

***Annual
Report
2000***



YEAR ENDED SEPTEMBER 3, 2000

2000

THE COMPANY

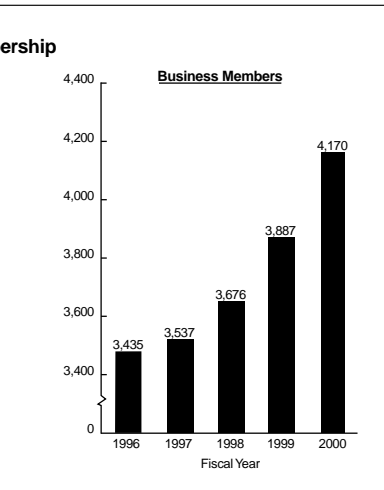
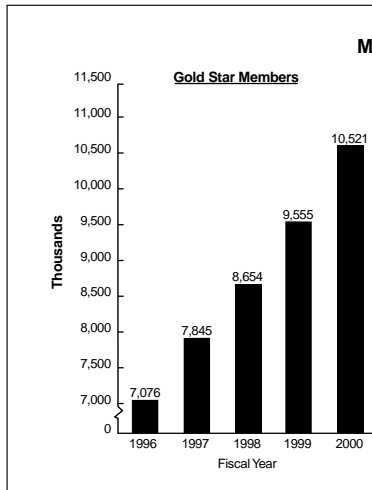
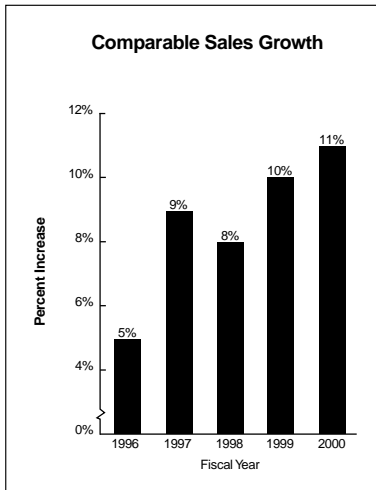
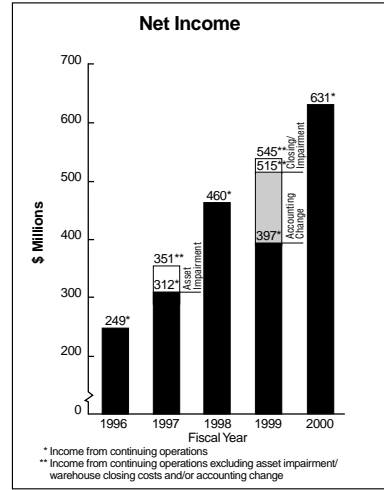
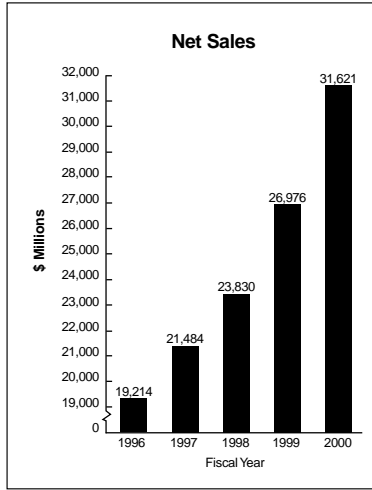
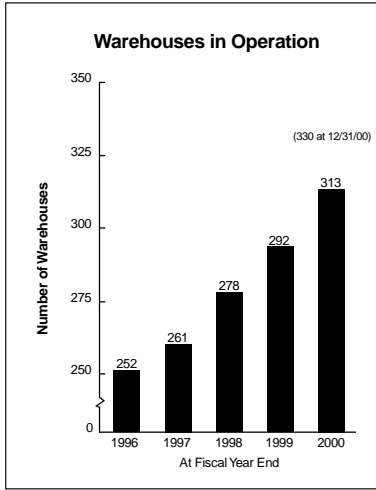
Costco Wholesale Corporation (“Costco” or the “Company”) began operations in 1983 in Seattle, Washington. In October 1993, Costco merged with The Price Company, which had pioneered the membership warehouse concept in 1976, to form Price/Costco, Inc., a Delaware corporation. In January 1997, after the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

Costco operates a chain of membership warehouses that sell high quality, nationally branded and selected private label merchandise at low prices to businesses purchasing for commercial use, personal use, or resale, and also to individuals who are members of selected employee groups. The Company’s business is based upon achieving high sales volumes and rapid inventory turnover by offering a limited assortment of merchandise in a wide variety of product categories at very competitive prices. As of December 2000, the Company operated a chain of 349 warehouses in 32 states (251 locations), nine Canadian provinces (59 locations), the United Kingdom (11 locations, through an 80%-owned subsidiary), Korea (four locations), Taiwan (three locations, through a 55%-owned subsidiary) and Japan (two locations), as well as 19 warehouses in Mexico through a 50% joint venture partner.

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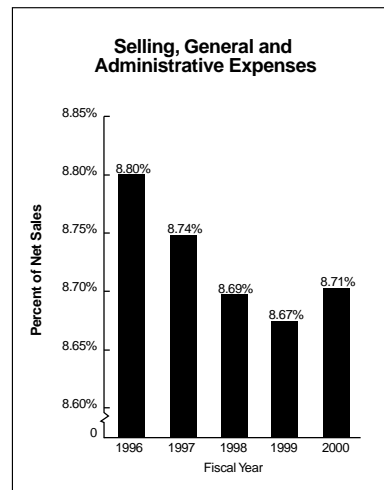
FINANCIAL HIGHLIGHTS



Average Sales Per Warehouse * (Sales in Millions)

Year Opened	# of Whses*	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
2000	21										\$55
1999	14								\$65		77
1998	17						\$50		58		72
1997	10					\$56		70		85	99
1996	18				\$46		53		61		68
1995	19			\$51		58		69		76	82
1994	27		\$57		60		68		76		83
1993	34		\$59		62		69		74		79
1992	26	\$48		54		61		65		69	75
1991 & Before	127	\$86		92		88		87		85	88
Totals	313	\$86	\$84	\$78	\$76	\$75	\$77	\$83	\$87	\$94	\$101

*First year sales annualized



December 14, 2000

Dear Costco Shareholder:

Our fiscal year 2000 established several milestones:

- *Sales exceeding \$31.6 billion*, reflecting a 17% increase over fiscal 1999, and our first time to top the \$30 billion mark;
- *Comparable sales* increases of 11% for warehouses open for more than one year;
- *Average sales* of \$101 million per warehouse;
- *Net income of \$631 million*, compared to operating income of \$545 million in 1999 (before unusual accounting charges in 1999 described on page 10), a 16% increase; and
- *32.8 million Costco cardholders* worldwide.

Each of these five accomplishments not only set new records for our Company, but each exceeded our own internal goals and budgets for the year. We are particularly pleased that we were able to achieve these results while expending considerable resources and costs to prepare our Company for an accelerated expansion program in fiscal year 2001 and beyond. Our entry into new markets such as Texas, the Midwest states and new Southeast states has required the start-up of three new regional offices and three new distribution depots. Additional resources and costs have been dedicated to the expansion and improvement of our eCommerce website (www.costco.com); to the marketing efforts of our Executive Membership Program; and to the ongoing activities related to the rollout of the Costco/American Express co-branded credit/membership cards.

During fiscal year 2000, we opened 21 new warehouses, compared to 14 in fiscal year 1999; and we also replaced four warehouses with new updated facilities in fiscal year 2000, compared to seven warehouses replaced the prior year. New markets opened last year included Memphis, Tennessee; Cincinnati, Ohio; Ft. Meyers and Naples, Florida; Aberdeen, Scotland; Haydock, England; and Xalapa, Mexico. In fiscal 2001, our plans call for 36 to 40 new warehouses (18 of which have already opened as of this date) and eight replacement warehouses (four of which have already opened). New markets this year will include Dallas/Ft. Worth, Houston and Austin, Texas; Minneapolis, Minnesota; Kansas City, Missouri; Durham and Charlotte, North Carolina; Huntsville and Birmingham, Alabama; Charleston, South Carolina; Puebla and San Luis Potosi, Mexico; and Makuhari, Japan (near Tokyo).

We expect to continue opening new warehouses at a rate of 35 to 40 annually for at least three years beyond the current fiscal year 2001, because our business is healthy, and because we believe Costco presently has a significant competitive advantage on which we must capitalize.

The health of our business can be measured not only by the record sales and profits, but also by the record number of new members and membership renewal rates that remain at the highest level in our history; the cleanest inventory levels and best inventory turn rates ever at Costco; continued strong expense control at every level of the Company, as well as strong

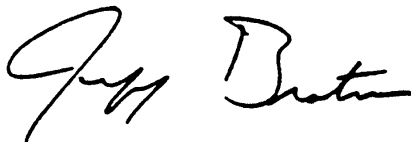
financial and procedural controls that allow us to achieve the lowest inventory shrinkage numbers of any major retailer in the world. All of this is in addition to an extraordinarily solid and strong balance sheet.

These are all objective measures that can be tabulated. Just as important to the health of Costco's business are the more subjective measures. The reputation for merchandising excellence and quality that are a hallmark of Costco's operations; the recent American Customer Satisfaction Index survey conducted by the University of Michigan Business School this past November showing that Costco had the highest customer satisfaction rating of any traditional national retailer in the U.S.; the merchandising, safety and cleanliness standards which are the best in our industry; the quality of employees at every level of our business, which is clearly the best in our industry; and finally the quality and long-term cohesiveness of our entire management team... from our buyers and warehouse managers to our senior managers.

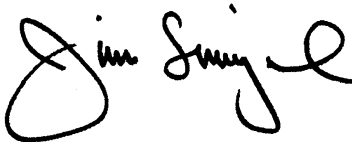
We understand that strong performance and consumer confidence in the past are not annuities for future success. We consider Costco to be the architects of current warehouse retailing, and we are flattered that our competition is continually imitating our merchandising concepts and standards; but we fully recognize the requirement to improve, test new methods and innovate in every aspect of Costco's business. We hope you will be able to attend our Annual Meeting in January so we can explain more completely our latest merchandising and operational initiatives.

In summary, we believe Costco made strong progress in many areas in fiscal 2000 — achieving record sales and earnings, strengthening our balance sheet and positioning our Company for long-term growth and profitability and increased shareholder value. We appreciate the dedicated efforts of our fellow employees — now numbering well over 80,000 worldwide — for their contributions to the success of Costco. And, as always, we want to thank you, our loyal shareholders, for your continuing support. We look forward to seeing many of you at our Annual Meeting of Shareholders on January 25th in Bellevue, Washington. Best wishes for a happy and healthy Holiday Season and New Year.

