person holding Common Stock for or pursuant to the terms of any such employee benefit plan files or becomes obligated to file a report under or in response to Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report) under the Exchange Act disclosing beneficial ownership by it of shares of Common Stock, whether in excess of 50% or otherwise.

(b) Within 15 Business Days after the occurrence of a Change of Control, (i) the Company shall mail a written notice of such Change of Control by first-class mail to the Trustee and to each Holder (and to beneficial owners if required by applicable law) and (ii) the Company shall cause a copy of such notice to be published in THE WALL STREET JOURNAL or another daily newspaper of national circulation. The notice shall include a form of Change of Control Purchase Notice to be completed by the Securityholder and shall state:

(1) the events causing a Change of Control and the date such Change of Control is deemed to have occurred for purposes of this Section 3.09;

(2) the date by which the Change of Control Purchase Notice pursuant to this Section 3.09 must be given;

(3) the Change of Control Purchase Date;

(4) the Change of Control Purchase Price;

(5) the name and address of the Paying Agent and the Conversion Agent and the office or agency referred to in Section 4.05;

(6) the Conversion Rate and any adjustments thereto;

(7) that Securities as to which a Change of Control Purchase Notice has been given may be converted into Common Stock (or, in lieu thereof, cash, if the Company shall so elect) at any time prior to the close of business on the Change of Control Purchase Date only if the Change of Control Purchase Notice has been withdrawn by the Holder in accordance with the terms of this Indenture;

(8) that Securities must be surrendered to the Paying Agent or the office or agency referred to in Section 4.05 to collect payment;

(9) that the Change of Control Purchase Price for any Security as to which a Purchase Notice has been duly given and not withdrawn will be paid promptly following the later of the Change of Control Purchase Date and the time of surrender of such Security as described in (8);

(10) the procedures the Holder must follow to exercise rights under this Section 3.09 and a brief description of those rights;

(11) briefly, the conversion rights of the Securities; and

(12) the procedures for withdrawing a Change of Control Purchase Notice.

(c) A Holder may exercise its rights specified in Section 3.09(a) upon delivery of a written notice of purchase (a "CHANGE OF CONTROL PURCHASE NOTICE") to the Paying Agent or to the office or agency referred to in Section 4.05 at any time prior to the close of business on the Change of Control Purchase Date, stating:

(1) the certificate number of the Security which the Holder will deliver to be purchased;

(2) the portion of the Principal Amount of the Security which the Holder will deliver to be purchased, which portion must be \$1,000 or an integral multiple thereof; and

(3) that such Security shall be purchased on the Change of Control Purchase Date pursuant to the terms and conditions specified in paragraph 6 of the Securities.

Receipt of the Security by the Paying Agent prior to, on or after the Change of Control Purchase Date (together with all necessary endorsements), at the offices of the Paying Agent or to the office or agency referred to in Section 4.05 shall be a condition to the receipt by the Holder of the Change of Control Purchase Price therefor; PROVIDED, HOWEVER, that such Change of Control Purchase Price shall be so paid pursuant to this Section 3.09 only if the Security so delivered to the Paying Agent or such office or agency shall conform in all respects to the description thereof set forth in the related Change of Control Purchase Notice.

The Company shall purchase from the Holder thereof, pursuant to this Section 3.09, a portion of a Security if the Principal Amount of such portion is \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

Any purchase by the Company contemplated pursuant to the provisions of this Section 3.09 shall be consummated by the delivery of the consideration to be received by the Holder promptly following the later of the Change of Control Purchase Date and the date such Securities are surrendered to the Paying Agent or at the office or agency referred to in Section 4.05.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent or to the office or agency referred to in Section 4.05 the Change of Control Purchase Notice contemplated by this Section 3.09(c) shall have the right to withdraw such Change of Control Purchase Notice at any time prior to or on the Change of Control Purchase Date by delivery of a written notice of withdrawal to the Paying Agent or to such office or agency in accordance with Section 3.10.

The Paying Agent shall promptly notify the Company of the receipt by it of any Change of Control Purchase Notice or written withdrawal thereof.

SECTION 3.10. EFFECT OF PURCHASE NOTICE OR CHANGE OF CONTROL PURCHASE NOTICE. Upon receipt by the Paying Agent of the Purchase Notice or Change of

Control Purchase Notice specified in Section 3.08(a) or Section 3.09(c), as applicable, the Holder of the Security in respect of which such Purchase Notice or Change of Control Purchase Notice, as the case may be, was given shall (unless such Purchase Notice or Change of Control Purchase Notice is withdrawn as specified in the following two paragraphs) thereafter be entitled to receive solely the Purchase Price or Change of Control Purchase Price, as the case may be, with respect to such Security. Such Purchase Price or Change of Control Purchase Price shall be paid to such Holder promptly following the later of (x) the Business Day following the Purchase Date or the Change of Control Purchase Date, as the case may be, with respect

to such Security (provided the conditions in Section 3.08(a) or Section 3.09(c), as applicable, have been satisfied) and (y) the time of delivery of such Security to the Paying Agent or to the office or agency referred to in Section 4.05 by the Holder thereof in the manner required by Section 3.08(a) and (g) or Section 3.09(c), as applicable. Securities in respect of which a Purchase Notice or Change of Control Purchase Notice, as the case may be, has been given by the Holder thereof may not be converted into shares of Common Stock on or after the date of the delivery of such Purchase Notice or Change of Control Purchase Notice, as the case may be, unless such Purchase Notice or Change of Control Purchase Notice, as the case may be, has first been validly withdrawn as specified in the following two paragraphs.

A Purchase Notice or Change of Control Purchase Notice, as the case may be, may be withdrawn by means of a written notice of withdrawal delivered to the office of the Paying Agent or to the office or agency referred to in Section 4.05 at any time on or prior to the Purchase Date or the Change of Control Purchase Date, as the case may be, specifying:

- (1) the certificate number of the Security in respect of which such notice of withdrawal is being submitted;
- (2) the Principal Amount of the Security with respect to which such notice of withdrawal is being submitted; and
- (3) the Principal Amount, if any, of such Security which remains subject to the original Purchase Notice or Change of Control Purchase Notice, as the case may be, and which has been or will be delivered for purchase by the Company.

A written notice of withdrawal of a Purchase Notice may be in the form set forth in the preceding paragraph or may be in the form of (i) a conditional withdrawal contained in a Purchase Notice pursuant to the terms of Section 3.08(a)(1)(D) or (ii) a conditional withdrawal containing the information set forth in Section 3.08(a)(1)(D) and the preceding paragraph and contained in a written notice of withdrawal delivered to the Paying Agent as set forth in the preceding paragraph.

There shall be no purchase of any Securities pursuant to Sections 3.08 (other than through the issuance of Common Stock in payment of the Purchase Price, including cash in lieu of fractional shares of Common Stock) or 3.09 if there has occurred (prior to, on or after, as the case may be, the giving, by the Holders of such Securities, of the required Purchase Notice or Change of Control Purchase Notice, as the case may be) and is continuing an Event of Default (other than a default in the payment of the Purchase Price or Change of Control Purchase Price, as the case may be, with respect to such Securities). The Paying Agent will promptly return to the respective Holders thereof any Securities (x) with respect to which a Purchase Notice or Change of Control Purchase Notice, as the case may be, has been withdrawn in compliance with this

Indenture, or (y) held by it during the continuance of an Event of Default (other than a default in the payment of the Purchase Price or Change of Control Purchase Price, as the case may be, with respect to such

Securities) in which case, upon such return, the Purchase Notice or Change of Control Purchase Notice with respect thereto shall be deemed to have been withdrawn.

SECTION 3.11. DEPOSIT OF PURCHASE PRICE OR CHANGE OF CONTROL PURCHASE PRICE. Prior to 3:00 p.m. (local time in The City of New York) on the Business Day following the Purchase Date or the Change of Control Purchase Date, as the case may be, the Company shall deposit with the Trustee or with the Paying Agent (or, if the Company or a Subsidiary or an Affiliate of either of them is acting as Paying Agent, shall segregate and hold in trust as provided in Section 2.04) an amount of cash in immediately available funds or securities, if expressly permitted hereunder, sufficient to pay the aggregate Purchase Price or Change of Control Purchase Price, as the case may be, of all the Securities or portions thereof which are to be purchased as of the Purchase Date or Change of Control Purchase Date, as the case may be.

SECTION 3.12. SECURITIES PURCHASED IN PART. Any Security which is to be purchased only in part shall be surrendered at the office of the Paying Agent or the office or agency referred to in Section 4.05 (with, if the Company or the Trustee so requires, due endorsement, or a written instrument of transfer in form satisfactory to the Company and the Trustee executed by the Holder or such Holder's attorney duly authorized in writing) and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder in aggregate Principal Amount equal to, and in exchange for, the portion of the Principal Amount of the Security so surrendered which is not purchased.

SECTION 3.13. COVENANT TO COMPLY WITH SECURITIES LAWS UPON PURCHASE OF SECURITIES. In connection with any offer to purchase or purchase of Securities under Section 3.08 or 3.09 hereof, the Company shall (i) comply with Rule 13e-4 and Rule 14e-1 under the Exchange Act, if applicable, (ii) file the related Schedule 13E-4 (or any successor schedule, form or report) under the Exchange Act, if applicable, and (iii) otherwise comply with all Federal and state securities laws regulating the offer and delivery of shares of Common Stock upon purchase of the Securities (including positions of the SEC under applicable no-action letters) so as to permit the rights and obligations under Sections 3.08 and 3.09 to be exercised in the time and in the manner specified in Sections 3.08 and 3.09.

SECTION 3.14. REPAYMENT TO THE COMPANY. The Trustee and the Paying Agent shall return to the Company, upon written request, any

cash or shares of Common Stock, together with interest on such cash as hereinafter provided and dividends on such shares of Common Stock, if any (subject to the provisions of Section 7.01(f)), held by them for the payment of a Purchase Price or Change of Control Purchase Price, as the case may be, of the Securities that remain unclaimed as provided in paragraph 12 of the Securities; PROVIDED, HOWEVER, that to the extent that the aggregate amount of cash or shares of Common Stock deposited by the Company pursuant to Section 3.11 exceeds the aggregate Purchase Price or Change of Control Purchase Price, as the case may be, of the Securities or portions thereof to be purchased, then promptly after the Business Day following the Purchase Date or Change of Control Purchase Date, as the case may be, the Trustee shall return any such excess to the Company together with interest as hereinafter provided or dividends, if any, thereon (subject to the provisions of Section 7.01(f)). Any cash deposited with the Trustee or with the Paying Agent pursuant to Section 3.11 hereof, shall be invested by the Trustee or Paying Agent, as applicable, in short term obligations of, or fully guaranteed by, the United States of America, or commercial paper rated A-1 or better by Standard and Poor's Corporation or P-1 or better by Moody's Investors Service, Inc. as specifically directed in writing by the Company. Interest earned on such investments shall be repaid to the Company pursuant to this Section 3.14. Except as provided for in this Section 3.14, the Trustee shall be under no liability for interest on any money received by it pursuant to this Indenture.

ARTICLE 4

COVENANTS

SECTION 4.01. PAYMENT OF SECURITIES. The Company shall promptly make all payments in respect of the Securities on the dates and in the manner provided in the Securities or pursuant to this Indenture. Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change of Control Purchase Price and interest, if any, shall be considered paid on the applicable date due if on such date the Trustee or the Paying Agent holds, in accordance with this Indenture, cash or securities, if expressly permitted hereunder, sufficient to pay all such amounts then due.

The Company shall, to the extent permitted by law, pay interest on overdue amounts at the per annum rate of interest set forth in paragraph 1 of the Securities, compounded semi-annually, which interest on overdue amounts (to the extent payment of such interest shall be legally enforceable) shall accrue from the date such overdue amounts were originally due and payable.

SECTION 4.02. SEC REPORTS. The Company shall file with the Trustee, within 15 days after it files such annual and quarterly reports, information, documents and other reports with the SEC, copies of its annual and quarterly reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) which the Company is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act (or any such successor provisions thereto). In the event the Company is at any time no longer subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act (or any such successor provisions), it shall continue to provide the Trustee with reports containing substantially the same information as would have been required to be filed with the SEC had the Company continued to have been subject to such reporting requirements, including, with respect to annual information only, a report thereon by the Company's certified independent public accountants as such would be required in such reports to the Commission and, in each case, together with a management's discussion and analysis of results of operations and financial condition as such would be so required. In addition, for so long as the Notes are Transfer Restricted Securities, the Company will continue to provide to Holders and to prospective purchasers of the Securities, the information required by Rule 144A(d)(4) under the Securities Act, and the Trustee shall make any such reports available to Securityholders upon request. In such event, such reports shall be provided at the times the Company would have been required to provide reports had it continued to have been subject to such reporting requirements. The Company also shall comply with the other provisions of TIA Section 314(a), to the extent such provisions are applicable.

SECTION 4.03. COMPLIANCE CERTIFICATE; NOTICE OF DEFAULTS. (a) To the extent required by applicable law, the Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company (beginning with the fiscal year ending nearest September 1, 1997) a certificate of the principal executive officer, the principal financial officer, or principal accounting officer of the Company stating whether or not, to the knowledge of the signer, the Company has complied with all conditions and covenants on its part contained in this Indenture and, if the signer has obtained knowledge of any default by the Company in the performance, observance or fulfillment of any such condition or covenant, specifying each such default and the nature thereof. For the purpose of this Section 4.03, compliance shall be determined without regard to any grace period or requirement of notice provided pursuant to the terms of this Indenture.

(b) The Company shall file with the Trustee written notice of the occurrence of any Default or Event of Default within five Business Days of its becoming aware of such Default or Event of Default.

SECTION 4.04. FURTHER INSTRUMENTS AND ACTS. Upon request of the Trustee, the Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Indenture.

SECTION 4.05. MAINTENANCE OF OFFICE OR AGENCY. The Company will maintain in the Borough of Manhattan, The City of New York, in such location as may be required by the rules of any securities exchange or quotation system on which the Securities may from time to time be listed, an office or agency where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer, exchange, purchase, redemption or conversion and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The office of the Trustee in The City of New York, at which at any particular time its corporate trust business shall be principally administered, which office on the date hereof is located at IBJ Schroeder Bank & Trust, 1 State Street Plaza, New York, New York 10004, shall be such office or agency for all of the aforesaid purposes unless the Company shall maintain some other office or agency for such purposes and shall give prompt written notice to the Trustee of the location, and any change of location, of such other office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the address of the Trustee set forth in Section 12.02.

The Company may also from time to time designate one or more other offices or agencies where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; PROVIDED, HOWEVER, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in The Borough of Manhattan, The City of New York, for such purposes.

SECTION 4.06. CALCULATION OF ORIGINAL ISSUE DISCOUNT. The Company shall file with the Trustee promptly following the end of each calendar year a written notice specifying the amount of original issue discount (including daily rates and accrual periods) accrued on outstanding Securities as of the end of such year.

ARTICLE 5

SUCCESSOR CORPORATION

SECTION 5.01. WHEN COMPANY MAY MERGE OR TRANSFER ASSETS. So long as any Securities shall be outstanding, the Company shall not,

directly or indirectly, consolidate with or merge with or into any other corporation or other person or sell, lease, convey or transfer all or substantially all of its properties and assets (computed on a consolidated basis), whether in a single transaction or a series of related transactions, to another person or group of affiliated persons (such successor corporation or person, as the case may be, shall in this Article 5 be referred to as the "Successor Company"), unless

(1) either (x) in the case of a merger or consolidation, the Company shall be the continuing corporation or (y) the Successor Company (if other than the Company) shall be organized and existing under the laws of the United States of America or any State or the District of Columbia, and shall expressly assume by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and premium, if any, and interest, if any, on all the Securities and the performance of every covenant of this Indenture and in the Securities on the part of the Company to be performed or observed;

(2) immediately after giving effect to such transaction, no Event of Default, and no event that, after notice or lapse of time, or both, would become an Event of Default, shall have happened and be continuing;

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

For purposes of the foregoing, the transfer (by lease, assignment, sale or otherwise) of all or substantially all of the properties and assets of one or more subsidiaries, the Company's interest in which constitutes all or substantially all of the properties and assets of the Company shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

SECTION 5.02. SUCCESSOR COMPANY SUBSTITUTED. Upon any consolidation with or merger into any other corporation or other person, or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 5.01, the Successor Company or person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such Successor Company or person had been named as the Company herein, and thereafter, except in the case of a lease and obligations the Company may have under a supplemental indenture pursuant to Section 10.14, the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Securities. Subject to Section 9.06, the Company, the Trustee and the successor person shall enter into a supplemental indenture to evidence the succession and substitution of such successor person and such discharge and release of the Company.

