COSTCO WHOLESALE CORP /NEW
Form 10-K/A
December 21, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

FORM 10-K /A

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

For the fiscal year ended September 2, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 0-20355

Costco Wholesale Corporation

(Exact name of registrant as specified in its charter)

Washington	**91-1223280**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

999 Lake Drive, Issaquah, WA 98027

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: **(425) 313-8100**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $.005 Par Value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated Filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO x

The aggregate market value of the voting stock held by non-affiliates of the registrant at February 16, 2007 was $25,659,670,154

The number of shares outstanding of the registrant s common stock as of October 5, 2007 was 434,083,536

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s Proxy Statement for the Annual Meeting of Stockholders to be held on January 29, 2008 are incorporated by reference into Part III of this Form 10-K.

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EXPLANATORY NOTE

Costco Wholesale Corporation (also referred to as the Company, we, or our) is filing this Amendment No. 1 (the Amendment No. 1 to our Form 10-K for the fiscal year ended September 2, 2007 (the Form 10-K), originally filed with the Securities and Exchange Commission on October 25, 2007, for the purpose of correcting typographical dating errors within the Report of Independent Registered Public Accounting Firm relating to the opinion on our consolidated financial statements.

The information set forth in our financial statements and the footnotes thereto in this Amendment No. 1 has not been modified or updated in any way from the information in our financial statements and the related footnotes included in the Form 10-K. This Amendment No. 1 speaks as of the original filing date of the Form 10-K and reflects only the changes to the audit opinion referenced above. No other information included in the Form 10-K, including the information set forth in Part I, has been modified or updated in any way.

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PART II

Item 8 Financial Statements and Supplementary Data

Financial statements of Costco are as follows:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Costco Wholesale Corporation:

We have audited the accompanying consolidated balance sheets of Costco Wholesale Corporation and subsidiaries as of September 2, 2007 and September 3, 2006 and the related consolidated statements of income, stockholders equity and comprehensive income and cash flows for the 52-week period ended September 2, 2007, the 53-week period ended September 3, 2006, and the 52-week period ended August 28, 2005. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Costco Wholesale Corporation and subsidiaries as of September 2, 2007 and September 3, 2006, and the results of their operations and their cash flows for the 52-week period ended September 2, 2007, the 53-week period ended September 3, 2006, and the 52-week period ended August 28, 2005, in conformity with U.S. generally accepted accounting principles.

Effective August 29, 2005, the beginning of the Company s fiscal year ended September 3, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment and Securities and Exchange Commission Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of September 2, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated October 24, 2007 expressed an unqualified opinion on internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington

October 24, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Costco Wholesale Corporation:

We have audited Costco Wholesale Corporation s (the Company) internal control over financial reporting as of September 2, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management s annual report on internal control over financial reporting included in Item 9A. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 2, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of September 2, 2007 and September 3, 2006, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for the 52-week period ended September 2, 2007, the 53 week period ended September 3, 2006, and the 52-week period ended August 28, 2005, and our report dated October 24, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington

October 24, 2007

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COSTCO WHOLESALE CORPORATION

CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except par value)

	September 2, 2007	September 3, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,779,733	$ 1,510,939
Short-term investments	575,787	1,322,181
Receivables, net	762,017	565,373
Merchandise inventories	4,879,465	4,561,232
Deferred income taxes and other current assets	327,151	272,357
Total current assets	9,324,153	8,232,082
PROPERTY AND EQUIPMENT		
Land	3,009,514	2,747,396
Buildings, leasehold and land improvements	7,035,672	6,241,357
Equipment and fixtures	2,747,243	2,405,229
Construction in progress	276,087	248,454
	13,068,516	11,642,436
Less accumulated depreciation and amortization	(3,548,736)	(3,078,141)
Net property and equipment	9,519,780	8,564,295
OTHER ASSETS	762,653	698,693
	$ 19,606,586	$ 17,495,070
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 53,832	$ 41,385
Accounts payable	5,124,990	4,581,395
Accrued salaries and benefits	1,226,666	1,080,382
Accrued sales and other taxes	267,920	324,274
Deferred membership fees	692,176	583,946
Current portion of long-term debt	59,905	308,523
Other current liabilities	1,156,264	899,286
Total current liabilities	8,581,753	7,819,191
LONG-TERM DEBT, excluding current portion	2,107,978	215,369
DEFERRED INCOME TAXES AND OTHER LIABILITIES	224,197	253,713
Total liabilities	10,913,928	8,288,273
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	69,317	63,358
STOCKHOLDERS EQUITY		

Preferred stock $.005 par value; 100,000,000 shares authorized; no shares issued and outstanding		
Common stock $.005 par value; 900,000,000 shares authorized; 437,013,000 and 462,279,000 shares issued and outstanding	2,185	2,312
Additional paid-in capital	3,118,224	2,822,652
Accumulated other comprehensive income	370,589	277,263
Retained earnings	5,132,343	6,041,212
Total stockholders equity	8,623,341	9,143,439
	$ 19,606,586	$ 17,495,070

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

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COSTCO WHOLESALE CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share data)

	52 weeks ended September 2, 2007	53 weeks ended September 3, 2006	52 weeks ended August 28, 2005
REVENUE			
Net sales	$ 63,087,601	$ 58,963,180	$ 51,879,070
Membership fees	1,312,554	1,188,047	1,073,156
Total revenue	64,400,155	60,151,227	52,952,226
OPERATING EXPENSES			
Merchandise costs	56,449,702	52,745,497	46,346,961
Selling, general and administrative	6,273,096	5,732,141	5,061,339
Preopening expenses	55,163	42,504	53,230
Provision for impaired assets and closing costs, net	13,608	5,453	16,393
Operating income	1,608,586	1,625,632	1,474,303
OTHER INCOME (EXPENSE)			
Interest expense	(64,079)	(12,570)	(34,437)
Interest income and other	165,484	138,355	109,096
INCOME BEFORE INCOME TAXES	1,709,991	1,751,417	1,548,962
Provision for income taxes	627,219	648,202	485,870
NET INCOME	$ 1,082,772	$ 1,103,215	$ 1,063,092
NET INCOME PER COMMON SHARE:			
Basic	$ 2.42	$ 2.35	$ 2.24
Diluted	$ 2.37	$ 2.30	$ 2.18
Shares used in calculation (000 s)			
Basic	447,659	469,718	473,945
Diluted	457,641	480,341	492,035
Dividends per share	$ 0.55	$ 0.49	$ 0.43

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

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COSTCO WHOLESALE CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

(in thousands)

	Common Stock		Additional	Accumulated Other		
	Shares	Amount	Paid-In Capital	Comprehensive Income	Retained Earnings	Total
BALANCE AT AUGUST 29, 2004	462,637	$ 2,313	$ 1,466,366	$ 16,144	$ 6,139,987	$ 7,624,810
Comprehensive Income:						
Net Income					1,063,092	1,063,092
Foreign currency translation adjustment and other				141,895		141,895
Comprehensive income						1,204,987
Stock options exercised, including income tax benefits and other	9,138	46	323,545			323,591
Conversion of convertible notes	9,910	49	277,554			277,603
Stock repurchase	(9,205)	(46)	(38,848)		(374,358)	(413,252)
Stock-based compensation			67,937			67,937
Cash dividends					(204,567)	(204,567)
BALANCE AT AUGUST 28, 2005	472,480	2,362	2,096,554	158,039	6,624,154	8,881,109
Cumulative effect of adjustments resulting from the adoption of SAB No. 108, net of tax			147,637		(139,481)	8,156
Adjusted balance at August 28, 2005	472,480	2,362	2,244,191	158,039	6,484,673	8,889,265
Comprehensive Income:						
Net Income					1,103,215	1,103,215
Foreign currency translation adjustment and other				119,224		119,224
Comprehensive income						1,222,439
Stock options exercised, including income tax benefits and other	11,712	59	427,291			427,350
Conversion of convertible notes	6,505	33	188,902			188,935
Stock repurchase	(28,418)	(142)	(145,129)		(1,316,465)	(1,461,736)
Stock-based compensation			107,397			107,397
Cash dividends					(230,211)	(230,211)
BALANCE AT SEPTEMBER 3, 2006	462,279	2,312	2,822,652	277,263	6,041,212	9,143,439
Comprehensive Income:						
Net Income					1,082,772	1,082,772
Foreign currency translation adjustment and other				93,326		93,326
Comprehensive income						1,176,098
Stock options exercised, including income tax benefits, vesting of restricted stock units and other	9,735	48	351,756			351,804

Conversion of convertible notes	1,389	7	42,323			42,330
Stock repurchase	(36,390)	(182)	(233,089)		(1,745,899)	(1,979,170)
Stock-based compensation			134,582			134,582
Cash dividends					(245,742)	(245,742)
BALANCE AT SEPTEMBER 2, 2007	437,013	$ 2,185	$ 3,118,224	$ 370,589	$ 5,132,343	$ 8,623,341

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

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COSTCO WHOLESALE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	52 Weeks ended September 2, 2007	53 Weeks ended September 3, 2006	52 Weeks ended August 28, 2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,082,772	$ 1,103,215	$ 1,063,092
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	566,385	515,285	481,838
Stock-based compensation	134,582	107,397	67,937
Undistributed equity earnings in joint ventures	(34,080)	(28,180)	(26,459)
Net (gain) / loss on sale of property and equipment and other	(105)	5,867	5,139
Accretion of discount on long-term debt	3,074	4,828	11,855
Excess tax benefit on share based awards	(25,141)	(31,296)	
Other non-cash items, net	(5,055)	(5,888)	(11,186)
Change in deferred income taxes	(92,739)	(38,311)	(64,690)
Provision for impaired assets			3,893
Change in receivables, other current assets, deferred income, accrued and other current liabilities	284,306	414,704	78,118
Increase in merchandise inventories	(272,513)	(499,194)	(315,793)
Increase in accounts payable	434,918	282,797	479,067
Total adjustments	993,632	728,009	709,719
Net cash provided by operating activities	2,076,404	1,831,224	1,772,811
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment, net of $41,519, $3,934 and $(3,150) of accrued capital expenditures for fiscal 2007, 2006 and 2005, respectively	(1,385,699)	(1,216,501)	(992,281)
Proceeds from the sale of property and equipment	14,054	15,740	19,432
Investment in unconsolidated joint venture		(15,000)	(15,000)
Purchase of minority interests			(3,961)
Purchases of short-term investments	(1,160,663)	(2,598,355)	(3,741,429)
Maturities of short-term investments	1,417,731	2,424,503	2,401,248
Sales of short-term investments	496,192	263,288	267,640
Change in other assets and other, net	(36,925)	(31,169)	15,988
Net cash used in investing activities	(655,310)	(1,157,494)	(2,048,363)
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in bank checks outstanding	23,375	33,559	85,829
Proceeds from/(repayments of) short-term borrowings, net	9,961	(12,929)	33,433
Proceeds from issuance of long-term debt, net	1,994,187	18,375	5,660
Repayments of long-term debt	(307,894)	(7,586)	(303,877)
Cash dividend payments	(245,742)	(230,211)	(204,567)
Change in minority interests	5,959	4,744	(130)
Excess tax benefit on share based awards	25,141	31,296	
Exercise of stock options	307,988	372,336	278,253
Repurchases of common stock	(1,977,607)	(1,442,811)	(413,252)
Net cash used in financing activities	(164,632)	(1,233,227)	(518,651)

EFFECT OF EXCHANGE RATE CHANGES ON CASH		12,332		7,851		33,653
Net increase/(decrease) in cash and cash equivalents		1,268,794		(551,646)		(760,550)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR		1,510,939		2,062,585		2,823,135
CASH AND CASH EQUIVALENTS END OF YEAR	$	2,779,733	$	1,510,939	$	2,062,585
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:						
Cash paid during the year for:						
Interest (net of $11,423, $12,681 and $7,226 interest capitalized for fiscal 2007, 2006 and 2005, respectively)	$	9,369	$	4,147	$	21,374
Income taxes	$	786,283	$	546,205	$	804,957
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:						
Common stock issued upon conversion of 3.5% Zero Coupon Convertible Subordinated Notes	$	42,697	$	190,871	$	280,816

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

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands, except per share data)

Note 1 Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Costco Wholesale Corporation, a Washington corporation, and its subsidiaries (Costco or the Company). All material inter-company transactions between the Company and its subsidiaries have been eliminated in consolidation.