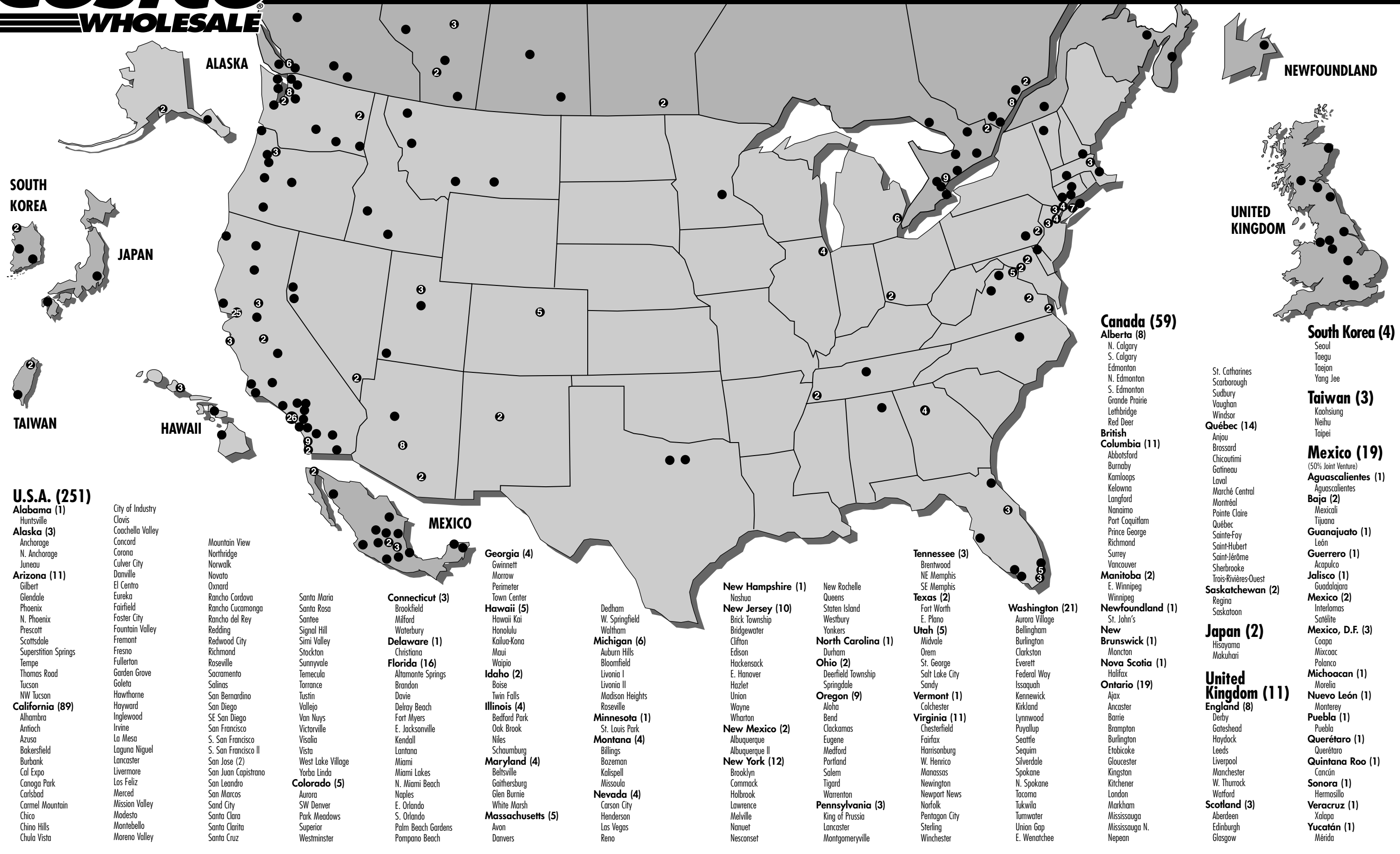
Cordially,



Jeff Brotman
Chairman of the Board



Jim Sinegal
President & CEO



- SOUTH KOREA (2)**
- JAPAN (2)**
- TAIWAN (2)**
- HAWAII (3)**

- U.S.A. (251)**
- Alabama (1)**
Huntsville
- Alaska (3)**
Anchorage
N. Anchorage
Juneau
- Arizona (11)**
Gilbert
Glendale
Phoenix
N. Phoenix
Prescott
Scottsdale
Superstition Springs
Tempe
Thomas Road
Tucson
NW Tucson
- California (89)**
Alhambra
Antioch
Azusa
Bakersfield
Burbank
Cal Expo
Canoga Park
Carlsbad
Carmel Mountain
Chico
Chino Hills
Chula Vista
City of Industry
Clovis
Coachella Valley
Concord
Corona
Culver City
Danville
El Centro
Eureka
Fairfield
Foster City
Fountain Valley
Fremont
Fresno
Fullerton
Garden Grove
Goleta
Hawthorne
Hayward
Inglewood
Irvine
La Mesa
Laguna Niguel
Lancaster
Livermore
Los Feliz
Merced
Mission Valley
Modesto
Montebello
Moreno Valley

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

- Connecticut (3)**
Brookfield
Milford
Waterbury
- Delaware (1)**
Christiana
- Florida (16)**
Altamonte Springs
Brandon
Davie
Delray Beach
Fort Myers
E. Jacksonville
Kendall
Lantana
Miami
Miami Lakes
N. Miami Beach
Naples
E. Orlando
S. Orlando
Palm Beach Gardens
Pompano Beach
- Georgia (4)**
Gwinnett
Morrow
Perimeter
Town Center
- Hawaii (5)**
Hawaii Kai
Honolulu
Kailua-Kona
Maui
Waipio
- Idaho (2)**
Boise
Twin Falls
- Illinois (4)**
Bedford Park
Oak Brook
Niles
Schaumburg
- Maryland (4)**
Beltsville
Gaithersburg
Glen Burnie
White Marsh
- Massachusetts (5)**
Avon
Danvers

- Michigan (6)**
Auburn Hills
Bloomfield
Livonia I
Livonia II
Madison Heights
Roseville
- Minnesota (1)**
St. Louis Park
- Montana (4)**
Billings
Bozeman
Henderson
Las Vegas
Reno
- Nevada (4)**
Carson City
Henderson
Las Vegas
Reno
- New Hampshire (1)**
Nashua
- New Jersey (10)**
Brick Township
Bridgewater
Clifton
Edison
Hackensack
E. Hanover
Hazlet
Union
Wayne
Wharton
- New Mexico (2)**
Albuquerque
Albuquerque II
- New York (12)**
Brooklyn
Commack
Holbrook
Lawrence
Melville
Nanuet
Nesconset

- North Carolina (1)**
Durham
- Ohio (2)**
Deerfield Township
Springdale
- Oregon (9)**
Aloha
Bend
Clackamas
Eugene
Medford
Portland
Salem
Tigard
Warrenton
- Pennsylvania (3)**
King of Prussia
Lancaster
Montgomeryville
- Tennessee (3)**
Brentwood
NE Memphis
SE Memphis
- Texas (2)**
Fort Worth
E. Plano
- Utah (5)**
Midvale
Orem
St. George
Salt Lake City
Sandy
- Vermont (1)**
Colchester
- Virginia (11)**
Chesterfield
Fairfax
Harrisonburg
W. Henrico
Manassas
Newington
Newport News
Norfolk
Pentagon City
Sterling
Winchester

- New Rochelle**
- Queens**
- Staten Island**
- Westbury**
- Yonkers**
- Washington (21)**
Aurora Village
Bellingham
Burlington
Clarkston
Everett
Federal Way
Issaquah
Kennewick
Kirkland
Lynnwood
Puyallup
Seattle
Sequim
Silverdale
Spokane
N. Spokane
Tacoma
Tukwila
Turnwater
Union Gap
E. Wenatchee
- British Columbia (11)**
Abbotsford
Burnaby
Kamloops
Kelowna
Langford
Nanaimo
Port Coquitlam
Prince George
Richmond
Surrey
Vancouver
- Manitoba (2)**
E. Winnipeg
Winnipeg
- Newfoundland (1)**
St. John's
- New Brunswick (1)**
Moncton
- Nova Scotia (1)**
Halifax
- Ontario (19)**
Ajax
Ancaster
Barrie
Brampton
Burlington
Etobicoke
Gloucester
Kingston
Kitchener
London
Markham
Mississauga
Mississauga N.
Nepean

- Canada (59)**
- Alberta (8)**
N. Calgary
S. Calgary
Edmonton
N. Edmonton
S. Edmonton
Grande Prairie
Lethbridge
Red Deer
- Quebec (14)**
Anjou
Brossard
Chicoutimi
Gatineau
Laval
Marché Central
Montréal
Pointe Claire
Québec
Sainte-Foy
Saint-Hubert
Saint-Jérôme
Sherbrooke
Trois-Rivières-Ouest
- Saskatchewan (2)**
Regina
Saskatoon
- South Korea (4)**
Seoul
Taegu
Taejeon
Yang Jee
- Taiwan (3)**
Kaohsiung
Neihu
Taipei
- Mexico (19)**
(50% Joint Venture)
Aguascalientes (1)
Aguascalientes
- Baja (2)**
Mexicali
Tijuana
- Guanajuato (1)**
León
- Guerrero (1)**
Acapulco
- Jalisco (1)**
Guadalajara
- Mexico (2)**
Interlomas
Satélite
- Mexico, D.F. (3)**
Coapa
Mixcoac
Polanco
- Michoacan (1)**
Morelia
- Nuevo León (1)**
Monterrey
- Puebla (1)**
Puebla
- Querétaro (1)**
Querétaro
- Quintana Roo (1)**
Cancún
- Sonora (1)**
Hermosillo
- Veracruz (1)**
Xalapa
- Yucatán (1)**
Mérida

NUMBER OF WAREHOUSES AT FISCAL YEAR END

	<u>Own Land and Building</u>	<u>Lease Land and/or Building</u>	<u>Total</u>
UNITED STATES	184	53	237
CANADA	51	8	59
UNITED KINGDOM	10	—	10
KOREA	—	3	3
TAIWAN	—	3	3
JAPAN	—	<u>1</u>	<u>1</u>
Total	<u>245</u>	<u>68</u>	<u>313</u>

The following schedule shows warehouse openings (net of warehouse closings) by region for the past five fiscal years and openings (net of closings) through December 31, 2000:

<u>Openings by Fiscal Year</u>	<u>United States</u>	<u>Canada</u>	<u>Other International</u>	<u>Total</u>	<u>Total Warehouses in Operation</u>
1996 and prior	192	55	5	252	252
1997	8	(1)	2	9	261
1998	11	2	4	17	278
1999	10	2	2	14	292
2000	16	1	4	21	313
2001 (through 12/31/00)	<u>14</u>	<u>—</u>	<u>3</u>	<u>17</u>	330
Total	<u>251</u>	<u>59</u>	<u>20</u>	<u>330</u>	

As of September 3, 2000, the Company operated (through a 50%-owned joint venture) 18 warehouses in Mexico. These warehouses are not included in the number of warehouses open in any period because the joint venture is accounted for on the equity basis and therefore their operations are not consolidated in the Company's financial statements.

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

In addition to its broad range of high quality, nationally branded and private label merchandise, the Company has enhanced the warehouse club concept to include fresh products (meat, bakery, deli and produce) as well as a number of ancillary businesses, including the following as of December 31, 2000:

ANCILLARY BUSINESSES

	<u>United States</u>	<u>Canada</u>	<u>Other International</u>	<u>Total</u>
Pharmacy	238	20	2	260
Optical Dispensing Centers	239	48	12	299
One-Hour Photo	246	59	20	325
Food Court and Hot Dog Stands	246	59	20	325
Hearing Aid Centers	66	7	0	73
Copy Centers	9	1	2	12
Print Shops	1	1	1	3
Gas Stations	120	3	0	123

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

The following table sets forth the results of operations by quarter for fiscal 2000 and 1999. This information includes all adjustments which management considers necessary for a fair presentation.