ARTICLE 6

DEFAULTS AND REMEDIES

SECTION 6.01. EVENTS OF DEFAULT. An "EVENT OF DEFAULT" occurs if:

(1) the Company defaults in the payment of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price or Change of Control Purchase Price on any Security, when the same becomes due and payable at its Stated Maturity, upon redemption, upon declaration, when due for purchase by the Company or otherwise, whether or not such payment shall be prohibited by this Indenture;

(2) the Company fails to comply with any of its agreements in the Securities or this Indenture and such failure continues for 60 days after receipt by the Company of a Notice of Default;

(3) the Company pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case or proceeding;

(B) consents to the entry of an order for relief against it in an involuntary case or proceeding or the commencement of any case against it;

(C) consents to the appointment of a Custodian of it or for any substantial part of its property;

(D) makes a general assignment for the benefit of its creditors;

(E) files a petition in bankruptcy or answer or consent seeking reorganization or relief; or

(F) consents to the filing of such petition or the appointment of or taking possession by a Custodian;

(4) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against the Company in an involuntary case or proceeding, or adjudicates the Company insolvent or bankrupt;

(B) appoints a Custodian of the Company or for any substantial part of its property; or

(C) orders the winding up or liquidation of the Company;

and the order or decree remains unstayed and in effect for 60 days;

(5) the Company fails to deliver shares of Common Stock or pay cash in lieu of fractional shares in accordance with the terms hereof when such Common Stock or cash in lieu of fractional shares is required to be delivered, upon conversion of a Security and such failure is not remedied for a period of 10 days; or

(6) (a) default shall occur (i) in the payment of any principal on any debt for borrowed money of the Company, in an aggregate principal amount in excess of \$10.0 million, when due at its final maturity, or (ii) in the performance of any term or provision of any debt for borrowed money of the Company in an aggregate principal amount in excess of \$10.0 million that results in such debt becoming or being declared due and payable.

A Default under clause (2) above is not an Event of Default until the Trustee notifies the Company, or the Holders of at least 25% in aggregate Principal Amount of the Securities at the time outstanding notify the Company and the Trustee, of the Default and the Company does not cure such Default within the time specified in clause (2) above after receipt of such notice. Any such notice must specify the Default, demand that it be remedied and state that such notice is a "Notice of Default."

The Company shall deliver to the Trustee, within 30 days after it becomes aware of the occurrence thereof, written notice of any event which with the giving of notice and the lapse of time or both

would become an Event of Default under clause (2) or clause (6), its status and what action the Company is taking or proposes to take with respect thereto.

SECTION 6.02. ACCELERATION. If an Event of Default (other than an Event of Default specified in Section 6.01(3) or (4)) occurs and is continuing, unless the Principal Amount of all the Securities shall have already become due and payable, either the Trustee by notice to the Company, or the Holders of at least 25% in aggregate Principal Amount of the Securities at the time outstanding by notice to the Company and the Trustee, may declare the Issue Price and accrued Original Issue Discount through the date of declaration on all the Securities to be immediately due and payable, whereupon such Issue Price and accrued Original Issue Discount shall be due and payable immediately; PROVIDED that, if an Event of Default specified in

Section 6.01(3) or (4) occurs and is continuing, the Issue Price and accrued Original Issue Discount on all the Securities through the date of the occurrence of such Event of Default shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Securityholders. The Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding, by notice to the Trustee (and without notice to any other Securityholder) may rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of the Issue Price and accrued Original Issue Discount that have become due solely as a result of acceleration and if all amounts due to the Trustee under Section 7.06 have been paid. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

SECTION 6.03. OTHER REMEDIES. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of the Issue Price and accrued Original Issue Discount on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if the Trustee does not possess any of the Securities or does not produce any of the Securities in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of, or acquiescence in, the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

SECTION 6.04. WAIVER OF PAST DEFAULTS. The Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding, by notice to the Trustee (and without notice to any other Securityholder), may waive an existing Default and its consequences except (a) an Event of Default described in Section

6.01(1), (b) a Default in respect of a provision that under Section 9.02 cannot be amended without the consent of each Securityholder affected or (c) a Default under Article 10. When a Default is waived, it is deemed cured and shall cease to exist, but no such waiver shall extend to any subsequent or other Default or impair any consequent right.

SECTION 6.05. CONTROL BY MAJORITY. The Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or that the Trustee determines in good faith is unduly prejudicial to the rights of other Securityholders or would involve the Trustee in personal liability unless the Trustee shall have been provided with reasonable security or indemnity against such liability satisfactory to the Trustee.

SECTION 6.06. LIMITATION ON SUITS. A Securityholder may not pursue any remedy with respect to this Indenture or the Securities unless:

- (1) the Holder gives to the Trustee written notice stating that an Event of Default is continuing;
- (2) the Holders of at least 25% in aggregate Principal Amount of the Securities at the time outstanding make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer to the Trustee reasonable security or indemnity against any loss, liability or expense satisfactory to the Trustee;
- (4) the Trustee does not comply with the request within 60

days after receipt of the notice, the request and the offer of security or indemnity; and

(5) the Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding do not give the Trustee a direction inconsistent with the request during such 60-day period.

A Securityholder may not use this Indenture to prejudice the rights of any other Securityholder or to obtain a preference or priority over any other Securityholder.

SECTION 6.07. RIGHTS OF HOLDERS TO RECEIVE PAYMENT. Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change of Control Purchase Price or interest, if any, in respect of the Securities held by such Holder, on or after the respective due

dates expressed in the Securities or any Redemption Date, and to convert the Securities in accordance with Article 10 or to bring suit for the enforcement of any such payment on or after such respective dates or the right to convert, shall not be impaired or affected adversely without the consent of each such Holder.

SECTION 6.08. COLLECTION SUIT BY TRUSTEE. If an Event of Default described in Section 6.01(1) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount owing with respect to the Securities and the amounts provided for in Section 7.06.

SECTION 6.09. TRUSTEE MAY FILE PROOFS OF CLAIM. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change of Control Purchase Price or interest, if any, in respect of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of any such amount) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change of Control Purchase Price or interest, if any, and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding; and

(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any Custodian, receiver, assignee, trustee, liquidator, sequestrator or similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.06.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 6.10. PRIORITIES. If the Trustee collects any money pursuant to this Article 6, it shall pay out the money in the following order:

FIRST: to the Trustee for amounts due under Section 7.06;

SECOND: to Securityholders for amounts due and unpaid on the Securities for the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price, Change of Control Purchase Price or interest, if any, as the case may be, ratably, without preference or priority of any kind, according to such amounts due and payable on the Securities; and

THIRD: the balance, if any, to the Company.

The Trustee may fix a record date and payment date for any payment to Securityholders pursuant to this Section 6.10. At least 15 days before such record date, the Company shall mail to each Securityholder and the Trustee a notice that states the record date, the payment date and amount to be paid.

SECTION 6.11. UNDERTAKING FOR COSTS. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant (other than the Trustee) in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 6.11 does not apply to a suit initiated by the Trustee, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in aggregate Principal Amount of the Securities at the time outstanding.

SECTION 6.12. NOTICE OF DEFAULTS. The Trustee shall, within 90 days after the occurrence of any Default, mail to all Holders of Securities, as the names and addresses of such Holders appear on the books of registry of the Company, notice of all Defaults of which the Trustee shall be aware, unless such Defaults shall have been cured or waived before the giving of such notice; PROVIDED that, except in the case of a Default described in Section 6.01(1), the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust

committee of directors or Trust Officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Holders of Securities.

SECTION 6.13. WAIVER OF STAY, EXTENSION OR USURY LAWS. The Company covenants (to the extent it may lawfully do so) that it shall not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury or other law, wherever enacted, now or at any time hereafter in force, that would prohibit or forgive the Company from paying all or any portion of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price or Change of Control Purchase Price in respect of the Securities, or any interest on any such amounts, as contemplated herein, or that may affect the covenants or the performance of this Indenture or the Securities; and the Company (to the extent that it may lawfully do so) hereby

expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE 7

TRUSTEE

SECTION 7.01. RIGHTS OF TRUSTEE. (a) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel.

(b) The Trustee may act through agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(c) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers.

(d) The Trustee may refuse to perform any duty or exercise any right or power or extend or risk its own funds or otherwise incur any financial liability unless it receives indemnity satisfactory to it against any loss, liability or expense.

(e) Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. Except as provided in Section 3.14 hereof, the Trustee (acting in any capacity hereunder) shall be under no liability for interest on any money received by it hereunder.

(f) The Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee.

(g) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(h) The Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(i) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the outstanding Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture with respect to the Securities.

(j) The Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(k) The Trustee shall not be bound to make any investigation into the

facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee reasonably believes that a default may exist, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(l) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have

reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(m) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

SECTION 7.02. INDIVIDUAL RIGHTS OF TRUSTEE. The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Registrar, Conversion Agent or co-registrar may do the same with like rights. However, the Trustee must comply with Sections 7.09 and 7.10.

SECTION 7.03. TRUSTEE'S DISCLAIMER. The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities, it shall not be accountable for the Company's use of the proceeds from the Securities, it shall not be responsible for any statement in the registration statement for the Securities under the Securities Act or in the Indenture or the Securities (other than its certificate of authentication), or the determination as to which beneficial owners are entitled to receive any notices hereunder.

SECTION 7.04. NOTICE OF DEFAULTS. The Trustee shall, within 90 days after the occurrence of any Default, mail to all Holders of Securities, as the names and addresses of such Holders appear on the books of registry of the Company, notice of all Defaults of which the Trustee shall be aware, unless such Defaults shall have been cured or waived before the giving of such notice. Except in the case of a Default described in Section 6.01(1), the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or Trust Officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Holders of Securities.

SECTION 7.05. REPORTS BY TRUSTEE TO HOLDERS. Within 60 days after each May 15 beginning with the May 15, 1997 following the date of this Indenture, the Trustee shall mail to each Securityholder a brief report dated as of such June 1 that complies with TIA Section 313(a), if required by said Section. The Trustee also shall comply with TIA Section 313(b).

A copy of each report at the time of its mailing to Securityholders shall be provided to the Company and shall be filed with the SEC and each stock exchange on which the Securities are

listed. The Company agrees promptly to notify the Trustee whenever the Securities become listed on any stock exchange and of any delisting thereof.

SECTION 7.06. COMPENSATION AND INDEMNITY. The Company agrees:(a) to pay to the Trustee from time to time such compensation (in accordance with a fee schedule agreed upon from time to time) for all services rendered by it hereunder (which compensation shall not (to the extent permitted by law) be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(b) to reimburse the Trustee (in accordance with a fee schedule agreed upon from time to time) upon its request and, if required by the Company, submission of reasonable documentation for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses, advances and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(c) to indemnify each of the Trustee or any predecessor Trustee for, and to hold it harmless against, any and all loss, liability, damage, claim or expense, including taxes (other than taxes based upon, measured or determined by the income of the Trustee), incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this trust, including the reasonable costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

The Trustee shall give the Company notice of any claim or liability for which the Trustee might be entitled to indemnification under subparagraph (c) of this Section 7.06, within a reasonable amount of time after a Trust Officer of the Trustee actually becomes aware of such claim or liability. To secure the Company's payment obligations in this Section 7.06, the Trustee shall have a lien prior to the Securities on all money or property held or collected by the Trustee.

The Company's payment obligations pursuant to this Section 7.06 shall survive the discharge of this Indenture. When the Trustee incurs expenses after the occurrence of a Default specified in Section 6.01(3) or (4), the expenses are intended to constitute expenses of administration under the Bankruptcy Law. The provisions of this Section shall survive the termination of this Indenture.

SECTION 7.07. REPLACEMENT OF TRUSTEE. The Trustee may resign by so notifying the Company; PROVIDED, HOWEVER, no such resignation

shall be effective until a successor Trustee has accepted its appointment pursuant to this Section 7.07. The Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee (subject to the consent of the Company, such consent not to be unreasonably withheld). The Company shall remove the Trustee if:

- (1) the Trustee fails to comply with Section 7.09;
- (2) the Trustee is adjudged bankrupt or insolvent;
- (3) a receiver or other public officer takes charge of the

Trustee or its property; or

(4) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint, by resolution of its Board of Directors, a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Securityholders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.06.

If a successor Trustee does not take office within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.09, any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

SECTION 7.08. SUCCESSOR TRUSTEE BY MERGER. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee.

SECTION 7.09. ELIGIBILITY; DISQUALIFICATION. The Trustee shall at all times satisfy the requirements of TIA Sections

310(a)(1) and 310(b). The Trustee shall have a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition. In determining whether the Trustee has conflicting interests as defined in TIA Section 310(b)(1), the provisions contained in the proviso to TIA Section 310(b)(1) shall be deemed incorporated herein.

SECTION 7.10. PREFERENTIAL COLLECTION OF CLAIMS AGAINST COMPANY. The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated therein.

SECTION 7.11. MONEY HELD IN TRUST. Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company.

ARTICLE 8

DISCHARGE OF INDENTURE

SECTION 8.01. DISCHARGE OF LIABILITY ON SECURITIES. When (i) the Company delivers to the Trustee all outstanding Securities (other than Securities replaced pursuant to Section 2.07) for cancellation or (ii) all outstanding Securities have become due and payable and the Company deposits

with the Trustee cash or, if expressly permitted by the terms hereof, securities sufficient to pay at Stated Maturity the Principal Amount of all outstanding Securities (other than Securities replaced pursuant to Section 2.07), and if in either case the Company pays all other sums payable hereunder by the Company (including, without limitation, sums payable by delivery of shares of Common Stock pursuant to Section 3.08), then this Indenture shall, subject to Section 7.06, cease to be of further effect. The Trustee shall join in the execution of a document prepared by the Company acknowledging satisfaction and discharge of this Indenture on demand of the Company accompanied by an Officers' Certificate and Opinion of Counsel and at the cost and expense of the Company.

SECTION 8.02. REPAYMENT TO THE COMPANY. The Trustee and the Paying Agent shall return to the Company upon written request any money or securities held by them for the payment of any amount with respect to the Securities that remains unclaimed for two years; PROVIDED, HOWEVER, that at the Company's written request, the Trustee or such Paying Agent, before being required to make any such return, shall, at the expense of the Company, cause to be

published once in THE WALL STREET JOURNAL or another daily newspaper of national circulation or mail to each such Holder notice that such money or securities remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such mailing, any unclaimed money or securities then remaining will be returned to the Company. After return to the Company, Holders entitled to the money or securities must look to the Company for payment as general creditors unless an applicable abandoned property law designates another person, and the Trustee and the Paying Agent shall have no further liability with respect to such money or securities for that period commencing after the return thereof.

ARTICLE 9

AMENDMENTS

SECTION 9.01. WITHOUT CONSENT OF HOLDERS. The Company and the Trustee may amend this Indenture or the Securities without the consent of any Securityholder:

- (1) to cure any ambiguity, omission, defect or inconsistency; PROVIDED, HOWEVER, that such amendment does not materially adversely affect the rights of any Securityholder;
- (2) to comply with Article 5 or Section 10.14;
- (3) to provide for uncertificated Securities in addition to or in place of certificated Securities so long as such uncertificated Securities are in registered form for purposes of the Internal Revenue Code of 1986, as amended;
- (4) to make any change that does not adversely affect the rights of any Securityholder;
- (5) to add to the covenants or obligations of the Company hereunder, for the benefit of the Securityholders, or to surrender any right, power or option herein conferred upon the Company; or
- (6) to make any change to comply with the TIA.

SECTION 9.02. WITH CONSENT OF HOLDERS. With the written consent of the Holders of at least a majority in aggregate Principal Amount of the Securities at the time outstanding, the Company and the Trustee may amend this Indenture or the Securities. However, without the consent of each

Securityholder affected, an amendment or supplement to this Indenture or the Securities may not:

- (1) make any change to the Principal Amount of Securities whose Holders must consent to an amendment;
- (2) make any change to the rate of accrual in connection with Original Issue Discount, reduce the rate of interest referred to in paragraph 1 of the Securities or extend the time for payment of accrued Original Issue Discount or interest, if any, on any Security;
- (3) reduce the Principal Amount or the Issue Price of or extend the Stated Maturity of any Security;
- (4) reduce the amount of cash payable in respect of conversion upon the Company's election to pay cash with respect thereto, the Redemption Price, Purchase Price or Change of Control Purchase Price of any Security or extend the date on which the Purchase Price or Change of Control Purchase Price of any Security is payable;
- (5) make any Security payable in money or securities other than that stated in the Security;
- (6) make any change in Section 6.04 or this Section 9.02, except to increase any percentage referred to therein, or make any change in Section 6.07;
- (7) make any change that adversely affects the right to convert any Security (including the right to receive cash in lieu of Common Stock except as set forth in Section 9.01(4));
- (8) make any change that adversely affects the right to require the Company to purchase the Securities in accordance with the terms thereof and this Indenture (including the right to receive cash if the Company has elected to pay cash upon such purchase);
- (9) make any change to the provisions of this Indenture relating to the purchase of Securities at the option of the Holder pursuant to Section 3.08 or 3.09 which change would result in a violation of applicable federal or state securities laws (including positions of the SEC under applicable no-action letters), whether as a result of the exercise or performance of any rights or obligations under such provisions or otherwise; or
- (10) impair the right to institute suit for the enforcement of any payment with respect to, or conversion of, the Securities.

