



DATE: October 7, 2004
TO: INTERESTED PARTIES
FROM: Richard Galanti, EVP/CFO
RE: **Additional Fourth Quarter FY 2004 Information**

The attached information is provided to address questions about Costco Wholesale Corporation's fourth quarter and fiscal 2004 results (dollars in thousands):

1. What was the impact of LIFO in fiscal 2004?

	<u>LIFO (Income)/Expense (Pre-tax)</u> <u>(000's/% to Sales)</u>		
	<u>Fiscal 2004</u>	<u>Fiscal 2003</u>	<u>Fiscal 2002</u>
1st Quarter	\$0/0%	\$0/0%	\$2,500/.03%
2nd Quarter	\$0/0%	\$0/0%	\$2,500/.03%
3rd Quarter	\$5,500/.05%	(\$5,000)/(.05%)	\$2,500/.03%
4th Quarter	\$590/.00%	(\$14,650)/(.11%)	(\$21,000)/(.17%)
YTD	\$6,090/.01%	(\$19,650)/(.05%)	(\$13,500)/(.04%)

2. Calculation of Diluted Earnings Per Share – see attached.

3. FYE 2004 Cash Flow Statement - see attached.

4. FYE 2004 Balance Sheet- see attached.

5. What was the effect of the Canadian and UK exchange rates for FY 2004? FY 2003? For FY 2002?

Exchange Rates	CANADA (CN vs. US)			UK(UK vs. US)		
	FY 2004	FY2003	FY2002	FY 2004	FY 2003	FY 2002
1st Quarter	.7485	.6353	.6333	1.6540	1.5619	1.4443
2nd Quarter	.7641	.6466	.6288	1.7918	1.6022	1.4328
3rd Quarter	.7481	.6819	.6316	1.8251	1.5836	1.4413
4th Quarter	.7460	.7269	.6465	1.8216	1.6278	1.5136
YTD/Total	.7510	.6747	.6358	1.7735	1.5959	1.4610

6. What was the impact of income tax rates in FY 2004? FY 2003? FY 2002?

	<u>Fiscal 2004</u>	<u>Fiscal 2003</u>	<u>Fiscal 2002</u>
1st Quarter	37.00%	38.50%	40.00%
2nd Quarter	37.00%	38.50%	40.00%
3rd Quarter	37.00%	38.50%	40.00%
4th Quarter	37.00%	36.18%	35.55%
YTD/Total Year	37.00%	37.75%	38.50%

7. Breakdown of Total and Comparable Warehouse Sales Increases:

	FY 2004		FY 2003		FY 2002	
	Total Sales	Comp. Sales	Total Sales	Comp. Sales	Total Sales	Comp. Sales
1st Quarter	14%	11%	9%	4%	11%	5%
2nd Quarter	14%	11%	8%	4%	13%	7%
3rd Quarter	14%	11%	11%	6%	12%	6%
4th Quarter	11%	8%	11%	7%	10%	6%
YTD/Total Year	13%	10%	10%	5%	11%	6%

8. Warehouse Openings for FY 2004

Costco ended its fiscal year 2004 on August 29, 2004 with 441 warehouses in operation, including 327 in the United States, 63 in Canada, 15 in the United Kingdom, five in Korea, three in Taiwan, four in Japan and 24 in Mexico. Planned warehouse openings in FY 2005 through 12/31/04 are listed below:

