

COSTCO WHOLESALE CORP /NEW

Form 10-Q

December 17, 2010

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended November 21, 2010

OR

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

Commission file number 0-20355

**Costco Wholesale Corporation**

(Exact name of registrant as specified in its charter)

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**Washington**  
(State or other jurisdiction of  
incorporation or organization)

**91-1223280**  
(I.R.S. Employer  
Identification No.)

**999 Lake Drive, Issaquah, WA 98027**  
(Address of principal executive office)

(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

The number of shares outstanding of the registrant's common stock as of December 10, 2010 was 436,524,744.

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**COSTCO WHOLESALE CORPORATION**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1 Financial Statements****COSTCO WHOLESALE CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

(dollars in millions, except par value and share data)

(unaudited)

	November 21, 2010	August 29, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,739	\$ 3,214
Short-term investments	1,545	1,535
Receivables, net	985	884
Merchandise inventories	6,852	5,638
Deferred income taxes and other current assets	437	437
Total current assets	13,558	11,708
<b>PROPERTY AND EQUIPMENT</b>		
Land	3,738	3,484
Buildings and improvements	9,723	9,096
Equipment and fixtures	3,756	3,513
Construction in progress	232	267
	17,449	16,360
Less accumulated depreciation and amortization	(5,430)	(5,046)
Net property and equipment	12,019	11,314
<b>OTHER ASSETS</b>	466	793
<b>TOTAL ASSETS</b>	\$ 26,043	\$ 23,815
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term borrowings	\$ 24	\$ 26
Accounts payable	7,205	5,947
Accrued salaries and benefits	1,575	1,571
Accrued sales and other taxes	343	322
Deferred membership fees	945	869
Other current liabilities	1,410	1,328
Total current liabilities	11,502	10,063
<b>LONG-TERM DEBT, excluding current portion</b>	2,143	2,141
<b>DEFERRED INCOME TAXES AND OTHER LIABILITIES</b>	691	681
Total liabilities	14,336	12,885

**COMMITMENTS AND CONTINGENCIES**

**EQUITY**

Preferred stock \$.005 par value; 100,000,000 shares authorized; no shares issued and outstanding	0	0
Common stock \$.005 par value; 900,000,000 shares authorized; 436,337,000 and 433,510,000 shares issued and outstanding	2	2
Additional paid-in capital	4,242	4,115
Accumulated other comprehensive income	270	122
Retained earnings	6,685	6,590
Total Costco stockholders' equity	11,199	10,829
Noncontrolling interests	508	101
Total equity	11,707	10,930
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 26,043</b>	<b>\$ 23,815</b>

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

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**COSTCO WHOLESALE CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(dollars in millions, except per share data)

(unaudited)

	12 Weeks Ended	
	November 21, 2010	November 22, 2009
<b>REVENUE</b>		
Net sales	\$ 18,823	\$ 16,922
Membership fees	416	377
Total revenue	19,239	17,299
<b>OPERATING EXPENSES</b>		
Merchandise costs	16,757	15,081
Selling, general and administrative	1,941	1,777
Preopening expenses	12	11
Provision for impaired assets and closing costs, net	4	2
Operating income	525	428
<b>OTHER INCOME (EXPENSE)</b>		
Interest expense	(26)	(24)
Interest income and other, net	5	18
<b>INCOME BEFORE INCOME TAXES</b>	504	422
Provision for income taxes	172	152
Net income including noncontrolling interests	332	270
Net income attributable to noncontrolling interests	(20)	(4)
<b>NET INCOME ATTRIBUTABLE TO COSTCO</b>	\$ 312	\$ 266
<b>NET INCOME PER COMMON SHARE ATTRIBUTABLE TO COSTCO:</b>		
Basic	\$ 0.72	\$ 0.61
Diluted	\$ 0.71	\$ 0.60
Shares used in calculation (000 s)		
Basic	434,099	437,173
Diluted	441,360	444,849
Dividends per share	\$ 0.205	\$ 0.180

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

**Table of Contents****COSTCO WHOLESALE CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(dollars in millions)

(unaudited)

	12 Weeks Ended	
	November 21, 2010	November 22, 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income including noncontrolling interests	\$ 332	\$ 270
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	191	184
Stock-based compensation	57	52
Undistributed equity earnings in joint ventures	0	(8)
Excess tax benefit on stock-based awards	(17)	(5)
Other non-cash items, net	5	(3)
Deferred income taxes	(5)	(2)
Changes in operating assets and liabilities, net of the initial consolidation of Costco Mexico at the beginning of fiscal 2011:		
Change in receivables, other current assets, deferred membership fees, accrued and other current liabilities	108	187
Increase in merchandise inventories	(912)	(795)
Increase in accounts payable	961	871
Net cash provided by operating activities	720	751
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment, net of \$35 and \$41 of non-cash capital expenditures in the first fiscal quarters of 2011 and 2010, respectively	(306)	(313)
Increase resulting from initial consolidation of Costco Mexico	165	0
Proceeds from the sale of property and equipment	7	1
Purchases of short-term investments	(719)	(334)
Maturities of short-term investments	479	308
Sales of investments	237	34
Other investing items, net	0	8
Net cash used in investing activities	(137)	(296)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in bank checks outstanding	73	16
Repayments of short-term borrowings	(10)	(33)
Proceeds from short-term borrowings	8	46
Repayments of long-term debt	0	(35)
Cash dividend payments	(89)	(79)
Excess tax benefit on stock-based awards	17	5
Proceeds from stock-based awards, net	60	36
Repurchases of common stock	(145)	0
Other financing activities	(1)	39
Net cash used in financing activities	(87)	(5)

<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	29	10
Net increase in cash and cash equivalents	525	460
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>	3,214	3,157
<b>CASH AND CASH EQUIVALENTS END OF PERIOD</b>	\$ 3,739	\$ 3,617
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest (reduced by \$3 and \$4 interest capitalized in the first fiscal quarters of 2011 and 2010, respectively)	\$ 54	\$ 53
Income taxes	\$ 82	\$ 41
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:</b>		
Unsettled repurchases of common stock	\$ 5	\$ 0
Property acquired under a capital lease	\$ 0	\$ 80

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



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**COSTCO WHOLESALE CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(dollars in millions, except share data)**

**(unaudited)**

**Note 1 Summary of Significant Policies**

*Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial reporting pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). While these statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's annual report filed on Form 10-K for the fiscal year ended August 29, 2010.

The condensed consolidated financial statements include the accounts of Costco Wholesale Corporation, a Washington corporation, its wholly-owned subsidiaries, subsidiaries in which it has a controlling interest, and equity investments in which it exercises the right to direct the activities that most significantly impact the performance of the investee (Costco or the Company). The Company reports its noncontrolling interests in consolidated subsidiaries or equity investments as a component of equity separate from the Company's equity. All material inter-company transactions between the Company and its consolidated subsidiaries or equity investments have been eliminated in consolidation.

In June 2009, the FASB issued amended guidance concerning whether variable interests constitute controlling financial interests. This guidance is effective for the first annual reporting period that begins after November 15, 2009. The Company adopted this guidance on August 30, 2010 (at the beginning of its fiscal year 2011). As a result of the adoption, the Company determined that its 50%-owned joint venture, Costco Mexico, met the characteristics of a variable interest entity and that as the primary beneficiary the Company would consolidate Costco Mexico on a prospective basis beginning August 30, 2010, as allowed for under the authoritative guidance. Costco Mexico operates 32 warehouses similar to Costco warehouses operated elsewhere.

Historically, the Company accounted for its 50% interest in Costco Mexico under the equity method of accounting. The Company's equity method investment in Costco Mexico included in other assets in the accompanying consolidated balance sheet as of August 29, 2010 totaled \$357, which was derecognized as part of the initial consolidation of the joint venture on August 30, 2010 and noncontrolling interests included in total equity in the accompanying consolidated balance sheets increased \$357. Total assets and liabilities increased by approximately 3% due to the consolidation of Costco Mexico. The consolidation of Costco Mexico has no impact on net income or net income per common share attributable to Costco (Net Income), which excludes noncontrolling interests in its operations in Mexico, Korea, and Taiwan.

Costco operates membership warehouses that offer low prices on a limited selection of nationally branded and select private-label products in a wide range of merchandise categories in no-frills, self-service facilities. At November 21, 2010, Costco operated 580 warehouses in 40 U.S. states and Puerto Rico (423 locations), nine Canadian provinces (80 locations), Mexico (32 locations), the United Kingdom (22 locations), Japan (nine locations), Korea (seven locations), Taiwan (six locations), and Australia (one location).

**Table of Contents****Note 1 Summary of Significant Policies (Continued)***Fiscal Year End*

Costco operates on a 52/53-week fiscal year basis, with the fiscal year ending on the Sunday closest to August 31. References to the first quarters of 2011 and 2010 relate to the 12-week fiscal quarters ended November 21, 2010 and November 22, 2009, respectively.