It shall not be necessary for the consent of the Holders under this Section 9.02 to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

After an amendment under this Section 9.02 becomes effective, the Company shall mail to each Holder a notice briefly describing the amendment.

SECTION 9.03. COMPLIANCE WITH TRUST INDENTURE ACT. Every supplemental indenture executed pursuant to this Article shall comply with the TIA as then in effect.

SECTION 9.04. REVOCATION AND EFFECT OF CONSENTS, WAIVERS AND ACTIONS. Until an amendment or waiver becomes effective, a consent to it or any other action by a Holder of a Security hereunder is a continuing consent by the Holder and every subsequent Holder of that Security or portion of the Security that evidences the same obligation as the consenting Holder's Security, even if notation of the consent, waiver or action is not made on the Security. However, any such Holder or subsequent Holder may revoke the consent, waiver or action as to such Holder's Security or portion of the Security if the Trustee receives the notice of revocation before the date the amendment, waiver or action becomes effective. After an amendment, waiver or action becomes effective, it shall bind every Securityholder, except as provided in Section 9.02.

SECTION 9.05. NOTATION ON OR EXCHANGE OF SECURITIES. Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article 9 may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for outstanding Securities.

SECTION 9.06. TRUSTEE TO SIGN SUPPLEMENTAL INDENTURES. The Trustee shall sign any supplemental indenture authorized pursuant to this Article 9 if the amendment does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing such amendment the Trustee shall be entitled to receive, and (subject to the provisions of Section 7.01) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such amendment is authorized or permitted by this Indenture.

SECTION 9.07. EFFECT OF SUPPLEMENTAL INDENTURES. Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

ARTICLE 10

CONVERSION

SECTION 10.01. CONVERSION PRIVILEGE. A Holder of a Security may convert such Security into Common Stock at any time (subject to the limitation described in Section 3.03(5)) during the period stated in paragraph 8 of the Securities. The number of shares of Common Stock issuable upon conversion of a Security per \$1,000 of Principal Amount thereof (the "CONVERSION RATE") shall be that set forth in paragraph 8 in the Securities, subject to adjustment as herein set forth.

A Holder may convert a portion of the Principal Amount of a Security if the portion is \$1,000 or an integral multiple of \$1,000. Provisions of this Indenture that apply to conversion of all of a Security also apply to conversion of a portion of a Security.

SECTION 10.02. CONVERSION PROCEDURE. To convert a Security a Holder must satisfy the requirements in paragraph 8 of the Securities. The date on which the Holder satisfies all those requirements is the conversion date (the "CONVERSION DATE"). The Company shall deliver to the Holder no later than the seventh Business Day following the Conversion Date, through the Conversion Agent, a certificate for the number of full shares of Common Stock issuable upon the conversion and cash in lieu of any fractional share determined pursuant to Section 10.03.

The person in whose name the certificate is registered shall be treated as a stockholder of record on and after the Conversion Date; PROVIDED, HOWEVER, that no surrender of a Security on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the person or persons entitled to receive the shares of Common Stock upon such conversion as the record holder or holders of such shares of Common Stock on such date, but such surrender shall be effective to constitute the person or persons entitled to receive such shares of Common Stock as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; PROVIDED, FURTHER, that such conversion shall be at the Conversion Rate in effect on the date that such Security shall have been surrendered for conversion, as if the stock transfer books of the Company had not been closed. Upon conversion of a Security, such person shall no longer be a Holder of such Security.

Holders may surrender a Security for conversion by means of book entry delivery in accordance with paragraph 8 of the

Securities and the regulations of the applicable book entry facility.

No payment or adjustment will be made for dividends on any Common Stock except as provided in this Article 10. On conversion of a Security, that portion of accrued Original Issue Discount attributable to the period from the Issue Date to the Conversion Date with respect to the converted Security shall not be cancelled, extinguished or forfeited, but rather shall be deemed to be paid in full to the Holder thereof through delivery of the Common Stock (together with the cash payment, if any, in lieu of fractional shares) in exchange for the Security being converted pursuant to the provisions hereof; and the fair market value of such shares of Common Stock (together with any such cash payment in lieu of any fractional shares of Common Stock) shall be treated as issued, to the extent thereof, first in exchange for Original Issue Discount accrued through the Conversion Date, and the balance, if any, of such fair market value of such shares of Common Stock (and any such cash payment) shall be treated as issued in exchange for the Issue Price of the Security being converted pursuant to the provisions hereof.

If the Holder converts more than one Security at the same time, the number of shares of Common Stock issuable upon the conversion shall be computed based on the total Principal Amount of the Securities converted.

Upon surrender of a Security that is converted in part, the Company shall execute, and the Trustee shall authenticate and deliver to the Holder, a new Security in an authorized denomination equal in Principal Amount to the unconverted portion of the Security surrendered.

If the last day on which a Security may be converted is a Legal Holiday in a place where the Conversion Agent is located, the Security may be surrendered to such Conversion Agent on the next succeeding day that is not a Legal Holiday.

SECTION 10.03. FRACTIONAL SHARES. The Company will not issue a fractional share of Common Stock upon conversion of a Security. Instead, the Company will deliver cash for the current market value of the fractional share. The current market value of a fractional share shall be determined to the nearest 1/1,000th of a share by multiplying the Sale Price, on the last Trading Day prior to the Conversion Date, of a full share by the fractional amount and rounding the product to the nearest whole cent.

SECTION 10.04. TAXES ON CONVERSION. If a Holder converts a Security, the Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of Common Stock upon such conversion. However, the Holder shall pay any such tax which is due because the Holder requests the shares to be issued in

a name other than the Holder's name. The Conversion Agent may refuse to deliver the certificates representing the Common Stock being issued in a name other than the Holder's name until the Conversion Agent receives a sum sufficient to pay any tax which will be due, as set forth in an Officers' Certificate, because the shares are to be issued in a name other than the Holder's name. Nothing herein shall preclude any tax withholding required by law or regulations.

SECTION 10.05. COMPANY TO PROVIDE STOCK. The Company shall, prior to issuance of any Securities hereunder, and from time to time as may be necessary, reserve out of its authorized but unissued Common Stock a sufficient number of shares of Common Stock to permit the conversion of the Securities for shares of Common Stock.

All shares of Common Stock delivered upon conversion of the Securities shall be newly issued shares or treasury shares, shall be duly and validly issued and fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim.

The Company will endeavor promptly to comply with all Federal and state securities laws regulating the offer and delivery of shares of Common Stock upon conversion of Securities, if any, and will list or cause to have quoted such shares of Common Stock on each national securities exchange or in the over-the-counter market or such other market on which the Common Stock is then listed or quoted.

SECTION 10.06. ADJUSTMENT FOR CHANGE IN CAPITAL STOCK. If, after the Issue Date, the Company:

(1) pays a dividend or makes a distribution on its Common Stock in shares of its Common Stock;

(2) subdivides its outstanding shares of Common Stock into a greater number of shares;

(3) combines its outstanding shares of Common Stock into a smaller number of shares;

(4) pays a dividend or makes a distribution on its Common Stock in shares of its Capital Stock (other than Common Stock or rights, warrants or options for its Capital Stock); or

(5) issues by reclassification of its Common Stock any shares of its Capital Stock (other than rights, warrants or options for its Capital Stock),

then the conversion privilege and the Conversion Rate in effect immediately prior to such action shall be adjusted so that the Holder of a Security thereafter converted may receive the number of shares or other units of Capital Stock of the Company which such Holder would have owned immediately following such action if such Holder had converted the Security immediately prior to such action.

The adjustment shall become effective immediately after the record date in the case of a dividend or distribution and immediately after the effective date in the case of a subdivision, combination or reclassification.

If after an adjustment a Holder of a Security upon conversion of such Security may receive shares or other units of two or more classes or series of Capital Stock of the Company, the Conversion Rate shall thereafter be subject to adjustment upon the occurrence of an action taken with respect to any such class or series of Capital Stock as is contemplated by this Article

10 with respect to the Common Stock, on terms comparable to those applicable to Common Stock in this Article 10.

SECTION 10.07. ADJUSTMENT FOR RIGHTS ISSUE. If, after the Issue Date, the Company distributes any rights, warrants or options to all holders of its Common Stock entitling them, for a period expiring within 60 days after the record date for such distribution, to purchase shares of Common Stock at a price per share less than the Market Price as of the Time of Determination, the Conversion Rate shall be adjusted in accordance with the formula:

$$R' = R \times \frac{(O + N)}{O + \frac{(N \times P)}{M}}$$

where:

R' = the adjusted Conversion Rate.

R = the current Conversion Rate.

O = the number of shares of Common Stock outstanding on the record date for the distribution.

N = the number of additional shares of Common Stock offered pursuant to the distribution.

P = the offering price per share of such additional shares.

M = the Market Price.

The adjustment shall become effective immediately after the record date for the determination of shareholders entitled to

receive the rights, warrants or options to which this Section 10.07 applies.

No adjustment shall be made under this Section 10.07 if the application of the formula stated above in this Section 10.07 would result in value of R' that is equal to or less than the value of R.

SECTION 10.08. ADJUSTMENT FOR OTHER DISTRIBUTIONS. If, after the Issue Date, the Company distributes to all holders of its Common Stock any of its assets or debt securities or any rights, warrants or options to purchase securities of the Company (including securities or cash, but excluding (x) distributions of Capital Stock referred to in Section 10.06 and distributions of rights, warrants or options referred to in Section 10.07 and (y) cash dividends or other cash distributions that are paid out of consolidated current net earnings or earned surplus as shown on the books of the Company, unless such cash dividends or other cash distributions are Extraordinary Cash Dividends, the Conversion Rate shall be adjusted, subject to the provisions of the last paragraph of this Section 10.08, in accordance with the formula:

$$R' = R \times \frac{M}{M-F}$$

where:

R' = the adjusted Conversion Rate.

R = the current Conversion Rate.

M = the Market Price.

F = the fair market value (on the record date for the distribution to which this Section 10.08 applies) of the assets, securities, rights, warrants or options to be distributed in respect of each share of Common Stock in the distribution to which this Section 10.08 is being applied (including, in the case of cash dividends or other cash distributions giving rise to an adjustment, all such cash distributed concurrently).

The Board of Directors shall determine fair market values for the purpose of this Section 10.08.

The adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive the distribution to which this Section 10.08 applies.

In the event that, with respect to any distribution to which this Section 10.08 would otherwise apply, the difference "M-F" as defined in the above formula is less than \$1.00 or "F" is greater than "M", then the adjustment provided by this Section 10.08 shall

not be made and in lieu thereof the provisions of Section 10.14 shall apply to such distribution.

SECTION 10.09. WHEN ADJUSTMENT MAY BE DEFERRED. No adjustment in the Conversion Rate need be made unless the adjustment would require an increase or decrease of at least 1% (E.G., if the Conversion Rate is 4, an increase or decrease of .04 (1% of 4)) in the Conversion Rate. Any adjustments that are not made shall be carried forward and taken into account in any subsequent adjustment.

All calculations under this Article 10 shall be made to the nearest cent or to the nearest 1/1,000th of a share, as the case may be, with one-half of a cent and 5/10,000ths of a share being rounded upwards.

SECTION 10.10. WHEN NO ADJUSTMENT REQUIRED. No adjustment need be made for a transaction referred to in Section 10.06, 10.07, 10.08 or 10.14 if Securityholders are to participate in the transaction on a basis and with notice that the Board of Directors determines to be fair and appropriate in light of the basis and notice on which holders of Common Stock participate in the transaction.

No adjustment need be made for rights to purchase Common Stock pursuant to a Company plan for reinvestment of dividends or interest.

No adjustment need be made for a change in the par value or no par value of the Common Stock.

No adjustment need be made unless such adjustment, together with any other adjustments similarly deferred equals at least 1% of the then current Conversion Rate.

To the extent the Securities become convertible into cash pursuant to the terms of Section 10.08 or 10.14, no adjustment need be made thereafter as to the cash. Interest will not accrue on the cash.

Notwithstanding any provision to the contrary in this Indenture, no adjustment shall be made in the Conversion Rate to the extent, but only to the extent, such adjustment results in the following quotient being less than the par value of the Common Stock: (i) the Issue Price plus accrued Original Issue Discount as of the date such adjustment would otherwise be effective divided by (ii) the Conversion Rate as so adjusted.

SECTION 10.11. NOTICE OF ADJUSTMENT. Whenever the Conversion Rate is adjusted, the Company shall file with the Trustee and the

Conversion Agent a notice of such adjustment and a certificate from the Company's independent public accountants briefly stating the

facts requiring the adjustment and the manner of computing it. The Conversion Agent will promptly mail such notice to Securityholders at the Company's expense. The certificate shall be conclusive evidence that the adjustment is correct. Neither the Trustee nor any Conversion Agent shall be under any duty or responsibility with respect to any such certificate except to exhibit the same to any Holder desiring inspection thereof.

SECTION 10.12. VOLUNTARY INCREASE. The Company from time to time may increase the Conversion Rate by any amount and for any period of time (PROVIDED that such period is not less than 20 Business Days). Whenever the Conversion Rate is increased, the Company shall mail to Securityholders and file with the Trustee and the Conversion Agent a notice of the increase. The Company shall mail the notice at least 15 days before the date the increased Conversion Rate takes effect. The notice shall state the increased Conversion Rate and the period it will be in effect.

A voluntary increase of the Conversion Rate does not change or adjust the Conversion Rate otherwise in effect for purposes of Sections 10.06, 10.07 or 10.08.

SECTION 10.13. NOTICE OF CERTAIN TRANSACTIONS. If:

(1) the Company takes any action that would require an adjustment in the Conversion Rate pursuant to Section 10.06, 10.07 or 10.08 (unless no adjustment is to occur pursuant to Section 10.10); or

(2) the Company takes any action that would require a supplemental indenture pursuant to Section 10.14; or

(3) there is a liquidation or dissolution of the Company;

then the Company shall mail to Securityholders and file with the Trustee and the Conversion Agent a notice stating the proposed record date for a dividend or distribution of the proposed effective date of a subdivision, combination, reclassification, consolidation, merger, binding share exchange, transfer, liquidation or dissolution. The Company shall file and mail the notice at least 15 days before such date. Failure to file or mail the notice or any defect in it shall not affect the validity of the transaction.

SECTION 10.14. REORGANIZATION OF COMPANY; SPECIAL DISTRIBUTIONS. If the Company is a party to a transaction subject to Section 5.01 (other than a sale of all or substantially all of the assets of the Company in a transaction in which the holders of Common Stock immediately prior to such transaction do not receive securities, cash or other assets of the Company or any other person) or a merger or binding share exchange which reclassifies or

changes its outstanding Common Stock, the person obligated to deliver securities, cash or other assets upon conversion of Securities shall enter into a supplemental indenture. If the issuer of securities deliverable upon conversion of Securities is an Affiliate of the successor Company, that issuer shall join in the supplemental indenture.

The supplemental indenture shall provide that the Holder of a Security may convert it into the kind and amount of securities, cash or other assets which such Holder would have received immediately after the consolidation, merger, binding share exchange or transfer if such Holder had converted the Security immediately before the effective date of the transaction, assuming

(to the extent applicable) that such Holder (i) was not a constituent person or an Affiliate of a constituent person to such transaction; (ii) made no election with respect thereto; and (iii) was treated alike with the plurality of non-electing Holders. The supplemental indenture shall provide for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Article 10. The successor Company shall mail to Securityholders a notice briefly describing the supplemental indenture.

If this Section applies, neither Section 10.06 nor 10.07 applies.

If the Company makes a distribution to all holders of its Common Stock of any of its assets, or debt securities or any rights, warrants or options to purchase securities of the Company that, but for the provisions of the last paragraph of Section 10.08, would otherwise result in an adjustment in the Conversion Rate pursuant to the provisions of Section 10.08, then, from and after the record date for determining the holders of Common Stock entitled to receive the distribution, a Holder of a Security that converts such Security in accordance with the provisions of this Indenture shall upon such conversion be entitled to receive, in addition to the shares of Common Stock into which the Security is convertible, the kind and amount of securities, cash or other assets comprising the distribution that such Holder would have received if such Holder had converted the Security immediately prior to the record date for determining the holders of Common Stock entitled to receive the distribution.

SECTION 10.15. COMPANY DETERMINATION FINAL. Any determination that the Company or the Board of Directors must make pursuant to this Article 10 is conclusive.

SECTION 10.16. TRUSTEE'S ADJUSTMENT DISCLAIMER. The Trustee has no duty to determine when an adjustment under this Article 10 should be made, how it should be made or what it should be. The Trustee has no duty to determine whether a supplemental indenture under Section 10.14 need be entered into or whether any provisions of any supplemental indenture are correct. The Trustee shall not

be accountable for and makes no representation as to the validity or value of any securities or assets issued upon conversion of Securities. The Trustee shall not be responsible for the Company's failure to comply with this Article 10. Each Conversion Agent (other than the Company or an Affiliate of the Company) shall have the same protection under this Section 10.16 as the Trustee.