<u>Date</u>	<u>Location</u>	<u>Date</u>	<u>Location</u>
<u>First Qtr</u>		<u>Fourth Qtr</u>	
09/09/03	Cuernavaca, MX	07/08/04	Lake in the Hills, IL
09/25/03	Commerce Township, MI	07/23/04	Poway, CA
10/09/03	Chantilly, VA	07/24/04	Tijuana II, MX
10/18/03	Cabo San Lucas, MX	07/28/04	Leesburg, VA
10/30/03	Inglewood, CA (re-opening)	07/29/04	Enfield, CT
11/12/03	Fife, WA (Business Center)	08/25/04	Lewisville, TX
11/13/03	El Paso, TX	08/26/04	Turlock, CA
11/18/03	S. Ogden, UT	08/27/04	Vancouver, WA
11/19/03	Terrebonne, QC		
11/20/03	Hoover, AL	<u>First Qtr '05</u>	<u>Location</u>
11/21/03	Greensboro, NC	9/16/04	S. Mississauga, ON (relocation)
		10/2/04	Kanazawa Seaside, Japan
<u>Second Qtr</u>	<u>Location</u>	10/13/04	Mt. Prospect, IL
12/13/03	Citrus Heights, CA	10/14/04	S. Edmonton, AB (relocation)
		10/28/04	Chula Vista, CA (relocation)
<u>Third Qtr</u>	<u>Location</u>	10/29/04	Tempe, AZ (Costco Home)
02/19/04	North London, ON	11/18/04	Eden Prairie, MN
03/18/04	Myrtle Beach, SC	12/04/04	Arboledas, MX
04/22/04	Coeur D'Alene, ID	12/07/04	Des Moines, IA
		12/08/04	Green Oak Township, MI
		12/09/04	Grand Rapids, MI
		12/10/04	Langley, BC

COSTCO WHOLESALE CORPORATION
ADDITIONAL Q4 FY 2004 QUARTER INFORMATION
CALCULATION OF DILUTED EARNINGS PER SHARE

	Nov 23, 2003 1 st Qtr 12 Weeks	Feb 15, 2004 2 nd Qtr 12 Weeks	May 9, 2004 3 rd Qtr 12 Weeks	Aug 29, 2004 4 th Qtr 16 Weeks	Aug 29, 2004 YTD 52 Weeks
Net Income	\$160,175	\$226,792	\$198,658	\$296,768	\$882,393
Interest Add Back					
3 ½ % Zero Coupons	2,638	2,638	2,711	3,620	11,607
Adjusted Net Income	<u>\$162,813</u>	<u>\$229,430</u>	<u>\$201,369</u>	<u>\$300,388</u>	<u>\$894,000</u>
Weighted Average Shares Outstanding	<u>461,003</u>	<u>462,192</u>	<u>463,140</u>	<u>465,731</u>	<u>463,115</u>
Share Add Back					
3 ½ % Zero Coupons	19,345	19,345	19,345	19,342	19,344
Diluted Shares	<u>480,348</u>	<u>481,537</u>	<u>482,485</u>	<u>485,073</u>	<u>482,459</u>
E.P.S. - Diluted	<u>\$ 0.34</u>	<u>\$ 0.48</u>	<u>\$ 0.42</u>	<u>\$0.62</u>	<u>\$1.85</u>

Debentures are dilutive when E.P.S. exceeds:					
	(12 weeks)	(16 weeks)	(24 weeks)	(36 weeks)	(52 weeks)
3 ½ % Zero Coupons	<u>\$0.1364</u>	<u>\$0.1871</u>	<u>\$0.2727</u>	<u>\$0.4128</u>	<u>\$0.6000</u>