Costco operates membership warehouses that offer low prices on a limited selection of nationally branded and selected private label products in a wide range of merchandise categories in no-frills, self-service warehouse facilities. At September 2, 2007, Costco operated 488 warehouses: 379 in the United States and 4 in Puerto Rico; 71 in Canada; 19 in the United Kingdom; 6 in Japan; 5 in Korea; and 4 in Taiwan. The Company s 50%-owned joint venture in Mexico operates an additional 30 warehouses.

The Company s investments in the Costco Mexico joint venture and in other unconsolidated joint ventures that are less than majority owned are accounted for under the equity method. The investment in Costco Mexico is included in other assets and was $302,550 at September 2, 2007 and $270,304 at September 3, 2006. The equity in earnings of Costco Mexico is included in interest income and other in the accompanying consolidated statements of income, and for fiscal 2007, 2006 and 2005, was $33,499, $26,646 and $24,949, respectively. The amount of retained earnings that represents undistributed earnings of Costco Mexico was $193,176 and $159,677 at September 2, 2007 and September 3, 2006, respectively. The investments and equity in earnings of other unconsolidated joint ventures are not material.

The Company, in accordance with Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), adjusted its beginning retained earnings for fiscal 2006 in the accompanying consolidated financial statements. See Note 11 for additional information on the adoption SAB 108.

Fiscal Year End

Costco operates on a 52/53-week fiscal year basis with the fiscal year ending on the Sunday closest to August 31. The fiscal year ended September 2, 2007 included 52 weeks. The fiscal year ended September 3, 2006 included 53 weeks, with the 53rd week falling in the fiscal fourth quarter. The fiscal year ended August 28, 2005 included 52 weeks.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent 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.

Reclassifications

Certain reclassifications have been made to prior fiscal year amounts or balances to conform to the presentation adopted in the current fiscal year.

Cash and Cash Equivalents

The Company considers as cash and cash equivalents all highly liquid investments with a maturity of three months or less at the date of purchase and proceeds due from credit and debit card transactions

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 Summary of Significant Accounting Policies (Continued)

with settlement terms of less than five days. Of the total cash and cash equivalents of $2,779,733 at September 2, 2007 and $1,510,939 at September 3, 2006, credit and debit card receivables were $655,205 and $593,645, respectively.

Short-term Investments

In general, short-term investments have a maturity of three months to five years at the date of purchase. Investments with maturities beyond five years may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. Short-term investments classified as available-for-sale are recorded at market value using the specific identification method with the unrealized gains and losses reflected in accumulated other comprehensive income until realized. The estimate of fair value is based on publicly available market information or other estimates determined by management. Realized gains and losses from the sale of available-for-sale securities, if any, are determined on a specific identification basis.

Receivables, net

Receivables consist primarily of vendor rebates and promotional allowances, receivables from government tax authorities, reinsurance receivables held by the Company s wholly-owned captive insurance subsidiary and other miscellaneous amounts due to the Company. Vendor receivable balances are presented on a gross basis separate from any related payable due to that vendor. However, in certain circumstances, these receivables may be settled against the related payable to that vendor. Amounts are recorded net of an allowance for doubtful accounts of $3,459 at September 2, 2007 and $2,423 at September 3, 2006. Management determines the allowance for doubtful accounts based on historical experience and application of the specific identification method.

Vendor Rebates and Allowances

Periodic payments from vendors in the form of volume rebates or other purchase discounts that are evidenced by signed agreements are reflected in the carrying value of the inventory when earned or as the Company progresses towards earning the rebate or discount and as a component of merchandise costs as the merchandise is sold. Other consideration received from vendors is generally recorded as a reduction of merchandise costs upon completion of contractual milestones, terms of the related agreement, or by other systematic and rational approach.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market, as determined primarily by the retail method of accounting, and are stated using the last-in, first-out (LIFO) method for substantially all U.S. merchandise inventories. Merchandise inventories for all foreign operations are primarily valued by the retail method of accounting and are stated using the first-in, first-out (FIFO) method. The Company believes the LIFO method more fairly presents the results of operations by more closely matching current costs with current revenues. The Company records an adjustment each quarter, if necessary, for the expected annual effect of inflation, and these estimates are adjusted to actual results determined at year-end. At both September 2, 2007 and September 3, 2006, merchandise inventories valued at LIFO approximated FIFO after considering the lower of cost or market principle.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 Summary of Significant Accounting Policies (Continued)

	September 2, 2007	September 3, 2006
Merchandise inventories consist of:		
United States (primarily LIFO)	$ 3,799,999	$ 3,613,412
Foreign (FIFO)	1,079,466	947,820
Total	$ 4,879,465	$ 4,561,232

The Company provides for estimated inventory losses between physical inventory counts as a percentage of net sales, using estimates based on the Company s experience. The provision is adjusted periodically to reflect the results of the actual physical inventory counts, which generally occur in the second and fourth fiscal quarters of the fiscal year. Inventory cost, where appropriate, is reduced by estimates of vendor rebates when earned or as the Company progresses towards earning those rebates, provided they are probable and reasonably estimable.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization expenses are computed using the straight-line method. Estimated useful lives by major asset category are as follows:

	Years
Buildings	5 - 50
Equipment and fixtures	3 - 10
Leasehold improvements	Shorter of useful life or lease term
Land improvements	15
Software acquisition and development	3 - 6

Interest costs incurred on property during the construction period are capitalized. The amount of interest costs capitalized was $11,423 in fiscal 2007, $12,681 in fiscal 2006, and $7,226 in fiscal 2005.

Impairment of Long-Lived Assets

The Company periodically evaluates long-lived assets for impairment when management makes the decision to relocate or close a warehouse or when events or changes in circumstances occur that may indicate the carrying amount of the asset group may not be fully recoverable. The Company evaluates whether the carrying value of the asset group is recoverable by comparing the estimated future undiscounted cash flows generated from the use of the asset group and its eventual disposition with the asset group s reported net carrying value. The Company recorded a pre-tax, non-cash charge of $3,893 in fiscal 2005, reflecting its estimate of impairment relating to real property. The charge reflects the difference between the carrying value and fair value, which was based on estimated market valuations for those asset groups whose carrying value is not currently anticipated to be recoverable through future cash flows.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 Summary of Significant Accounting Policies (Continued)

Closing Costs

Warehouse closing costs incurred relate principally to the Company s relocation of certain warehouses that were not otherwise impaired to larger and better-located facilities. The provision for fiscal 2007 included charges of $15,887 for warehouse closing expenses, primarily related to accelerated depreciation on buildings to be demolished or sold and $2,279 for net gains related to the sale of real property. The fiscal 2006 provision included charges of $3,762 for warehouse closing expenses and net losses of $1,691 related to the sale of real property. The fiscal 2005 provision included charges of $11,619 for warehouse closing expenses, primarily related to lease obligations and accelerated depreciation and $881 for net losses on the sale of real property. As of September 2, 2007, the Company s reserve for warehouse closing costs was $6,823 of which $6,086 related to future lease obligations. This compares to a reserve for warehouse closing costs of $7,041 at September 3, 2006, of which $5,950 related to future lease obligations.

Goodwill

Goodwill resulting from certain business combinations is included in other assets, and totaled $75,707 at September 2, 2007 and $72,953 at September 3, 2006. The Company reviews goodwill for impairment in the fourth quarter of each fiscal year, or more frequently if circumstances dictate. No impairment of goodwill has been incurred to date.

Accounts Payable

The Company s banking system provides for the daily replenishment of major bank accounts as checks are presented. Accordingly, included in accounts payable at September 2, 2007 and September 3, 2006 are $591,936 and $564,754, respectively, representing the excess of outstanding checks over cash on deposit at the banks on which the checks were drawn.

Insurance/Self Insurance Liabilities

The Company uses a combination of insurance and self-insurance mechanisms, including a wholly-owned captive insurance entity and participation in a reinsurance pool, to provide for potential liabilities for workers compensation, general liability, property damage, director and officers liability, vehicle liability and employee health care benefits. Liabilities associated with the risks that are retained by the Company are not discounted and are estimated, in part, by considering historical claims experience and evaluations of outside expertise, demographic factors, severity factors and other actuarial assumptions. The estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends. As of the end of fiscal 2007 and 2006, these liabilities of $488,734 and $491,037, respectively, were included in accrued salaries and benefits, other current liabilities and accounts payable on the consolidated balance sheets.

The Company s wholly-owned captive insurance subsidiary participates in a reinsurance pool. The member agreements and practices of the reinsurance pool limit any participating members individual risk. Reinsurance revenues earned of $50,897, $67,589 and $61,697 during fiscal 2007, 2006 and 2005, respectively, were primarily related to premiums received from the reinsurance pool. Reinsurance costs of $52,179, $65,760 and $65,830 during fiscal 2007, 2006 and 2005, respectively, primarily related to premiums paid to the reinsurance pool. Both revenues and costs are presented net in selling, general and administrative expenses in the consolidated statements of income.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 Summary of Significant Accounting Policies (Continued)

Derivatives

The Company has limited involvement with derivative financial instruments and uses them only to manage well-defined interest rate and foreign exchange risks. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on inventory purchases and typically have very short terms. These forward contracts do not qualify for derivative hedge accounting. The aggregate notional amounts, which approximate the fair value of foreign exchange contracts outstanding at September 2, 2007 and September 3, 2006, were $74,950 and $63,487, respectively. The majority of the forward foreign exchange contracts were entered into by the Company s wholly-owned United Kingdom subsidiary primarily to hedge U.S. dollar merchandise inventory purchases.