SECTION 10.17. SIMULTANEOUS ADJUSTMENTS. If this Article 10 requires adjustments to the Conversion Rate under more than one of Sections 10.06(4), 10.07 or 10.08, and the record dates for the distributions giving rise to such adjustments shall occur on the same date, then such adjustments shall be made by applying, first, the provisions of Section 10.06, second, the provisions of Section 10.08 and, third, the provisions of Section 10.07.

SECTION 10.18. SUCCESSIVE ADJUSTMENTS. After an adjustment to the Conversion Rate under this Article 10, any subsequent event requiring an adjustment under this Article 10 shall cause an adjustment to the Conversion Rate as so adjusted.

ARTICLE 11

SUBORDINATION

SECTION 11.01. SECURITIES SUBORDINATED TO SENIOR INDEBTEDNESS.

The Company and each Holder, by its acceptance of Securities, agrees that (a) the payment of the principal, premium of and interest on the Securities and (b) any other payment in respect of the Securities, including

on account of the acquisition or redemption of the Securities by the Company (including, without limitation, pursuant to Article 3) is subordinated, to the extent and in the manner provided in this Article 11, to the prior payment in full of all Senior Indebtedness, whether outstanding at the date of this Indenture or thereafter created, incurred, assumed or guaranteed, and that these subordination provisions are for the benefit of the holders of Senior Indebtedness.

This Article 11 shall constitute a continuing offer to all Persons who, in reliance upon such provisions, become holders of, or continue to hold, Senior Indebtedness, and such provisions are made for the benefit of the holders of Senior Indebtedness, and such holders are made obligees hereunder and any one or more of them may enforce such provisions.

SECTION 11.02. NO PAYMENT ON SECURITIES IN CERTAIN CIRCUMSTANCES.

(a) No payment may be made by the Company on account of the principal of, premium, if any, or interest on, the Securities, or

to acquire any of the Securities (including repurchases of Securities at the option of the Holder) for cash or property, or on account of the redemption provisions of the Securities, (i) upon the maturity of any Senior Indebtedness of the Company by lapse of time, acceleration (unless waived) or otherwise, unless and until all principal of, premium, if any, and interest on such Senior Indebtedness are first paid in full, or (ii) in the event of default in the payment of any principal of, premium, if any, or interest on any Senior Indebtedness when it becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise (a "Payment Default"), unless and until such Payment Default has been cured or waived or otherwise has ceased to exist.

(b) Upon (i) the happening of an event of default (other than a Payment Default) that permits the holders of Senior Indebtedness or their representative immediately to accelerate its maturity and (ii) written notice of such event of default given to the Company and the Trustee by the holders of at least 25% in aggregate principal amount outstanding of such Senior Indebtedness or their representative (a "Payment Notice"), then, unless and until such event of default has been cured or waived or otherwise has ceased to exist, no payment (by set-off or otherwise) may be made by or on behalf of the Company on account of the principal of, premium, if any, or interest on, the Securities, or to acquire or repurchase any of the Securities for cash or property, or on account of the redemption provisions of the Securities. Notwithstanding the foregoing provisions of this Subsection 11.02(b), unless (i) the Senior Indebtedness in respect of which such event of default exists has been declared due and payable in its entirety within 179 days after the Payment Notice is delivered as set forth above (the "Payment Blockage Period"), and (ii) such declaration has not been rescinded or waived, at the end of the Payment Blockage Period, the Company shall be required to pay all sums not paid to the Holders of the Securities during the Payment Blockage Period due to the foregoing prohibitions and to resume all other payments as and when due on the Securities. Any number of Payment Notices may be given; PROVIDED, HOWEVER, that (i) not more than one Payment Notice shall be given within a period of any 360 consecutive days, and (ii) no default that existed upon the date of such Payment Notice or the commencement of such Payment Blockage Period (whether or not such event of default is on the same issue of Senior Indebtedness) shall be made the basis for the commencement of any other Payment Blockage Period.

(c) In the event that, notwithstanding the foregoing provisions of this Section 11.02, any payment or distribution of assets of the Company shall be received by the Trustee or the Holders at a time when such payment or distribution is prohibited by the provisions of this Section 11.02, then such payment, Paying Agent or distribution (subject to the provisions of Section 11.07) shall be received and held in trust by the Trustee or such Holder

or Paying Agent for the benefit of the holders of Senior Indebtedness, and shall be paid or delivered by the Trustee or such Holders or such Paying Agent, as the case may be, to the holders of Senior Indebtedness remaining unpaid or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any of such Senior Indebtedness may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held or represented by each, for application to the payment of all Senior Indebtedness remaining unpaid to the extent necessary to pay all such Senior Indebtedness in full after giving effect to any concurrent payment and distribution to the holders of such Senior Indebtedness.

SECTION 11.03. SECURITIES SUBORDINATED TO PRIOR PAYMENT OF ALL SENIOR INDEBTEDNESS ON DISSOLUTION, LIQUIDATION OR REORGANIZATION.

Upon any distribution of assets of the Company upon any dissolution, winding up, total or partial liquidation or reorganization of the Company, whether voluntary or involuntary, in bankruptcy, insolvency, receivership or a similar proceeding or upon assignment for the benefit of creditors or any marshalling of assets or liabilities:

(a) the holders of all Senior Indebtedness shall first be entitled to receive payments in full before the Holders are entitled to receive any payment on account of the principal of, premium, if any, and interest on, or with respect to the Securities;

(b) any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities to which the Holders or the Trustee on behalf of the Holders would be entitled (by setoff or otherwise), except for the provisions of this Article 11, shall be paid by the liquidating trustee or agent or other Person making such a payment or distribution directly to the holders of Senior Indebtedness or their representative to the extent necessary to make payment in full of all such Senior Indebtedness remaining unpaid, after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness; and

(c) in the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, shall be received by the Trustee or the Holders or any Paying Agent (or, if the Company or any Affiliate of the Company is acting as its own Paying Agent, money for any such payment or distribution shall be segregated or held in trust) on account of the principal of or interest on the Securities before all Senior Indebtedness is paid in full, such payment or distribution (subject to the provisions of Section 11.07) shall be received and held in trust by the Trustee

or such Holder or Paying Agent for the benefit of the holders of such Senior Indebtedness, or their respective representative, ratably according to the respective amounts of such Senior Indebtedness held or represented by each, to the extent necessary to make payment as provided herein of all such Senior Indebtedness remaining unpaid after giving effect to all concurrent payments and distributions and all provisions therefor to or for the holders of such Senior Indebtedness, but only to the extent that as to any holder of such Senior Indebtedness, as promptly as practical following notice from the Trustee to the holders of such Senior Indebtedness that such prohibited payment has been received by the Trustee, Holder(s) or Paying Agent (or has been segregated as provided above), such holder (or a representative therefor) notifies the Trustee of the amounts then due and owing on such Senior Indebtedness, if any, held by such holder and only the amounts specified in such notices to the Trustee shall be paid to the holders of such Senior Indebtedness.

SECTION 11.04. SECURITYHOLDERS TO BE SUBROGATED TO RIGHTS OF HOLDERS OF SENIOR INDEBTEDNESS.

Subject to the payment in full of all Senior Indebtedness as provided herein, the Holders of Securities shall be subrogated to the rights of the holders of such Senior Indebtedness to receive payments or distributions of assets of the Company applicable to the Senior Indebtedness until all amounts owing on the Securities shall be paid in full, and for the purpose of such subrogation no such payments or distributions to the holders of such Senior Indebtedness by the Company, or by or on behalf of the Holders by virtue of this Article 11, which otherwise would have been made to the Holders shall, as between the Company and the Holders, be deemed to be payment by the Company or on account of such Senior Indebtedness, it being understood that the provisions of this Article 11 are and are intended solely for the purpose of defining the relative rights of the Holders, on the one hand, and the holders of such Senior Indebtedness, on the other hand.

If any payment or distribution to which the Holders would otherwise have been entitled but for the provisions of this Article 11 shall have been applied, pursuant to the provisions of this Article 11, to the payment of amounts payable under Senior Indebtedness, then the Holders shall be entitled to receive from the holders of such Senior Indebtedness any payments or distributions received by such holders of Senior Indebtedness in excess of the amount sufficient to pay all amounts payable under or in respect of such Senior Indebtedness in full.

SECTION 11.05. OBLIGATIONS OF THE COMPANY UNCONDITIONAL.

Nothing contained in this Article 11 or elsewhere in this Indenture or in the Securities is intended to or shall impair as between the Company and the Holders, the Company's obligation,

which is absolute and unconditional, to pay to the Holders the principal of, premium, if any, and interest on, the Securities as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the Holders and creditors of the Company other than the holders of the Senior Indebtedness, nor shall anything herein or therein prevent the Trustee or any Holder from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article 11, of the holders of Senior Indebtedness in respect of cash, property or securities of the Company received upon the exercise of any such remedy. Notwithstanding anything to the contrary in this Article 11 or elsewhere in this Indenture or in the Securities, upon any distribution of assets of the Company referred to in this Article 11, the Trustee and the Holders shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding up, liquidation or reorganization proceedings are pending, or a certificate of the liquidating trustee or agent or other Person making any distribution to the Trustee or to the Holders for the purpose of ascertaining the Persons entitled to participate in such distribution, the holders of the Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 11 so long as such court has been apprised of the provisions of, or the order, decree or certificate makes reference to, the provisions of this Article 11. Nothing in this Section 11.05 shall apply to the claims of, or payments to, the Trustee under or pursuant to Section 7.06.

SECTION 11.06. TRUSTEE ENTITLED TO ASSUME PAYMENTS NOT PROHIBITED IN ABSENCE OF NOTICE.

The Trustee shall not at any time be charged with knowledge of the existence of any facts which would prohibit the making of any payment to or by the Trustee unless and until a Trust Officer of the Trustee or any Paying Agent shall have received, no later than one Business Day prior to such

payment, written notice thereof from the Company or from one or more holders of Senior Indebtedness or from any representative therefor and, prior to the receipt of any such written notice, the Trustee shall be entitled in all respects conclusively to assume that no such fact exists.

SECTION 11.07. APPLICATION BY TRUSTEE OF ASSETS DEPOSITED WITH IT.

Amounts deposited in trust with the Trustee pursuant to and in accordance with Article 8 shall be for the sole benefit of Securityholders and, to the extent allocated for the payment of Securities, shall not be subject to the subordination provisions of this Article 11. Otherwise, any deposit of assets with the Trustee or the Agent (whether or not in trust) for the payment of principal

of or interest on any Securities shall be subject to the provisions of Sections 11.01, 11.02, 11.03 and 11.04; PROVIDED that, if prior to one Business Day preceding the date on which by the terms of this Indenture any such assets may become distributable for any purpose (including, without limitation, the payment of either principal of or interest on any Security) the Trustee or such Paying Agent shall not have received with respect to such assets the written notice provided for in Section 11.06, then the Trustee or such Paying Agent shall have full power and authority to receive such assets and to apply the same to the purpose for which they were received, and shall not be affected by any notice to the contrary which may be received by it on or after such date.

SECTION 11.08. SUBORDINATION RIGHTS NOT IMPAIRED BY ACTS OR OMISSIONS OF THE COMPANY OR HOLDERS OF SENIOR INDEBTEDNESS.

No right of any present or future holders of any Senior Indebtedness to enforce subordination provisions contained in this Article 11 shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms of this Indenture, regardless of any knowledge thereof which any such holder may have or be otherwise charged with. The holders of Senior Indebtedness may extend, renew, modify or amend the terms of the Senior Indebtedness or any security therefor and release, sell or exchange such security and otherwise deal freely with the Company, all without affecting the liabilities and obligations of the parties to this Indenture or the Holders.

SECTION 11.09. SECURITYHOLDERS AUTHORIZE TRUSTEE TO EFFECTUATE SUBORDINATION OF SECURITIES.

Each Holder of the Securities by his acceptance thereof authorizes and expressly directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provisions contained in this Article 11 and to protect the rights of the Holders pursuant to this Indenture, and appoints the Trustee his attorney-in-fact for such purpose, including, in the event of any dissolution, winding up, liquidation or reorganization of the Company (whether in bankruptcy, insolvency or receivership proceedings or upon an assignment for the benefit of creditors of the Company), the immediate filing of a claim for the unpaid balance of his Securities in the form required in said proceedings and cause said claim to be approved. If the Trustee does not file a proper claim or proof of debt in the form required in such proceeding prior to 30 days before the expiration of the time to file such claim or claims, then the holders of the Senior Indebtedness or their representative are or is hereby authorized to have the right to file and are or is hereby authorized to file an appropriate claim for and on behalf of the Holders of said Securities. Nothing herein contained shall be deemed to authorize

the Trustee or the holders of Senior Indebtedness or their representative to authorize or consent to or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee or the holders of Senior Indebtedness or their representative to vote in respect of the claim of any Securityholder in any such proceeding.

SECTION 11.10. RIGHT OF TRUSTEE TO HOLD SENIOR INDEBTEDNESS.

The Trustee shall be entitled to all of the rights set forth in this Article 11 in respect of any Senior Indebtedness at any time held by it to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall be construed to deprive the Trustee of any of its rights as such holder.

SECTION 11.11. ARTICLE XI NOT TO PREVENT EVENTS OF DEFAULT.

The failure to make a payment on account of principal of, premium, if any, interest on, the Securities by reason of any provision of this Article 11 shall not be construed as preventing the occurrence of a Default or an Event of Default under Article 6 or in any way prevent the Holders from exercising any right hereunder.

SECTION 11.12. NO FIDUCIARY DUTY OF TRUSTEE TO HOLDERS OF SENIOR INDEBTEDNESS.

The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness, and shall not be liable to any such holders (other than for its willful misconduct or negligence) if it shall in good faith mistakenly pay over or distribute to the Holders of Securities or the Company or any other Person, cash, property or securities to which any holders of Senior Indebtedness shall be entitled by virtue of this Article 11 or otherwise. Nothing in this Section 11.12 shall affect the obligation of any other such Person to hold such payment for the benefit of, and to pay such payment over to, the holders of Senior Indebtedness or their representative. The TIA is incorporated by reference into this Indenture as if the Notes were registered under the Securities Act.

ARTICLE 12

MISCELLANEOUS

SECTION 12.01. TRUST INDENTURE ACT CONTROLS. If any provision of this Indenture limits, qualifies or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control.

SECTION 12.02 NOTICES. Any notice or communication shall be in writing and delivered in person or mailed by first-class mail, postage prepaid, addressed as follows:

if to the Company:

Costco Companies, Inc.
999 Lake Drive
Issaquah, Washington 98027
Attention: Treasurer

Telephone: (425) 313-6750

if to the Trustee:

Firststar Bank of Minnesota, N.A.
Corporate Trust Trustee Administration
101 East Fifth Street
St. Paul, Minnesota 55101-1860

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication given to a Securityholder shall be mailed by first-class mail to the Securityholder at the Securityholder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not received by the addressee.

If the Company mails a notice or communication to the Securityholders, it shall mail a copy to the Trustee and each Registrar, Paying Agent, Conversion Agent or co-registrar.

SECTION 12.03 COMMUNICATION BY HOLDERS WITH OTHER HOLDERS. Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar, the Paying Agent, the Conversion Agent and anyone else shall have the protection of TIA Section 312(c).

SECTION 12.04 CERTIFICATE AND OPINION AS TO CONDITIONS PRECEDENT. Upon any request or application by the Company to the

Trustee to take any action under this Indenture, the Trustee may require the Company to furnish either or both of the following:

(1) an Officers' Certificate stating that, in the opinion of the principal signer thereof, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

SECTION 12.05 STATEMENTS REQUIRED IN CERTIFICATE OR OPINION. Each Officers' Certificate or Opinion of Counsel with respect to compliance with a covenant or condition provided for in this Indenture shall include:

(1) a statement that the principal signer of such Officers' Certificate or Opinion of Counsel has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such Officers' Certificate or Opinion of Counsel are based;

(3) a statement that, in the opinion of the principal signer, he or she has made such examination or investigation as is necessary to enable such person to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement that, in the opinion of such person, such

covenant or condition has been complied with.

SECTION 12.06 SEPARABILITY CLAUSE. In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 12.07 RULES BY TRUSTEE, PAYING AGENT, CONVERSION AGENT AND REGISTRAR. The Trustee may make reasonable rules for action by or a meeting of the Securityholders. The Registrar, Conversion Agent and the Paying Agent may make reasonable rules for their functions.

SECTION 12.08 LEGAL HOLIDAY. A "Legal Holiday" is any day other than a Business Day. If any specified date (including a date for giving notice) is a Legal Holiday, the action shall be taken on the next succeeding day that is not a Legal Holiday, and to the

extent applicable no Original Issue Discount or interest, if any, shall accrue for the intervening period.

SECTION 12.09 GOVERNING LAW. THIS INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS. THE COMPANY HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY NEW YORK STATE COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK OR ANY FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, AND IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, JURISDICTION OF THE AFORESAID COURTS. THE COMPANY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

SECTION 12.10 NO RECOURSE AGAINST OTHERS. A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Securities.