*Use of Estimates*

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

*Merchandise Inventories*

Merchandise inventories are valued at the lower of cost or market, as determined primarily by the retail inventory method, and are stated using the last-in, first-out (LIFO) method for substantially all U.S. merchandise inventories. Merchandise inventories for all foreign operations are primarily valued by the retail inventory method and are stated using the first-in, first-out (FIFO) method. The Company believes the LIFO method more fairly presents the results of operations by more closely matching current costs with current revenues. The Company records an adjustment each quarter, if necessary, for the expected annual effect of inflation or deflation, and these estimates are adjusted to actual results determined at year-end. At the end of the first quarter of 2011 and at fiscal year-end 2010, merchandise inventories valued at LIFO approximated FIFO after considering the lower of cost or market principle.

*Derivatives*

The Company is exposed to foreign currency exchange-rate fluctuations in the normal course of its business. The Company manages these fluctuations in part, through the use of forward foreign exchange contracts, seeking to hedge the impact of fluctuations of foreign exchange on known future expenditures denominated in a foreign currency. The contracts are intended primarily to hedge U.S. dollar merchandise inventory expenditures. Currently, these contracts do not qualify for derivative hedge accounting. The Company seeks to mitigate risk with the use of these contracts and does not intend to engage in speculative transactions. The aggregate notional amount of forward foreign exchange contracts was \$216 and \$225 at November 21, 2010 and August 29, 2010, respectively. These contracts do not contain any credit-risk-related contingent features.

The Company seeks to manage the counterparty risk associated with these contracts by limiting transactions to counterparties with which the Company has an established banking relationship. There can be no assurance, however, that this practice effectively mitigates counterparty risk. The contracts are limited to less than one year. See Note 3 for information on the fair value of these contracts.

The following table summarizes the amount of net gain or (loss) recognized in interest income and other, net in the accompanying condensed consolidated statements of income:

	Quarter Ended	
	November 21, 2010	November 22, 2009
Forward foreign exchange contracts	\$ (2)	\$ 0

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### **Note 1 Summary of Significant Policies (Continued)**

The Company is exposed to fluctuations in energy prices, particularly electricity and natural gas, which it seeks to partially mitigate through the use of fixed-price contracts for approximately 28% of its warehouses and other facilities in the U.S. and Canada. The Company also enters into variable-priced contracts for some purchases of natural gas, in addition to fuel for its gas stations, on an index basis. These contracts meet the characteristics of derivative instruments but generally qualify for the normal purchases or normal sales exception under authoritative guidance and thus require no mark-to-market adjustment.

#### *Fair Value of Financial Instruments*

The Company follows the authoritative guidance for fair value measurements relating to financial and nonfinancial assets and liabilities, including presentation of required disclosures, in its condensed consolidated financial statements. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy, which requires maximizing the use of observable inputs when measuring fair value. The three levels of inputs that may be used are:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Significant unobservable inputs that are not corroborated by market data.

There have been no material changes to the valuation techniques utilized in the fair value measurement of assets and liabilities presented on the Company's balance sheet as disclosed in the Company's Form 10-K for the fiscal year ended August 29, 2010.

#### *Stock Repurchase Programs*

Shares repurchased are retired, in accordance with the Washington Business Corporation Act. The par value of repurchased shares is deducted from common stock and the excess of repurchase price over par value is deducted from additional paid-in capital and retained earnings. See Note 5 for additional information.

#### *Recently Adopted Accounting Pronouncements*

In October 2009, the Financial Accounting Standards Board (FASB) issued amended guidance on revenue recognition for multiple-deliverable revenue arrangements. Under this guidance, when vendor-specific objective evidence or third-party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling-price method. This guidance also prescribes disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The guidance was effective for revenue arrangements entered into for fiscal years beginning on or after June 15, 2010. The Company adopted this guidance at the beginning of its fiscal year 2011. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires disclosure of transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy, including the reasons and the timing of the transfers and information on purchases, sales, issuance, and settlements on a

**Table of Contents****Note 1 Summary of Significant Policies (Continued)**

gross basis (as opposed to a net basis) in the reconciliation of the assets and liabilities measured under Level 3 of the fair value measurement hierarchy. The guidance is effective for annual and interim reporting periods beginning after December 15, 2009, except for Level 3 (on a gross basis) reconciliation disclosures, which are effective for annual and interim periods beginning after December 15, 2010. The Company adopted this guidance at the beginning of its third quarter of fiscal 2010, except for the Level 3 reconciliation disclosures on the roll-forward activities, which it will adopt at the beginning of its third quarter of fiscal 2011. Other than requiring additional disclosures, adoption of this guidance did not have and is not expected to have a material impact on the Company's condensed consolidated financial statements.

**Note 2 Investments**

The Company's major classes of investments have not changed from the annual reporting period ended August 29, 2010. The Company's investments at November 21, 2010, and August 29, 2010, were as follows:

	<b>Cost Basis</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Recorded Basis</b>
<b>November 21, 2010:</b>				
Available-for-sale:				
U.S. government and agency securities	\$ 1,176	\$ 7	\$ 0	\$ 1,183
Corporate notes and bonds	9	1	0	10
FDIC insured corporate bonds	185	1	0	186
Asset and mortgage-backed securities	21	0	0	21
Total available-for-sale	1,391	9	0	1,400
Held-to-maturity:				
Certificates of deposit	145			145
<b>Total investments</b>	<b>\$ 1,536</b>	<b>\$ 9</b>	<b>\$ 0</b>	<b>\$ 1,545</b>

	<b>Cost Basis</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Recorded Basis</b>
<b>August 29, 2010:</b>				
Available-for-sale:				
U.S. government and agency securities	\$ 1,222	\$ 7	\$ 0	\$ 1,229
Corporate notes and bonds	10	1	0	11
FDIC insured corporate bonds	139	0	0	139
Asset and mortgage-backed securities	23	0	0	23
Total available-for-sale	1,394	8	0	1,402
Held-to-maturity:				
Certificates of deposit	133			133
<b>Total investments</b>	<b>\$ 1,527</b>	<b>\$ 8</b>	<b>\$ 0</b>	<b>\$ 1,535</b>

The proceeds and gross realized gains and losses from sales of available-for-sale securities during the first quarter of 2011 and 2010 are provided in the following table:

<b>Quarter Ended</b>	
<b>November 21, 2010</b>	<b>November 22, 2009</b>

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Proceeds	\$ 237	\$	34
Realized gains	\$ 0	\$	2
Realized losses	\$ 0	\$	0

**Table of Contents****Note 2 Investments (Continued)**

At November 21, 2010, and August 29, 2010, the Company's available-for-sale securities that were in continuous unrealized loss positions were insignificant.

The maturities of available-for-sale and held-to-maturity securities at November 21, 2010, were as follows:

	Available-For-Sale		Held-To-Maturity	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Due in one year or less	\$ 515	\$ 516	\$ 145	\$ 145
Due after one year through five years	868	875	0	0
Due after five years	8	9	0	0
	\$ 1,391	\$ 1,400	\$ 145	\$ 145

**Note 3 Fair Value Measurement***Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The tables below present information as of November 21, 2010 and August 29, 2010 regarding the Company's financial assets and financial liabilities that are measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. As of these dates, the Company did not hold any Level 3 financial assets or liabilities.

<b>November 21, 2010:</b>	<b>Level 1</b>	<b>Level 2</b>
Money market mutual funds <sup>(1)</sup>	\$ 1,525	\$ 0
Investment in U.S. government and agency securities	0	1,183
Investment in corporate notes and bonds	0	10
Investment in FDIC insured corporate notes	0	186
Investment in asset and mortgage-backed securities	0	21
Forward foreign exchange contracts, in asset position <sup>(2)</sup>	0	1
Forward foreign exchange contracts, in (liability) position <sup>(2)</sup>	0	(5)
Total	\$ 1,525	\$ 1,396

<b>August 29, 2010:</b>	<b>Level 1</b>	<b>Level 2</b>
Money market mutual funds <sup>(1)</sup>	\$ 1,514	\$ 0
Investment in U.S. government and agency securities	0	1,229
Investment in corporate notes and bonds	0	11
Investment in FDIC insured corporate notes	0	139
Investment in asset and mortgage-backed securities	0	23
Forward foreign exchange contracts, in asset position <sup>(2)</sup>	0	1
Forward foreign exchange contracts, in (liability) position <sup>(2)</sup>	0	(3)
Total	\$ 1,514	\$ 1,400

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- (1) Included in cash and cash equivalents in the accompanying condensed consolidated balance sheets.
- (2) The asset and the liability values are included in deferred income taxes and other current assets and other current liabilities, respectively, in the accompanying condensed consolidated balance sheets. See Note 1 for additional information on derivative instruments.

**Table of Contents****Note 3 Fair Value Measurement (Continued)**

The table below provides a summary of the changes in fair value, including net transfers, of all financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the quarter ended November 22, 2009. There was no activity for the quarter ended November 21, 2010.

