COSTCO WHOLESALE CORP /NEW
Form DEF 14A
December 13, 2010

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

Costco Wholesale Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a(6)(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies: ______________________________

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

999 Lake Drive

Issaquah, Washington 98027

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO OUR SHAREHOLDERS:

The Annual Meeting of the Shareholders of Costco Wholesale Corporation (the Company) will be held at the Meydenbauer Center, Center Hall B, 11100 N.E. 6th Street, Bellevue, Washington 98004, on Thursday, January 27, 2011, at 4:00 p.m., for the following purposes:

1. To elect the four Class III directors nominated by the Board of Directors to hold office until the 2014 Annual Meeting of Shareholders and until their successors are elected and qualified;

2. To ratify the selection of KPMG LLP as the Company s independent auditors for fiscal year 2011;

3. To hold an advisory vote on executive compensation as disclosed in these materials;

4. To hold an advisory vote on whether an advisory vote on executive compensation should be held every one, two or three years; and

5. To transact such other business as may properly come before the meeting or any adjournments thereof.

Only shareholders of record at the close of business on November 22, 2010, are entitled to notice of, and to vote at, the meeting. All shareholders are requested to be present in person or by proxy. Any shareholder who later finds that he or she can be present at the meeting, or for any reason desires to do so, may revoke the proxy at any time before it is voted.

Important Notice Regarding the Availability of Proxy Materials for the 2011 Annual Shareholders Meeting. We are mailing to many of our shareholders a notice of availability over the Internet of the proxy materials, rather than mailing a full paper set of the materials. The notice of availability contains instructions on how to access our proxy materials on the Internet, as well as instructions on obtaining a paper copy. All shareholders who do not receive such a notice of availability, including shareholders who have previously requested to receive a paper copy of the materials, will receive a full set of paper proxy materials by U.S. mail. This new process will reduce our costs to print and distribute our proxy materials.

Voting by the Internet or telephone is fast and convenient, and your vote is immediately confirmed and tabulated. If you receive a paper copy of the proxy materials, you may also vote by completing, signing, dating and returning the accompanying proxy card in the enclosed return envelope furnished for that purpose. By using the Internet or telephone you help the Company reduce postage and proxy tabulation costs.

Please do not return the enclosed paper ballot if you are voting over the Internet or by telephone.

VOTE BY INTERNET

http://www.proxyvote.com

24 hours a day/7 days a week

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time on January 26, 2011. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY TELEPHONE

(800) 690-6903 via touch tone

phone toll-free

24 hours a day/7 days a week

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time on January 26, 2011. Have your proxy card in hand when you call and then follow the instructions.

Your cooperation is appreciated, because a majority of the common stock must be represented, either in person or by proxy, to constitute a quorum for the conduct of business.

By order of the Board of Directors,

Joel Benoliel
Secretary

December 13, 2010

Important Notice Regarding the Availability of Proxy Materials for the Meeting of Shareholders to be Held on January 27, 2011

The Proxy Statement and Annual Report to Shareholders are available at

http://phx.corporate-ir.net/phoenix.zhtml?c=83830&p=irol-irhome

PARKING FACILITY AND DRIVING DIRECTIONS

MEYDENBAUER CENTER

11100 NE 6th Street

Bellevue, Washington

DRIVING DIRECTIONS

From Seattle via SR-520:

Take SR-520 east to I-405 south.

Take Exit 13A west to NE 4th Street westbound.

Turn right onto 112th Ave NE.

Turn left onto NE 6th Street to Meydenbauer Center s parking garage on the right.

From Seattle via I-90:

Take I-90 east to I-405 north.

Take Exit 13A west to NE 4th Street westbound.

Turn right onto 112th Avenue NE.

Turn left onto NE 6th Street to Meydenbauer Center s parking garage on right.

PARKING

Due to limited parking availability, we encourage you to explore Metro Transit s commuter services. The Bellevue Transit Center is conveniently located less than a block from Meydenbauer Center.

Meydenbauer Center s Parking Garage is located at 11100 NE 6th Street. It does not accommodate vehicles over 6 9 tall. When this garage fills, event attendees will be directed to the overflow parking (Bellevue Corporate Plaza Garage).

Bellevue Corporate Plaza Garage handles overflow parking for Meydenbauer Center. It is located at NE 6th Street on 110th Ave. NE. Proceed up the hill past Meydenbauer Center. Turn right at the light, and left into the parking structure.

Parking in these two facilities for this event will be paid by Costco. As you leave, tell the attendant you attended Costco s Shareholders Meeting.

PROXY STATEMENT

FOR ANNUAL MEETING OF SHAREHOLDERS TO BE HELD

January 27, 2011

SOLICITATION AND REVOCATION OF PROXY

Proxies in the form furnished are solicited by the Board of Directors of the Company to be voted at the annual meeting of shareholders to be held on January 27, 2011, or any adjournments (the Annual Meeting). The individuals named as proxies are Jeffrey H. Brotman and James D. Sinegal. A Notice of Internet Availability of Proxy Materials was first sent to shareholders and the accompanying notice of meeting, this Proxy Statement and the form of proxy are first being made available to shareholders on or about December 13, 2010.

All shares represented by proxies received will be voted in accordance with instructions contained in the proxies. The Board of Directors unanimously recommends a vote:

1. FOR the nominees for director listed in these materials and on the proxy;

2. FOR the ratification of the selection of the Company s independent auditors;

3. FOR the approval, on an advisory basis, of the compensation of the Company s named executive officers as disclosed in these materials; and

4. FOR a frequency of every three years for future advisory votes on executive compensation.

In the absence of voting instructions to the contrary, shares represented by validly executed proxies will be voted in accordance with the foregoing recommendations. A shareholder giving a proxy has the power to revoke it any time before it is voted by providing written notice to the Secretary of the Company, by delivering a later-dated proxy, or by voting in person at the Annual Meeting.

Only shareholders of record at the close of business on November 22, 2010 (the Record Date) will be entitled to vote at the Annual Meeting. At the close of business on the Record Date, there were 436,312,048 shares of common stock outstanding, which represent all of the voting securities of the Company. Each share of common stock is entitled to one vote. Shareholders do not have cumulative voting rights in the election of directors.

A majority of the common stock entitled to vote at the Annual Meeting, present either in person or by proxy, will constitute a quorum. Shareholders who abstain from voting on any or all proposals will be included in the number of shareholders present at the meeting for purposes of determining the presence of a quorum. Abstentions and broker non-votes will not be included in the total of votes cast and will not affect the outcome of the vote.

With respect to proposal 1, the election of directors, the four directors receiving the highest number of votes will be elected. The Company s bylaws provide that if in an uncontested election for directors a nominee receives a greater number of withhold votes than votes for the nominee shall offer his or her resignation. A committee of independent directors whose election is not at issue will determine and publicly report the action to be taken with respect to the resignation offer.

With respect to proposal 2, the ratification of the selection of the Company s independent auditors, the votes that shareholders cast for must exceed the votes that shareholders cast against to approve.

With respect to proposal 3, the advisory vote on executive compensation, the votes that shareholders cast for must exceed the votes that shareholders cast against to approve.

With respect to proposal 4, the frequency of the advisory vote on executive compensation, the alternative receiving the greatest number of votes every year, every two years or every three years will be the frequency that shareholders approve.

If your shares are held by a broker on your behalf (that is, in street name), and you do not instruct the broker as to how to vote these shares on proposals 1, 3, or 4, the broker may not exercise discretion to vote for or against those proposals. This would be a broker non-vote and these shares will not be counted as having been voted on the applicable proposal. With respect to proposal 2, the broker may exercise its discretion to vote for or against that proposal in the absence of your instruction**. Please instruct your bank or broker so your vote can be counted**.

In addition to mailing the Notice of Internet Availability of Proxy Materials to shareholders, the Company has asked banks and brokers to forward copies of the Notice of Internet Availability of Proxy Materials, and upon request paper copies of the proxy materials, to persons for whom they hold stock of the Company and to request authority for execution of the proxies. The Company will reimburse the banks and brokers for their reasonable out-of-pocket expenses in doing so. Officers and employees of the Company may, without being additionally compensated, solicit proxies by mail, telephone, facsimile or personal contact. All proxy-soliciting expenses will be paid by the Company in connection with the solicitation of votes for the Annual Meeting.

PROPOSAL 1: ELECTION OF DIRECTORS

The Board of Directors is divided into three classes. Directors are elected by class, for three-year terms. Successors to the class of directors whose term expires at any annual meeting are elected for three-year terms. Each of Susan L. Decker, Richard M. Libenson, John W. Meisenbach and Charles T. Munger is nominated as a member of Class III, to serve for a three-year term until the annual meeting of shareholders in 2014 and until his or her successor is elected and qualified. All nominees are current directors.

Each nominee has indicated a willingness and ability to serve as a director. If any nominee becomes unable or unwilling to serve, the accompanying proxy may be voted for the election of such other person as will be designated by the Board of Directors. The proxies being solicited will be voted for no more than four nominees at the Annual Meeting. Each director will be elected by a plurality of the votes cast, in person or by proxy, at the Annual Meeting, assuming a quorum is present.

The following candidates for election have been nominated by the Board based on the recommendation of the Nominating and Governance Committee. In addition to the information presented below regarding each nominee s specific experience, qualifications, attributes and skills that led the Board to conclude that he or she should serve as a director, the Board believes that each nominee has demonstrated outstanding achievement in his or her professional career; relevant experience; personal and professional integrity; ability to make independent, analytical inquiries; experience with and understanding of the business environment; and willingness and ability to devote adequate time to Board duties. We also believe that our directors collectively have the skills and experience to create a board that is well-suited to oversee the Company. They are established leaders in important areas of business, academia, government service, and other public and non-profit service. In addition, members of our Board have had a great diversity of experiences and bring to our Board a wide variety of views that strengthen their ability to guide our Company.

The Board of Directors unanimously recommends that you vote FOR Proposal 1.

Directors

The following table sets forth information regarding each nominee for election as a director and each director whose term of office will continue after the Annual Meeting.

Name	Current Position With the Company	Age	Expiration of Term as Director
James D. Sinegal	Chief Executive Officer and Director	74	2012
Jeffrey H. Brotman	Chairman of the Board of Directors	68	2012
Benjamin S. Carson, Sr., M.D.	Director	59	2013
Susan L. Decker	Director	48	2011
Daniel J. Evans	Director	85	2012
Richard A. Galanti	Executive Vice President, Chief Financial Officer and Director	54	2012
William H. Gates	Director	85	2013
Hamilton E. James	Lead Independent Director	59	2013
W. Craig Jelinek	President, Chief Operating Officer and Director	58	2013
Richard M. Libenson	Director	68	2011
John W. Meisenbach	Director	74	2011
Charles T. Munger	Director	86	2011
Jeffrey S. Raikes	Director	52	2012
Jill S. Ruckelshaus	Director	73	2013

Set forth below is information with respect to each director of the Company, which as used below means Costco Wholesale Corporation and includes its predecessor company, Costco Wholesale Corporation, as it existed prior to the 1993 merger with The Price Company.