SECTION 12.11 SUCCESSORS. All agreements of the Company in this Indenture and the Securities shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

SECTION 12.12 MULTIPLE ORIGINALS. The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture.

SIGNATURES

IN WITNESS WHEREOF, the undersigned, being duly authorized, have executed this Indenture on behalf of the respective parties hereto as of the date first above written.

COSTCO COMPANIES, INC.

By _____
Title:

FIRSTAR BANK OF MINNESOTA N.A.
as Trustee

By _____
Title:

EXHIBIT A

[FORM OF FACE OF NOTE]

FOR PURPOSES OF SECTIONS 1273 AND 1275 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, THE AMOUNT OF ORIGINAL ISSUE DISCOUNT WITH RESPECT TO EACH \$1,000 OF PRINCIPAL AMOUNT OF THIS SECURITY IS \$500.60. THE ISSUE DATE IS AUGUST 19, 1997, AND THE YIELD TO STATED MATURITY IS 3.50% PER ANNUM (COMPUTED ON A SEMIANNUAL BOND EQUIVALENT BASIS).

"THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB"), OR (B) IT IS NOT A U.S. PERSON, IS NOT ACQUIRING THIS NOTE FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATIONS UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT, WITHIN THE TIME PERIOD REFERRED TO UNDER RULE 144(k) (TAKING INTO ACCOUNT THE PROVISIONS OF RULE 144(d) UNDER THE SECURITIES ACT, IF APPLICABLE) UNDER THE SECURITIES ACT AS IN EFFECT ON THE DATE OF THE TRANSFER OF THIS NOTE, RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO THE COMPANY, (B) TO A PERSON WHOM THE HOLDER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT, (D) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE, AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY), (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, (F) TO AN INSTITUTIONAL INVESTOR THAT IS AN "ACCREDITED INVESTOR" WITHIN THE MEANING OF RULE 501(A) (1), (2), (3) OR (7) UNDER THE SECURITIES ACT WHICH DELIVERS A CERTIFICATE IN THE FORM OF EXHIBIT B TO THE INDENTURE TO THE INDENTURE TRUSTEE UNDER THE INDENTURE DATED AS OF AUGUST 19, 1997, BETWEEN THE COMPANY AND FIRSTAR BANK OF MINNESOTA, N.A., AS INDENTURE TRUSTEE, OR (G) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY) AND, IN EACH

CASE, IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS, AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS.

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COSTCO COMPANIES, INC.

ZERO COUPON CONVERTIBLE SUBORDINATED NOTE DUE 2017

No.

Issue Date: _____ CUSIP No. _____
Issue Price: \$ _____
Original Issue Discount: \$ _____
(for each \$1,000 Principal amount)

Costco Companies, Inc., a Delaware corporation, promises to pay to _____, or registered assigns, the Principal Amount of _____ Dollars on August 19, 2017.

This Security shall not bear interest except as specified on the other side of this Security. Original Issue Discount will accrue as specified on the other side of this Security. This Security is convertible as specified on the other side of this Security. All capitalized terms used herein without definition shall have the respective meanings assigned thereto in the Indenture referred to on the other side of this Security.

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Additional provisions of this Security are set forth on the other side of this Security.

COSTCO COMPANIES, INC.

By: _____
Title:

ATTEST:

Date: _____

TRUSTEE'S CERTIFICATE OF
AUTHENTICATION

as Trustee, certifies that this Security

is one of the Securities referred to
in the within-mentioned Indenture.

By: _____
Authorized Signatory

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[FORM OF REVERSE SIDE OF NOTE]

ZERO COUPON CONVERTIBLE SUBORDINATED NOTE DUE 2017

Unless and until it is exchanged in whole or in part for Securities in definitive form, this Security may not be transferred except as a whole by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository. Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Company or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest therein.

1. INTEREST

This Security shall not bear interest except as specified in this paragraph. If the Principal Amount hereof or any portion of such Principal Amount is not paid when due (whether upon acceleration pursuant to Section 6.02 of the Indenture, upon the date set for payment of the Redemption Price pursuant to paragraph 5 hereof, upon the date set for payment of a Purchase Price or Change of Control Purchase Price pursuant to paragraph 6 hereof or upon the Stated Maturity of this Security) or if shares of Common Stock (or cash in lieu of fractional shares) in respect of a conversion of this Security in accordance with the terms of Article 10 of the Indenture is not delivered when due, then in each such case the overdue amount shall bear interest at the rate of 3.50% per annum, compounded semiannually (to the extent that the payment of such interest shall be legally enforceable), which interest shall accrue from the date such overdue amount was due to the date payment of such amount, including interest thereon, has been made or duly provided for. All such interest shall be payable on demand.

Original Issue Discount (the difference between the Issue Price and the Principal Amount of the Security), in the period during which a Security remains outstanding, shall accrue at 3.50% per annum, on a semiannual bond equivalent basis using a 360-day year composed of twelve 30-day months, commencing on the Issue Date of this Security, and cease to accrue on the earlier of (a) the date on which the Principal Amount at Stated Maturity hereof or any portion of such

Include if Global certificate.

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Principal Amount at Stated Maturity becomes due and payable and (b) any

Redemption Date, Conversion Date, Change of Control Purchase Date, Purchase Date or other date on which such Original Issue Discount shall cease to accrue in accordance with Section 2.08 of the Indenture.

2. METHOD OF PAYMENT

Subject to the terms and conditions of the Indenture, Costco Companies, Inc. (the "Company") will make payments in respect of the Securities to the persons who are registered Holders of Securities at the close of business on the Business Day preceding the Redemption Date or Stated Maturity, as the case may be, or at the close of business on a Purchase Date, Change of Control Purchase Date or Conversion Date, as the case may be. Holders must surrender Securities to a Paying Agent to collect such payments in respect of the Securities. The Company will pay cash amounts in money of The United States of America that at the time of payment is legal tender for payment of public and private debts. However, the Company may make such cash payments in respect of a certificated Security, if applicable, by check payable in such money; provided that payment by wire transfer of immediately available funds will be required with respect to payments in respect of all Global Securities and all other Securities the Holders of which shall have provided written wire transfer instructions to the Company or the Paying Agent five days before the payment date.

3. PAYING AGENT, CONVERSION AGENT AND REGISTRAR

Initially, Firststar Bank of Minnesota, N.A., as trustee (the "Trustee"), will act as Paying Agent, Conversion Agent and Registrar. The Company may appoint and change any Paying Agent, Conversion Agent, Registrar or co-registrar, upon notice to the Trustee and the Holders. The Company or any of its Subsidiaries or any of their Affiliates may act as Paying Agent, Conversion Agent, Registrar or co-registrar.

4. INDENTURE

The Company issued the Securities under an Indenture, dated as of August 19, 1997 (the "Indenture"), between the Company and the Trustee. The terms of the Securities include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended by the Trust Indenture Reform Act of 1990, and, as in effect on the date of the Indenture (the "TIA"), except as provided in Section 9.03 of the Indenture. Capitalized terms used herein or on the face hereof and not defined herein have the meanings ascribed thereto in the Indenture. The Securities are subject to all such terms, and Securityholders are referred to the Indenture and the TIA for a statement of those terms.

The Securities are general, unsecured obligations of the Company limited to the aggregate Principal Amount specified in Section 2.02 of the Indenture (subject to Section 2.07 of the Indenture). The

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Indenture does not limit other indebtedness of the Company, secured or unsecured.

5. REDEMPTION AT THE OPTION OF THE COMPANY

No sinking fund is provided for the Securities. The Securities are redeemable as a whole, or from time to time in part, at any time at the option of the Company at the Redemption Prices set forth below, PROVIDED, that the Securities are not redeemable prior to August 19, 2002.

The table below shows the Redemption Prices of a Security per \$1,000 Principal Amount on the dates shown below and at Stated Maturity, which prices reflect accrued Original Issue Discount calculated to each such

date. The Redemption Price of a Security redeemed between such dates would include an additional amount reflecting the additional Original Issue Discount accrued from and including the next preceding date in the table through the actual Redemption Date.

REDEMPTION DATE -----	REDEMPTION PRICE -----
August 19, 2002.....	\$594.25
August 19, 2003.....	615.23
August 19, 2004.....	636.95
August 19, 2005.....	659.44
August 19, 2006.....	682.72
August 19, 2007.....	706.82
August 19, 2008.....	731.78
August 19, 2009.....	757.62
August 19, 2010.....	784.36
August 19, 2011.....	812.06
August 19, 2012.....	840.73
August 19, 2013.....	870.41
August 19, 2014.....	901.14
August 19, 2015.....	932.96
August 19, 2016.....	965.90
At maturity.....	1,000.00

6. PURCHASE BY THE COMPANY AT THE OPTION OF THE HOLDER

Subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase, at the option of the Holder, the Securities held by such Holder on the following Purchase Dates and at the following Purchase Prices per \$1,000 Principal Amount at Stated Maturity of such Securities, upon delivery of a Purchase Notice containing the information set forth in the Indenture, at any time from the opening of business on the date that is 20 Business Days prior to

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such Purchase Date until the close of business on such Purchase Date and upon delivery of the Securities to the Paying Agent by the Holder as set forth in the Indenture. Such Purchase Price (equal to the Issue Price plus accrued Original Issue Discount through such Purchase Date) may be paid, at the option of the Company, in cash or by the issuance and delivery of shares of Common Stock of the Company, or in any combination thereof.

Purchase Date -----	Purchase Price -----
August 19, 2002	\$594.25
August 19, 2007	\$706.82
August 19, 2012	\$840.73

Subject to the terms and conditions of the Indenture, if any Change of Control occurs on or prior to August 19, 2002, the Company shall, at the option of the Holder, purchase all Securities for which a Change of Control Purchase Notice shall have been delivered as provided in the Indenture and not withdrawn, on the date that is 35 Business Days after the occurrence of such Change of Control, for a Change of Control Purchase Price equal to the Issue Price, plus accrued Original Issue Discount through the Change of Control Purchase Date, which Change of Control Purchase Price shall be paid in cash.

Holder's have the right to withdraw any Purchase Notice or Change of Control Purchase Notice, as the case may be, by delivering to the Paying Agent a written notice of withdrawal in accordance with the provisions of the Indenture prior to the close of business on the Purchase Date or Change of

Control Purchase Date, as the case may be.

If cash sufficient to pay the Purchase Price or Change of Control Purchase Price of all Securities or portions thereof to be purchased as of the Purchase Date or the Change of Control Purchase Date, as the case may be, is deposited with the Paying Agent on the Business Day following the Purchase Date or the Change of Control Purchase Date, as the case may be, Original Issue Discount ceases to accrue on such Securities (or portions thereof) on and after such date, and the Holders thereof shall have no other rights as such (other than the right to receive the Purchase Price or Change of Control Purchase Price, as the case may be, upon surrender of such Security).

7. NOTICE OF REDEMPTION

Notice of redemption will be mailed at least 20 days but not more than 60 days before the Redemption Date to each Holder of Securities to be redeemed at the Holder's registered address. If money sufficient to pay the Redemption Price of all Securities (or portions thereof) to be redeemed on the Redemption Date is deposited with the Paying Agent prior to or on the Redemption Date, on and after such date Original Issue Discount ceases to accrue on such Securities or portions thereof. Securities in denominations larger than \$1,000 of Principal Amount may

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be redeemed in part but only in integral multiples of \$1,000 of Principal Amount.

8. CONVERSION

Subject to the next two succeeding sentences, a Holder of a Security may convert it into Common Stock of the Company at any time before the close of business on August 19, 2017; PROVIDED, HOWEVER, that if a Security is called for redemption, the Holder may convert it at any time before the close of business on the date that is seven days prior to the Redemption Date. The number of shares of Common Stock to be delivered upon conversion of a Security into Common Stock per \$1,000 of Principal Amount shall be equal to the Conversion Rate. A Security in respect of which a Holder has delivered a Purchase Notice or Change of Control Purchase Notice exercising the option of such Holder to require the Company to purchase such Security may be converted only if the notice of exercise is withdrawn in accordance with the terms of the Indenture.

The initial Conversion Rate is 11.3545 shares of Common Stock per \$1,000 Principal Amount, subject to adjustment in certain events described in the Indenture. The Company will deliver cash or a check in lieu of any fractional share of Common Stock.

To convert a Security a Holder must (i) complete and manually sign the conversion notice on the back of the Security (or complete and manually sign a facsimile of such notice) and deliver such notice to the Conversion Agent (or the office or agency referred to in Section 4.05 of the Indenture), (ii) furnish appropriate endorsements and transfer documents if required by the Conversion Agent, the Company or the Trustee and (iii) pay any transfer or similar tax, if required.

If the Holder converts more than one Security at the same time, the number of shares of Common Stock issuable upon the conversion shall be based on the total Principal Amount of the Securities converted.

A Holder may convert a portion of a Security if the Principal Amount of such portion is \$1,000 or an integral multiple of \$1,000. No payment or adjustment will be made for dividends on the Common Stock, except as provided in the Indenture. On conversion of a Security, that portion of accrued Original Issue Discount attributable to the period from the Issue Date to the Conversion Date with respect to the converted Security shall not be

cancelled, extinguished or forfeited, but rather shall be deemed paid in full to the Holder thereof through the delivery of the Common Stock in exchange for the Security being converted pursuant to the terms hereof, and the fair market value of such Common Stock (together with any cash payment in lieu of fractional shares of Common Stock) shall be treated as issued, to the extent thereof, first in exchange for Original Issue Discount accrued through the Conversion Date, and the balance, if any, of such fair market value of such shares of Common Stock (and any such cash payment) shall be

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treated as issued in exchange for the Issue Price of the Security being converted pursuant to the provisions hereof.

The Conversion Rate will be adjusted for dividends or distributions on Common Stock payable in Common Stock or other Capital Stock; subdivisions, combinations or certain reclassifications of Common Stock; distributions to all holders of Common Stock of certain rights to purchase Common Stock for a period expiring within 60 days at less than the Market Price at the Time of Determination; and distributions to such holders of assets or debt securities of the Company or certain rights to purchase securities of the Company (excluding certain cash dividends or distributions). However, no adjustment need be made if Securityholders may participate in the transaction or in certain other cases. The Company from time to time may voluntarily increase the Conversion Rate.

If the Company is a party to a consolidation, merger or binding share exchange of the type specified in the Indenture, or certain transfers of all or substantially all of its assets to another person, or in certain other circumstances described in the Indenture, the right to convert a Security into Common Stock may be changed into a right to convert it into securities, cash or other assets of the Company or another person.

9. CONVERSION ARRANGEMENT ON CALL FOR REDEMPTION

Any Securities called for redemption, unless surrendered for conversion before the Redemption Date, may be deemed to be purchased from the Holders of such Securities at an amount not less than the Redemption Price, together with accrued interest if any, to the Redemption Date, by one or more investment bankers or other purchasers who may agree with the Company to purchase such Securities from the Holders and to make payment for such Securities to the Trustee in trust for such Holders.

10. DENOMINATIONS; TRANSFER; EXCHANGE

The Securities are in fully registered form, without coupons, in denominations of \$1,000 of Principal Amount and integral multiples of \$1,000. A Holder may transfer or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not transfer or exchange any Securities selected for redemption (except, in the case of a Security to be redeemed in part, the portion of the Security not to be redeemed) or any Securities in respect of which a Purchase Notice or Change of Control Purchase Notice has been given and not withdrawn (except, in the case of a Security to be purchased in part, the portion of the Security not to be purchased) or any Securities for a period of 15 days before a selection of Securities to be redeemed.

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11. PERSONS DEEMED OWNERS

The registered Holder of this Security may be treated as the owner of this Security for all purposes.

12. UNCLAIMED MONEY OR SECURITIES

The Trustee and the Paying Agent shall return to the Company upon written request any money or securities held by them for the payment of any amount with respect to the Securities that remains unclaimed for two years, PROVIDED, HOWEVER, that at the Company's request, the Trustee or such Paying Agent, before being required to make any such return, shall at the expense of the Company cause to be published once in THE WALL STREET JOURNAL or another newspaper of national circulation or mail to each such Holder notice that such money or securities remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication or mailing, any unclaimed money or securities then remaining will be returned to the Company. After return to the Company, Holders entitled to the money or securities must look to the Company for payment as general creditors unless an applicable abandoned property law designates another person, and the Trustee and the Paying Agent shall have no further liability with respect to such money or securities for that period commencing after the return thereof.

13. AMENDMENT; WAIVER

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Securities may be amended with the written consent of the Holders of at least a majority in aggregate Principal Amount of the Securities at the time outstanding and (ii) certain defaults or noncompliance with certain provisions may be waived with the written consent of the Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding. Subject to certain exceptions set forth in the Indenture, without the consent of any Securityholder, the Company and the Trustee may amend the Indenture or the Securities to cure any ambiguity, defect or inconsistency, or to comply with Article 5 or Section 10.14 of the Indenture or to make any change that does not adversely affect the rights of any Securityholder.