	Quarter Ended November 22, 2009		
	Investment in corporate notes and bonds	Investment in asset and mortgage- backed securities	Total
Balance, beginning of period	\$ 14	\$ 12	\$ 26
Total realized and unrealized gains (losses):			
Included in interest income and other, net	0	2	2
Purchases, issuances, and (settlements)	(9)	(12)	(21)
Balance, end of period	\$ 5	\$ 2	\$ 7

Change in unrealized gains (losses) included in interest income and other, net related to assets held as of November 22, 2009

	\$ 0	\$ 0	\$ 0
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The Company reports transfers in and out of Levels 1, 2, and 3, as applicable, using the fair value of the individual securities as of the beginning of the reporting period in which the transfer occurred. There were no transfers in or out of Level 1, 2, or 3 during the first quarter of 2011.

*Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

Fair market adjustments to nonfinancial assets and liabilities measured at fair value on a nonrecurring basis during the first quarter of 2011 were immaterial.

**Note 4 Debt**

During the first quarter of 2011 and 2010, a nominal amount of the face value of the Company's 3.5% Zero Coupon Convertible Subordinated Notes (Zero Coupon Notes) was converted by note holders into 3,000 and 9,000 shares of common stock, respectively.

The carrying value and estimated fair value of long-term debt, based on quoted market prices, consisted of the following:

	November 21, 2010		August 29, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
5.5% Senior Notes due March 2017	\$ 1,096	\$ 1,282	\$ 1,096	\$ 1,295
5.3% Senior Notes due March 2012	899	953	899	961
Zero Coupon Notes	33	61	32	51
Other long-term debt	115	123	114	122
Total	\$ 2,143	\$ 2,419	\$ 2,141	\$ 2,429

**Note 5 Equity and Comprehensive Income (Loss)***Dividends*



The Company's current quarterly dividend rate is \$0.205 per share.

**Table of Contents****Note 5 Equity and Comprehensive Income (Loss) (Continued)***Stock Repurchase Programs*

The Company's stock repurchase activity during the first quarter of 2011 and 2010 is summarized in the following table:

	Shares Repurchased (000 s)	Average Price per Share	Total Cost
2011	2,436	\$ 61.71	\$ 150
2010	0	\$ 0	\$ 0

These amounts differ from the stock repurchase balances in the condensed consolidated statements of cash flows to the extent that repurchases had not settled at the end of the quarter. The remaining amount available for stock repurchases under the approved plans was \$989 at November 21, 2010. Purchases are made from time-to-time as conditions warrant in the open market or in block purchases, and pursuant to share repurchase plans under SEC Rule 10b5-1. Repurchased shares are retired.

*Components of Equity and Comprehensive Income*

The accumulated other comprehensive income consists of foreign currency translation adjustments and unrealized gains and losses on investments and their related tax effects.

The following tables show the changes in equity attributable to Costco and the noncontrolling interests of consolidated subsidiaries or equity investments in which the Company has a majority, but not total ownership interest:

	Attributable to Costco	Noncontrolling Interests	Total Equity
Equity at August 29, 2010	\$ 10,829	\$ 101	\$ 10,930
Initial consolidation of noncontrolling interest in Costco Mexico	0	357	357
Comprehensive income:			
Unrealized gain on short-term investments, net of tax	1	0	1
Foreign currency translation adjustment and other	147	30	177
Net income	312	20	332
Total comprehensive income	460	50	510
Stock options exercised and vesting of restricted stock units (RSUs), including tax effects	92	0	92
Repurchase of common stock	(150)	0	(150)
Stock-based compensation	57	0	57
Cash dividends	(89)	0	(89)
Equity at November 21, 2010	\$ 11,199	\$ 508	\$ 11,707

**Table of Contents****Note 5 Equity and Comprehensive Income (Loss) (Continued)**

	Attributable to Costco	Noncontrolling Interests	Total Equity
Equity at August 30, 2009	\$ 10,024	\$ 80	\$ 10,104
Comprehensive income:			
Foreign currency translation adjustment and other	40	2	42
Net income	266	4	270
Total comprehensive income	306	6	312
Stock options exercised and vesting of RSUs, including tax effects	42	0	42
Stock-based compensation	52	0	52
Cash dividends	(79)	0	(79)
Equity at November 22, 2009	\$ 10,345	\$ 86	\$ 10,431

**Note 6 Stock-Based Compensation Plans***Summary of Stock Option Activity*

The following table summarizes stock option transactions during the first quarter of 2011:

	Number Of Options (in 000 s)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value <sup>(1)</sup>
Outstanding at August 29, 2010	13,162	\$ 39.50		
Exercised	(3,118)	38.50		
Forfeited or expired	0	0		
Outstanding at November 21, 2010	10,044	\$ 39.81	3.26	\$ 269
Exercisable at November 21, 2010	10,044	\$ 39.81	3.26	\$ 269

(1) The difference between the exercise price and market value of common stock at November 21, 2010. The tax benefits realized and intrinsic value related to total stock options exercised during the first quarter of 2011 and 2010 are provided in the following table:

	Quarter Ended	
	November 21, 2010	November 22, 2009
Actual tax benefit realized for stock options exercised	\$ 29	\$ 10
Intrinsic value of stock options exercised <sup>(1)</sup>	\$ 81	\$ 30

(1) The difference between the exercise price and market value of common stock measured at each individual exercise date.

*Summary of Restricted Stock Unit Activity*

RSUs granted to employees and to non-employee directors generally vest over five years and three years, respectively; however, the Company provides for accelerated vesting for employees that have attained twenty-five or more years of service with the Company. Recipients are not entitled to vote or

**Table of Contents****Note 6 Stock-Based Compensation Plans (Continued)**

receive dividends on unvested shares. At November 21, 2010, 8,469,000 shares were available to be granted as RSUs to eligible employees and directors under the Fifth Restated 2002 Plan.

The following awards were outstanding at the end of the first quarter of 2011:

9,454,000 shares of time-based RSUs that vest upon the achievement of continued employment over specified periods of time;

422,000 performance-based RSUs granted to certain executive officers of the Company. The performance targets have been met. Further restrictions lapse upon achievement of continued employment over specified periods of time; and

315,000 performance-based RSUs to be granted to executive officers of the Company upon achievement of specified performance targets for fiscal 2011. These awards are not included in the table below.

The following table summarizes RSU transactions during the quarter ended November 21, 2010:

	Number of Units (in 000 s)	Weighted- Average Grant Date Fair Value
Non-vested at August 29, 2010	9,253	\$ 55.22
Granted	3,629	61.08
Vested	(2,955)	55.69
Forfeited	(51)	55.43
Non-vested at November 21, 2010	9,876	\$ 57.23

*Summary of Stock-Based Compensation*

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

	November 21, 2010	Quarter Ended November 22, 2009
RSUs	\$ 56	\$ 44
Stock options	1	8
Total stock-based compensation expense before income taxes	57	52
Income tax benefit	(19)	(18)
Total stock-based compensation expense, net of income tax	\$ 38	\$ 34

The remaining unrecognized compensation cost related to non-vested RSUs at November 21, 2010, was \$522 and the weighted-average period of time over which this cost will be recognized is 2.1 years.



**Table of Contents****Note 7 Net Income Per Common and Common Equivalent Share**

The following table shows the amounts used in computing net income per share and the effect on income and the weighted average number of shares of dilutive potential common stock (shares in 000 s):

	Quarter Ended	
	November 21, 2010	November 22, 2009
Net income available to common stockholders used in basic and diluted net income per common share	\$ 312	\$ 266
Weighted average number of common shares used in basic net income per common share	434,099	437,173
Stock options and RSUs	6,320	6,716
Conversion of convertible notes	941	960
Weighted number of common shares and dilutive potential of common stock used in diluted net income per share	441,360	444,849
Anti-dilutive stock options and RSUs	891	2,339

**Note 8 Commitments and Contingencies***Legal Proceedings*

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

A case purportedly brought as a class action on behalf of certain present and former Costco managers in California, in which plaintiff principally alleges that he has not been properly compensated for overtime work. On October 2, 2009, the court granted the Company's motion for summary judgment, and that ruling has been appealed. Terry Head v. Costco Wholesale Corp., Superior Court for the County of Los Angeles, Case No. BC-409805.

A case purportedly brought as a class action was filed on May 15, 2009 on behalf of present and former hourly employees in California, in which the plaintiff principally alleges that the Company's routine closing procedures and security checks cause employees to incur delays that qualify as uncompensated working time. Mary Pytelewski v. Costco Wholesale Corp., Superior Court for the County of San Diego, Case No. 37-2009-00089654. On December 14, 2010, the court certified two classes of hourly non-exempt employees subject to the Company's closing lockdown procedures: one under California law for California non-union employees who were subject to the closing procedures between May 15, 2005 and October 1, 2009; and a nationwide class under federal law for full-time employees who were subject to the closing procedures between April 8, 2007 and October 1, 2009. A similar purported class action was filed on November 20, 2009, in the State of Washington. Raven Hawk v. Costco Wholesale Corp., King County Superior Court, Case No. 09-242196-0-SEA. On December 3, 2010, the court granted in part plaintiff's motion for class certification; the class certified consists of people employed in Washington state warehouses from November 2006 through November 2009 who had clocked out and were detained during closing procedures without compensation.

