Annual Report 2002

COSTCO WHOLESALE

YEAR ENDED SEPTEMBER 1, 2002

2002

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. On August 30, 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 2002, the Company operated a chain of 412 warehouses in 36 states and Puerto Rico (304 locations), nine Canadian provinces (61 locations), the United Kingdom (15 locations, through an 80%-owned subsidiary), Korea (five locations), Taiwan (three locations, through a 55%-owned subsidiary) and Japan (three locations), as well as 21 warehouses in Mexico through a 50%-owned joint venture.

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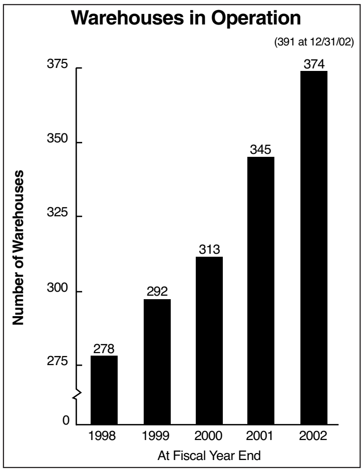
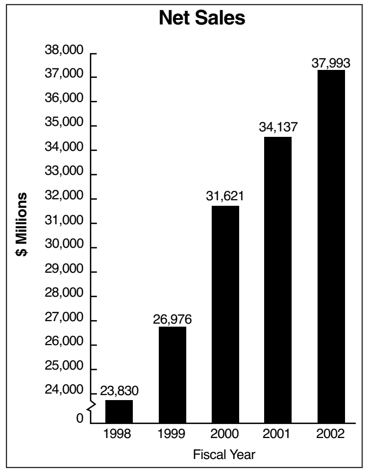
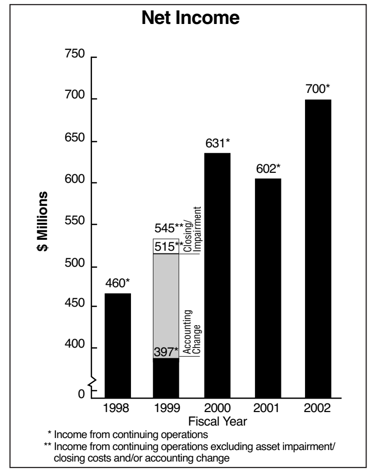
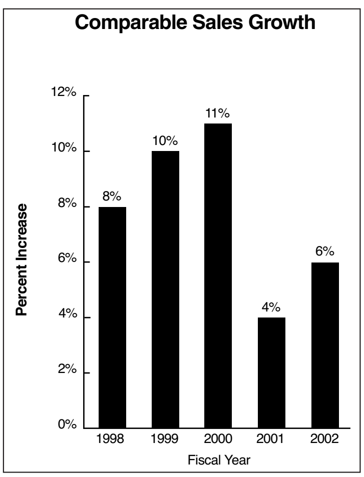
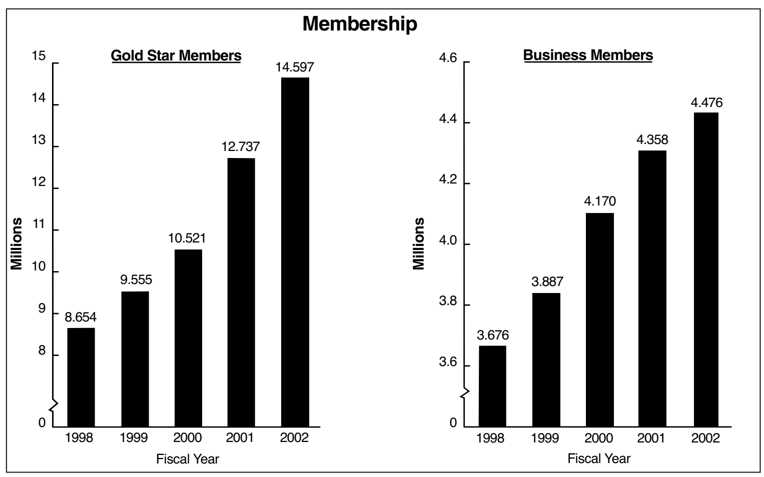
FINANCIAL HIGHLIGHTS









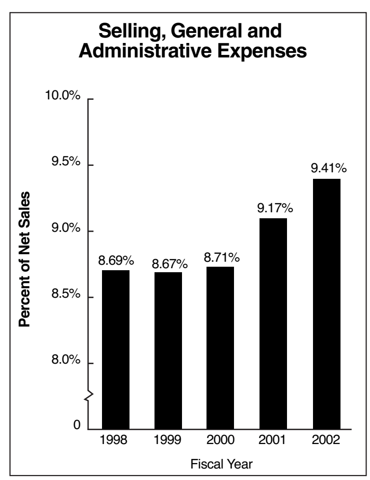


Average Sales Per Warehouse *
(Sales In Millions)

Year Opened	# of Whses*	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
2002	29										$58
2001	32									$57	63
2000	21								$55	64	76
1999	14							$65	77	86	97
1998	17						$50	58	72	77	82
1997	10					$56	70	85	99	106	113
1996	18				$46	53	61	68	80	83	87
1995	19			$51	58	69	76	82	92	93	97
1994	27		$57	60	68	76	83	90	99	101	106
1993 & Before	187	$78	79	80	83	89	95	104	114	118	123
Totals	374	$78	$76	$75	$77	$83	$87	$94	$101	$101	$103

Fiscal Year

*First year sales annualized



Dear Costco Shareholder: December 6, 2002

Despite a fiscal year that began with the tragedy of September 11th, and an overall continued economic weakness with declining consumer confidence throughout, Costco was able to achieve record sales and earnings in fiscal 2002, the 52 weeks ended September 1, 2002. We are proud of the immediate and selfless actions taken by literally thousands of Costco employees—both in and around New York City and Washington, D.C., as well as throughout our company—to help in any way they could on that most tragic day and during the many weeks that followed. We are also proud of how these same employees pulled together throughout the fiscal year, enabling Costco to achieve record results.

During fiscal 2002, sales totaled $38 billion, an 11% increase over the prior year; and net income reached $700 million, 16% higher than earnings in fiscal 2001. Fiscal 2002 also witnessed continued expansion of our operations, with 29 new warehouse openings in both new and existing markets. For the second year in a row, total capital expenditures exceeded $1 billion. Included in these expenditures were over $150 million related to renovations and upgrades at existing locations and the replacement of several Costco warehouses to completely new locations. Despite overall economic turmoil, and senior management changes at several major retail competitors, we believe Costco ended fiscal 2002 in its strongest position ever—poised to continue its growth in sales and earnings, as well as to strengthen its position as one of the premier retail companies in operation today. One of the major hallmarks of our business is the extraordinary sales volume of our businesses, which generate over $103 million in sales per unit worldwide ($114 million in U.S. Costco locations). To our knowledge this is the highest sales performance of any retailer of significant size in the world. In addition, our comparable sales increase of 6% for the fiscal year, in units open more than one year, was among the best performances in the retail industry.

As will be described in further detail below, Costco leveraged an 11% increase in sales to achieve a 16% increase in earnings. This was accomplished by stronger year-over-year gross margins and membership fee percentages, which together more than offset increased expense levels. While we would expect to continue to see slight improvement in our combined gross margin and membership fee ratios in fiscal 2003 and beyond, we must be ever mindful that our competitive position in the retail marketplace not be eroded. Be assured that it will not! We will continue to be the low cost provider of merchandise and services in every market where we do business.

With regard to expenses, we constantly view expense control as both our greatest challenge and our greatest opportunity in growing earnings in the coming years. Over the past two fiscal years, our expenses as a percent of sales have grown from 8.71% in fiscal 2000 to 9.41% in the year just ended. While this 70 basis point increase in expenses over the past two years reflects our conscious decision to dramatically ramp-up our expansion efforts (61 new openings, including 45 “new market” openings), it also reflects rising energy, healthcare and bank merchant costs. We realize we must be industrious and creative in our efforts to drive down our expense ratios. To this end, our planned opening schedule of approximately 30 new warehouses in fiscal 2003 will be geared more towards opening “existing market” units than “new market” units, where higher first year sales levels should help to better leverage expense levels at these locations. With regard to rising healthcare costs, education and training on employee health and safety issues continue, underlining our goal of reducing costs while maintaining what we believe to be the most comprehensive healthcare benefits among major retailers. We continue to analyze our expense structure in depth, challenging expenses at every level throughout our company and bringing these cost savings to the bottom line…hopefully by fiscal year-end 2003.

As mentioned earlier, in fiscal 2002 we continued our expansion focus into new markets. In fact, nearly two thirds of the 29 new locations in fiscal 2002 represented “new market” openings. We added three more warehouses in Texas to the seven we opened there the prior year. Several new units were also opened in the Midwest, strengthening our position in that region. These included openings in Michigan, Missouri, Minnesota, Indiana, Kansas and Illinois. New market openings also included two in Puerto Rico and two in the Pittsburgh, Pennsylvania area. Openings in existing markets included new warehouses in California, Oregon, Nevada, Colorado, New York, North Carolina, Maryland, Virginia, and a new Business Center in Arizona, as well as three additional openings in England. Our relocations in fiscal 2002 of six long-established warehouses were highly successful, with each of these larger, better-located warehouses continuing to experience strong double-digit sales increases over their previous sales volumes. Four relocations were completed in California, as well as one each in New Jersey and Hawaii.

We believe that despite the current economic turbulence, there continue to be good opportunities to expand our operations and increase market share in fiscal 2003, especially in existing markets where we are well-known and well-established. Of the approximately 30 projected openings in fiscal 2003, we will have opened 19 of these prior to calendar year-end, including our third unit in Japan, four new locations in California, and additional locations in Indiana (2), Missouri, Illinois, Ohio, Arizona, Massachusetts, and the United Kingdom, Canada and Mexico. In addition, in early December we opened a new warehouse concept in Kirkland, Washington that we call “Costco Home,” featuring high-end furniture and accessories in a 100,000 square foot renovated warehouse building. We believe this furniture format has great potential in its own right, but may also provide us with a number of furniture and accessory items that can be carried in our 400-plus regular warehouses and greatly enhance our current furniture department. Sales results on the opening four-day weekend far exceeded our expectations.

On the merchandising front we continued to expand our ancillary departments, opening pharmacies, food courts, mini-labs, optical dispensing, hearing aid and gas stations with almost all of our new warehouse openings, as well as adding a number of these operations to existing warehouses where space and regulatory restrictions permitted. Sales at our e-commerce business increased over 80% in fiscal 2002, and was solidly profitable on a fully expense-allocated basis. We are encouraged about this business and the many special and unique products we offer our members, with little investment in inventory. Likewise, our in-warehouse special order kiosks allow our members to view samples of upscale merchandise in several categories—such as chairs and sofas, window coverings, high-performance automobile tires, and high-end plumbing fixtures—and place their orders while shopping at Costco. This business excites us because it provides us the opportunity to provide hundreds of additional products with little investment in sales space, labor or inventory.