James D. Sinegal is Chief Executive Officer of the Company; he was also President until February 2010. Mr. Sinegal is a co-founder of the Company and has been a director since its inception. Mr. Sinegal s qualifications to serve on the Board include his roles as a co-founder of the Company and Chief Executive Officer, his extensive career in the retail industry, and his extensive knowledge of our Company s business developed over the course of his long career here.

Jeffrey H. Brotman is the Chairman of the Board of the Company. Mr. Brotman is a co-founder of the Company and has been a director since its inception. Mr. Brotman s qualifications to serve on the Board include his roles as a co-founder of the Company and Chairman of the Board, his extensive knowledge of our Company s business developed over the course of his long career here, and his previous service on the boards of other public companies.

Benjamin S. Carson, Sr., M.D. has been a director of the Company since May 1999. Since 1984 he has been a Professor and Director of Pediatric Neurosurgery at Johns Hopkins Medicine. Dr. Carson has also served as a director of Kellogg Company since 1997. Dr. Carson has written extensively and is a frequent speaker on a variety of topics, including pediatric neurology, motivation and self-help for children, and community involvement. Dr. Carson s qualifications to serve on the Board include the knowledge and experience he has gained, and contributions he has made, during his tenure as a director of our Company, his service on the board of another public company, and his important role in one of the nation s leading institutions of higher learning.

Susan L. Decker has been a director of the Company since October 2004. She served as Entrepreneur-in-Residence at Harvard Business School during the 2009-10 school year. Ms. Decker was President of Yahoo! Inc. from June 2007 to April 2009. Prior to becoming President, she served as the head of one of Yahoo! s two major business units, the Advertiser and Publisher Group, and as Executive Vice President and Chief Financial Officer from June 2000 to June 2007. She is a director of Berkshire Hathaway Inc., Intel Corporation, and LegalZoom.com and was previously a director of Pixar. Ms. Decker s qualifications to serve on the Board include the knowledge and experience she has gained, and contributions she has made, during her tenure as a director of our Company, her service on the boards of other public companies, and her broad-ranging experiences, including senior leadership positions, in the areas of finance, technology and marketing.

Daniel J. Evans has been a director of the Company since January 2003. He has been the chairman of Daniel J. Evans Associates, a consulting firm, since 1989. From 1983 through 1989, he served as a U.S. Senator for the State of Washington, and he was the President of The Evergreen State College from 1977 through 1983. From 1965 through 1977, he served as Governor of the State of Washington. Mr. Evans serves on the boards of NIC Inc. and Archimedes Technology Group. Mr. Evans qualifications to serve on the Board include the knowledge and experience he has gained, and contributions he has made, during his tenure as a director of our Company, his service on the boards of other public companies, and his broad-ranging experiences in government and public service.

Richard A. Galanti has been a director of the Company since January 1995, and Executive Vice President and Chief Financial Officer of the Company since October 1993. Mr. Galanti s qualifications to serve on the Board include his extensive knowledge of the Company s business developed over the course of his long career here, particularly in the areas of finance and financial reporting, and his prior service on the boards of other public companies.

William H. Gates has been a director of the Company since January 2003. He has been the Co-Chair of the Bill & Melinda Gates Foundation since its inception. Mr. Gates serves on the Board of Regents of the University of Washington. He has served as trustee, officer and volunteer for more than two dozen Northwest organizations, including the Greater Seattle Chamber of Commerce and King County United Way. In 1995, he founded the Technology Alliance. From 1964 until 1994 Mr. Gates was a partner in the law firm of Preston, Gates & Ellis and predecessor firms. Mr. Gates qualifications to serve on the Board include the knowledge and experience he has gained, and contributions he has made, during his tenure as a director of our Company and his broad-ranging experiences in the legal profession, one of the country s largest foundations, and other public-service positions.

Hamilton E. James has been a director of the Company since August 1988 and the lead independent director since 2005. He is President and Chief Operating Officer of The Blackstone Group, a global alternative asset manager and provider of financial advisory services, and a member of the board of directors of its general partner, Blackstone Group Management L.L.C. He was previously a director of Credit Suisse First Boston USA, Inc. Mr. James s qualifications to serve on the Board include the knowledge and experience he has gained, and contributions he has made, during his tenure as a director of our Company and his broad-ranging experiences in the financial services industry, including senior leadership positions.

W. Craig Jelinek has been a director and President and Chief Operating Officer of the Company since February 2010. Mr. Jelinek previously was Executive Vice President in charge of merchandising since 2004. He spent the previous twenty years in various management positions in warehouse operations. Mr. Jelinek s qualifications to serve on the Board include his extensive knowledge of our Company s business developed over the course of his long career here, particularly in the areas of operations and merchandising.

Richard M. Libenson has been a director of the Company since October 1993. He was a founder and director of The Price Company from its formation in 1976 until October 1993 and was an executive officer of The Price Company from 1976 until October 1989. Mr. Libenson s qualifications to serve on the Board include his roles as a long-serving consultant to the Company and his extensive knowledge of our Company s business developed over the course of his long career here and with The Price Company.

John W. Meisenbach has been a director of the Company since its inception. He is President of MCM, A Meisenbach Company, a financial services company, which he founded in 1962. He also currently serves as a director of Expeditors International and M Financial Holdings. Mr. Meisenbach is a trustee of the Elite Fund, an investment company registered under the Investment Company Act of 1940. Mr. Meisenbach s qualifications to serve on the Board include the knowledge and experience he has gained, and contributions he has made, during his tenure as a director of our Company, his service on the boards of other public companies, and his broad-ranging experiences in the insurance industry.

Charles T. Munger has been a director of the Company since January 1997. Since 1984, he has been Chairman of the Board of Directors and Chief Executive Officer of Wesco Financial Corporation, which is engaged in insurance, furniture rental, and steel services businesses. He is Vice Chairman of the Board of Directors of Berkshire Hathaway Inc., and Chairman of the Board of Directors of Daily Journal Corporation. Mr. Munger s qualifications to serve on the Board include the knowledge and experience he has gained, and contributions he has made, during his tenure as a director of our Company, his service on the boards of other public companies, and his broad-ranging experiences in the areas of investments, finance, and insurance.

Jeffrey S. Raikes has been a director of the Company since December 2008. He has been the Chief Executive Officer of the Bill & Melinda Gates Foundation since September 2008. Mr. Raikes held several positions with Microsoft Corporation from 1981 to 2008, including President of the Business Division from 2005 to 2008. Mr. Raikes qualifications to serve on the Board include broad-ranging experiences, including senior leadership positions, in the areas of technology and marketing and at one of the country s largest foundations.

Jill S. Ruckelshaus has been a director of the Company since February 1996. Ms. Ruckelshaus serves on the boards of various non-profit organizations. Previously she was a director of Lincoln National Corporation. Her qualifications to serve on the Board include the knowledge and experience she has gained, and contributions she has made, during her tenure as a director of our Company, her service on the boards of other public companies, and her broad-ranging experiences in government and other public service.

No family relationship exists among any of the directors or executive officers. No arrangement or understanding exists between any director or executive officer and any other person pursuant to which any director was selected as a director or executive officer of the Company.

Committees of the Board

The Board of Directors has determined that each member of the Audit, Compensation and Nominating and Governance committees meets the NASDAQ Global Select Market listing standards regarding independence and that each member is free of relationships that would interfere with the individual exercise of independent judgment. Each committee has a written charter, which may be viewed at our website at http://phx.corporate-ir.net/phoenix.zhtml?c=83830&p=irol-irhome. Directors deemed independent are Mses. Decker and Ruckelshaus and Messrs. Carson, Evans, Gates, James, Munger and Raikes, who constitute a majority of the Board of Directors. The non-executive directors of the Company meet in executive session presided over by the Lead Independent Director at no less than two meetings of the Board of Directors each year.

Audit Committee. The functions of the Audit Committee include (among others):

- providing direct communication between the Board of Directors and the Company s internal and external auditors;
- monitoring the design and maintenance of the Company s system of internal accounting controls;
- selecting, evaluating and, if necessary, replacing the external auditors;
- reviewing the results of internal and external audits as to the reliability and integrity of financial and operating information and the systems established to monitor compliance with the Company s policies, plans and procedures and with laws and regulations; and
- reviewing the relationships between the Company and the external auditors to ascertain the independence of the external auditors.

The members of the committee are Messrs. Munger (chair), Evans and Ms. Decker. Mr. James resigned from the committee in April 2010, at which point Ms. Decker joined the Audit Committee (and resigned from the Nominating and Governance Committee). The Board of Directors has determined that Mr. Munger is an audit committee financial expert as defined by the rules of the Securities and Exchange Commission (SEC). The Audit Committee met seven times during fiscal 2010. A report of the Audit Committee is set forth below.

Compensation Committee. The Compensation Committee s function is to review the salaries, bonuses and stock-based compensation provided to executive officers of the Company and to oversee the overall administration of the Company s compensation and stock-based compensation programs. Except with respect to setting the compensation of the chief executive officer, the committee may delegate its authority to a subcommittee of the committee (consisting either of a subset of members of the committee or any members of the Board who would be eligible to serve on the committee). In addition, to the extent permitted by applicable law, the committee may delegate to one or more officers of the Company (or other appropriate personnel) the authority to grant stock options and other stock awards to employees who are not executive officers or members of the Board. The committee has delegated certain authority to Messrs. Sinegal and Brotman with respect to such awards not involving executive officers. See Compensation Discussion and Analysis below for a further description of the role of the committee. The members of the committee are Messrs. Carson (chair), Munger and Ms. Ruckelshaus. The committee met once during fiscal 2010. A report of the committee is set forth below.

Nominating and Governance Committee. The functions of the Nominating and Governance Committee are to identify and approve individuals qualified to serve as members of the Board of the Company, select director nominees for the annual meeting of shareholders, evaluate the Board s performance, develop and recommend to the Board corporate governance guidelines, and provide oversight with respect to corporate governance and ethical conduct. The members of the committee are Messrs. Evans and Gates (chair) and Ms. Ruckelshaus. The committee is authorized by its charter to engage its own advisors. The committee approved the nomination of the candidates reflected in Proposal 1. The committee met two times in fiscal 2010.

The Board is responsible for nominating members for election to the Board and for filling vacancies on the Board that may occur between annual meetings of shareholders. The committee is responsible for identifying, screening and recommending to the Board candidates for Board membership. When formulating its recommendations, the committee will also consider advice and recommendations from others as it deems appropriate.