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14. DEFAULTS AND REMEDIES

Under the Indenture, Events of Default include (i) default in payment of the Principal Amount, Issue Price, accrued Original Issue Discount, Redemption Price, Purchase Price or Change of Control Purchase Price, as the case may be, in respect of the Securities when the same becomes due and payable; (ii) failure either to deliver shares of Common Stock (or cash in lieu of fractional shares) in accordance with the terms of the Indenture when such Common Stock (or cash in lieu of fractional shares) is required to be delivered following conversion of a Security and such failure is not remedied for a period of 10 days; (iii) failure by the Company to comply with other agreements in the Indenture or the Securities, subject to notice and lapse of time; (iv) default (A) in the payment of any principal on any debt for borrowed money of the Company, in an aggregate principal amount in excess of \$10 million when due at its final maturity, or (B) in the performance of any term or provision of any debt for borrowed money of the Company in an aggregate principal amount in excess of \$10 million that results in such debt becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; or (v) certain events of bankruptcy or insolvency. If an Event of Default occurs and is continuing, the Trustee, or the Holders of at least 25% in aggregate Principal Amount of the Securities at the time outstanding, may declare all the Securities to be due and payable immediately. Certain events of bankruptcy or insolvency are Events of Default that will result in the Securities becoming due and payable immediately upon the occurrence of such Events of Default.

Securityholders may not enforce the Indenture or the Securities, except as provided in the Indenture. The Trustee may refuse to enforce the

Indenture or the Securities unless it receives reasonable indemnity or security. Subject to certain limitations, Holders of a majority in aggregate Principal Amount of the Securities at the time outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Securityholders notice of any continuing Default (except a Default in payment of amounts specified in clause (i) above) if it determines that withholding notice is in their interests.

15. TRUSTEE DEALINGS WITH THE COMPANY

Subject to certain limitations imposed by the TIA, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

16. NO RECOURSE AGAINST OTHERS

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company

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under the Securities or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

17. ADDITIONAL RIGHTS OF HOLDERS OF TRANSFER RESTRICTED SECURITIES

In addition to the rights provided to Holders of Securities under the Indenture, Holders of Securities shall have all the rights set forth in the Registration Rights Agreement.

18. SUBORDINATION

The Securities are subordinated to Senior Indebtedness (as defined in the Indenture), and all obligations of the Company with respect to the Senior Indebtedness. To the extent provided in the Indenture, Senior Indebtedness must be paid before the Securities may be paid. The Company agrees, and each Holder by accepting a Security consents and agrees, to the subordination provided in the Indenture and authorizes the Trustee to give it effect.

19. AUTHENTICATION

This Security shall not be valid until an authorized signatory of the Trustee manually signs the Certificate of Authentication on the other side of this Security.

20. ABBREVIATIONS

Customary abbreviations may be used in the name of a Securityholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with right of survivorship and not as tenants in common) and CUST (=custodian), and UNIF TRANS MIN ACT (=Uniform Transfers to Minors Act).

21. GOVERNING LAW

THE INDENTURE AND THIS SECURITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND TO BE PERFORMED WITHIN THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS. THE COMPANY HEREBY IRREVOCABLY SUBMITS TO

THE JURISDICTION OF ANY NEW YORK STATE COURT SITTING IN THE BOROUGH OF
MANHATTAN IN THE CITY OF NEW YORK OR

This certificate shall be included only for the Transfer Restricted
Securities.

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ANY FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK
IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO
THIS AGREEMENT, AND IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS
PROPERTY, GENERALLY AND UNCONDITIONALLY, JURISDICTION OF THE AFORESAID
COURTS. THE COMPANY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY
EFFECTIVELY DO SO UNDER APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR
HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR
PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION
OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT
FORUM.

The Company will furnish to any Securityholder upon written request and
without charge a copy of the Indenture which has in it the text of this
Security in larger type. Requests may be made to:

Costco Companies, Inc.
999 Lake Drive
Issaquah, Washington 98027
Attn: Treasurer

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ASSIGNMENT FORM

CONVERSION NOTICE

To assign this Security, fill
in the form below:

To convert this Security into
Common Stock of the Company,
check the box:

I or we assign and transfer
this Security to

: :
: :

(Insert assignee's soc.
sec. or tax ID no.)

To convert only part of this
Security, state the Principal
Amount to be converted (which
must be \$1,000 or an integral
multiple of \$1,000):

: \$:

(Print or type assignee's
name, address and zip code)

If you want the stock
certificate made out in
another person's name, fill
in the form below:

and irrevocably appoint
_____ agent

to transfer this Security on
the books of the Company. The
agent may substitute another
to act for him.

: :

EXCHANGE FORM

(Insert person's soc.
sec. or tax ID no.)

To exchange its beneficial
interest in Global Security
held by the Depositary for a
Security or Securities in
definitive, registered form of
authorized denominations and an
aggregate principal amount equal
to its beneficial interest in
such Global Security, a Holder
should check the box

(Print or type person's name,
address and zip code)

: :
: :

Date: _____ Your Signature: _____ *

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(Sign exactly as your name appears on the other side of this Security)

* Your signature must be guaranteed by an "eligible guarantor institution"
meeting the requirements of the Registrar, which requirements include
membership or participation in the Security Transfer Agent Medallion Program
("STAMP") or such other "signature guarantee program" as may be determined by
the Registrar in addition to, or in substitution for, STAMP, all in
accordance with the Securities Exchange Act of 1934, as amended.

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SCHEDULE OF EXCHANGES OF DEFINITIVE SECURITIES***

The following exchanges of a part of this Global Security for
Definitive Securities have been made:

Date of Exchange	Amount of decrease in Principal Amount of this Global Security	Amount of increase in Principal Amount of this Global Security	Principal Amount at Maturity of this Global Security following such decrease (or increase)	Signature of authorized signatory of Trustee or Securities Custodian
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*** This schedule should only be added if the Security is issued in global form.

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CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR REGISTRATION OF TRANSFER OF SECURITIES

Re: ZERO COUPON CONVERTIBLE SUBORDINATED NOTES DUE 2017 OF COSTCO COMPANIES, INC.

This Certificate relates to \$_____ principal amount of Securities held in (check applicable box) _____ book-entry or _____ definitive form by _____ (the "Transferor").

The Transferor (check applicable box):

// has requested the Registrar by written order to deliver in exchange for its beneficial interest in the Global Security held by the Depository a Security or Securities in definitive, registered form of authorized denominations and an aggregate principal amount equal to its beneficial interest in such Global Security (or the portion thereof indicated above); or

// has requested the Registrar by written order to exchange or register the transfer of a Security or Securities.

In connection with such request and in respect of each such Security, the Transferor does hereby certify that Transferor is familiar with the Indenture relating to the above-captioned Securities and as provided in Section 2.06 of such Indenture, the transfer of this Security does not require registration under the Securities Act (as defined below) because:

// Such Security is being acquired for the Transferor's own account, without transfer (in satisfaction of Section 2.06(a)(ii)(A) or Section 2.06(d)(i)(A) of the Indenture).

// Such Security is being transferred to a "qualified institutional buyer" (within the meaning of Rule 144A promulgated under the Securities Act), that is aware that any sale of Securities to it will be made in reliance on Rule 144A under the Securities Act and that is acquiring such Transfer Restricted Security for its own account, or for the account of another such "qualified institutional buyer" (in satisfaction of Section 2.06(a)(ii)(B) or Section 2.06(d)(i)(B) of the Indenture).

// Such Security is being transferred pursuant to an exemption from registration in accordance with Rule 144, or Regulation S under the Securities Act, or pursuant to an effective registration statement under the Securities Act (in satisfaction of Section 2.06(a)(ii)(C) or Section 2.06(d)(i)(C) of the Indenture).

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// Such Security is being transferred to an institutional "accredited investor" within the meaning of subparagraph (a)(1), (2), (3) or (7) of Rule

501 under the Securities Act, that is purchasing such Security for its own account or for the account of such an institutional "accredited investor" in each case in a minimum principal amount of \$250,000, not with a view to or for offer for sale in connection with any distribution in violation of the Securities Act. A signed transferee letter of representation accompanies this Certificate (in satisfaction of Section 2.06(a)(ii)(D) or Section 2.06(d)(i)(D) of the Indenture)

[INSERT NAME OF TRANSFEROR]

By: _____

Date: _____

ZERO COUPON CONVERTIBLE SUBORDINATED NOTES DUE 2017

REGISTRATION RIGHTS AGREEMENT

DATED AS OF AUGUST 19, 1997

BY AND AMONG

COSTCO COMPANIES INC.
AS THE COMPANY,

AND

DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION

AND

J. P. MORGAN & CO.

AS PURCHASERS

This Registration Rights Agreement is made and entered into as of August 19, 1997, by and among Costco Companies, Inc., a Delaware corporation (the "Company"), and Donaldson, Lufkin & Jenrette Securities Corporation and J. P. Morgan & Co. (the "Purchasers").

This Agreement is made pursuant to the Purchase Agreement, dated August 14, 1997, among the Company and the Purchasers (the "Purchase Agreement"). In order to induce the Purchasers to enter into the Purchase Agreement, the Company has agreed to provide the registration rights provided for in this Agreement to the Purchasers and their respective direct and indirect transferees. The execution of this Agreement is a condition to the closing of the transactions contemplated by the Purchase Agreement.

The parties hereby agree as follows:

1. DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings:

ADVICE: As defined in the last paragraph of Section 4(q) hereof.

AFFILIATE of any specified person shall mean any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition, "control," when used with respect to any person, means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "affiliated," "controlling" and "controlled" have meanings correlative to the foregoing.

AGREEMENT: This Registration Rights Agreement, as the same may be amended, supplemented or modified from time to time in accordance with the terms hereof.

BUSINESS DAY: Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York, New York are authorized or obligated by law or executive order to close.

CLOSING DATE: The Closing Date as defined in the Purchase Agreement.

COMMON STOCK: Common Stock, \$.01 par value per share, of the Company.

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COMPANY: Costco Companies, Inc., a Delaware corporation, and any successor corporation thereto.

CONTROLLING PERSON: As defined in Section 6(a) hereof.

DAMAGE PAYMENT DATE: Each September 1 and March 1 as long as this Agreement is in effect.

EFFECTIVENESS PERIOD: As defined in Section 2(a) hereof.

EFFECTIVENESS TARGET DATE: The 180th day following the Closing Date.

EXCHANGE ACT: The Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the SEC pursuant thereto.

FILING DATE: The 90th day after the Closing Date.

HOLDER: Each registered holder of any Transfer Restricted Securities.

INDEMNIFIED PERSON: As defined in Section 6(a) hereof.

INDENTURE: The Indenture, dated the date hereof, between the Company and the Trustee thereunder, pursuant to which the Notes are being issued, as amended, modified or supplemented from time to time in accordance with the terms thereof.

LIQUIDATED DAMAGES: As defined in Section 3(a) hereof.

NOTES: The up to \$900,000,000 aggregate principal amount at maturity of Zero Coupon Convertible Subordinated Notes due 2017 of the Company being issued pursuant to the Purchase Agreement.

PAYING AGENT: As defined in the Indenture.

PROCEEDING: An action, claim, suit or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

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PROSPECTUS: The prospectus included in any Registration Statement (including, without limitation, a prospectus that discloses information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated pursuant to the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Transfer Restricted Securities covered by such Registration Statement, and all other amendments and supplements to any such prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference, if any, in such prospectus.

PURCHASERS: As defined in the preamble hereof.

REGISTRATION DEFAULT: As defined in Section 3(a) hereof.

REGISTRATION STATEMENT: Any registration statement of the Company that covers any of the Notes pursuant to the provisions of this Agreement, including the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference, if any, in such registration statement.

RULE 144: Rule 144 promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC as a replacement thereto having substantially the same effect as such Rule.

RULE 144A: Rule 144A promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC as a replacement thereto having substantially the same effect as such Rule.

RULE 158: Rule 158 promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC as a replacement thereto having substantially the same effect as such Rule.

RULE 174: Rule 174 promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC as a replacement thereto having substantially the same effect as such Rule.

RULE 415: Rule 415 promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC as a replacement thereto having substantially the same effect as such Rule.

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RULE 424: Rule 424 promulgated by the SEC pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC as a replacement thereto having substantially the same effect as such Rule.

SEC: The Securities and Exchange Commission.

SECURITIES ACT: The Securities Act of 1933, as amended, and the rules and regulations promulgated by the SEC thereunder.

SHELF REGISTRATION: As defined in Section 2 hereof.

SPECIAL COUNSEL: Any special counsel to the holders of Transfer Restricted Securities, for which holders of Transfer Restricted Securities will be reimbursed pursuant to Section 5 hereof.

TIA: The Trust Indenture Act of 1939, as amended.

TRANSFER RESTRICTED SECURITIES: The Notes and the shares of Common Stock into which the Notes are convertible, upon original issuance thereof, and at all times subsequent thereto, until, in the case of any such Note or share, (i) the date on which it has been registered effectively pursuant to the Securities Act and disposed of in accordance with the Registration Statement relating to it, (ii) the date on which either such Note or the shares of Common Stock issued upon conversion of such Note are distributed to the public pursuant to Rule 144 (or any similar provisions then in effect) or are saleable pursuant to Rule 144(k) promulgated by the SEC pursuant to the Securities Act or (iii) the date on which it ceases to be outstanding.

TRUSTEE: The Firststar Bank of Minnesota, N.A., the trustee under the Indenture.

UNDERWRITTEN REGISTRATION OR UNDERWRITTEN OFFERING: A registration in connection with which securities of the Company are sold to an underwriter for reoffering to the public pursuant to an effective Registration Statement.

2. SHELF REGISTRATION

(a) The Company agrees to file with the SEC as soon as practicable after the Closing Date, but in no event later than the Filing Date, a Registration Statement for an offering to be made on a continuous basis pursuant to Rule 415 covering all of the Transfer Restricted Securities (the "Shelf Registration"). The Shelf Registration shall be on Form S-3

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under the Securities Act or another appropriate form permitting registration of such Transfer Restricted Securities for resale by the Holders in the manner or manners reasonably designated by them (including, without limitation, one or more underwritten offerings). The Company shall not permit any securities other than the Transfer Restricted Securities to be included in the Shelf Registration. The Company shall use its reasonable best efforts, as described in Section 4, to cause the Shelf Registration to be declared effective pursuant to the Securities Act as promptly as practicable following the filing thereof, but in no event later than the Effectiveness Target Date, and to keep the Shelf Registration continuously effective under the Securities Act for 24 months after the Closing Date (subject to extension pursuant to the last paragraph of Section 4(q) hereof) (the "Effectiveness Period"), or such shorter period ending when either (1) all Transfer Restricted Securities covered by the Shelf Registration have been sold in the manner set forth and as contemplated in the Shelf Registration or (2) there cease to be outstanding any Transfer Restricted Securities.

(b) SUPPLEMENTS AND AMENDMENTS. The Company shall use its reasonable best efforts to keep the Shelf Registration continuously effective by supplementing and amending the Shelf Registration if required by the rules, regulations or instructions applicable to the registration form used for such Shelf Registration, if required by the Securities Act, or if reasonably requested by the holders of a majority in amount of the Transfer Restricted Securities covered by such Registration Statement or by any underwriter of such Transfer Restricted Securities; PROVIDED that the Effectiveness Period shall be extended to the extent required to permit dealers to comply with the applicable prospectus delivery requirements of Rule 174 and as otherwise provided herein.

3. LIQUIDATED DAMAGES

(a) The Company and the Purchasers agree that the Holders of Transfer Restricted Securities will suffer damages if the Company fails to fulfill its obligations pursuant to Section 2 hereof and that it would not be possible to ascertain the extent of such damages. Accordingly, in the event of such failure by the Company to fulfill such obligations, the Company hereby agrees to pay liquidated damages ("Liquidated Damages") to each Holder of Transfer Restricted Securities under the circumstances and to the extent set forth below:

(i) if the Shelf Registration has not been filed with the SEC on or prior to the Filing Date; or

(ii) if the Shelf Registration is not declared effective by the SEC on or prior to the Effectiveness Target Date; or

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(iii) the Shelf Registration has been declared effective by the SEC and such Shelf Registration ceases to be effective or usable

at any time during the Effectiveness Period for a period of time which shall exceed 90 days in the aggregate during any 12-month period.

