

**A**  
*Annual  
Report  
1998*

**COSTCO**<sup>®</sup>  
**WHOLESALE**

*Costco Companies, Inc.*

**YEAR ENDED AUGUST 30, 1998**

1998

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## THE COMPANY

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

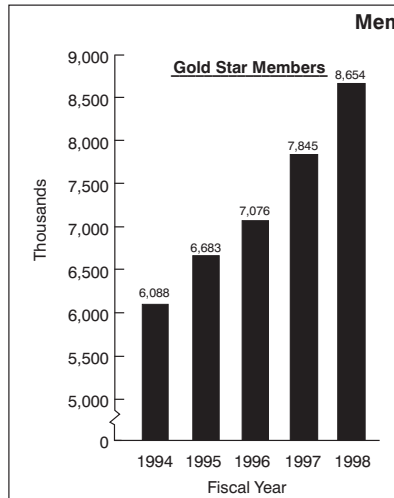
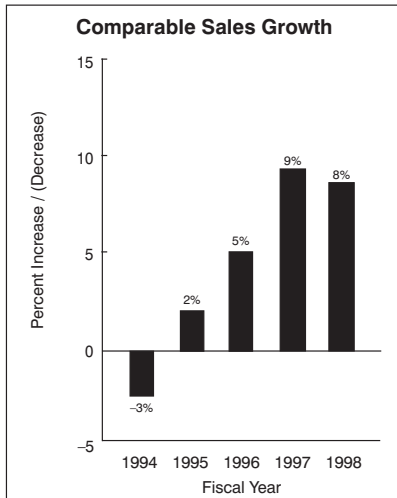
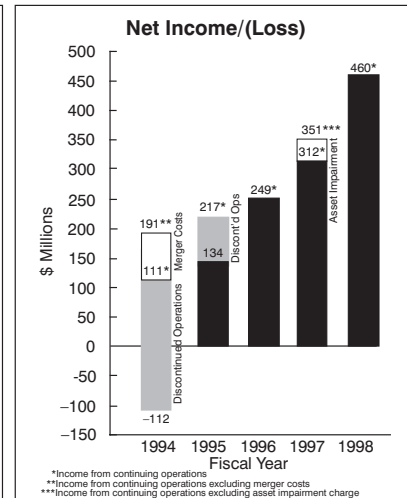
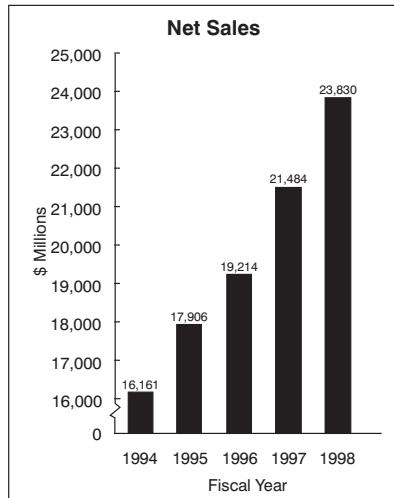
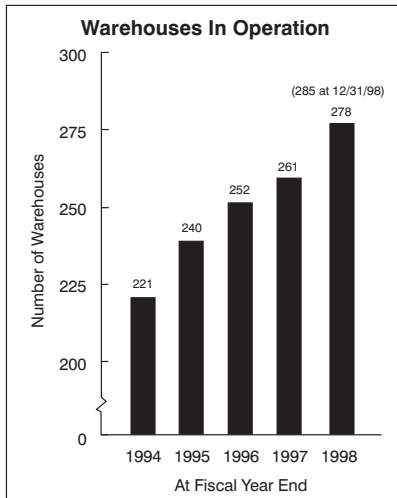
Costco operates a chain of cash and carry membership warehouses that sell high quality, nationally branded and selected private label merchandise at low prices to businesses purchasing for commercial use, personal use, or resale, and also to individuals who are members of selected employee groups. The 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 1998, the Company operated a chain of 285 warehouses in 26 states (217 locations), nine Canadian provinces (57 locations), the United Kingdom (seven locations, through a 60%-owned subsidiary), Korea (three locations) and one warehouse in Taiwan. The Company also operates 16 warehouses in Mexico through a joint venture partner.

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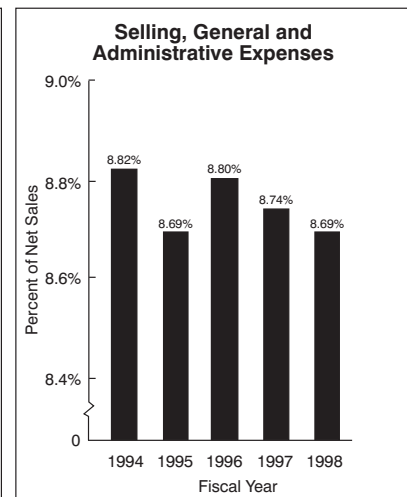
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**FINANCIAL HIGHLIGHTS**



Year Opened	# of Whses*	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
1998	17										\$50
1997	10										\$70
1996	18								\$46	\$53	\$61
1995	19							\$51	\$58	\$69	\$76
1994	27						\$57	\$60	\$68	\$76	\$83
1993	34					\$59	\$62	\$69	\$74	\$79	\$84
1992	26				\$48	\$54	\$61	\$65	\$69	\$75	\$80
1991	20			\$49	\$58	\$60	\$63	\$64	\$67	\$71	\$77
1990	18		\$55	\$73	\$86	\$86	\$86	\$85	\$87	\$93	\$99
1989 & Before	89	\$81	\$89	\$97	\$100	\$95	\$92	\$90	\$93	\$100	\$107
Totals	278	\$81	\$83	\$86	\$84	\$78	\$76	\$75	\$77	\$83	\$87



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December 10, 1998

Dear Shareholder:

Fiscal 1998 represented another year of outstanding results for Costco, with record sales and earnings, continued expansion in the U.S., Canada, and abroad; greater values in the products and services we offer our members; and further strengthening of the Costco name. The following recap details our Company's progress and plans:

- Fiscal 1998 Operating Results
- Fiscal 1998 Activities and Accomplishments
- Outlook and Plans for Fiscal 1999 and Beyond

### **Fiscal 1998 Operating Results**

Costco's fiscal 1998 operating results, like those of the prior fiscal year, reflect improvements in virtually every area of the Company. Net sales for the 52 weeks ended August 30, 1998 increased 11% over the prior year—from \$21.5 billion in fiscal 1997 to \$23.8 billion this past year. Comparable sales (sales in warehouses open more than a year) increased 8%; and average sales per warehouse reached \$87 million, a level of sales productivity significantly greater than the estimated \$40 million and \$50 million being realized by the other two major participants in the membership warehouse club industry.

We attribute these strong sales results to several factors, including creative and exciting merchandising programs; a fanatical adherence to strict pricing disciplines whereby the majority of any cost savings is passed on to the customer; a fantastic group of employees; and clean and well-run facilities that are fun to shop. With these attributes at the core of our operating philosophy, comparable warehouse sales have continued positive into the new fiscal year, with an 8% increase being reported for the first 13 weeks of fiscal 1999, ended November 29th.

These strong sales trends, combined with improved gross margins and membership fee income and good expense control resulted in another year of record earnings. On a reported basis, net income in fiscal 1998 increased 47% to \$459.8 million, or \$2.03 per share, from \$312.2 million, or \$1.47 per share the prior year. As discussed more fully on page 10 of this Annual Report, the fiscal 1997 earnings results were negatively impacted by certain one-time charges. Excluding these charges, the year-over-year earnings increase was still an impressive 28%.

Membership fee income in fiscal 1998 increased by more than \$49 million, or nearly 13%, over the prior year, the result of new membership signups, continuing high renewal rates of existing members and a five dollar increase last Spring in our annual membership fee for Gold Star, Business and Business Add-on members—the first overall increase in membership fees in five years. This fee increase, when annualized, will generate nearly \$65 million in incremental membership income, which will allow us to further increase Costco's competitiveness in the marketplace, and we believe, generate greater levels of sales and profitability over the long-term. We are also encouraged by the initial results of our Executive Membership program, which we began rolling out in fiscal 1998. This program is discussed further in our plans for fiscal 1999 and beyond.

Our gross margins increased from 10.10% in fiscal 1997 to 10.28% in fiscal 1998—continuing the string of margin increases over the past five years despite being ever more competitive in the marketplace. Our ability to improve margins while lowering prices is a result of many factors, including volume purchasing power; efficient distribution of merchandise through our depot facilities; increased sales penetration of higher margin ancillary departments (such as pharmacy, optical, hearing aid and one-hour photo operations) and our expanded "Kirkland Signature" private label program; as well as strong operational controls over merchandise markdowns and inventory shrinkage.

For the third consecutive year, we reduced our operating expenses as a percent of sales—from 8.74% in fiscal 1997 to 8.69% in fiscal 1998. This reduction was, of course, aided by comparable sales growth, as well as our continuing emphasis on operating efficiencies and cost controls throughout the Company. We continue to believe we can and should be even more efficient in the operation of our business, and we assure you we will not become complacent in the area of cost containment.

### **Fiscal 1998 Activities and Accomplishments**

Our fiscal 1998 expansion program totaled a net of 17 warehouse openings, including six internationally. We opened twelve new warehouses in the U.S., including five warehouses on May 1st in the Detroit area. These five warehouses were the result of an opportunistic real estate purchase from Hechinger Company, which after retrofitting and expanding these buildings to Costco standards, gave us an immediate, strong presence in this new market. To date, the results in Detroit have exceeded our expectations. Together with seven additional openings in existing U.S. markets (including our third unit in Atlanta and the relocation of our Pomona, California warehouse to nearby Chino Hills), we ended fiscal 1998 with 211 warehouses in the U.S.

Our international openings included two new warehouses in Canada (in St. Jerome, Quebec and Kingston, Ontario) and our seventh warehouse in the UK (in Edinburgh, Scotland), which has continued the strong growth in sales and profitability of our UK operation. We expanded further in Asia in fiscal 1998 with the formation in June of a joint venture with Shinsegae Department Store Co., Ltd. to purchase from Shinsegae three membership warehouses in Korea—in Seoul, Taegu and Taejon—with Costco as the majority (94%) and controlling partner of the venture. Prior to this purchase these units had been operated under a license agreement. Additionally, in May 1998, the Company announced it had signed a lease to construct a 135,000 square foot Costco warehouse as part of a "US-style" shopping center in Fukuoka, Japan. The opening is scheduled for the spring of 1999. To support our Asia operations we have put together a strong management team consisting of experienced, in-country management and seasoned Costco personnel.

As in recent fiscal years, more than \$100 million of our Company's fiscal 1998 capital expenditures budget was dedicated to "remodeling and improvement" efforts. Many existing warehouses were expanded and/or retrofitted to provide for expanded fresh foods offerings and additional ancillary operations, such as pharmacy, optical and one-hour photo labs.

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Several locations were physically expanded, and one warehouse was relocated, as mentioned above. At fiscal year-end, 32 of our warehouses had gas stations, up from ten at the beginning of the year.