The committee will consider shareholder recommendations for candidates to serve on the Board. In accordance with our Bylaws, the name of any recommended candidate, together with pertinent biographical information, a document indicating the candidate s willingness to serve if elected, and evidence of the nominating shareholder s ownership of Company stock should be sent to the Secretary of the Company. The Company may require additional information, as described in our Bylaws. Our Corporate Governance Guidelines provide that nominees for director will be selected on the basis of, among other things, knowledge, experience, skills, expertise, integrity, diversity, ability to make independent analytical inquiries, and understanding of the Company s business environment, all in the context of an assessment of the perceived needs of the Board at the time. Nominees should also be willing to devote adequate time and effort to Board responsibilities. The Nominating and Governance Committee does not set specific, minimum qualifications that nominees must meet in order for the committee to recommend them to the Board, but rather believes that each nominee should be evaluated based on his or her individual merit, taking into account the needs of the Company and the composition of the Board.

With respect to Board diversity, we believe that the Company benefits from having directors with a diversity of viewpoints, backgrounds, and experiences. Currently, of the fourteen directors on the Board, two are women and one is African American. In addition, as discussed above, our directors bring a diversity of viewpoints and experiences as established leaders in important areas of business, academia, government service, and other public and non-profit service that we believe strengthens the Board s ability to guide our Company. Pursuant to our Corporate Governance Guidelines, the Nominating and Governance Committee oversees a self-assessment of the Board s performance every other year. The assessment seeks to identity specific areas, if any, in need of improvement or strengthening, including with respect to the diversity of our Board in terms of viewpoints, backgrounds and experiences.

Formal nomination of candidates by shareholders requires compliance with section 2.1 of the bylaws. There is otherwise no formal process prescribed for identifying and evaluating nominees, except as described in the Corporate Governance Guidelines.

Corporate Governance Guidelines. The Board of Directors has adopted Corporate Governance Guidelines, which may be viewed at www.costco.com through the Investor Relations page.

Board Structure. The Corporate Governance Guidelines provide that the Board does not require the separation of the offices of the Chairman of the Board and the Chief Executive Officer and shall be free to choose its Chairman in any way that it deems best for the Company at any given point in time. Currently the positions of Chairman and Chief Executive Officer are filled separately by Mr. Brotman and Mr. Sinegal. The Board believes that this structure, which has its origins in the joint role of the two men in founding and driving the growth and success of the Company, has operated effectively for more than a decade. In addition, the Board believes that it obtains effective additional board leadership through the role of the Lead Independent Director, currently filled by Hamilton E. James.

The Role of the Board in Risk Oversight. One of the Board s functions is to oversee the ways in which management deals with risk. Risk is inherent in business, and the Board seeks to ensure that management has in place processes for dealing appropriately with risk. It is the responsibility of the Company s senior management to develop and implement the Company s short- and long-term objectives and to identify, evaluate, manage and mitigate the risks inherent in seeking to achieve those objectives. Risks vary in many ways, including the ability of the Company to anticipate and understand the risk, the types of adverse impacts that could occur if the undesired event occurs, the likelihood that an undesired event and a particular adverse impact would occur, and the ability of the Company to control the risk and the potential adverse impacts.

Some risks may be identified and largely controlled, and others are unknown; some risks can be avoided or mitigated, and some risks are unavoidable as a practical matter. For some risks, the potential adverse impact would be minor, and, as a matter of business judgment, it may not be appropriate to allocate significant resources to avoid the impact; in other cases, the impact could be significant, and it is prudent to expend resources to seek to avoid or mitigate a potential adverse impact. In some cases, a higher degree of risk may be acceptable because of a greater perceived potential for reward. The Company engages in a variety of activities seeking to align its voluntary risk-taking with overall Company objectives, and understands that its projects and processes may enhance the Company s business interests by encouraging appropriate levels of risk-taking.

Management is responsible for identifying risk and risk controls related to significant business activities and Company objectives, and developing programs to determine the sufficiency of risk identification, the balance of potential risk to potential reward, the appropriate manner in which to control risk, and the support of the risk-controlling behavior and the risk to Company strategy. The Board implements its risk oversight responsibilities primarily through the Audit Committee, which receives management briefing on the potentially significant risks that the Company faces and how the Company is seeking to control risk where appropriate. The Audit Committee also oversees issues related to internal control over financial reporting. In more limited cases, such as with risks of significant new business concepts and substantial entry into new markets, risk oversight is addressed as part of the full Board s engagement with the CEO and management. Board members also often discuss risk as a part of their review of the ongoing business, financial, and other activities of the Company. The Board also has overall responsibility for executive-officer succession planning and reviews succession plans each year. The Nominating and Governance Committee also exercises oversight regarding risks associated with corporate governance matters and certain issues relating to the Company s ethics and compliance programs.

Compensation of Directors

The following table summarizes information regarding director compensation for the non-employee directors of the Company for fiscal 2010.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	All Other Compensation ($)(3)	Total ($)
Benjamin S. Carson, Sr., M.D.	35,000	169,879		204,879
Susan L. Decker	36,000	169,879		205,879
Daniel J. Evans	44,000	169,879	637	214,516
William H. Gates	36,000	169,879		205,879
Hamilton E. James	35,000	169,879		204,879
Richard M. Libenson	34,000	169,879	330,189(4)	534,068
John W. Meisenbach	34,000	169,879		203,879
Charles T. Munger	43,000	169,879		212,879
Jeffrey S. Raikes	34,000	169,879	956	204,835
Jill S. Ruckelshaus	36,000	169,879		205,879

(1) Represents the amount of cash compensation received for fiscal 2010 Board service.

(2) In 2010, the Board of Directors granted 3,000 units of restricted stock (RSUs) to each of the non-employee directors. These awards will vest over a three-year period, subject to the director s continued Board service, and certain acceleration provisions upon retirement from the Board. This column represents the grant-date fair value of the RSUs granted to each non-employee director in 2010. The grant-date fair value is calculated as the market value of the common stock on the grant date less the present value of the expected dividends forgone during the vesting period. These amounts thus do not reflect the amount of compensation actually received by the non-employee directors during the fiscal year. For a description of the assumptions used in calculating the fair value of equity awards, see Note 1 of our financial statements in our Form 10-K for year ended August 29, 2010.

(3) Directors, their families, or invited guests occasionally fly on corporate aircraft as additional passengers on existing business flights. In those cases, any incremental cost to the Company is de minimis, and as a result, no amount is reflected in the table. Internal Revenue Service rules attribute taxable value to such transactions. The amounts for Messrs. Evans and Raikes reflect compensation for the associated income tax obligation.

(4) Mr. Libenson is a consultant to the Company. See page 10.

Each non-employee director earns $30,000 per year for serving on the Board and $1,000 for each Board and committee meeting attended. Directors are reimbursed for travel expenses incurred in connection with their duties.

Each non-employee director receives an annual grant of 3,000 restricted stock units (RSUs) near the beginning of the fiscal year. These RSUs vest one-third annually, beginning on the first anniversary of the date of grant. RSUs granted after September 29, 2006, are subject to accelerated vesting upon the director s retirement: 50% after five years of service and 100% after ten years of service. In 2006 the equity portion of the director compensation program was revised to replace stock options with RSUs, consistent with the change made for employees. The compensation for non-executive directors was last adjusted in fiscal 2006 and was not reevaluated this fiscal year. In fiscal 2009, the Board adopted guidelines requiring non-executive directors to own and maintain at least 6,000 shares of Company stock (by April 2014 or within five years of joining the Board).

As of the end of fiscal 2010, non-employee directors held the following shares and outstanding equity awards:

Name	Stock Options	Restricted Stock Units	Shares Owned Outright	Shares Owned Indirectly	Total
Benjamin S. Carson, Sr., M.D.	36,000	6,000	7,500		49,500
Susan L. Decker	18,000	6,000	17,500		41,500
Daniel J. Evans	36,000	6,000	5,100	5,500	52,600
William H. Gates	36,000	6,000	10,500		52,500
Hamilton E. James	60,000	6,000	23,120		89,120
Richard M. Libenson	48,000	6,000		117,835	171,835
John W. Meisenbach	60,000	6,000	7,500	50,000	123,500
Charles T. Munger	60,000	6,000	203,268	19,565	288,833
Jeffrey S. Raikes		4,500	6,750		11,250
Jill S. Ruckelshaus	48,000	6,000	9,566		63,566

Richard M. Libenson has been engaged as a consultant to the Company. For such services, a corporation he owns was paid $300,000 during fiscal 2010. In addition, the Company paid premiums on long-term disability insurance in the amount of $6,087, and premiums for health care insurance in the amount of $18,824. Mr. Libenson received benefits associated with term life-insurance amounting to $5,278 under a split-dollar endorsement plan but for which the Company did not pay a premium this fiscal year. These transactions were approved by the Audit Committee.

Pursuant to indemnification agreements previously approved by the Company s shareholders, in connection with the derivative actions relating to stock options and with the approval of the Board, the Company in fiscal 2010 advanced on behalf of non-executive directors and executive officers approximately $325,000 and $140,000 respectively, in attorneys fees and costs.

Shareholder Communications to the Board

Shareholders may contact an individual director, the Board as a group, or a specified Board committee or group, including the non-employee directors as a group, at the following address: Corporate Secretary, Costco Wholesale Corporation, 999 Lake Drive, Issaquah, WA 98027 Attn: Board of Directors. The Company will receive and process communications before forwarding them to the addressee. Directors generally will not be forwarded shareholder communications that are primarily commercial in nature, relate to improper or irrelevant topics, or request general information about the Company.

Meeting Attendance

During the Company s last fiscal year, the Company s Board of Directors met four times. Each member of the Board attended 75% or more of the Board meetings and meetings of the committees on which he or she served, except for Mr. James, with respect to the Audit Committee. As set forth in our Corporate Governance Guidelines, directors are invited and encouraged to attend meetings of shareholders. Thirteen directors attended the annual shareholders meeting in 2010.

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding ownership of the common stock by each person known to the Company to own more than 5% of the outstanding shares of the common stock on November 22, 2010.

Name and Address of Beneficial Owner	Shares	Percent[1]
Davis Selected Advisers, LP 2949 East Elvira Road, Suite 101 Tucson, Arizona 85756	44,728,826[2]	10.25%

(1) Based on 436,312,048 shares of common stock outstanding on November 22, 2010. In accordance with SEC rules, percent of class as of November 22, 2010, is calculated for each person and group by dividing the number of shares beneficially owned by the sum of the total shares outstanding plus the number of shares subject to securities exercisable by that person or group within 60 days.

(2) Information based on Form 13F-HR filed with the SEC by Davis Selected Advisers, LP on November 10, 2010.

The following table sets forth the shares of the common stock owned by each director of the Company, each nominee for election as a director of the Company, the executive officers named in the Summary Compensation Table, and all directors and executive officers as a group on November 22, 2010.