During the past fiscal year we added nearly two million Gold Star (individual) and Business Members—making nearly twenty million members worldwide. While a considerable percentage of our member increase is attributable to new warehouse openings, we are pleased to report that membership renewals continued at our historically high rate of 86%. Also of note is the increase in the number of Executive Members—now numbering over 1.75 million—who pay $100 a year for access to a wide variety of member services, as well as earn a 2% reward ($500 maximum reward per year) on their qualified purchases. In addition to the initial member services offered to our Executive Members—telephone service, auto buying, check processing, auto and home insurance, credit card processing, real estate and mortgage services and payroll processing—we have added, or are testing in selected markets, healthcare insurance, financial planning, sharebuilding services, retirement planning, computer training and roadside assistance—all at the highest quality and competitive pricing. We are continually evaluating additional member services that would add further value to our growing Executive Membership base.

We are committed to doing the best possible job for our members, employees, supplier partners, and shareholders—all in the context of strict adherence to the laws of the communities and countries in which we operate. We take these responsibilities very seriously. In terms of corporate governance, all of our management personnel have participated in ethics and leadership training, and are continually reminded of our uncompromising standards of honesty and integrity. We also want to share with you that corporate citizenship is high on our list of priorities. Costco is committed to diversity in the workplace; and our employees are involved in many positive ways in the communities we serve. We believe that successful companies give back to their communities, and we continue to expand our corporate-giving focus throughout our company. In addition to strong, on-going programs with Childrens' Hospitals and United Way Chapters around North America, Costco, working with community leaders, has established college scholarship programs for disadvantaged youth in several communities. Also, Costco employees in many communities have been trained to effectively teach reading to struggling elementary school children, and work with them on a weekly basis. We are very proud of the voluntary efforts of all our fellow associates. These are but a few of our many involvements in corporate citizenship.

Lastly, it is with much sorrow that we inform you of the recent death of Fred Paulsell, Jr., an initial investor in Costco in the early 1980's, a founding Costco board member and close friend to many of us at Costco. We will greatly miss the insights and counsel that Fred contributed to the success of Costco over these past twenty years. It is a great loss to our Company.

As always, we want to thank all of our fellow employees—now numbering over 100,000 and operating over 400 warehouses and providing support functions worldwide—for their hard work, dedication and discipline during these challenging times. We also thank you, our shareholders, for your on-going support. We believe Costco made strong progress in fiscal 2002—achieving record sales and profits, expanding our operations in both new and in-fill markets, strengthening our balance sheet and positioning Costco for further long-term growth, profitability and increased shareholder value in the years to come.

We look forward to seeing many of you at our Annual Meeting of Shareholders on January 30, 2003 in Bellevue, Washington. Best wishes for a happy, healthy and peaceful Holiday Season and New Year.

Cordially,

Jeff Brotman	Jim Sinegal
Chairman of the Board	President & CEO

COSTCO WHOLESALE

412 LOCATIONS AS OF DECEMBER 31, 2002

U.S.A. (304)

Alabama (1)
Huntsville

Alaska (3)
Anchorage
N. Anchorage
Juneau

Arizona (13)
Avondale
Gilbert
Glendale
Phoenix
Phoenix Bus. Ctr.
N. Phoenix
Prescott
Scottsdale
Superstition Springs
Tempe
Thomas Road
Tucson
NW Tucson

California (95)
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 Camino
El Centro
Eureka
Fairfield
Foster City
Fountain Valley
Fremont
Fresno
N. Fresno
Fullerton
Garden Grove
Goleta
Hawthorne
Hayward
Inglewood
Irvine
La Mesa
Laguna Niguel (2)
Lancaster
Livermore
Los Feliz
Merced
Mission Valley
Modesto
Montclair
Montebello
Moreno Valley
Mountain View
Northridge
Norwalk
Novato
Oxnard
Rancho Cordova
Rancho Cucamonga
Rancho del Rey
Redding
Redwood City
Richmond
Rohnert Park
Roseville
Sacramento
Salinas
San Bernardino
San Diego
SE San Diego
San Francisco
S. San Francisco
San Jose (2)
San Juan Capistrano
San Leandro
San Marcos
Sand City
Santa Clara
Santa Clarita
Santa Cruz
Santa Maria
Santa Rosa
Santee
Signal Hill
Simi Valley
Stockton
Sunnyvale
Temecula
Torrance
Tracy
Tustin
Vacaville
Vallejo
Van Nuys
Victorville
Visalia
Vista
Westlake Village
Yorba Linda

Colorado (6)
Arvada
Aurora
SW Denver
Douglas County
Superior
Westminster

Connecticut (4)
Brookfield
Milford
Norwalk
Waterbury

Delaware (1)
Christiana

Florida (16)
Altamonte Springs
Boca Raton
Brandon
Davie
Fort Myers
E. Jacksonville
Kendall
Lantana
Miami
N. Miami Beach
Miami Lakes
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 (8)
Bedford Park
Bloomingdale
Glenview
Lake Zurich
Lincoln Park
Oak Brook
Niles
Schaumburg

Indiana (3)
Castleton
N.W. Indianapolis
Merrillville

Kansas (2)
Lenexa
Overland Park

Maryland (6)
Arundel Mills
Beltsville
Frederick
Gaithersburg
Glen Burnie
White Marsh

Massachusetts (6)
Avon
Danvers
Dedham
Everett
W. Springfield
Waltham

Michigan (7)
Auburn Hills
Bloomfield
Lakeside
Livonia I
Livonia II
Madison Heights
Roseville

Minnesota (2)
Coon Rapids
St. Louis Park

Missouri (4)
Independence
Kansas City
So. St. Louis
St. Peters

Montana (4)
Billings
Bozeman
Kalispell
Missoula

Nevada (5)
Carson City
Henderson
Las Vegas
Reno
Summerlin

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 (13)
Brooklyn
Commack
Holbrook
Lawrence
Melville
Nanuet
Nesconset
New Rochelle
Port Chester
Queens
Staten Island
Westbury
Yonkers

North Carolina (4)
Charlotte
Durham
Matthews
Winston-Salem

Ohio (4)
Avon
Deerfield Township
Mayfield Heights
Springdale

Oregon (10)
Albany
Aloha
Bend
Clackamas
Eugene
Medford
Portland
Salem
Tigard
Warrenton

Pennsylvania (6)
Cranberry
Harrisburg
King of Prussia
Lancaster
Montgomeryville
Robinson

South Carolina (1)
Charleston

Tennessee (3)
Brentwood
NE Memphis
SE Memphis

Texas (10)
Arlington
Austin
East Plano
Fort Worth
Katy Freeway
NW San Antonio
Sonterra Park
Southlake
West Plano
Willowbrook

Utah (5)
Midvale
Orem
St. George
Salt Lake City
Sandy

Vermont (1)
Colchester

Virginia (12)
Chesterfield
Fairfax
Fredericksburg
Harrisonburg
W. Henrico
Manassas
Newington
Newport News
Norfolk
Pentagon City
Sterling
Winchester

Washington (22)
Aurora Village
Bellingham
Burlington
Clarkston
Everett
Federal Way
Issaquah
Kennewick
Kirkland
Kirkland – Costco Home
Lynnwood
Puyallup
Seattle
Sequim
Silverdale
Spokane
N. Spokane
Tacoma
Tukwila
Tumwater
Union Gap
E. Wenatchee

Puerto Rico (3)
Bayamon
Caguas
Carolina

Canada (61)

Alberta (8)
N. Calgary
S. Calgary
Edmonton
N. Edmonton
S. Edmonton
Grande Prairie
Lethbridge
Red Deer

British Columbia (11)
Abbotsford
Burnaby
Kamloops
Kelowna
Langford
Nanaimo
Port Coquitlam
Prince George
Richmond
Surrey
Vancouver

Manitoba (2)
E. Winnipeg
Winnipeg

New Brunswick (1)
Moncton

Newfoundland (1)
St. John's

Nova Scotia (1)
Halifax

Ontario (21)
Ajax
Ancaster
Barrie
Brampton
Burlington
Downsview
Etobicoke
Gloucester
Kingston
Kitchener
London
Markham
Mississauga
Mississauga N.
Nepean
Newmarket
St. Catharines
Scarborough
Sudbury
Vaughan
Windsor

Québec (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

Japan (3)
Hisayama
Makuhari
Tamasakai

South Korea (5)
Daegu
Daejeon
Sang Bong
Yang Jae
Yang Pyung

Taiwan (3)
Kaohsiung
Neihu
Shih Chih

United Kingdom (15)

England (12)
Birmingham
Chingford
Derby
Gateshead
Haydock
Leeds
Liverpool
Manchester
Oldham
Reading
Thurrock
Watford

Scotland (3)
Aberdeen
Edinburgh
Glasgow

Mexico (21)
(50% Joint Venture)

Aguascalientes (1)
Aguascalientes

Baja California (2)
Mexicali
Tijuana

Guanajuato (2)
Celaya
León

Guerrero (1)
Acapulco

Jalisco (1)
Guadalajara

Mexico (2)
Interlomas
Satélite

Mexico, D.F. (3)
Coapa
Mixcoac
Polanco

Michoacan (1)
Morelia

Nuevo León (1)
Monterey

Puebla (1)
Puebla

Querétaro (1)
Querétaro

Quintana Roo (1)
Cancún

San Luis Potosi (1)
San Luis Potosi

Sonora (1)
Hermosillo

Veracruz (1)
Xalapa

Yucatán (1)
Mérida

NUMBER OF WAREHOUSES AT FISCAL YEAR END

	Own Land and Building	Lease Land and/or Building	Total
UNITED STATES	229	61	290
CANADA	52	8	60
UNITED KINGDOM	11	3	14
KOREA	2	3	5
TAIWAN	—	3	3
JAPAN	—	2	2
Total	294	80	374

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, 2002:

Openings by Fiscal Year	United States	Canada	Other International	Total	Total Warehouses in Operation
1998 and prior	211	56	11	278	278
1999	10	2	2	14	292
2000	16	1	4	21	313
2001	27	1	4	32	345
2002	26	—	3	29	374
2003 (through 12/31/02)	15	1	1	17	391
Total	305	61	25	391	

As of September 1, 2002, the Company operated (through a 50%-owned joint venture) 20 warehouses in Mexico. These warehouses are not included in the number of warehouses open in any period because the joint venture is accounted for using the equity method 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, 2002:

ANCILLARY BUSINESSES

	United States	Canada	Other International	Total
Pharmacy	289	31	0	320
Optical Dispensing Centers	293	56	18	367
One-Hour Photo	296	61	26	383
Food Court and Hot Dog Stands	300	61	26	387
Hearing Aid Centers	110	9	0	119
Copy Centers	9	0	0	9
Print Shops	2	1	1	4
Gas Stations	177	3	0	180

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 2002 and 2001. This information includes all adjustments which management considers necessary for a fair presentation.