On the financial front, Costco ended fiscal 1998 with a strengthened balance sheet: increased cash and short-term investments generated from strong operating performance in fiscal 1998; a more favorable debt to equity ratio; and inventory levels, not only positioned well for the 1998 holiday season, but approximately 85% financed with trade payables. The combination of significant debt reduction in fiscal 1997 and strong cash flows in both fiscal 1997 and 1998 also helped to improve the Company's fiscal 1998 earnings. In fiscal 1998, net interest expense was nearly \$40 million lower than in fiscal 1997. Lastly, in early November the Company announced that its Board of Directors had authorized a stock repurchase program of up to \$500 million of Costco Common Stock over the next three years. Given Costco's strong balance sheet position, and our confidence in the Company's prospects going forward, we believe this investment in Costco common stock will be beneficial to the long-term interests of Costco shareholders, and we will cautiously seek the right opportunities to engage in stock repurchases.

#### Outlook and Plans for Fiscal 1999 and Beyond

Last month, the Company began operation of its new Costco Online electronic commerce web site ([www.costco.com](http://www.costco.com)) bringing to our customers an expanded selection of products and services that go beyond the walls of our traditional warehouse club operation. An initial selection of over 400 product offerings is consistent with Costco's primary mission of selecting high-quality, name brand items at the very best price/value relationship—the same merchandising philosophy that established Costco as a premier retailer in the world today, supported by over 27 million Costco cardholders. Examples of products being offered by Costco Online include consumer electronics and cameras; computers and peripherals; office machines; toys and sporting goods; kitchen and housewares; home furnishings; collectibles; and diamonds, watches and other jewelry items.

In fiscal 1999, we will also continue the development and rollout of our Executive Membership program. A total of nine services are now being offered under the Executive Membership program, and an introductory offer to become an Executive Member has now been mailed to approximately 8½ million of our 16 million Costco member households, including all members in Arizona, California, Colorado, Maryland, Oregon, Virginia and Washington. Services for our Gold Star members include discounted auto and homeowner insurance; mortgage and real estate services; and residential long-distance telephone service. Discounted services for Business Members include business credit card processing; employee health care; business checks and forms printing; business long-distance telephone service; and small business loans. While all of these services are not yet available in each of the markets in which we operate, we are pleased that over one million of our members have taken advantage of the introductory one-year free upgrade to become an Executive Member. During fiscal 1999, it will be incumbent upon us to complete the rollout of the Executive Membership program to the remaining seven plus million members and, perhaps more important, to effectively communicate to our members the dramatic savings that can be achieved from each and every service being offered.

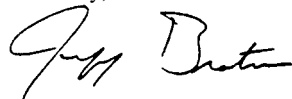
In terms of new warehouse expansion, we are excited about our entry into several new markets in fiscal 1999, including the Chicago market, where we opened two new warehouses in mid-November—in the communities of Schaumburg and Oak Brook. We will announce other new markets as our plans become firm. Other fiscal 1999 openings in the US prior to the end of the 1998 calendar year included warehouses in Torrance, California; Christiana, Delaware; Union, New Jersey; Goleta, California and a replacement warehouse in San Bernardino, California. Fiscal 1999 openings in Canada prior to calendar year-end included warehouses in Port Coquitlam, British Columbia, and a replacement warehouse in Vaughn, Ontario, bringing to 285 the total warehouses now in operation. In addition, in the Fall of 1998 we opened two new warehouses in Mexico—in the greater Mexico City communities of Interlomas and Polanco—with our joint venture partner, Controladora Comercial Mexicana, bringing to 16 the number of warehouses now in operation in Mexico.

Our plans are to open a net of 20 to 22 warehouses in fiscal 1999, including those discussed above. These plans include 11 to 13 new openings in the U.S. and Canada (plus five relocations), one warehouse in Taipei, Taiwan, and our first opening in Japan—in Fukuoka. Our fiscal 1999 plans also include the continuation of a remodeling and retrofitting program, which will upgrade a number of our older facilities to include expanded fresh foods and ancillary departments—including expanded food courts, pharmacy and optical departments, and our very popular gas stations—all of which have enhanced our members' shopping experience as well as increased sales and bottom-line profitability.

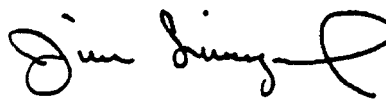
In summary, fiscal 1998 was a year of noteworthy accomplishments. We achieved record sales and earnings, increased shareholder value, grew our number of warehouses and membership base and enhanced our members' shopping experience through upgraded departments and facilities, new membership services and, most recently, the ability to shop online through our Costco Online web site. These many accomplishments were the result of the combined efforts of our dedicated employees—now numbering over 63,000 worldwide—who have contributed to the success of Costco and helped position the Company for the challenges of fiscal 1999 and into the twenty-first century. Finally, we are appreciative of the continuing support from you, our shareholder. We look forward to seeing many of you at our Annual Shareholders Meeting in January.

Best wishes for a Happy and Healthy New Year,

Cordially,



Jeff Brotman  
Chairman of the Board



Jim Sinegal  
President & CEO

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# COSTCO WHOLESALE

285\* LOCATIONS





# AS OF DECEMBER 1998



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**NUMBER OF WAREHOUSES**

	<u>Own Land and Building</u>	<u>Lease Land and/or Building</u>	<u>Total</u>
<b>UNITED STATES</b> . . . . .	166	45	211
<b>CANADA</b> . . . . .	47	9	56
<b>UNITED KINGDOM</b> . . . . .	7	-	7
<b>KOREA</b> . . . . .	-	3	3
<b>TAIWAN</b> . . . . .	-	1	1
Total . . . . .	<u>220</u>	<u>58</u>	<u>278</u>

The following schedule shows warehouse openings (net of warehouse closings) by region for the past five fiscal years and expected openings (net of closings) through December 31, 1998:

<u>Openings by Fiscal Year</u>	<u>United States</u>	<u>Canada</u>	<u>Other International</u>	<u>Total</u>	<u>Total Warehouses in Operation</u>
1993 and prior . . . . .	170	30	-	200	200
1994 . . . . .	12	7	2	21	221
1995 . . . . .	9	8	2	19	240
1996 . . . . .	1	10	1	12	252
1997 . . . . .	8	(1)	2	9	261
1998 . . . . .	11	2	4	17	278
1999 (through 12/31/98) . . . . .	6	1	-	7	285
Total . . . . .	<u>217</u>	<u>57</u>	<u>11(a)</u>	<u>285</u>	

(a) As of August 30, 1998, the Company operated (through a 50%-owned joint venture) 14 warehouses in Mexico (one opened in fiscal 1992, two opened in fiscal 1993, five opened in fiscal 1994, five opened in fiscal 1995, and one opened in fiscal 1998). Two additional warehouses were opened prior to December 31, 1998. These warehouses are not included in the number of warehouses open in any period because the joint venture is accounted for on the equity basis and therefore their operations are not consolidated in the Company's financial statements.

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, 1998:

**ANCILLARY BUSINESSES**

	<u>United States</u>	<u>Canada</u>	<u>Other International</u>	<u>Total</u>
Pharmacy . . . . .	198	18	-	216
Optical Dispensing Centers . . . . .	203	48	8	259
One-Hour Photo . . . . .	208	57	11	276
Food Court and Hot Dog Stands . . . . .	215	57	11	283
Hearing Aid Centers . . . . .	59	6	-	65
Copy Centers . . . . .	9	-	2	11
Print Shops . . . . .	2	-	1	3
Gas Stations . . . . .	38	2	-	40

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**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 1998 and 1997. This information includes all adjustments which management considers necessary for a fair presentation. Shares used in the earnings per share calculations fluctuate by quarter depending primarily upon whether convertible subordinated debentures are dilutive during the respective period.

	52 Weeks Ended August 30, 1998					52 Weeks August 31, 1997				
	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
<b>REVENUE</b>										
Net sales . . . . .	\$5,321,256	\$5,697,098	\$5,241,926	\$7,570,100	\$23,830,380	\$4,785,636	\$5,147,425	\$4,752,445	\$6,798,612	\$21,484,118
Membership fees and other . . .	108,507	97,908	96,160	136,922	439,497	97,772	91,468	83,784	117,262	390,286
Total revenue . . . . .	5,429,763	5,795,006	5,338,086	7,707,022	24,269,877	4,883,408	5,238,893	4,836,229	6,915,874	21,874,404
<b>OPERATING EXPENSES</b>										
Merchandise costs . . . . .	4,779,296	5,098,992	4,715,755	6,785,648	21,379,691	4,308,369	4,619,208	4,283,157	6,103,751	19,314,485
S,G&A expenses . . . . .	470,711	478,732	466,987	653,470	2,069,900	426,104	436,036	426,980	587,639	1,876,759
Preopening expenses . . . . .	7,343	4,071	8,884	6,712	27,010	10,197	6,087	2,458	8,706	27,448
Provision for impaired assets and warehouse closing costs . . . .	2,000	—	1,500	2,500	6,000	70,000	—	3,500	1,500	75,000
Operating income . . . . .	170,413	213,211	144,960	258,692	787,276	68,738	177,562	120,134	214,278	580,712
<b>OTHER INCOME (EXPENSE)</b>										
Interest expense . . . . .	(10,923)	(10,965)	(10,477)	(15,170)	(47,535)	(18,933)	(17,243)	(14,662)	(25,443)	(76,281)
Interest income and other . . . .	3,720	7,743	7,562	7,637	26,662	3,657	3,461	4,055	4,725	15,898
<b>INCOME BEFORE PROVISION FOR INCOME TAXES . . . . .</b>	163,210	209,989	142,045	251,159	766,403	53,462	163,780	109,527	193,560	520,329
Provision for income taxes . . . .	65,284	83,996	56,818	100,463	306,561	21,652	66,331	43,262	76,887	208,132
<b>NET INCOME . . . . .</b>	<u>\$ 97,926</u>	<u>\$ 125,993</u>	<u>\$ 85,227</u>	<u>\$ 150,696</u>	<u>\$ 459,842</u>	<u>\$ 31,810(a)</u>	<u>\$ 97,449</u>	<u>\$ 66,265</u>	<u>\$ 116,673</u>	<u>\$ 312,197(b)</u>
<b>NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE:</b>										
Basic . . . . .	\$ 0.46	\$ 0.59	\$ 0.39	\$ 0.69	\$ 2.13	\$ 0.16	\$ 0.47	\$ 0.31	\$ 0.55	\$ 1.51
Diluted . . . . .	\$ 0.44	\$ 0.56	\$ 0.38	\$ 0.66	\$ 2.03	\$ 0.16(a)	\$ 0.46	\$ 0.31	\$ 0.54	\$ 1.47(b)
<b>Shares used in calculation (000's)</b>										
Basic . . . . .	213,833	214,590	215,913	217,142	215,506	196,548	206,540	211,477	213,052	207,379
Diluted . . . . .	229,413	230,482	232,378	233,501	231,685	199,195	222,894	215,582	225,579	224,668

- (a) Net income and net income per common and common equivalent share would have been \$70,485 and \$.34, respectively, without the effect of adopting SFAS No. 121, using 226,661 diluted shares.  
 (b) Net income and net income per common and common equivalent share would have been \$350,872 and \$1.64, respectively, without the effect of adopting SFAS No. 121, using 224,668 diluted shares.