	53 Weeks Ended September 3, 2000					52 Weeks Ended August 29, 1999				
	First Quarter 12 Weeks	Second Quarter 12 Weeks	Third Quarter 12 Weeks	Fourth Quarter 17 Weeks	Total 53 Weeks	First Quarter 12 Weeks	Second Quarter 12 Weeks	Third Quarter 12 Weeks	Fourth Quarter 16 Weeks	Total 52 Weeks
REVENUE										
Net sales	\$6,824,197	\$7,613,601	\$6,768,608	\$10,414,317	\$31,620,723	\$5,894,238	\$6,484,445	\$5,941,049	\$8,656,721	\$26,976,453
Membership fees and other	119,315	123,386	126,000	174,872	543,573	103,840	107,913	112,771	155,054	479,578
Total revenue	6,943,512	7,736,987	6,894,608	10,589,189	32,164,296	5,998,078	6,592,358	6,053,820	8,811,775	27,456,031
OPERATING EXPENSES										
Merchandise costs	6,120,201	6,792,367	6,084,246	9,325,356	28,322,170	5,287,785	5,788,653	5,341,716	7,752,045	24,170,199
Selling, general and administrative	596,717	636,739	604,924	916,975	2,755,355	518,990	543,565	528,158	747,485	2,338,198
Preopening expenses	10,334	8,108	6,728	17,151	42,321	10,707	3,951	6,120	10,229	31,007
Provision for impaired assets and warehouse closing costs	1,000	1,500	1,500	3,000	7,000	2,000	3,000	1,500	50,000	56,500
Operating income	215,260	298,273	197,210	326,707	1,037,450	178,596	253,189	176,326	252,016	860,127
OTHER INCOME (EXPENSE)										
Interest expense	(10,397)	(10,576)	(9,604)	(8,704)	(39,281)	(10,912)	(10,995)	(10,524)	(13,096)	(45,527)
Interest income and other	10,667	14,983	12,943	15,633	54,226	6,039	11,192	10,659	16,376	44,266
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	215,530	302,680	200,549	333,636	1,052,395	173,723	253,386	176,461	255,296	858,866
Provision for income taxes	86,212	121,072	80,220	133,454	420,958	69,489	101,354	70,584	102,118	343,545
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	129,318	181,608	120,329	200,182	631,437	104,234	152,032	105,877	153,178	515,321
Cumulative effect of accounting change, net of tax	—	—	—	—	—	(118,023)	—	—	—	(118,023)
NET INCOME	<u>\$ 129,318</u>	<u>\$ 181,608</u>	<u>\$ 120,329</u>	<u>\$ 200,182</u>	<u>\$ 631,437</u>	<u>\$ (13,789)</u>	<u>\$ 152,032</u>	<u>\$ 105,877</u>	<u>\$ 153,178</u>	<u>\$ 397,298</u>
NET INCOME PER COMMON SHARE:										
Basic Earnings per share:										
Income before cumulative effect of accounting change	\$ 0.29	\$ 0.41	\$ 0.27	\$ 0.45	\$ 1.41	\$ 0.24	\$ 0.35	\$ 0.24	\$ 0.35	\$ 1.17
Cumulative effect of accounting change, net of tax	—	—	—	—	—	(0.27)	—	—	—	(0.27)
Net Income	<u>\$ 0.29</u>	<u>\$ 0.41</u>	<u>\$ 0.27</u>	<u>\$ 0.45</u>	<u>\$ 1.41</u>	<u>\$ (0.03)</u>	<u>\$ 0.35</u>	<u>\$ 0.24</u>	<u>\$ 0.35</u>	<u>\$ 0.90</u>
Diluted earnings per share										
Income before cumulative effect of accounting change	\$ 0.28	\$ 0.39	\$ 0.26	\$ 0.43	\$ 1.35	\$ 0.23	\$ 0.33	\$ 0.23	\$ 0.33	\$ 1.11
Cumulative effect of accounting change, net of tax	—	—	—	—	—	(0.25)	—	—	—	(0.25)
Net Income	<u>\$ 0.28</u>	<u>\$ 0.39</u>	<u>\$ 0.26</u>	<u>\$ 0.43</u>	<u>\$ 1.35</u>	<u>\$ (0.02)</u>	<u>\$ 0.33</u>	<u>\$ 0.23</u>	<u>\$ 0.33</u>	<u>\$ 0.86</u>
Shares used in calculation (000's):										
Basic	443,300	445,255	448,113	447,757	446,255	435,676	437,782	440,438	442,152	439,253
Diluted	473,414	476,642	478,750	474,304	475,737	466,774	470,453	473,570	472,959	471,120

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

	<u>2000</u>		<u>1999</u>		<u>1998</u>		<u>1997</u>	
WAREHOUSES IN OPERATIONS								
Beginning of year	292		278		261		252	
Openings	25		21		18		17	
Closings	(4)		(7)		(1)		(8)	
End of year	<u>313</u>		<u>292</u>		<u>278</u>		<u>261</u>	
OPERATING RESULTS								
Revenue								
Net Sales	\$31,621	100.0%	\$26,976	100.0%	\$23,830	100.0%	\$21,484	100.0%
Membership fees and other	543	1.7	480	1.8	440	1.8	390	1.8
Total revenue	<u>32,164</u>	<u>101.7</u>	<u>27,456</u>	<u>101.8</u>	<u>24,270</u>	<u>101.8</u>	<u>21,874</u>	<u>101.8</u>
Operating expenses								
Merchandise costs	28,322	89.6	24,170	89.6	21,380	89.7	19,314	89.9
Selling, general and administrative expenses	2,756	8.7	2,338	8.7	2,070	8.7	1,877	8.7
Preopening expenses	42	.1	31	0.1	27	0.1	27	0.1
Provision for impaired assets and warehouse closing costs	7	—	57	0.2	6	—	75	0.4
Operating expenses	<u>31,127</u>	<u>98.4</u>	<u>26,596</u>	<u>98.6</u>	<u>23,483</u>	<u>98.5</u>	<u>21,293</u>	<u>99.1</u>
Operating income	1,037	3.3	860	3.2	787	3.3	581	2.7
Other income (expenses)								
Interest expense	(39)	(0.1)	(45)	(0.2)	(48)	(0.2)	(76)	(0.4)
Interest income and other	54	0.2	44	0.2	27	0.1	15	0.1
Provision for merger and restructuring expenses	—	—	—	—	—	—	—	—
Income from continuing operations before income taxes and cumulative effect of accounting change	1,052	3.3	859	3.2	766	3.2	520	2.4
Provision for income taxes	421	1.3	344	1.3	306	1.3	208	0.9
Income from continuing operations before cumulative effect of accounting change	631	2.0	515	1.9	460	1.9	312	1.5
Cumulative effect of accounting change, net of tax	—	—	(118)	(0.4)	—	—	—	—
Income from continuing operations	631	2.0	397	1.5	460	1.9	312	1.5
Discontinued operations:								
Income (loss), net of tax	—	—	—	—	—	—	—	—
Loss on disposal	—	—	—	—	—	—	—	—
Net income (loss)	<u>\$ 631</u>	<u>2.0%</u>	<u>\$ 397</u>	<u>1.5%</u>	<u>\$ 460</u>	<u>1.9%</u>	<u>\$ 312</u>	<u>1.5%</u>
Per Share Data—Diluted								
Income from continuing operations before cumulative effect of accounting change	\$ 1.35		\$ 1.11		\$ 1.01		\$ 0.73	
Cumulative effect of accounting change, net of tax	—		(0.25)		—		—	
Income from continuing operations	1.35		0.86		1.01		0.73	
Discontinued operations:								
Income (loss), net of tax	—		—		—		—	
Loss on disposal	—		—		—		—	
Net income (loss)	<u>\$ 1.35</u>		<u>\$ 0.86</u>		<u>\$ 1.01</u>		<u>\$ 0.73</u>	
Shares used in calculation (000's)	475,737		471,120		463,371		449,336	
Balance Sheet Data								
Working capital (deficit)	\$ 66		\$ 450		\$ 431		\$ 146	
Property and equipment, net	4,834		3,907		3,395		3,155	
Total assets	8,634		7,505		6,260		5,476	
Short-term debt	10		—		—		25	
Long-term debt and capital lease obligations	790		919		930		917	
Stockholders' equity	4,240		3,532		2,966		2,468	
SALES INCREASE (DECREASE) FROM PRIOR YEAR								
Total	17%		13%		11%		12%	
Comparable units	11%		10%		8%		9%	
MEMBERS AT YEAR END (000'S)								
Business (primary cardholders)	4,170		3,887		3,676		3,537	
Gold Star	10,521		9,555		8,654		7,845	

<u>1996</u>		<u>1995</u>		<u>1994</u>		<u>1993</u>		<u>1992</u>		<u>1991</u>	
240		221		200		170		140		119	
20		24		29		37		31		23	
(8)		(5)		(8)		(7)		(1)		(2)	
<u>252</u>		<u>240</u>		<u>221</u>		<u>200</u>		<u>170</u>		<u>140</u>	
\$19,214	100.0%	\$17,906	100.0%	\$16,161	100.0%	\$15,155	100.0%	\$13,820	100.0%	\$11,814	100.0%
352	1.8	341	1.9	320	2.0	309	2.0	277	2.0	228	1.9
<u>19,566</u>	<u>101.8</u>	<u>18,247</u>	<u>101.9</u>	<u>16,481</u>	<u>102.0</u>	<u>15,464</u>	<u>102.0</u>	<u>14,097</u>	<u>102.0</u>	<u>12,042</u>	<u>101.9</u>
17,345	90.3	16,226	90.6	14,663	90.7	13,751	90.7	12,565	90.9	10,756	91.0
1,691	8.8	1,556	8.7	1,426	8.8	1,315	8.7	1,129	8.2	934	7.9
29	0.1	25	0.1	25	0.2	28	0.2	26	0.2	16	0.1
10	—	7	—	7	—	5	—	2	—	2	—
<u>19,075</u>	<u>99.2</u>	<u>17,814</u>	<u>99.5</u>	<u>16,121</u>	<u>99.8</u>	<u>15,099</u>	<u>99.6</u>	<u>13,722</u>	<u>99.3</u>	<u>11,708</u>	<u>99.1</u>
491	2.6	433	2.4	360	2.2	365	2.4	375	2.7	334	2.8
(78)	(0.4)	(68)	(0.4)	(50)	(0.3)	(46)	(0.3)	(35)	(0.2)	(26)	(0.2)
11	—	3	—	14	0.1	17	0.1	29	0.2	34	0.3
—	—	—	—	(120)	(0.7)	—	—	—	—	—	—
424	2.2	368	2.0	204	1.3	336	2.2	369	2.7	342	2.9
175	0.9	151	0.8	93	0.6	133	0.9	146	1.1	135	1.1
249	1.3	217	1.2	111	0.7	203	1.3	223	1.6	207	1.8
—	—	—	—	—	—	—	—	—	—	—	—
<u>249</u>	<u>1.3</u>	<u>217</u>	<u>1.2</u>	<u>111</u>	<u>0.7</u>	<u>203</u>	<u>1.3</u>	<u>223</u>	<u>1.6</u>	<u>207</u>	<u>1.8</u>
—	—	—	—	(41)	(0.3)	20	0.1	19	0.1	12	0.1
—	—	(83)	(0.5)	(182)	(1.1)	—	—	—	—	—	—
<u>\$ 249</u>	<u>1.3%</u>	<u>\$ 134</u>	<u>0.7%</u>	<u>\$ (112)</u>	<u>(0.7%)</u>	<u>\$ 223</u>	<u>1.4%</u>	<u>\$ 242</u>	<u>1.7%</u>	<u>\$ 219</u>	<u>1.9%</u>
\$ 0.61		\$ 0.53		\$ 0.25		\$ 0.46		\$ 0.49		\$ 0.47	
—		—		—		—		—		—	
<u>0.61</u>		<u>0.53</u>		<u>0.25</u>		<u>0.46</u>		<u>0.49</u>		<u>0.47</u>	
—		—		(0.09)		0.04		0.04		0.02	
—		(0.19)		(0.42)		—		—		—	
<u>\$ 0.61</u>		<u>\$ 0.34</u>		<u>\$ (0.26)</u>		<u>\$ 0.50</u>		<u>\$ 0.53</u>		<u>\$ 0.49</u>	
435,781		447,219		438,664		480,324		490,180		468,404	
\$ 57		\$ 9		\$ (113)		\$ 127		\$ 282		\$ 305	
2,888		2,535		2,146		1,967		1,704		1,183	
4,912		4,437		4,236		3,931		3,577		2,986	
60		76		149		23		—		—	
1,229		1,095		795		813		814		500	
1,778		1,531		1,685		1,797		1,594		1,430	
7%		11%		7%		10%		17%		26%	
5%		2%		(3%)		(3%)		6%		10%	
3,435		3,318		3,228		3,177		3,105		2,717	
7,076		6,683		6,088		5,797		5,357		4,647	

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

Certain statements contained in this document constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For these purposes, forward-looking statements are statements that address activities, events, conditions or developments that the company expects, or anticipates may occur in the future. Such forward-looking statements involve risks and uncertainties that may cause actual events, results or performance to differ materially from those indicated by such statements. These risks and uncertainties include, but are not limited to, domestic and international economic conditions including exchange rates, the effects of competition and regulation, conditions affecting the acquisition, development, ownership or use of real estate, actions of vendors, and other risks identified from time to time in the Company's public statements and reports filed with the SEC.