	52 Weeks Ended September 1, 2002					52 Weeks Ended September 2, 2001				
	First Quarter 12 Weeks	Second Quarter 12 Weeks	Third Quarter 12 Weeks	Fourth Quarter 16 Weeks	Total 52 Weeks	First Quarter 12 Weeks	Second Quarter 12 Weeks	Third Quarter 12 Weeks	Fourth Quarter 16 Weeks	Total 52 Weeks
REVENUE										
Net sales	$8,297,076	$9,208,413	$8,436,807	$12,050,797	$37,993,093	$7,498,979	$8,159,980	$7,563,494	$10,914,568	$34,137,021
Membership fees and other	169,477	174,439	179,940	245,550	769,406	138,299	146,329	155,401	219,987	660,016
Total revenue	8,466,553	9,382,852	8,616,747	12,296,347	38,762,499	7,637,278	8,306,309	7,718,895	11,134,555	34,797,037
OPERATING EXPENSES										
Merchandise costs	7,434,397	8,212,030	7,583,251	10,753,443	33,983,121	6,713,644	7,275,958	6,825,636	9,782,902	30,598,140
Selling, general and administrative	786,118	840,005	806,617	1,142,796	3,575,536	691,127	731,411	705,858	1,000,663	3,129,059
Preopening expenses	22,134	8,616	6,077	14,430	51,257	19,680	10,572	12,751	16,568	59,571
Provision for impaired assets and closing costs	8,550	3,000	4,500	5,000	21,050	1,000	1,000	—	16,000	18,000
Operating income	215,354	319,201	216,302	380,678	1,131,535	211,827	287,368	174,650	318,422	992,267
OTHER INCOME (EXPENSE)										
Interest expense	(6,238)	(6,199)	(8,643)	(8,016)	(29,096)	(6,964)	(8,902)	(9,023)	(7,135)	(32,024)
Interest income and other	6,977	7,926	9,624	11,218	35,745	11,005	15,829	9,801	6,603	43,238
INCOME BEFORE INCOME TAXES	216,093	320,928	217,283	383,880	1,138,184	215,868	294,295	175,428	317,890	1,003,481
Provision for income taxes	86,437	128,372	86,913	136,479	438,201	86,347	117,718	70,171	127,156	401,392
NET INCOME	$ 129,656	$ 192,556	$ 130,370	$ 247,401	$ 699,983	$ 129,521	$ 176,577	$ 105,257	$ 190,734	$ 602,089
NET INCOME PER COMMON SHARE:										
Basic Earnings per share:										
Net Income	$ 0.29	$ 0.43	$ 0.29	$ 0.54	$ 1.54	$ 0.29	$ 0.39	$ 0.23	$ 0.42	$ 1.34
Diluted earnings per share:										
Net Income	$ 0.28	$ 0.41	$ 0.28	$ 0.52	$ 1.48	$ 0.28	$ 0.38	$ 0.23	$ 0.41	$ 1.29
Shares used in calculation (000's):										
Basic	451,990	452,882	454,272	455,008	453,650	447,676	448,788	450,195	451,310	449,631
Diluted	477,395	479,931	480,256	479,240	479,262	473,920	475,488	475,840	477,875	475,827

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

WAREHOUSES IN OPERATIONS	2002		2001		2000		1999	
Beginning of year	345		313		292		278	
Openings	35		39		25		21	
Closings	(6)		(7)		(4)		(7)	
End of year	374		345		313		292	
OPERATING RESULTS								
Revenue								
Net Sales	$37,993	100.00%	$34,137	100.00%	$31,621	100.0%	$26,976	100.0%
Membership fees and other	769	2.0	660	1.9	543	1.7	480	1.8
Total revenue	38,762	102.0	34,797	101.9	32,164	101.7	27,456	101.8
Operating expenses								
Merchandise costs	33,983	89.4	30,598	89.6	28,322	89.6	24,170	89.6
Selling, general and administrative expenses	3,576	9.4	3,129	9.2	2,756	8.7	2,338	8.7
Preopening expenses	51	0.1	60	0.2	42	0.1	31	0.1
Provision for impaired assets and closing costs	21	0.1	18	—	7	—	57	0.2
Operating expenses	37,631	99.0	33,805	99.0	31,127	98.4	26,596	98.6
Operating income	1,131	3.0	992	2.9	1,037	3.3	860	3.2
Other income (expenses)								
Interest expense	(29)	(0.1)	(32)	(0.1)	(39)	(0.1)	(45)	(0.2)
Interest income and other	36	0.1	43	0.1	54	0.1	44	0.2
Provision for merger and restructuring expenses	—	—	—	—	—	—	—	—
Income from continuing operations before income taxes and cumulative effect of accounting change	1,138	3.0	1,003	2.9	1,052	3.3	859	3.2
Provision for income taxes	438	1.2	401	1.1	421	1.3	344	1.3
Income from continuing operations before cumulative effect of accounting change	700	1.8	602	1.8	631	2.0	515	1.9
Cumulative effect of accounting change, net of tax	—	—	—	—	—	—	(118)	(0.4)
Income from continuing operations	700	1.8	602	1.8	631	2.0	397	1.5
Discontinued operations:								
Income (loss), net of tax	—	—	—	—	—	—	—	—
Loss on disposal	—	—	—	—	—	—	—	—
Net income (loss)	$ 700	1.8%	$ 602	1.8%	$ 631	2.0%	$ 397	1.5%

	2002	2001	2000	1999
Per Share Data—Diluted				
Income from continuing operations before cumulative effect of accounting change	$ 1.48	$ 1.29	$ 1.35	$ 1.11
Cumulative effect of accounting change, net of tax	—	—	—	(0.25)
Income from continuing operations	1.48	1.29	1.35	0.86
Discontinued operations:				
Income (loss), net of tax	—	—	—	—
Loss on disposal	—	—	—	—
Net income (loss)	$ 1.48	$ 1.29	$ 1.35	$ 0.86
Shares used in calculation (000's)	479,262	475,827	475,737	471,120
Balance Sheet Data				
Working capital (deficit)	$ 181	$ (230)	$ 66	$ 450
Property and equipment, net	6,524	5,827	4,834	3,907
Total assets	11,620	10,090	8,634	7,505
Short-term debt	104	195	10	—
Long-term debt and capital lease obligations	1,211	859	790	919
Stockholders' equity	5,694	4,883	4,240	3,532
SALES INCREASE (DECREASE) FROM PRIOR YEAR				
Total	11%	8%	17%	13%
Comparable units	6%	4%	11%	10%
MEMBERS AT YEAR END (000'S)				
Business (primary cardholders)	4,476	4,358	4,170	3,887
Gold Star	14,597	12,737	10,521	9,555

1998		1997		1996		1995		1994		1993	
261		252		240		221		200		170	
18		17		20		24		29		37	
(1)		(8)		(8)		(5)		(8)		(7)	
278		261		252		240		221		200	
$23,830	100.0%	$21,484	100.0%	$19,214	100.0%	$17,906	100.0%	$16,161	100.0%	$15,155	100.0%
440	1.8	390	1.8	352	1.8	341	1.9	320	2.0	309	2.0
24,270	101.8	21,874	101.8	19,566	101.8	18,247	101.9	16,481	102.0	15,464	102.0
21,380	89.7	19,314	89.9	17,345	90.3	16,226	90.6	14,663	90.7	13,751	90.7
2,070	8.7	1,877	8.7	1,691	8.8	1,556	8.7	1,426	8.8	1,315	8.7
27	0.1	27	0.1	29	0.1	25	0.1	25	0.2	28	0.2
6	—	75	0.4	10	—	7	—	7	—	5	—
23,483	98.5	21,293	99.1	19,075	99.2	17,814	99.5	16,121	99.8	15,099	99.6
787	3.3	581	2.7	491	2.6	433	2.4	360	2.2	365	2.4
(48)	(0.2)	(76)	(0.4)	(78)	(0.4)	(68)	(0.4)	(50)	(0.3)	(46)	(0.3)
27	0.1	15	0.1	11	—	3	—	14	0.1	17	0.1
—	—	—	—	—	—	—	—	(120)	(0.7)	—	—
766	3.2	520	2.4	424	2.2	368	2.0	204	1.3	336	2.2
306	1.3	208	0.9	175	0.9	151	0.8	93	0.6	133	0.9
460	1.9	312	1.5	249	1.3	217	1.2	111	0.7	203	1.3
—	—	—	—	—	—	—	—	—	—	—	—
460	1.9	312	1.5	249	1.3	217	1.2	111	0.7	203	1.3
—	—	—	—	—	—	—	—	(41)	(0.3)	20	0.1
—	—	—	—	—	—	(83)	(0.5)	(182)	(1.1)	—	—
$ 460	1.9%	$ 312	1.5%	$ 249	1.3%	$ 134	0.7%	$ (112)	(0.7%)	$ 223	1.4%
$ 1.01		$ 0.73		$ 0.61		$ 0.53		$ 0.25		$ 0.46	
—		—		—		—		—		—	
1.01		0.73		0.61		0.53		0.25		0.46	
—		—		—		—		(0.09)		0.04	
—		—		—		(0.19)		(0.42)		—	
$ 1.01		$ 0.73		$ 0.61		$ 0.34		$ (0.26)		$ 0.50	
463,371		449,336		435,781		447,219		438,664		480,324	
$ 431		$ 146		$ 57		$ 9		$ (113)		$ 127	
3,395		3,155		2,888		2,535		2,146		1,967	
6,260		5,476		4,912		4,437		4,236		3,931	
—		25		60		76		149		23	
930		917		1,229		1,095		795		813	
2,966		2468		1,778		1,531		1,685		1,797	
11%		12%		7%		11%		7%		10%	
8%		9%		5%		2%		(3%)		(3%)	
3,676		3,537		3,435		3,318		3,228		3,177	
8,654		7,845		7,076		6,683		6,088		5,797	

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.

Comparison of Fiscal 2002 (52 weeks) and Fiscal 2001 (52 weeks):
(dollars in thousands, except earnings per share)

Net income for fiscal 2002 increased 16% to $699,983, or $1.48 per diluted share, from $602,089, or $1.29 per diluted share during fiscal year 2001.

Net sales increased 11% to $37,993,093 in fiscal 2002 from $34,137,021 in fiscal 2001. This increase was due to higher sales at existing locations opened prior to fiscal 2001; increased sales at the 32 new warehouses opened (39 opened, 7 closed) during fiscal 2001; and first year sales at the 29 new warehouses opened (35 opened, 6 closed) during fiscal 2002. 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 6% annual rate in fiscal 2002 compared to a 4% annual rate during fiscal 2001.

Membership fees and other revenue increased 17% to $769,406, or 2.03% of net sales, in fiscal 2002 from $660,016, or 1.93% of net sales, in fiscal 2001. This increase was primarily due to the increase in membership fees across all member categories—beginning with renewals on October 1, 2000, averaging approximately five dollars per member; additional membership sign-ups at the 29 new warehouses opened in fiscal 2002; and increased penetration of the Company's Executive Membership. Overall, member renewal rates remained consistent with the prior year, currently at 86%.