Name of Beneficial Owner	Shares Beneficially Owned[1]	Options[2]	Total	Percent of Class[3]
James D. Sinegal	2,196,519[4]	300,000	2,496,519[4]	*
Jeffrey H. Brotman	901,376[5]	600,000	1,501,376[5]	*
W. Craig Jelinek	135,504	375,000	510,504	*
Benjamin S. Carson, Sr., M.D.	16,500	24,000	40,500	*
Susan L. Decker	26,500[6]	18,000	44,500[6]	*
Richard D. DiCerchio	156,367		156,367	*
Daniel J. Evans	17,800	36,000	53,800	*
Richard A. Galanti	59,764	205,000	264,764	*
William H. Gates	28,840	16,500	45,340	*
Hamilton E. James	32,120	60,000	92,120	*
Richard M. Libenson	126,835[7]		126,835[7]	*
John W. Meisenbach	63,500[8]	48,000	111,500[8]	*
Charles T. Munger	133,949[9]	30,000	163,949[9]	*
Joseph P. Portera	84,959		84,959	*
Jeffrey S. Raikes	14,250		14,250	*
Jill S. Ruckelshaus	18,566	48,000	66,566	*
Dennis R. Zook	62,589		62,589	*
All directors and executive officers as a group (22 persons)	4,555,798	2,011,500	6,567,298	1.44%

* Less than 1%.

(1) Includes RSUs outstanding

(2) Includes options exercisable within 60 days of November 22, 2010.

(3) Based on 436,312,048 shares of our common stock outstanding, 9,875,783 RSUs outstanding, and 10,043,471 options exercisable on November 22, 2010. In accordance with SEC rules, percent of class as of November 22, 2010, is calculated for each person and group by dividing the number of shares beneficially owned by the sum of the total shares outstanding plus the number of shares subject to securities exercisable by that person or group within 60 days.

(4) Includes 1,280,649 shares owned by a limited liability company of which Mr. Sinegal and his wife are co-managers. Also includes 530,281 pledged shares.

(5) Includes 736,703 shares held by a trust of which Mr. Brotman is a principal beneficiary. The trust maintains a margin securities account at a brokerage firm, and the positions held in the margin account, which may from time to time include but are not limited to shares of company common stock, are pledged as collateral for the repayment of a loan. At November 22, 2010, the trust held 188,130 shares of company common stock in this account but assets other than these shares were sufficient to secure the debt associated with the account. Mr. Brotman disclaims any beneficial ownership of such shares. Also includes 20 shares owned by a trust for the benefit of Mr. Brotman s son.

(6) Includes 4,500 pledged shares.

(7) Includes 117,835 shares held by a trust of which Mr. Libenson is a trustee and beneficiary.

(8) Includes 50,000 shares held by a trust of which Mr. Meisenbach is the principal beneficiary, of which he may be deemed to be beneficial owner.

(9) Includes 19,565 shares held by a charitable foundation funded and controlled by Mr. Munger.

Equity Compensation Plan Information

(at Fiscal Year-End)

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(A)	Weighted-average exercise price of outstanding options, warrants and rights(B)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (A))(C)
Equity compensation plans approved by security holders	22,414,981	$ 39.50	12,361,565
Equity compensation plans not approved by security holders			
Total	22,414,981	$ 39.50	12,361,565

(A) Includes 9,253,152 shares of common stock issuable upon vesting of outstanding RSUs granted under the Fifth Restated 2002 Stock Incentive Plan and predecessor plans.

(B) The weighted-average exercise price does not include the shares issuable upon vesting of RSUs, which have no exercise price.

(C) Available for issuance under the Fifth Restated 2002 Stock Incentive Plan, assuming issuance as RSUs.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

The following is a discussion and analysis of our compensation programs as they apply to our Chief Executive Officer, the Chairman of the Board of Directors, the Chief Financial Officer, the three other most highly compensated individuals who were serving as executive officers at the end of fiscal 2010 and one former executive officer (the Named Executive Officers). Our Named Executive Officers for fiscal 2010 were: James, D. Sinegal, Chief Executive Officer; Jeffrey H. Brotman, Chairman of the Board; W. Craig Jelinek, President and Chief Operating Officer; Richard D. DiCerchio, former Senior Executive Vice President and Chief Operating Officer, who retired during fiscal 2010; Richard A. Galanti, Executive Vice President, Chief Financial Officer; Joseph P. Portera, Executive Vice President, COO-Eastern and Canadian Divisions; and Dennis R. Zook, Executive Vice President, COO-Southwest and Mexico Divisions.

Compensation Philosophy and Objectives

Our compensation programs are designed to motivate all our executives and employees to continue to feel part of the Company and to participate in the growth of our business. Historically, the Company believes it has been very successful in attracting and retaining quality employees, achieving low turnover in our executive, staff and warehouse management ranks. In addition, in the judgment of the Compensation Committee (the Committee), the Company s compensation programs have historically contributed to the financial and competitive success of the Company. Accordingly, the Committee believes that it has been desirable to continue compensation programs that have been persistent features at the Company for a number of years.

The compensation levels approved by the Committee for the Named Executive Officers for fiscal 2010 are not materially changed from those approved for the prior year. The Committee believes that the Company performed well in light of the challenging economic conditions.

Role of the Compensation Committee

The Committee determines the amounts and elements of compensation for our Chief Executive Officer and Chairman. For other executive officers, it reviews the recommendations of the Chief Executive Officer, with which it generally agrees. The Committee s function is more fully described above, under Committees of the Board Compensation Committee.

During fiscal 2010, the Committee consisted of three members, Dr. Carson (chair), Mr. Munger and Ms. Ruckelshaus. The Committee has authority under its charter to engage compensation consultants, but has not used consultants of any kind. The Committee s primary activity occurs in the fall, following the close of the fiscal year, when the Committee: (i) approves grants of RSUs, including performance targets for RSUs granted to executive officers; (ii) determines whether performance targets have been satisfied for RSUs granted during the prior fiscal year; (iii) approves total compensation levels for executive officers for the fiscal year just concluded, including any salary increases and cash bonuses, and (iv) approves, the executive officer cash bonus plan for the current fiscal year.

Elements of Compensation

The components of our executive compensation programs are equity compensation (since fiscal 2006 consisting solely of RSUs), base salary, a discretionary cash bonus program, and other benefits (primarily consisting of health plans, a 401(k) plan and a deferred compensation plan) and modest perquisites. The Committee believes that these components are appropriate and are consistent with the Company s long-standing approach to executive compensation, which has been to make equity awards the dominant form of compensation.

The Committee did not extensively reevaluate this year whether there is an optimal mix of equity, salary, bonus and other compensation components for each executive officer. Rather, it relied upon the fact that the current structure has been utilized successfully in years past and gave more particular attention to the incremental changes in the components of the mix and the value of the total compensation packages.

RSUs. RSU grants represent the largest component of compensation, based on their fair value at the time they are granted. The Committee believes that emphasizing this form of compensation above others helps to align the interests of employee-grantees with those of shareholders, both in the short term (with the performance conditions) and in the longer term (with time-vesting of up to five years, subject to earlier vesting for long service, as described below). To a lesser extent, the Committee also takes into account that longer-term vesting requirements can help promote executive retention.

Base salary. Base salary is the second largest compensation component. Payment of fixed cash compensation is consistent with the need for executive officers to have a predictable level of cash compensation, which has been subject generally to modest annual adjustments (with the exception of Messrs. Sinegal and Brotman, whose salaries have remained at the same level since 1999).

Cash bonus. Discretionary cash bonuses are and have been a relatively small component of compensation. They address short-term incentives, and are linked to performance during the fiscal year. Historically, at least some portion of the cash bonuses has been paid each year. The Committee believes that maintaining cash bonuses as a modest element of compensation is consistent with preferring long-term equity incentives as being in the greater interest of the Company and its shareholders.

Executive base salaries and cash bonuses are, in the Committee s view, low compared to the other companies in our peer group, described below under Peer Companies.

Other elements and perquisites. Consistent with its position as a low-overhead operator, the Company has traditionally sought to have modest perquisites and other compensation. A significant component of this compensation is related to helping executives fund their retirement needs (through the 401(k) plan and the deferred compensation plan), recognizing that the Company does not have a traditional retirement plan and that no executive has any agreement to receive severance compensation.

The foregoing components of compensation combine a mix of incentives that are intended to create rewards for shorter-term (twelve months) and longer-term performance (five years and beyond). Shorter-term incentives come primarily from the initial award of RSUs being subject to achievement of at least one one-year performance metric and, to a significantly lesser extent, discretionary cash bonuses that are subject to a mix of one-year performance metrics. Longer-term incentives come primarily from the vesting over five years of RSU awards, and, to a lesser extent, share ownership requirements for executive officers, and vesting elements in certain benefit plans (such as the deferred compensation plan match.

The Committee believes that the executive compensation programs do not promote unreasonableness in risk-taking behavior. The value of short-term incentives (including cash bonus awards with caps and performance conditions for awards of RSUs) is substantially exceeded by long-term incentives (including equity awards that vest over up to five years) and share ownership guidelines, which the Committee believes reward sustained performance that is aligned with shareholder interests.

Peer Companies

For fiscal 2010, the Committee considered executive compensation data obtained from proxy statements for the following peer companies: Wal-Mart Stores, Inc., The Home Depot, Inc., Target Corporation, BJ s Wholesale Club, Inc., and Lowe s Companies. These companies were selected because they all are recognized as successful retailers and two of them represent the two other major membership warehouse operators. In utilizing the comparative data, the Committee took into account that one of the companies is substantially larger than the Company. The Committee does not use the comparable company data to set mid-points or other specific quantitative comparisons of executive compensation it has used them only for general reference.

Equity Compensation

If fully earned based upon the achievement of performance targets, equity compensation is the largest component of compensation for executive officers. During fiscal 2006, the Board of Directors determined to replace all stock option awards with awards of RSUs. Since fiscal 2009, all RSU grants to executive officers have been performance based. These grants generally vest over five years, contingent upon the executive s maintaining employment status at the vest date. The Board and the Committee believe that the five-year vesting requirement helps to foster motivation on the part of employees to improve the operations of the Company over the longer term. Following satisfaction of performance targets, RSUs become time-vested RSUs that, in the absence of accelerated vesting for long service (described below) vest 20% upon the first anniversary of the grant date (following the determination by the Committee that the performance criteria have been satisfied) and 20% vest over each of the ensuing four years. (Vesting of RSUs awarded to other officers and employees in fiscal 2010 was not performance based.) To the extent time-vesting requirements are met, RSUs are settled and paid in shares of common stock. Prior to vesting, recipients are not entitled to vote or receive dividends on unvested RSUs.