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

<b>WAREHOUSES IN OPERATION</b>	<b>1998</b>		<b>1997</b>		<b>1996</b>		<b>1995</b>	
Beginning of year	261		252		240		221	
Openings	18		17		20		24	
Closings	(1)		(8)		(8)		(5)	
End of year	278		261		252		240	
<b>OPERATING RESULTS</b>								
Revenue								
Net sales	\$23,830	100.0%	\$21,484	100.0%	\$19,214	100.0%	\$17,906	100.0%
Membership fees and other	440	1.8	390	1.8	352	1.8	341	1.9
Total revenue	24,270	101.8	21,874	101.8	19,566	101.8	18,247	101.9
Operating expenses								
Merchandise costs	21,380	89.7	19,314	89.9	17,345	90.3	16,226	90.6
Selling, general and administrative expenses	2,070	8.7	1,877	8.7	1,691	8.8	1,556	8.7
Preopening expenses	27	0.1	27	0.1	29	0.1	25	0.1
Provision for impaired assets and warehouse closing costs	6	0.0	75	0.4	10	—	7	—
Operating expenses	23,483	98.5	21,293	99.1	19,075	99.2	17,814	99.5
Operating income	787	3.3	581	2.7	491	2.6	433	2.4
Other income (expenses)								
Interest expense	(48)	(0.2)	(76)	(0.4)	(78)	(0.4)	(68)	(0.4)
Interest income and other	27	0.1	15	0.1	11	—	3	—
Provision for merger and restructuring expenses	—	—	—	—	—	—	—	—
Income from continuing operations before provision for income taxes	766	3.2	520	2.4	424	2.2	368	2.0
Provision for income taxes	306	1.3	208	0.9	175	0.9	151	0.8
Income from continuing operations	460	1.9	312	1.5	249	1.3	217	1.2
Discontinued operations:								
Income (loss), net of tax	—	—	—	—	—	—	—	—
Loss on disposal	—	—	—	—	—	—	(83)	(0.5)
Extraordinary items	—	—	—	—	—	—	—	—
Net income (loss)	\$ 460	1.9%	\$ 312	1.5%	\$ 249	1.3%	\$ 134	0.7%
<b>Per Share Data—Diluted</b>								
Income from continuing operations	\$ 2.03		\$ 1.47		\$ 1.22		\$ 1.05	
Discontinued operations:								
Income (loss), net of tax	—		—		—		—	
Loss on disposal	—		—		—		(.37)	
Extraordinary items	—		—		—		—	
Net income (loss)	\$ 2.03		\$ 1.47		\$ 1.22		\$ .68	
Shares used in calculation (000's)	231,685		224,668		217,890		223,610	
<b>Balance Sheet Data</b>								
Working capital (deficit)	431		\$ 146		\$ 57		\$ 9	
Property and equipment, net	3,395		3,155		2,888		2,535	
Total assets	6,260		5,476		4,912		4,437	
Short-term debt	—		25		60		76	
Long-term debt and capital lease obligations	930		917		1,229		1,095	
Stockholders' equity	2,966		2,468		1,778		1,531	
<b>SALES INCREASE (DECREASE) FROM PRIOR YEAR</b>								
Total	11%		12%		7%		11%	
Comparable units	8%		9%		5%		2%	
<b>MEMBERS AT YEAR END (000's)</b>								
Business (primary cardholders)	3,676		3,537		3,435		3,318	
Gold Star	8,654		7,845		7,076		6,683	

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1994		1993		1992		1991		1990		1989	
200		170		140		119		104		84	
29		37		31		23		19		20	
(8)		(7)		(1)		(2)		(4)		0	
<u>221</u>		<u>200</u>		<u>170</u>		<u>140</u>		<u>119</u>		<u>104</u>	
\$16,161	100.0%	\$15,155	100.0%	\$13,820	100.0%	\$11,814	100.0%	\$9,346	100.0%	\$7,845	100.0%
320	2.0	309	2.0	277	2.0	228	1.9	185	2.0	157	2.0
<u>16,481</u>	<u>102.0</u>	<u>15,464</u>	<u>102.0</u>	<u>14,097</u>	<u>102.0</u>	<u>12,042</u>	<u>101.9</u>	<u>9,531</u>	<u>102.0</u>	<u>8,002</u>	<u>102.0</u>
14,663	90.7	13,751	90.7	12,565	90.9	10,756	91.0	8,519	91.2	7,169	91.4
1,426	8.8	1,315	8.7	1,129	8.2	934	7.9	719	7.7	590	7.5
25	0.2	28	0.2	26	0.2	16	0.1	12	0.1	12	0.2
7	—	5	—	2	—	2	—	6	—	2	—
<u>16,121</u>	<u>99.8</u>	<u>15,099</u>	<u>99.6</u>	<u>13,722</u>	<u>99.3</u>	<u>11,708</u>	<u>99.1</u>	<u>9,256</u>	<u>99.0</u>	<u>7,773</u>	<u>99.1</u>
360	2.2	365	2.4	375	2.7	334	2.8	275	3.0	229	2.9
(50)	(0.3)	(46)	(0.3)	(35)	(0.2)	(26)	(0.2)	(18)	(0.2)	(24)	(0.3)
14	0.1	17	0.1	29	0.2	34	0.3	19	0.2	24	0.3
(120)	(0.7)	—	—	—	—	—	—	—	—	—	—
204	1.3	336	2.2	369	2.7	342	2.9	276	3.0	229	2.9
93	0.6	133	0.9	146	1.1	135	1.1	108	1.2	89	1.1
<u>111</u>	<u>0.7</u>	<u>203</u>	<u>1.3</u>	<u>223</u>	<u>1.6</u>	<u>207</u>	<u>1.8</u>	<u>168</u>	<u>1.8</u>	<u>140</u>	<u>1.8</u>
(41)	(0.3)	20	0.1	19	0.1	12	0.1	7	0.1	4	—
(182)	(1.1)	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
<u>\$ (112)</u>	<u>(0.7%)</u>	<u>\$ 223</u>	<u>1.4%</u>	<u>\$ 242</u>	<u>1.7%</u>	<u>\$ 219</u>	<u>1.9%</u>	<u>\$ 175</u>	<u>1.9%</u>	<u>\$ 144</u>	<u>1.8%</u>
\$ .51		\$ .92		\$ .98		\$ .93		\$ .79		\$ .69	
(.19)		.08		.08		.05		.03		.02	
(.83)		—		—		—		—		—	
<u>\$ (.51)</u>		<u>\$ 1.00</u>		<u>\$ 1.06</u>		<u>\$ .98</u>		<u>\$ .82</u>		<u>\$ .71</u>	
219,332		240,162		245,090		234,202		219,532		212,772	
\$ (113)		\$ 127		\$ 282		\$ 305		\$ 14		\$ 103	
2,146		1,967		1,704		1,183		936		753	
4,236		3,931		3,577		2,986		2,030		1,740	
149		23		—		—		139		114	
795		813		814		500		200		234	
<u>1,685</u>		<u>1,797</u>		<u>1,594</u>		<u>1,430</u>		<u>988</u>		<u>778</u>	
7%		10%		17%		26%		19%		30%	
(3%)		(3%)		6%		10%		7%		16%	
3,228		3,177		3,105		2,717		2,170		1,835	
<u>6,088</u>		<u>5,797</u>		<u>5,357</u>		<u>4,647</u>		<u>3,553</u>		<u>2,873</u>	

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## 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 include words such as "plans", "intends", "expects", "anticipates", "believes", or similar expressions. 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 and ownership or use of real estate, actions of vendors, and the risks identified from time to time in the Company's reports filed with the SEC.

### Comparison of Fiscal 1998 (52 weeks) and Fiscal 1997 (52 weeks): (dollars in thousands, except earnings per share)

Net operating results for fiscal 1998 reflect net income of \$459,842 or \$2.03 per share (diluted), compared to a fiscal 1997 net income of \$312,197, or \$1.47 per share (diluted). The net income for fiscal 1997 includes a non-cash, pre-tax charge of \$65,000 (\$38,675 after-tax, or \$.17 per share) reflecting a provision for the impairment of long-lived assets as required by the Company's adoption of the Financial Accounting Standards Board Statement No. 121 (SFAS 121). In addition, fiscal 1997 net income was impacted by one-time, pre-tax charges of approximately \$13,000 (\$7,800 after-tax, or \$.03 per share) related to the call and redemption of \$764,000 of convertible subordinated debentures.

Net sales increased 11% to \$23,830,380 in fiscal 1998 from \$21,484,118 in fiscal 1997. This increase was due to: (i) higher sales at existing locations opened prior to fiscal 1997; (ii) increased sales at 17 warehouses that were opened in fiscal 1997 and that were in operation for the entire 1998 fiscal year; and (iii) first year sales at the 18 new warehouses opened during fiscal 1998, which increase was partially offset by one warehouse closed during fiscal 1998 that was in operation during fiscal 1997. Changes in prices did not materially impact sales levels.

Comparable sales, that is sales in warehouses open for at least a year, increased at an 8% annual rate in fiscal 1998 compared to a 9% annual rate during fiscal 1997. Comparable sales in fiscal 1998 were negatively impacted by approximately 1% due to a decline in the Canadian exchange rate.

Membership fees and other revenue increased 13% to \$439,497, or 1.84% of net sales, in fiscal 1998 from \$390,286, or 1.82% of net sales, in fiscal 1997. This increase is primarily due to membership sign-ups at the 18 new warehouses opened in fiscal 1998 and a five dollar increase in the annual membership fee for both Business and Gold Star members effective April 1, 1998 in the United States and May 1, 1998 in Canada.

Effective with the first quarter of fiscal 1999, the Company will change its method of accounting for membership fee income from a "cash basis", which historically has been consistent with generally accepted accounting principles and industry practice, to a "deferred basis". If the deferred method (assuming ratable recognition over the one year life of the membership) had been used in fiscal 1998, net income would have been \$444,451, or \$1.96 per share (diluted). The Company has decided to make this change in anticipation of the issuance of a new Securities and Exchange Commission (SEC) Staff Accounting Bulletin regarding the recognition of membership fee income. However, the SEC has not yet taken a position as to whether ratable recognition over the one year life of the membership is the appropriate method for the Company. The Company anticipates further discussions with the SEC on this topic.

The change to the deferred method of accounting for membership fees will result in a one-time, non-cash pre-tax charge of approximately \$197,000 (\$118,000 after-tax, or \$.50 per share) to reflect the

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cumulative effect of the accounting change as of the beginning of fiscal 1999 and assuming that membership fee income is recognized ratably over the one year life of the membership. This charge is not expected to have a material effect on the Company's financial condition, cash flows or ongoing operating results.

Gross margin (defined as net sales minus merchandise costs) increased 13% to \$2,450,689, or 10.28% of net sales, in fiscal 1998 from \$2,169,633, or 10.10% of net sales, in fiscal 1997. Gross margin as a percentage of net sales increased due to increased sales penetration of certain higher gross margin ancillary businesses, the expanded use of the Company's depot facilities, and improved performance of the Company's international operations. The gross margin figures reflect accounting for most U.S. merchandise inventories on the last-in, first-out (LIFO) method. For both fiscal 1998 and 1997 there was no LIFO charge due to the use of the LIFO method compared to the first-in, first-out (FIFO) method.

Selling, general and administrative expenses as a percent of net sales decreased to 8.69% during fiscal 1998 from 8.74% during fiscal 1997, primarily reflecting the increase in comparable warehouse sales noted above, and a year-over-year improvement in the Company's core warehouse operations and Central and Regional administrative offices, which were partially offset by higher expenses associated with international expansion and certain ancillary businesses.