Effective March 25, 2002, the Company entered into fixed-to-floating interest rate swaps associated with its $300,000 5.5% Senior Notes which matured and were retired in March 2007. The swaps were designated and qualified as fair value hedges of the debt. As the terms of the swaps matched those of the underlying hedged debt, changes in the fair value of the swaps were offset by corresponding changes in the carrying amount of the hedged debt and resulted in no net earnings impact. At September 3, 2006, the aggregate value of the swaps was $1,243 and was included in deferred income taxes and other current assets on the Company s consolidated balance sheets. In March 2007, upon maturity of the debt and expiration of the swap agreements, the aggregate fair value of the swaps was zero.

The Company is exposed to market risk for changes in utility commodity pricing, which it partially mitigates through the use of firm-price contracts with counterparties for approximately 23% of its locations. The effects of these arrangements were not significant for any period presented.

Equity Investments in Subsidiary and Joint Ventures

During 2006 and 2005, the Company contributed an additional $15,000 to its investment in Costco Mexico (a 50%-owned joint venture), which did not impact its percentage ownership of this entity, as the joint venture partner contributed a like amount. The Company did not contribute additional capital in 2007.

Foreign Currency Translation

The functional currencies of the Company s international subsidiaries are the local currency of the country in which the subsidiary is located. Assets and liabilities recorded in foreign currencies, as well as the Company s investment in the Costco Mexico joint venture, are translated at the exchange rate on the balance sheet date. Translation adjustments resulting from this process are charged or credited to accumulated other comprehensive income. Revenue and expenses of the Company s consolidated foreign operations are translated at average rates of exchange prevailing during the year. Gains and losses on foreign currency transactions are included in interest income and other and were not significant in fiscal 2007, 2006, or 2005.

Revenue Recognition

The Company generally recognize sales, net of estimated returns, at the time the member takes possession of merchandise or receives services. When the Company collects payments from customers prior to the transfer of ownership of merchandise or the performance of services, the amounts received

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 Summary of Significant Accounting Policies (Continued)

are generally recorded as deferred revenue on the consolidated balance sheets until the sale or service is completed. The Company provides for estimated sales returns based on historical merchandise returns levels.

During 2007, in connection with changes to its consumer electronic returns policy, the Company developed more detailed operational data regarding member return patterns. The data indicated a longer timeframe over which returns are received than previously used to estimate the sales return reserve. Accordingly, during fiscal 2007 the Company increased the reserve balance and recorded an adjustment to sales of $452,553 and a pretax charge to income of $95,263 for the related gross margin and disposition costs.

The Company evaluates the criteria of the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) 99-19, Reporting Revenue Gross as a Principal Versus Net as an Agent, in determining whether it is appropriate to record the gross amount of merchandise sales and related costs or the net amount earned as commissions. Generally, when Costco is the primary obligor, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, can influence product or service specifications, or has several but not all of these indicators, revenue is recorded on a gross basis. If the Company is not the primary obligor and does not possess other indicators of gross reporting as noted above, it records the net amounts as commissions earned, which is reflected in net sales.

Amounts collected from members, which under common trade practices are referred to as sales taxes, are recorded on a net basis.

Membership fee revenue represents annual membership fees paid by substantially all of the Company s members. The Company accounts for membership fee revenue on a deferred basis, whereby membership fee revenue is recognized ratably over one-year. In the fourth quarter of fiscal 2007, the Company performed a detailed analysis of the timing of recognition of membership fees based on each member s specific renewal date, as this methodology represented an improvement over the historical method, which was based on the period in which the fee was collected. This review resulted in a $56,183 reduction to membership fee revenue and a corresponding increase to deferred membership fees on the Company s consolidated balance sheet. This adjustment included both a change in method of applying an accounting principle to a preferable method and a correction for cumulative timing errors. The adjustment for the change in method and for the correction was recorded in full in the fiscal 2007 consolidated statement of income as the Company concluded the impact to the current and historical financial statements was not material. Membership fees received from members for fiscal years 2007, 2006 and 2005 were $1,415,134, $1,264,929 and $1,113,948, respectively.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 Summary of Significant Accounting Policies (Continued)

The Company s Executive members qualify for a 2% reward (which can be redeemed at Costco warehouses), up to a maximum of $500 per year, on all qualified purchases made at Costco. The Company accounts for this 2% reward as a reduction in sales, with the related liability being classified within other current liabilities. The sales reduction and corresponding liability are computed after giving effect to the estimated impact of non-redemptions based on historical data. The reduction in sales for the fiscal years ended September 2, 2007, September 3, 2006, and August 28, 2005, and the related liability as of those dates were as follows:

	Fiscal 2007	Fiscal 2006	Fiscal 2005
Two-percent reward sales reduction	$ 487,877	$ 418,466	$ 319,336
Two-percent unredeemed reward liability	$ 363,399	$ 299,519	$ 229,574

Merchandise Costs

Merchandise costs consist of the purchase price of inventory sold, inbound shipping charges and all costs related to the Company s depot operations, including freight from depots to selling warehouses and are reduced by vender consideration received. Merchandise costs also include salaries, benefits, depreciation on production equipment, and other related expenses incurred by the Company s cross-docking depot facilities and in certain fresh foods and ancillary departments.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of salaries, benefits and workers compensation costs for warehouse employees, other than depots, fresh foods and certain ancillary businesses, as well as all regional and home office employees, including buying personnel. Selling, general and administrative expenses also include utilities, bank charges and substantially all building and equipment depreciation, as well as other operating costs incurred to support warehouse operations.

Marketing and Promotional Expenses

Costco s policy is generally to limit marketing and promotional expenses to new warehouse openings, occasional direct mail marketing to prospective new members and direct mail marketing programs to existing members promoting selected merchandise. Marketing and promotional costs are expensed as incurred and are included in selling, general and administrative and preopening expenses in the accompanying consolidated statements of income.

Preopening Expenses

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

Stock-Based Compensation

At the beginning of fiscal 2003, the Company adopted, on a prospective basis, Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, (SFAS 123) and all employee stock option grants made since the beginning of fiscal 2003 have been or will be

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 Summary of Significant Accounting Policies (Continued)

expensed ratably over the related vesting period based on the fair value at the date the options were granted (however, see Review of Stock Option Grant Practices in Note 11, for a discussion of a special committee review of historical grant practices).

The Company adopted SFAS 123R, Share-Based Payment (as amended) (SFAS 123R) at the beginning of fiscal 2006, which requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in its consolidated financial statements. Had compensation costs for the Company s stock-based compensation been determined for awards made prior to fiscal 2003 under SFAS 123R, the Company s net income and net income per share would have been adjusted to the proforma amounts indicated below:

	Fiscal 2005
Net income, as reported	$ 1,063,092
Add: Stock-based compensation expense included in reported net income, net of related tax effects	43,344
Deduct: Total stock-based compensation expense determined under fair value-based methods for all awards, net of related tax effects	(63,012)
Proforma net income	$ 1,043,424
Net Income per share:	
Basic as reported	$ 2.24
Basic pro-forma	$ 2.20
Diluted as reported	$ 2.18
Diluted pro-forma	$ 2.12

Fair Value of Financial Instruments

The carrying value of the Company s financial instruments, including cash and cash equivalents, receivables and accounts payable approximate fair value due to their short-term nature or variable interest rates. Short-term investments classified as available-for-sale are recorded at market value with unrealized gains or losses reflected in accumulated other comprehensive income. Short-term investments designated as hold-to-maturity securities are recorded at cost which approximated market value at September 2, 2007 and September 3, 2006. The fair value of fixed rate debt at September 2, 2007 and September 3, 2006 was $2,249,977 and $574,426, respectively. The carrying value of fixed rate debt at September 2, 2007 and September 3, 2006 was $2,167,883 and $523,892, respectively.

Interest Income and Other

Interest income and other includes:

	Fiscal 2007	Fiscal 2006	Fiscal 2005
Interest income	$ 128,413	$ 113,712	$ 81,915
Earnings of affiliates	35,622	28,180	26,459
Minority Interest / Other	1,449	(3,537)	722
Total	$ 165,484	$ 138,355	$ 109,096

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 Summary of Significant Accounting Policies (Continued)

Income Taxes

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

Significant judgment is required in determining income tax provisions and evaluating tax positions. The Company establishes reserves for income taxes when, despite the belief that its tax positions are fully supportable, there remain certain positions that are not probable of being sustained. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest and penalties as deemed appropriate. To the extent that the probable tax outcome of these matters changes, such changes in estimate will impact the income tax provision in the period in which such determination is made.

Net Income per Common Share

The computation of basic net income per share is based on the weighted average number of shares that were outstanding during the period. The computation of diluted earnings per share is based on the weighted average number of shares used in the basic net income per share calculation plus the number of common shares that would be issued assuming exercise of all potentially dilutive common shares outstanding using the treasury stock method for shares subject to stock options and restricted stock units and the if converted method for the convertible note securities.

Stock Repurchase Programs

Share repurchases are not displayed separately as treasury stock on the consolidated balance sheets or consolidated statements of stockholders equity in accordance with the Washington Business Corporation Act, which requires retirement of repurchased shares. The par value of repurchased shares is deducted from common stock and the excess repurchase price over par value is deducted from additional paid-in capital and retained earnings. See Note 5 for additional information.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, account-

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 Summary of Significant Accounting Policies (Continued)

ing in interim periods, disclosure and transition. FIN 48 is effective for financial statements issued for fiscal years beginning after December 15, 2006, and the Company will adopt these new requirements as of the beginning of fiscal 2008. The estimated cumulative impact of adopting FIN 48 in fiscal 2008 is not expected to be material to the Company s consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair-value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. The Company must adopt these new requirements no later than its first quarter of fiscal 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment to FASB No. 115 (SFAS 159). Under SFAS 159, entities may elect to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election, called the fair value option, will enable entities to achieve an offset accounting effect for changes in fair value of certain related assets and liabilities without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of a company s first fiscal year that begins after November 15, 2007. The Company must adopt these new requirements no later than its first quarter of fiscal 2009.