Beginning in fiscal 2009, all officers and employees who receive RSU grants are eligible for accelerated vesting prior to termination if they have achieved long service with the Company (33% vesting credited on the first anniversary of the date of grant after 25 years of service, 66% vesting after 30 years of service, and 100% vesting after 35 years of service, with any remainder vesting ratably over the remaining vesting period). Interim vesting for long service can occur in the case of certain terminations for RSU grants prior to 2009.

For fiscal 2010, RSU grants were made on October 22, 2009, and the performance criteria for the grants were established in November 2009. The criteria were a 2% increase (versus fiscal 2009) of total sales or pretax income (with both measures based on local currency). For Mr. Sinegal, the criteria were a 3% increase (versus fiscal 2009) in total sales or pretax income (with both measures based on local currency). After the end of fiscal 2010, the Committee determined that the sales goals were achieved. Accordingly, the executive officers earned all of the RSUs granted, subject to time-based and long-service vesting. All executive officers received accelerated vesting for long service for a portion of these RSUs, with a further time-based vesting occurring on the first anniversary of the grant.

The Board adopted in July 2008 a fixed date of October 22 for RSU grants**.** The policy allows for exceptions as approved in advance by the Committee; no such exception has been approved to date except to permit a grant to Mr. Raikes in connection with his joining the Board in 2008.

All RSU awards in fiscal 2010 were made under the Company s Fifth Restated 2002 Stock Incentive Plan, approved by the Company s shareholders and the only equity plan maintained by the Company.

Other Compensation

The Company provides the Named Executive Officers with the benefits offered to all other employees in most respects. The cost of these benefits constitutes a small percentage of each executive s total compensation. Key benefits include paid vacation, premiums paid for long-term disability insurance, a matching contribution and a discretionary 401(k) plan contribution, and the payment of premiums for health insurance and basic life insurance. In addition, the Company has a nonqualified deferred-compensation plan for the benefit of certain highly compensated employees, including the Named Executive Officers. The plan provides that a certain percentage of an employee s contributions may be matched by the Company, subject to certain limitations. This match will vest over a specified period of time. The Company does not maintain a pension plan or post-retirement medical plan for any Named Executive Officer. The Company also provides the Named Executive Officers with certain perquisites, including a car allowance. The Committee believes the benefits and perquisites are modest and consistent with its overall objective of attracting and retaining highly qualified executive officers.

Compensation of the Chief Executive Officer and the Chairman of the Board

In addition to considering the Company s compensation policies generally, the Committee reviews executive compensation and concentrates on the compensation packages for the Chief Executive Officer and the Chairman, believing that these roles are critical to the continued success of the Company. Near the beginning of fiscal 2010, the Committee approved a written employment contract for Mr. Sinegal, which was the same as his contract for the prior fiscal year. The contract term was for the fiscal year, unless otherwise terminated earlier in accordance with its terms, but is renewable from year to year. It provides for a base salary of $350,000. It further provides for a cash bonus of up to $200,000, determined by the Board or the Committee, and a RSU award determined by the Board or the Committee. The Company has the right to terminate Mr. Sinegal for cause, and he has the right to terminate the agreement on 60 days notice. Mr. Brotman, who is an executive chairman, does not have an employment agreement with the Company. Generally, the Committee has, with the agreement of Messrs. Brotman and Sinegal, treated them similarly for compensation purposes, owing to the similarities in their historical and current contributions to the success of the Company. Apart from the change-in-control provision in the Company s equity plan applicable to all grantees, neither Mr. Brotman nor Mr. Sinegal has any severance or change-in-control arrangement with the Company (nor does any other employee).

For fiscal 2010, the Committee granted 50,000 performance-based RSUs to each of Messrs. Brotman and Sinegal, the same number granted for the prior fiscal year. Mr. Sinegal did not request any change in the size of the award versus the prior year, and the Committee did not otherwise believe a change was warranted. The Committee determined after the end of the fiscal year that the performance and all of the RSUs were earned, subject to further time vesting and accelerated vesting for long service.

The base salaries of Messrs. Brotman and Sinegal have been $350,000 since fiscal 1999. Cash bonuses have generally been capped at no more than $200,000 since fiscal 1997. Messrs. Brotman and Sinegal each were awarded cash bonuses of $190,400 in fiscal 2010. There are no fixed criteria applied by the Committee in considering the amount of these bonuses. Generally, Mr. Sinegal recommends to the Committee the bonus he believes is appropriate. Historically, he has recommended modest amounts, seeking to link his bonus (as a percentage of that eligible amount stated in his employment contract) to bonuses earned by employees generally eligible for the bonuses. This year, the Company attained its internal net income goal and employees were eligible to receive the bonus award component associated with this goal (essentially 50% of the eligible bonus amount). Mr. Sinegal recommended to the Committee bonus amounts for other executive officers that were approximately 95% of eligible amounts, inclusive of the net income goal; he requested a bonus for himself in the same proportion. Accordingly, Mr. Sinegal requested a bonus of $190,400 of the $200,000 eligible amount in his employment agreement. The Committee approved this request and approved an equal award for Mr. Brotman.

The Committee observed that cash bonuses paid to chief executive officers at some peer companies are substantially higher. The Committee, however, wishes to respect Mr. Sinegal s desire to receive modest compensation, in part because it believes that higher amounts would not change Mr. Sinegal s motivation and performance. The Committee has indicated in the past and continues to believe that Messrs. Brotman and Sinegal are underpaid. The Committee has also noted that Messrs. Brotman and Sinegal have for many years had direct and indirect economic interests in shareholdings of the Company, which further align their interests with the Company s shareholders.

Compensation of Other Named Executive Officers

As noted above, the most significant component of the compensation of the Named Executive Officers is the award in fiscal 2010 of performance-based RSUs. RSU amounts awarded to Messrs. DiCerchio, Galanti, Jelinek, Portera and Zook were 30,000, 25,000, 25,000, 25,000 and 25,000 (respectively). The amounts awarded were based on the recommendations of Mr. Sinegal and were the same amounts as awarded in fiscal 2009. As noted above, the performance criteria were attained and the Named Executive Officers earned all of the RSUs granted, subject to further time vesting and accelerated vesting for long service as described above.

Salaries for other Named Executive Officers were based upon the recommendation of Mr. Sinegal, who focused on the amount of increase deserved over the prior year s salary level. Salary levels increased up to 5% over fiscal 2009.

Bonus. The Named Executive Officers (other than Messrs. Brotman and Sinegal) received discretionary cash bonuses ranging from approximately $76,000 to approximately $95,000, increased from the prior year. Bonus criteria were approved by the Committee in early fiscal 2010, based upon the recommendation of Mr. Sinegal. After the close of the fiscal year, Mr. Sinegal recommended bonus amounts to the Committee of 95% of potential amounts. The Committee maintains the discretion to vary from Mr. Sinegal s recommendation but historically has deferred to it, as it did this fiscal year. As with all other employees, roughly 50% of the bonus potential was achieved due to the Company s attainment of its internal net income target. For fiscal 2010, eligibility for the bonus portion not associated with the Company s net income target was determined based on goals relevant to the executive officer s area of responsibility: for those whose responsibilities are operational, the goals related to sales, controllable expenses, inventory shrinkage, and pretax profit in their areas of responsibility; for those whose responsibilities are primarily buying, the goals related to sales, gross margin, inventory shrinkage, and inventory turns in their areas of responsibility; for those whose responsibilities combine operational and buying functions, the goals related to a combination of those described above; and for those whose responsibilities are staff functions, the goals related to a combination of Company-wide operational and buying goals, in addition to qualitative factors relevant to their areas of responsibilities. For each officer there is also a component not linked to any objective measure. Mr. Sinegal is not bound to recommend any specific bonus amount based on these factors; he can and does consider what he believes to be the appropriate bonus in view of all the circumstances. To be eligible for the annual bonus, the individual must be employed by the Company at the time bonus checks are issued (historically in November following the fiscal year for which the amounts are paid).

Stock Ownership Guidelines

In fiscal 2009, the Company adopted stock ownership requirements for executive officers. By January 2010, all executive officers were required to own and maintain at least 12,000 shares of common stock. All executive officers are in compliance with this requirement.

Impact of Tax Considerations

The Committee examined the equity compensation in light of the impact of Section 162(m) of the Internal Revenue Code, which generally prohibits any publicly held corporation from taking a federal income tax deduction for compensation paid in excess of $1 million in any taxable year to the Named Executive Officers (other than the Chief Financial Officer), subject to certain exceptions for performance-based compensation (i.e., compensation paid only if an individual satisfies objective performance goals that the Committee has established in advance based on performance criteria approved by shareholders). RSUs and stock options granted to our Named Executive Officers are intended to satisfy the performance-based exception. In approving compensation types and levels, the Committee considers whether particular elements of that compensation will be deductible for federal income tax purposes. It retains the ability to approve what it believes to be appropriate compensation, even if the Company may not be able to deduct all of that compensation under federal tax laws.

Conclusion

The Committee believes that each element of compensation and the total compensation provided to each of the Named Executive Officers is reasonable and appropriate. The value of the compensation payable to the Named Executive Officers is significantly tied to the Company s performance and the return to its shareholders. The Committee believes that its compensation programs will allow the Company to continue to attract and retain a top-performing management team.

Report of the Compensation Committee of the Board of Directors

The Compensation Committee of the Company s Board of Directors has submitted the following report for inclusion in this Proxy Statement:

The Committee has reviewed and discussed with management the Compensation Discussion and Analysis contained in this Proxy Statement. Based on the review and discussions with management, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference in the Company s Annual Report on Form 10-K for the fiscal year ended August 29, 2010, for filing with the SEC.

The foregoing report is provided by the following directors, who constituted the Committee during fiscal 2010.

Benjamin S. Carson, Sr., M.D., Chair

Charles T. Munger

Jill S. Ruckelshaus

Summary of Compensation

The following table sets forth information regarding compensation for each of the Named Executive Officers for fiscal 2010, 2009, and 2008.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Stock Awards ($)(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(3)	All Other Compensation ($)(4)(5)	Total ($)
James D. Sinegal	2010	350,000	190,400	2,896,030		93,004	3,529,434
Chief Executive Officer	2009	350,000	75,000	2,230,700	2,736	78,576	2,737,012
	2008	350,000	80,000	3,290,150	34,974	73,442	3,828,566
Jeffrey H. Brotman	2010	350,000	190,400	2,896,030		88,948	3,525,378
Chairman of the Board	2009	350,000	75,000	2,230,700	4,520	75,905	2,736,125
	2008	350,000	80,000	3,290,150	61,390	71,282	3,852,822
W. Craig Jelinek	2010	635,000	95,200	1,448,015		85,844	2,264,059
President and Chief Operating	2009	603,849	32,353	1,115,350	1,360	82,544	1,835,456
Officer	2008	575,000	42,063	1,645,075	14,556	77,747	2,354,441
Richard D. DiCerchio	2010	583,107	95,200	1,737,618		107,557	2,523,482
Former Senior Executive Vice	2009	605,002	40,441	1,338,420	2,179	88,671	2,074,713
President and Chief Operating Officer(6)	2008	574,520	52,578	1,974,090	26,756	80,245	2,708,189
Richard A. Galanti	2010	600,000	76,160	1,448,015		108,327	2,232,502
Executive Vice President, Chief	2009	600,000	32,353	1,115,350	4,146	80,435	1,832,284
Financial Officer	2008	570,000	42,063	1,645,075	52,342	75,629	2,385,109
Joseph P. Portera	2010	565,288	77,815	1,448,015		106,566	2,197,684
Executive Vice President, COO-	2009	550,288	28,806	1,115,350	1,058	91,664	1,787,166
Eastern & Canadian Divisions	2008	535,385	34,554	1,645,075	13,598	78,653	2,307,265
Dennis R. Zook	2010	560,289	85,399	1,448,015		91,066	2,184,769
Executive Vice President, COO-	2009	545,288	24,000	1,115,350	578	79,440	1,764,656
Southwest & Mexico Divisions	2008	530,387	39,313	1,645,075	7,818	69,974	2,292,567

(1) Represents amounts awarded under the Company s executive cash bonus program.