The Company's Board of Directors approved a 2-for-1 stock split of Costco Common Stock whereby shareholders of record received one additional share of common stock for every share held on the record date of December 24, 1999. The common stock began trading at a post-split price on January 14, 2000, and all per share data reflects that 2-for-1 stock split.

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

Net income for fiscal 2000, a 53-week fiscal year, increased 59% to \$631,437, or \$1.35 per diluted share, from \$397,298, or \$0.86 per diluted share during fiscal year 1999, a 52-week fiscal year. Net income for fiscal 1999 was impacted by both a \$50,000 fourth quarter pre-tax provision for impaired assets and warehouse closing costs, as well as the one-time \$118,023 non-cash, after-tax charge recorded in the first quarter of fiscal 1999, reflecting the cumulative effect of the Company's change in accounting for membership fees from a cash to a deferred method. Excluding the impact of these two charges, net income in fiscal 1999 would have been \$545,321, or \$1.18 per diluted share and would have resulted in a 16% increase in net income in fiscal 2000 compared to fiscal 1999.

Net sales increased 17% to \$31,620,723 in fiscal 2000 from \$26,976,453 in fiscal 1999. This increase was due to: (i) higher sales at existing locations opened prior to fiscal 1999; (ii) increased sales at 14 warehouses (21 opened, 7 closed) that were opened in fiscal 1999 and in operation for the entire 2000 fiscal year; (iii) first year sales at the 21 new warehouses opened (25 opened, 4 closed) during fiscal 2000; and (iv) fiscal 2000 being a 53-week fiscal year. Changes in prices did not materially impact sales levels.

Comparable sales, that is sales in warehouses open for at least a year, increased at an 11% annual rate in fiscal 2000 compared to a 10% annual rate during fiscal 1999.

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

Gross margin (defined as net sales minus merchandise costs) increased 18% to \$3,298,553, or 10.43% of net sales, in fiscal 2000 from \$2,806,254, or 10.40% of net sales, in fiscal 1999. Gross margin as a percentage of net sales increased due to increased sales penetration of certain higher gross margin ancillary businesses and private label products and improved performance of the Company's international operations. The gross margin figures reflect accounting for most U.S. merchandise inventories on the last-in, first-out (LIFO) method. If all inventories had been valued using the first-in, first-out (FIFO) method, inventories would have been higher by \$8,150 at September 3, 2000, and \$11,150 at August 29, 1999.

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

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

The provision for impaired assets and warehouse closing costs was \$7,000 in fiscal 2000 compared to \$56,500 in fiscal 1999. The fiscal 2000 provision includes a charge of \$10,956 for the impairment of long-lived assets, which was offset by \$3,956 of gains on the sale of real property. The fiscal 1999 provision includes a charge of \$31,080 for the impairment of long-lived assets and \$30,865 for warehouse and other facility closing costs, which were offset by \$5,445 of gains on the sale of real property. The provision for warehouse closing costs in fiscal 1999 includes \$24,773 for future lease obligations and \$6,092 for other expenses directly related to the closedown of warehouses and other facilities. At September 3, 2000, the reserve for warehouse closing costs was \$11,762, of which \$8,887 related to future lease obligations.

Interest expense totaled \$39,281 in fiscal 2000, and \$45,527 in fiscal 1999. The decrease in interest expense is primarily due to an increase in capitalized interest related to construction projects and a decrease in the interest rate related to the 7¹/₈% Senior Notes due to entering into a “fixed-to-floating” interest rate swap agreement in December 1999 that effectively converted the fixed rate of 7¹/₈% to a floating rate indexed to the 30-day commercial paper rate. In August 2000, the swap agreement was amended to index the floating rate to the three-month LIBOR rate.

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

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

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

Net income for fiscal 1999 was impacted by both a \$50,000 fourth quarter pre-tax provision for impaired assets and warehouse closing costs, as well as the one-time \$118,023 non-cash, after-tax charge recorded in the first quarter of fiscal 1999, reflecting the cumulative effect of the Company’s change in accounting for membership fees from a cash to a deferred method. The impact of these two charges resulted in net income for fiscal 1999 of \$397,298, or \$.86 per diluted share compared to fiscal 1998 net income of \$459,842, or \$1.01 per diluted share. Excluding the impact of these two charges, net income in fiscal 1999 would have been \$545,321, or \$1.18 per diluted share. Assuming the newly adopted accounting treatment for deferring membership fees had been in effect in fiscal 1998, net income for fiscal 1998 would have been \$444,451, or \$.98 per diluted share; and the year-over-year earnings per share increase, adjusted for these items, would have been 20%.

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

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

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

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

Gross margin (defined as net sales minus merchandise costs) increased 15% to \$2,806,254, or 10.40% of net sales, in fiscal 1999 from \$2,450,689, or 10.28% of net sales, in fiscal 1998. Gross margin as a percentage of net sales increased due to increased sales penetration of certain higher gross margin ancillary businesses, favorable inventory shrink results, and improved performance of the Company's international operations. The gross margin figures reflect accounting for most U.S. merchandise inventories on the last-in, first-out (LIFO) method. If all inventories had been valued under the first-in, first-out (FIFO) method, inventories would have been higher by \$11,150 at August 29, 1999 and \$16,150 at August 30, 1998.

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

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

The provision for impaired assets and warehouse closing costs was \$56,500 in fiscal 1999 compared to \$6,000 in fiscal 1998. The fiscal 1999 provision includes a charge of \$31,080 for the impairment of long-lived assets and \$30,865 for warehouse and other facility closing costs, which were offset by \$5,445 of gains on the sale of real property. The provision for warehouse closing costs includes \$24,773 for lease obligations and \$6,092 for other expenses directly related to the closedown of warehouses and other facilities. The increase in warehouse closing costs is primarily attributable to the Company's decision in the fourth quarter of fiscal 1999 to relocate several warehouses (which were not otherwise impaired) to larger and better-located facilities.

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

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

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

Liquidity and Capital Resources (dollars in thousands)

Expansion Plans

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

While there can be no assurance that current expectations will be realized, and plans are subject to change upon further review, it is management's current intention to spend an aggregate of approximately \$900,000 to \$1,100,000 during fiscal 2001 in the United States and Canada for real estate, construction, remodeling and equipment for warehouse clubs and related operations; and approximately \$150,000 to \$200,000 for international expansion, including the United Kingdom, Asia, Mexico and other potential ventures. These expenditures will be financed with a combination of cash provided from operations, the use of cash and cash equivalents and short-term investments (which totaled \$572,531 at September 3, 2000), short-term borrowings under revolving credit facilities and other financing sources as required.

Expansion plans for the United States and Canada during fiscal 2001 are to open approximately 34 to 36 new warehouse clubs, including 5 to 6 relocations of existing warehouses to larger and better-located

warehouses. The Company expects to continue expansion of its international operations and plans to open 2 to 3 additional units in the United Kingdom through its 80%-owned subsidiary, two additional units in Korea through its 95%-owned subsidiary and one additional unit in Japan through a wholly-owned subsidiary during the next year. Other international markets are being assessed.

Costco and its Mexico-based joint venture partner, Controladora Comercial Mexicana, each own a 50% interest in Costco Mexico. As of September 3, 2000, Costco Mexico operated 18 warehouses in Mexico and plans to open one to two new warehouse clubs during fiscal 2001.

Acquisition of Minority Interest

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

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

The Company has in place a \$425,000 commercial paper program supported by a \$425,000 bank credit facility with a group of 11 banks, which expires in January 2001. At September 3, 2000, no amounts were outstanding under the loan facility or the commercial paper program. On November 15, 2000, the bank facility was increased to \$500,000 of which \$250,000 expires on November 14, 2001 and \$250,000 expires on November 15, 2005.

In addition, a wholly owned Canadian subsidiary has a \$136,000 commercial paper program supported by a \$95,000 bank credit facility with three Canadian banks, which expires in March, 2001. At September 3, 2000, no amounts were outstanding under the bank credit facility or the Canadian commercial paper program.

The Company has agreed to limit the combined amount outstanding under the U.S. and Canadian commercial paper programs to the \$520,000 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 \$372,000. The outstanding commitments under these facilities at September 3, 2000 totaled approximately \$273,000, including approximately \$28,000 in standby letters of credit.

Derivatives

The Company has limited involvement with derivative financial instruments and uses them only to manage well-defined interest rate and foreign exchange risks. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on inventory purchases. The amount of interest rate and foreign exchange contracts outstanding at September 3, 2000 were not material to the Company's results of operations or its financial position. Effective December 10, 1999, the Company entered into a "fixed-to-floating" interest rate swap agreement on its \$300,000 7¹/₈% Senior Notes, replacing the fixed interest rate with a floating rate indexed to the 30-day commercial paper rate. On August 11, 2000, the swap agreement was amended to index the floating rate to the three-month LIBOR rate.

Financial Position and Cash Flows

Working capital totaled approximately \$66,000 at September 3, 2000, compared to working capital of \$450,000 at August 29, 1999. The decrease in net working capital was primarily due to increases in accrued salaries and benefits and other current liabilities of approximately \$171,000, accrued sales and other taxes of approximately \$37,000, deferred membership income of approximately \$36,000, short-term borrowings of approximately \$10,000, and decreases in cash and cash equivalents and short-term investments of approximately \$125,000 and in net inventory levels (inventories less accounts payable) of \$5,000.

Net cash provided by operating activities totaled \$1,070,358 in fiscal 2000 compared to \$940,863 in fiscal 1999. The increase in net cash from operating activities is primarily a result of increased net income, adjusted for the non-cash cumulative effect of accounting change.

Net cash used in investing activities totaled \$1,045,664 in fiscal 2000 compared to \$953,923 in fiscal 1999. The investing activities primarily relate to additions to property and equipment for new and remodeled warehouses of \$1,228,421 and \$787,935 in fiscal 2000 and 1999, respectively. The Company opened 25 warehouses during fiscal 2000 compared to 21 warehouses opened during fiscal 1999. In addition, the Company plans to open approximately 15 new warehouses, including four relocations, in the first quarter of fiscal 2001 as compared to the 6 new warehouses opened in the first quarter of fiscal 2000. In fiscal 2000, the Company purchased an additional 20% interest in Costco UK from Littlewoods Organisation PLC. Net cash used in investing activities also reflects a decrease in short-term investments of \$208,959 since the beginning of fiscal 2000.

Net cash provided by financing activities totaled \$58,605 in fiscal 2000 compared to \$85,845 in fiscal 1999. This decrease is primarily due to the repurchase of 3.13 million shares of common stock partially offset by the proceeds from the exercise of stock options and an increase in bank overdrafts.

The Company's balance sheet as of September 3, 2000 reflects a \$1,128,939 or 15% increase in total assets since August 29, 1999. The increase is primarily due to a net increase in property and equipment and merchandise inventory related to the Company's expansion program offset by a decrease in cash and cash equivalents and short-term investments.

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

On November 5, 1998, the Company announced that its Board of Directors had authorized a stock repurchase program of up to \$500,000 of Costco Common Stock over the subsequent three years. Under the program, the Company may repurchase shares from time to time in the open market or in private transactions as market conditions warrant. The Company expects to fund stock purchases from cash and short-term investments on hand, as well as from future operating cash flows. The repurchased shares would constitute authorized, but unissued shares and would be used for general corporate purposes including stock option grants under stock option programs. As of September 3, 2000, the Company had repurchased 3.13 million shares of common stock at an average price of \$31.96 per share, totaling approximately \$99,946 (excluding commissions).

