

COSTCO WHOLESALE CORP /NEW

Form DEF 14A

December 16, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934

(Amendment No. \_\_ )

Filed by the Registrant

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))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §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):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

(2) Aggregate number of securities to which transaction applies:

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the

(3) amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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999 Lake Drive  
Issaquah, Washington 98027

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

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TO OUR SHAREHOLDERS:

The Annual Meeting of the Shareholders of Costco Wholesale Corporation (the "Company") will be held at the Meydenbauer Center, Center Hall, 11100 N.E. 6th Street, Bellevue, Washington 98004, on Thursday, January 26, 2017, 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 2020 Annual Meeting of Shareholders and until their successors are elected and qualified;
2. To ratify the selection of KPMG LLP ("KPMG") as the Company's independent auditors for fiscal year 2017;
3. To approve, on an advisory basis, the compensation of the Company's executive officers for fiscal year 2016 as disclosed in these materials;
4. To approve, on an advisory basis, the frequency of holding an advisory vote on executive compensation; 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 18, 2016, 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 2017 Annual 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 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.

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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 25, 2017. 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.

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.

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 25, 2017. Have your proxy card in hand when you call and then follow the instructions.

By order of the Board of Directors,  
John Sullivan  
Senior Vice President, General Counsel and Secretary

December 15, 2016

Important Notice Regarding the Availability of Proxy Materials for the Meeting of Shareholders to be Held on January 26, 2017

The Proxy Statement and Annual Report to Shareholders are available at  
<http://investor.costco.com>.

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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 the 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.

Bellevue Corporate Plaza Garage handles overflow parking for Meydenbauer Center. It is located at NE 6th Street on 110th Avenue 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 for by the Company. As you leave, tell the attendant you attended the Costco Wholesale Annual Meeting.

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PROXY STATEMENT  
FOR ANNUAL MEETING OF SHAREHOLDERS TO BE HELD  
January 26, 2017

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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 26, 2017, or any adjournments (the "Annual Meeting"). The individuals named as proxies are Jeffrey H. Brotman and W. Craig Jelinek. 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 15, 2016.

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 the approval, on advisory basis, of holding a frequency of every year 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 18, 2016 (the "Record Date") will be entitled to vote at the Annual Meeting. At the close of business on the Record Date, there were 439,343,299 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 in an uncontested election for directors a nominee who receives a greater number of "withhold" votes than votes "for" 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 proposals (2 and 3), to approve each proposal the votes that shareholders cast “for” must exceed the votes that shareholders cast “against.” 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 deemed the frequency that shareholders approve.

If your shares are held by a broker or other financial institution on your behalf (that is, in “street name”), and you do not instruct that firm as to how to vote these shares, Nasdaq rules allow the firm to vote your shares only on routine matters. Proposal 2, the ratification of the selection of the Company’s independent auditors for fiscal 2017, is the only matter for consideration at the meeting that Nasdaq rules deem to be routine. For all other proposals, you must submit voting instructions to the firm that holds your shares if you want your vote to count. When a firm votes a client’s shares on some but not all of the proposals, the missing votes are referred to as “broker non-votes.” Please instruct your broker or other financial institution 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. Alliance Advisors may solicit proxies at a cost we anticipate will not exceed \$12,000.

#### NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this Proxy Statement, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this Proxy Statement. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “future,” “opportunity,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual events, results, or performance to differ materially from those indicated by the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled “Risk Factors” in our Forms 10-K and 10-Q. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

#### 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. Current director Richard M. Libenson, a member of Class III which serves until the 2017 Annual Meeting, has determined to not stand for re-election. To achieve an equal balance of membership among the classes, the Board on December 6, 2016 determined to move one director from Class I, which serves until the annual meeting in 2018, to Class III and to reduce the size of the Board from thirteen to twelve directors. In this connection, Mr. Galanti agreed to resign as a Class I director, and was immediately reappointed to the Board as a Class III director. The resignation and reappointment of Mr. Galanti was effected solely to satisfy certain legal requirements under Washington law and our Articles of Incorporation and bylaws to balance the Board classes, and for all other purposes Mr. Galanti's service on the Board is deemed to have continued uninterrupted. The Board has appointed Mr. Libenson to serve as Director Emeritus for a three-year term, beginning immediately after the Annual Meeting. Mr. Libenson will continue in his long-standing role as a consultant to the Company.