(2) Represents the grant-date fair value of performance-based RSUs granted to the Named Executive Officers during fiscal 2010, 2009 and 2008, earned upon attainment of performance criteria. The performance criteria for fiscal 2010 are described under Compensation Discussion and Analysis Equity Compensation . The grant-date fair value is calculated as the market value of the common stock on the measurement date less the present value of the expected dividends forgone during the vesting period. The measurement date is the date that the Compensation Committee establishes the performance conditions, near the end of the first fiscal quarter. These amounts thus do not reflect the amount of compensation actually received by the Named Executive Officer during the fiscal year. For a description of the assumptions used in calculating the grant-date fair value of the RSUs, see Note 1 of our financial statements in our Form 10-K for year ended August 29, 2010.

(3) Each Named Executive Officer (among certain other employees) is eligible to participate in the Company s nonqualified deferred-compensation plan, which allows the employee to defer up to 100% of salary and bonus and to receive a Company match of up to 50% of the deferred amount, up to a maximum match of $5,000. The minimum deferral period is five years, and the matching credit vests ratably over five years unless the participant has attained a sum of age and years of service totaling 65, in which case the Company match vests in one year. Interest accrues on deferred amounts at the Bank of America prime rate. For contributions made after January 1, 1997, an additional 1% interest is credited upon the participant s attaining a sum of age and years of service totaling 65. The amounts reported in this column for years prior to fiscal 2010 represent the interest on the officer s balance to the extent that it is above market

greater than 120% of the applicable federal long-term rate.

(4) Detail is provided below in Fiscal 2010 All Other Compensation table.

(5) Executives, their families, and invited guests occasionally fly on the corporate aircraft as additional passengers on existing business flights. In those cases, any incremental cost to the Company is de minimis, and, as a result, no amount is reflected in the table.

(6) In May 2010, the Company announced the retirement of Richard D. DiCerchio, as its Senior Executive Vice President and Chief Operating Officer, effective June 4, 2010. Mr. DiCerchio is not seeking re-election as a director of the Company at the conclusion of his current term in January 2011.

FISCAL 2010 ALL OTHER COMPENSATION

Name	Deferred Compen-sation Match ($)	401(k) Matching Contribution ($)(1)	401(k) Discretionary Contribution ($)(1)	Executive Life Insurance ($)	Health Care Insurance Premiums ($)	Vehicle Allowance ($)	Long-Term Disability Premiums ($)	Tax Gross-Up ($)(2)	Other ($)	All Other Compen-sation ($)
James D. Sinegal	5,000	500	22,050	12,351	32,064	13,427	4,829	2,783		93,004
Jeffrey H. Brotman	5,000	500	22,050	5,891	32,064	12,468	6,966	4,009		88,948
W. Craig Jelinek	5,000	500	22,050	2,900	32,713	12,000	6,798	3,883		85,844
Richard D. DiCerchio	5,000	500	22,050	5,110	46,178	16,199	7,291	4,330	899	107,557
Richard A. Galanti	5,000	500	22,050	2,020	45,138	20,532	5,854	3,497	3,736	108,327
Joseph P. Portera	5,000	500	22,050	2,900	45,658	17,145	7,699	5,614		106,566
Dennis R. Zook	5,000	500	22,050	3,880	32,064	12,996	7,775	6,801		91,066

(1) 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 pretax deferral, for which the Company matches 50% of the first $1,000 of employee contributions. In addition, the Company provides each eligible participant an annual discretionary contribution based on salary and years of service, which amount is set forth above. Vesting in the matching and discretionary contributions is based on years of service and is 100% vested after five years of service.

(2) Executives are compensated for additional tax costs associated with the Company s payments on their behalf for long-term disability insurance (a benefit extended to all employees who are either at the level of senior vice-president and above or who participate in the deferred compensation plan (more than 800 eligible employees) who have 20 or more years of service).

The following table provides information regarding grants of performance-based RSUs during fiscal 2010 to each of the Named Executive Officers.

FISCAL 2010 GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards (#)(1)	Grant-Date Fair Value of Stock and Option Awards ($)(2)
James D. Sinegal	10/22/09	50,000	2,896,030
Jeffrey H. Brotman	10/22/09	50,000	2,896,030
W. Craig Jelinek	10/22/09	25,000	1,448,015
Richard D. DiCerchio	10/22/09	30,000	1,737,618
Richard A. Galanti	10/22/09	25,000	1,448,015
Joseph P. Portera	10/22/09	25,000	1,448,015
Dennis R. Zook	10/22/09	25,000	1,448,015

(1) Represents the number of performance-based RSUs granted to the Named Executive Officers during fiscal 2010, subject to attainment of the performance criteria described under Compensation Discussion and Analysis Equity Compensation . After the end of fiscal 2010, the Compensation Committee determined that the performance criteria had been met and the awards were earned. The earned awards vest 20% on the first anniversary of the grant date and an additional 20% vest over each of the ensuing four years, with additional acceleration of vesting for long service.

(2) Represents the grant-date fair value of RSU awards granted, computed as described in footnote 2 to the Summary Compensation Table above.

The following table sets forth information regarding outstanding stock options and unvested stock awards held by each of the Named Executive Officers as of August 29, 2010.

OUTSTANDING EQUITY AWARDS AT FISCAL 2010 YEAR-END

	Option Awards				Stock Awards		
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date[1]	Number of Shares or Units of Stock that Have Not Vested (#)[2]	Stock Award Grant Date	Market Value of Shares or Units of Stock That Have Not Vested ($)[3]
James D. Sinegal	150,000		36.19	04/02/11	5,000	6/12/06	280,950
	150,000		39.65	04/01/12	20,000	10/19/06	1,123,800
	150,000		30.41	04/01/13	30,000	10/17/07	1,685,700
	150,000		37.35	04/01/14	26,660	10/22/08	1,498,025
	150,000		43.79	04/01/15	33,330	10/22/09	1,872,813
Jeffrey H. Brotman	150,000		39.65	04/01/12	5,000	6/12/06	280,950
	150,000		30.41	04/01/13	20,000	10/19/06	1,123,800
	150,000		37.35	04/01/14	30,000	10/17/07	1,685,700
	150,000		43.79	04/01/15	26,660	10/22/08	1,498,025
					33,330	10/22/09	1,872,813
W. Craig Jelinek	45,000		34.28	04/24/11	2,500	6/12/06	140,475
	30,000		34.74	04/24/11	10,000	10/19/06	561,900
	30,000		38.79	04/02/12	15,000	10/17/07	842,850
	45,000		39.25	04/02/12	13,332	10/22/08	749,125
	15,000		30.41	04/01/13	16,664	10/22/09	936,350
	60,000		33.75	04/01/13			
	75,000		37.35	04/01/14			
	75,000		43.79	04/01/15			
Richard D. DiCerchio					3,000	6/12/06	168,570
					12,000	10/19/06	674,280
					18,000	10/17/07	1,011,420
					15,996	10/22/08	898,815
					19,998	10/22/09	1,123,688
Richard A. Galanti	10,000		34.74	04/24/11	2,500	6/12/06	140,475
	45,000		39.25	04/02/12	10,000	10/19/06	561,900
	30,000		38.79	04/02/12	15,000	10/17/07	842,850
	30,000		33.75	04/01/13	13,332	10/22/08	749,125
	25,000		37.35	04/01/14	16,664	10/22/09	936,350
	75,000		43.79	04/01/15			
Joseph P. Portera					2,500	6/12/06	140,475
					10,000	10/19/06	561,900
					15,000	10/17/07	842,850
					13,332	10/22/08	749,125
					16,664	10/22/09	936,350
Dennis R. Zook					2,500	6/12/06	140,475
					10,000	10/19/06	561,900
					15,000	10/17/07	842,850
					13,331	10/22/08	749,069
					16,664	10/22/09	936,350

(1) Options vested 20% annually over five years from the grant date. The grant date was ten years prior to the expiration date of the relevant option set forth in the Option Expiration Date column.

(2) RSUs are granted subject to (a) satisfaction of one-year performance conditions and (b) vesting over four years thereafter. Beginning with grants in fiscal 2009, RSUs are also subject prior to termination to accelerated vesting for long service. Specifically, RSUs with the following grant dates vest as follows, assuming satisfaction of the one-year performance conditions:

Grant Date	Vesting
6/12/2006	Vests 20% annually on each subsequent April 12
10/19/2006	Vests 20% annually on each subsequent October 19
10/17/2007	Vests 20% annually on each subsequent October 17
10/22/2008	Vests 20% annually on each subsequent October 22, subject to accelerated vesting of 33%, 66% or 100% of unvested shares for those who attain 25, 30 or 35 years of service, respectively, with the residual vesting ratably over the remaining four-year period.
10/22/2009	Subsequent to the end of fiscal 2010, the Compensation Committee certified that the performance criteria had been met and the RSUs were earned. The amounts listed above reflect accelerated vesting for long service as of the end of the fiscal year, which was prior to the determination that the performance criteria had been met.

(3) Based on the closing market price of $56.19 on August 29, 2010.

FISCAL 2010 OPTION EXERCISES AND STOCK VESTED

The following table provides information regarding stock options that were exercised and stock awards that vested during fiscal 2010 for each of the Named Executive Officers.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
James D. Sinegal	150,000	1,136,666	48,340	2,845,241
Jeffrey H. Brotman	150,000	1,202,720	48,340	2,851,041
W. Craig Jelinek	75,000	1,166,494	24,168	1,416,419
Richard D. DiCerchio	540,000	11,555,811	29,004	1,707,145
Richard A. Galanti	100,000	1,946,332	24,168	1,416,419
Joseph P. Portera	30,000	449,715	24,168	1,416,419
Dennis R. Zook	15,000	247,725	24,169	1,425,463

FISCAL 2010 NONQUALIFIED DEFERRED COMPENSATION

The following table provides information relating to the nonqualified deferred compensation plan for each of the Named Executive Officers. See Note 3 on page 19 to the Summary Compensation Table for additional information about the nonqualified deferred compensation plan.