Gross margin (defined as net sales minus merchandise costs) increased 13% to $4,009,972, or 10.55% of net sales, in fiscal 2002 from $3,538,881, or 10.37% of net sales, in fiscal 2001. The increase in gross margin as a percentage of net sales reflects merchandise gross margin improvement within the Company's core merchandising business, with fresh foods and foods and sundries categories being the primary contributors. Additionally, a reduction in the LIFO reserve, improved purchasing resulting from expanded depot operations and improved international operations had a positive effect on margins, while increased costs related to the Executive Membership Two-Percent Reward Program had a negative impact. The gross margin figures reflect accounting for most U.S. merchandise inventories on the last-in, first-out (LIFO) method. The effect of the LIFO adjustment for fiscal 2002 was to increase gross margin by $13,500, compared to a gross margin decrease of $5,500 in fiscal 2001. If all inventories had been valued using the first-in, first-out (FIFO) method, inventories would have been higher by $150 at September 1, 2002 and $13,650 at September 2, 2001.

Selling, general and administrative expenses as a percent of net sales increased to 9.41% during fiscal 2002 from 9.17% during fiscal 2001. The increase in selling, general and administrative expenses as a percent of net sales was primarily due to higher expense ratios at new warehouses, where such expense ratios to sales are typically higher than at more mature warehouses; and also due to increases in salary, healthcare and workers' compensation costs.

Preopening expenses totaled $51,257, or 0.13% of net sales, during fiscal 2002 and $59,571, or 0.17% of net sales, during fiscal 2001. During fiscal 2002, the Company opened 35 new warehouses (including relocations) compared to 39 new warehouses (including relocations) during fiscal 2001. Pre-opening expenses also include costs related to remodels and expanded ancillary operations at existing warehouses, as well as expanded international operations.

The provision for impaired assets and closing costs was $21,050 in fiscal 2002 compared to $18,000 in fiscal 2001. The fiscal 2002 provision included charges of $7,765 for the Canadian administrative reorganization (See "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations"—Liquidity and Capital Resources) and $13,683 for warehouse closing expenses which were offset by net gains on the sale of real property totaling $398. The fiscal 2001 provision included charges of $19,000 for the Canadian administrative reorganization, $15,231 for the impairment of long-lived assets and $2,412 for warehouse closing expense, which were offset by $18,643 of gains on the sale of real property. At September 1, 2002, the reserve for warehouse closing costs was $11,845, of which $10,395 related to future lease obligations. This compares to a reserve for warehouse closing costs of $15,434 at September 2, 2001, of which $6,538 related to future lease obligations. The increase in future lease obligations is attributable to leased warehouses constituting a larger percentage of the closed locations. (See Part II, "Item 8—Financial Statements"—Notes to Consolidated Financial Statements—Note 1).

Interest expense totaled $29,096 in fiscal 2002, and $32,024 in fiscal 2001. The decrease is primarily attributable to the retirement in April 2001 of a $140,000 unsecured note payable to banks and to the interest rate reduction on the Company's $300,000 7 1⁄8% Senior Notes, resulting from interest rate swap agreements entered into effective November 13, 2001, converting the interest rate from fixed to floating. This decrease in interest expense was partially offset by a reduction in interest capitalized related to warehouse construction, as the Company had fewer construction projects in progress during the fiscal 2002 period, and the weighted average capitalized interest rate was lower than in fiscal 2001. The decrease in interest expense was also offset by the issuance of the $300,000 5 1⁄2% Senior Notes issued in March, 2002, and simultaneously swapped to floating, and increased interest expense related to the Zero Coupon subordinated notes as accrued interest is accreted into principal.

Interest income and other totaled $35,745 in fiscal 2002, compared to $43,238 in fiscal 2001. The decrease primarily reflects lower interest income due to lower interest rates and lower daily cash and short-term investment balances on hand throughout fiscal 2002, as compared to fiscal 2001. This was partially offset by increased year-over-year earnings in Costco Mexico, the Company's 50%-owned joint venture.

The effective income tax rate on earnings was 38.5% in fiscal 2002 and 40% in fiscal 2001. The decrease in the effective income tax rate, year-over-year, is primarily attributable to lower statutory rates for foreign operations, the effect of which is expected, substantially, to continue to impact the effective tax rate on a prospective basis.

Comparison of Fiscal 2001 (52 weeks) and Fiscal 2000 (53 weeks):
(dollars in thousands, except earnings per share)

Net income for fiscal 2001, a 52-week fiscal year, decreased 5% to $602,089, or $1.29 per diluted share, from $631,437, or $1.35 per diluted share during fiscal year 2000, a 53-week fiscal year.

Net sales increased 8% to $34,137,021 in fiscal 2001 from $31,620,723 in fiscal 2000. This increase was due to higher sales at existing locations opened prior to fiscal 2000; increased sales at 21 warehouses (25 opened, 4 closed) that were opened in fiscal 2000 and in operation for the entire 2001 fiscal year; and first year sales at the 32 new warehouses opened (39 opened, 7 closed) during fiscal 2001. 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 4% annual rate in fiscal 2001 compared to an 11% annual rate during fiscal 2000.

Membership fees and other revenue increased 21% to $660,016, or 1.93% of net sales, in fiscal 2001 from $543,573, or 1.72% of net sales, in fiscal 2000. This increase was primarily due to the increase in membership fees across most membership categories, averaging approximately $5 per member, which became effective beginning with renewals on October 1, 2000. Additionally, membership sign-ups at the 32 new warehouses opened in fiscal 2001 were also a factor in this increase.

Gross margin (defined as net sales minus merchandise costs) increased 7% to $3,538,881, or 10.37% of net sales, in fiscal 2001 from $3,298,553, or 10.43% of net sales, in fiscal 2000. Gross margin as a percentage of net sales decreased by six basis points due to costs related to the Executive Membership two percent reward program, which was somewhat offset by gross margin improvement in the Company's core merchandising activities and ancillary 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 $13,650 at September 2, 2001, and $8,150 at September 3, 2000.

Selling, general and administrative expenses as a percent of net sales increased to 9.17% during fiscal 2001 from 8.71% during fiscal 2000, due to a number of a factors, including an increase in the entry level wage rate of hourly employees beginning in the fourth quarter of fiscal 2000; continued expansion of the Company's co-branded credit card program; higher utility and energy costs; and higher expenses associated with an increase in new warehouse openings year-over-year (a net of 32 and 21 warehouses opened in fiscal 2001 and 2000, respectively) where expense ratios to sales are typically higher than in more mature warehouses.

Preopening expenses totaled $59,571, or 0.17% of net sales, during fiscal 2001 and $42,321, or 0.13% of net sales, during fiscal 2000. During fiscal 2001, the Company opened 39 new warehouses (including relocations) compared to 25 new warehouses (including relocations) during fiscal 2000. Pre-opening expenses also include costs related to remodels and expanded ancillary operations at existing warehouses, as well as expanded international operations.

The provision for impaired assets and closing costs was $18,000 in fiscal 2001 compared to $7,000 in fiscal 2000. The fiscal 2001 provision includes charges of $19,000 for the Canadian administrative reorganization (See "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations"—Liquidity and Capital Resources), $15,231 for the impairment of long-lived assets and $2,412 for warehouse closing expense, which were offset by $18,643 of gains on the sale of real property. At September 2, 2001, the reserve for warehouse closing costs was $15,434, of which $6,538 related to future lease obligations. This compares to a reserve for warehouse closing costs of $11,762 at September 3, 2000, of which $8,887 related to future lease obligations. (See Part II, "Item 8—Financial Statements"—Notes to Consolidated Financial Statements—Note 1).

Interest expense totaled $32,024 in fiscal 2001, and $39,281 in fiscal 2000. The decrease in interest expense is primarily due to an increase in capitalized interest related to construction projects and a decrease related to the retirement of an unsecured note payable to banks with a principal amount totaling $140,000 in April 2001.

Interest income and other totaled $43,238 in fiscal 2001 compared to $54,226 in fiscal 2000. The decrease was primarily due to lower rates of interest earned on lower balances of cash and cash equivalents and short-term investments during fiscal 2001 as compared to fiscal 2000, which was partially offset by improved earnings from Costco Mexico (a 50% owned joint venture) on a year-over-year basis.

The effective income tax rate on earnings was 40% in both fiscal 2001 and fiscal 2000.

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 $1,000,000 to $1,100,000 during fiscal 2003 in the United States and Canada for real estate, construction, remodeling and equipment for warehouse clubs and related operations; and approximately $100,000 to $150,000 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, short-term borrowings under the Company's commercial paper program, Senior Notes and other financing sources as required.

Expansion plans for the United States and Canada during fiscal 2003 are to open approximately 28 to 30 new warehouse clubs, including three to five relocations to larger and better-located warehouses. The Company expects to continue expansion of its international operations and plans to open two additional warehouses in the United Kingdom through its 80%-owned subsidiary, and two additional warehouses in Japan. 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 1, 2002, Costco Mexico operated 20 warehouses in Mexico and plans to open one or two new warehouse clubs during fiscal 2003.

Reorganization of Canadian Administrative Operations

On January 17, 2001, the Company announced plans to reorganize and consolidate the administration of its operations in Canada. Total costs related to the reorganization were $26,765 pre-tax, of which $7,765 pre-tax ($4,775 after-tax, or $.01 per diluted share) was expensed in fiscal 2002 and $19,000 pre-tax ($11,400 after-tax, or $.02 per diluted share) was expensed in fiscal 2001 and reported as part of the provision for impaired assets and closing costs. These costs consisted primarily of employee severance, implementation and consolidation of support systems and employee relocation. The reorganization was completed in the first quarter of fiscal 2002.

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

The Company has in place a $500,000 commercial paper program supported by a $400,000 bank credit facility with a group of 10 banks, of which $200,000 expires on November 11, 2003 and $200,000 expires on November 15, 2005. At September 1, 2002, no amounts were outstanding under the commercial paper program and no amounts were outstanding under the credit facility.

In addition, a wholly owned Canadian subsidiary has a $128,000 commercial paper program supported by a $51,000 bank credit facility with a group of three Canadian banks, which expires in March, 2003. At September 1, 2002, no amounts were outstanding under the Canadian commercial paper program or the bank credit facility. The Company is evaluating the business need to renew this commercial paper program and bank credit facility.

The Company has agreed to limit the combined amount outstanding under the U.S. and Canadian commercial paper programs to the $451,000 combined amounts of the respective supporting bank credit facilities.

The Company's wholly-owned Japanese subsidiary has a short-term ¥4 billion bank line of credit, equal to approximately $33,600, of which ¥1 billion ($8,400) expires in April 2003 and ¥3 billion ($25,200) expires in November 2003. At September 1, 2002, $18,480 was outstanding under the line of credit with an applicable interest rate of 1.375%.

The Company's 80%-owned UK subsidiary has a £60 million ($93,048) bank revolving credit facility and a £20 million ($31,016) bank overdraft facility, both expiring in February 2007. At September 1, 2002, $85,294 was outstanding under the revolving credit facility with an applicable interest rate of 4.413% and no balance was outstanding under the bank overdraft facility.