(any of the foregoing, a "Registration Default") then the Company shall pay Liquidated Damages in cash to each Holder of Transfer Restricted Securities following the occurrence of such Registration Default in an amount equal to \$.02 per week per \$1,000 principal amount of Notes and, if applicable, \$.005 per week per share (subject to adjustment in the event of stock splits, stock recombinations, stock dividends and the like) of Common Stock constituting Transfer Restricted Securities held by such Holder for each week or portion thereof that the Registration Default continues. The amount of such Liquidated Damages will increase by an additional \$.02 per week per \$1,000 principal amount at maturity of Notes and \$.005 per week per share (subject to adjustment as set forth above) of Common Stock constituting Transfer Restricted Securities for each subsequent 90-day period until all Registration Defaults have been cured; PROVIDED, HOWEVER, that Liquidated Damages shall not at any time exceed \$.10 per week per \$1,000 principal amount at maturity of Notes or \$.025 per week per share (subject to adjustment as set forth above) of Common Stock constituting Transfer Restricted Securities. Following the cure of all Registration Defaults relating to any Transfer Restricted Securities, the accrual of Liquidated Damages with respect to such Transfer Restricted Securities will cease. A Registration Default under clause (i) above shall be cured on the date that the Shelf Registration is filed with the SEC; a Registration Default under clause (ii) above shall be cured on the date that the Shelf Registration is declared effective by the SEC; and a Registration Default under clause (iii) above shall be cured on the date the Shelf Registration is declared effective or is usable.

(b) The Company shall notify the Trustee within one Business Day after each and every date on which a Registration Default occurs. Liquidated Damages shall be paid by the Company to the Holders by wire transfer of immediately available funds to the accounts specified by them or by mailing checks to their registered addresses if no such accounts have been specified on or before the Damage Payment Date. Each obligation to pay Liquidated Damages shall be deemed to commence accruing on the date of the applicable Registration Default and to cease accruing when all Registration Defaults have been cured. In no event shall the Company pay Liquidated Damages in excess of the applicable maximum weekly amount set forth above, regardless of whether one or multiple Registration Defaults exist.

4. REGISTRATION PROCEDURES

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In connection with the Company's registration obligations hereunder, the Company shall effect such registrations on the appropriate form available for the sale of the Transfer Restricted Securities to permit the sale of Transfer Restricted Securities in accordance with the method or methods of disposition thereof specified by the holders of a majority in amount of Transfer Restricted Securities, and pursuant thereto the Company shall as expeditiously as possible:

(a) No fewer than five Business Days prior to the initial filing of a Registration Statement or Prospectus and no fewer than two Business Days prior to the filing of any amendment or supplement thereto (other than any document that would be incorporated or deemed to be incorporated therein by reference), furnish to the Holders of the Transfer Restricted Securities, their Special Counsel and the managing underwriters, if any, copies of all such documents proposed to be filed, which documents (other than those incorporated or deemed to be incorporated by reference) will be subject to the review of such Holders, their Special Counsel and such underwriters, if any, and cause the officers and directors of the Company, counsel to the Company and independent certified public accountants to the Company to respond to such inquiries as shall be necessary in connection with such Registration Statement, in the opinion of respective counsel to such Holders and such underwriters, to conduct a reasonable investigation within the meaning of the Securities Act; PROVIDED, HOWEVER, that the Company shall not be deemed to have kept a Registration

Statement effective during the applicable period if it voluntarily takes or fails to take any action that results in selling Holders of the Transfer Restricted Securities covered thereby not being able to sell such Transfer Restricted Securities pursuant to Federal securities laws during that period (and the time period during which such Registration Statement is required to remain effective hereunder shall be extended by the number of days during which such selling Holders of Transfer Restricted Securities are not able to sell Transfer Restricted Securities). The Company shall not file any such Registration Statement or related Prospectus or any amendments or supplements thereto to which the Holders of a majority of the Transfer Restricted Securities, their Special Counsel, or the managing underwriters, if any, shall reasonably object on a timely basis;

(b) Prepare and file with the SEC such amendments, including post-effective amendments, to each Registration Statement as may be necessary to keep such Registration Statement continuously effective for the applicable time period; cause the related Prospectus to be supplemented by any required Prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 (or any similar provisions then in force) under the Securities Act; and comply with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all securities covered by such Registration Statement during such period in

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accordance with the intended methods of disposition by the sellers thereof set forth in such Registration Statement as so amended or in such Prospectus as so supplemented;

(c) Notify the Holders of Transfer Restricted Securities to be sold or their Special Counsel and the managing underwriters, if any, promptly (and in the case of an event specified by clause (i)(A) of this paragraph in no event fewer than two Business Days prior to such filing), and (if requested by any such person), confirm such notice in writing, (i)(A) when a Prospectus or any Prospectus supplement or post-effective amendment is proposed to be filed, and, (B) with respect to a Registration Statement or any post-effective amendment, when the same has become effective, (ii) of any request by the SEC or any other Federal or state governmental authority for amendments or supplements to a Registration Statement or related Prospectus or for additional information, (iii) of the issuance by the SEC, any state securities commission, any other governmental agency or any court of any stop order, order or injunction suspending or enjoining the use or the effectiveness of a Registration Statement or the initiation of any proceedings for that purpose, (iv) if at any time any of the representations and warranties of the Company contained in any agreement (including any underwriting agreement) contemplated by Section 4(m) hereof cease to be true and correct in all material respects, (v) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Transfer Restricted Securities for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose, and (vi) of the happening of any event that makes any statement made in such Registration Statement or related Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires the making of any changes in such Registration Statement, Prospectus or documents so that, in the case of the Registration Statement, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, not misleading, and that in the case of the Prospectus, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(d) Use its reasonable best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of any order enjoining or suspending the use or effectiveness of a Registration Statement or the lifting of any suspension of the qualification (or exemption from qualification) of any of the Transfer

Restricted Securities for sale in any jurisdiction, at the earliest practicable moment;

(e) If requested by the managing underwriters, if any, or the Holders of a majority in amount of the Transfer Restricted Securities being sold in connection with such

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offering, (i) promptly incorporate in a Prospectus supplement or post-effective amendment such information as the managing underwriters, if any, and such Holders agree should be included therein, and (ii) make all required filings of such Prospectus supplement or such post-effective amendment as soon as practicable after the Company has received notification of the matters to be incorporated in such Prospectus supplement or post-effective amendment; PROVIDED, HOWEVER, that the Company shall not be required to take any action pursuant to this Section 4(e) that would, in the opinion of counsel for the Company, violate applicable law;

(f) Furnish to each Holder of Transfer Restricted Securities, their Special Counsel and each managing underwriter, if any, without charge, at least one conformed copy of each Registration Statement and each amendment thereto, including financial statements (but excluding schedules, all documents incorporated or deemed to be incorporated therein by reference and all exhibits, unless requested in writing by such Holder, counsel or managing underwriter);

(g) Deliver to each Holder of Transfer Restricted Securities, their Special Counsel, and the underwriters, if any, without charge, as many copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as such persons reasonably request; and the Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders of Transfer Restricted Securities and the underwriters, if any, in connection with the offering and sale of the Transfer Restricted Securities covered by such Prospectus and any amendment or supplement thereto;

(h) Prior to any public offering of Transfer Restricted Securities, use its reasonable best efforts to register or qualify or cooperate with the Holders of Transfer Restricted Securities to be sold or tendered for, the underwriters, if any, and their respective counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Transfer Restricted Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any Holder or underwriter reasonably requests in writing; keep each such registration or qualification (or exemption therefrom) effective during the period such Registration Statement is required to be kept effective and do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Transfer Restricted Securities covered by the applicable Registration Statement; PROVIDED, HOWEVER, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to take any action that would subject it to general service of process in any such jurisdiction where it is not then so subject or subject the Company to any tax in any such jurisdiction where it is not then so subject;

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(i) In connection with any sale or transfer of Transfer Restricted Securities that will result in such securities no longer being Transfer Restricted Securities, cooperate with the Holders and the managing underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Transfer Restricted Securities to be sold, which certificates shall not bear any restrictive legends and shall be in a form

eligible for deposit with The Depository Trust Company and to enable such Transfer Restricted Securities to be in such denominations and registered in such names as the managing underwriters, if any, or Holders may request at least two Business Days prior to any sale of Transfer Restricted Securities;

(j) Use its reasonable best efforts to cause the offering of the Transfer Restricted Securities covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities within the United States, except as may be required as a consequence of the nature of such selling Holder's business, in which case the Company will cooperate in all reasonable respects with the filing of such Registration Statement and the granting of such approvals as may be necessary to enable the seller or sellers thereof or the underwriters, if any, to consummate the disposition of such Transfer Restricted Securities; PROVIDED, HOWEVER, that the Company shall not be required to register the Transfer Restricted Securities in any jurisdiction that would subject it to general service of process in any such jurisdiction where it is not then so subject or subject the Company to any tax in any such jurisdiction where it is not then so subject or to require the Company to qualify to do business in any jurisdiction where it is not then so qualified;

(k) Upon the occurrence of any event contemplated by Section 4(c)(vi) hereof, as promptly as practicable, prepare a supplement or amendment, including, if appropriate, a post-effective amendment, to each Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, such Prospectus will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(l) Prior to the effective date of the first Registration Statement relating to the Transfer Restricted Securities, to provide a CUSIP number for the Transfer Restricted Securities;

(m) Enter into such agreements (including an underwriting agreement in form, scope and substance as is customary in underwritten offerings) and take all such other reasonable actions in connection therewith (including those reasonably requested by the

managing underwriters, if any, or the Holders of a majority in amount of the Transfer Restricted Securities being sold) in order to expedite or facilitate the disposition of such Transfer Restricted Securities, and in such connection, whether or not an underwriting agreement is entered into and whether or not the registration is an underwritten registration, (i) make such representations and warranties to the Holders of such Transfer Restricted Securities and the underwriters, if any, with respect to the business of the Company and its subsidiaries (including with respect to businesses or assets acquired or to be acquired by any of them), and the Registration Statement, Prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, in form, substance and scope as are customarily made by issuers to underwriters in underwritten offerings, and confirm the same if and when requested; (ii) obtain opinions of counsel to the Company and updates thereof (which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the managing underwriters, if any, and Special Counsel to the Holders of the Transfer Restricted Securities being sold), addressed to each selling Holder of Transfer Restricted Securities and each of the underwriters, if any, covering the matters customarily covered in opinions requested in underwritten offerings and such other matters as may be reasonably requested by such Special Counsel and underwriters; (iii) obtain customary "cold comfort" letters and updates thereof from the independent certified public accountants of the Company (and, if necessary, any other independent

certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements and financial data is, or is required to be, included in the Registration Statement), addressed (where reasonably possible) to each selling Holder of Transfer Restricted Securities and each of the underwriters, if any, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters in connection with underwritten offerings; (iv) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures no less favorable to the selling Holders of Transfer Restricted Securities and the underwriters, if any, than those set forth in Section 6 hereof (or such other provisions and procedures acceptable to Holders of a majority in amount of the Transfer Restricted Securities covered by such Registration Statement and the managing underwriters); and (v) deliver such documents and certificates as may be reasonably requested by the Holders of a majority in amount of the Transfer Restricted Securities being sold, their Special Counsel and the managing underwriters, if any, to evidence the continued validity of the representations and warranties made pursuant to clause (i) of this Section 4(m) and to evidence compliance with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company;

(n) Make available for inspection by a representative of the Holders of Transfer Restricted Securities being sold, any underwriter participating in any such disposition of Transfer Restricted Securities, if any, and any attorney, consultant or accountant retained

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by such selling Holders or underwriter, at the offices where normally kept, during reasonable business hours, all financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries as they may reasonably request (including with respect to business and assets acquired or to be acquired to the extent that such information is available to the Company), and cause the officers, directors, agents and employees of the Company and its subsidiaries (including with respect to business and assets acquired or to be acquired to the extent that such information is available to the Company) to supply all information in each case reasonably requested by any such representative, underwriter, attorney, consultant or accountant in connection with such Registration Statement, PROVIDED, HOWEVER, that such persons shall first agree in writing with the Company that any information that is reasonably and in good faith designated by the Company in writing as confidential at the time of delivery of such information shall be kept confidential by such persons, unless (i) disclosure of such information is required by court or administrative order or is necessary to respond to inquiries of regulatory authorities, (ii) disclosure of such information is required by law (including any disclosure requirements pursuant to Federal securities laws in connection with the filing of any Registration Statement or the use of any prospectus referred to in this Agreement), (iii) such information becomes generally available to the public other than as a result of a disclosure or failure to safeguard by any such person or (iv) such information becomes available to any such person from a source other than the Company and such source is not bound by a confidentiality agreement;

(o) Provide an indenture trustee for the Transfer Restricted Securities, if applicable, and cause the Indenture to be qualified under the TIA not later than the effective date of the first Registration Statement relating to the Transfer Restricted Securities; and in connection therewith, cooperate with the trustee under the Indenture and the holders of the Transfer Restricted Securities to effect such changes to the Indenture as may be required for such Indenture to be so qualified in accordance with the terms of the TIA; and execute, and use its reasonable best efforts to cause such trustee to execute, all customary documents as may be required to effect such changes, and all other forms and documents required to be filed with the SEC to enable the Indenture to be so qualified in a timely manner;

(p) Comply with applicable rules and regulations of the SEC and

make generally available to its security holders earning statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any similar rule promulgated under the Securities Act), no later than 45 days after the end of any 12-month period (or 90 days after the end of any 12-month period if such period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Transfer Restricted Securities are sold to underwriters in a firm commitment or reasonable efforts underwritten offering and (ii) if not sold to underwriters in such an offering, commencing on the first day of the first fiscal quarter after

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the effective date of a Registration Statement, which statement shall cover said period, consistent with the requirements of Rule 158; and

(q) (i) list all Common Stock covered by such Registration Statement on any securities exchange on which the Common Stock is then listed or (ii) authorize for quotation on the National Association of Securities Dealers Automated Quotation System ("NASDAQ") or the National Market System of NASDAQ all Common Stock covered by such Registration Statement if the Common Stock is then so authorized for quotation.

The Company may require each seller of Transfer Restricted Securities as to which any registration is being effected to furnish to the Company such information regarding the distribution of such Transfer Restricted Securities as is required by law to be disclosed in the applicable Registration Statement and the Company may exclude from such registration the Transfer Restricted Securities of any seller who unreasonably fails to furnish such information within a reasonable time after receiving such request.

If any such Registration Statement refers to any Holder by name or otherwise as the holder of any securities of the Company, then such Holder shall have the right to require (i) the insertion therein of language, in form and substance reasonably satisfactory to such Holder, to the effect that the holding by such Holder of such securities is not to be construed as a recommendation by such Holder of the investment quality of the Company's securities covered thereby and that such holding does not imply that such Holder will assist in meeting any future financial requirements of the Company, or (ii) in the event that such reference to such Holder by name or otherwise is not required by the Securities Act or any similar Federal statute then in force, the deletion of the reference to such Holder in any amendment or supplement to the Registration Statement filed or prepared subsequent to the time that such reference ceases to be required.

Each Holder of Transfer Restricted Securities agrees by acquisition of such Transfer Restricted Securities that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 4(c)(ii), 4(c)(iii), 4(c)(v) or 4(c)(vi) hereof, such Holder will forthwith discontinue disposition of such Transfer Restricted Securities covered by such Registration Statement or Prospectus until such Holder's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 4(k) hereof, or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus. If the Company shall give any such notice, the Effectiveness Period shall be extended by the number of days during such period from and including the date of the giving

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of such notice to and including the date when each seller of Transfer Restricted Securities covered by such Registration Statement shall have

received (x) the copies of the supplemented or amended Prospectus contemplated by Section 4(k) hereof or (y) the Advice, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus.

5. REGISTRATION EXPENSES

(a) All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by it whether or not any Registration Statement is filed or becomes effective and whether or not any securities are issued or sold pursuant to any Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with the National Association of Securities Dealers, Inc. and (B) in compliance with securities or Blue Sky laws (including, without limitation and in addition to that provided for in (b) below, fees and disbursements of counsel for the underwriters or Special Counsel for the Holders in connection with Blue Sky qualifications of the Transfer Restricted Securities and determination of the eligibility of the Transfer Restricted Securities for investment under the laws of such jurisdictions as the managing underwriters, if any, or Holders of a majority in amount of Transfer Restricted Securities may designate)), (ii) printing expenses (including, without limitation, expenses of printing certificates for Transfer Restricted Securities in a form eligible for deposit with The Depository Trust Company and of printing Prospectuses if the printing of Prospectuses is requested by the managing underwriters, if any, or by the Holders of a majority in amount of the Transfer Restricted Securities included in or tendered for in connection with any Registration Statement), (iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of counsel for the Company and Special Counsel for the Holders (plus any local counsel, deemed appropriate by the Holders of a majority in amount of the Transfer Restricted Securities), in accordance with the provisions of Section 5(b) hereof, (v) fees and disbursements of all independent certified public accountants referred to in Section 4(m)(iii) (including, without limitation, the expenses of any special audit and "cold comfort" letters required by or incident to such performance), (vi) Securities Act liability insurance, if the Company so desires such insurance, and (vii) fees and expenses of all other persons retained by the Company. In addition, the Company shall pay its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit, and the fees and expenses incurred in connection with the listing of the securities to be registered on any securities exchange. Notwithstanding the foregoing or anything in this Agreement to the contrary, each Holder

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shall pay all underwriting discounts and commissions of any underwriters with respect to any Transfer Restricted Securities sold by it.