Year 2000

The Company implemented an extensive project to ensure that its systems were Year 2000 compliant and fully operational prior to the year 2000 and on into the 21st Century. Virtually all systems—including information technology systems and non-information technology equipment—have worked properly in the year 2000. In addition, the Company has not experienced any material year 2000-related problems with its significant suppliers with which its systems interface or exchange data. The total costs related to the Year 2000 efforts were approximately \$7,500—in line with prior estimates and were fully expensed as incurred during the relevant fiscal periods.

Membership Fee Increases

Effective September 1, 2000, the Company has increased annual membership fees for its Gold Star (individual), Business, and Business Add-on Members. These fee increases, averaging approximately \$5 per member across all member categories, will allow the Company to be even more competitive in the future, and pass on additional savings to its more than 18 million members worldwide.

Recent Accounting Pronouncements

During June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative and Hedging Activities, and in June 2000 issued SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133. These new standards require companies to record derivative financial instruments on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in

the fair value of those derivatives would be accounted for based on the use of the derivative and whether the instrument qualified for hedge accounting, as defined in SFAS 133 and 138. The Company was required to adopt the provisions of SFAS 133 and 138 on September 4, 2000, the first day of fiscal 2001. The Company's use of derivative instruments is limited to the fixed-to-floating swap contract on its 7 $\frac{1}{8}$ % Senior Notes and foreign exchange contracts and the impact of adoption was not material.

In December 1999, the staff of the Securities and Exchange Commission released Staff Accounting Bulletin, or SAB, No. 101, "Revenue Recognition", to provide guidance on the recognition, presentation, and disclosure of revenues in financial statements. The Company believes that its revenue recognition practices are in conformity with the guidelines in SAB 101, as revised, and that this pronouncement will have no impact on its financial statements.

In March 2000, the FASB released Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25," which provides clarification of Opinion No. 25 for certain issues, such as the determination of who is an employee, the criteria for determining whether a plan qualifies as a non-compensatory plan, the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and the accounting for an exchange of stock compensation awards in a business combination. The Company believes that its practices are in conformity with this guidance, and therefore Interpretation No. 44 will have no impact on its financial statements.

Quantitative and Qualitative Disclosure of Market Risk

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

The nature and amount of the Company's long and short-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. As of September 3, 2000, approximately 54% of the Company's debt is fixed rate. The Company's primary interest rate exposure results from changes in LIBOR which is used to determine the interest rate applicable to its \$300,000 7 $\frac{1}{8}$ % Senior Notes and \$140,000 unsecured note payable to banks. Effective December 10, 1999, the Company entered into a "fixed-to-floating" interest rate swap agreement on the \$300,000 7 $\frac{1}{8}$ % Senior Notes, replacing the fixed interest rate with a floating rate indexed to the 30-day commercial paper rate. On August 11, 2000 the swap agreement was amended to index the floating rate to the three-month LIBOR rate. The Company's potential increase in interest expense over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate of its variable rate obligations would be approximately \$4,400 pre-tax.

The Company's long-term debt also includes its \$900,000 principal amount at maturity Zero Coupon Subordinated Notes. While fluctuations in interest rates may affect the fair value of this debt, interest expense will not be affected due to the fixed interest rate of the Notes.

The Company's short-term investments as of September 3, 2000, include corporate notes and bonds and certificates of deposit with maturities of less than sixty days. These investments are classified as available for sale. If interest rates were to increase or decrease immediately, it could have a material impact on the fair value of these investments. However, changes in interest rates would not likely have a material impact on interest income.

Most foreign currency transactions have been conducted in local currencies, limiting the Company's exposure to changes in currency rates. The Company periodically enters into forward foreign exchange contracts to hedge the impact of fluctuations in foreign currency rates on inventory purchases. The foreign exchange contracts outstanding at September 3, 2000, were not material to the Company's results of operations or its financial position.

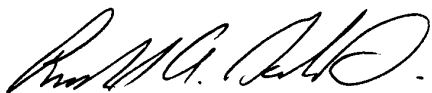
REPORT OF MANAGEMENT

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

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

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

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



Richard A. Galanti
Executive Vice President
and Chief Financial Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Costco Wholesale Corporation:

We have audited the accompanying consolidated balance sheets of Costco Wholesale Corporation (a Washington corporation) and subsidiaries ("Costco") as of September 3, 2000 and August 29, 1999, and the related consolidated statements of income, stockholders' equity and cash flows for the 53 weeks ended September 3, 2000 and the 52 weeks ended August 29, 1999 and August 30, 1998. These financial statements are the responsibility of Costco's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Costco as of September 3, 2000 and August 29, 1999, and the results of its operations and its cash flows for the 53 weeks ended September 3, 2000 and the 52 weeks ended August 29, 1999 and August 30, 1998, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the consolidated financial statements, during the year ended August 29, 1999, the Company changed its method of accounting for membership fee income from a cash basis to a deferred basis whereby membership fee income is recognized ratably over the one-year life of the membership.



Seattle, Washington
October 10, 2000

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

	September 3, 2000	August 29, 1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 524,505	\$ 440,586
Short-term investments	48,026	256,688
Receivables, net	174,375	168,648
Merchandise inventories, net	2,490,088	2,210,475
Other current assets	233,124	239,516
Total current assets	3,470,118	3,315,913
PROPERTY AND EQUIPMENT		
Land and land rights	1,621,798	1,264,125
Buildings and leasehold and land improvements	3,007,752	2,444,640
Equipment and fixtures	1,311,110	1,138,568
Construction in progress	200,729	176,824
	6,141,389	5,024,157
Less-accumulated depreciation and amortization	(1,307,273)	(1,117,269)
Net property and equipment	4,834,116	3,906,888
OTHER ASSETS	329,706	282,200
	\$ 8,633,940	\$ 7,505,001
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$ 9,500	\$ —
Accounts payable	2,197,139	1,912,632
Accrued salaries and benefits	422,264	414,276
Accrued sales and other taxes	159,717	122,932
Deferred membership income	262,249	225,903
Other current liabilities	353,490	190,490
Total current liabilities	3,404,359	2,866,233
LONG-TERM DEBT	790,053	918,888
DEFERRED INCOME TAXES AND OTHER LIABILITIES	90,391	66,990
Total liabilities	4,284,803	3,852,111
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	108,857	120,780
STOCKHOLDERS' EQUITY		
Preferred stock \$.005 par value; 200,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock \$.005 par value; 1,800,000,000 shares authorized; 447,297,000 and 442,736,000 shares issued and outstanding	2,236	2,214
Additional paid-in capital	1,028,414	952,758
Other accumulated comprehensive loss	(117,029)	(118,084)
Retained earnings	3,326,659	2,695,222
Total stockholders' equity	4,240,280	3,532,110
	\$ 8,633,940	\$ 7,505,001

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

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

	<u>53 Weeks Ended September 3, 2000</u>	<u>52 Weeks Ended August 29, 1999</u>	<u>52 Weeks Ended August 30, 1998</u>
REVENUE			
Net sales	\$31,620,723	\$26,976,453	\$23,830,380
Membership fees and other	<u>543,573</u>	<u>479,578</u>	<u>439,497</u>
Total revenue	32,164,296	27,456,031	24,269,877
OPERATING EXPENSES			
Merchandise costs	28,322,170	24,170,199	21,379,691
Selling, general and administrative	2,755,355	2,338,198	2,069,900
Preopening expenses	42,321	31,007	27,010
Provision for impaired assets and warehouse closing costs	<u>7,000</u>	<u>56,500</u>	<u>6,000</u>
Operating income	1,037,450	860,127	787,276
OTHER INCOME (EXPENSE)			
Interest expense	(39,281)	(45,527)	(47,535)
Interest income and other	<u>54,226</u>	<u>44,266</u>	<u>26,662</u>
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE			
	1,052,395	858,866	766,403
Provision for income taxes	<u>420,958</u>	<u>343,545</u>	<u>306,561</u>
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE			
	631,437	515,321	459,842
Cumulative effect of accounting change, net of tax benefit of \$78,682	<u>—</u>	<u>(118,023)</u>	<u>—</u>
NET INCOME	<u><u>\$ 631,437</u></u>	<u><u>\$ 397,298</u></u>	<u><u>\$ 459,842</u></u>
NET INCOME PER COMMON SHARE:			
Basic earnings per share:			
Income before cumulative effect of accounting change	\$ 1.41	\$ 1.17	\$ 1.07
Cumulative effect of accounting change, net of tax	<u>—</u>	<u>(0.27)</u>	<u>—</u>
Net Income	<u><u>\$ 1.41</u></u>	<u><u>\$ 0.90</u></u>	<u><u>\$ 1.07</u></u>
Diluted earnings per share:			
Income before cumulative effect of accounting change	\$ 1.35	\$ 1.11	\$ 1.01
Cumulative effect of accounting change, net of tax	<u>—</u>	<u>(0.25)</u>	<u>—</u>
Net Income	<u><u>\$ 1.35</u></u>	<u><u>\$ 0.86</u></u>	<u><u>\$ 1.01</u></u>
Shares used in calculation (000's)			
Basic	446,255	439,253	431,013
Diluted	475,737	471,120	463,371
Pro forma amounts assuming accounting change had been in effect in fiscal 1998:			
Net Income			<u><u>\$ 444,451</u></u>
Earnings per common share — basic			<u><u>\$ 1.03</u></u>
Earnings per common share — diluted			<u><u>\$.98</u></u>

The accompanying notes are an integral part of these financial statements

COSTCO WHOLESALE CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

**For the 53 weeks ended September 3, 2000, 52 weeks ended August 29, 1999 and August 30, 1998
(in thousands)**

	<u>Common Stock</u>		<u>Additional</u>	<u>Other</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Accumulated</u>	<u>Earnings</u>	
			<u>Capital</u>	<u>Comprehensive</u>		
				<u>Income/(Loss)</u>		
BALANCE AT AUGUST 31, 1997 ..	427,186	\$2,136	\$ 706,324	\$ (78,426)	\$1,838,082	\$2,468,116
Comprehensive Income						
Net Income	—	—	—	—	459,842	459,842
Other accumulated comprehensive loss						
Foreign currency translation adjustment	—	—	—	(73,416)	—	(73,416)
Total comprehensive income	—	—	—	(73,416)	459,842	386,426
Stock options exercised including income tax benefits	<u>7,992</u>	<u>40</u>	<u>111,304</u>	—	—	<u>111,344</u>
BALANCE AT AUGUST 30, 1998 ..	435,178	2,176	817,628	(151,842)	2,297,924	2,965,886
Comprehensive Income						
Net Income	—	—	—	—	397,298	397,298
Other accumulated comprehensive loss						
Foreign currency translation adjustment	—	—	—	33,758	—	33,758
Total comprehensive income	—	—	—	33,758	397,298	431,056
Stock options exercised including income tax benefits	6,468	33	110,282	—	—	110,315
Conversion of convertible debentures ..	<u>1,090</u>	<u>5</u>	<u>24,848</u>	—	—	<u>24,853</u>
BALANCE AT AUGUST 29, 1999 ..	442,736	2,214	952,758	(118,084)	2,695,222	3,532,110
Comprehensive Income						
Net Income	—	—	—	—	631,437	631,437
Other accumulated comprehensive loss						
Foreign currency translation adjustment	—	—	—	1,055	—	1,055
Total comprehensive income	—	—	—	1,055	631,437	632,492
Stock options exercised including income tax benefits	7,688	38	175,520	—	—	175,558
Conversion of convertible debentures ..	3	—	66	—	—	66
Repurchases of common stock	<u>(3,130)</u>	<u>(16)</u>	<u>(99,930)</u>	—	—	<u>(99,946)</u>
BALANCE AT SEPTEMBER 3, 2000	<u>447,297</u>	<u>\$2,236</u>	<u>\$1,028,414</u>	<u>\$(117,029)</u>	<u>\$3,326,659</u>	<u>\$4,240,280</u>