The Company is in the process of evaluating the impact that adoption of SFAS 157 and SFAS 159 will have on its future consolidated financial statements.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 2 Short-term Investments

Short-term investments, which consist entirely of debt securities, at September 2, 2007 and September 3, 2006, were as follows:

	Fiscal 2007			
	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis
Available-for-sale securities				
Money market mutual funds	$ 5,931	$ 7	$	$ 5,938
U.S. government and agency securities	268,886	552	(954)	268,484
Corporate notes and bonds	150,811	303	(1,070)	150,044
Asset and mortgage backed securities	72,919	209	(370)	72,758
Total available-for-sale securities	498,547	1,071	(2,394)	497,224
Held-to-maturity				
Certificates of deposit	78,247			78,247
Money market mutual funds	316			316
Total held-to-maturity securities	78,563			78,563
Total short-term investments	$ 577,110	$ 1,071	$ (2,394)	$ 575,787

	Fiscal 2006			
	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis
Available-for-sale securities				
Money market mutual funds	$ 38,366	$	$	$ 38,366
U.S. government and agency securities	651,984	396	(5,630)	646,750
Corporate notes and bonds	505,739	605	(2,785)	503,559
Asset and mortgage backed securities	71,801	121	(484)	71,438
Total available-for-sale securities	1,267,890	1,122	(8,899)	1,260,113
Held-to-maturity				
Certificates of deposit	55,185			55,185
Money market mutual funds	6,883			6,883
Total held-to-maturity securities	62,068			62,068
Total short-term investments	$ 1,329,958	$ 1,122	$ (8,899)	$ 1,322,181

For available-for-sale securities, proceeds from sales were $496,192, $263,288, and $267,640 in fiscal years 2007, 2006 and 2005, respectively. Gross realized gains from sales were $933, $170 and $90 in fiscal years 2007, 2006 and 2005, respectively, and gross realized losses from sales were $1,285, $1,252 and $825 in fiscal years 2007, 2006 and 2005, respectively.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 2 Short-term Investments (Continued)

The following tables present the length of time available-for-sale securities were in continuous unrealized loss positions, but were not deemed to be other-than-temporarily impaired:

	Less than 12 Months		Greater than or Equal to 12 Months	
September 2, 2007	**Gross Unrealized Holding Losses**	**Fair Value**	**Gross Unrealized Holding Losses**	**Fair Value**
U.S. government and agency securities	$ (49)	$ 30,572	$ (905)	$ 175,765
Corporate notes and bonds	(128)	15,302	(942)	106,460
Asset and mortgage backed securities	(112)	20,081	(258)	20,014
	$ (289)	$ 65,955	$ (2,105)	$ 302,239
September 3, 2006				
U.S. government and agency securities	$ (1,879)	$ 278,360	$ (3,751)	$ 282,033
Corporate notes and bonds	(1,251)	193,902	(1,534)	103,907
Asset and mortgage backed securities	(83)	16,485	(401)	21,802
	$ (3,213)	$ 488,747	$ (5,686)	$ 407,742

Gross unrealized holding losses of $289 for investments held less than twelve months and $2,105 for investments held greater than or equal to twelve months as of September 2, 2007, pertain to 56 and 176 fixed income securities, respectively, and were primarily attributable to changes in interest rates. The Company currently has the financial ability to hold short-term investments with an unrealized loss until maturity and not incur any recognized losses. Management does not believe any unrealized losses represent an other-than-temporary impairment based on an evaluation of available evidence as of September 2, 2007.

The maturities of available-for-sale and held-to-maturity debt securities at September 2, 2007 are as follows:

	Available-For-Sale		Held-To-Maturity	
	Cost Basis	**Fair Value**	**Cost Basis**	**Fair Value**
Due in one year or less	$ 282,058	$ 280,724	$ 78,563	$ 78,563
Due after one year through five years	173,063	173,176		
Due after five years	43,426	43,324		
	$ 498,547	$ 497,224	$ 78,563	$ 78,563

Note 3 Debt

Bank Credit Facilities and Commercial Paper Programs (all amounts stated in U.S. dollars)

A wholly-owned Canadian subsidiary has a $189,789 commercial paper program ($180,900 at September 3, 2006) supported by a $113,874 bank credit facility ($54,200 at September 3, 2006) with a Canadian bank, which is guaranteed by the Company and expires in March 2008. At September 2, 2007 and September 3, 2006, no amounts were outstanding under the Canadian commercial paper

COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 3 Debt (Continued)

program or the bank credit facility. Applicable interest rates on the credit facility at September 2, 2007 and September 3, 2006 were 5.00% and 4.65%, respectively. At September 2, 2007, standby letters of credit totaling $24,122 issued under the bank credit facility left $89,752 available for commercial paper support. At September 3, 2006, standby letters of credit totaling $20,800 issued under the bank credit facility left $33,400 available for commercial paper support.

The Company s wholly-owned Japanese subsidiary has a short-term $38,750 bank line of credit ($12,800 at September 3, 2006) that expires in February 2008. At September 2, 2007 and September 3, 2006, $10,333 and $2,500 respectively, were borrowed under the line of credit, and $8,611 and $4,300, respectively, were used to support standby letters of credit. Applicable interest rates on the credit facility at September 2, 2007 and September 3, 2006, were 1.09% and 0.94%, respectively. A second $30,139 bank line of credit also expires in February 2008. At September 2, 2007 and September 3, 2006, $7,750 and $900, respectively, were borrowed under the second facility. Applicable interest rates on the second credit facility at September 2, 2007 and September 3, 2006, were 1.10% and 0.95%, respectively.

The Company s Korean subsidiary has a short-term $12,792 bank line of credit ($12,500 at September 3, 2006), which expires in March 2008. At September 2, 2007 and September 3, 2006, no amounts were borrowed under the line of credit and $2,011 and $2,000, respectively, were used to support standby letters of credit. Applicable interest rates on the credit facility at September 2, 2007 and September 3, 2006 were 6.09% and 5.48%, respectively.

The Company s Taiwan subsidiary has a $6,062 bank revolving credit facility ($5,200 at September 3, 2006) and a $3,031 bank overdraft facility both expiring in January 2008. At September 2, 2007 and September 3, 2006, no amounts were outstanding under the credit facility or bank overdraft and $1,212 and $1,900, respectively, were used to support standby letters of credit. Applicable interest rates on the credit facility at September 2, 2007 and September 3, 2006, were 4.50% and 4.00%, respectively. A second $15,154 bank revolving credit facility is in place, which expires in July 2008. At September 2, 2007 and September 3, 2006, no amounts were borrowed under the second credit facility and $4,167 and $2,000, respectively, were used to support standby letters of credit. Applicable interest rates on the credit facility at September 2, 2007 and September 3, 2006, were 4.44% and 4.00%, respectively. A third $9,093 bank revolving credit facility is in place, which expires in March 2008. At September 2, 2007, no amounts were borrowed under the third credit facility and no amounts were used to support standby letters of credit. Applicable interest rate on the credit facility at September 2, 2007 was 4.57%.

The Company s wholly-owned United Kingdom subsidiary has a $80,560 bank revolving credit facility ($113,900 at September 3, 2006) expiring in February 2010, a $70,490 bank overdraft facility ($66,500 at September 3, 2006) renewable on a yearly basis in May 2008 and a $40,280 uncommitted money market line entered into in February 2007 and renewable on a yearly basis beginning in May 2008. At September 2, 2007, $20,140 was outstanding under the revolving credit facility with an applicable interest rate of 6.23%, $15,609 was outstanding under the uncommitted line with an applicable interest rate of 6.47% and no amounts were outstanding under the bank overdraft facility with an applicable interest rate of 6.75%. At September 3, 2006, $38,000 was outstanding under the revolving credit facility, with an applicable interest rate of 5.32%, and no amounts were outstanding under the bank overdraft facility.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 3 Debt (Continued)

Letters of Credit

The Company has letter of credit facilities (for commercial and standby letters of credit) totaling $474,920. The outstanding commitments under these facilities at September 2, 2007 and September 3, 2006 totaled $119,074 and $84,900, respectively, including $71,734 and $54,900, respectively, in standby letters of credit.

Short-Term Borrowings

The weighted average borrowings, maximum borrowings and weighted average interest rate under all short-term borrowing arrangements were as follows for fiscal 2007 and 2006:

Category of Aggregate Short-term Borrowings	Maximum Amount Outstanding During the Fiscal Year	Average Amount Outstanding During the Fiscal Year	Weighted Average Interest Rate During the Fiscal Year
Fiscal year ended September 2, 2007			
Bank borrowings:			
Canada	$ 103,599	$ 37,809	4.63%
United Kingdom	77,732	40,532	5.75
Japan	18,031	10,103	1.00
Bank overdraft facility:			
United Kingdom	34,922	6,002	6.16
Other:			
United Kingdom Money Market Line Borrowing	39,624	13,301	5.99
Fiscal year ended September 3, 2006			
Bank borrowings:			
Canada	$ 11,254	$ 313	5.32%
United Kingdom	61,852	38,179	5.06
Japan	17,850	10,463	0.74
Bank overdraft facility:			
United Kingdom	13,100	1,892	5.51

Long-Term Debt

Long-term debt at September 2, 2007 and September 3, 2006 consisted of the following:

	2007	2006
5.5% Senior Notes due March 2017	$ 1,094,376	$
5.3% Senior Notes due March 2012	897,770	

3.5% Zero Coupon convertible subordinated notes due August 2017	47,826	88,028
0.92% Promissory notes due April 2010	34,444	34,069
2.070% Promissory notes due October 2007	30,139	29,810
1.187% Promissory notes due July 2008	25,833	25,551
0.88% Promissory notes due November 2009	25,833	25,551
5.5% Senior Notes due March 2007		301,243
Capital lease obligations and other	11,662	19,640
Total long-term debt	2,167,883	523,892
Less current portion	59,905	308,523
Long-term debt, excluding current portion	$ 2,107,978	$ 215,369

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 3 Debt (Continued)

On February 20, 2007, the Company issued $900,000 of 5.3% Senior Notes due March 15, 2012 (2012 Notes) at a discount of $2,493 and $1,100,000 of 5.5% Senior Notes due March 15, 2017 (2017 Notes) at a discount of $5,940 (together the 2007 Senior Notes). Interest on the 2007 Senior Notes is payable semi-annually on March 15 and September 15 of each year, with the first payment due September 15, 2007. The net proceeds were used, in part, to repay the 5.5% 2002 Senior Notes due in March 2007, and the balance has been and will be used for general corporate purposes, including repurchases of the Company s common stock. The $8,433 discount and $1,963 issuance costs associated with the Senior Notes are being amortized to interest expense over the terms of those notes.

The Company, at its option, may redeem the 2007 Senior Notes at any time, in whole or in part, at a redemption price plus accrued interest up to the redemption date. The redemption price is equal to the greater of 100% of the principal amount of the 2007 Senior Notes to be redeemed, or the sum of the present values of the remaining scheduled payments of principal and interest to maturity. Additionally, the Company will be required to make an offer to purchase the 2007 Senior Notes at a price of 101% of the principal amount plus accrued and unpaid interest to the date of repurchase, upon certain events as defined by the terms of the 2007 Senior Notes.