Name	Executive Contributions in Last Fiscal Year ($)(1)	Registrant Contributions in Last Fiscal Year ($)(2)	Aggregate Earnings in Last Fiscal Year ($)(3)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year-End ($)(4)
James D. Sinegal	172,115	5,000	123,047		3,067,498
Jeffrey H. Brotman	10,000	5,000	147,310	973,193	3,223,653
W. Craig Jelinek	181,136	5,000	62,855		1,592,284
Richard D. DiCerchio	174,154	5,000	98,107		2,439,689
Richard A. Galanti	349,500	5,000	163,042		4,086,812
Joseph P. Portera	28,101	5,000	46,315		1,121,483
Dennis R. Zook	10,000	5,000	26,184		636,591

(1) These amounts were also included in Salary in the Summary Compensation Table.

(2) These amounts were reported as All Other Compensation in the Summary Compensation Table.

(3) The amount representing interest on the Named Executive Officer s balance that is above market (greater than 120% of the applicable federal long-term rate), was included in Change in Pension Value and Nonqualified Deferred Compensation Earnings in the Summary Compensation Table. During fiscal 2010, interest earnings did not exceed the above market guidelines.

(4) Of the amounts in this column, the following amounts have also been reported in the Summary Compensation Table for fiscal 2010, 2009, and 2008.

Name	Reported for Fiscal 2010 ($)	Previously Reported for Fiscal 2009 ($)	Previously Reported for Fiscal 2008 ($)
James D. Sinegal	177,115	110,621	289,974
Jeffrey H. Brotman	15,000	154,735	241,390
W. Craig Jelinek	186,136	215,755	156,525
Richard D. DiCerchio	179,154	158,679	263,564
Richard A. Galanti	354,500	332,146	511,342
Joseph P. Portera	33,101	39,658	41,898
Dennis R. Zook	15,000	15,578	26,280

Potential Payments Upon Termination or Change-in-Control

The Company does not have any change-in-control or severance agreements with any executive officer or director. Plans under which stock options and RSUs have been granted contain provisions concerning accelerated vesting upon a change in control. The amounts shown in the following table reflect the potential value to the Named Executive Officers, as of the end of fiscal 2010, of full acceleration of all unvested RSUs upon a change in control of the Company and acceleration of unvested RSUs upon certain terminations of employment. (There were no unvested options held by the Named Executive Officers at the end of fiscal 2010.) Under the Company s Fifth Restated 2002 Stock Incentive Plan, in the event of a change in control, the Board (or other authorized plan administrator) may accelerate RSU vesting.

The amounts shown assume that a change in control was effective as of the last business day of fiscal 2010 (August 29, 2010) and that the price of Costco common stock on which the calculations were based was the closing price on August 27, 2010 ($56.19). The amounts below

are estimates of the incremental amounts that would be received upon a change in control or termination of employment; the actual amount could be determined only at the time of any actual change in control or termination of employment. For grants of RSUs for fiscal years through 2008, in the event of a termination other than for cause: (a) proportional vesting (measured on a daily basis) occurs for the time period between the termination and the grant date or grant date anniversary; and (b) accelerated vesting for long service occurs for employees with age and years of service equaling or exceeding 65. For RSUs granted after fiscal 2008: in the event of a termination other than for cause: (a) proportional vesting (measured on a quarterly basis) occurs for the time period between termination and the grant date or grant date anniversary; and (b) accelerated vesting for long service occurs based on years of service. For purposes of the foregoing, the vesting formula for long service is 33% for 25 or more years of service; 66% for 30 or more years of service; and 100% for 35 or more years of service. RSUs granted after fiscal 2008 also provide for accelerated vesting for long service prior to termination. There is no accelerated vesting of RSUs in the event of a termination for cause.

ESTIMATED POTENTIAL INCREMENTAL PAYMENTS UPON TERMINATION OR

CHANGE IN CONTROL

Name	RSUs That May Vest Upon Change in Control[(1)(4)]	Total Value of RSUs That May Vest Upon Change in Control ($)[(3)]	RSUs Vested Upon Termination Without Cause[(2)(4)]	Total Value of RSUs Vested Upon Termination Without Cause ($)[(3)]
James D. Sinegal	114,990	6,461,288	42,417	2,383,411
Jeffrey H. Brotman	114,990	6,461,288	42,463	2,385,996
W. Craig Jelinek	57,496	3,230,700	21,203	1,191,397
Richard D. DiCerchio	68,994	3,876,773	25,448	1,429,923
Richard A. Galanti	57,496	3,230,700	21,203	1,191,397
Joseph P. Portera	57,496	3,230,700	21,203	1,191,397
Dennis R. Zook	57,496	3,230,700	21,203	1,191,397

(1) This column displays the maximum number of RSUs that in the event of a change in control of the Company the Board may chose to accelerate.

(2) RSUs are granted subject to (a) satisfaction of one-year performance conditions and (b) vesting over four years thereafter.

(3) Total value calculated assuming a termination or change-in-control date of August 29, 2010, and utilizing the market closing price on August 27, 2010 ($56.19 per share).

(4) Values assume satisfaction of the performance conditions for the October 2009 grants.

In the event that a Named Executive Officer s employment with the Company is terminated, either voluntarily or involuntarily, the officer will receive the balance of the deferred compensation account no sooner than six months following termination of employment or death. The balances of each Named Executive Officer s deferred compensation account as of the end of fiscal 2010 are set forth in the table above titled Fiscal 2010 Nonqualified Deferred Compensation. In addition, in the event of a threatened change in control of the Company, the Compensation Committee may take various actions to protect the deferred compensation benefit of the participants, including accelerating vesting or terminating the deferred compensation plan and paying benefits to the participants.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is an executive officer or former officer of the Company. In addition, no executive officer of the Company served on the board of directors of any entity whose executive officers included a director of the Company.

Certain Relationships and Transactions

John W. Meisenbach is a principal shareholder of MCM, A Meisenbach Company. MCM provided consulting and brokerage services in managing the Company s employee benefit and member insurance programs. For these services, MCM received total compensation from third-party insurers and the Company of $2.78 million in fiscal 2010.

Richard D. DiCerchio s brother-in-law was employed by the Company during fiscal 2010 at an annual salary of $204,000, and received a bonus of $42,840 and an RSU grant of 2,700 shares. James D. Sinegal s son was employed by the Company during fiscal year 2010 at an annual salary of $263,000 and received a bonus of $50,000 and an RSU grant of 12,500 shares. Cash bonuses were awarded under terms and conditions comparable to those applicable to other employees of the Company similarly situated. RSU grants are subject to terms and conditions affecting employees generally, including vesting over five years. Mr. Sinegal s son also received reimbursements of the type received by other expatriate officers designed to offset higher costs associated with living and working abroad. The payments related to housing, education, travel, automobile, tax preparation and tax equalization, and were in the amount of approximately $995,000 associated with fiscal 2010. These individuals also participate in benefit plans generally available to employees. No family members of executive officers or directors are executive officers of the Company.

A company controlled by Mr. DiCerchio s wife sold merchandise to the Company for resale, for which the Company paid $191,000.

These relationships and transactions were approved by the Audit Committee. The charter of the Audit Committee requires the Committee to review and approve all related-person transactions that are required to be disclosed under SEC Item 404(a) of Regulation S-K . There were no transactions required to be reported in this Proxy Statement since the beginning of fiscal 2010 where this policy did not require review, approval or ratification or where this policy was not followed.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under SEC rules, the Company s directors, executive officers and beneficial owners of more than 10% of the Company s equity security are required to file periodic reports of their ownership, and changes in that ownership, with the SEC. Based solely on its review of copies of these reports and representations of such reporting persons, the Company believes that during fiscal 2010, such SEC filing requirements were satisfied, except Dr. Carson and Mr. Raikes each filed a late Form 4 related to one transaction.

Report of the Audit Committee

As of October 12, 2010

To the Board of Directors of Costco Wholesale Corporation:

We have reviewed and discussed with management the Company s audited consolidated financial statements as of and for the fiscal year ended August 29, 2010.

We have discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

We have received the written disclosures and the letter from the independent auditors required by the Public Company Accounting Oversight Board regarding the independent auditors communications with this Committee concerning independence and have discussed with the independent auditors their independence.

Based on the reviews and discussions referred to above, we recommended to the Board of Directors that the audited consolidated financial statements referred to above be included in the Company s Annual Report on Form 10-K for the fiscal year ended August 29, 2010.

Charles T. Munger, Chair

Daniel J. Evans

Susan L. Decker

Code of Ethics for Senior Financial Officers

The Board of Directors has adopted a Code of Ethics for Senior Financial Officers. A copy of the Code of Ethics may be obtained at no charge by sending a written request to the Corporate Secretary, 999 Lake Drive, Issaquah, Washington 98027. If the Company makes any amendments to this code (other than technical, administrative, or non-substantive amendments) or grants any waivers, including implicit waivers, from this code to the CEO, chief financial officer, or controller, we will disclose (on our website or in a Form 8-K report filed with the SEC) the nature of the amendment or waiver, its effective date, and to whom it applies.

INDEPENDENT PUBLIC ACCOUNTANTS

Information Regarding Our Independent Auditors

KPMG LLP has served as our independent auditors since May 13, 2002. Upon recommendation of the Audit Committee, our Board of Directors has appointed KPMG as our independent auditors for the fiscal year 2011.

Services and Fees of KPMG

The following table presents fees for services rendered by KPMG for fiscal 2010 and fiscal 2009:

	2010	**2009**
Audit fees	$ 4,325,000	$ 4,136,000
Audit-related fees	270,000	143,000
Tax fees	412,000	297,000
All other fees	17,000	11,000
Total	$ 5,024,000	$ 4,587,000

KPMG was paid fees for performing the following types of services during fiscal 2010:

Audit Fees consist of fees paid for the audit of the Company s annual consolidated financial statements included in the Annual Report on Form 10-K and review of interim condensed consolidated financial statements included in the quarterly reports on Form 10-Q and for the audit of the Company s internal control over financial reporting. Audit fees also include fees for any services associated with statutory audits of subsidiaries and affiliates of the Company, and with registration statements, reports and documents filed with the SEC.

Audit-Related Fees consist of fees for audits of financial statements of certain employee benefit plans, audits and attest services not required by statute or regulations and accounting consultations about the application of generally accepted accounting principles to proposed transactions.

Tax Fees consist of fees for the review or preparation of international income, franchise, value-added tax or other tax returns, including consultations on such matters, assistance with studies supporting amounts presented in tax returns, and consultations on various tax compliance matters.