Preopening expenses totaled \$27,010, or 0.11% of net sales, during fiscal 1998 and \$27,448, or 0.13% of net sales, during fiscal 1997. During fiscal 1998, the Company opened 16 new warehouses (in addition, two warehouses were acquired during fiscal 1998 as part of the formation of the Korean joint venture) compared to 17 new warehouses during fiscal 1997.

The provision for impaired assets and warehouse closing costs was \$6,000 in fiscal 1998 compared to \$75,000 in fiscal 1997. The fiscal 1997 provision included a \$65,000 impairment charge relating to the adoption of SFAS 121 and \$10,000 for warehouse closing costs. The provision for warehouse closing costs includes estimated closing costs for certain warehouses, which were or were in the process of being replaced by new warehouses.

Interest expense totaled \$47,535 in fiscal 1998 and \$76,281 in fiscal 1997. The decrease in interest expense is primarily related to the call for redemption during fiscal 1997 of three convertible subordinated debenture issues. Both the Company's 6¾% (\$285,100 principal amount), and 5½% (\$179,300 principal amount) debentures were called for redemption in the second quarter of fiscal 1997. Approximately \$302,000 of these two series of debentures were converted into common stock. The 5¾% (\$300,000 principal amount) debentures were called for redemption in the fourth quarter of fiscal 1997. The reduction in interest expense related to the three redemptions was partially offset by the one-time costs of the redemption call premiums and write-offs of unamortized issuance costs associated with the redemptions of these convertible subordinated debentures. Also, in the fourth quarter of fiscal 1997, the Company issued \$900,000 (principal amount at maturity) of Zero Coupon Convertible Subordinated Notes, priced with a yield to maturity of 3½%, resulting in gross proceeds to the Company of \$449,640, approximately \$312,000 of which was used to redeem the 5¾% convertible subordinated debentures referred to above.

Interest income and other totaled \$26,662 in fiscal 1998 compared to \$15,898 in fiscal 1997. The increase was primarily due to interest earned on higher balances of cash and cash equivalents and short-term investments during fiscal 1998 as compared to fiscal 1997.

The effective income tax rate on earnings was 40% in both fiscal 1998 and fiscal 1997.

**Comparison of Fiscal 1997 (52 weeks) and Fiscal 1996 (52 weeks):**  
**(dollars in thousands, except earnings per share)**

Net operating results for fiscal 1997 reflect net income of \$312,197, or \$1.47 per share (diluted), as compared to a fiscal 1996 net income of \$248,793, or \$1.22 per share (diluted). The net income for fiscal 1997 includes a non-cash, pre-tax charge of \$65,000 (\$38,675 after-tax, or \$.17 per share) reflecting a provision for the impairment of long-lived assets as required by the Company's adoption of the Financial

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Accounting Standards Board Statement No. 121. In addition, net income was impacted by one-time, pre-tax charges of approximately \$13,000 (\$7,800 after-tax, or \$.03 per share) related to the call and majority redemption of \$764,000 of convertible subordinated debentures.

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

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

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

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

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

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

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

Interest expense totaled \$76,281 in fiscal 1997 and \$78,078 in fiscal 1996. The decrease in interest expense is primarily related to the call for redemption of three convertible subordinated debenture issues during fiscal 1997. Both the Company's 6¾% (\$285,100 principal amount), and 5½% (\$179,300 principal amount) debentures were called for redemption in the second quarter of fiscal 1997. Approximately \$302,000 of these two series of debentures were converted into common stock, thereby eliminating future interest payments associated therewith. The 5¾% (\$300,000 principal amount) debentures were called for redemption in the fourth quarter of fiscal 1997. The reduction in interest expense related to the three redemptions was partially offset by the one-time costs of the redemption call premiums and write-offs of unamortized issuance costs associated with the redemptions of these convertible subordinated debentures.

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Also, in the fourth quarter of fiscal 1997, the Company issued \$900,000 (principal amount at maturity) of Zero Coupon Convertible Subordinated Notes, priced with a yield to maturity of 3½%, resulting in gross proceeds to the Company of \$449,640, approximately \$312,000 of which was used to redeem the 5¾% convertible subordinated debentures referred to above.

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

The effective income tax rate on earnings in fiscal 1997 was 40.00% compared to a 41.25% effective tax rate in fiscal 1996. The decrease in the effective tax rate was related primarily to decreases in foreign taxes.

### **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 \$525,000 to \$575,000 during fiscal 1999 in the United States and Canada for real estate, construction, remodeling and equipment for warehouse clubs and related operations; and approximately \$75,000 to \$125,000 for international expansion, including the United Kingdom, Asia, Mexico and other potential ventures. These expenditures will be financed with a combination of cash provided from operations, the use of cash and cash equivalents and short-term investments (which totaled \$437,523 at August 30, 1998), short-term borrowings under revolving credit facilities and other financing sources as required.

On May 4, 1998, the Company announced the formation of a joint venture in the Republic of Korea with Shinsegae Department Store Co., Ltd. ("Shinsegae") to acquire the membership warehouse club operation from Shinsegae. Previously, Shinsegae had operated two warehouse clubs under the name Price Club, for which Shinsegae had paid a license fee. The joint venture operation became effective on June 1, 1998. Initial capitalization of the joint venture totaled approximately \$100,000, with the company being a 93.75% owner and Shinsegae being a 6.25% owner. Approximately \$80,000 of the initial investment was used for land and building acquisitions, and the remaining approximately \$20,000 was used to purchase merchandise inventories and other assets, and for working capital purposes. The Company has increased its ownership percentage of the joint venture to 94.32% through additional capital contributions.

On May 28, 1998, the Company announced the signing of a lease by its wholly-owned Japan subsidiary, Costco Wholesale Japan, Ltd., for the lease of land and construction of a Costco warehouse in Fukuoka, Japan. The term of the lease is 20 years. The warehouse is scheduled to open in Spring 1999.

Expansion plans for the United States and Canada during fiscal 1999 are to open approximately 25 new warehouse clubs, including three or four relocations of existing warehouses to larger and better-located warehouses. The Company expects to continue expansion of its international operations and plans to open one or two additional units in the United Kingdom through its 60%-owned subsidiary and one or two additional units in Taiwan through its 55%-owned subsidiary during the next year. Other international markets are being assessed.

Costco and its Mexico-based joint venture partner, Controladora Comercial Mexicana, each own a 50% interest in Price Club Mexico. As of August 30, 1998, Price Club Mexico operated 14 Price Club

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warehouses in Mexico and plans to open two or three new warehouse clubs during fiscal 1999, including two prior to the 1998 calendar year-end.

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

The Company has in place a \$500,000 commercial paper program supported by a \$500,000 bank credit facility with a group of 9 banks, of which \$250,000 expires on January 25, 1999, and \$250,000 expires on January 30, 2001. At August 30, 1998, no amounts were outstanding under the loan facility or the commercial paper program.

In addition, a wholly-owned Canadian subsidiary has a \$128,000 commercial paper program supported by an \$89,000 bank credit facility with three Canadian banks, which expires in March 1999. At August 30, 1998, 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 \$589,000 combined amounts of the respective supporting bank credit facilities.

*Letters of Credit*

The Company has separate letter of credit facilities (for commercial and standby letters of credit), totaling approximately \$317,000. The outstanding commitments under these facilities at August 30, 1998 totaled approximately \$212,000, including approximately \$50,000 in standby letters of credit for workers' compensation requirements.

*Derivatives*

The Company has limited involvement with derivative financial instruments and uses them only to manage well-defined interest rate and foreign exchange risks. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on inventory purchases. The amount of interest rate and foreign exchange contracts outstanding at the 52 weeks ended August 30, 1998 were not material to the Company's results of operations or its financial position.

*Year 2000*

The Company uses a number of computer software programs and embedded operating systems that were not originally designed to process dates beyond the year 1999. Like most automated companies, Costco is addressing the Year 2000 challenge to make sure all of its systems are Year 2000 compliant and fully operational prior to the year 2000 and on into the 21st Century. As far back as the early 1990's, the Company began taking initial measures to ensure that its systems would function in the year 2000 and beyond. The Company anticipates completing testing for all key systems by early calendar year 1999, and believes that the Year 2000 issues will not present any significant operational problems. Total costs related to the year 2000 effort are estimated to be less than \$5,000, of which approximately 75% has been incurred by the Company through August 30, 1998. While it is possible that systems currently being reviewed and/or tested may produce an unexpected cost increase, the Company does not believe it would add materially to the current estimate.

Additionally, the Company has contacted and will continue to contact significant vendors, suppliers, financial institutions and other third party providers upon which its business depends. These efforts are designed to minimize the impact to the Company should these third parties fail to remediate their Year 2000 issues. However, the Company can give no assurances that such third parties will in fact be successful in resolving all of their Year 2000 issues, and the failure of such third parties to comply on a timely basis could have an adverse effect on the Company. The Company anticipates minimal business disruption as a

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result of Year 2000 issues; however, possible consequences include, but are not limited to, delays in delivery or receipt of merchandise, inability to process transactions, loss of communications, and similar interruptions of normal business activities. To the extent practicable, the Company is evaluating contingency plans to minimize the effect on the Company's operations in the event of any third party system or product failure. The Company will continue to make every effort to ensure that its business, financial condition and results of operations will not be adversely impacted by a failure of its systems or the systems of others.

#### *Financial Position and Cash Flows*

Working capital totaled approximately \$431,000 at August 30, 1998, compared to working capital of \$146,000 at August 31, 1997. The increase in net working capital was primarily due to an increase in cash and cash equivalents of approximately \$186,000, an increase in short-term investments of approximately \$76,000, increases in receivables and other current assets of approximately \$32,000, reductions in short-term borrowings of approximately \$25,000 and other current liabilities of approximately \$15,000, offset by increases in accrued salaries and benefits of approximately \$50,000.

Net cash provided by operating activities totaled \$737,610 in fiscal 1998 compared to \$590,249 in fiscal 1997. The increase in net cash from operating activities is primarily a result of increased net income.

Net cash used in investing activities totaled \$609,446 in fiscal 1998 compared to \$543,173 in fiscal 1997. The investing activities primarily relate to additions to property and equipment for new and remodeled warehouses of \$571,904 and \$553,374 in fiscal 1998 and 1997, respectively. Additionally, the Company received proceeds from the sale of property and equipment of \$80,698 in fiscal 1998 compared to \$40,946 in fiscal 1997. The Company invested \$75,549 in short-term investments during fiscal 1998.

Net cash provided by financing activities totaled \$66,591 in fiscal 1998 compared to \$25,144 in fiscal 1997. This increase is due to a decline in net repayments on short and long-term borrowings and an increase in proceeds from minority interests and the exercise of stock options.

The Company's balance sheet as of August 30, 1998 reflects a \$783,506 or 14% increase in total assets since August 31, 1997. The increase is primarily due to a net increase in property and equipment and merchandise inventory related to the Company's expansion program and an increase in cash and cash equivalents and short-term investments.

#### *Stock Repurchase Program*

On November 5, 1998, the Company announced that its Board of Directors had authorized a stock repurchase program of up to \$500 million of Costco Common Stock over the next three years. The Company expects to repurchase shares from time to time in the open market or in private transactions as market conditions warrant. The Company expects to fund stock purchases from cash and short-term investments on hand, as well as from future operating cash flows. The repurchased shares will be held as treasury shares and used for general corporate purposes including stock option grants under stock option programs.