In April 2003, the Company s wholly-owned Japanese subsidiary issued promissory notes bearing interest at 0.92% in the aggregate amount of $34,444, through a private placement. Interest is payable semi-annually and principal is due in April 2010. In November 2002, the Company s wholly-owned Japanese subsidiary issued promissory notes bearing interest at 0.88% in the aggregate amount of $25,833, through a private placement. Interest is payable semi-annually and principal is due in November 2009. In July 2001, the Company s wholly-owned Japanese subsidiary issued 1.187% promissory notes in the aggregate amount of $25,833, through a private placement. Interest is payable semi-annually and principal is due in July 2008. In October 2000, the Company s wholly-owned Japanese subsidiary issued 2.07% promissory notes in the aggregate amount of $30,139, through a private placement. Interest is payable annually and principal is due in October 2007 and will be refinanced. As of September 2, 2007, the 1.187% and the 2.07% promissory notes are reported in the current portion of long-term debt on the consolidated balance sheets. The Company guarantees all of the promissory notes issued by its wholly-owned Japanese subsidiary.

In August 1997, the Company completed the sale of $900,000 principal amount at maturity of 3.5% Zero Coupon Convertible Subordinated Notes (Zero Coupon Notes) due in August 2017. The Zero Coupon Notes were priced with a yield to maturity of 3.5%, resulting in gross proceeds to the Company of $449,640. The current Zero Coupon Notes outstanding are convertible into a maximum of 1,535,907 shares of Costco Common Stock shares at an initial conversion price of $22.71. Holders of the Zero Coupon Notes may require the Company to purchase the Zero Coupon Notes (at the discounted issue price plus accrued interest to date of purchase) in August 2012. The Company, at its option, may redeem the Zero Coupon Notes (at the discounted issue price plus accrued interest to date of redemption) any time in or after August 2002. As of September 2, 2007, $832,383 in principal amount of the Zero Coupon Notes had been converted by note holders to shares of Costco Common Stock, of which $61,173 and $286,456 in principal were converted in fiscal 2007 and 2006, respectively, or $42,330 and $188,935 in fiscal 2007 and 2006, respectively, after factoring in the related debt discount.

COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 3 Debt (Continued)

At September 2, 2007, the fair value of the Zero Coupon Notes, based on market quotes, was approximately $94,326, the fair value of the 2012 Notes and 2017 Notes was $912,330 and $1,115,917, respectively, and the fair value of other long-term debt approximated its carrying value.

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

2008	$ 59,905
2009	1,248
2010	60,879
2011	464
2012	897,992
Thereafter	1,147,395
Total	$ 2,167,883

Note 4 Leases

The Company leases land and/or buildings at 104 of the 488 warehouses open at September 2, 2007, and certain other office and distribution facilities under operating leases. The remaining terms of these operating leases range from approximately one to 41 years, with the exception of one lease in the U.S. that has a remaining life of 77 years and one lease in the Company s United Kingdom subsidiary, which has a remaining lease term of 144 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 or rate stipulated in the lease agreement; (b) purchase of the property at the then-fair market value; or (c) right of first refusal in the event of a third party purchase offer. Certain leases provide for periodic rental increases based on the price indices, and some of the leases provide for rents based on the greater of minimum guaranteed amounts or sales volume. Contingent rents have not been material. The Company accounts for its leases with step-rent provisions on a straight-line basis over the original term of the lease.

Aggregate rental expense for fiscal 2007, 2006 and 2005 was $143,448, $134,406 and $127,770, respectively. The amount for 2005 excludes $15,999 in rent expense associated with the correction made in the second quarter of fiscal 2005 to the Company s method of accounting for ground leases that did not require rental payments during the period of construction.

The Company has sub-leases related to certain of its operating lease agreements. During fiscal 2007, 2006 and 2005, the Company recognized sub-lease income of $9,008, $9,425 and $7,773, respectively, included in interest income and other in the consolidated statements of income.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 4 Leases (Continued)

Future minimum payments, net of sub-lease income of $149,407 for all years combined, during the next five fiscal years and thereafter under non-cancelable leases with terms of at least one year, at September 2, 2007, were as follows:

2008	$ 137,225
2009	127,068
2010	115,393
2011	110,750
2012	98,973
Thereafter	1,305,035
Total minimum payments	$ 1,894,444

Note 5 Stockholders Equity

Dividends

In fiscal 2007, the Company paid quarterly cash dividends totaling $0.55 per share. In fiscal 2006, the Company paid quarterly cash dividends totaling $0.49 per share. The Company s current quarterly dividend rate is $0.145 per share or $0.58 per share on an annualized basis.

Payment of future dividends is subject to declaration by the Board of Directors. Factors considered in determining the size of the dividends are profitability and expected capital needs of the Company. The Company presently expects to continue to pay dividends on a quarterly basis.

Stock Repurchase Programs

In January and July of 2006, the Company s Board of Directors approved additional stock repurchases of $1,000,000 and $2,000,000, respectively, which expire in 2009, bringing total authorizations since inception of the program in fiscal 2001 to $4,500,000. Subsequent to the end of fiscal 2007, the Board of Directors approved an additional $300,000 for stock repurchases, which expires in 2010.

During fiscal 2007, the Company repurchased 36,390,000 shares at an average price of $54.39, totaling approximately $1,979,170, including commissions. During fiscal 2006, the Company repurchased 28,407,000 shares of common stock at an average price of $51.44, totaling approximately $1,461,217, including commissions. Purchases are made from time-to-time as conditions warrant in the open market or in block purchases, or pursuant to share repurchase plans under SEC Rule 10b5-1. Repurchased shares are retired.

These amounts differ from the stock repurchase balances in the statements of cash flows due to repurchases that are accrued at year-end. As of September 2, 2007, under current Board authorizations, the Company had $646,364 available for additional share repurchases.

Comprehensive Income

Comprehensive income includes net income, plus certain other items that are recorded directly to stockholders equity. Accumulated other comprehensive income reported on the Company s consolidated balance sheets consists of foreign currency translation adjustments and unrealized gains and losses on short-term investments.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 5 Stockholders   Equity (Continued)

The following table shows the components of comprehensive income, net of related tax effects:

	September 2, 2007	September 3, 2006	August 28, 2005
Unrealized gain (loss) on short-term investments	$ 6,455	$ (540)	$ (7,097)
Tax (provision) benefit	(2,421)	210	2,719
Unrealized gain (loss) on short term investments, net of tax	4,034	(330)	(4,378)
Foreign currency translation adjustment and other	93,678	123,642	152,310
Tax provision on translation gain in relation to earnings subject to repatriation	(4,386)	(4,088)	(6,037)
Comprehensive income adjustments, net	93,326	119,224	141,895
Net income	1,082,772	1,103,215	1,063,092
Total comprehensive income	$ 1,176,098	$ 1,222,439	$ 1,204,987

The favorable translation adjustments during fiscal years 2007, 2006 and 2005 were primarily due to stronger foreign currencies.

The components of accumulated other comprehensive income, net of tax, were as follows:

	September 2, 2007	September 3, 2006
Unrealized losses on short-term investments	$ (815)	$ (4,849)
Foreign currency translation adjustment and other	371,404	282,112
Accumulated other comprehensive income	$ 370,589	$ 277,263

Note 6 Stock-Based Compensation Plans

Through the first quarter of fiscal 2006, the Company granted stock options under the Amended and Restated 2002 Stock Incentive Plan (Second Restated 2002 Plan) and predecessor plans, and since the fourth quarter of fiscal 2006, the Company has granted restricted stock units (RSUs) under the Second Restated 2002 Plan. Stock options generally vest over five years and have a ten-year term. The Company issues new shares of common stock upon exercise of stock options and vesting of RSUs.

In conjunction with the adoption of SFAS 123 at the beginning of fiscal 2003, the Company changed its method of attributing the value of stock-based compensation expense from the graded-vesting method to the straight-line method. Under the graded-vesting method, an award is accounted for as multiple awards, based on the number of vesting tranches, each tranche with a different requisite service period. The effect of graded-vesting attribution is to recognize more compensation expense in the early years of the overall vesting period. Compensation expense for all stock-based awards granted prior to fiscal 2003 will continue to be recognized using the graded-vesting method, while compensation expense for all stock-based awards granted subsequent to fiscal 2002 is being recognized using the straight-line method. SFAS 123R requires the estimation of the number of stock-based awards that will

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 6 Stock-Based Compensation Plans (Continued)

ultimately not complete their vesting requirements (forfeitures), and requires that the compensation expense recognized equals or exceeds the number of stock-based awards vested. While options and RSUs generally vest over five years with an equal amount vesting on each anniversary of the grant date, the Company s plans allow for daily vesting of the pro-rata number of stock-based awards that would vest on the next anniversary of the grant date in the event of retirement or voluntary termination. As such, the Company does not reduce stock-based compensation for an estimate of forfeitures because this would result in less compensation expense recognized than the number of stock-based awards vested. The impact of actual forfeitures arising in the event of involuntary termination is recognized as actual forfeitures occur.

Summary of Stock Option Activity

The following table summarizes stock option transactions during fiscal 2007:

	Shares (in 000 s)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value(1)
Outstanding at September 3, 2006	39,868	$ 37.57		
Granted				
Exercised	(9,511)	34.17		
Forfeited or expired	(269)	40.80		
Outstanding at September 2, 2007	30,088	39.26	5.37	$ 676,594
Exercisable at September 2, 2007	19,283	$ 38.35	4.43	$ 451,196

(1) The difference between the exercise price and market value at September 2, 2007.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2006 and 2005:

	2006	2005
Expected volatility	28%	38%
Expected term	5.2 years	6.6 years
Risk free interest rate	4.33%	4.28%
Expected dividend yield	0.99%	1.11%
Weighted-average fair value per option granted	$ 13.87	$ 18.01

In fiscal 2006, the expected volatility was based primarily on the historical volatility of the Company s stock and, to a lesser extent, the six-month implied volatility of its traded options. Prior to the adoption of SFAS 123R, expected stock price volatility was estimated using only historical volatility. In fiscal 2006, the expected term was the average of the life of all historical grants that have been exercised and the term at which the historical average intrinsic gain is reached. Prior to adoption of SFAS 123R, the expected term was calculated as the average term between grant and exercise dates for those

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 6 Stock-Based Compensation Plans (Continued)

options where at least 40% of the original grant was exercised. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant with an equivalent remaining term. The expected dividend yield is based on the annual dividend rate at the time of the grant.

The following is a summary of stock options outstanding as of September 2, 2007 (number of options in thousands):

	Options Outstanding			Options Exercisable	
Range of Prices	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted-Average Exercise Price
$9.00 $34.28	6,482	4.49	$ 32.01	4,894	$ 31.66
$34.74 $37.35	7,755	5.04	36.91	5,101	36.67
$37.44 $43.00	5,295	3.91	40.53	5,222	40.57
$43.79 $43.79	7,493	7.58	43.79	2,341	43.79
$44.97 $52.50	3,063	5.17	47.33	1,725	48.21
	30,088	5.37	$ 39.26	19,283	$ 38.35

At September 3, 2006 and August 28, 2005, there were 22,289 and 25,987 options exercisable at weighted average exercise prices of $35.92 and $33.66, respectively.