The accompanying notes are an integral part of these financial statements

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

	<u>53 Weeks Ended September 3, 2000</u>	<u>52 Weeks Ended August 29, 1999</u>	<u>52 Weeks Ended August 30, 1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income.....	\$ 631,437	\$ 397,298	\$ 459,842
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	254,397	224,811	196,315
Accretion of discount on zero coupon notes	16,222	16,064	15,875
Net gain on sale of property and equipment and other	(5,358)	(10,443)	(3,459)
Provision for impaired assets	10,956	31,080	5,629
Change in deferred income taxes	8,264	(22,666)	20,420
Tax benefit from exercise of stock options	76,730	48,392	37,229
Cumulative effect of accounting change, net of tax	—	118,023	—
Change in receivables, other current assets, accrued and other current liabilities	115,909	147,136	23,086
Increase in merchandise inventories	(280,380)	(286,902)	(255,140)
Increase in accounts payable	253,031	284,238	243,164
Other	(10,850)	(6,168)	(5,351)
Total adjustments	<u>438,921</u>	<u>543,565</u>	<u>277,768</u>
Net cash provided by operating activities	<u>1,070,358</u>	<u>940,863</u>	<u>737,610</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	(1,228,421)	(787,935)	(571,904)
Proceeds from the sale of property and equipment	62,730	58,670	80,698
Purchase of minority interest	(51,792)	—	—
Investment in unconsolidated joint ventures	(5,000)	(15,000)	(11,595)
(Increase)/decrease in short-term investments	208,959	(181,103)	(75,549)
Increase in other assets and other, net	(32,140)	(28,555)	(31,096)
Net cash used in investing activities	<u>(1,045,664)</u>	<u>(953,923)</u>	<u>(609,446)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments under short-term credit facilities, net	—	—	(24,404)
Net proceeds from issuance of long-term debt	2,199	10,336	9,928
Repayments of long-term debt	(10,513)	(11,675)	(9,307)
Changes in bank overdraft	33,746	10,203	(3,321)
Proceeds from short-term borrowings	9,435	—	—
Proceeds from minority interests	24,856	15,058	19,580
Exercise of stock options	98,828	61,923	74,115
Repurchases of common stock	(99,946)	—	—
Net cash provided by financing activities	<u>58,605</u>	<u>85,845</u>	<u>66,591</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>620</u>	<u>5,827</u>	<u>(8,289)</u>
Net increase in cash and cash equivalents	83,919	78,612	186,466
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR.....	440,586	361,974	175,508
CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$ 524,505</u>	<u>\$ 440,586</u>	<u>\$ 361,974</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (excludes amounts capitalized and paid for redemption premiums)	\$ 21,996	\$ 27,107	\$ 29,191
Income taxes	\$ 313,183	\$ 294,860	\$ 257,352

The accompanying notes are an integral part of these financial statements

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

Note 1—Summary of Significant Accounting Policies

Basis of Presentation

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

Costco operates membership warehouses that offer very low prices on a limited selection of nationally branded and selected private label products in a wide range of merchandise categories in no-frills, self-service warehouse facilities. At September 3, 2000, Costco operated 313 warehouse clubs: 237 in the United States; 59 in Canada; 10 in the United Kingdom; three in Korea; three in Taiwan; and one in Japan. As of September 3, 2000, the Company also operated (through a 50%-owned joint venture) 18 warehouses in Mexico.

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

Fiscal Years

The Company reports on a 52/53-week fiscal year basis, which ends on the Sunday nearest August 31st. Fiscal year 2000 was 53 weeks and fiscal years 1999 and 1998 were 52 weeks.

Cash Equivalents

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

Short-term Investments

At September 3, 2000 and August 29, 1999, short-term investments consisted of the following:

	<u>2000</u>	<u>1999</u>
Municipal securities	\$ —	\$ 97,966
Corporate notes and bonds	38,331	89,872
U.S. Treasury/Agency securities	—	43,699
Certificates of deposit	9,667	24,841
Other	28	310
Total short-term investments	<u>\$48,026</u>	<u>\$256,688</u>

The Company’s short-term investments have been designated as being available-for-sale and, accordingly, are reported at fair value. The fair market value of short term investments approximates their carrying value and unrealized holding gains and losses were not significant at September 3, 2000 or August 29, 1999. Realized gains and losses are included in interest income and were not significant in fiscal 2000, 1999 and 1998. Short-term investments held by the Company at September 3, 2000, mature between one and sixty days from the purchase date.

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

Note 1—Summary of Significant Accounting Policies (Continued)

Receivables

Receivables consist primarily of vendor rebates and promotional allowances and other miscellaneous amounts due to the Company, and are net of allowance for doubtful accounts of \$3,368 at September 3, 2000 and \$4,582 at August 29, 1999.

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 \$8,150 at September 3, 2000 and \$11,150 at August 29, 1999.

	September 3, 2000	August 29, 1999
Merchandise inventories consist of:		
United States (primarily LIFO)	\$2,035,097	\$1,799,101
Foreign (FIFO)	454,991	411,374
Total	\$2,490,088	\$2,210,475

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

Property and Equipment

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

Interest costs incurred on property and equipment during the construction period are capitalized. The amount of interest costs capitalized was \$10,919 in fiscal 2000, \$4,380 in fiscal 1999, and \$3,542 in fiscal 1998.

Goodwill

Goodwill, included in other assets, totaled \$49,230 at September 3, 2000 and \$42,568 at August 29, 1999, resulting from certain business combinations. Goodwill is being amortized over 2 to 40 years using the straight-line method. Accumulated amortization was \$15,896 at September 3, 2000 and \$14,787 at August 29, 1999.

Acquisition of Minority Interest

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

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

Note 1—Summary of Significant Accounting Policies (Continued)

Accounts Payable

The Company's banking system provides for the daily replenishment of major bank accounts as checks are presented. Accordingly, included in accounts payable at September 3, 2000 and August 29, 1999 are \$55,002 and \$21,081 respectively, representing the excess of outstanding checks over cash on deposit at the banks on which the checks were drawn.

Derivatives

The Company has limited involvement with derivative financial instruments and only uses them to manage well-defined interest rate and foreign exchange risks. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on inventory purchases. The amount of interest rate and foreign exchange contracts outstanding at year-end or in place during fiscal 2000 was immaterial to the Company's results of operations or its financial position.

Effective December 10, 1999, the Company entered into a "fixed-to-floating" interest rate swap agreement on its \$300,000 7¹/₈% Senior Notes which, as amended, replaces the fixed interest rate with a floating rate indexed to the three month LIBOR rate. The notional amount of the swap agreement is equal to the base value of the notes (\$300,000). This swap agreement expires in June 2005, coinciding with the maturity date of the Senior Notes.

Foreign Currency Translations

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

Membership Fees

Membership fee revenue represents annual membership fees paid by substantially all of the Company's members. Effective with the first quarter of fiscal 1999, the Company changed its method of accounting for membership fee income from a "cash basis" to a "deferred basis" whereby membership fee income is recognized ratably over the one-year life of the membership. The change to the deferred method of accounting for membership fees resulted in a one-time, non-cash, pre-tax charge of approximately \$196,705 (\$118,023 after-tax, or \$.25 per diluted share) to reflect the cumulative effect of the accounting change as of the beginning of fiscal 1999. If the deferred method of accounting for membership fee income had been in effect in fiscal 1998, net income would have been \$444,451, or \$.98 per diluted share.

Preopening Expenses

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

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

Note 1—Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

The Company adopted the SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), as of the first quarter of fiscal 1997. In accordance with SFAS No. 121, the Company recorded pretax, non-cash charges of \$10,956, \$31,080, and \$5,629 in fiscal 2000, 1999 and 1998, respectively, reflecting its estimate of impairment relating principally to excess property and closed warehouses. The charge reflects the difference between carrying value and fair value, which was based on market valuations for those assets whose carrying value was not recoverable through future cash flows. The Company periodically evaluates the realizability of long-lived assets based on expected future cash flows.

Warehouse Closing Costs

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

Income Taxes

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

Net Income Per Common and Common Equivalent Share

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

	<u>53 Weeks Ended</u> <u>September 3, 2000</u>	<u>52 Weeks Ended</u>	
		<u>August 29, 1999</u>	<u>August 30, 1998</u>
Net income available to common stockholders used in basic EPS	\$631,437	\$397,298	\$459,842
Interest on convertible bonds, net of tax	<u>9,772</u>	<u>9,640</u>	<u>9,529</u>
Net income available to common stockholders after assumed conversions of dilutive securities	<u>\$641,209</u>	<u>\$406,938</u>	<u>\$469,371</u>
Weighted average number of common shares used in basic EPS (000's)	446,255	439,253	431,013
Stock options (000's)	10,135	11,890	11,920
Conversion of convertible bonds (000's)	<u>19,347</u>	<u>19,977</u>	<u>20,438</u>
Weighted number of common shares and dilutive potential common stock used in diluted EPS (000's)	<u>475,737</u>	<u>471,120</u>	<u>463,371</u>

All per share data reflects a 2-for-1 stock split which was approved by the Company's Board of Directors for shareholders of record on December 24, 1999. The common stock began trading at a post-split price on January 14, 2000.

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

Note 1—Summary of Significant Accounting Policies (Continued)

The diluted share base calculation for fiscal years ended September 3, 2000, August 29, 1999 and August 30, 1998 excludes 3,659,000, 4,797,000 and 375,000 stock options outstanding, respectively. These options are excluded due to their anti-dilutive effect as a result of their exercise prices being greater than the average market price of the common shares during those fiscal years.

In November 1998, the Company's Board of Directors authorized a stock repurchase program of up to \$500,000 of Costco Common Stock over the next three years. Under the program, the Company may repurchase shares from time to time in the open market or in private transactions as market conditions warrant. The Company expects to fund stock purchases from cash and short-term investments on hand, as well as from future operating cash flows. The repurchased shares would constitute authorized but unissued shares and would be used for general corporate purposes including stock option grants under stock option programs. As of September 3, 2000, the Company had repurchased 3.13 million shares of common stock at an average price of \$31.96 per share, totaling approximately \$99,946 excluding commissions.

Supplemental Disclosure of Significant Non-Cash Activities

Fiscal 2000 Non-Cash Activities

- None.

Fiscal 1999 Non-Cash Activities

- In March 1999, approximately \$48,000 principal amount of the \$900,000, 3½% Zero Coupon Convertible Subordinated Notes were converted into approximately 1.09 million shares of Costco Common Stock.

Fiscal 1998 Non-Cash Activities

- None.

Recent Accounting Pronouncements

During June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative and Hedging Activities, and in June 2000, issued SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133. These new standards require companies to record derivative financial instruments on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the fair value of those derivatives would be accounted for based on the use of the derivative and whether the instrument qualified for hedge accounting, as defined in SFAS 133 and 138. The Company was required to adopt the provisions of SFAS 133 and 138 on September 4, 2000, the first day of fiscal 2001. The Company's use of derivative instruments is limited to the fixed-to-floating swap contract on its 7½% Senior Notes and foreign exchange contracts and the impact of adoption was not material.

In December 1999, the staff of the Securities and Exchange Commission released Staff Accounting Bulletin, or SAB, No. 101, "Revenue Recognition", to provide guidance on the recognition, presentation, and disclosure of revenues in financial statements. The Company believes that its revenue recognition practices are currently in conformity with the guidelines in SAB 101, as revised, and that this pronouncement will have no impact on its financial statements.

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

Note 1—Summary of Significant Accounting Policies (Continued)

In March 2000, the Financial Accounting Standards Board, or FASB, released FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25," which provides clarification of Opinion No. 25 for certain issues, such as the determination of who is an employee, the criteria for determining whether a plan qualifies as a non-compensatory plan, the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and the accounting for an exchange of stock compensation awards in a business combination. The Company believes that its practices are in conformity with this guidance, and therefore Interpretation No. 44 will have no impact on its financial statements.

