

COSTCO WHOLESALE CORP /NEW

Form 11-K

June 23, 2004

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 11-K

x ANNUAL REPORT PURSUANT TO SECTION 13(a) or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

.. TRANSITION REPORT PURSUANT TO SECTION 13(a) or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

Commission File Number

000-20355

**Costco 401(k) Retirement Plan**

**999 Lake Drive**

**Issaquah, Washington 98027**

(full title and address of plan)

## **Costco Wholesale Corporation**

**999 Lake Drive**

**Issaquah, Washington 98027**

(Name of issuer and address of principal executive offices of issuer)

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**COSTCO 401(k) RETIREMENT PLAN**

Financial Statements and Schedule

December 31, 2003 and 2002

(With Report of Independent Registered Public Accounting Firm Thereon)

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**Report of Independent Registered Public Accounting Firm**

The Benefits Committee

Costco 401(k) Retirement Plan:

We have audited the accompanying statements of net assets available for plan benefits of the Costco 401(k) Retirement Plan (the Plan ) as of December 31, 2003 and 2002, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan as of December 31, 2003 and 2002, and the changes in net assets available for plan benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

Seattle, Washington

June 17, 2004

**Table of Contents****COSTCO 401(k) RETIREMENT PLAN****Statements of Net Assets Available for Plan Benefits****December 31, 2003 and 2002**

|   | <u>2003</u>             | <u>2002</u>             |
|---|-------------------------|-------------------------|
| Assets:                                   |                         |                         |
| Investments, at fair value:               |                         |                         |
| Registered investment company funds:      |                         |                         |
| American Growth Fund of America           | \$ 20,120,545           | \$ 8,417,608            |
| American New Perspective Fund             | 23,813,312              | 11,705,868              |
| Vanguard Asset Allocation Fund            | 25,801,405              | 14,909,297              |
| Davis New York Venture Fund               | 36,960,889              | 21,662,078              |
| Small Cap Stock Fund                      | 49,484,288              | 28,298,989              |
| Spectrum Income Fund                      | 111,981,234             | 82,799,622              |
| Mid-Cap Growth Fund                       | 142,975,819             | 82,497,834              |
| Equity Index Fund                         | 60,638,236              | 36,045,830              |
| International Stock Fund                  | 15,099,944              | 7,935,516               |
| Common commingled trust fund:             |                         |                         |
| Stable Value Fund                         | 422,122,372             | 359,641,027             |
| Costco Wholesale Corporation common stock | 525,754,944             | 350,508,883             |
| Participant loans                         | 82,443,478              | 69,875,287              |
|   | <u>1,517,196,466</u>    | <u>1,074,297,839</u>    |
| Cash and cash equivalents                 | 1,442,538               | 174,176                 |
| Contributions receivable:                 |                         |                         |
| Employer                                  | 93,558,545              | 81,221,615              |
| Employee                                  |                         | 5,299,899               |
|   | <u>93,558,545</u>       | <u>86,521,514</u>       |
| Net assets available for plan benefits    | <u>\$ 1,612,197,549</u> | <u>\$ 1,160,993,529</u> |

See accompanying notes to financial statements.

**Table of Contents****COSTCO 401(k) RETIREMENT PLAN****Statements of Changes in Net Assets Available for Plan Benefits****Years Ended December 31, 2003 and 2002**

|   | <u>2003</u>             | <u>2002</u>             |
|---|-------------------------|-------------------------|
| Net investment income (loss):                                 |                         |                         |
| Net appreciation (depreciation) in fair value of investments: |                         |                         |
| Shares of registered investment company funds                 | \$ 96,104,985           | \$ (49,264,175)         |
| Common stock  | 128,244,434             | (185,833,361)           |
| Interest  | 5,646,939               | 5,215,045               |
| Dividends   | 24,687,077              | 21,594,607              |
|   | <u>254,683,435</u>      | <u>(208,287,884)</u>    |
| Total net investment income (loss)                            |                         |                         |
| Contributions to the Plan:                                    |                         |                         |
| Employee  | 122,410,007             | 104,140,886             |
| Employer  | 115,079,082             | 97,453,462              |
|   | <u>237,489,089</u>      | <u>201,594,348</u>      |
| Total contributions   |                         |                         |
| Interplan transfer  | (4,858)                 | 135,950                 |
| Plan merger   |                         | 61,048,872              |
| Distributions to participants                                 | (40,963,646)            | (38,195,239)            |
|   | <u>451,204,020</u>      | <u>16,296,047</u>       |
| Net increase in net assets available for plan benefits        |                         |                         |
| Net assets available for plan benefits, beginning of year     | 1,160,993,529           | 1,144,697,482           |
|   | <u>\$ 1,612,197,549</u> | <u>\$ 1,160,993,529</u> |
| Net assets available for plan benefits, end of year           |                         |                         |

See accompanying notes to financial statements.