Tax benefits and intrinsic value related to total stock options exercised during fiscal years 2007, 2006 and 2005 are provided in the following table:

	2007	2006	2005
Actual tax benefit realized for stock options exercised	$ 65,778	$ 80,417	$ 50,298
Intrinsic value of stock options exercised	$ 212,678	$ 240,211	$ 145,223

Employee Tax Consequences on Certain Stock Options

As previously disclosed, in fiscal 2006, the Company initiated an internal review of its historical stock option grant practices to determine whether the stated grant dates of options were supported by the Company s books and records. As a result of this preliminary review, a special committee of independent directors was formed. In connection with this review, and guidance issued by the U.S. Internal Revenue Service on November 30, 2006, the Compensation Committee of the Board of Directors approved a program intended to protect approximately 1,000 Company employees who are United States taxpayers from certain adverse tax consequences resulting from their options having been granted originally at prices lower than the market value. The program involved increasing the exercise prices on certain stock options granted from 2000 to 2003 and, in turn, the Company making payments to employees in an amount approximately equal to the increase in the exercise price.

As a result of this program, the Company made cash payments totaling $18,735 to approximately 1,000 employees in the second quarter of fiscal 2007, which resulted in a pre-tax stock compensation charge of $8,072 (incremental fair value). The difference between the cash payment and the incremental fair value of $10,663 was recognized as a reduction to additional paid-in capital, as it represented a partial cash settlement of the original award because no future service was required to earn the cash payment.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 6 Stock-Based Compensation Plans (Continued)

While the Company is still examining the availability of similar alternatives for employees outside the United States, the Company recorded $37,923 in selling, general and administrative (SG&A) expense in fiscal 2007 for the estimated charge to remedy adverse tax consequences related to stock options held and previously exercised by employees outside the United States. This amount primarily relates to options exercised from 2003 through the end fiscal 2007, and represents the estimated payment the Company would make to compensate employees for expected disallowance of the deduction previously allowed for gains on options exercised that were previously deemed to have been granted at fair market value.

Summary of Restricted Stock Unit Activity

RSUs are granted to employees and non-employee directors, which generally vest over five years and three years respectively; however, the Company provides for accelerated vesting upon qualified retirement for recipients that have attained certain years of service with the Company. Recipients are not entitled to vote or receive dividends on unvested shares. Accordingly, the fair value of RSUs is the quoted market value of the Company s common stock on the date of grant less the present value of the expected dividends forgone during the vesting period. At September 2, 2007, 7.1 million RSUs were available to be granted to eligible employees, directors and consultants under the Second Restated 2002 Plan.

The following awards were outstanding as of September 2, 2007:

- 4,496,500 shares of time-based RSUs in which the restrictions lapse upon the achievement of continued employment over a specified period of time; and

- 282,500 performance RSUs, of which 205,000 were approved in fiscal 2007 and will formally be granted to certain executive officers of the Company upon the achievement of specified performance targets. Once formally granted, the restrictions lapse upon achievement of continued employment over a specified period of time.

The following table summarizes RSU transactions during fiscal 2007:

	Number of Units (in 000 s)	Weighted-Average Grant Date Fair Value
Non-vested at September 3, 2006	1,408	$ 51.00
Granted	3,750	50.51
Vested	(308)	50.98
Forfeited	(71)	50.47
Non-vested at September 2, 2007	4,779	$ 50.63

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 6 Stock-Based Compensation Plans (Continued)

Summary of Stock-Based Compensation

The following table summarizes stock-based compensation and the related tax benefits under our plans:

	2007	2006	2005
Stock options	$ 82,956	$ 102,473	$ 67,937
Restricted stock units	51,626	4,924	
Incremental expense related to modification of certain stock options	8,072		
Total stock-based compensation expense before income taxes	142,654	107,397	67,937
Income tax benefit	(47,096)	(34,288)	(22,539)
Total stock-based compensation expense, net of income tax	$ 95,558	$ 73,109	$ 45,398

The remaining unrecognized compensation cost related to non-vested RSUs at September 2, 2007, was $200,445, and the weighed-average period of time over which this cost will be recognized is 4.1 years. The remaining unrecognized compensation cost related to unvested stock options at September 2, 2007, was $139,880, and the weighted-average period of time over which this cost will be recognized is 2.2 years.

Note 7 Retirement Plans

The Company has a 401(k) Retirement Plan that is available to all U.S. employees who have completed 90 days of employment. For all U.S. employees, with the exception of 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 provides each eligible participant an annual contribution based on salary and years of service.

California union employees participate in a defined benefit plan sponsored by their union. The Company makes contributions based upon its union agreement. For all the California union employees, the Company sponsored 401(k) plan currently allows pre-tax deferral against which the Company matches 50% of the first five hundred dollars of employee contributions. In addition, the Company will provide each eligible participant a contribution based on hours worked and years of service.

The Company has a defined contribution plan for Canadian and United Kingdom employees and contributes a percentage of each employee s salary. The Company complies with government requirements related to retirement benefits for other international operations and accrues expenses based on a percentage of each employee s salary as appropriate.

Amounts expensed under all plans were $238,826, $233,595 and $191,651 for fiscal 2007, 2006 and 2005, respectively. The Company has defined contribution 401(k) and retirement plans only, and thus has no liability for post-retirement benefit obligations.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 8 Income Taxes

Income before income taxes is comprised of the following:

	2007	2006	2005
Domestic (including Puerto Rico)	$ 1,374,372	$ 1,433,954	$ 1,225,741
Foreign	335,619	317,463	323,221
Total	$ 1,709,991	$ 1,751,417	$ 1,548,962

The provisions for income taxes for fiscal 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Federal:			
Current	$ 478,165	$ 442,039	$ 306,527
Deferred	(74,105)	(23,799)	(48,070)
Total federal	404,060	418,240	258,457
State:			
Current	81,352	67,959	75,063
Deferred	(9,595)	(7,806)	(14,699)
Total state	71,757	60,153	60,364
Foreign:			
Current	118,569	118,040	123,969
Deferred	(9,089)	(3,168)	(1,866)
Total foreign	109,480	114,872	122,103
Tax benefits allocated to contributed capital	41,922	54,937	44,946
Total provision for income taxes	$ 627,219	$ 648,202	$ 485,870

The reconciliation between the statutory tax rate and the effective rate for fiscal 2007, 2006 and 2005 is as follows:

	2007		2006		2005	
Federal taxes at statutory rate	$ 598,497	35.00%	$ 612,996	35.00%	$ 542,137	35.00%

State taxes, net	42,480	2.48	42,338	2.42	39,193	2.53
Foreign taxes, net	(6,840)	(0.40)	1,701	0.10	(15,506)	(1.00)
Transfer pricing settlement					(54,155)	(3.50)
Tax benefit on unremitted earnings	(155)	(0.01)	(11,978)	(0.68)	(30,602)	(1.98)
Translation gain on unremitted earnings			5,333	0.30	10,010	0.65
Other	(6,763)	(0.39)	(2,188)	(0.13)	(5,207)	(0.33)
Total	$ 627,219	36.68%	$ 648,202	37.01%	$ 485,870	31.37%

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 8 Income Taxes (Continued)

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

	September 2, 2007	September 3, 2006
Stock options	$ 87,700	$ 73,148
Deferred income/membership fees	51,876	69,704
Excess foreign tax credits	2,613	4,177
Accrued liabilities and reserves	356,850	237,079
Other	20,739	23,578
Total deferred tax assets	519,778	407,686
Property and equipment	302,765	295,424
Merchandise inventories	109,237	95,868
Translation gain	5,079	1,532
Total deferred tax liabilities	417,081	392,824
Net deferred tax assets	$ 102,697	$ 14,862

The deferred tax accounts at September 2, 2007 and September 3, 2006 include current deferred income tax assets of $214,723 and $162,534, respectively, included in deferred income taxes and other current assets; non-current deferred income tax assets of $10,063 and $12,109, respectively, included in other assets; and non-current deferred income tax liabilities of $122,089 and $159,781, respectively, included in deferred income taxes and other liabilities.

The effective income tax rate on earnings was 36.68% in fiscal 2007, 37.01% in fiscal 2006 and 31.37% in fiscal 2005. The lower effective income tax rate in fiscal 2005 is primarily attributable to a $54,155 income tax benefit resulting from the settlement of a transfer pricing dispute between the United States and Canada (covering the years 1996-2003) and a net tax benefit on unremitted foreign earnings of $20,592. The Company recognized a tax benefit of $30,602, resulting from excess foreign tax credits on unremitted foreign earnings, and recognized a tax expense of $10,010, resulting from tax expense on translation gains accumulated to the date that the Company determined that certain unremitted foreign earnings were no longer permanently reinvested. The net benefit of $20,592 related to that portion of unremitted foreign earnings that the Company planned to repatriate in the foreseeable future. Excluding these benefits the effective income tax rate on earnings in fiscal 2005 was 36.2%. During fiscal 2007 and 2006, the Company distributed $119,588 and $427,296, respectively, from its Canadian operations.

The Company has not provided for U.S. deferred taxes on cumulative undistributed earnings of non-U.S. affiliates, including its 50% owned investment in the Mexico corporate joint venture, aggregating $1,046,747 and $907,090 at September 2, 2007 and September 3, 2006, respectively, as such earnings are deemed permanently reinvested. Because of the availability of U.S. foreign tax credits and complexity of the computation, it is not practicable to determine the U.S. federal income tax liability or benefit associated with such earnings if such earnings were not deemed to be permanently reinvested.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 9 Net Income Per Common and Common Equivalent Share

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

	Fiscal Year Ended		
	September 2, 2007	September 3, 2006	August 28, 2005
Net income available to common stockholders used in basic net income per share	$ 1,082,772	$ 1,103,215	$ 1,063,092
Interest on convertible notes, net of tax	1,577	3,040	7,672
Net income available to common stockholders after assumed conversions of dilutive securities	$ 1,084,349	$ 1,106,255	$ 1,070,764
Weighted average number of common shares used in basic net income per share (000 s)	447,659	469,718	473,945
Stock options and restricted stock units (000 s)	7,621	5,944	6,000
Conversion of convertible bonds (000 s)	2,361	4,679	12,090
Weighted number of common shares and dilutive potential of common stock used in diluted net income per share (000 s) per share	457,641	480,341	492,035

The diluted share base calculation for fiscal years ended September 2, 2007, September 3, 2006 and August 28, 2005, excluded 692,000, 11,142,000 and 12,575,000 stock options outstanding, respectively. These equity instruments are excluded due to their anti-dilutive effect. All outstanding RSUs are dilutive for all fiscal years presented and thus are included in the table above.

Note 10 Commitments and Contingencies

Legal Proceedings

The Company is involved from time to time in claims, proceedings and litigation arising from its business and property ownership. The Company is a defendant in the following matters, among others:

Two cases purportedly brought as class actions on behalf of certain present and former Costco managers in California, in which plaintiffs principally allege that they have not been properly compensated for overtime work. Scott M. Williams v. Costco Wholesale Corp., United States District Court (San Diego), Case No. 02-CV-2003 NAJ (JFS); Greg Randall v. Costco Wholesale Corp., Superior Court for the County of Los Angeles, Case No. BC-296369. The Randall matter is currently in the final stages of class certification briefing. Williams has been stayed pending the class certification outcome in Randall.