Letters of Credit

The Company has separate letter of credit facilities (for commercial and standby letters of credit), totaling approximately $373,000. The outstanding commitments under these facilities at September 1, 2002 totaled approximately $142,000, including approximately $32,000 in standby letters of credit.

Contractual Obligations

The Company's commitment to make future payments under long-term contractual obligations was as follows, as of September 1, 2002.

	Payments Due by Period				
Contractual obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
Long-term debt(1)	$1,659,030(2)	$ 40,446	$369,906	$337,843	$ 910,835(2)
Capital lease obligations	14,409	7,244	3,168	1,115	2,882
Operating leases	1,095,780	67,955	129,275	127,202	771,348
Total	$2,769,219	$115,645	$502,349	$466,160	$1,685,065

(1) Amounts include contractual interest payments.

(2) The amount includes the amount of interest accreted to maturity for the Company's Zero Coupon 3½% Convertible Subordinated Notes due August 2017, totaling $851,860. The balance sheet as of September 1, 2002 reflects the current balance outstanding of $506,883.

Financing Activities

During April 2001, the Company retired its unsecured note payable to banks of $140,000 using cash provided from operations, cash and cash equivalents and short-term borrowings under its commercial paper program.

In October 2000, the Company's wholly-owned Japanese subsidiary issued 2.070% promissory notes in the aggregate amount of 3.5 billion Yen, equal to $29,400, through a private placement. Interest is payable annually and principal is due on October 23, 2007.

In July 2001, the Company's wholly-owned Japanese subsidiary issued 1.187% promissory notes in the aggregate amount of 3 billion Yen, equal to $25,200, through a private placement. Interest is payable semi-annually and principal is due on July 9, 2008.

In March 2002, the Company issued $300,000 of 5½% Senior Notes due March 15, 2007. Interest is payable semi-annually. Simultaneous with the issuance of the Senior Notes, the Company entered into interest rate swap agreements converting the interest from fixed to floating.

In February 1996, the Company filed with the Securities and Exchange Commission a shelf registration statement for $500,000 of senior debt securities. On October 23, 2001, an additional $100,000 in debt securities were registered, bringing the total amount of debt registered under the shelf registration to $600,000. The $300,000 of 5½% Senior Notes issued in March 2002, reduced the amount of registered securities available for future issuance to $300,000.

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 and typically have very short terms. The aggregate amount of foreign exchange contracts outstanding at September 1, 2002 was not material. The only significant derivative instruments the Company holds are interest rate swaps, which the Company uses to manage the interest rate risk associated with its borrowings and to manage the Company's mix of fixed and variable-rate debt. As of September 1, 2002, the Company had "fixed-to-floating" interest rate swaps with an aggregate notional amount of $600,000 and an aggregate fair value of $35,926, which is recorded in other assets. These swaps were entered into effective November 13, 2001, and March 25, 2002, and are designated and qualify as fair value hedges of the Company's $300,000 7 1/8% Senior Notes and the Company's $300,000 5 1/2% Senior Notes, respectively. As the terms of the swaps match those of the underlying hedged debt, the changes in the fair value of these swaps are offset by corresponding changes in the carrying amount of the hedged debt, and result in no net earnings impact.

Financial Position and Cash Flows

Working capital totaled $180,806 at September 1, 2002, compared to a negative working capital position of $229,732 at September 2, 2001. The increase of $410,538 was primarily due to an increase in net inventory levels (inventories less accounts payable) of $232,087; increases in cash and cash equivalents of $202,933; an increase in receivables of $150,093; and a decrease in short-term borrowings of $90,778, offset by increases in other current liabilities of $116,897; accrued salaries and benefits of $106,454 and deferred membership income of $37,932.

Net cash provided by operating activities totaled $1,018,243 in fiscal 2002, compared to $1,032,563 in fiscal 2001. The decrease of $14,320 is primarily a result of the change in the increase in net inventories (inventories less accounts payable) of $256,258 and a decrease in the change in deferred income taxes of $28,618; offset by a decrease in the receivables, other current assets, accrued and other current liabilities of approximately $136,042; higher net income in fiscal 2002 over fiscal 2001 of $97,894 and a larger add-back for depreciation and amortization of $40,484.

Net cash used in investing activities totaled $1,033,815 in fiscal 2002, compared to $1,339,843 in fiscal 2001, a decrease of $306,028. This decrease is primarily a result of decreases in additions to property and equipment for new and remodeled warehouses of $408,944 and investments in unconsolidated joint ventures of $27,500, which was offset by the decrease in the net cash proceeds from the sale of property and equipment of $77,153 and the net cash proceeds from the sale of short-term investments of $36,671.

Net cash provided by financing activities totaled $217,828 in fiscal 2002 compared to $394,345 in fiscal 2001, a decrease of $176,517. The decrease primarily resulted from an increase in the net repayments of short-term borrowings of $285,117 and a change in bank overdrafts of $251,797, offset by an overall increase in the proceeds from the issuance of long-term debt of $218,049 and a decrease in repayments of long-term debt of $140,788.

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

On November 30, 2001, the Company's Board of Directors approved a stock repurchase program authorizing the repurchase of up to $500,000 of Costco Common Stock through November 30, 2004. Under the program, the Company can repurchase shares at any time in the open market or in private transactions as market conditions warrant. The repurchased shares would constitute authorized, but non-issued shares and would be used for general corporate purposes, including stock option grants under stock option programs. To date, no shares have been repurchased under this program.

Under a previous stock purchase program which expired in November, 2001, the Company repurchased 3.13 million shares of common stock at an average price of $31.96 per share, totaling approximately $99,946 (excluding commissions). The Company's repurchase of its' common shares under this program was transacted entirely in fiscal 2000.

Membership Fee Increases

Beginning with renewals on October 1, 2000, the Company increased annual membership fees for its Gold Star (individual), Business, and Business Add-on Members. These fee increases averaged approximately $5 per member across its member categories, and are recorded as income ratably using the deferred method of accounting.

Critical Accounting Policies

The preparation of the Company's financial statements requires that management make estimates and judgments that affect the financial position and results of operations. Management continues to review its accounting policies and evaluate its estimates, including those related to merchandise inventory, impairment of long-lived assets and warehouse closing costs and insurance/self-insurance reserves. The Company bases its estimates on historical experience and on other assumptions that management believes to be reasonable under the present circumstances.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market as determined primarily by the retail method of accounting, and are stated using the last-in, first-out (LIFO) method for substantially all U.S. merchandise inventories. Merchandise inventories for all foreign operations are primarily valued by the retail method of accounting, and are stated using the first-in, first-out (FIFO) method. The Company records a provision each quarter for the estimated annual effect of inflation, and these estimates are adjusted to actual results determined at year-end. The Company includes in its calculation of the LIFO provision the net realizable value of those inventory pools where deflation exists. The Company provides for estimated inventory losses between physical inventory counts on the basis of a percentage of sales. The provision is adjusted periodically to reflect the trend of the actual physical inventory count results, which generally occur in the second and fourth fiscal quarters.

Impairment of long-lived assets and warehouse closing costs

The Company periodically evaluates its long-lived assets for indicators of impairment. Management's judgments are based on market and operational conditions at the present time. Future events could cause management to conclude that impairment factors exist, requiring an adjustment of these assets to their then-current fair market value.

The Company provides estimates for warehouse closing costs when it is appropriate to do so based on accounting principles generally accepted in the United States. Future circumstances may result in the Company's actual future closing costs or the amount recognized upon the sale of the property to differ substantially from the original estimates.

Insurance/Self Insurance Reserve

The Company uses a combination of insurance and self-insurance mechanisms to provide for the potential liabilities for workers' compensation, general liability, property insurance, director and officers' liability insurance, vehicle liability and employee health care benefits. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. The estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

Stock Options

The Company applies Accounting Principles Board Opinion (APB) No. 25 and related interpretations in accounting for stock options. The Company grants stock options to employees at exercise prices equal to fair market value on the date of grant. Accordingly, no compensation cost has been recognized for the plans.

On August 13, 2002 the Company announced that it would adopt the fair value based method of recording stock options consistent with Statement of Financial Accounting Standards No. 123 (SFAS No. 123) for all employee stock options granted subsequent to fiscal year end 2002. All future employee stock option grants will be expensed over the option vesting period based on the estimated fair value at the date the options are granted.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Accounting for Goodwill and Other Intangibles," which specifies that goodwill and some intangible assets will no longer be amortized, but instead will be subject to periodic impairment testing. On September 3, 2001, the Company adopted SFAS No. 142 and accordingly will continue to test previously reported goodwill for impairment on an annual basis, or more frequently if circumstances dictate. The overall effect of the adoption of SFAS No. 142 on the Company's financial statements was not material and the Company recorded no impairment charge. The reduction in amortization expense going forward, as a result of the adoption, is not material.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which provides the accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. SFAS No. 143 is effective for the Company's 2003 fiscal year. The adoption of SFAS No. 143 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for the Company's 2003 fiscal year. This Statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and other related accounting guidance. The adoption of SFAS No. 144 is not expected to have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Among other things, this statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," which required all gains and losses from the early extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in Accounting Principles Board (APB) Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," will now be used to classify those gains and losses. The statement was effective upon issuance in April 2002 for prospective transactions. The adoption of this statement had no impact on the Company's financial position or results of operations in fiscal 2002.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting of costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity should be recognized at fair value when the liability is incurred. SFAS No. 146 is effective for the Company's 2003 fiscal year. The adoption of SFAS No. 146 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

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 1, 2002, the Company's fixed rate long-term debt includes its $851,860 principal amount at maturity Zero Coupon Subordinated Notes and additional notes and capital lease obligations totaling $75,413. The Company's debt also includes $300,000 7 1⁄8% Senior Notes and $300,000 5 1⁄2% Senior Notes. The Company has entered into "fixed-to-floating" interest rate swaps on the Senior Notes, effectively converting these fixed interest rate securities to variable rate securities. Fluctuations in interest rates may affect the fair value of the fixed rate debt and may affect the interest expense related to the variable rate debt.

The Company holds interest-bearing instruments that are classified as cash and cash equivalents. As these investments are of a short-term nature and are held until maturity, if interest rates were to increase or decrease immediately, there is no material risk of a valuation adjustment related to these instruments. In addition, 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 fair value of foreign exchange contracts outstanding at September 1, 2002 were not material to the Company's results of operations or its financial position.

Change in Accountants

On May 13, 2002, the Audit Committee of Costco Wholesale Corporation's Board of Directors engaged KPMG LLP as the Company's firm of independent auditors for 2002.

CERTIFICATIONS

I, James D. Sinegal, certify that:

1) I have reviewed this annual report on Form 10-K of Costco Wholesale Corporation.

2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

    c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6) The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 22, 2002

James D. Sinegal
President, Chief Executive Officer

CERTIFICATIONS

I, Richard A. Galanti, certify that:

1) I have reviewed this annual report on Form 10-K of Costco Wholesale Corporation.