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## REPORT OF MANAGEMENT

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

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

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

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



Richard A. Galanti  
Executive Vice President  
and Chief Financial Officer

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Costco Companies, Inc.:

We have audited the accompanying consolidated balance sheets of Costco Companies, Inc. (a Delaware corporation) and subsidiaries (Costco) as of August 30, 1998 and August 31, 1997, and the related consolidated statements of income, stockholders' equity and cash flows for the 52 weeks ended August 30, 1998, August 31, 1997 and September 1, 1996. These financial statements are the responsibility of Costco's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Costco as of August 30, 1998 and August 31, 1997, and the results of its operations and its cash flows for the 52 weeks ended August 30, 1998, August 31, 1997 and September 1, 1996 in conformity with generally accepted accounting principles.



Seattle, Washington  
October 6, 1998

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**COSTCO COMPANIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(dollars in thousands except par value)**  
**ASSETS**

	<u>August 30, 1998</u>	<u>August 31, 1997</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents . . . . .	\$ 361,974	\$ 175,508
Short-term investments . . . . .	75,549	—
Receivables, net . . . . .	171,613	147,133
Merchandise inventories, net . . . . .	1,910,751	1,686,525
Other current assets . . . . .	108,343	100,784
Total current assets . . . . .	<u>2,628,230</u>	<u>2,109,950</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land and land rights . . . . .	1,119,663	1,094,607
Buildings and leasehold and land improvements . . . . .	2,170,896	1,933,740
Equipment and fixtures . . . . .	948,515	840,578
Construction in progress . . . . .	91,901	81,417
	<u>4,330,975</u>	<u>3,950,342</u>
Less-accumulated depreciation and amortization . . . . .	(935,603)	(795,708)
Net property and equipment . . . . .	<u>3,395,372</u>	<u>3,154,634</u>
<b>OTHER ASSETS</b> . . . . .	<u>236,218</u>	<u>211,730</u>
	<u>\$6,259,820</u>	<u>\$5,476,314</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term borrowings . . . . .	\$ —	\$ 25,460
Accounts payable . . . . .	1,605,533	1,394,309
Accrued salaries and benefits . . . . .	352,903	302,681
Accrued sales and other taxes . . . . .	102,367	90,774
Other current liabilities . . . . .	136,139	150,823
Total current liabilities . . . . .	<u>2,196,942</u>	<u>1,964,047</u>
<b>LONG-TERM DEBT</b>	930,035	917,001
<b>DEFERRED INCOME TAXES AND OTHER LIABILITIES</b>	61,483	38,967
Total liabilities . . . . .	<u>3,188,460</u>	<u>2,920,015</u>
<b>COMMITMENTS AND CONTINGENCIES MINORITY INTEREST</b> . . . . .	<u>105,474</u>	<u>88,183</u>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock \$.01 par value; 100,000,000 shares authorized; no shares issued and outstanding . . . . .	—	—
Common stock \$.01 par value; 900,000,000 shares authorized; 217,589,000 and 213,593,000 shares issued and outstanding . . . . .	2,176	2,136
Additional paid-in capital . . . . .	817,628	706,324
Accumulated foreign currency translation . . . . .	(151,842)	(78,426)
Retained earnings . . . . .	2,297,924	1,838,082
Total stockholders' equity . . . . .	<u>2,965,886</u>	<u>2,468,116</u>
	<u>\$6,259,820</u>	<u>\$5,476,314</u>

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

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**COSTCO COMPANIES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
 (dollars in thousands, except per share data)

	52 Weeks Ended August 30, 1998	52 Weeks Ended August 31, 1997	52 Weeks Ended September 1, 1996
<b>REVENUE</b>			
Net sales . . . . .	\$23,830,380	\$21,484,118	\$19,213,866
Membership fees and other . . . . .	439,497	390,286	352,590
Total revenue . . . . .	24,269,877	21,874,404	19,566,456
<b>OPERATING EXPENSES</b>			
Merchandise costs . . . . .	21,379,691	19,314,485	17,345,315
Selling, general and administrative . . . . .	2,069,900	1,876,759	1,691,187
Preopening expenses . . . . .	27,010	27,448	29,231
Provision for impaired assets and warehouse closing costs . . . . .	6,000	75,000	10,000
Operating income . . . . .	787,276	580,712	490,723
<b>OTHER INCOME (EXPENSE)</b>			
Interest expense . . . . .	(47,535)	(76,281)	(78,078)
Interest income and other . . . . .	26,662	15,898	10,832
<b>INCOME BEFORE PROVISION FOR INCOME TAXES . . . . .</b>	<b>766,403</b>	<b>520,329</b>	<b>423,477</b>
Provision for income taxes . . . . .	306,561	208,132	174,684
<b>NET INCOME . . . . .</b>	<b>\$ 459,842</b>	<b>\$ 312,197(a)</b>	<b>\$ 248,793</b>
<b>NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE:</b>			
Basic . . . . .	\$ 2.13	\$ 1.51	\$ 1.27
Diluted . . . . .	\$ 2.03	\$ 1.47	\$ 1.22
<b>Shares used in calculation (000's)</b>			
Basic . . . . .	215,506	207,379	195,662
Diluted . . . . .	231,685	224,668	217,890

(a) Net income and net income per common and common equivalent share (diluted) would have been \$350,872 and \$1.64, respectively, without the effect of adopting SFAS No. 121, using 224,668 diluted shares.

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

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**COSTCO COMPANIES, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the 52 weeks ended August 30, 1998, August 31, 1997 and September 1, 1996,**  
**(in thousands)**

	Common Stock		Additional Paid-In Capital	Accumulated Foreign Currency Translation	Retained Earnings	Total
	Shares	Amount				
BALANCE AT SEPTEMBER 3, 1995 . . . .	195,164	\$1,952	\$303,989	\$ (52,289)	\$1,277,092	\$1,530,744
Stock options exercised including income tax benefits . . . . .	1,272	12	17,843	—	—	17,855
Net income . . . . .	—	—	—	—	248,793	248,793
Foreign currency translation adjustment .	—	—	—	(19,594)	—	(19,594)
BALANCE AT SEPTEMBER 1, 1996 . . . .	196,436	1,964	321,832	(71,883)	1,525,885	1,777,798
Stock options exercised including income tax benefits . . . . .	4,077	41	78,186	—	—	78,227
Conversion of convertible debentures . . .	13,080	131	306,306	—	—	306,437
Net income . . . . .	—	—	—	—	312,197	312,197
Foreign currency translation adjustment .	—	—	—	(6,543)	—	(6,543)
BALANCE AT AUGUST 31, 1997 . . . . .	213,593	2,136	706,324	(78,426)	1,838,082	2,468,116
Stock options exercised including income tax benefits . . . . .	3,996	40	111,304	—	—	111,344
Net income . . . . .	—	—	—	—	459,842	459,842
Foreign currency translation adjustment .	—	—	—	(73,416)	—	(73,416)
BALANCE AT AUGUST 30, 1998 . . . . .	<u>217,589</u>	<u>\$2,176</u>	<u>\$817,628</u>	<u>\$(151,842)</u>	<u>\$2,297,924</u>	<u>\$2,965,886</u>

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

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**COSTCO COMPANIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
 (dollars in thousands)

	<u>52 Weeks Ended August 30, 1998</u>	<u>52 Weeks Ended August 31, 1997</u>	<u>52 Weeks Ended September 1, 1996</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income . . . . .	\$ 459,842	\$ 312,197	\$ 248,793
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization . . . . .	196,315	181,759	161,632
Accretion of discount on zero coupon notes . . . . .	15,875	567	—
Net (gain) loss on sale of property and equipment and other . .	(3,459)	(602)	3,494
Provision for asset impairments . . . . .	5,629	65,000	—
Increase (decrease) in deferred income taxes . . . . .	20,420	(4,322)	(4,520)
Change in receivables, other current assets, accrued and other current liabilities . . . . .	60,315	66,303	105,156
Increase in merchandise inventories . . . . .	(255,140)	(189,323)	(82,411)
Increase (decrease) in accounts payable . . . . .	243,164	162,628	(8,345)
Other . . . . .	(5,351)	(3,958)	2,560
Total adjustments . . . . .	<u>277,768</u>	<u>278,052</u>	<u>177,566</u>
Net cash provided by operating activities . . . . .	<u>737,610</u>	<u>590,249</u>	<u>426,359</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment . . . . .	(571,904)	(553,374)	(506,782)
Proceeds from the sale of property and equipment . . . . .	80,698	40,946	4,665
Investment in unconsolidated joint ventures . . . . .	(11,595)	(4,750)	(5,312)
Increase in short-term investments . . . . .	(75,549)	—	—
Increase in other assets and other, net . . . . .	(31,096)	(25,995)	(35,820)
Net cash used in investing activities . . . . .	<u>(609,446)</u>	<u>(543,173)</u>	<u>(543,249)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments under short-term credit facilities, net . . . . .	(24,404)	(33,990)	(14,354)
Net proceeds from issuance of long-term debt . . . . .	9,928	461,035	141,851
Repayments of long-term debt . . . . .	(9,307)	(471,791)	(3,270)
Changes in bank overdraft . . . . .	(3,321)	(7,244)	9,835
Proceeds from minority interests . . . . .	19,580	15,119	21,832
Exercise of stock options . . . . .	74,115	62,015	17,855
Net cash provided by financing activities . . . . .	<u>66,591</u>	<u>25,144</u>	<u>173,749</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH . . . . .	<u>(8,289)</u>	<u>1,333</u>	<u>(592)</u>
Net increase in cash and cash equivalents . . . . .	186,466	73,553	56,267
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR . .	175,508	101,955	45,688
CASH AND CASH EQUIVALENTS END OF YEAR . . . . .	<u>\$ 361,974</u>	<u>\$ 175,508</u>	<u>\$ 101,955</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid during the year for:			
Interest (excludes amounts capitalized and paid for redemption premiums) . . . . .	\$ 29,191	\$ 76,233	\$ 65,752
Income taxes . . . . .	\$ 257,352	\$ 195,241	\$ 163,004

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

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**COSTCO COMPANIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(dollars in thousands, except per share data)**

**Note 1—Summary of Significant Accounting Policies**

*Basis of Presentation*

The consolidated financial statements include the accounts of Costco Companies, Inc., a Delaware corporation, and its subsidiaries (“Costco” or the “Company”). Costco is a holding company which operates primarily through its major subsidiaries, The Price Company and subsidiaries, and Costco Wholesale Corporation and subsidiaries. All intercompany transactions between the Company and its subsidiaries have been eliminated in consolidation. The Price Company and Costco Wholesale Corporation primarily operate membership warehouses under the Costco Wholesale name.

Costco operates membership warehouses that offer very low prices on a limited selection of nationally-branded and selected private label products in a wide range of merchandise categories in no-frills, self-service warehouse facilities. At August 30, 1998, Costco operated 278 warehouse clubs: 211 in the United States (in 24 states); 56 in Canada (in nine Canadian provinces); seven in the United Kingdom; three in Korea, and one in Taiwan. As of August 30, 1998, the Company also operated (through a 50%-owned joint venture) 14 warehouses in Mexico.

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

*Fiscal Years*

The Company reports on a 52/53 week fiscal year basis which ends on the Sunday nearest August 31st. Fiscal years 1998, 1997, and 1996 were 52 weeks.