Each of Susan L. Decker, Richard A. Galanti, 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 2020 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. The proxies being solicited will be voted at the Annual Meeting for no more than the four nominees listed in these materials. 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 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 that make them well-suited to oversee the Company. They are established leaders in important areas of business, government service, and other public and non-profit service. In addition, members of our Board have had a great diversity of experiences and bring 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
Jeffrey H. Brotman	Chairman of the Board of Directors	74	2018
Susan L. Decker	Director	54	2017
Daniel J. Evans	Director	91	2018
Richard A. Galanti	Executive Vice President, Chief Financial Officer and Director	60	2017
Hamilton E. James	Lead Independent Director	65	2019
W. Craig Jelinek	President, Chief Executive Officer and Director	64	2019
John W. Meisenbach	Director	80	2017
Charles T. Munger	Director	92	2017
Jeffrey S. Raikes	Director	58	2018
James D. Sinegal	Director	80	2018
John W. Stanton	Director	61	2019
Mary Agnes (Maggie) Wilderotter	Director	61	2019

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.

Jeffrey H. Brotman is the Chairman of the Board of the Company. Mr. Brotman is a co-founder of the Company and has been Chairman of the Board since the Company's inception, except from October 1993 to December 1994, when he was Vice Chairman. 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.

Susan L. Decker has been a director of the Company since October 2004. She has been a principal of Deck3 Ventures LLC, a consulting and advisory firm in Menlo Park, California, since 2009. She served as Entrepreneur-in-Residence at Harvard Business School during the 2009-10 school year, where she was involved in case development activities and helped develop and teach the Silicon Valley Immersion Program for Harvard Business School. 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. and Vail Resorts, Inc. and was previously a director of Intel Corporation, LegalZoom and 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 was previously a director of NIC Inc. 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.

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 Chairman of Global Investment Banking at 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 of the Company since February 2010, and Chief Executive Officer since January 1, 2012. Mr. Jelinek previously was President and Chief Operating Officer from February 2010 until January 2012, and was Executive Vice President in charge of merchandising beginning in 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.

John W. Meisenbach has been a director of the Company since its inception. He is president and CEO of MCM, a financial services company, which he founded in 1962. He currently serves as a director of M Financial Holdings where he is on the Executive Committee and previously served as Chair of the Securities Committee. He previously served as a director of Expeditors International, where he also was Chair of the Compensation Committee.

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. 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 is the co-founder of the Raikes Foundation. Previously he was the Chief Executive Officer of the Bill & Melinda Gates Foundation from 2008 to 2014. Mr. Raikes held several positions with Microsoft Corporation from 1981 to 2008, including President of the Business Division from 2005 to 2008. Mr. Raikes's qualifications to serve on the Board are his broad-ranging experiences, including senior leadership positions, in the areas of technology and marketing and at the world's largest foundation.

James D. Sinegal was Chief Executive Officer of the Company until his retirement on December 31, 2011. He was also President until February 2010 and served as a non-officer employee from January 2012 through April 2013. 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, President, and Chief Executive Officer, his extensive career in the retail industry, and his knowledge of our Company's business developed over the course of his long career here.

John W. Stanton has been a director of the Company since October 29, 2015. He is the Chairman of First Avenue Entertainment LLLP, which is the owner of the Seattle Mariners, Chairman of Trilogy International Partners, Inc., which operates wireless systems internationally, and Trilogy Equity Partners, which invests in wireless-related companies. Mr. Stanton founded and served as Chairman and Chief Executive Officer of Western Wireless Corporation, a wireless telecommunications company, from 1992 until shortly after its acquisition by ALLTEL Corporation in 2005. He was Chairman and a director of T-Mobile USA, formerly VoiceStream Wireless Corporation, a mobile telecommunications company, from 1994 to 2004, and was Chief Executive Officer from 1998 to 2003. Mr. Stanton was a director of Clearwire Corp. from 2008 to 2013, Chairman between 2011 and 2013, and interim Chief Executive Officer during 2011. He is currently a director of Microsoft Corporation and Columbia Sportswear Company. Mr. Stanton's qualifications to serve on the Board include his extensive background as a chief executive officer and director of public and private companies and his insights into global operations, strategic planning and financial matters.