2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6) The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 22, 2002

Richard A. Galanti
Executive Vice President, Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders:

We have audited the accompanying consolidated balance sheet of Costco Wholesale Corporation and subsidiaries as of September 1, 2002 and the related consolidated statements of income, stockholders' equity and cash flows for the 52 weeks then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of Costco Wholesale Corporation and subsidiaries as of September 2, 2001 and for the 52 weeks ended September 2, 2001 and the 53 weeks ended September 3, 2000 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated October 8, 2001.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Costco Wholesale Corporation and subsidiaries as of September 1, 2002, and the results of their operations and their cash flows for the 52 weeks then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Seattle, Washington
October 10, 2002

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 2, 2001 and September 3, 2000, and the related consolidated statements of income, stockholders' equity and cash flows for the 52 weeks ended September 2, 2001, the 53 weeks ended September 3, 2000 and the 52 weeks ended August 29, 1999. 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 2, 2001 and September 3, 2000, and the results of its operations and its cash flows for the 52 weeks ended September 2, 2001, the 53 weeks ended September 3, 2000 and the 52 weeks ended August 29, 1999, 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.

Arthur Andersen LLP

Seattle, Washington
October 8, 2001

This audit report of Arthur Andersen LLP, our former independent public accountants, is a copy of the original report dated October 8, 2001 rendered by Arthur Andersen LLP on our consolidated financial statements included in our Form 10-K filed on November 15, 2001, and has not been reissued by Arthur Andersen LLP since that date. We are including this copy of the Arthur Andersen LLP audit report pursuant to Rule 2-02(e) of Regulation S-X under the Securities Act of 1933.

COSTCO WHOLESALE CORPORATION

CONSOLIDATED BALANCE SHEETS
(dollars in thousands except par value)

	September 1, 2002	September 2, 2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 805,518	$ 602,585
Short-term investments	—	4,999
Receivables, net	474,861	324,768
Merchandise inventories	3,127,221	2,738,504
Other current assets	222,939	211,601
Total current assets	4,630,539	3,882,457
PROPERTY AND EQUIPMENT		
Land	2,017,184	1,877,158
Buildings, leaseholds and land improvements	4,367,395	3,834,714
Equipment and fixtures	1,733,979	1,529,307
Construction in progress	198,744	133,995
	8,317,302	7,375,174
Less-accumulated depreciation and amortization	(1,793,683)	(1,548,589)
Net property and equipment	6,523,619	5,826,585
OTHER ASSETS	466,105	380,744
	$11,620,263	$10,089,786
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short term borrowings	$ 103,774	$ 194,552
Accounts payable	2,884,269	2,727,639
Accrued salaries and benefits	589,927	483,473
Accrued sales and other taxes	163,273	152,864
Deferred membership income	360,515	322,583
Other current liabilities	347,975	231,078
Total current liabilities	4,449,733	4,112,189
LONG-TERM DEBT	1,210,638	859,393
DEFERRED INCOME TAXES AND OTHER LIABILITIES	145,925	119,434
Total liabilities	5,806,296	5,091,016
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	119,730	115,830
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; 455,325,000 and 451,754,000 shares issued and outstanding	2,277	2,259
Additional paid-in capital	1,220,954	1,125,543
Other accumulated comprehensive loss	(157,725)	(173,610)
Retained earnings	4,628,731	3,928,748
Total stockholders' equity	5,694,237	4,882,940
	$11,620,263	$10,089,786

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

COSTCO WHOLESALE CORPORATION

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

	52 Weeks Ended September 1, 2002	52 Weeks Ended September 2, 2001	53 Weeks Ended September 3, 2000
REVENUE			
Net sales	$37,993,093	$34,137,021	$31,620,723
Membership fees and other	769,406	660,016	543,573
Total revenue	38,762,499	34,797,037	32,164,296
OPERATING EXPENSES			
Merchandise costs	33,983,121	30,598,140	28,322,170
Selling, general and administrative	3,575,536	3,129,059	2,755,355
Preopening expenses	51,257	59,571	42,321
Provision for impaired assets and closing costs	21,050	18,000	7,000
Operating income	1,131,535	992,267	1,037,450
OTHER INCOME (EXPENSE)			
Interest expense	(29,096)	(32,024)	(39,281)
Interest income and other	35,745	43,238	54,226
INCOME BEFORE INCOME TAXES	1,138,184	1,003,481	1,052,395
Provision for income taxes	438,201	401,392	420,958
NET INCOME	$ 699,983	$ 602,089	$ 631,437
NET INCOME PER COMMON SHARE:			
Basic	$ 1.54	$ 1.34	$ 1.41
Diluted	$ 1.48	$ 1.29	$ 1.35
Shares used in calculation (000's)			
Basic	453,650	449,631	446,255
Diluted	479,262	475,827	475,737

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

COSTCO WHOLESALE CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the 52 weeks ended September 1, 2002, the 52 weeks ended September 2, 2001 and the 53 weeks ended September 3, 2000 (in thousands)

	Common Stock		Additional Paid-In Capital	Other Accumulated Comprehensive Income/(Loss)	Retained Earnings	Total
	Shares	Amount				
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 income						
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	(3,130)	(16)	(99,930)	—	—	(99,946)
BALANCE AT SEPTEMBER 3, 2000	447,297	2,236	1,028,414	(117,029)	3,326,659	4,240,280
Comprehensive Income						
Net Income	—	—	—	—	602,089	602,089
Other accumulated comprehensive loss						
Foreign currency translation adjustment	—	—	—	(56,581)	—	(56,581)
Total comprehensive income	—	—	—	(56,581)	602,089	545,508
Stock options exercised including income tax benefits and other	4,457	23	97,129	—	—	97,152
BALANCE AT SEPTEMBER 2, 2001	451,754	2,259	1,125,543	(173,610)	3,928,748	4,882,940
Comprehensive Income						
Net Income	—	—	—	—	699,983	699,983
Other accumulated comprehensive income						
Foreign currency translation adjustment	—	—	—	15,885	—	15,885
Total comprehensive income	—	—	—	15,885	699,983	715,868
Stock options exercised including income tax benefits and other	3,571	18	95,402	—	—	95,420
Conversion of convertible debentures	—	—	9	—	—	9
BALANCE AT SEPTEMBER 1, 2002	455,325	$2,277	$1,220,954	$(157,725)	$4,628,731	$5,694,237

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

COSTCO WHOLESALE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	52 Weeks Ended September 1, 2002	52 Weeks Ended September 2, 2001	53 Weeks Ended September 3, 2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 699,983	$ 602,089	$ 631,437
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	341,781	301,297	254,397
Accretion of discount on zero coupon notes	17,233	16,654	16,222
Net loss (gain) on sale of property and equipment and other	4,001	(15,934)	(5,358)
Provision for impaired assets	—	15,231	10,956
Change in deferred income taxes	12,179	40,797	8,264
Tax benefit from exercise of stock options	27,171	32,552	76,730
Change in receivables, other current assets, deferred income, accrued and other current liabilities	129,883	(6,159)	115,909
Increase in merchandise inventories	(380,158)	(271,355)	(280,380)
Increase in accounts payable	187,655	335,110	253,031
Other	(21,485)	(17,719)	(10,850)
Total adjustments	318,260	430,474	438,921
Net cash provided by operating activities	1,018,243	1,032,563	1,070,358
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	(1,038,605)	(1,447,549)	(1,228,421)
Proceeds from the sale of property and equipment	32,849	110,002	62,730
Purchase of minority interest	—	—	(51,792)
Investment in unconsolidated joint venture	(1,000)	(28,500)	(5,000)
Decrease in short-term investments	4,928	41,599	208,959
Increase in other assets and other, net	(31,987)	(15,395)	(32,140)
Net cash used in investing activities	(1,033,815)	(1,339,843)	(1,045,664)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments)/proceeds from short-term borrowings, net	(99,175)	185,942	9,435
Net proceeds from issuance of long-term debt	300,000	81,951	2,199
Repayments of long-term debt	(18,540)	(159,328)	(10,513)
Changes in bank overdrafts	(35,136)	216,661	33,746
Proceeds from minority interests	3,908	7,119	24,856
Exercise of stock options	66,771	62,000	98,828
Repurchase of common stock	—	—	(99,946)
Net cash provided by financing activities	217,828	394,345	58,605
EFFECT OF EXCHANGE RATE CHANGES ON CASH	677	(8,985)	620
Increase in cash and cash equivalents	202,933	78,080	83,919
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	602,585	524,505	440,586
CASH AND CASH EQUIVALENTS END OF YEAR	$ 805,518	$ 602,585	$ 524,505
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (excludes amounts capitalized)	$ 9,511	$ 14,761	$ 21,996
Income taxes	$ 351,003	$ 363,649	$ 313,183

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

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 material inter-company transactions between the Company and its subsidiaries have been eliminated in consolidation. Costco primarily operates membership warehouses under the Costco Wholesale name.

Costco operates membership warehouses that offer 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 1, 2002, Costco operated 394 warehouse clubs: 290 in the United States; 60 in Canada; 14 in the United Kingdom; five in Korea; three in Taiwan; two in Japan; and 20 warehouses in Mexico with a joint venture partner.

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. The investment in Costco Mexico is included in other assets and was $157,312 at September 1, 2002 and $147,905 at September 2, 2001. The equity in earnings of Costco Mexico is included in interest income and other and for fiscal 2002, 2001 and 2000, was $21,028, $17,378 and $10,592, respectively. The amount of retained earnings that represents undistributed earnings of Costco Mexico was $64,674 and $43,646 at September 1, 2002 and September 2, 2001, respectively.

Fiscal Years

The Company reports on a 52/53-week fiscal year basis, which ends on the Sunday nearest August 31st. Fiscal year 2002 was 52 weeks, fiscal year 2001 was 52 weeks and fiscal year 2000 was 53 weeks.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase and proceeds due from credit and debit card transactions with settlement terms of less than five days to be cash equivalents. Of the total cash and cash equivalents of $805,518 at September 1, 2002 and $602,585 at September 2, 2001, credit and debit card receivables were $351,788 and $241,413, respectively.

Short-term Investments

Short-term investments consisted of corporate notes and bonds totaling $4,999 at September 2, 2001. These investments at the end of fiscal 2001 were designated as being available-for-sale and, accordingly, were reported at fair value. The fair market value of short-term investments approximates their carrying value and there were no unrealized holding gains or losses at September 1, 2002, and no significant unrealized holding gains and losses at September 2, 2001. Realized gains and losses are included in interest income and were not significant in fiscal 2002, 2001, and 2000. Short-term investments held by the Company at September 2, 2001, matured between one and sixty days from the purchase date.

Receivables, net

Receivables consist primarily of vendor rebates and promotional allowances, receivables from government tax authorities and other miscellaneous amounts due to the Company, and are net of allowance for doubtful accounts of $2,224 at September 1, 2002 and $3,474 at September 2, 2001. Management determines the allowance for doubtful accounts based on known troubled accounts and historical experience applied to an aging of accounts.