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—Debt

Bank Lines of Credit and Commercial Paper Programs

The Company has in place a \$425,000 commercial paper program supported by a \$425,000 bank credit facility with a group of 11 banks, which expires in January 2001. At September 3, 2000, no amounts were outstanding under the loan facility or the commercial paper program. On November 15, 2000, the bank facility was increased to \$500,000 of which \$250,000 expires on November 14, 2001 and \$250,000 expires on November 15, 2005.

In addition, a wholly owned Canadian subsidiary has a \$136,000 commercial paper program supported by a \$95,000 bank credit facility with three Canadian banks, which expires in March 2001. At September 3, 2000, no amounts were outstanding under the bank credit facility or the Canadian commercial paper program.

The Company has agreed to limit the combined amount outstanding under the U.S. and Canadian commercial paper programs to the \$520,000 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 \$372,000. The outstanding commitments under these facilities at September 3, 2000 totaled approximately \$273,000, including approximately \$28,000 in standby letters of credit.

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

Note 2—Debt (Continued)

Short-Term Borrowings

The weighted average borrowings, highest borrowings and interest rate under all short-term borrowing arrangements were as follows for fiscal 2000 and 1999:

<u>Category of Aggregate Short-Term Borrowings</u>	<u>Maximum Amount Outstanding During the Period</u>	<u>Average Amount Outstanding During the Period</u>	<u>Weighted Average Interest Rate During the Period</u>
Period ended September 3, 2000			
Bank borrowings:			
U.S	\$ —	\$ —	—%
Canadian	5,080	206	6.93
Other International	9,500	731	1.38
Commercial Paper:			
U.S	—	—	—
Canadian	69,265	846	5.10
Period ended August 29, 1999			
Bank borrowings:			
U.S	\$ —	\$ —	—%
Canadian	5,753	87	6.50
Other International	—	—	—
Commercial Paper:			
U.S	—	—	—
Canadian	13,380	682	4.84

Long-term Debt

Long-term debt at September 3, 2000 and August 29, 1999:

	<u>2000</u>	<u>1999</u>
7½% Senior Notes due June 2005	\$300,000	\$300,000
3½% Zero Coupon convertible subordinated notes due August 2017	473,005	456,783
Unsecured note payable to banks due April 2001	140,000	140,000
Notes payable secured by trust deeds on real estate	11,221	12,723
Capital lease obligations and other	14,576	21,213
	<u>938,802</u>	<u>930,719</u>
Less current portion (included in other current liabilities)	148,749	11,831
Total long-term debt	<u>\$790,053</u>	<u>\$918,888</u>

The Company issued \$300,000 of 7½% Senior Notes in fiscal 1995. Interest on the notes is payable semiannually on June 15 and December 15. The indentures contain certain limitations on the Company's and certain subsidiaries' ability to create liens securing indebtedness and to enter into certain sale leaseback transactions. In December 1999, the Company entered into a "fixed-to-floating" interest rate swap agreement which, as amended, replaces the fixed interest rate with a floating rate indexed to LIBOR.

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

Note 2—Debt (Continued)

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

On August 19, 1997, the Company completed the sale of \$900,000 principal amount at maturity of Zero Coupon Subordinated Notes (the “Notes”) due August 19, 2017. The Notes were priced with a yield to maturity of 3½%, resulting in gross proceeds to the Company of \$449,640. The Notes are convertible into a maximum of 20,438,180 shares of Costco Common Stock at an initial conversion price of \$22.00. Holders of the Notes may require the Company to purchase the Notes (at the discounted issue price plus accrued interest to date of purchase) on August 19, 2002, 2007, or 2012. The Company, at its option, may redeem the Notes (at the discounted issue price plus accrued interest to date of redemption) any time on or after August 19, 2002. As of September 3, 2000, \$48,123 in principal amount of the Zero Coupon Notes were converted by note holders to shares of Costco Common Stock.

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

At September 3, 2000, the fair value of the 7¼% Senior Notes, based on market quotes, was approximately \$300,120. The Senior Notes are not redeemable prior to maturity. The fair value of the 3½% Zero Coupon Subordinated Notes at September 3, 2000, based on market quotes, was approximately \$727,418. The fair value of other long-term debt approximates carrying value.

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

2001	\$148,749
2002	3,829
2003	1,586
2004	1,264
2005	301,396
Thereafter	<u>481,978</u>
Total	<u>\$938,802</u>

Note 3—Leases

The Company leases land and/or warehouse buildings at 68 of the 313 warehouses open at September 3, 2000, and certain other office and distribution facilities under operating leases with remaining terms ranging from 1 to 30 years. These leases generally contain one or more of the following options which the Company can exercise at the end of the initial lease term: (a) renewal of the lease for a defined number of years at the then fair market rental rate; (b) purchase of the property at the then fair market value; or (c) right of first refusal in the event of a third party purchase offer. Certain leases provide for periodic rental increases based on the price indices and some of the leases provide for rents based on the greater of minimum guaranteed amounts or sales volume. Contingent rents have not been material.

Additionally, the Company leases certain equipment and fixtures under short-term operating leases that permit the Company to either renew for a series of one-year terms or to purchase the equipment at the then fair market value.

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

Note 3—Leases (Continued)

Aggregate rental expense for fiscal 2000, 1999, and 1998, was \$67,886, \$59,263, and \$55,375, respectively. Future minimum payments during the next five fiscal years and thereafter under non-cancelable leases with terms in excess of one year, at September 3, 2000, were as follows:

2001	\$ 66,056
2002	65,426
2003	64,051
2004	64,339
2005	60,452
Thereafter	<u>622,309</u>
Total minimum payments	<u>\$942,633</u>

Note 4—Stock Options

The Company's 1993 Combined Stock Grant and Stock Option Plan (the New Stock Option Plan) provides for the issuance of up to 60 million shares of its common stock upon the exercise of stock options and up to 3,333,332 shares through stock grants. Prior to the merger of The Price Company and Costco Wholesale Corporation, various incentive and non-qualified stock option plans existed which allowed certain key employees and directors to purchase or be granted common stock of The Price Company and Costco Wholesale Corporation (collectively the Old Stock Option Plans). Options were granted for a maximum term of ten years, and were exercisable upon vesting. Options granted under these plans generally vest ratably over five to nine years. Subsequent to the merger, new grants of options have not been made under the Old Stock Option Plans. At September 3, 2000 options for approximately 12.6 million shares were vested and 11.8 million shares were available for future grants under the plan.

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

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net income:			
As reported	\$631,437	\$397,298	\$459,842
Pro forma	\$570,669	\$352,660	\$438,053
Net income per share (diluted):			
As reported	\$ 1.35	\$.86	\$ 1.01
Pro forma	\$ 1.22	\$.77	\$.97

The effects of applying SFAS No. 123 on pro forma disclosures of net income and earnings per share for fiscal 2000, 1999 and 1998 are not likely to be representative of the pro forma effects on net income and earnings per share in future years.

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

Note 4—Stock Options (Continued)

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 2000, 1999 and 1998:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Risk free interest rate	6.56%	5.09%	5.60%
Expected life	5 years	7 years	7 years
Expected volatility	42%	37%	34%
Expected dividend yield	0%	0%	0%

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

	<u>2000</u>		<u>1999</u>		<u>1998</u>	
	<u>Shares</u>	<u>Price(1)</u>	<u>Shares</u>	<u>Price(1)</u>	<u>Shares</u>	<u>Price(1)</u>
Under option at beginning of year	36,778	\$19.89	34,604	\$13.52	34,642	\$ 9.98
Granted(2)	7,501	42.76	9,106	36.90	8,428	23.84
Exercised	(7,688)	12.74	(6,468)	9.95	(7,992)	9.30
Cancelled	(570)	25.47	(464)	18.34	(474)	9.91
Under option at end of year	<u>36,021</u>	<u>\$26.09</u>	<u>36,778</u>	<u>\$19.89</u>	<u>34,604</u>	<u>\$13.52</u>

(1) Weighted-average exercise price/grant price

(2) The weighted-average fair value based on the Black-Scholes model of options granted during fiscal 2000, 1999 and 1998, were \$20.35, \$15.50, and \$9.86, respectively.

The following table summarizes information regarding stock options outstanding at September 3, 2000:

<u>Range of Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number</u>	<u>Remaining Contractual</u>		<u>Number</u>	<u>Price(1)</u>
		<u>Life(1)</u>	<u>Price(1)</u>		
\$5.67 – \$13.44	12,758	5.2	\$10.75	8,285	\$10.08
\$14.06 – \$36.91	16,057	7.9	30.41	4,009	27.16
\$43.00 – \$52.50	7,206	9.5	43.65	279	47.22
	<u>36,021</u>	<u>7.3</u>	<u>\$26.09</u>	<u>12,573</u>	<u>\$16.35</u>

(1) Weighted-average

At August 29, 1999 and August 30, 1998, there were 12,488 and 11,852 options exercisable at weighted average exercise prices of \$21.19 and \$9.83, respectively.

Note 5—Retirement Plans

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

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

Note 5—Retirement Plans (Continued)

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

Amounts expensed under these plans were \$97,830, \$85,974, and \$73,764 for fiscal 2000, 1999, and 1998, respectively. The Company has defined contribution 401(k) and retirement plans only, and thus has no liability for post-retirement benefit obligations under the SFAS No. 106 "Employer's Accounting for Post-retirement Benefits Other than Pensions."

Note 6—Income Taxes

The provisions for income taxes for fiscal 2000, 1999, and 1998 are as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Federal:			
Current	\$290,995	\$259,104	\$214,788
Deferred	<u>2,894</u>	<u>(70,248)</u>	<u>(3,415)</u>
Total federal	<u>293,889</u>	<u>188,856</u>	<u>211,373</u>
State:			
Current	57,753	54,701	49,881
Deferred	<u>2,072</u>	<u>(13,418)</u>	<u>(2,231)</u>
Total state	<u>59,825</u>	<u>41,283</u>	<u>47,650</u>
Foreign:			
Current	64,210	52,416	47,096
Deferred	<u>3,034</u>	<u>(17,692)</u>	<u>442</u>
Total foreign	<u>67,244</u>	<u>34,724</u>	<u>47,538</u>
Total provision for income taxes	<u>\$420,958</u>	<u>\$264,863</u> (a)	<u>\$306,561</u>

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

Reconciliation between the statutory tax rate and the effective rate for fiscal 2000, 1999, and 1998 is as follows:

	<u>2000</u>		<u>1999</u>		<u>1998</u>	
Federal taxes at statutory rate	\$368,338	35.00%	\$231,756	35.00%	\$268,241	35.00%
State taxes, net	40,202	3.82	28,870	4.36	33,722	4.40
Foreign taxes, net	10,221	.97	10,532	1.59	8,543	1.11
Other	<u>2,197</u>	<u>.21</u>	<u>(6,295)</u>	<u>(0.95)</u>	<u>(3,945)</u>	<u>(0.51)</u>
Provision at effective tax rate	<u>\$420,958</u>	<u>40.00%</u>	<u>\$264,863</u>	<u>40.00%</u>	<u>\$306,561</u>	<u>40.00%</u>

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

Note 6—Income Taxes (Continued)

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

	<u>September 3, 2000</u>	<u>August 29, 1999</u>
Accrued liabilities	\$118,385	\$118,912
Deferred membership fees	108,331	78,151
Other	7,414	15,589
Total deferred tax assets	<u>234,130</u>	<u>212,652</u>
Property and equipment	98,149	52,795
Merchandise inventories	37,063	42,551
Other	297	10,684
Total deferred tax liabilities	<u>135,509</u>	<u>106,030</u>
Net deferred tax assets	<u>\$ 98,621</u>	<u>\$106,622</u>

The deferred tax accounts at September 3, 2000 and August 29, 1999 include current deferred income tax assets of \$179,007 and \$164,839, respectively, and non-current deferred income tax liabilities of \$80,386 and \$58,217, respectively. Current deferred income tax assets are included in other current assets.