On July 14, 2010, a putative class action was filed alleging that the Company unlawfully failed to pay overtime compensation, denied meal and rest breaks, failed to pay minimum wages, failed to provide accurate wage-itemization statements, and willfully failed to pay termination wages alleged resulting from misclassification of certain California department managers as exempt employees. On September 3, 2010, the Company removed the case to federal court. The court recently remanded the action, and the Company has appealed that decision. Manuel Medrano v. Costco Wholesale Corp., and Costco Wholesale Membership, Inc., United States District Court (Los Angeles), Case No. CV-10-6626-VBF-JCGx.

**Table of Contents****Note 8 Commitments and Contingencies (Continued)**

On July 23, 2010, a putative class action was filed against several defendants, including the Company, alleging that defendants unlawfully failed to pay overtime compensation, failed to provide accurate wage-itemization statements, failed to pay wages, denied meal and rest breaks, and failed to reimburse for uniforms and expenses. Plaintiffs are temporary promotion employees, known as product ambassadors, hired by various marketing companies (also named defendants), which contract with retailers such as the Company, to staff in-store demonstrations and promotional events. The complaint alleges that the Company is a joint employer of the plaintiffs. On November 29, 2010, the parties filed a stipulated dismissal of the Company. *Bright v. Dennis Garberg & Assocs., Inc., et al.*, Los Angeles Superior Court, Case No. BC399563.

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

A case brought as a class action on behalf of certain present and former female managers, in which plaintiffs allege denial of promotion based on gender in violation of Title VII of the Civil Rights Act of 1964 and California state law. *Shirley Rae Ellis v. Costco Wholesale Corp.*, United States District Court (San Francisco), Case No. C-04-3341-MHP. Plaintiffs seek compensatory damages, punitive damages, injunctive relief, interest and attorneys' fees. Class certification was granted by the district court on January 11, 2007. On May 11, 2007, the United States Court of Appeals for the Ninth Circuit granted a petition to hear the Company's appeal of the certification. The appeal was argued on April 14, 2008. The Company continues to await a decision.

Class actions stated to have been brought on behalf of certain present and former Costco members:

Numerous putative class actions have been brought around the United States against motor fuel retailers, including the Company, alleging that they have been overcharging consumers by selling gasoline or diesel that is warmer than 60 degrees without adjusting the volume sold to compensate for heat-related expansion or disclosing the effect of such expansion on the energy equivalent received by the consumer. The Company is named in the following actions: *Raphael Sagalyn, et al., v. Chevron USA, Inc., et al.*, Case No. 07-430 (D. Md.); *Phyllis Lerner, et al., v. Costco Wholesale Corporation, et al.*, Case No. 07-1216 (C.D. Cal.); *Linda A. Williams, et al., v. BP Corporation North America, Inc., et al.*, Case No. 07-179 (M.D. Ala.); *James Graham, et al. v. Chevron USA, Inc., et al.*, Civil Action No. 07-193 (E.D. Va.); *Betty A. Delgado, et al., v. Allsup's, Convenience Stores, Inc., et al.*, Case No. 07-202 (D.N.M.); *Gary Kohut, et al. v. Chevron USA, Inc., et al.*, Case No. 07-285 (D. Nev.); *Mark Rushing, et al., v. Alon USA, Inc., et al.*, Case No. 06-7621 (N.D. Cal.); *James Vanderbilt, et al., v. BP Corporation North America, Inc., et al.*, Case No. 06-1052 (W.D. Mo.); *Zachary Wilson, et al., v. Ampride, Inc., et al.*, Case No. 06-2582 (D. Kan.); *Diane Foster, et al., v. BP North America Petroleum, Inc., et al.*, Case No. 07-02059 (W.D. Tenn.); *Mara Redstone, et al., v. Chevron USA, Inc., et al.*, Case No. 07-20751 (S.D. Fla.); *Fred Aguirre, et al. v. BP West Coast Products LLC, et al.*, Case No. 07-1534 (N.D. Cal.); *J.C. Wash, et al., v. Chevron USA, Inc., et al.*; Case No. 4:07cv37 (E.D. Mo.); *Jonathan Charles Conlin, et al., v. Chevron USA, Inc., et al.*; Case No. 07 0317 (M.D. Tenn.); *William Barker, et al. v. Chevron USA, Inc., et al.*; Case No. 07-cv-00293 (D.N.M.); *Melissa J. Couch, et al. v. BP Products North America, Inc., et al.*, Case No. 07cv291 (E.D. Tex.); *S. Garrett Cook, Jr., et al., v. Hess Corporation, et al.*, Case No. 07cv750 (M.D. Ala.); *Jeff Jenkins, et al. v. Amoco Oil Company, et al.*, Case No. 07-cv-00661 (D. Utah); and *Mark Wyatt, et al., v. B. P. America Corp., et al.*, Case No. 07-1754 (S.D. Cal.). On June 18, 2007, the Judicial Panel on Multidistrict Litigation assigned the action, entitled *In re Motor Fuel Temperature Sales Practices Litigation*, MDL Docket No 1840, to Judge Kathryn Vratil in the United States District Court for the District of Kansas. On February 21, 2008, the court denied a motion to dismiss the consolidated amended complaint. On April 12, 2009, the Company agreed to a settlement involving the actions in which it is named as a defendant. Under the settlement, which is subject to final approval by the court, the Company has agreed, to the extent



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**Table of Contents****Note 8 Commitments and Contingencies (Continued)**

allowed by law, to install over five years from the effective date of the settlement temperature-correcting dispensers in the States of Alabama, Arizona, California, Florida, Georgia, Kentucky, Nevada, New Mexico, North Carolina, South Carolina, Tennessee, Texas, Utah, and Virginia. Other than payments to class representatives, the settlement does not provide for cash payments to class members. On August 18, 2009, the court preliminarily approved the settlement. On August 13, 2010, the court denied plaintiffs' motion for final approval of the settlement.

The Company has been named as a defendant in two purported class actions relating to sales of organic milk. *Hesse v. Costco Wholesale Corp.*, No. C07-1975 (W.D. Wash.); *Snell v. Aurora Dairy Corp., et al.*, No. 07-CV-2449 (D. Col.). Both actions claim violations of the laws of various states, essentially alleging that milk provided to Costco by its supplier Aurora Dairy Corp. was improperly labeled "organic." Plaintiffs filed a consolidated complaint on July 18, 2008. With respect to the Company, plaintiffs seek to certify four classes of people who purchased Costco organic milk. Aurora has maintained that it has held and continues to hold valid organic certifications. The consolidated complaint seeks, among other things, actual, compensatory, statutory, punitive and/or exemplary damages in unspecified amounts, as well as costs and attorneys' fees. On June 3, 2009, the district court entered an order dismissing with prejudice, among others, all claims against the Company. As a result of an appeal by the plaintiffs, on September 15, 2010, the court of appeals affirmed in part and reversed in part the rulings of the district court and remanded the matter for further proceedings. Plaintiffs have filed amended complaints.

The Company has been named as a defendant in a purported class action relating to sales of farm-raised salmon. *Farm Raised Salmon Coordinated Proceedings*, Los Angeles Superior Court Case No. JCCP No. 4329. The action alleges that the Company violated California law requiring farm-raised salmon to be labeled as "color added." The complaint asserts violations of the California Unfair Competition Law, the California Consumer Legal Remedies Act, and the California False Advertising Law, and negligent misrepresentation, and seeks restoration of money acquired by means of unfair competition or false advertising and compensatory damages in unspecified amounts, injunctive relief remedying the allegedly improper disclosures, and costs and attorneys' fees. A California Superior Court ruling dismissing the action on the ground that federal law does not permit claims for mislabeling of farm-raised salmon to be asserted by private parties was reversed by the California Supreme Court. The Company has denied the material allegations of the complaint. Plaintiffs' motion to certify a class was denied on November 16, 2010.

In *Verzani, et ano., v. Costco Wholesale Corp.*, No. 09 CV 2117 (United States District Court for the Southern District of New York), a purported nationwide class action, the plaintiffs allege claims for breach of contract and violation of the Washington Consumer Protection Act, based on the failure of the Company to disclose on the label of its "Shrimp Tray with Cocktail Sauce" the weight of the shrimp in the item as distinct from the accompanying cocktail sauce, lettuce, and lemon wedges. The complaint seeks various forms of damages (including compensatory and treble damages and disgorgement and restitution), injunctive and declaratory relief, attorneys' fees, costs, and prejudgment interest. On April 21, 2009, the plaintiff filed a motion for a preliminary injunction, seeking to prevent the Company from selling the shrimp tray unless the Company separately discloses the weight of the shrimp and provides shrimp consistent with the disclosed weight. By orders dated July 29 and August 6, 2009, the court denied the preliminary injunction motion and dismissed the claim for breach of contract, and on July 21, 2010, the court of appeals summarily affirmed these rulings. On September 28, 2010, the district court denied the motion of one plaintiff to file an amended complaint. On December 1, this plaintiff filed a notice of appeal of this and other rulings.