An overtime compensation case certified as a class action on behalf of present and former hourly employees in California, in which plaintiffs principally allege that Costco s semi-annual bonus formula is improper with regard to retroactive overtime pay. Anthony Marin v. Costco Wholesale Corp., Superior Court for the County of Alameda, Case No. RG-04150447. Costco has filed an appeal challenging the entry of a $5.3 million judgment in favor of the class.

A case brought as a class action on behalf of present and former hourly employees in California, in which plaintiffs principally allege that Costco did not properly compensate and record hours worked by

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 10 Commitments and Contingencies (Continued)

employees and failed to provide meal and rest breaks. Kevin Doty and Sarah Doty v. Costco Wholesale Corp., United States District Court (Los Angeles), Case No. CV-05-3241 FMC (JWJ). On May 14, 2007, the Court granted final approval to a $7.5 million classwide settlement. Settlement distribution via a third-party administrator is ongoing.

A case purportedly brought as a class action on behalf of present and former hourly employees in California, in which the plaintiff principally alleges that Costco s routine closing procedures and security checks cause employees to incur delays that qualify as uncompensated working time and that effectively deny them statutorily guaranteed meal periods and rest breaks. Elizabeth Alvarado v. Costco Wholesale Corp., United States District Court (San Francisco), Case No. C-06-04015-MJJ. Discovery is ongoing in this case. A class certification hearing is set for December 18, 2007.

Claims in these five actions are made under various provisions of the California Labor Code and the California Business and Professions Code. Plaintiffs seek restitution/disgorgement, compensatory damages, various statutory penalties, punitive damages, interest, and attorneys fees.

A case brought as a class action on behalf of certain present and former female managers, in which plaintiffs allege denial of promotion based on gender in violation of Title VII of the Civil Rights Act of 1964 and California state law. Shirley Rae Ellis v. Costco Wholesale Corp., United States District Court (San Francisco), Case No. C-04-3341-MHP. Plaintiffs seek compensatory damages, punitive damages, injunctive relief, interest and attorneys fees. Class certification was granted on January 11, 2007. On May 11, 2007, the United States Court of Appeal for Ninth Circuit granted a petition to hear Costco s appeal of the certification. On May 30, 2007, the District Court ordered a stay during the pendency of the appeal.

Class actions stated to have been brought on behalf of certain present and former Costco members. In Barmak v. Costco Wholesale Corp., et al., No. BC348857 (Superior Court for the County of Los Angeles), it is asserted that the Company violated various provisions of the common law and California statutes in connection with its former practice of paying Executive Members who downgraded or terminated their memberships a 2% Reward for less than twelve months of eligible purchases. Plaintiff seeks compensatory damages, restitution, injunctive relief, attorneys fees and costs, prejudgment interest, and punitive damages. The Court denied the Company s motion to dismiss the complaint in which the Company had asked that the challenged practice, while it was still in effect, was appropriately disclosed to Executive Members. On August 31, 2007, the Court certified a nationwide class in respect of the breach of contract claim and a California class for the remaining claims.

In Evans, et ano., v. Costco Wholesale Corp., No. BC351869 (commenced in the Superior Court for the County of Los Angeles and removed to the United States District Court for the Central District of California), and Dupler v. Costco Wholesale Corp., Index No. 06-007555 (commenced in the Supreme Court of Nassau County, New York and removed to the United States District Court for the Eastern District of New York), it is asserted that the Company violated various provisions of California and New York common law and statutes in connection with a membership renewal practice. Under that practice, members who pay their renewal fees late generally have their twelve-month membership renewal periods commence at the time of the prior year s expiration rather than the time of the late payment. Plaintiffs in these two actions seek compensatory damages, restitution, disgorgement, preliminary and permanent injunctive and declaratory relief, attorneys fees and costs, prejudgment interest and, in Evans, punitive damages. Briefing is ongoing concerning plaintiff s motion for class certification in Dupler.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 10 Commitments and Contingencies (Continued)

Numerous putative class actions have been brought around the United States against motor fuel retailers, including Costco, alleging that they have been overcharging drivers by selling gasoline or diesel that is warmer than 60 degrees without adjusting the volume sold to compensate for heat-related expansion or disclosing the effect of such expansion on the energy equivalent received by the consumer. Costco is named in the following actions: Raphael Sagalyn, et al. v. Chevron USA, Inc., et al., Case No. 07-430 (D. Md.); Phyllis Lerner, et al. v. Costco Wholesale Corporation, et al., Case No. 07-1216 (C.D. Cal.); Linda A. Williams, et al. v. BP Corporation North America, Inc., et al., Case No. 07-179 (M.D. Ala.); James Graham, et al. v. Chevron USA, Inc., et al., Civil Action No. 07-193 (E.D. Va.); Betty A. Delgado, et al. v. Allsups, Convenience Stores, Inc., et al., Case No. 07-202 (D.N.M.); Gary Kohut, et al. v. Chevron USA, Inc., et al., Case No. 07-285 (D. Nev.); Mark Rushing, et al. v. Alon USA, Inc., et al., Case No. 06-7621 (N.D. Cal.); James Vanderbilt, et al. v. BP Corporation North America, Inc., et al., Case No. 06-1052 (W.D. Mo.); Zachary Wilson, et al. v. Ampride, Inc., et al., Case No. 06-2582 (D. Kan.); Diane Foster, et al. v. BP North America Petroleum, Inc., et al., Case No. 07-02059 (W.D. Tenn.); Mara Redstone, et al. v. Chevron USA, Inc., et al., Case No. 07-20751 (S.D. Fla.); Fred Aguirre, et al. v. BP West Coast Products LLC, et al., Case No. 07-1534 (N.D. Cal.); J.C. Wash, et al. v. Chevron USA, Inc., et al.; Case No. 4:07cv37 (E.D. Mo.); Jonathan Charles Conlin, et al. v. Chevron USA, Inc., et al.; Case No. 07 0317 (M.D. Tenn.); William Barker, et al. v. Chevron USA, Inc., et al.; Case No. 07-cv-00293 (D.N.M.); Melissa J. Couch, et al. v. BP Products North America, Inc., et al., Case No. 07cv291 (E.D. Tx.);S. Garrett Cook, Jr., et al. v. Hess Corporation, et al., Case No. 07cv750 (M.D. Ala.); Jeff Jenkins, et al. v. Amoco Oil Company, et al., Case No. 07-cv-00661 (D. Utah); and Mark Wyatt, et al. v. B. P. America Corp. dba Atlantic Richfield Company, et al., Case No. 07-1754 (S.D. Cal.). On June 18, 2007, the Judicial Panel on Multidistrict Litigation assigned the action, entitled In re Motor Fuel Temperature Sales Practices Litigation, MDL Docket No 1840, to Judge Kathryn Vratil in the United States District Court for the District of Kansas. On August 28, 2007, Judge Vratil held an initial scheduling conference in this proceeding. At that time, she ordered plaintiffs to file a consolidated complaint in these actions on October 19, 2007, and set a briefing schedule on challenges to this consolidated complaint that calls for a hearing January 11, 2008.

Mimi Serna, Timothy Herrock, et al. v. Costco Wholesale Corp., Case No. 2:07-CV-1491-AHM (JWJx). This is a consumer class action filed in March 2007 in the United States District Court for the Central District of California alleging willful violations of the 15 U.S.C. § 1681c(g) of the Fair Credit Reporting Act (FCRA). Section 1681c(g), enacted December 4, 2003, provides that no person that accepts credit cards or debit cards for the transaction of business shall print more than the last five digits of the card number or the expiration date upon any receipt provided to the cardholder at the point of the sale or transaction. Plaintiffs allege that, on or after January 1, 2005, Costco printed the expiration date and/or more than the last five digits of their credit card or debit card number on electronically printed receipts provided at the point of sale involving transactions at Costco s gasoline dispensers throughout the United States. The lawsuit seeks statutory damages, punitive damages, and attorneys fees. Briefing is under way concerning plaintiffs motion for class certification.

On October 4, 2006, the Company received a grand jury subpoena from the United States Attorney s Office for the Central District of California, seeking records relating to the Company s receipt and handling of hazardous merchandise returned by Costco members and other records. The Company is cooperating with the United States Attorney s Office and at this time cannot reasonably estimate any loss that may arise from this matter.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 10 Commitments and Contingencies (Continued)

On March 15, 2007, the Company was informed by the U.S. Attorney s Office in the Western District of Washington that the office is conducting an investigation of the Company s past stock option granting practices to determine whether there have been any violations of federal law. As part of this investigation, the U.S. Attorney s Office has served a grand jury subpoena on the Company seeking documents and information relating to its stock option grants. The Company is cooperating with the inquiry and at this time cannot reasonably estimate any loss that may arise from this matter.

Except where indicated otherwise above, a reasonable estimate of the possible loss or range of loss cannot be made at this time for the matters described. The Company does not believe that any pending claim, proceeding or litigation, either alone or in the aggregate, will have a material adverse effect on the Company s financial position; however, it is possible that an unfavorable outcome of some or all of the matters, however unlikely, could result in a charge that might be material to the results of an individual quarter.

Note 11 Staff Accounting Bulletin No. 108

In September 2006, the SEC released SAB 108. The transition provisions of SAB 108 permitted the Company to adjust for the cumulative effect in retained earnings of immaterial errors relating to prior years. Such adjustments do not require previously filed reports with the SEC to be amended. In accordance with SAB 108, the Company adjusted beginning retained earnings for fiscal 2006 for the items described below. The Company considers these adjustments to be immaterial to prior periods.

Review of Stock Option Grant Practices

Following publicity regarding the granting of stock options, the Company initiated an internal review of its historical stock option grant practices to determine whether the stated grant dates of options were supported by the Company s books and records. As a result of this preliminary review, a special committee of independent directors was formed. The Company filed a Form 8-K dated October 12, 2006, which provided details regarding the special committee s review. The special committee engaged independent counsel and forensics experts, and comprehensively reviewed all equity grants made during the years 1996 through 2005. In late September 2006, the special committee reported its conclusions and recommendations to the board of directors, which, after further review, adopted these conclusions and recommendations. The review identified no evidence of fraud, falsification of records, concealment of actions or documentation, or intentional deviation from generally accepted accounting principles. The review indicated that, in several instances, it was impossible to determine with precision the appropriate measurement date for specific grants. For these grants it was feasible only to identify a range of dates that included the appropriate measurement dates, where some dates in the range were after the recorded grant date.

The subject grants were made to over one thousand of the Company s employees, including, among others, the Company s warehouse managers and buyers. None of the options in which the review identified imprecision in the grant process were issued to the Company s chief executive officer, chairman, or non-employee directors, except in April 1997 both the chief executive officer and the chairman received, as part of a broad grant to hundreds of employees, one grant subject to imprecision that may have benefited each by up to approximately $200. Other grants subject to imprecision were made to a director who serves as executive vice president and chief financial officer and to a director who had no

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 11 Staff Accounting Bulletin No. 108 (Continued)

role in the determination of any grant date, but who serves as senior executive vice president and chief operating officer.