*Cash and Cash Equivalents*

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

*Short-term Investments*

Short-term investments include highly liquid investments in United States and Canadian government obligations, along with other investment vehicles, some of which have maturities of three months or less at the time of purchase. The Company’s policy is to classify these investments as short-term investments rather than cash equivalents if they are acquired and disposed of through its investment trading account, held for future property purchases, or restricted by agreement. The fair value of the short-term investments approximates their carrying value and unrealized holding gains and losses were not significant.

*Receivables*

Receivables consist primarily of vendor rebates and promotional allowances and other miscellaneous amounts due to the Company, and are net of allowance for doubtful accounts of \$4,297 at August 30, 1998 and \$4,360 at August 31, 1997.

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**COSTCO COMPANIES, INC.**

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

**Note 1—Summary of Significant Accounting Policies (Continued)**

*Merchandise Inventories*

Merchandise inventories are valued at the lower of cost or market as determined primarily by the retail inventory method, and are stated using the last-in, first-out (LIFO) method for substantially all U.S. merchandise inventories. The Company believes the LIFO method more fairly presents the results of operations by more closely matching current costs with current revenues. If all merchandise inventories had been valued using the first-in, first-out (FIFO) method, inventories would have been higher by \$16,150 at both August 30, 1998 and August 31, 1997.

	<u>August 30, 1998</u>	<u>August 31, 1997</u>
Merchandise inventories consist of:		
United States (primarily LIFO) . . . . .	\$1,587,285	\$1,358,917
Foreign (FIFO) . . . . .	<u>323,466</u>	<u>327,608</u>
Total . . . . .	<u>\$1,910,751</u>	<u>\$1,686,525</u>

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

*Property and Equipment*

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

Interest costs incurred on property and equipment during the construction period are capitalized. The amount of interest costs capitalized was \$3,542 in fiscal 1998, \$4,097 in fiscal 1997, and \$5,612 in fiscal 1996.

*Goodwill*

Goodwill, included in other assets, totaled \$43,229 at August 30, 1998 and \$48,136 at August 31, 1997, resulting from certain previous business combinations. Goodwill is being amortized over 5 to 40 years using the straight-line method. Accumulated amortization was \$12,686 at August 30, 1998 and \$11,574 at August 31, 1997.

*Net Income Per Common and Common Equivalent Share*

In the second quarter of fiscal 1998, the Company adopted the Financial Accounting Standards Board Statement No. 128, "Earnings per Share" (SFAS No. 128). SFAS No. 128 established new standards for computing and presenting earnings per share (EPS) for entities with publicly-held common stock.

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**COSTCO COMPANIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(dollars in thousands, except per share data)**

**Note 1—Summary of Significant Accounting Policies (Continued)**

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

	<u>52 Weeks Ended</u>		
	<u>August 30, 1998</u>	<u>August 31, 1997</u>	<u>September 1, 1996</u>
Net income available to common stockholders used in basic EPS . . .	\$459,842	\$312,197	\$248,793
Interest on convertible bonds, net of tax . . . . .	<u>9,529</u>	<u>17,325</u>	<u>17,100</u>
Net income available to common stockholders after assumed conversions of dilutive securities . .	<u>\$469,371</u>	<u>\$329,522</u>	<u>\$265,893</u>
Weighted average number of common shares used in basic EPS .	215,506	207,379	195,662
Stock options . . . . .	5,960	4,001	2,035
Conversion of convertible bonds . . . .	<u>10,219</u>	<u>13,288</u>	<u>20,193</u>
Weighted number of common shares and dilutive potential common stock used in diluted EPS . . . . .	<u>231,685</u>	<u>224,668</u>	<u>217,890</u>

The 5¾% debentures convertible into 7,273 common shares were not included in computing diluted EPS for the 52 weeks ended in fiscal 1996 because their effect was antidilutive.

On November 5, 1998, the Company announced that its Board of Directors had authorized a stock repurchase program of up to \$500,000 of Costco Common Stock over the next three years. The Company expects to repurchase shares from time to time in the open market or in private transactions as market conditions warrant. The Company expects to fund stock purchases from cash and short-term investments on hand, as well as from future operating cash flows. The repurchased shares will be held as treasury shares and used for general corporate purposes including stock option grants under stock option programs.

*Preopening Expenses*

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

*Membership Fees*

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

Effective with the first quarter of fiscal 1999, the Company will change its method of accounting for membership fee income from a "cash basis", which historically has been consistent with generally accepted accounting principles and industry practice, to a "deferred basis". If the deferred method (assuming

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**COSTCO COMPANIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Note 1—Summary of Significant Accounting Policies (Continued)**

ratable recognition over the one year life of the membership) had been used in fiscal 1998, net income would have been \$444,451, or \$1.96 per share (diluted). The Company has decided to make this change in anticipation of the issuance of a new Securities and Exchange Commission (SEC) Staff Accounting Bulletin regarding the recognition of membership fee income. However, the SEC has not yet taken a position as to whether ratable recognition over the one year life of the membership is the appropriate method for the Company.

The change to the deferred method of accounting for membership fees will result in a one-time, non-cash, pre-tax charge of approximately \$197,000 (\$118,000 after-tax, or \$.50 per share) to reflect the cumulative effect of the accounting change as of the beginning of fiscal 1999 and assuming that membership fee income is recognized ratably over the one year life of the membership. This charge is not expected to have a material effect on the Company's financial condition, cash flows or ongoing operating results.

*Foreign Currency Translation*

The accumulated foreign currency translation relates to the Company's consolidated foreign operations as well as its investment in the Price Club Mexico joint venture (prior to the 1998 calendar year). Foreign currency translation is determined by application of the current rate method and included in the determination of consolidated stockholders' equity at the respective balance sheet dates.

Because cumulative inflation in Mexico exceeded 100% in the three-year calendar period 1994-1996, a highly inflationary accounting treatment has been required for Mexico since the beginning of calendar year 1997. Foreign currency translation gains or losses are reflected in the Statement of Income rather than as an adjustment to stockholders' equity for fiscal 1998.

*Income Taxes*

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

*Supplemental Disclosure of Non-Cash Activities*

*Fiscal 1998 Non-Cash Activities*

- None.

*Fiscal 1997 Non-Cash Activities*

- In December 1996, approximately \$159,400 principal amount of the \$285,100, 6¾% Convertible Subordinated Debentures were converted into approximately 7.1 million shares of Costco Common Stock as a result of a call for redemption of the Convertible Subordinated Debentures.
- In January 1997, approximately \$142,700 principal amount of the \$179,300, 5½% Convertible Subordinated Debentures were converted into approximately 6.0 million shares of Costco Common Stock as a result of the call for redemption of the Convertible Subordinated Debentures.

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**COSTCO COMPANIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Note 1—Summary of Significant Accounting Policies (Continued)**

- In fiscal 1997, the Company recorded a pre-tax, non-cash charge of \$65,000 reflecting its estimate of impairment relating principally to excess property and closed warehouses in connection with the adoption of the SFAS No. 121.

*Fiscal 1996 Non-Cash Activities*

- None.

*Derivatives*

The Company has limited involvement with derivative financial instruments and only uses them to manage well-defined interest rate and foreign exchange risks. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on inventory purchases. The amount of interest rate and foreign exchange contracts outstanding at year-end or in place during fiscal 1998 was immaterial to the Company's results of operations or its financial position.

*Impairment of Long-Lived Assets*

The Company adopted the SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), as of the first quarter of fiscal 1997. In accordance with SFAS No. 121, the Company recorded pretax, non-cash charges of \$5,629 and \$65,000, in fiscal 1998 and 1997, respectively, reflecting its estimate of impairment relating principally to excess property and closed warehouses. The charge reflects the difference between carrying value and fair value, which was based on market valuations for those assets whose carrying value was not recoverable through future cash flows. The Company periodically evaluates the realizability of long-lived assets based on expected future cash flows.

*Recent Accounting Pronouncements*

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income", which requires companies to report, by major components and in total, the change in its equity (net assets) during the period from non-owner sources, and is effective for the Company at the beginning of its fiscal 1999.

In June 1997, the FASB also issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", which establishes annual and interim reporting standards for a company's operating segments and related disclosures about its products, services, geographic areas and major customers, and is effective for the Company at the beginning of its fiscal 1999.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which established accounting and reporting standards for derivative instruments and for hedging activities. The Company will be required to adopt SFAS No. 133 at the beginning of its fiscal 2000. Presently, the Company has limited use of derivative financial instruments and believes that SFAS No. 133 will not have a material impact on its results of operations or financial position.

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**COSTCO COMPANIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Note 1—Summary of Significant Accounting Policies (Continued)**

Adoption of these accounting standards will not have a material impact on the Company's consolidated financial position, results of operations or cash flows, and any effect, while not yet determined by the Company, will be primarily limited to the presentation of its disclosures.

*Reclassifications*

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

*Use of Estimates*

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

**Note 2—Debt**

*Short-Term Borrowings*

The Company has in place a \$500,000 commercial paper program supported by a \$500,000 bank credit facility with a group of 9 banks, of which \$250,000 expires on January 25, 1999, and \$250,000 expires on January 30, 2001. At August 30, 1998, no amounts were outstanding under the loan facility or the commercial paper program.

In addition, a wholly-owned Canadian subsidiary has a \$128,000 commercial paper program supported by an \$89,000 bank credit facility with three Canadian banks, which expires in March 1999. At August 30, 1998, 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 \$589,000 combined amounts of the respective supporting bank credit facilities.

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**COSTCO COMPANIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
 (dollars in thousands, except per share data)

**Note 2—Debt (Continued)**

The weighted average borrowings, highest borrowings and interest rate under all short-term borrowing arrangements were as follows for fiscal 1998 and 1997:

<u>Category of Aggregate Short-Term Borrowings</u>	<u>Maximum Amount Outstanding During the Period</u>	<u>Average Amount Outstanding During the Period</u>	<u>Weighted Average Interest Rate During the Period</u>
<b>Period ended August 30, 1998</b>			
Bank borrowings:			
U.S. . . . . .	\$ —	\$ —	— %
Canadian . . . . .	5,399	215	6.85
Commercial Paper:			
U.S. . . . . .	—	—	—
Canadian . . . . .	34,390	5,841	3.61
<b>Period ended August 31, 1997</b>			
Bank borrowings:			
U.S. . . . . .	\$ —	\$ —	— %
Canadian . . . . .	10,169	732	5.74
Commercial Paper:			
U.S. . . . . .	279,000	85,140	5.54
Canadian . . . . .	100,716	52,486	3.43

The Company has separate letter of credit facilities (for commercial and standby letters of credit) totaling approximately \$317,000. The outstanding commitments under these facilities at August 30, 1998 totaled approximately \$212,000, including approximately \$50,000 in standby letters for workers' compensation requirements.

*Long-term Debt*

Long-term debt at August 30, 1998 and August 31, 1997:

	<u>1998</u>	<u>1997</u>
7½% Senior Notes due June 2005 . . . . .	\$300,000	\$300,000
3½% Zero Coupon convertible subordinated notes due August 2017 . . . . .	466,082	450,207
Unsecured note payable to banks due April 2001 . . . . .	140,000	140,000
Notes payable secured by trust deeds on real estate . . . . .	13,667	16,327
Capital lease obligations and other . . . . .	21,030	19,426
	<u>940,779</u>	<u>925,960</u>
Less current portion (included in other current liabilities) . . . .	10,744	8,959
Total long-term debt . . . . .	<u>\$930,035</u>	<u>\$917,001</u>

The Company issued \$300,000 of 7½% Senior Notes in fiscal 1995. Interest on the notes is payable semiannually on June 15 and December 15. The indentures contain certain limitations on the Company's

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**COSTCO COMPANIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Note 2—Debt (Continued)**

and certain subsidiaries' ability to create liens securing indebtedness and to enter into certain sale leaseback transactions.