In *Kilano, et. ano, v. Costco Wholesale Corp.*, No. 2:10-cv-11456-VAR-DAS (United States District Court for the Eastern District of Michigan), two members purport to represent a class of certain Michigan

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**Table of Contents****Note 8 Commitments and Contingencies (Continued)**

Executive level-members who received 2% rewards. Plaintiffs allege that the Company guarantees that the member will receive rewards of no less than the fifty dollar difference between Executive and Gold Star membership and that the Company is required to but has failed to automatically reimburse members whose rewards are less than this difference. Plaintiffs allege violations of the Michigan Consumer Protection Act, breach of contract, and unjust enrichment. They seek compensatory and statutory damages, injunctive relief, costs, and attorneys' fees. The Company has filed an answer denying the material allegations of the complaint. Plaintiffs have filed a motion for class certification.

Three shareholder derivative lawsuits have been filed, ostensibly on behalf of the Company, against certain of its current and former officers and directors, relating to the Company's stock option grants. One suit, *Sandra Donnelly v. James Sinegal, et al.*, Case No. 08-2-23783-4 SEA (King County Superior Court), was filed in Washington state court on or about July 17, 2008. Plaintiff alleged, among other things, that individual defendants breached their fiduciary duties to the Company by backdating grants of stock options issued between 1997 and 2005 to various current and former executives, allegedly in violation of the Company's shareholder-approved stock option plans. The complaint asserted claims for unjust enrichment, breach of fiduciary duties, and waste of corporate assets, and seeks damages, corporate governance reforms, an accounting, rescission of certain stock option grants, restitution, and certain injunctive and declaratory relief, including the declaration of a constructive trust for certain stock options and proceeds derived from the exercise of such options. On April 3, 2009, on the Company's motion the court dismissed the action, following the plaintiff's disclosure that she had ceased to own Costco common stock, a requirement for her to pursue a derivative action. The second action, *Pirelli Armstrong Tire Corp. Retiree Medical Benefits Trust v. James Sinegal, et al.*, Case No. 2:08-cv-01450-TSZ (United States District Court for the Western District of Washington), was filed on or about September 29, 2008, and named as defendants all but one of the Company's directors and certain of its senior executives. Plaintiff alleged that defendants approved the issuance of backdated stock options, concealed the backdating of stock options, and refused to vindicate the Company's rights by pursuing those who obtained improper incentive compensation. The complaint asserted claims under both state law and the federal securities laws and sought relief comparable to that sought in the state court action described above. Plaintiff further alleged that the misconduct occurred from at least 1997, and continued until 2006, and that as a result virtually all of the Company's SEC filings and financial and other public statements were false and misleading throughout this entire period (including, but not limited to, each of the Company's annual financial statements for fiscal years 1997 through 2007 inclusive). Plaintiff alleged, among other things, that defendants caused the Company to falsely represent that options were granted with exercise prices that were not less than the fair market value of the Company's stock on the date of grant and issuance when they were not, to conceal that its internal controls and accounting controls were grossly inadequate, and to grossly overstate its earnings. In addition, it was further alleged that when the Company announced in October 2006 that it had investigated its historical option granting practices and had not found fraud that announcement itself was false and misleading because, among other reasons, it failed to report that defendants had consistently received options granted at monthly lows for the grant dates and falsely suggested that backdating did not occur. Plaintiff also alleged that false and misleading statements inflated the market price of the Company's common stock and that certain individual defendants sold, and the Company purchased, shares at inflated prices. The third action, *Daniel Buckfire v. James D. Sinegal, et al.*, No. 2:09-cv-00893-TSZ (United States District Court for the Western District of Washington), was filed on or about June 29, 2009, and contains allegations substantially similar to those in the Pirelli action. On August 12, 2009, the court entered an order consolidating the Pirelli and Buckfire actions. On October 2, 2009, plaintiffs Pirelli and Buckfire filed a consolidated amended complaint. That complaint is largely similar to previous filings, except that: it challenges additional grants (in 1995, 1996, and 2004) and alleges that additional federal securities law filings, including proxy statements and SEC Forms 10-K, Forms 10-Q and related officer certifications (generally from 1996 through and including 2008) were false and misleading for failure to adequately disclose circumstances surrounding grants of

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**Note 8 Commitments and Contingencies (Continued)**

options; and now includes as defendants only the following individuals: James D. Sinegal, Richard A. Galanti, Jeffrey H. Brotman, Hamilton E. James, John W. Meisenbach, Jill S. Ruckelshaus, Charles T. Munger, Benjamin S. Carson, Sr., Richard D. DiCerchio, and David S. Petterson. On November 16, 2009, the defendants filed motions to dismiss the amended complaint on various grounds, including that plaintiffs failed properly to allege why a pre-suit demand had not been made on the board of directors. On September 20, 2010, a special committee of the Board of Directors of the Company approved an agreement in principle with the plaintiffs that would terminate the litigation. The agreement, which is subject among other things to federal district court approval, provides that the Company will pay an amount not to exceed \$4.85 million in attorneys' fees to plaintiffs' counsel and will adopt or maintain certain governance, control and other process changes.

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

The Environmental Protection Agency (EPA) issued an Information Request to the Company, dated November 1, 2007, under the Clean Air Act. The EPA is seeking records regarding warehouses in the states of Arizona, California, Hawaii, and Nevada relating to compliance with regulations concerning air-conditioning and refrigeration equipment. On March 4, 2009, the Company was advised by the Department of Justice that the Department was prepared to allege that the Company has committed at least nineteen violations of the leak-repair requirements of 40 C.F.R. § 82.156(i) and at least seventy-four violations of the recordkeeping requirements of 40 C.F.R. § 82.166(k), (m) at warehouses in these four states. The Company has responded to these allegations, is engaged in communications with the Department about these and additional allegations made by letter dated September 10, 2009, and has entered into a tolling agreement. An Information Request dated January 14, 2008, has also been received concerning a warehouse in New Hampshire. Substantial penalties may be levied for violations of the Clean Air Act. In April 2008 the Company received an information request from the South Coast Air Quality Management District concerning certain locations in Southern California. The Company has responded to that request. The Company is cooperating with these inquiries and at this time cannot reasonably estimate any loss that might arise from these matters.

On October 7, 2009, the District Attorneys for San Diego, San Joaquin and Solano Counties filed a complaint, People of the State of California v. Costco Wholesale Corp., et. al No. 37-2009-00099912 (Superior Court for the County of San Diego), alleging on information and belief that the Company has violated and continues to violate provisions of the California Health and Safety Code and the Business and Professions Code through the use of certain spill clean-up materials at its gasoline stations. Relief sought includes, among other things, requests for preliminary and permanent injunctive relief, civil penalties, costs and attorneys' fees. On September 2, 2010, the court dismissed the complaint without prejudice. An amended complaint was filed on September 13, 2010.

The Company has received notices from most states stating that they have appointed an agent to conduct an examination of the books and records of the Company to determine whether it has complied with state unclaimed property laws. The State of Washington is conducting such examinations on its own behalf. In addition to seeking the turnover of unclaimed property subject to escheat laws, the states may seek interest, penalties, costs of examinations, and other relief.

Except where indicated otherwise above, a reasonable estimate of the possible loss or range of loss cannot be made at this time for the matters described. The Company does not believe that any pending claim, proceeding or litigation, either alone or in the aggregate, will have a material adverse effect

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on the Company's financial position; however, it is possible that an unfavorable outcome of some or all of the matters, however unlikely, could result in a charge that might be material to the results of an individual fiscal quarter.

**Note 9 Segment Reporting**

The Company and its subsidiaries are principally engaged in the operation of membership warehouses in the United States, Canada, the United Kingdom, Japan, Australia, through majority-owned subsidiaries in Taiwan and Korea, and through a 50%-owned joint-venture in Mexico. The Company's reportable segments are largely based on management's organization of the operating segments for operational decisions and assessments of financial performance, which considers geographic locations. The material accounting policies of the segments are the same as described in the notes to the consolidated financial statements included in the Company's annual report filed on Form 10-K for the fiscal year ended August 29, 2010, after considering newly adopted accounting pronouncements described elsewhere herein. As discussed in Note 1, the Company began consolidating Costco Mexico on August 30, 2010. For segment reporting, these operations are included as a component of other international operations for the twelve weeks ended November 21, 2010. Prior year amounts for Costco Mexico are only included in total assets under United States operations in the table below, representing the equity method investment in the joint venture, as it was previously accounted for under the equity method and its operations were not consolidated. All material inter-segment net sales and expenses have been eliminated in computing total revenue and operating income.