Mary Agnes (Maggie) Wilderotter has been a director of the Company since October 13, 2015. She was the Executive Chairman of Frontier Communications from April 2015 until April 2016, and previously served as its chief executive officer for over 10 years since November 2004 and chairman of the board since December 2005. Prior to joining Frontier, she was a senior vice president of Microsoft Corporation from 2002 to 2004. From 1997 to 2002, she was President and Chief Executive Officer of Wink Communications, an interactive telecommunications and media company. Mrs. Wilderotter was a director of Xerox Corporation from 2006 through 2015, of DreamWorks Animation SKG from 2015 to 2016, and of Procter & Gamble Company from 2009 through 2015. She is currently a director of Juno Therapeutics, Inc. and Hewlett Packard Enterprise. Mrs. Wilderotter currently serves on the President's Commission on Enhancing National Cybersecurity. Her qualifications to serve on the Board include the knowledge and experience she has gained, and contributions she has made, during her service on the boards of other public companies, and her broad-ranging experiences, including senior leadership positions, in the areas of telecommunications and technology.

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 has determined that each member of the Audit, Compensation and Nominating and Governance Committees meets Nasdaq listing standards regarding "independence," including applicable committee independence requirements. Each committee has a written charter, which may be viewed at our website at [www.costco.com](http://www.costco.com) through the Investor Relations page. Directors deemed independent are Mses. Decker and Wilderotter and Messrs. Evans, James, Munger, Raikes and Stanton, who constitute a majority



of the Board. The non-executive directors of the Company met in executive session presided over by the Lead Independent Director at three meetings this fiscal year.

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

- providing direct communication between the Board 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;
- maintaining procedures for receipt, retention and treatment of any complaints received by the Company about its accounting, internal accounting controls or auditing matters and for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- reviewing the relationships between the Company and the external auditors to ascertain the independence of the external auditors; and
- approving compensation of the external auditors.

The members of the committee are Messrs. Munger (chair) and Evans and Ms. Decker. The Board has determined that Mr. Munger is an "audit committee financial expert" as defined by the rules of the Securities and Exchange Commission ("SEC"). In order to ensure continuing auditor independence, the Audit Committee periodically considers whether there should be a regular rotation of the external auditors. In conjunction with the mandated rotation of the external auditor's lead engagement partner, the Audit Committee and its chairperson are directly involved in the selection of the new lead engagement partner. The Audit Committee met seven times during fiscal 2016. 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 executive officers of the Company the authority to grant stock awards to employees who are not executive officers or members of the Board. The committee has delegated certain authority to the Chief Executive Officer and Chairman of the Board 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. Munger and Stanton (chair) and it met four times during fiscal 2016. A report of the Compensation 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, 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 committee is authorized by its charter to engage its own advisors. The committee approved the nomination of the candidates reflected in proposal 1. 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 members of the committee are Messrs. Raikes (chair) and Evans and Ms. Wilderotter, and the committee met three times in fiscal 2016.

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,

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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.

As previously disclosed in our Form 8-K filed with the SEC on September 26, 2016, the Board of Directors approved amendments to the Company's bylaws to adopt proxy access. This adoption followed approval by shareholders at the 2016 annual meeting of an advisory shareholder proposal concerning proxy access. Prior to the Board's adoption of the proxy access bylaw, the Nominating and Governance Committee sought input on a potential structure from a number of the Company's largest shareholders. Based on those inputs, changes to the structure were made in the final bylaw amendment.