In April 1996, the Company borrowed \$140,000 from a group of banks under a five-year unsecured term loan. Interest only is payable quarterly at rates based on LIBOR. Proceeds of the loan were used to retire \$40,000 outstanding under the Canadian commercial paper program and \$100,000 outstanding under the U.S. commercial paper program.

On August 19, 1997, the Company completed the sale of \$900,000 principal amount at maturity of Zero Coupon Subordinated Notes (the "Notes") due August 19, 2017. The Notes were priced with a yield to maturity of 3½%, resulting in gross proceeds to the Company of \$449,640. The Notes are convertible into a maximum of 10,219,090 shares of Costco Common Stock at an initial conversion price of \$44.00. Holders of the Notes may require the Company to purchase the Notes (at the discounted issue price plus accrued interest to date of purchase) on August 19, 2002, 2007, or 2012. The Company, at its option, may redeem the Notes (at the discounted issue price plus accrued interest to date of redemption) any time on or after August 19, 2002.

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

At August 30, 1998, the fair value of the 7¼% Senior Notes, based on market quotes, was approximately \$317,000. The Senior Notes are not redeemable prior to maturity. The fair value of the 3½% Zero Coupon Subordinated Notes at August 30, 1998, based on market quotes, was approximately \$574,000.

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

1999 .....	\$ 10,744
2000 .....	6,948
2001 .....	143,497
2002 .....	1,187
2003 .....	1,095
Thereafter .....	<u>777,308</u>
Total .....	<u>\$940,779</u>

**Note 3—Leases**

The Company leases land and/or warehouse buildings at 58 of the 278 warehouses open at August 30, 1998 and certain other office and distribution facilities under operating leases with remaining terms ranging from 2 to 50 years. These leases generally contain one or more of the following options which the Company can exercise at the end of the initial lease term: (a) renewal of the lease for a defined number of years at the then fair market rental rate; (b) purchase of the property at the then fair market value; (c) right of first refusal in the event of a third party purchase offer. Certain leases provide for periodic rental increases based on the price indices and some of the leases provide for rents based on the greater of minimum guaranteed amounts or sales volume. Contingent rents have not been material. Additionally, the Company leases certain equipment and fixtures under short-term operating leases which permit the

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**COSTCO COMPANIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Note 3—Leases (Continued)**

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 1998, 1997, and 1996, was \$55,375, \$54,019, and \$55,686, respectively. Future minimum payments during the next five fiscal years and thereafter under noncancelable leases with terms in excess of one year, at August 30, 1998, were as follows:

1999 . . . . .	\$ 60,036
2000 . . . . .	60,930
2001 . . . . .	59,449
2002 . . . . .	58,995
2003 . . . . .	57,422
Thereafter . . . . .	589,088
Total minimum payments	<u>\$885,920</u>

**Note 4—Stock Options**

The Costco Companies, Inc. 1993 Combined Stock Grant and Stock Option Plan (the New Stock Option Plan) provides for the issuance of up to 20 million shares of the Company's common stock upon the exercise of stock options or up to 1,666,666 shares through stock grants. Prior to the merger of The Price Company and Costco Wholesale Corporation, various incentive and non-qualified stock option plans existed which allowed certain key employees and directors to purchase or be granted common stock of The Price Company and Costco Wholesale Corporation (collectively the Old Stock Option Plans). Options were granted for a maximum term of ten years, and were exercisable upon vesting. Options granted under these plans generally vest ratably over five to nine years. Subsequent to the merger, new grants of options are not being made under the Old Stock Option Plans.

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

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Net income:			
As reported . . . . .	\$459,842	\$312,197	\$248,793
Pro forma . . . . .	\$438,053	\$301,947	\$246,208
Net income per share (diluted):			
As reported . . . . .	\$ 2.03	\$ 1.47	\$ 1.22
Pro forma . . . . .	\$ 1.93	\$ 1.42	\$ 1.21

The effects of applying SFAS No. 123 on pro forma disclosures of net income and earnings per share for fiscal 1998, 1997 and 1996 may not be representative of the pro forma effects on net income and earnings per share in future years.

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**COSTCO COMPANIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Note 4—Stock Options (Continued)**

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Risk free interest rate . . . . .	5.60%	6.40%	6.15%
Expected life . . . . .	7 years	7 years	7 years
Expected volatility . . . . .	34%	34%	32%
Expected dividend yield . . . . .	0%	0%	0%

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

	<u>1998</u>		<u>1997</u>		<u>1996</u>	
	<u>Shares</u>	<u>Price(1)</u>	<u>Shares</u>	<u>Price(1)</u>	<u>Shares</u>	<u>Price(1)</u>
Under option at beginning of year . . . . .	17,321	\$19.96	16,972	\$17.14	15,963	\$16.71
Granted (2) . . . . .	4,214	47.67	4,610	26.13	2,645	17.35
Exercised . . . . .	(3,996)	18.59	(4,077)	15.24	(1,272)	10.60
Cancelled . . . . .	(237)	19.81	(184)	18.37	(364)	18.26
Under option at end of year . . . . .	<u>17,302</u>	<u>\$27.03</u>	<u>17,321</u>	<u>\$19.96</u>	<u>16,972</u>	<u>\$17.14</u>

- (1) Weighted-average exercise price
- (2) The weighted-average fair value of options granted during fiscal 1998, 1997 and 1996, was \$19.71, \$11.47, and \$7.46, respectively.

The following table summarizes information regarding stock options outstanding at August 30, 1998:

<u>Range of Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number</u>	<u>Remaining Contractual Life(1)</u>	<u>Price(1)</u>	<u>Number</u>	<u>Price(1)</u>
\$3.50 - \$18.19 . . . . .	6,080	5.2	\$14.94	3,125	\$14.48
\$18.50 - \$26.88 . . . . .	6,502	6.7	24.39	2,231	22.83
\$28.13 - \$54.25 . . . . .	4,720	9.0	46.26	570	35.54
	<u>17,302</u>	<u>6.8</u>	<u>\$27.03</u>	<u>5,926</u>	<u>\$19.65</u>

- (1) Weighted-average

**Note 5—Retirement Plans**

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

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**COSTCO COMPANIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Note 5—Retirement Plans (Continued)**

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 its union. The Company makes contributions based upon its union agreement. In June 1995, the Company also established a 401(k) plan for the California union employees. The plan allows pre-tax deferral against which the Company matches 50% of the first two hundred fifty dollars of employee contributions.

Amounts expensed under these plans were \$73,764, \$59,960, and \$51,996 for fiscal 1998, 1997, and 1996, respectively. The Company has defined contribution 401(k) and retirement plans only and thus has no liability for postretirement benefit obligations under the SFAS No. 106 "Employer's Accounting for Postretirement Benefits Other than Pensions."

**Note 6—Income Taxes**

The provisions for income taxes for fiscal 1998, 1997, and 1996 are as follows:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Federal:			
Current .....	\$214,788	\$151,433	\$131,978
Deferred .....	(3,415)	(13,249)	(4,515)
Total federal .....	<u>211,373</u>	<u>138,184</u>	<u>127,463</u>
State:			
Current .....	49,881	34,666	27,926
Deferred .....	(2,231)	(3,178)	(976)
Total state .....	<u>47,650</u>	<u>31,488</u>	<u>26,950</u>
Foreign:			
Current .....	47,096	40,192	20,882
Deferred .....	442	(1,732)	(611)
Total foreign .....	<u>47,538</u>	<u>38,460</u>	<u>20,271</u>
Total provision for income taxes .....	<u>\$306,561</u>	<u>\$208,132</u>	<u>\$174,684</u>

A reconciliation between the statutory tax rate and the effective rate for fiscal 1998, 1997, and 1996 is as follows:

	<u>1998</u>		<u>1997</u>		<u>1996</u>	
Federal taxes at statutory rate .....	\$268,241	35.00%	\$182,115	35.00%	\$148,217	35.00%
State taxes, net .....	33,722	4.40	22,374	4.30	17,786	4.20
Foreign taxes, net .....	8,543	1.11	5,452	1.05	4,658	1.10
Other .....	(3,945)	(0.51)	(1,809)	(.35)	4,023	.95
Provision at effective tax rate .....	<u>\$306,561</u>	<u>40.00%</u>	<u>\$208,132</u>	<u>40.00%</u>	<u>\$174,684</u>	<u>41.25%</u>

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**COSTCO COMPANIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Note 6—Income Taxes (Continued)**

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

	<u>August 30, 1998</u>	<u>August 31, 1997</u>
Accrued liabilities . . . . .	\$ 93,158	\$79,663
Other . . . . .	14,010	15,735
Total deferred tax assets . . . . .	<u>107,168</u>	<u>95,398</u>
Property and equipment . . . . .	67,293	45,647
Merchandise inventories . . . . .	33,589	22,765
Other . . . . .	1,022	1,208
Total deferred tax liabilities . . . . .	<u>101,904</u>	<u>69,620</u>
Net deferred tax assets . . . . .	<u>\$ 5,264</u>	<u>\$25,778</u>

The deferred tax accounts at August 30, 1998 and August 31, 1997 include current deferred income tax assets of \$59,667 and \$59,322, respectively, and non-current deferred income tax liabilities of \$54,403 and \$33,544, respectively.

**Note 7—Commitments and Contingencies**

*Legal Proceedings*

On April 6, 1992, The Price Company was served with a Complaint in an action entitled *Fecht et al. v. The Price Company et al.*, Case No. 92-497, United States District Court, Southern District of California (the "Court"). Subsequently, on April 22, 1992, The Price Company was served with a First Amended Complaint in the action. The case was dismissed without prejudice by the Court on September 21, 1992, on the grounds the plaintiffs had failed to state a sufficient claim against defendants. Subsequently, plaintiffs filed a Second Amended Complaint which, in the opinion of The Price Company's counsel, alleged substantially the same facts as the prior complaint. The Complaint alleged violation of certain state and federal laws during the time period prior to The Price Company's earnings release for the second quarter of fiscal year 1992. The case was dismissed with prejudice by the Court on March 9, 1993, on grounds the plaintiffs had failed to state a sufficient claim against defendants. Plaintiffs filed an Appeal in the Ninth Circuit Court of Appeals. In an opinion dated November 20, 1995, the Ninth Circuit reversed and remanded the lawsuit. In February 1997, the Court granted the plaintiffs' motion for certification of a class consisting of all purchasers of the common stock of The Price Company from April 3, 1991 through April 2, 1992. In May 1998, the parties reached an agreement in principle to resolve the lawsuit. In July 1998, the Court preliminarily approved the settlement, and in October 1998, the Court entered an Order approving the settlement and dismissing the lawsuit. The Company's estimated portion of the proposed settlement amount is not material to the Company's financial position or results of operations.