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**COSTCO 401(k) RETIREMENT PLAN**

Notes to Financial Statements

December 31, 2003 and 2002

**(1) Plan Description**

The following description of the Costco 401(k) Retirement Plan (the Plan ) provides only general information. Participants should refer to the plan document for a more complete description of the Plan s provisions.

Participants in the Plan are employees of Costco Wholesale Corporation (the Company ).

The Plan is a defined contribution plan established by the Company under the provisions of Section 401(a) of the Internal Revenue Code (the IRC), which includes a qualified cash or deferred arrangement as described in Section 401(k) of the IRC, for the benefit of eligible employees of the Company. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

The Costco 401(k) Plan for California Union Employees (the Union Plan) was merged into the Costco 401(k) Retirement Plan effective December 31, 2002.

***(a) Eligibility***

The Plan allows certain employees over 18 years of age to make salary deferral contributions and receive matching contributions commencing the first day of the month following the completion of 90 days of employment. Participants are eligible for the Company s discretionary contribution after completion of one year of service, 1,000 hours worked in the previous 12 months, and attaining the age of 18.

***(b) Employee Contributions***

Each year, participants may contribute from 1% to 25% of their compensation before income taxes, subject to certain limitations set by the Internal Revenue Service (IRS). Participants may also contribute amounts representing distributions from other qualified benefit or contribution plans (known as rollover contributions).

***(c) Employer Contributions***



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All Company contributions are made in cash, and invested in accordance with investment selections already made by participants. If no selection has been made, the contribution is defaulted to the T. Rowe Price Stable Value Fund. Employer contributions are allocated based on an employee's classification as either a California Union Employee or an Other than California Union Employee.

### **(1) Other than California Union Employees**

The Company matches 50% of the employee's contribution, up to a maximum employer matching contribution of \$500 per year.

The Company may also contribute a discretionary amount to the account of each participant who is employed by the Company on the last day of the plan year. The discretionary contribution ranged from 3% to 10% of compensation based on years of service and was approved for the years ended December 31, 2003 and 2002.

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**COSTCO 401(k) RETIREMENT PLAN**

Notes to Financial Statements

December 31, 2003 and 2002

**(2) California Union Employees**

The Company matches 50% of the employee's contribution, up to a maximum employer matching contribution of \$250 per year.

The Company also makes a contribution to all plan participants (with five years of service or more) employed on the last day of the plan year based upon hours worked during the plan year, up to a maximum of 80 hours per pay period (bi-weekly). Participants who reach their fifth anniversary up to their ninth anniversary receive \$0.20 per hour. Participants who reach or exceed their tenth anniversary receive \$0.30 per hour.

**(d) Participants Accounts**

Participants' accounts are valued on a daily basis based on quoted market prices. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

**(e) Vesting**

Participants are immediately vested in their contributions, plus actual earnings thereon. Vesting in the employer-matching and discretionary contributions is based on years of service, according to the following schedule:

| <u>Years of service</u> | <u>Percentage<br/>vested</u> |
|-------------------------|------------------------------|
| Less than 2             | 0%                           |
| 2-3                     | 20                           |
| 3-4                     | 40                           |
| 4-5                     | 60                           |
| 5 or more               | 100                          |

**(f) Forfeitures**

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During 2003 and 2002, forfeitures of \$2,000,000 and \$1,200,000, respectively, were used to reduce the employer contributions to the Plan. Forfeitures without benefit of investment gains or losses can be restored to a participant's account if the participant is re-employed by the Company prior to the expiration of five years of consecutive breaks in service and repays the full dollar amount distributed because of the termination within five years of the re-employment date. As of December 31, 2003 and 2002, forfeitures of approximately \$2,287,285 and \$2,804,808, respectively, had not been used to reduce employer contributions. These forfeitures will be used to offset future employer contributions.

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**COSTCO 401(k) RETIREMENT PLAN**

Notes to Financial Statements

December 31, 2003 and 2002

***(g) Investment Options***

Upon enrollment in the Plan, a participant may direct his/her account balance into any of the investment options listed on the statements of net assets available for plan benefits. T. Rowe Price is the trustee for all investments, serves as investment manager for certain registered investment company and common commingled trust funds, and provides recordkeeping of all participant accounts. Amounts may be temporarily invested in a cash account prior to investment in Costco Wholesale Corporation common stock.

Participants may change their investment options and transfer amounts between funds daily.

***(h) Distributions***

Upon termination of employment, total disability or death, the vested interest in a participant's account is payable in a lump sum. Participants may apply for a distribution of all or a portion of the vested interest at any time after attainment of age 59-1/2. Participants are also eligible to make hardship withdrawals from their salary deferral contributions in the event of certain financial hardships. Following a hardship withdrawal, participants are not allowed to contribute to the Plan for a six-month period.