	United States Operations	Canadian Operations	Other International Operations	Total
<b>Twelve Weeks Ended November 21, 2010</b>				
Total revenue	\$ 14,011	\$ 3,037	\$ 2,191	\$ 19,239
Operating income	288	141	96	525
Depreciation and amortization	144	25	22	191
Capital expenditures, net	250	37	19	306
Property and equipment, net	8,775	1,540	1,704	12,019
Total assets	18,837	3,427	3,779	26,043
Total equity	7,472	1,906	2,329	11,707
<b>Twelve Weeks Ended November 22, 2009</b>				
Total revenue	\$ 13,221	\$ 2,655	\$ 1,423	\$ 17,299
Operating income	266	112	50	428
Depreciation and amortization	144	25	15	184
Capital expenditures, net	243	50	20	313
Property and equipment, net	8,565	1,430	1,120	11,115
Total assets	18,362	2,866	2,250	23,478
Total equity	7,682	1,513	1,236	10,431
<b>Year Ended August 29, 2010</b>				
Total revenue	\$ 59,624	\$ 12,051	\$ 6,271	\$ 77,946
Operating income	1,310	547	220	2,077
Depreciation and amortization	625	107	63	795
Capital expenditures, net	804	162	89	1,055
Property and equipment, net	8,709	1,474	1,131	11,314
Total assets	18,247	3,147	2,421	23,815
Total equity	7,784	1,752	1,394	10,930

Certain home office operating expenses are incurred on behalf of the Company's Canadian and other international operations, but are included in the United States operations above because those costs are not allocated internally and generally come under the responsibility of the Company's United States management team.

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**Note 10 Subsequent Event**

On December 10, 2010, the Company's 50% joint venture partner in Costco Mexico, Controladora Comercial Mexicana (Comercial), emerged from reorganization proceedings in Mexico that had been initiated on October 9, 2008. Those proceedings did not include Costco Mexico. As part of the proceedings, the Company consented to Comercial's pledging as collateral its 50% ownership interest in Costco Mexico, in exchange for an extension until 2030 of the Company's contractual responsibility for executive, management and functional duties and operations of Costco Mexico and, among other things, obtaining control of the board of directors of Costco Mexico during the period of the pledge. These transactions are not anticipated to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations** (dollars in millions, except per share and warehouse number data)

**Forward-looking Statements**

Certain statements contained in this document constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For these purposes, forward-looking statements are statements that address activities, events, conditions or developments that the Company expects or anticipates may occur in the future. Such forward-looking statements involve risks and uncertainties that may cause actual events, results or performance to differ materially from those indicated by such statements. These risks and uncertainties include, but are not limited to, domestic and international economic conditions, including exchange rates, the effects of competition and regulation, uncertainties in the financial markets, consumer and small business spending patterns and debt levels, conditions affecting the acquisition, development, ownership or use of real estate, actions of vendors, rising costs associated with employees (including health care costs), geopolitical conditions and other risks identified from time to time in the Company's public statements and reports filed with the SEC. This management discussion should be read in conjunction with the management discussion included in our fiscal 2010 annual report on Form 10-K, previously filed with the SEC.

**Overview**

Our fiscal year ends on the Sunday closest to August 31. References to the first quarters of 2011 and 2010 relate to the 12-week fiscal quarters ended November 21, 2010 and November 22, 2009, respectively. Certain percentages presented are calculated using actual results prior to rounding. Unless otherwise noted, references to net income relate to net income attributable to Costco.

We operate membership warehouses based on the concept that offering our members low prices on a limited selection of nationally branded and select private-label products in a wide range of merchandise categories will produce high sales volumes and rapid inventory turnover. This turnover, when combined with the operating efficiencies achieved by volume purchasing, efficient distribution and reduced handling of merchandise in no-frills, self-service warehouse facilities, enables us to operate profitably at significantly lower gross margins than traditional wholesalers, mass merchandisers, supermarkets, and supercenters.

Key items for the first quarter of fiscal 2011 as compared to the first quarter of fiscal 2010 include:

Net sales increased 11.2% to \$18,823, driven by a 7% increase in comparable sales (sales in warehouses open for at least one year, including relocated warehouses) and sales at 21 new warehouses opened since the end of the fourth quarter of fiscal 2009. Net sales were positively impacted by the increases in the price of gasoline and by the strengthening of certain foreign currency exchange rates;

Membership fees increased 10.2% to \$416, primarily due to new membership sign-ups and increased penetration of the higher-fee Executive Membership program;

Gross margin (net sales less merchandise costs) as a percentage of net sales increased 9 basis points;

Selling, general and administrative (SG&A) expenses as a percentage of net sales decreased 19 basis points;

Net income increased 17.4% to \$312, or \$0.71 per diluted share compared to \$266, or \$0.60 per diluted share;

The Board of Directors declared a quarterly cash dividend in the amount of \$0.205 per share, which was paid in the first quarter of fiscal 2011;



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**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)** (dollars in millions, except per share and warehouse number data)

We repurchased 2,436,000 shares of our common stock, at an average cost of \$61.71 per share, totaling approximately \$150; and

We began consolidating our 50% owned Mexico joint-venture (Costco Mexico) on a prospective basis at the beginning of fiscal 2011 due to the adoption of a new accounting standard. Costco Mexico's results for the prior year were accounted for under the equity method and our 50% share was included in interest income and other. In the current year, results are fully consolidated and the joint venture partner's 50% share is included in net income attributable to noncontrolling interests. The consolidation of Costco Mexico increased total assets, liabilities, and revenue by approximately 3%, with no impact on net income attributable to Costco. See discussion in Note 1 of Part I, Item I of this Report.

We believe that the most important driver of increasing our profitability is sales growth, particularly comparable sales growth. Comparable sales growth is achieved through increasing the frequency with which our members shop and the amounts they spend on each visit. Sales comparisons can also be particularly influenced by two factors that are beyond our control, including fluctuations in currency exchange rates (with respect to the consolidation of the results of our international operations) and changes in the cost of gasoline and associated competitive conditions (primarily impacting domestic operations). The higher our comparable sales the more we can leverage certain of our selling, general and administrative expenses, reducing them as a percentage of sales and enhancing profitability. Generating comparable sales growth is foremost a question of making available to our members the right merchandise at the right prices, a skill that we believe we have repeatedly demonstrated over the long term. Another substantial factor in sales growth is the health of the economies in which we do business, especially the United States. Although the first quarter of 2011 improved versus the prior year, adverse economic conditions negatively impacted spending by our customers during the first quarter of 2010 and 2011, and that negative impact may continue. Sales growth and our gross margin are also impacted by our competition, which is vigorous and widespread, including other warehouse clubs, discount, department, drug, variety and specialty stores, and supermarkets, as well as internet retailers. While we cannot control or reliably predict general economic health or changes in competition, we believe that we have been successful historically in adapting our business to these changes, such as through adjustments to our pricing and to our merchandise mix, including increasing the penetration of our private label items. Our philosophy is not to focus in the short term on maximizing prices that our members can be charged but to maintain what we believe is a perception among our members of our pricing authority consistently providing the most competitive values. This may cause us, for example, to absorb increases in merchandise costs at certain times rather than immediately passing them along to our members, negatively impacting gross margin.

We also achieve sales growth by opening new warehouses and relocating existing warehouses to larger facilities. As our warehouse base grows and available and desirable potential sites become more difficult to secure, square footage growth becomes a comparatively less substantial component of growth, but the negative aspects of such growth (including lower initial operating profitability relative to existing warehouses and cannibalization of sales at existing warehouse when openings occur in existing markets) are ameliorated. Our rate of square footage growth is higher in foreign markets, due to the smaller base in those markets, and we expect that to continue.

Our financial performance also depends heavily on our ability to control costs. While we believe that we have achieved successes in this area historically, some significant costs are partially outside our control, most particularly health care expenses. With respect to expenses relating to the compensation of our employees, our philosophy is not to seek to minimize the wages and benefits that they earn. Rather, we believe that achieving our longer-term objectives of reducing turnover and enhancing



**Table of Contents****Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)** (dollars in millions, except per share and warehouse number data)

employee satisfaction requires maintaining compensation levels that are better than the industry average for much of our workforce. This may cause us, for example, to absorb costs that other employers might seek to pass through to their workforces. Because our business is operated on very low margins, modest changes in various items in the income statement, particularly gross margin and selling, general and administrative expenses, can have substantial impacts on net income.

**Results of Operations***Net Sales*

	Quarter Ended	
	November 21, 2010	November 22, 2009
Net sales	\$ 18,823	\$ 16,922
Increase in comparable warehouse sales	7%	3%

*Net Sales*

Net sales increased \$1,901 or 11.2% during the first quarter of 2011 compared to the first quarter of 2010. Excluding sales of Costco Mexico, the increase would have been 8.1%. An increase in comparable warehouse sales, sales at the 21 net new warehouses opened (22 opened, and one closed due to relocation) since the end of the fourth quarter of fiscal 2009 contributed to the increase.