Other Fees consist of fees for certain regulatory certifications, attestation reports at international locations, and executive education courses provided to Company employees.

Audit Committee Preapproval Policy

All services to be performed for the Company by KPMG must be preapproved by the Audit Committee or a designated member of the Audit Committee, as provided in the committee s written policies for preapproval. All services provided by KPMG in fiscal 2010 were pre-approved by the Audit Committee.

Annual Independence Determination

The Audit Committee has determined that the provision by KPMG of non-audit services to the Company in fiscal 2010 is compatible with KPMG s maintaining its independence.

PROPOSAL 2:

INDEPENDENT PUBLIC ACCOUNTANTS

Subject to ratification by the shareholders at the Annual Meeting, the Audit Committee and the Board of Directors have selected KPMG to audit the consolidated financial statements of the Company and its subsidiaries for the fiscal year ending August 28, 2011. KPMG has issued its reports, included in the Company s Form 10-K, on the audited consolidated financial statements of the Company and internal control over financial reporting for the fiscal year ended August 29, 2010. KPMG has served the Company as independent auditors since May 13, 2002. Representatives of KPMG are expected to be present at the Annual Meeting, will have the opportunity to make a statement, if they desire to do so, and will be available to respond to appropriate questions.

Vote Required

The affirmative vote of a majority of the votes cast on this proposal will constitute ratification of the appointment of KPMG.

The Board of Directors unanimously recommends that you vote FOR Proposal 2.

PROPOSAL 3:

ADVISORY VOTE ON EXECUTIVE COMPENSATION

In accordance with recent legislation, the Company is providing shareholders with an advisory (non-binding) vote on compensation programs for our Named Executive Officers (sometimes referred to as say on pay). Accordingly, you may vote on the following resolution at the 2011 annual meeting:

Resolved, that the shareholders approve, on an advisory basis, the compensation of the Company s Named Executive Officers as disclosed in the Compensation Discussion and Analysis, the accompanying compensation tables, and the related narrative disclosure in this Proxy Statement.

This vote is nonbinding. The Board and the Compensation Committee, which is comprised of independent directors, expect to take into account the outcome of the vote when considering future executive compensation decisions to the extent they can determine the cause or causes of any significant negative voting results.

As described in detail under Compensation Discussion and Analysis our compensation programs are designed to motivate our executives to create a successful company. If fully earned based on the achievement of performance targets, equity compensation in the form of restricted stock units that are subject to further time-based vesting is the largest component of executive compensation. We believe that our compensation program, with its balance of short-term incentives (including cash bonus awards and performance conditions for awards of restricted stock units) and long-term incentives (including equity awards that vest over up to five years) and share ownership guidelines reward sustained performance that is aligned with long-term shareholder interests. Shareholders are encouraged to read the Compensation Discussion and Analysis, the accompanying compensation tables, and the related narrative disclosure.

The Board of Directors unanimously recommends that you vote FOR the approval, on an advisory basis, of the compensation of our Named Executive Officers as disclosed in the Compensation Discussion and Analysis, the accompanying compensation tables, and the related narrative disclosure.

PROPOSAL 4:

ADVISORY VOTE ON THE FREQUENCY OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION

In addition to providing shareholders with the opportunity to cast an advisory vote on executive compensation, the Company this year is providing shareholders with an advisory vote on whether the advisory vote on executive compensation should be held every one, two or three years.

The Board believes that a frequency of every three years for the advisory vote on executive compensation is the optimal interval for conducting and responding to a say on pay vote. Shareholders who have concerns about executive compensation during the interval between say on pay votes are welcome to bring their specific concerns to the attention of the Board. Please refer to Shareholder Communications to the Board in this Proxy Statement for information about communicating with the Board.

The proxy card provides shareholders with the opportunity to choose among four options (holding the vote every one, two or three years, or abstaining) and, therefore, shareholders will not be voting to approve or disapprove the Board s recommendation.

Although this advisory vote on the frequency of the say on pay vote is nonbinding, the Board and the Compensation Committee will take into account the outcome of the vote when considering the frequency of future advisory votes on executive compensation.

The Board of Directors unanimously recommends that you vote for the option of every three years for future advisory votes on executive compensation.

OTHER MATTERS

Neither the Board of Directors nor management intends to bring before the Annual Meeting any business other than the matters referred to in the Notice of Meeting and this Proxy Statement. If any other business should properly come before the Annual Meeting, or any adjournment thereof, the persons named in the proxy will vote on such matters according to their best judgment.

SHAREHOLDER PROPOSALS FOR 2012 ANNUAL MEETING

In order for a shareholder proposal to be included in the proxy statement for the 2012 annual meeting of shareholders, it must comply with SEC Rule 14a-8 and be received by the Company no later than August 15, 2011. Proposals may be mailed to the Company, to the attention of the Secretary, Costco Wholesale Corporation, 999 Lake Drive, Issaquah, Washington 98027. A shareholder who intends to present a proposal at the Company s annual meeting in 2012, other than pursuant to Rule 14a-8, must comply with the requirements as set forth in our Bylaws, provide the Company notice of such intention by at least October 29, 2011, and such proposal must be a proper matter for shareholder action under Washington corporate law, or management of the Company will have discretionary voting authority at the 2012 annual meeting with respect to any such proposal without discussion of the matter in the Company s proxy statement.

ANNUAL REPORT TO SHAREHOLDERS AND FORM 10-K

The fiscal 2010 Annual Report to Shareholders (which is not a part of our proxy soliciting materials), is being mailed with this Proxy Statement to those shareholders that received a copy of the proxy materials in the mail. For those shareholders that received the Notice of Internet Availability of Proxy Materials, this Proxy Statement and our fiscal 2010 Annual Report to Shareholders are available at our website at http://phx.corporate-ir.net/phoenix.zhtml?c=83830&p=irol-irhome. Additionally, and in accordance with SEC rules, you may access our Proxy Statement at www.proxyvote.com, a cookie-free website that does not identify visitors to the site. **A copy of the Company s Annual Report on Form 10-K filed with the SEC will be provided to shareholders without charge upon written request directed to Investor Relations. The Company makes available on or through our website free of charge our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to such reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after filing.**

GENERAL INFORMATION

List of Shareholders of Record. A list of shareholders of record entitled to vote at the Annual Meeting will be available at the Annual Meeting and will also be available for ten business days prior to the Annual Meeting between the hours of 9:00 a.m. and 4:00 p.m., Pacific time, at the office of the Secretary, Costco Wholesale Corporation, 999 Lake Drive, Issaquah, Washington 98027. A shareholder may examine the list for any legally valid purpose related to the Annual Meeting.

The Company is incorporated under Washington law, which specifically permits electronically transmitted proxies, provided that the transmission set forth or be submitted with information from which it can reasonably be determined that the transmission was authorized by the shareholder. The electronic voting procedures provided for the Annual Meeting are designed to authenticate each shareholder by use of a control number to allow shareholders to vote their shares and to confirm that their instructions have been property recorded.

As permitted by SEC rules, the Company will deliver only one Annual Report or Proxy Statement to multiple shareholders sharing the same address, unless the Company has received contrary instructions from one or more of the shareholders. The Company will, upon written or oral request, deliver a separate copy of the Annual Report or Proxy Statement to a shareholder at a shared address to which a single copy of the Annual Report or Proxy Statement was delivered and will include instructions as to how the shareholder can notify the Company that the shareholder wishes to receive a separate copy of the Annual Report or Proxy Statement in the future. Registered shareholders wishing to receive a separate Annual Report or Proxy Statement in the future or registered shareholders sharing an address wishing to receive a single copy of the Annual Report or Proxy Statement in the future may contact the Company s Transfer Agent: BNY Mellon Shareowner Services, 480 Washington Blvd., Jersey City, NJ 07310; (800) 249-8982.

By order of the Board of Directors,

Joel Benoliel

Secretary

COSTCO WHOLESALE CORPORATION

999 LAKE DRIVE

ISSAQUAH, WA 98027

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M28234-P03686 KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

COSTCO WHOLESALE CORPORATION	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.

The Board of Directors recommends that you vote FOR the following:

Vote on Directors ¨ ¨ ¨

1. Election of Directors

Nominees:
01) Susan L. Decker
02) Richard M. Libenson
03) John W. Meisenbach
04) Charles T. Munger

Vote on Proposal	**For**	**Against**	**Abstain**
The Board of Directors recommends you vote FOR the following:			
2. Ratification of selection of independent auditors.	¨	¨	¨

	For	**Against**	**Abstain**
The Board of Directors recommends you vote FOR the following:			
3. Approval, on an advisory basis, of executive compensation.	¨	¨	¨

	1 Year	**2 Years**	**3 Years**	**Abstain**
The Board of Directors recommends you vote for a 3 Year frequency:				
4. An advisory vote on the frequency of holding an advisory vote on executive compensation.	¨	¨	¨	¨

NOTE: Such other business as may properly come before the meeting or any adjournment thereof.

For address changes and/or comments, please check this box and write them on the back where indicated. ¨

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and Annual Report are available at

phx.corporate-ir.net/phoenix.zhtml?c=83830&p=irol-irhome or www.proxyvote.com.

M28235-P03686

COSTCO WHOLESALE CORPORATION

999 Lake Drive, Issaquah, Washington 98027

Proxy for the January 27, 2011 Annual Meeting Of Shareholders

This Proxy is Solicited by the Board of Directors of Costco Wholesale Corporation

The undersigned shareholder of Costco Wholesale Corporation (the Company) hereby appoints Jeffrey H. Brotman and James D. Sinegal, and each of them, the lawful attorneys and proxies of the undersigned, each with several powers of substitution, to vote all of the shares of Common Stock of the Company held of record by the undersigned on November 22, 2010, at the Annual Meeting of Shareholders to be held at the Meydenbauer Center, Center Hall B, 11100 NE 6th Street, Bellevue, Washington 98004, on Thursday, January 27, 2011 at 4:00 p.m., local time, and at any and all adjournments thereof, with all the powers the undersigned would possess if personally present upon all matters set forth in the Notice of Annual Meeting of Shareholders and Proxy Statement.

Shares represented by all properly executed proxies will be voted in accordance with instructions appearing on the proxy and in the discretion of the proxy holders as to any other matter that may properly come before the Annual Meeting of Shareholders. IN THE ABSENCE OF SPECIFIC INSTRUCTIONS, PROXIES WILL BE VOTED FOR PROPOSALS 1, 2 AND 3, FOR A THREE YEAR FREQUENCY, AND IN THE DISCRETION OF THE PROXY HOLDERS AS TO ANY OTHER MATTER THAT MAY PROPERLY COME BEFORE THE ANNUAL MEETING OF SHAREHOLDERS.

Address Changes/Comments:

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

Continued and to be signed on reverse side