We believe that the Company benefits from having directors with a diversity of viewpoints, backgrounds, and experiences. Currently, of the thirteen directors on the Board, two are women. 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 year. The assessment seeks to identify 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. Recommendations arising from the self-assessment process in fiscal 2016 primarily related to improving the efficiency and effectiveness of the meeting of the full board. Since 2014 the Board, led by the Nominating and Governance Committee, has been engaged in a process to refresh its membership. Thus far, that process has led to the retirement of three members and the addition of two new independent directors. The Board anticipates further changes in its membership in 2017.

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 has adopted Corporate Governance Guidelines, which may be viewed at [www.costco.com](http://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. The Board believes that this structure is appropriate for the Company at this time. As a co-founder of the Company, Mr. Brotman has played a critical role in the growth of the Company, and his role as Chairman is complemented by the role of Mr. Jelinek as President and Chief Executive Officer and a more active participant in day to day management of the Company. In addition, the Board believes that it obtains effective additional board leadership through the role of the Lead Independent Director, currently filled by Mr. James. The Lead Independent Director presides over executive sessions of the Board and otherwise facilitates communication among senior management and the non-employee directors.

The Role of the Board in Risk Oversight. One Board function is to oversee the ways in which management deals with risk. 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. 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 reports on the potentially significant risks that the Company faces and how the Company is seeking to control risk where appropriate and oversees 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 Chief Executive Officer 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. 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

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. In fiscal 2016, each non-employee director received a grant of 2,150 restricted stock units ("RSUs"), reduced from 3,000 in fiscal 2013. Beginning in fiscal 2017, the target value of the RSUs to be granted is \$325,000 (a reduction in value from fiscal 2016), with the number determined based on the closing share price on October 22, or on the next prior trading day if October 22 should fall on a day when the securities exchanges are closed. These RSUs vest one-third annually, beginning on the first anniversary of the date of grant and are subject to accelerated vesting upon the director's retirement: 50% and 100% after five and ten years of service, respectively. Our corporate governance stock ownership guidelines, which have been met by all directors, require non-executive directors to own and maintain at least 6,000 shares of Company stock within five years of joining the Board.

The following table summarizes compensation for the non-employee directors of the Company for fiscal 2016.

Name	Fees Earned or Paid in Cash (\$) <sup>1</sup>	Stock Awards (\$) <sup>2</sup>	All Other Compensation (\$) <sup>3</sup>	Total (\$)
Susan L. Decker	42,000	332,014		374,014
Daniel J. Evans	44,000	332,014		376,014
Hamilton E. James	35,000	332,014		367,014
Richard M. Libenson	35,000	332,014	338,408	705,422
John W. Meisenbach	35,000	332,014		367,014
Charles T. Munger	45,000	332,014		377,014
Jeffrey S. Raikes	38,000	332,014		370,014
Jill S. Ruckelshaus	17,000	332,014		349,014
James D. Sinegal	35,000	332,014		367,014
John W. Stanton <sup>4</sup>	31,789	238,382		270,171
Mary Agnes (Maggie) Wilderotter	34,982	332,014		366,996

(1) Represents the amount of cash compensation received for fiscal 2016.

(2) Represents the grant-date fair value of the RSUs granted to each non-employee director in October 2016. 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 the year ended August 28, 2016.

(3) Richard M. Libenson has been engaged as a consultant to the Company. For such services, a corporation that he owns was paid \$300,000 during fiscal 2016. That amount has been unchanged for 16 years. In addition, the Company paid premiums on long-term disability insurance in the amount of \$8,331 and premiums for health care insurance in the amount of \$20,101. Mr. Libenson received benefits associated with a split-dollar life insurance plan valued at \$9,976. These services and transactions were approved by the Audit Committee. He also participates in the Company's executive matching program for charitable contributions. Mr. Libenson is not standing for



re-election. He will serve a three-year term as Director Emeritus beginning in January 2017. For that service he will receive compensation (including equity compensation) equivalent to that received by board members. See "Certain Relationships and Transactions."