Given the lack of historical documentation, it was not possible to precisely determine the amount of the adjustments that should be made. Based on the recommendation of the special committee, which was based on the documentation that was available, the Company, as of the end of fiscal 2006, recorded an adjustment to transfer $116,157 from retained earnings to paid-in capital, representing previously unrecorded after-tax compensation expense, and to increase the deferred tax asset account by $31,480. In those cases where the committee was unable to identify the likely grant date of the options, the latest date on which the decision could have been made was used. The Company also recorded $1,701 for the estimated federal income tax consequences stemming from the probable disallowance of compensation deductions claimed related to the subject option grants. The Company informed the SEC of the special committee s investigation and conclusions. A grand jury investigation concerning the review is ongoing. See Note 10 for additional information.

The special committee and management do not believe that the net effects of this adjustment were material, either quantitatively or qualitatively, in any of the years covered by the review. In reaching that determination, the following quantitative measures were considered:

Year	Net after tax effect of adjustment	Reported net income(1)	Percent of reported net income
2005	$ 3,954	$ 1,063,092	0.37%
2004	6,430	882,393	0.73%
2003	9,092	721,000	1.26%
2002	14,872	699,983	2.12%
1996-2001	81,809	2,769,678	2.95%
Total	$ 116,157	$ 6,136,146	1.89%

(1) Excludes cumulative effect of accounting change related to membership fees of $118,023 (net of tax) reported in fiscal 1999.

Accounting for Reinsurance Agreements

The Company adjusted its beginning retained earnings for fiscal 2006 related to a correction in the historical accounting treatment of certain finite risk arrangements. Because of the limited amount of risk transfer included in the agreements, historical premium payments should have been accounted for as a deposit asset rather than expensed over the policy term.

Deferred Tax Liability Adjustment

The Company also adjusted its beginning retained earnings for fiscal 2006 for a historical misstatement in deferred taxes related to unreconciled differences in the detailed records supporting the deferred tax liability for depreciation of property and equipment. These differences had accumulated over a period of several years. This resulted in an overstatement of the tax basis and a corresponding understatement of the Company s net deferred tax liability.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 11 Staff Accounting Bulletin No. 108 (Continued)

Impact of Adjustments

The impact of each of the items noted above, net of tax, on fiscal 2006 beginning balances is presented below:

	Cumulative Effect as of August 29, 2005				
	Stock option grant practices	Income tax reserve for excess compensation	Deposit accounting	Deferred taxes	Total
Deferred income taxes and other current assets	$	$	$ 16,427	$	$ 16,427
Other current liabilities		(1,701)			(1,701)
Deferred income taxes and other liabilities	31,480		(6,383)	(31,667)	(6,570)
Additional paid-in-capital	(147,637)				(147,637)
Retained earnings	116,157	1,701	(10,044)	31,667	139,481
Total	$	$	$	$	$

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 12 Segment Reporting

The Company and its subsidiaries are principally engaged in the operation of membership warehouses in the United States, Canada, Japan and the United Kingdom and through majority-owned subsidiaries in Taiwan and Korea and through a 50%-owned joint-venture in Mexico. The Company s reportable segments are based on management responsibility. The investment in the Mexico joint-venture is only included in total assets under United States Operations in the table below, as it is accounted for under the equity method and its operations are not consolidated in the Company s financial statements.

	United States Operations(a)	Canadian Operations	Other International Operations	Total
Year Ended September 2, 2007				
Total revenue	$ 51,532,178	$ 8,723,562	$ 4,144,415	$ 64,400,155
Operating income	1,216,517	287,045	105,024	1,608,586
Depreciation and amortization	449,338	72,915	44,132	566,385
Capital expenditures	1,104,461	206,840	74,398	1,385,699
Property and equipment	7,357,160	1,237,031	925,589	9,519,780
Total assets	15,543,357	2,279,453	1,783,776	19,606,586
Net assets	6,417,458	1,157,640	1,048,243	8,623,341
Year Ended September 3, 2006				
Total revenue	$ 48,465,918	$ 8,121,728	$ 3,563,581	$ 60,151,227
Operating income	1,245,835	292,512	87,285	1,625,632
Depreciation and amortization	413,235	61,232	40,818	515,285
Capital expenditures	937,275	188,914	90,312	1,216,501
Property and equipment	6,676,417	1,032,439	855,439	8,564,295
Total assets	14,009,262	1,913,945	1,571,863	17,495,070
Net assets	7,189,831	1,043,384	910,224	9,143,439
Year Ended August 28, 2005				
Total revenue	$ 43,064,452	$ 6,732,305	$ 3,155,469	$ 52,952,226
Operating income	1,167,736	241,503	65,064	1,474,303
Depreciation and amortization	389,172	50,938	41,728	481,838
Capital expenditures	730,568	139,735	121,978	992,281
Property and equipment	6,170,553	833,637	786,002	7,790,192
Total assets	13,202,937	2,034,420	1,427,848	16,665,205
Net assets	6,769,222	1,284,829	827,058	8,881,109

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

(a) Certain Home Office operating expenses are incurred on behalf of our Canadian operations, but are included in the United States operations above as those costs are not allocated internally and generally come under the responsibility of our United States management team.

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 13 Quarterly Financial Data (Unaudited)

The two tables that follow reflect the unaudited quarterly results of operations for fiscal 2007 and 2006.

	52 Weeks Ended September 2, 2007				
	First Quarter 12 Weeks	Second Quarter 12 Weeks	Third Quarter 12 Weeks	Fourth Quarter 16 Weeks	Total 52 Weeks
REVENUE					
Net sales	$ 13,852,321	$ 14,804,696(a)	$ 14,341,520(a)	$ 20,089,064	$ 63,087,601
Membership fees	299,303	307,320	317,735	388,196(d)	1,312,554
Total revenue	14,151,624	15,112,016	14,659,255	20,477,260	64,400,155
OPERATING EXPENSES					
Merchandise costs	12,388,958	13,251,752(b)	12,877,587(b)	17,931,405	56,449,702
Selling, general and administrative	1,382,467	1,487,991(c)	1,432,650	1,969,988	6,273,096
Preopening expenses	22,727	7,486	9,022	15,928	55,163
Provision for impaired assets and closing costs, net	4,332	3,459	931	4,886	13,608
Operating income	353,140	361,328	339,065	555,053	1,608,586
OTHER INCOME (EXPENSE)					
Interest expense	(2,140)	(3,620)	(26,016)	(32,303)	(64,079)
Interest income and other	27,111	36,526	42,838	59,009	165,484
INCOME BEFORE INCOME TAXES	378,111	394,234	355,887	581,759	1,709,991
Provision for income taxes	141,225	144,756	131,901	209,337	627,219
NET INCOME	**$ 236,886**	**$ 249,478**	**$ 223,986**	**$ 372,422**	**$ 1,082,772**
NET INCOME PER COMMON SHARE:					
Basic	$ 0.52	$ 0.55	$ 0.50	$ 0.85	$ 2.42
Diluted	$ 0.51	$ 0.54	$ 0.49	$ 0.83	$ 2.37
Shares used in calculation (000 s)					
Basic	458,873	450,901	445,471	438,449	447,659
Diluted	467,836	461,575	455,889	448,733	457,641
Dividends per share	$ 0.130	$ 0.130	$ 0.145	$ 0.145	$ 0.55

(a) Includes a $224,384 and $228,169 decrease to net sales in the second and third quarter of fiscal 2007, respectively, to reflect a change in the reserve for estimated sales returns (See Note 1- Revenue Recognition).

(b)

Includes a $176,313 and $181,977 decrease to merchandise costs in the second and third quarter of fiscal 2007, respectively, to reflect a change in the reserve for estimated sales returns (See Note 1- Revenue Recognition).

(c) Includes a $46,215 charge related to protecting employees from adverse tax consequences resulting from the Company s internal review of its historical stock option grant practices in fiscal 2006 of certain stock options (See Note 6).

(d) Includes a $56,183 decrease to membership fees to adjust for a change in method of applying an accounting principle and for cumulative timing errors related to the calculation of deferred membership income (See Note 1- Revenue Recognition).

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COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 13 Quarterly Financial Data (Unaudited) (Continued)

	53 Weeks Ended September 3, 2006				
	First Quarter 12 Weeks	Second Quarter 12 Weeks	Third Quarter 12 Weeks	Fourth Quarter 17 Weeks	Total 53 Weeks
REVENUE					
Net sales	$ 12,670,792	$ 13,789,246	$ 13,007,415	$ 19,495,727	$ 58,963,180
Membership fees	262,554	269,766	276,233	379,494	1,188,047
Total revenue	12,933,346	14,059,012	13,283,648	19,875,221	60,151,227
OPERATING EXPENSES					
Merchandise costs	11,330,171	12,303,850	11,635,052	17,476,424	52,745,497
Selling, general and administrative	1,264,092	1,317,804	1,282,276	1,867,969	5,732,141
Preopening expenses	12,377	4,614	10,431	15,082	42,504
Provision for impaired assets and closing costs, net	1,211	1,428	1,182	1,632	5,453
Operating income	325,495	431,316	354,707	514,114	1,625,632
OTHER INCOME (EXPENSE)					
Interest expense	(3,724)	(2,923)	(2,679)	(3,244)	(12,570)
Interest income and other	25,540	35,225	33,751	43,839	138,355
INCOME BEFORE INCOME TAXES	347,311	463,618	385,779	554,709	1,751,417
Provision for income taxes	131,493	167,415	150,184	199,110	648,202
NET INCOME	$ 215,818	$ 296,203	$ 235,595	$ 355,599	$ 1,103,215
NET INCOME PER COMMON SHARE:					
Basic	$ 0.46	$ 0.63	$ 0.50	$ 0.76	$ 2.35
Diluted	$ 0.45	$ 0.62	$ 0.49	$ 0.75	$ 2.30
Shares used in calculation (000 s)					
Basic	472,717	471,889	470,516	465,542	469,718
Diluted	486,367	482,127	480,533	474,449	480,341
Dividends per share	$ 0.115	$ 0.115	$ 0.13	$ 0.13	$ 0.49

Certain reclassifications have been made to conform to the presentation adopted in the fourth quarter of fiscal 2006.

Note 14 Subsequent Event

On October 17, 2007, the Company s wholly-owned Japanese subsidiary issued promissory notes through a private placement in the aggregate amount of $55,400, bearing interest at 2.695%. Interest is payable semi-annually and principal is due in October 2017.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

December 20, 2007

COSTCO WHOLESALE CORPORATION

(Registrant)

By /s/ RICHARD A. GALANTI

Richard A. Galanti

Executive Vice President

and Chief Financial Officer

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