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

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**COSTCO COMPANIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(dollars in thousands, except per share data)**

**Note 8—Geographic Information**

The following table indicates the relative amounts of total revenue, operating income and identifiable assets for the Company during fiscal 1998, 1997, and 1996:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Total revenue:			
United States . . . . .	\$19,634,152	\$17,572,440	\$15,709,258
Foreign . . . . .	4,635,725	4,301,964	3,857,198
	<u>\$24,269,877</u>	<u>\$21,874,404</u>	<u>\$19,566,456</u>
Operating income:			
United States . . . . .	\$ 647,921	\$ 459,339	\$ 419,074
Foreign . . . . .	139,355	121,373	71,649
	<u>\$ 787,276</u>	<u>\$ 580,712</u>	<u>\$ 490,723</u>
	<u>1998</u>	<u>1997</u>	
Identifiable assets:			
United States . . . . .	\$ 4,986,019	\$ 4,356,038	
Foreign . . . . .	1,273,801	1,120,276	
	<u>\$ 6,259,820</u>	<u>\$ 5,476,314</u>	

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### MARKET FOR COSTCO COMMON STOCK

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

The following table sets forth the closing high and low sales prices of Costco Common Stock for the period January 1, 1996 through November 30, 1998. The quotations are as reported in published financial sources.

	Costco Common Stock	
	High	Low
Calendar Quarters—1996		
First Quarter . . . . .	19½	14¾
Second Quarter . . . . .	21⅝	17½
Third Quarter . . . . .	22⅛	19¾
Fourth Quarter . . . . .	25⅝	19⅝
Calendar Quarters—1997		
First Quarter . . . . .	30	24⅛
Second Quarter . . . . .	35⅜	26⅞
Third Quarter . . . . .	39⅞	31⅞
Fourth Quarter . . . . .	44⅜	35⅞
Calendar Quarters—1998		
First Quarter . . . . .	58⅜	42⅞
Second Quarter . . . . .	63⅞	51⅞
Third Quarter . . . . .	65	45⅞
Fourth Quarter (through November 30, 1998) . . . . .	63¾	44⅞

On November 30, 1998, the Company had 7,692 stockholders of record.

### DIVIDEND POLICY

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

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## DIRECTORS AND OFFICERS

### DIRECTORS

<b>Jeffrey H. Brotman</b> Chairman of the Board	<b>John W. Meisenbach</b> Director
<b>Richard D. DiCerchio</b> Senior Executive Vice President, COO— Merchandising, Distribution, Construction and Marketing and Director	<b>Charles T. Munger</b> Director
<b>Richard A. Galanti</b> Executive Vice President, Chief Financial Officer and Director	<b>Frederick O. Paulsell, Jr.</b> Director
<b>Hamilton E. James</b> Director	<b>Jill S. Ruckelshaus</b> Director
<b>Richard M. Libenson</b> Director	<b>James D. Sinegal</b> President, Chief Executive Officer and Director

### EXECUTIVE AND SENIOR OFFICERS

<b>Joel Benoliel</b> Senior Vice President, Real Estate & Law, General Counsel, Corporate Secretary	<b>Franz E. Lazarus</b> Executive Vice President, COO— International Division
<b>Jeffrey H. Brotman</b> Chairman of the Board	<b>David B. Loge</b> Executive Vice President, Manufacturing and Ancillary Businesses
<b>Charles V. Burnett</b> Senior Vice President, Pharmacy	<b>Edward B. Maron, Jr.</b> Executive Vice President, COO— Canadian Division
<b>Roger A. Campbell</b> Senior Vice President, General Manager—Eastern Division	<b>John Matthews</b> Senior Vice President, Human Resources and Risk Management
<b>Richard C. Chavez</b> Senior Vice President—Asia	<b>Paul G. Moulton</b> Senior Vice President, Information Systems
<b>Robert E. Craves</b> Senior Vice President, Membership and Marketing	<b>James P. Murphy</b> Senior Vice President—Europe
<b>Hubert de Suduiraut</b> Senior Vice President, General Manager— Western Canada Region	<b>Courtland L. Newberry</b> Senior Vice President, Merchandising—Food Service, Business Delivery, Special Projects
<b>Richard D. DiCerchio</b> Senior Executive Vice President, COO— Merchandising, Distribution, Construction and Marketing	<b>David S. Petterson</b> Senior Vice President, Corporate Controller
<b>John B. Gaherty</b> Senior Vice President, Regional Manager— Midwest Region	<b>Joseph P. Portera</b> Executive Vice President, COO— Eastern Division
<b>Richard A. Galanti</b> Executive Vice President, Chief Financial Officer	<b>Timothy L. Rose</b> Senior Vice President, Merchandising— Foods, Sundries, Fresh Foods
<b>Jaime Gonzalez</b> Senior Vice President, General Manager— Mexico	<b>Douglas W. Schutt</b> Senior Vice President, Merchandising— Non-Foods
<b>Bruce A. Greenwood</b> Senior Vice President, General Manager— Los Angeles Region	<b>James D. Sinegal</b> President and Chief Executive Officer
<b>Robert D. Hicok</b> Senior Vice President, General Manager— San Diego Region	<b>John D. Thelan</b> Senior Vice President, Depots
<b>Dennis A. Hoover</b> Senior Vice President, General Manager— Northern California Region	<b>Thomas K. Walker</b> Senior Vice President, Construction, Purchasing and Depots
<b>W. Craig Jelinek</b> Executive Vice President, COO— Northern Division	<b>Louise Wendling</b> Senior Vice President, General Manager— Eastern Canada Region
	<b>Dennis R. Zook</b> Executive Vice President, COO— Southern Division and Mexico

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**VICE PRESIDENTS**

**Jeff Abadir**  
GMM-Fresh Foods

**Sandi Babins**  
GMM-Foods & Sundries—  
Western Canada Region

**Francis Ball**  
GMM-Foods—U.K.

**Joe F. Basse**  
GMM-Softlines

**Gilbert H. Bishop**  
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**Andree Brien**  
GMM-Softlines—  
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Country Manager—Korea

**Vincent P. Carney**  
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**Richard Chang**  
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Operations—Delivery and Other Businesses

**Glen Drain**  
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Western Canada Region

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**George Ed Dwyer**  
Operations—Depots

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**Timothy K. Farmer**  
GMM-Hardlines

**John W. Gedney**  
Operations—Gas Stations

**Gary Giacomi**  
Operations—Northwest Region

**Isaac Hamaoui**  
GMM-Foods—Eastern Canada Region

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Operations—Northeast Region

**Daniel M. Hines**  
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**Ross Hunt**  
Director of Finance and MIS—  
Eastern Canada Region

**Harold E. Kaplan**  
Corporate Treasurer

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GMM-Non-Foods

**Paul Latham**  
President & COO—SportsNation

**Gerry Liben**  
GMM-Hardlines—Eastern Canada Region

**Phil Lind**  
GMM-Non-Foods—U.K.

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**Jeffrey R. Long**  
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**John McKay**  
Operations—Northwest Region

**Russ Miller**  
Operations—Northeast Region

**Michael W. Mosteller**  
Operations—Security/Labor Relations

**Shirley Murguia**  
Operations—San Diego Region

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Financial Planning & Investor Relations

**Gary F. Ojendyk**  
GMM-Hardlines

**Richard J. Olin**  
Real Estate & Law,  
Assistant General Counsel

**John R. Osterhaus**  
Photo, Optical and Hearing Aids

**Shawn Parks**  
Operations—Los Angeles Region

**Roger E. Peterson**  
Operations—San Diego Region

**Robert L. Pugmire**  
GMM-Softlines

**C. J. Ray**  
GMM-Foods—Northern California Region

**Pierre Riel**  
GMM-Fresh Foods & Ancillary Sales—  
Eastern Canada Region

**George R. Roe**  
Operations—Pharmacy

**Ginnie Roeglin**  
National Marketing Manager

**Fernando Salvo**  
Operations—Eastern Canada Region

**Janet Shanks**  
GMM-Fresh Foods and Ancillary  
Businesses—Western Canada Region

**David Sinegal**  
GMM-Foods—Northwest Region

**Michael Sinegal**  
Country Manager—Japan

**Donald H. Stacy**  
GMM—Mexico

**Norman D. Straley**  
Operations—Los Angeles Region

**Kimberly Suchomel**  
GMM—International

**Keith H. Thompson**  
Director of Construction

**Patrick J. Turpin**  
Executive Member Services

**Scott Tyler**  
Operations—Western Canada Region

**Francois Villeneuve**  
Marketing and Human Resources—  
Eastern Canada Region

**Stanley D. Winberg**  
GMM-Foods—San Diego Region

**Charles A. Winters**  
Director of Meat Operations

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### ADDITIONAL INFORMATION

A copy of Costco's annual report to the Securities and Exchange Commission on Form 10-K and quarterly report on Form 10-Q will be provided to any shareholder upon written request directed to Investor Relations, Costco Companies, Inc., 999 Lake Drive, Issaquah, Washington 98027. Internet users can access recent sales and earnings press releases as well as our new Costco Online web site at <http://www.costco.com>.

#### Corporate Office

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

#### Division Offices

##### Northern Division

*Northwest Region*  
999 Lake Drive  
Issaquah, WA 98027  
*Northern California Region*  
2820 Independence Drive  
Livermore, CA 94550

##### Southern Division

*Los Angeles Region*  
11000 Garden Grove, #201  
Garden Grove, CA 92843  
*San Diego Region*  
4455 Morena Blvd.  
San Diego, CA 92117

##### Eastern Division

46000 Manekin Plaza  
Sterling, VA 20166  
*Midwest Region*  
100 West 22nd St., #101  
Lombard, IL 60148

##### Canadian Division

*Eastern Region*  
3000 Jacques Bureau  
Laval, Quebec H7P 5P7  
*Western Region*  
3550 Brighton St.  
Burnaby, BC V5A-4W3

##### International Division

*United Kingdom Region*  
213 Hartspring Lane  
Watford, Hertfordshire  
England, UK WD2 8JS  
*Japan Region*  
4F Komahara Bldg.  
1-4-3 Yakumo, Meguro-ku  
Tokyo, Japan 152-0023  
*Taiwan Region*  
13F-2, No. 6  
Min Chuan 2nd Road  
Kaohsiung, Taiwan  
*Korea Region*  
65-3 ka Yangpyungdong  
Youngdeunpoka  
Seoul, Korea

#### Annual Meeting

Thursday, January 28, 1999 at 7:00 PM  
Meydenbauer Center, Center Hall A  
11100 NE 6th Street  
Bellevue, Washington 98004

#### Transfer Agent

ChaseMellon Shareholder Services, L.L.C.  
Shareholder Relations  
P. O. Box 3315  
South Hackensack, New Jersey 07606  
Telephone: (800) 522-6645  
TDD for Hearing Impaired: (800) 231-5469  
Outside U.S.: (201) 329-8660

#### Independent Public Accountants

Arthur Andersen LLP  
Norton Building  
801 Second Avenue  
Seattle, Washington 98104

#### Legal Counsel

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


#### Stock Exchange Listing

NASDAQ Stock Market  
Stock Symbol: COST

### COSTCO SHAREHOLDERS ARE ELIGIBLE FOR GOLD STAR MEMBERSHIP

All Costco shareholders are eligible for Costco Gold Star membership, which is good at all Costco Wholesale locations in the United States, Canada, Mexico, the United Kingdom and Korea.

To join, please present a copy of your current broker's statement showing ownership of shares, or your stock certificate, at any Costco Wholesale membership counter. You will need to bring a form of picture identification, and normal membership fees will apply.

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