COSTCO WHOLESALE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	52 Weeks Ended August 29, 2004	52 Weeks Ended August 31, 2003	52 Weeks Ended September 1, 2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 882,393	\$ 721,000	\$ 699,983
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	440,721	391,302	341,781
Accretion of discount on zero coupon notes.....	18,421	17,852	17,233
Stock-based compensation	36,508	12,069	—
Undistributed equity earnings in affiliates	(23,517)	(21,612)	(21,485)
Net (gain)/loss on sale of property and equipment and other.....	(9,122)	4,907	4,001
Provision for impaired assets	2,592	4,697	—
Change in deferred income taxes	106,498	68,693	12,179
Tax benefit from exercise of stock options.....	22,712	12,348	27,171
Change in receivables, other current assets, deferred income, accrued and other current liabilities.....	666,025	232,167	129,883
Increase in merchandise inventories	(256,438)	(162,759)	(380,158)
Increase in accounts payable	211,990	226,544	187,655
Total adjustments	1,216,390	786,208	318,260
Net cash provided by operating activities.....	2,098,783	1,507,208	1,018,243
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	(705,620)	(810,665)	(1,038,605)
Proceeds from the sale of property and equipment.....	55,400	51,829	32,849
Investment in unconsolidated joint venture.....	(95,153)	—	(1,000)
(Increase)/decrease in short-term investments	(303,945)	—	4,928
Decrease/(increase) in other assets and other, net.....	837	(31,752)	(31,987)
Net cash used in investing activities	(1,048,481)	(790,588)	(1,033,815)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments from short-term borrowings, net	(31,492)	(58,144)	(99,175)
Net proceeds from issuance of long-term debt.....	—	59,424	300,000
Repayments of long-term debt	(6,602)	(11,823)	(18,540)
Changes in bank checks outstanding.....	212,251	(31,639)	(35,136)
Dividends paid	(92,137)	—	—
Proceeds from minority interests	2,805	6,087	3,908
Exercise of stock options	124,744	34,667	66,771
Net cash provided by/(used in) financing activities	209,569	(1,428)	217,828
EFFECT OF EXCHANGE RATE CHANGES ON CASH.....	17,825	24,729	677
Increase in cash and cash equivalents.....	1,277,696	739,921	202,933
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR.....	1,545,439	805,518	602,585
CASH AND CASH EQUIVALENTS END OF YEAR.....	\$ 2,823,135	\$ 1,545,439	\$ 805,518
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (excludes amounts capitalized)	\$ 14,648	\$ 20,861	\$ 9,511
Income taxes	\$ 327,368	\$ 320,546	\$ 351,003

COSTCO WHOLESALE CORPORATION

CONSOLIDATED BALANCE SHEETS
(dollars in thousands except par value)

	<u>August 29, 2004</u>	<u>August 31, 2003</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,823,135	\$ 1,545,439
Short-term investments	306,747	—
Receivables, net	335,175	556,090
Merchandise inventories	3,643,585	3,339,428
Other current assets	160,457	270,581
Total current assets	<u>7,269,099</u>	<u>5,711,538</u>
PROPERTY AND EQUIPMENT		
Land.....	2,284,574	2,173,685
Buildings, leaseholds and land improvements	5,212,295	4,831,236
Equipment and fixtures.....	1,974,995	1,846,324
Construction in progress	132,180	154,181
	<u>9,604,044</u>	<u>9,005,426</u>
Less accumulated depreciation and amortization	<u>(2,340,347)</u>	<u>(2,045,418)</u>
Net property and equipment.....	<u>7,263,697</u>	<u>6,960,008</u>
OTHER ASSETS	<u>559,752</u>	<u>520,142</u>
	<u>\$ 15,092,548</u>	<u>\$ 13,191,688</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$ 21,595	\$ 47,421
Accounts payable	3,600,200	3,131,320
Accrued salaries and benefits	904,209	734,261
Accrued sales and other taxes.....	223,009	207,392
Deferred membership income	453,881	401,357
Other current liabilities	967,656	489,356
Total current liabilities	<u>6,170,550</u>	<u>5,011,107</u>
LONG-TERM DEBT	993,746	1,289,649
DEFERRED INCOME TAXES AND OTHER LIABILITIES	244,176	209,835
Total liabilities	<u>7,408,472</u>	<u>6,510,591</u>
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	<u>59,266</u>	<u>126,117</u>
STOCKHOLDERS' EQUITY		
Preferred stock \$.005 par value; 100,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock \$.005 par value; 900,000,000 shares authorized; 462,637,000 and 457,479,000 shares issued and outstanding	2,313	2,287
Additional paid-in capital	1,466,366	1,280,942
Other accumulated comprehensive income/(loss)	16,144	(77,980)
Retained earnings.....	6,139,987	5,349,731
Total stockholders' equity.....	<u>7,624,810</u>	<u>6,554,980</u>
	<u>\$ 15,092,548</u>	<u>\$ 13,191,688</u>