(dollars in thousands, except per share data) (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

Vendor Rebates and Allowances

Periodic payments from vendors in the form of buy downs, volume or other purchase discounts that are evidenced by signed agreements are reflected in the carrying value of the inventory when earned and as a component of cost of sales as the merchandise is sold. Up-front consideration received from vendors linked to purchases or other commitments is initially deferred and amortized ratably over the life of the contract or as performance of the activities specified by the vendor to earn the fee is completed.

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. Merchandise inventories for all foreign operations are primarily valued by the retail method of accounting, and are stated using the first-in, first-out (FIFO) method. The Company believes the LIFO method more fairly presents the results of operations by more closely matching current costs with current revenues. The LIFO inventory adjustment for the fourth quarter of fiscal 2002 increased gross margin by approximately $21,000 as compared to $2,000 in the fourth quarter of fiscal 2001. If all merchandise inventories had been valued using the first-in, first-out (FIFO) method, inventories would have been higher by $150 at September 1, 2002 and $13,650 at September 2, 2001.

	September 1, 2002	September 2, 2001
Merchandise inventories consist of:		
United States (primarily LIFO)	$2,552,820	$2,244,986
Foreign (FIFO)	574,401	493,518
Total	$3,127,221	$2,738,504

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 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 $13,480 in fiscal 2002, $19,157 in fiscal 2001, and $10,919 in fiscal 2000.

Impairment of Long-Lived Assets

The Company periodically evaluates the realizability of long-lived assets for impairment when events or changes in circumstances occur, which may indicate the carrying amount of the asset may not be recoverable. The Company evaluates the carrying value of the asset by comparing the estimated future cash flows generated from the use of the asset and its eventual disposition with the asset's reported net book value. In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, the Company recorded no pretax, non-cash

Note 1—Summary of Significant Accounting Policies (Continued)

charges in fiscal 2002, and $15,231 and $10,956 in fiscal 2001 and 2000, 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 estimated market valuations for those assets whose carrying value is not currently anticipated to be recoverable through future cash flows.

Goodwill

Goodwill, net of accumulated amortization, resulting from certain business combinations is included in other assets, and totaled $43,920 at September 1, 2002 and $43,831 at September 2, 2001. On September 3, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Accounting for Goodwill and Other Intangibles," which specifies that goodwill and some intangible assets will no longer be amortized, but instead will be subject to periodic impairment testing. Accordingly, the Company reviews previously reported goodwill for impairment on an annual basis, or more frequently if circumstances dictate. In fiscal 2001 and fiscal 2000 goodwill was amortized on a straight-line basis over lives ranging from two to forty years and was periodically evaluated for impairment as circumstances dictated. The effects on net income and net income per share data would not be significant if the Company had followed the provisions of SFAS No. 142 in the years ended September 2, 2001 and September 3, 2000.

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 fourteen Costco warehouse locations.

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 1, 2002 and September 2, 2001 are $235,458 and $270,757 respectively, representing the excess of outstanding checks over cash on deposit at the banks on which the checks were drawn.

Insurance/Self Insurance Reserve

The Company uses a combination of insurance and self-insurance mechanisms to provide for the potential liabilities for workers' compensation, general liability, property insurance, vehicle liability and employee health care benefits. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions.

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 only significant derivative instruments the Company holds are interest rate swaps, which the Company uses to manage the interest rate risk associated with its borrowings and to manage the Company's mix of fixed and variable-rate debt. As of September 1, 2002, the Company had "fixed-to-floating" interest rate swaps with an aggregate notional amount of $600,000 and an aggregate fair value of $35,926, which is recorded in other assets. These swaps were entered into effective November 13, 2001, and March 25, 2002, and are designated and qualify as fair value hedges of the Company's $300,000 7 1⁄8% Senior Notes and the Company's $300,000 5 1⁄2% Senior Notes, respectively. As the terms of the swaps match those of the underlying hedged debt, the changes in the fair value of these swaps are offset by corresponding changes in the fair value recorded on the hedged debt, and result in no net earnings impact.

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

Note 1—Summary of Significant Accounting Policies (Continued)

Foreign Currency Translations

The functional currencies of the Company's international subsidiaries are the local currency of the country in which the subsidiary is located. 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 (loss). 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.

Revenue Recognition

The Company recognizes sales, net of estimated returns, at the time the member takes possession of merchandise or receives services. When the Company collects payment from customers prior to the transfer of ownership of merchandise or the performance of services, the amount received is recorded as a deferred revenue liability.

Membership fee revenue represents annual membership fees paid by substantially all of the Company's members. The Company accounts for membership fee income on a "deferred basis" whereby membership fee income is recognized ratably over the one-year life of the membership.

Marketing and Promotional Expenses

Costco's policy is generally to limit marketing and promotional expenses to new warehouse openings, occasional direct mail marketing to prospective new members and annual direct mail marketing programs to existing members promoting selected merchandise. Marketing and promotional costs are expensed as incurred.

Preopening Expenses

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

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash and cash equivalents, short-term investments and receivables approximate fair value due to their short-term nature or variable interest rates. Debt carrying fixed interest rates does not approximate fair value. The fair value of fixed rate debt at September 1, 2002 and September 2, 2001 was $1,382,569 and $1,159,486, respectively.

Reorganization of Canadian Administrative Operations

On January 17, 2001, the Company announced plans to reorganize and consolidate the administration of its operations in Canada. Total costs related to the reorganization were $26,765 pre-tax, of which $7,765 pre-tax ($4,775 after-tax, or $.01 per diluted share) was expensed in fiscal 2002 and $19,000 pre-tax ($11,400 after-tax, or $.02 per diluted share) was expensed in fiscal 2001 and reported as part of the provision for impaired assets and closing costs. These costs consisted primarily of employee severance, implementation and consolidation of support systems and employee relocation. The reorganization was completed in the first quarter of fiscal 2002.

Note 1—Summary of Significant Accounting Policies (Continued)

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 1, 2002, the Company's reserve for warehouse closing costs was $11,845, of which $10,395 related to lease obligations. This compares to a reserve for warehouse closing costs of $15,434 at September 2, 2001, of which $6,538 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.

Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credits and loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carry-forwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

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.

	52 Weeks Ended September 1, 2002	52 Weeks Ended September 2, 2001	53 Weeks Ended September 3, 2000
Net income available to common stockholders used in basic EPS	$699,983	$602,089	$631,437
Interest on convertible bonds, net of tax	10,602	9,992	9,772
Net income available to common stockholders after assumed conversions of dilutive securities	$710,585	$612,081	$641,209
Weighted average number of common shares used in basic EPS (000's)	453,650	449,631	446,255
Stock options (000's)	6,267	6,851	10,135
Conversion of convertible bonds (000's)	19,345	19,345	19,347
Weighted number of common shares and dilutive potential common stock used in diluted EPS (000's)	479,262	475,827	475,737

The diluted share base calculation for fiscal years ended September 1, 2002, September 2, 2001 and September 3, 2000, excludes 6,908,000, 7,108,000 and 3,659,000 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.

On November 30, 2001, the Company's Board of Directors approved a stock repurchase program authorizing the repurchase of up to $500,000 of Costco Common Stock through November 30, 2004. Under the program, the Company can repurchase shares at any time in the open market or in private transactions as market conditions warrant. The repurchased shares would constitute authorized, but non-issued shares and would be used for

Note 1—Summary of Significant Accounting Policies (Continued)

general corporate purposes, including stock option grants under stock option programs. To date, no shares have been repurchased under this program.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," which provides the accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. SFAS No. 143 is effective for the Company's 2003 fiscal year. The adoption of SFAS No. 143 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for the Company's 2003 fiscal year. This Statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and other related accounting guidance. The adoption of SFAS No. 144 is not expected to have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Among other things, this statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" which required all gains and losses from the early extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in Accounting Principles Board (APB) Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," will now be used to classify those gains and losses. The statement was effective upon issuance in April 2002 for prospective transactions. The adoption of this statement had no material impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity should be recognized at fair value when the liability is incurred. SFAS No. 146 is effective for the Company's 2003 fiscal year. The adoption of SFAS No. 146 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 $500,000 commercial paper program supported by a $400,000 bank credit facility with a group of 10 banks, of which $200,000 expires on November 11, 2003 and $200,000 expires on November 15, 2005. At September 1, 2002, no amounts were outstanding under the commercial paper program and no amounts were outstanding under the loan facility. Covenants related to the credit facility place limitations on total company indebtedness. As of September 1, 2002, the Company was in compliance with all restrictive covenants.

In addition, a wholly owned Canadian subsidiary has a $128,000 commercial paper program supported by a $51,000 bank credit facility with three Canadian banks, which expires in March, 2003. At September 1, 2002, 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 $451,000 combined amounts of the respective supporting bank credit facilities.

The Company's wholly-owned Japanese subsidiary has a short-term ¥4 billion bank line of credit, equal to approximately $33,600, of which ¥1 billion ($8,400) expires in April 2003 and ¥3 billion ($25,200) expires in November 2003. At September 1, 2002, $18,480 was outstanding under the line of credit with an applicable interest rate of 1.375%.

The Company's 80%-owned UK subsidiary has a £60 million ($93,048) bank revolving credit facility and a £20 million ($31,016) bank overdraft facility, both expiring in February 2007. At September 1, 2002, $85,294 was outstanding under the revolving credit facility with an applicable interest rate of 4.413% and no balance was outstanding under the bank overdraft facility.

Letters of Credit

The Company has separate letter of credit facilities (for commercial and standby letters of credit), totaling approximately $373,000. The outstanding commitments under these facilities at September 1, 2002 totaled approximately $142,000 including approximately $32,000 in standby letters of credit.

(dollars in thousands, except per share data) (Continued)

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 2002 and 2001:

Category of Aggregate Short-term Borrowings	Maximum Amount Outstanding During the Fiscal Year	Average Amount Outstanding During the Fiscal Year	Weighted Average Interest Rate During the Fiscal Year
Fiscal year ended September 1, 2002			
Bank borrowings:			
Canadian	$ 17,195	$ 351	4.14%
Other International	111,293	44,495	4.36
Commercial Paper:			
U.S.	332,000	70,401	2.29
Fiscal year ended September 2, 2001			
Bank borrowings:			
Canadian	$ 7,308	$ 439	6.97%
Other International	16,000	10,680	1.38
Commercial Paper:			
U.S.	239,000	42,741	4.15

Long-term Debt

Long-term debt at September 1, 2002 and September 2, 2001:

	2002	2001
7 1⁄8% Senior Notes due June 2005	$ 307,787	$300,000
5 1⁄2% Senior Notes due March 2007	328,139	—
2.070% Promissory notes due October 2007	29,400	29,400
1.187% Promissory notes due July 2008	25,200	25,200
3 1⁄2% Zero Coupon convertible subordinated notes due August 2017	506,883	489,659
Notes payable secured by trust deeds on real estate	8,213	8,981
Capital lease obligations and other	12,600	22,830
	1,218,222	876,070
Less current portion (included in other current liabilities)	7,584	16,677
Total long-term debt	$1,210,638	$859,393

In June 1995, the Company issued $300,000 of 7 1⁄8% Senior Notes due June 15, 2005. 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 November 2001, the Company entered into "fixed-to-floating" interest rate swap agreements that replaced the fixed interest rate with a floating rate indexed to LIBOR.