Foreign currencies, primarily in Canada, strengthened against the U.S. dollar, which positively impacted net sales by approximately \$195, or 115 basis points. Net sales were positively impacted by gasoline price increases by approximately \$120, or 71 basis points, which resulted from an 8% increase in the average sales price per gallon.

Our sales results continue to be negatively impacted by general economic conditions, and those conditions may continue to have a significant adverse impact on spending by our members. We believe, however, that due to the nature of our business model, we are better positioned than many retailers to compete in such an environment.

*Comparable Sales*

Comparable sales, including Costco Mexico for both this year and last year, increased 7% in the first quarter of 2011 and were positively impacted by increases in shopping frequency and in the average amount spent. The strengthening of foreign currencies, primarily in Canada, favorably impacted comparable sales by approximately \$190, or 110 basis points. Gasoline price inflation positively impacted comparable sales results by approximately \$119, or 69 basis points. Exclusive of these two items, the primary driver of the comparable sales growth was increased shopping frequency. Reported comparable sales growth includes the negative impact of cannibalization (established warehouses losing sales to our newly opened locations).

*Membership Fees*

	Quarter Ended	
	November 21, 2010	November 22, 2009
Membership fees	\$ 416	\$ 377
Membership fees as a percent of net sales	2.21%	2.23%
Total cardholders (000s)	61,000	56,000



**Table of Contents****Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)** (dollars in millions, except per share and warehouse number data)

Membership fees increased 10.2% compared to the first quarter of 2010. Excluding membership fees from Costco Mexico, the increase would have been 8.1%. The increase was due to the higher penetration of our higher-fee Executive Membership program and the additional membership sign-ups at the 21 net new warehouses opened since the end of the fourth quarter of fiscal 2009. Our member renewal rate, currently at 88% in the U.S. and Canada, is consistent with recent years.

**Gross Margin**

	Quarter Ended	
	November 21, 2010	November 22, 2009
Gross Margin	\$ 2,066	\$ 1,841
Gross margin as a percent of net sales	10.97%	10.88%

Gross margin, as a percent of net sales, increased nine basis points compared to the first quarter of 2010. Excluding Costco Mexico, the increase would have been six basis points. The core merchandise gross margin, including Mexico, when expressed as a percent of core merchandise sales and not total net sales, increased 22 basis points, with all categories showing increases. However, the increased sales penetration of the low margin gasoline business caused this increase to be 19 basis points when expressed as a percent of total net sales. Warehouse ancillary and other businesses gross margins decreased by nine basis points as a percent of total net sales, primarily due to our gasoline business. Increased penetration of the Executive Membership two-percent reward program and increased spending by Executive members negatively affected gross margin by one basis point.

Foreign currencies, primarily in Canada, strengthened against the U.S. dollar, which positively impacted gross margin for the first quarter of 2011 by approximately \$24.

**Selling, General and Administrative Expenses**

	Quarter Ended	
	November 21, 2010	November 22, 2009
Selling, general and administrative (SG&A) expenses	\$ 1,941	\$ 1,777
SG&A as a percent of net sales	10.31%	10.50%

SG&A expenses, as a percent of net sales, improved 19 basis points compared to the first quarter of 2010. Excluding Costco Mexico, the improvement would have been 12 basis points. Warehouse operating costs improved 17 basis points, primarily due to lower payroll percentages partially offset by higher employee benefit costs, particularly employee healthcare. Central administrative and stock-based compensation expenses as a percent of net sales positively impacted SG&A comparisons by one basis point each. SG&A expenses, as a percent of net sales, for the first quarter of 2011 were favorably impacted by approximately seven basis points due to higher sales in the quarter resulting from gasoline price inflation.

Foreign currencies, primarily in Canada, strengthened against the U.S. dollar, which negatively impacted SG&A for the first quarter of 2011 by approximately \$17.

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**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)** (dollars in millions, except per share and warehouse number data)

**Preopening Expenses**

	Quarter Ended	
	November 21, 2010	November 22, 2009
Preopening expenses	\$ 12	\$ 11
Warehouse openings, including relocations	8	6

Preopening expenses include costs incurred for startup operations related to new warehouses and the expansion of ancillary operations at existing warehouses. Preopening expenses can vary due to the timing of the opening relative to our quarter end, whether the warehouse is owned or leased, whether the opening is in an existing, new, or international market.

**Provision for Impaired Assets and Closing Costs, Net**

	Quarter Ended	
	November 21, 2010	November 22, 2009
Warehouse closing expenses	\$ 3	\$ 2
Impairment of long-lived assets	1	
Provision for impaired assets and closing costs, net	\$ 4	\$ 2

The provision primarily includes costs related to: impairment of long-lived assets; future lease obligations of warehouses that have been closed or relocated to new facilities; and accelerated depreciation, based on the shortened useful life through the expected closing date, on buildings to be demolished or sold and that are not otherwise impaired.

**Interest Expense**

	Quarter Ended	
	November 21, 2010	November 22, 2009
Interest expense	\$ 26	\$ 24

Interest expense incurred primarily relates to our \$900 of 5.3% and \$1,100 of 5.5% Senior Notes issued in fiscal 2007.

**Interest Income and Other, Net**

	Quarter Ended	
	November 21, 2010	November 22, 2009
Interest income, net	\$ 7	\$ 7
Earnings of affiliates and other, net	(2)	11
Interest income and other, net	\$ 5	\$ 18

The decrease in earnings of affiliates and other is primarily due to the previously discussed change in the accounting treatment of Costco Mexico. See Overview at the beginning of Item 2.

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**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)** (dollars in millions, except per share and warehouse number data)

**Provision for Income Taxes**

	Quarter Ended	
	November 21, 2010	November 22, 2009
Income tax expense	\$ 172	\$ 152
Effective tax rate	34.2%	36.1%

The lower tax rate in the first quarter of 2011 is primarily attributable to the resolution of an uncertain tax position which resulted in a tax refund received by Costco Mexico.

**Liquidity and Capital Resources (dollars in millions, except per share data)****Cash Flows**

The following table itemizes components of our most liquid assets:

	November 21, 2010	August 29, 2010
Cash and cash equivalents	\$ 3,739	\$ 3,214
Short-term investments	1,545	1,535
<b>Total</b>	<b>\$ 5,284</b>	<b>\$ 4,749</b>

Our primary sources of liquidity are cash flows generated from warehouse operations and cash and cash equivalents and short-term investments balances, as stated in the table above. Of these balances, approximately \$999 and \$862 at November 21, 2010 and August 29, 2010, respectively, represented debit and credit card receivables, primarily related to sales in the week prior to the end of our fiscal quarter or fiscal year, respectively.

Net cash provided by operating activities totaled \$720 in the first quarter of 2011, compared to net cash provided by operating activities of \$751 in the first quarter of 2010. This net decrease of \$31 was primarily attributable to a \$27 increase in our net investment in merchandise inventories (merchandise inventories less accounts payable) and a \$79 decrease from the change in other current operating assets and liabilities, which were offset by an increase in net income of \$62.

Net cash used in investing activities totaled \$137 in the first quarter of 2011 compared to \$296 in the first quarter of 2010. This net decrease of \$159 in cash used was primarily attributable to an increase of \$165, representing the cash and cash equivalents on Costco Mexico's balance sheet as of August 29, 2010. Costco Mexico was consolidated as of the beginning of fiscal 2011 due to the adoption of a new accounting standard. See Overview at the beginning of Item 2.

Net cash used in financing activities totaled \$87 in the first quarter of 2011 compared to \$5 in the first quarter of 2010, an increase of \$82. This increase was primarily attributable to a \$145 increase in cash used to repurchase Costco's common stock in the first quarter of 2011 compared to no repurchases in the first quarter of 2010, which was partially offset by a \$57 increase in the amount of bank checks outstanding.

The effect of exchange rate changes increased cash by \$29 in the first quarter of 2011, compared to an increase of \$10 in the first quarter of 2010, an increase of \$19. This increase was primarily due to the strengthening of foreign currencies, primarily in Canada, during the first quarter of 2011.



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**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)** (dollars in millions, except per share and warehouse number data)

*Dividends*

Our current quarterly cash dividend rate is \$0.205 per share or \$0.82 per share on an annualized basis. On October 7, 2010, our Board of Directors declared a quarterly cash dividend of \$0.205 per share for shareholders of record on October 29, 2010. The dividend was paid on November 12, 2010.

*Expansion Plans*

Our primary requirement for capital is the financing of land, building, and equipment costs for new and remodeled warehouses. To a lesser extent, capital is also required for initial warehouse operations and working capital. While there can be no assurance that current expectations will be realized and plans are subject to change upon further review, it is our current intention to spend approximately \$1,600 during fiscal 2011 for real estate, construction, remodeling, and equipment for warehouses and related operations. These expenditures are expected to be financed with a combination of cash provided from operations and existing cash and cash equivalents and short-term investments. Through the end of the first quarter of fiscal 2011, we spent approximately \$306.