(b) In connection with any registration hereunder, the Company shall reimburse the Holders of the Transfer Restricted Securities being registered or tendered for in such registration for the reasonable fees and disbursements of not more than one firm of attorneys representing the selling Holders (in addition to any local counsel), which firm shall be chosen by the Holders of a majority in amount of the Transfer Restricted Securities.

6. INDEMNIFICATION

(a) The Company agrees to indemnify and hold harmless (i) each of the Purchasers, (ii) each Holder of Transfer Restricted Securities, (iii) each person, if any, who controls (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) any of the foregoing (any of the persons referred to in this clause (iii) being hereinafter referred to as a "controlling person"), and (iv) the respective officers, directors,

partners, employees, representatives and agents of the Purchasers, each Holder of Transfer Restricted Securities, or any controlling person (any person referred to in clause (i), (ii), (iii) or (iv) may hereinafter be referred to as an "INDEMNIFIED PERSON"), from and against any and all losses, claims, damages, liabilities and judgments caused by any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement, Prospectus or form of Prospectus or in any amendment or supplement thereto or in any preliminary Prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of Prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except insofar as such losses, claims, damages, liabilities or judgments are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to any Indemnified Person furnished in writing to the Company by or on behalf of such Indemnified Person expressly for use therein; PROVIDED that the foregoing indemnity with respect to any preliminary Prospectus shall not inure to the benefit of any Indemnified Person from whom the person asserting such losses, claims, damages, liabilities and judgments purchased securities if such untrue statement or omission or alleged untrue statement or omission made in such preliminary Prospectus is eliminated or remedied in the Prospectus and a copy of the Prospectus shall not have been furnished to such person in a timely manner due to the wrongful action or wrongful inaction of such Indemnified Person.

(b) In case any action shall be brought against any Indemnified Person, based upon any Registration Statement or any such Prospectus or any amendment or

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supplement thereto and with respect to which indemnity may be sought against the Company, such Indemnified Person shall promptly notify the Company in writing and the Company shall assume the defense thereof, including the employment of counsel reasonably satisfactory to such Indemnified Person and payment of all fees and expenses. Any Indemnified Person shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person, unless (i) the employment of such counsel shall have been specifically authorized in writing by the Company, (ii) the Company shall have failed to assume the defense and employ counsel or (iii) the named parties to any such action (including any impleaded parties) include both such Indemnified Person and the Company and such Indemnified Person shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the Company (in which case the Company shall not have the right to assume the defense of such action on behalf of such Indemnified Person, it being understood, however, that the Company shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) for all such Indemnified Persons, which firm shall be designated in writing by such Indemnified Persons, and that all such fees and expenses shall be reimbursed as they are incurred). The Company shall not be liable for any settlement of any such action effected without its written consent but if settled with the written consent of the Company, the Company agrees to indemnify and hold harmless any Indemnified Person from and against any loss or liability by reason of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(c) In connection with any Registration Statement in which a Holder of Transfer Restricted Securities is participating, such Holder of Transfer Restricted Securities agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers and any person controlling the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, to the same extent as the foregoing indemnity from the Company to each Indemnified Person but only with reference to information relating to such Indemnified Person furnished in writing by or on behalf of such Indemnified Person expressly for use in such Registration Statement. In case any action shall be brought against the Company, any of its directors, any such officer or any person controlling the Company based on such Registration Statement and in respect of which indemnity may be sought against any

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Indemnified Person, the Indemnified Person shall have the rights and duties given to the Company (except that if the Company shall have assumed the defense thereof, such Indemnified Person shall not be required to do so, but may employ separate counsel therein and participate in defense thereof but the fees and expenses of such counsel shall be at the expense of such Indemnified Person), and the Company, its directors, any such officers and any person controlling the Company shall have the rights and duties given to the Indemnified Person, by Section 6(b) hereof.

(d) If the indemnification provided for in this Section 6 is unavailable to an indemnified party in respect of any losses, claims, damages, liabilities or judgments referred to therein, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities and judgments (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and each Indemnified Person on the other hand from the offering of the Notes or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and each such Indemnified Person in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or judgments, as well as any other relevant equitable considerations. The relative fault of the Company and each such Indemnified Person shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the Company or such Indemnified Person and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Purchasers agree that it would not be just and equitable if contribution pursuant to this Section 6(d) were determined by PRO RATA allocation (even if the Indemnified Person were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities or judgments referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 6, no Indemnified Person shall be required to contribute any amount in excess of the amount by which the total net profit received by it in connection with the sale of the Notes pursuant to this Agreement exceeds the amount of any damages which such Indemnified Person has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation

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(within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Indemnified Persons' obligations to contribute pursuant to this Section 6(d) are several in proportion to the respective amount of Notes included in any such Registration Statement by each Indemnified Person and not joint.

7. RULES 144 AND 144A

The Company shall use its best efforts to file the reports required to be filed by it under the Securities Act and the Exchange Act in a timely manner and, if at any time it is not required to file such reports but in the past had been required to or did file such reports, it will, upon the request of any holder of Transfer Restricted Securities, make available other information as required by, and so long as necessary to permit, sales of its Transfer Restricted Securities pursuant to Rule 144 and Rule 144A. Notwithstanding the foregoing, nothing in this Section 7 shall be deemed to require the Company to register any of its securities pursuant to the Exchange Act.

8. UNDERWRITTEN REGISTRATIONS

(a) If any of the Transfer Restricted Securities covered by any Shelf Registration are to be sold in an underwritten offering, the investment banker or investment bankers and manager or managers that will administer the offering will be selected by the Holders of a majority in amount of such Transfer Restricted Securities included in such offering, subject to the consent of the Company (which will not be unreasonably withheld or delayed).

No person may participate in any underwritten registration hereunder unless such person (i) agrees to sell such person's Transfer Restricted Securities on the basis reasonably provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

(b) Each Holder of Transfer Restricted Securities agrees, if requested (pursuant to a timely written notice) by the managing underwriters in an underwritten offering or placement agent in a private offering of the Company's securities, not to effect any private sale or distribution (including a sale pursuant to Rule 144(k) and Rule 144A, but excluding non-public sales to any of its affiliates, officers, directors, employees and controlling persons) of any of the Notes, in the case of an offering of the Company's debt securities, or the

Common Stock, in the case of an offering of the Company's equity securities, during the period beginning 10 days prior to, and ending 90 days after, the closing date of the underwritten offering.

The foregoing provisions of Section 8(b) shall not apply to any Holder of Transfer Restricted Securities if such Holder is prevented by applicable statute or regulation from entering into any such agreement.

9. MISCELLANEOUS

(a) REMEDIES. In the event of a breach by the Company, or by a holder of Transfer Restricted Securities, of any of their obligations under this Agreement, each holder of Transfer Restricted Securities or the Company, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. The Company agrees that, in the event of any action for specific performance in respect of such breach, it shall waive the

defense that a remedy at law would be adequate.

(b) NO INCONSISTENT AGREEMENTS. The Company shall not enter into any agreement with respect to its securities that is inconsistent with the rights granted to the holders of Transfer Restricted Securities in this Agreement or otherwise conflicts with the provisions hereof. The Company is not currently a party to any agreement granting any registration rights with respect to any of its debt securities to any person. Without limiting the generality of the foregoing, without the written consent of the Holders of a majority amount of the then outstanding Transfer Restricted Securities, the Company shall not grant to any person the right to request it to register any of its debt securities under the Securities Act unless the rights so granted are subject in all respects to the prior rights of the holders of Transfer Restricted Securities set forth herein, and are not otherwise in conflict or inconsistent with the provisions of this Agreement.

(c) NO PIGGYBACK ON REGISTRATIONS. The Company shall not grant to any of its security holders (other than the Holders of Transfer Restricted Securities in such capacity) the right to include any of its securities in any Shelf Registration other than Transfer Restricted Securities.

(d) AMENDMENTS AND WAIVERS. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, without the written consent of the Holders of a majority of the then outstanding Transfer Restricted Securities (on a fully converted basis); PROVIDED, HOWEVER, that, for the purposes of this Agreement, Transfer

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Restricted Securities that are owned, directly or indirectly, by either the Company or an Affiliate of the Company are not deemed outstanding. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders of Transfer Restricted Securities whose securities are being sold pursuant to a Registration Statement and that does not directly or indirectly affect the rights of other Holders of Transfer Restricted Securities may be given by Holders of a majority of the Transfer Restricted Securities (on a fully converted basis) being sold by such Holders pursuant to such Registration Statement; PROVIDED, HOWEVER, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(e) NOTICES. All notices and other communications provided for herein shall be made in writing by hand-delivery, next-day air courier, certified first-class mail, return receipt requested, telex or telecopy:

- (i) if to the Company, as provided in the Purchase Agreement,
- (ii) if to the Purchasers, as provided in the Purchase Agreement,
or
- (iii) if to any other person who is then the registered Holder of any Transfer Restricted Securities, to the address of such Holder as it appears in the Note or Common Stock register of the Company.

Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given: when delivered by hand, if personally delivered; one Business Day after being timely delivered to a next-day air courier; five Business Days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; and when receipt is acknowledged by the recipient's telecopier machine, if telecopied.

(f) SUCCESSORS AND ASSIGNS. This Agreement shall inure to the

benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder of Transfer Restricted Securities. The Company may not assign its rights or obligations hereunder without the prior written consent of each Holder of Transfer Restricted Securities. Notwithstanding the foregoing, no transferee shall have any of the rights granted under this Agreement until such transferee shall acknowledge its rights and obligations hereunder by a signed written statement of such transferee's acceptance of such rights and obligations.

(g) COUNTERPARTS. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so

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executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement.

(h) GOVERNING LAW; SUBMISSION TO JURISDICTION.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED WITHIN THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. THE COMPANY HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY NEW YORK STATE COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK OR ANY FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, AND IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, JURISDICTION OF THE AFORESAID COURTS. THE COMPANY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(i) SEVERABILITY. The remedies provided herein are cumulative and not exclusive of any remedies provided by law. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(j) HEADINGS. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof. All references made in this Agreement to "Section" and "paragraph" refer to such Section or paragraph of this Agreement, unless expressly stated otherwise.

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(k) ATTORNEYS' FEES. In any action or proceeding brought to enforce any provision of this Agreement, or where any provision hereof is validly asserted as a defense, the prevailing party, as determined by the court, shall be entitled to recover its reasonable attorneys' fees in addition to any other available remedy.

IN WITNESS WHEREOF, the parties have caused this Registration Rights Agreement to be duly executed as of the date first written above.

COSTCO COMPANIES, INC.

By:

Name:

Title:

The foregoing Registration Rights Agreement is hereby confirmed and accepted as of the date first above written.

DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION
J. P. MORGAN & CO.

By: Donaldson, Lufkin & Jenrette
Securities Corporation

By: _____

Name: Randall L. Bort

Title: Vice President

NUMBER

SHARES

CC

COSTCO
WHOLESALE

INCORPORATED UNDER THE LAWS
OF THE STATE OF DELAWARE

SEE REVERSE FOR CERTAIN DEFINITIONS
CUSIP 22160Q 10 2

This Certifies that

SPECIMEN

is the record holder of

FULLY PAID AND NONASSESSABLE SHARES OF COMMON STOCK, \$.01 PAR VALUE, OF
COSTCO COMPANIES, INC.

transferable on the books of the Corporation by the holder hereof in person
or by duly authorized attorney upon surrender of this certificate properly
endorsed. This certificate is not valid until countersigned by the Transfer
Agent and registered by the Registra.

WITNESS the facsimile seal of the Corporation and the facsimile
signatures of its duly authorized officers.

Dated:

SPECIMEN
SECRETARY

[SEAL]

SPECIMEN
PRESIDENT AND CHIEF
EXECUTIVE OFFICER

COUNTERSIGNED AND REGISTERED:
CHASEMELLON SHAREHOLDER SERVICES, L.L.C.
TRANSFER AGENT AND REGISTRAR

BY

AUTHORIZED SIGNATURE

The Corporation shall furnish without charge to each stockholder who so
requests a statement of the powers, designations, preferences and relative,
participating, optional or other special rights of each class of stock of
the Corporation or series thereof and the qualifications, limitations or
restrictions of such preferences and/or rights. Such requests shall be made
to the Corporation's Secretary at the principal office of the Corporation.

The following abbreviations, when used in the inscription on the face of
this certificate, shall be construed as though they were written out in full
according to applicable laws or regulations:

TEN COM -- as tenants in common
TEN ENT -- as tenants by the entireties
JT TEN -- as joint tenants with right of
survivorship and not as tenants
in common

UNIF GIFT MIN ACT --Custodian.....
(Cust) (Minor)
under Uniform Gifts to Minors
Act.....
(State)

UNIF TRF MIN ACT --Custodian (until age.....)
(Cust)
.....under Uniform Transfers
(Minor)
to Minors Act.....
(State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

-----Shares
of the common stock represented by the within Certificate, and do hereby
irrevocably constitute and appoint

-----Attorney
to transfer the said stock on the books of the within named Corporation with
full power of substitution in the premises.

Dated

X

X

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST
CORRESPOND WITH THE NAME(S) AS WRITTEN
UPON THE FACE OF THE CERTIFICATE IN EVERY
PARTICULAR, WITHOUT ALTERATION OR

ENLARGEMENT OR ANY CHANGE WHATEVER.

Signature(s) Guaranteed

By

THE SIGNATURE(S) MUST BE GUARANTEED BY AN
ELIGIBLE GUARANTOR INSTITUTION (BANKS,
STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS
AND CREDIT UNIONS WITH MEMBERSHIP IN AN
APPROVED SIGNATURE GUARANTEE MEDALLION
PROGRAM). PURSUANT TO S.E.C. RULE 17Ad-15.

COSTCO COMPANIES, INC.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 (DOLLARS IN THOUSANDS)

	52 WEEKS ENDED		53 WEEKS	52 WEEKS ENDED	
	AUGUST 31, 1997	SEPTEMBER 1, 1996	SEPTEMBER 3, 1995	AUGUST 28, 1994	AUGUST 29, 1993
Earnings(1).....	\$ 520,329(5)	\$ 423,477	\$ 368,204	\$ 203,555(3)	\$ 336,463
Less: Capitalized interest.....	(4,097)	(5,612)	(3,275)	(7,170)	(9,483)
Add: Interest on debt(2).....	80,378	83,690	71,186	57,642	55,599
Portion of rent under long-term operating leases representative of an interest factor.....	32,411	33,412	32,160	26,940	23,220
Total earnings available for fixed charges.....	\$ 629,021	\$ 534,967	\$ 468,275	\$ 280,967	\$ 405,799
Fixed Charges:					
Interest on debt(2).....	\$ 80,378	\$ 83,690	\$ 71,186	\$ 57,642	\$ 55,599
Portion of rent under long-term operating leases representative of an interest factor.....	32,411	33,412	32,160	26,940	23,220
Total fixed charges.....	\$ 112,789	\$ 117,102	\$ 103,346	\$ 84,582	\$ 78,819
Ratio of earnings to fixed charges.....	5.6(6)	4.6	4.5	3.3(4)	5.2

-
- (1) Earnings represent income from continuing operations before provision for income taxes.
 - (2) Includes amortization of debt expense and capitalized interest.
 - (3) Includes provision for merger and restructuring expenses of \$120,000 pre-tax (\$80,000 or \$.36 per share after tax) related to the merger of The Price Company and Costco Wholesale Corporation in October 1993. If such provision for merger and restructuring expenses were excluded, income from continuing operations before provision for income taxes for fiscal 1994 would have been \$323,555.
 - (4) If the \$120,000 pre-tax provision for merger and restructuring expenses were excluded, the ratio of earnings to fixed charges for fiscal 1994 would have been 4.7.
 - (5) Includes the effect of adopting SFAS No. 121, a \$65,000 pre-tax charge for asset impairment. If such provision were excluded, income from continuing operations before provision for income taxes for fiscal 1997 would have been \$585,329.
 - (6) If the \$65,000 pre-tax provision for asset impairment were excluded, the ratio of earnings to fixed charges would have been 6.2.

COSTCO COMPANIES, INC.
SUBSIDIARIES

SUBSIDIARIES -----	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION -----	NAME UNDER WHICH SUBSIDIARY DOES BUSINESS -----
Costco Wholesale Corporation	Washington	Costco Wholesale Corporation, Costco Wholesale
The Price Company	California	The Price Company, Price Club, Costco Wholesale
Costco Wholesale Canada Ltd.	Canadian Federal	Costco Wholesale Canada Ltd., Costco Wholesale
Price Costco Canada Inc.	Canadian Federal	Price Costco Canada Inc., Price Costco, Costco
Price Costco Canada Holdings Inc.	Canadian Federal	Price Costco Canada Holdings Inc.

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 Costco Companies, Inc.'s previously filed Registration Statement Nos. 33-50799, 333-1127, 333-04355 and 333-21093.

ARTHUR ANDERSEN LLP

Seattle, Washington
November 7, 1997

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