***(i) Participant Loans***

A participant may borrow the lesser of \$50,000 or 45% of his or her vested account balance, calculated using the participant's pre-tax contribution, rollover, Company matching and Company discretionary contribution amounts. However, only the participant's pre-tax contribution, rollover, and Company matching amounts are eligible to borrow against, with a minimum loan of \$1,000. Loans are payable through payroll deductions over a period ranging up to 180 months, depending on the purpose of the loan. The interest rate is determined by the plan administrator based on Bank of America prime rate plus 1% for a primary residence loan and prime rate plus 2% for a standard loan on the last day of the calendar quarter in which the loan was made. The rates at December 31, 2003 and 2002 ranged from 5% to 11.5% and 5.75% to 11.5%, respectively. The loans have various maturity dates, through December 2018.

***(j) Plan Administrator***

The Plan is administered by the Benefits Committee, which is appointed by the board of directors of the Company.

*(k) Administrative Expenses*

All administrative and custodial fees of the Plan are paid by the Company. All investment management and transaction fees directly related to the plan investments are netted against net investment income.

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**COSTCO 401(k) RETIREMENT PLAN**

Notes to Financial Statements

December 31, 2003 and 2002

***(1) Interplan Transfers***

Interplan transfers during 2003 represent the net amount of participant account balances transferred during the year to the Puerto Rico Plan from the Plan as a result of the participants' changing employment within the Company and the related changes in their eligibility status. Interplan transfers during 2002 represent the net amount of participant account balances transferred during the year to the Plan from the Union Plan as a result of the participants' changing employment within the Company and the related changes in their eligibility status.

**(2) Significant Accounting Policies**

***(a) Basis of Accounting***

The financial statements of the Plan are prepared under the accrual method of accounting.

***(b) Use of Estimates***

The preparation of financial statements requires the use of estimates. Actual results could differ from those estimates.

***(c) Investment Valuation and Income Recognition***

Investments are stated at fair value. Registered investment company and common commingled trust funds, and Costco Wholesale Corporation common stock are valued based on quoted market prices. Participant loans are valued at cost which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) in fair value of investments includes the change in the fair value of assets from one period to the next, and realized gains and losses.

The Plan invests in Company common stock and various registered investment company funds which in turn invest in a combination of stocks, bonds and other investment securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall

market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for plan benefits.

The Stable Value Fund is a common commingled trust fund investing primarily in guaranteed investment contracts (GICs) and synthetic GICs. The GICs are fully benefit responsive and are recorded at contract value, which approximates fair value. The effective yield of the fund was 4.74% and 5.63% for the years ended December 31, 2003 and 2002, respectively.

***(d) Payment of Benefits***

Benefits are recorded when paid.

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**COSTCO 401(k) RETIREMENT PLAN**

Notes to Financial Statements

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**(3) Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA and the requirements of the collective bargaining agreement with the International Brotherhood of Teamsters in California. In the event of plan termination, participants will become 100% vested in their accounts.

**(4) Tax Status**

The IRS has informed the Company that the Plan is designed in accordance with applicable sections of the Internal Revenue Code. The Plan was amended subsequent to receiving a determination letter. The plan administrator believes that the Plan is designed and was being operated in compliance with the applicable requirements of the IRS.

**(5) Party-in-Interest Transactions**

Certain plan investments are shares of registered investment company funds managed by T. Rowe Price. T. Rowe Price is the trustee and recordkeeper as defined by the Plan, and therefore, these transactions qualify as party-in-interest transactions.



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Schedule I

**COSTCO 401(k) RETIREMENT PLAN**

Schedule H, Line 4i Schedule of Assets (Held at End of Year)

December 31, 2003

| Identity of issuer, borrower,<br>lessor, or similar party | Description of investment   | Current<br>value |
|---|---|------------------|
| Registered investment company funds                       |   |                  |
| American Funds  | Growth Fund of America  | \$ 20,120,545    |
| American Funds  | New Perspective Fund  | 23,813,312       |
| Vanguard  | Asset Allocation Fund   | 25,801,405       |
| Davis Funds   | New York Venture Fund   | 36,960,889       |
| * T. Rowe Price   | Small Cap Stock Fund  | 49,484,288       |
| * T. Rowe Price   | Spectrum Income Fund  | 111,981,234      |
| * T. Rowe Price   | Mid-Cap Growth Fund   | 142,975,819      |
| * T. Rowe Price   | Equity Index Fund   | 60,638,236       |
| * T. Rowe Price   | International Stock Fund  | 15,099,944       |
| Common commingled trust fund                              |   |                  |
| * T. Rowe Price   | Stable Value Fund   | 422,122,372      |
| Common stock  |   |                  |
| * Costco Wholesale Corporation                            | Common stock  | 525,754,944      |
| Loans   |   |                  |
| * Various Participants                                    | Participant loans, with interest rates of<br>5% to 11.5% maturing through December 2018 | 82,443,478       |
|   |   | \$ 1,517,196,466 |

\* Indicates a party-in-interest.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized, on this 17<sup>th</sup> day of June, 2004.

Costco 401(k) Retirement Plan

By: /s/ JOHN MATTHEWS  
**John Matthews**

**Senior Vice President**

**Costco Wholesale Corporation**