We opened eight new warehouses in the first quarter of 2011. Expansion plans for the remainder of fiscal 2011 are to open up to 21 additional new warehouses, including two relocations.



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**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)** (dollars in millions, except per share and warehouse number data)

**Bank Credit Facilities**

Entity	Credit Facility Description	Expiration Date	Total of all Credit Facilities	Credit Line Usage at November 21, 2010				Applicable Interest Rate
				Stand-by Letter of Credit (LC) & Letter of Guaranty	Commercial LC	Short-Term Borrowing	Available Credit	
U.S.	Uncommitted Standby LC	N/A	\$ 22	\$ 22	\$	\$	\$	N/A
U.S.	Uncommitted Commercial LC	N/A	50		11		39	N/A
Australia <sup>(1)</sup>	Guarantee Line	N/A	10				10	N/A
Canada <sup>(1)(3)</sup>	Multi-Purpose Line	N/A	29	17			12	2.29%
Japan <sup>(1)</sup>	Credit Revolving	March-11	42			12	30	0.58%
Japan <sup>(1)</sup>	Bank Guaranty	March-11	18	18				N/A
Japan <sup>(1)</sup>	Credit Revolving	February-11	42			12	30	0.58%
Japan <sup>(2)</sup>	Commercial LC	N/A	1				1	N/A
Korea <sup>(1)</sup>	Multi-Purpose Line	March-11	10	1			9	3.80%
Mexico	Commercial LC	October-11	3				3	N/A
Mexico <sup>(4)</sup>	Commercial LC	December-10	2		1		1	N/A
Taiwan	Multi-Purpose Line	January-11	23	8			15	2.63%
Taiwan	Multi-Purpose Line	July-11	16	3			13	2.69%
United Kingdom	Uncommitted Money Market Line	N/A	32				32	3.05%
United Kingdom	Uncommitted Overdraft Line	N/A	48				48	1.50%
United Kingdom <sup>(2)</sup>	Letter of Guaranty	N/A	4	4				N/A

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United Kingdom	Commercial LC	N/A	3	1			2	N/A
TOTAL			\$ 355	\$ 74	\$ 12	\$ 24	\$ 245	

- (1) The U.S. parent company, Costco Wholesale Corporation, guarantees this entity's credit facility.
- (2) Obligations under this facility are fully cash-collateralized by the subsidiary.
- (3) The bank may cancel or restrict availability under this facility with 45-days written notice.
- (4) Subsequent to the end of the first quarter of 2011, this credit facility expired and the Company does not intend to renew it.

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**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)** (dollars in millions, except per share and warehouse number data)

We had credit facilities (for commercial and standby letters of credit) totaling \$355 as of November 21, 2010. The outstanding commitments under these facilities at November 21, 2010, totaled \$86, including \$74 in standby letters of credit. For those entities with multi-purpose lines, any issuance of either letters of credit or short-term borrowings will result in a corresponding decrease in available credit.

### ***Financing Activities***

During the first quarter of 2011 and 2010, a nominal amount of the face value of the Company's 3.5% Zero Coupon Convertible Subordinated Notes (Zero Coupon Notes) was converted by note holders into 3,000 and 9,000 shares of common stock, respectively.

### ***Derivatives***

We are exposed to foreign currency exchange-rate fluctuations in the normal course of our business. We manage these fluctuations, in part, through the use of forward foreign exchange contracts, seeking to hedge the impact of fluctuations of foreign exchange on known future expenditures denominated in a foreign currency. The forward foreign exchange contracts are intended primarily to hedge U.S. dollar merchandise inventory expenditures. Currently, these instruments do not qualify for derivative hedge accounting. We seek to mitigate risk with the use of these contracts and do not intend to engage in speculative transactions. These contracts do not contain any credit-risk-related contingent features.

We seek to manage the counterparty risk associated with these contracts by limiting transactions to counterparties with which we have established banking relationships. There can be no assurance, however, that this practice effectively mitigates counterparty risk. These contracts are limited to less than one year. See Note 1 and Note 3 to the condensed consolidated financial statements included in Part I, Item 1 of this Report, for additional information related to these contracts.

We are exposed to risks due to fluctuations in energy prices, particularly electricity and natural gas, which we seek to partially mitigate through the use of fixed-price contracts for approximately 28% of our warehouses and other facilities in the U.S. and Canada. We also enter into variable-priced contracts for some purchases of natural gas, in addition to fuel for our gas stations, on an index basis. These contracts meet the characteristics of derivative instruments but generally qualify for the normal purchases or normal sales exception under authoritative guidance and thus require no mark-to-market adjustment.

### ***Stock Repurchase Programs***

During the first quarter of 2011, we repurchased 2,436,000 shares of our common stock at an average price of \$61.71, totaling approximately \$150. There was no stock repurchase activity in the first quarter of 2010. The remaining amount available for stock repurchases under the approved plans was \$989 at November 21, 2010. Purchases are made from time-to-time as conditions warrant in the open market or in block purchases, and pursuant to plans under SEC Rule 10b5-1. Repurchased shares are retired in accordance with the Washington Business Corporation Act.

### ***Critical Accounting Policies***

The preparation of our financial statements requires that we make estimates and judgments. We base our estimates on historical experience and on other assumptions that we believe to be reasonable. Our critical accounting policies are discussed in Item 7, Management's Discussion and Analysis of Finan-

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**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)** (dollars in millions, except per share and warehouse number data)

Financial Condition and Results of Operations section of our Annual Report on Form 10-K, for the fiscal year ended August 29, 2010. There have been no material changes to the critical accounting policies previously disclosed in that report.

**Recent Accounting Pronouncements**

See discussion of Recent Accounting Pronouncements in Note 1 to the condensed consolidated financial statements included in Part I, Item 1 of this Report.

**Item 3 Quantitative and Qualitative Disclosures About Market Risk**

Our exposure to financial market risk results primarily from fluctuations in interest and currency rates. There have been no material changes to our market risks as disclosed in our Annual Report on Form 10-K, for the fiscal year ended August 29, 2010.

**Item 4 Controls and Procedures**

As of the end of the period covered by this Quarterly Report on Form 10-Q, we performed an evaluation under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities and Exchange Act of 1934 (the Exchange Act)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures are effective.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as Exhibit 31.1 to this report.

**Table of Contents****PART II OTHER INFORMATION****Item 1 Legal Proceedings**

See discussion of Legal Proceedings in Note 8 to the condensed consolidated financial statements included in Part I, Item 1 of this Report.

**Item 1A Risk Factors**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K, for the fiscal year ended August 29, 2010. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K.

**Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

The following table sets forth information on our common stock repurchase program activity for the first quarter of fiscal 2011 (dollars in millions, except per share data):

Period <sup>(1)</sup>	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs <sup>(2)</sup>	Maximum Dollar Value of Shares that May Yet be Purchased Under the Programs <sup>(2)</sup>
August 30, 2010 - September 26, 2010	1,181,040	\$ 59.23	1,181,040	\$ 1,364
September 27, 2010 - October 24, 2010	430,244	63.40	430,244	1,337
October 25, 2010 - November 21, 2010	825,000	64.38	825,000	989
Total first quarter	2,436,284	\$ 61.71	2,436,284	

(1) Monthly information is presented by reference to our fiscal periods during the first quarter of fiscal 2011.

(2) Our stock repurchase program is conducted under authorizations made by our Board of Directors: \$1,000 was authorized in November 2007, \$295 of which expired in November 2010, and \$1,000 authorized in July 2008, which expires in July 2011.

**Item 3 Defaults Upon Senior Securities**

None.

**Item 4 Removed and Reserved****Item 5 Other Information**

None.

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**Item 6 Exhibits**

(a) The following exhibits are included herein or incorporated by reference.

3.1	Articles of Incorporation of the Registrant <sup>(1)</sup>
3.2	Bylaws of the Registrant <sup>(2)</sup>
4.1	Registrant will furnish upon request copies of instruments defining the rights of holders of its long-term debt instruments
10.6.2*	Fiscal 2011 Executive Bonus Plan <sup>(3)</sup>
31.1	Rule 13(a) 14(a) Certifications
32.1	Section 1350 Certifications
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

\* Management contract, compensatory plan or arrangement.

\*\* Users of this data are advised that, pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

- (1) Incorporated by reference to the exhibits filed as part of the Current Report on Form 8-K filed by Costco Wholesale Corporation on August 30, 1999.
- (2) Incorporated by reference to exhibits filed as part of the Current Report on Form 8-K filed by Costco Wholesale Corporation on August 24, 2010.
- (3) Incorporated by reference to exhibits filed as part of the Current Report on Form 8-K filed by Costco Wholesale Corporation on November 15, 2010.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COSTCO WHOLESALE CORPORATION

(Registrant)

Date: December 17, 2010

/s/ JAMES D. SINEGAL  
James D. Sinegal

**Chief Executive Officer**

Date: December 17, 2010

/s/ RICHARD A. GALANTI  
Richard A. Galanti

**Executive Vice President,**

**Chief Financial Officer**