In March 2002, the Company issued $300,000 of 5 1⁄2% Senior Notes due March 15, 2007. Interest is payable semi-annually on March 15 and September 15. Simultaneous with the issuance of the 5 1⁄2% Senior Notes, the Company entered into interest rate swap agreements converting the interest to a floating rate indexed to LIBOR. As of September 1, 2002, the Company was in compliance with all restrictive covenants.

Note 2—Debt (Continued)

In October 2000, the Company's wholly-owned Japanese subsidiary issued 2.070% promissory notes in the aggregate amount of 3.5 billion Yen, equal to $29,400, through a private placement. Interest is payable annually and principal is due on October 23, 2007.

In July 2001, the Company's wholly-owned Japanese subsidiary issued 1.187% promissory notes in the aggregate amount of 3 billion Yen, equal to $25,200, through a private placement. Interest is payable semi-annually and principal is due on July 9, 2008.

During April 2001, the Company retired its unsecured note payable to banks of $140,000 using cash provided from operations, cash and cash equivalents, and short-term borrowings under its commercial paper program.

On August 19, 1997, the Company completed the sale of $900,000 principal amount at maturity 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 19,344,969 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, 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 1, 2002, $48,140 in principal amount of the Zero Coupon Notes had been 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. On October 23, 2001, an additional $100,000 in debt securities were registered, bringing the total amount of debt registered under the shelf registration to $600,000. The $300,000 of 5½% Senior Notes issued in March 2002, reduced the amount of registered securities available for future issuance to $300,000.

At September 1, 2002, the fair value of the 7⅛% Senior Notes, and the 5½% Senior Notes, based on market quotes, was approximately $329,160 and $315,990, respectively. The Senior Notes are not redeemable prior to maturity. The fair value of the 3½% Zero Coupon Subordinated Notes at September 1, 2002, based on market quotes, was approximately $662,006. 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:

2003	$ 7,584
2004	3,239
2005	309,125
2006	1,302
2007	329,485
Thereafter	567,487
Total	$1,218,222

(dollars in thousands, except per share data) (Continued)

Note 3—Leases

The Company leases land and/or warehouse buildings at 80 of the 374 warehouses open at September 1, 2002, and certain other office and distribution facilities under operating leases with remaining terms ranging from 1 to 40 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.

Aggregate rental expense for fiscal 2002, 2001, and 2000, was $69,894, $70,394, and $67,886, 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 1, 2002, were as follows:

2003	$ 67,955
2004	64,469
2005	64,806
2006	65,540
2007	61,662
Thereafter	771,348
Total minimum payments	$1,095,780

Note 4—Stock Options

The Company's 1993 Combined Stock Grant and Stock Option Plan (the "1993 Plan") provided 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. During fiscal 2002 the 2002 Stock Incentive Plan (the "2002 Plan") was adopted following shareholder approval. The 2002 plan authorized 30 million shares of common stock for issuance, subject to adjustment. For future grants, the 2002 plan replaces the 1993 plan and the 1993 plan has been amended to provide that no more options or stock grants may be issued under such plan. Any shares under the 1993 plan that remain available for future option grants (and any additional shares that subsequently become available through cancellation of unexercised options outstanding) will be added to the number of shares available for grant under the 2002 plan. The 2002 plan authorizes the Company to grant stock options to eligible employees, directors and consultants. Options granted under these plans have a ten-year term and a vesting period of 5 years. At September 1, 2002, options for approximately 19.8 million shares were vested and 26.6 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 to employees at exercise prices equal to fair market value on the date of grant. Accordingly, no compensation cost has been recognized for the plans.

Note 4—Stock Options (Continued)

On August 13, 2002 the Company announced that it would adopt the fair value based method of recording stock options consistent with Statement of Financial Accounting Standards No. 123 (SFAS No. 123) for all employee stock options granted subsequent to fiscal year end 2002. All future employee stock option grants will be expensed over the option vesting period based on the estimated fair value at the date the options are granted.

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:

	2002	2001	2000
Net income:			
As reported	$699,983	$602,089	$631,437
Pro forma	$624,240	$537,012	$570,669
Net income per share (diluted):			
As reported	$ 1.48	$ 1.29	$ 1.35
Pro forma	$ 1.32	$ 1.15	$ 1.22

The effects of applying SFAS No. 123 on pro forma disclosures of net income and earnings per share for fiscal 2002, 2001 and 2000 are not likely to be representative of the pro forma effects on net income and earnings per share in future years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2002, 2001 and 2000:

	2002	2001	2000
Risk free interest rate	4.45%	4.96%	6.56%
Expected life	5 years	5 years	5 years
Expected volatility	46%	43%	42%
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):

	2002		2001		2000	
	Shares	Price(1)	Shares	Price(1)	Shares	Price(1)
Under option at beginning of year	39,578	$29.15	36,021	$26.09	36,778	$19.89
Granted(2)	7,641	38.10	8,822	34.18	7,501	42.76
Exercised	(3,571)	18.77	(4,457)	14.04	(7,688)	12.74
Cancelled	(687)	37.12	(808)	31.35	(570)	25.47
Under option at end of year	42,961	$31.49	39,578	$29.15	36,021	$26.09

(1) Weighted-average exercise price/grant price

(2) The weighted-average fair value based on the Black-Scholes model of options granted during fiscal 2002, 2001 and 2000, were $17.83, $15.47 and $20.35, respectively.

Note 4—Stock Options (Continued)

The following table summarizes information regarding stock options outstanding at September 1, 2002 (number of options in thousands):

	Options Outstanding			Options Exercisable	
Range of Prices	Number	Remaining Contractual Life(1)	Price(1)	Number	Price(1)
$6.66–$33.54	14,979	5.13	$18.76	11,599	$15.82
$34.28–$36.91	14,667	7.60	35.57	5,331	36.18
$38.79–$52.50	13,315	8.51	41.30	2,913	43.80
	42,961	7.02	$31.49	19,843	$25.40

(1) Weighted-average

At September 2, 2001 and September 3, 2000, there were 15,500 and 12,573 options exercisable at weighted average exercise prices of $21.57 and $16.35, respectively.

Note 5—Retirement Plans

The Company has a 401(k) Retirement Plan that is available to all U.S. employees who have completed 90 days of employment, 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.

California union employees participate in a defined benefit plan sponsored by their union. The Company makes contributions based upon its union agreement. The Company also sponsors 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 $127,189, $108,256, and $97,830 for fiscal 2002, 2001 and 2000, 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 2002, 2001 and 2000 are as follows:

	2002	2001	2000
Federal:			
Current	$331,455	$285,460	$290,995
Deferred	5,263	1,102	2,894
Total federal	336,718	286,562	293,889
State:			
Current	48,256	55,484	57,753
Deferred	4,269	(415)	2,072
Total state	52,525	55,069	59,825
Foreign:			
Current	46,197	19,161	64,210
Deferred	2,761	40,600	3,034
Total foreign	48,958	59,761	67,244
Total provision for income taxes	$438,201	$401,392	$420,958

In the fourth quarter of fiscal 2002 the Company adjusted the annual effective tax rate used in calculating the tax provision from 40% to 38.5%, resulting in the reduction in the income tax provision in the fourth quarter of $11,315.

Reconciliation between the statutory tax rate and the effective rate for fiscal 2002, 2001 and 2000 is as follows:

	2002		2001		2000	
Federal taxes at statutory rate	$398,364	35.00%	$351,218	35.00%	$368,338	35.00%
State taxes, net	34,145	3.00	35,824	3.57	40,202	3.82
Foreign taxes, net	2,732	0.24	10,938	1.09	10,221	0.97
Other	2,960	0.26	3,412	0.34	2,197	0.21
Provision at effective tax rate	$438,201	38.50%	$401,392	40.00%	$420,958	40.00%

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

	September 1, 2002	September 2, 2001
Accrued liabilities	$151,520	$136,987
Deferred membership fees	137,231	111,391
Other	30,271	17,776
Total deferred tax assets	319,022	266,154
Property and equipment	175,344	127,243
Merchandise inventories	51,951	40,601
Other	46,686	40,976
Total deferred tax liabilities	273,981	208,820
Net deferred tax assets	$ 45,041	$ 57,334

The deferred tax accounts at September 1, 2002 and September 2, 2001 include current deferred income tax assets of $173,602 and $160,662, respectively, and non-current deferred income tax liabilities of $128,561 and $103,328, respectively. Current deferred income tax assets are included in other current assets.

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

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

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.

	United States Operations	Canadian Operations	Other International Operations	Total
Year Ended September 1, 2002				
Total revenue	$32,310,812	$4,750,173	$1,701,514	$38,762,499
Operating income	929,027	187,464	15,044	1,131,535
Depreciation and amortization	281,812	33,477	26,492	341,781
Capital expenditures	868,069	35,098	135,438	1,038,605
Long lived assets	5,387,772	514,854	620,993	6,523,619
Total assets	9,459,538	1,157,954	1,002,771	11,620,263
Net assets	4,526,525	576,693	591,019	5,694,237
Year Ended September 2, 2001				
Total revenue	$28,636,483	$4,695,778	$1,464,776	$34,797,037
Operating income (loss)	813,665	179,095	(493)	992,267
Depreciation and amortization	241,777	35,377	24,143	301,297
Capital expenditures	1,298,889	43,092	105,568	1,447,549
Long lived assets	4,835,598	516,489	474,498	5,826,585
Total assets	8,216,242	1,093,789	779,755	10,089,786
Net assets	3,811,158	548,196	523,586	4,882,940
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
Long lived assets	3,870,626	534,145	429,345	4,834,116
Total assets	6,833,440	1,134,998	665,502	8,633,940
Net assets	3,454,330	322,205	463,745	4,240,280

The accounting policies of the segments are the same as those described in Note 1. All inter-segment net sales and expenses are immaterial and have been eliminated in computing net sales and operating profit.

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, 2000 through November 1, 2002. The quotations are as reported in published financial sources.

	Costco Common Stock	
	High	**Low**
Calendar Quarters—2000		
First Quarter	$55.953	$42.063
Second Quarter	58.438	30.000
Third Quarter	38.375	31.313
Fourth Quarter	39.938	30.625
Calendar Quarters—2001		
First Quarter	46.250	36.500
Second Quarter	43.620	34.063
Third Quarter	44.500	31.220
Fourth Quarter	45.190	33.540
Calendar Quarters—2002		
First Quarter	46.320	38.920
Second Quarter	43.000	37.590
Third Quarter	39.300	31.850
Fourth Quarter (through November 30, 2002)	36.210	29.180

On November 30, 2002 the Company had 7,786 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

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Construction
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Operations—Midwest Region
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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 relations questions to investor@costco.com.

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Stock Exchange Listing
NASDAQ Stock Market
Stock Symbol: COST

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