Note 7—Commitments and Contingencies

Legal Proceedings

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

Note 8—Segment Reporting

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

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

Note 8—Segment Reporting (Continued)

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

	<u>United States Operations</u>	<u>Canadian Operations</u>	<u>Other International Operations</u>	<u>Total</u>
Year Ended September 3, 2000				
Total revenue	\$26,170,108	\$4,743,657	\$1,250,531	\$32,164,296
Operating income (loss)	848,605	192,310	(3,465)	1,037,450
Depreciation and amortization	198,436	36,563	19,398	254,397
Capital expenditures	998,429	41,962	188,030	1,228,421
Total assets	6,833,440	1,134,998	665,502	8,633,940
Year Ended August 29, 1999				
Total revenue	\$22,404,026	\$4,104,662	\$ 947,343	\$27,456,031
Operating income (loss)	723,375	146,839	(10,087)	860,127
Depreciation and amortization	177,661	32,559	14,591	224,811
Capital expenditures	655,924	79,583	52,428	787,935
Total assets	5,984,537	992,943	527,521	7,505,001
Year Ended August 30, 1998				
Total revenue	\$19,620,552	\$4,030,766	\$ 618,559	\$24,269,877
Operating income (loss)	648,429	142,807	(3,960)	787,276
Depreciation and amortization	154,680	32,113	9,522	196,315
Capital expenditures	448,173	55,373	68,358	571,904
Total assets	4,984,511	847,430	427,879	6,259,820

MARKET FOR COSTCO COMMON STOCK

Costco Common Stock is quoted on The Nasdaq Stock Market's National Market under the symbol "COST."

The following table sets forth the closing high and low sales prices of Costco Common Stock for the period January 1, 1998 through December 8, 2000. The quotations are as reported in published financial sources. The Company's Board of Directors approved a 2-for-1 stock split of Costco Common Stock which became effective for shareholders of record on December 24, 1999. The common stock began trading at the post-split price on January 14, 2000 and all stock prices below reflect the post-split price.

	Costco Common Stock	
	High	Low
Calendar Quarters—1998		
First Quarter	29 ³ / ₃₂	21 ¹ / ₁₆
Second Quarter	31 ³⁹ / ₆₄	25 ¹¹ / ₁₆
Third Quarter	32 ¹ / ₂	22 ¹⁷ / ₃₂
Fourth Quarter	37 ⁷ / ₁₆	22 ⁵ / ₃₂
Calendar Quarters—1999		
First Quarter	45 ²⁹ / ₃₂	35 ⁵ / ₈
Second Quarter	46 ¹ / ₄	35 ⁹ / ₁₆
Third Quarter	43 ⁹ / ₃₂	33 ¹ / ₁₆
Fourth Quarter	49 ¹¹ / ₃₂	36
Calendar Quarters—2000		
First Quarter	55 ⁶¹ / ₆₄	42 ¹ / ₁₆
Second Quarter	58 ⁷ / ₁₆	30
Third Quarter	38 ³ / ₈	31 ⁵ / ₁₆
Fourth Quarter (through December 8, 2000)	36 ⁷ / ₈	30 ⁵ / ₈

On December 8, 2000, the Company had 8,100 stockholders of record.

DIVIDEND POLICY

Costco has never paid regular dividends and presently has no plans to declare a cash dividend. Under its two revolving credit agreements, Costco is generally permitted to pay dividends in any fiscal year up to an amount equal to 50% of its consolidated net income for that fiscal year.

DIRECTORS AND OFFICERS

DIRECTORS

Jeffrey H. Brotman

Chairman of the Board

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

Director

Richard D. DiCerchio

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

Richard A. Galanti

Executive Vice President,
Chief Financial Officer and Director

Hamilton E. James

Director

Richard M. Libenson

Director

John W. Meisenbach

Director

Charles T. Munger

Director

Frederick O. Paulsell, Jr.

Director

Jill S. Ruckelshaus

Director

James D. Sinegal

President, Chief Executive Officer and Director

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Senior Vice President, Real Estate & Law

Jeffrey H. Brotman

Chairman of the Board

Don Burdick

Senior Vice President, Information Systems

Charles V. Burnett

Senior Vice President, Pharmacy

Roger A. Campbell

Senior Vice President, General Manager—
Southeast Region

Richard Chavez

Senior Vice President—Asia

Robert E. Craves

Senior Vice President, Community Giving

Hubert de Suduiraut

Senior Vice President, General Manager—
Western Canada Region

Richard D. DiCerchio

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

John B. Gaherty

Senior Vice President, Regional Manager—
Midwest Region

Richard A. Galanti

Executive Vice President—Chief Financial Officer

Jaime Gonzalez

Senior Vice President, General Manager—Mexico

Bruce Greenwood

Senior Vice President, General Manager—
Los Angeles Region

Robert D. Hicok

Senior Vice President, General Manager—
San Diego Region

Dennis A. Hoover

Senior Vice President, General Manager—
Bay Area Region

W. Craig Jelinek

Executive Vice President, COO—
Northern and Midwest Divisions

Dennis E. Knapp

Senior Vice President, GMM—Non-Foods

Franz E. Lazarus

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

Jeffrey R. Long

Senior Vice President, General Manager—
Northeast Region

John Matthews

Senior Vice President, Human Resources and Risk
Management

John McKay

Senior Vice President, General Manager—
Northwest Region

Paul G. Moulton

Executive Vice President, Marketing, e-Commerce,
Membership and Member Services

James P. Murphy

Senior Vice President—Europe

David S. Petterson

Senior Vice President, Corporate Controller

Joseph P. Portera

Executive Vice President, COO—
Eastern and Canadian Divisions

Ginnie Roeglin

Senior Vice President, Membership, Marketing and
Member Services

Timothy L. Rose

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

James D. Sinegal

President and Chief Executive Officer

John D. Thelan

Senior Vice President, Depots

Thomas K. Walker

Senior Vice President, Construction, Purchasing and
Depots

Louise Wendling

Senior Vice President, General Manager—
Eastern Canada Region

Dennis R. Zook

Executive Vice President, COO—Southwest Division
and Mexico

VICE PRESIDENTS

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Operations—Bay Area Region
- Sandi Babins**
GMM-Foods & Sundries—Western Canada Region
- Francis Ball**
GMM-Foods—U.K.
- Joe F. Basse**
GMM—Director of Corporate Non Foods
- John Booth**
Operations—Bay Area Region
- Andree Brien**
GMM-Softlines, Fresh Foods & Ancillary Sales—Eastern Canada Region
- Alan Bubitz**
GMM-Food Services & Food Court
- Debbie Cain**
GMM-Foods—Northwest Region
- Patrick Callans**
Member Services
- Susan Castillo**
e-Commerce & Publishing
- Richard Chang**
Country Manager—Taiwan
- Gerard Dempsey**
Operations—Southeast Region
- George Ed Dwyer**
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GMM-Foods—Los Angeles Region
- Timothy K. Farmer**
GMM-Corporate Majors, Furniture, Photo/Camera
- Jack S. Frank**
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- Gary Giacomi**
Operations—Northwest Region
- Cynthia Glaser**
GMM-Private Label—Non Foods
- Isaac Hamaoui**
GMM-Foods & Sundries—Eastern Canada Region
- Larry Harder**
Director, Real Estate Development—East
- Bob Hardie**
Internal Audit
- Bill Hanson**
GMM-Foods—Midwest Region
- Doris Harley**
GMM-Food & Sundries—Southeast Region
- Dave Harruff**
Operations—Northwest Region
- Daniel M. Hines**
Financial Accounting Controller
- Mitzi Hu**
GMM—Imports
- Ross Hunt**
Finance, Accounting, IS & Human Resources—Eastern Canada Region
- Harold E. Kaplan**
Corporate Treasurer
- Paul Latham**
Costco Trading Gas Stations
- Gerry Liben**
GMM-Hardlines—Eastern Canada Region
- Phil Lind**
GMM-Non Foods—U.K.
- Jim Klauer**
GMM—Corporate Non Foods
- Judith Logan**
GMM-Foods & Sundries—Northeast Region
- Jeff Lyons**
GMM-Corporate Fresh Foods
- Mark Maushund**
Operations—Los Angeles Region
- Susan McConnaha**
Director of Bakery Operations
- John Minola**
Construction
- Russ Miller**
Operations—Northeast Region
- Ali Moayeri**
Construction
- Michael W. Mosteller**
Operations—Security/Labor Relations
- Robert E. Nelson**
Financial Planning & Investor Relations
- David Nickel**
GMM-Non Foods—Western Canada Region
- Gary F. Ojendyk**
GMM-Hardlines
- Richard J. Olin**
Real Estate & Law, General Counsel
- John R. Osterhaus**
Photo, Optical & Hearing Aids
- Steve Pappas**
Country Manager—Korea
- Shawn Parks**
Operations—Los Angeles Region
- Roger E. Peterson**
Operations—San Diego Region
- Robert L. Pugmire**
GMM-Softlines
- C.J. Ray**
GMM-Foods—Bay Area Region
- Pierre Riel**
Operations—Eastern Canada Region
- George R. Roe**
Operations—Pharmacy
- Yoram Rubanenko**
Operations—Northeast Region
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- Drew Sakuma**
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e-Commerce, Business Delivery & Business Centers
- Michael Sinegal**
Country Manager—Japan
- Don H. Stacy**
GMM-Foods & Sundries—Texas Region
- Kimberley L. Suchomel**
GMM—International
- Keith H. Thompson**
Purchasing and Facility Audits
- Scott Tyler**
Operations—Western Canada Region
- Ron Vachris**
Operations—San Diego Region
- Stanley D. Winberg**
GMM-Foods—San Diego Region
- Charlie A. Winters**
Director of Meat Operations

ADDITIONAL INFORMATION

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

Corporate Office

999 Lake Drive
Issaquah, WA 98027
(425) 313-8100

Division Offices

Northern/Midwest Division

Northwest Region
1045 Lake Drive
Issaquah, WA 98027

Bay Area Region
2820 Independence Drive
Livermore, CA 94550

Midwest Region
1901 West 22nd St., 2nd Floor
Oak Brook, IL 60523

Eastern Division

Northeast Region
46000 Manekin Plaza
Sterling, VA 20166

Southeast Region
3980 Venture Drive NW
Suite W100
Duluth, GA 30096

Southwest Division

Los Angeles Region
11000 Garden Grove, #201
Garden Grove, CA 92843

San Diego Region
4455 Morena Blvd.
San Diego, CA 92117

Arizona Region
5850 West Bell Road
Glendale, AZ 85308

Texas Region
1548 Valwood Parkway, Suite 118
Carrollton, TX 75006

Canadian Division

Eastern Region
3000 Jacques Bureau
Laval, Quebec H7P 5P7

Western Region
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Burnaby, BC V5A-4W3

International Division

United Kingdom Region
213 Hartspring Lane
Watford, Hertfordshire
England, UK WD2 8JS

Japan Region
4F Komahara Bldg.
1-4-3 Yakumo, Meguro-ku
Tokyo, Japan 152-0023

Korea Region
65-3 KA Yang Pyungdong
Youngdongpo-Gu
Seoul, Korea

Taiwan Region
656 Chung Hwa 5th Rd
Kaohsiung Taiwan

Mexico Region
Boulevard Magnocentro#4
Col San Fernando
La Herradura 52760
Huixquilucan, Mexico

Annual Meeting

Thursday, January 25, 2001 at 10:00 AM
Doubletree Hotel
300 - 112th Ave S.E.
Bellevue, Washington 98004

Transfer Agent

ChaseMellon Shareholder Services, L.L.C.
Shareholder Relations
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South Hackensack, New Jersey 07606
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TDD for Hearing Impaired: (800) 231-5469
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Independent Public Accountants

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

Legal Counsel

Foster, Pepper & Shefelman
1111 Third Avenue
Seattle, Washington 98101


Stock Exchange Listing

NASDAQ Stock Market
Stock Symbol: COST

COSTCO SHAREHOLDERS ARE ELIGIBLE FOR GOLD STAR MEMBERSHIP

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



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