(4) John W. Stanton was elected to the board in late October 2015 and only served a portion of the fiscal year in 2016.

At the end of fiscal 2016, non-employee directors held the following shares and outstanding equity awards:

Name	Restricted Stock Units	Shares Owned	Total
Susan L. Decker	4,652	43,331	47,983
Daniel J. Evans	4,652	25,770	30,422
Hamilton E. James	4,652	29,190	33,842
Richard M. Libenson	4,652	97,595	102,247
John W. Meisenbach	4,652	50,000	54,652
Charles T. Munger	4,652	174,567	179,219
Jeffrey S. Raikes	4,652	23,220	27,872
James D. Sinegal	4,652	1,540,487	1,545,139
John W. Stanton	1,613	13,878	15,491
Mary Agnes (Maggie) Wilderotter	2,150	—	2,150

#### 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 Board met five times. Each member of the Board attended 100% of the Board meetings and meetings of the committees on which he or she served with the exception of Mr. Evans, who missed one Board meeting. As set forth in our Corporate Governance Guidelines, directors are encouraged to attend meetings of shareholders. All directors except two attended the meeting in 2016.

#### 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 18, 2016.

Name and Address of Beneficial Owner	Shares	Percent <sup>1</sup>
Vanguard Group Inc. P.O. Box 2600, V26 Valley Forge, Pennsylvania 19482	30,540,471 <sup>2</sup>	6.95%

Based on 439,343,299 shares of common stock outstanding on November 18, 2016. In accordance with SEC rules, (1) percent of class as of this date 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/A filed with the SEC by Vanguard Group Inc. on November 14, 2016.

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 December 15, 2016.

Name of Beneficial Owner	Shares Beneficially Owned <sup>1</sup>	Percent of Class <sup>2</sup>
Jeffrey H. Brotman	463,747 <sup>(3)</sup>	*
W. Craig Jelinek	288,942 <sup>(4)</sup>	*
Susan L. Decker	50,165	*
Daniel J. Evans	32,604 <sup>(5)</sup>	*
Richard A. Galanti	40,539 <sup>(6)</sup>	*
Hamilton E. James	36,024	*
Richard M. Libenson	102,044 <sup>(7)</sup>	*
John W. Meisenbach	56,834 <sup>(8)</sup>	*
Charles T. Munger	181,401 <sup>(9)</sup>	*
Joseph P. Portera	26,426 <sup>(10)</sup>	*
Jeffrey S. Raikes	30,054	*
James D. Sinegal	1,527,207 <sup>(11)</sup>	*
John W. Stanton	17,673 <sup>(12)</sup>	*
Mary Agnes (Maggie) Wilderotter	4,332	*
Dennis R. Zook	19,694	*
All directors and executive officers as a group (24 persons)	3,276,400	*

\*Less than 1%

(1) Includes RSUs outstanding. Stock options previously awarded were all exercised by October 22, 2015.

Based on 439,343,299 shares of our common stock outstanding, and 7,917,607 RSUs outstanding. In accordance with SEC rules, percent of class as of this date is calculated for each person and group by

(2) dividing the number of shares beneficially owned by the sum of the total shares outstanding plus the number of shares subject to securities that will vest within 60 days.

(3) Includes 395,495 shares held by a trust of which Mr. Brotman is a principal beneficiary. Mr. Brotman disclaims any beneficial ownership of such shares.

(4) Also includes 35,000 pledged shares. The pledge was reviewed and approved in accordance with the Corporate Governance Guidelines. See page 15.

(5) Includes 17,428 shares held by a trust of which Mr. Evans is a trustee.

(6) Includes 7,000 shares owned by a limited liability company of which Mr. Galanti is the manager.

(7) Includes 97,595 shares held by trusts 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.

(10) Includes 7,404 shares held by a trust of which Mr. Portera is a trustee.

Includes 756,879 shares owned by a limited liability company of which Mr. Sinegal and his wife are

(11) co-managers. Also includes 466,765 pledged shares. The pledge was reviewed and approved in accordance with the Corporate Governance Guidelines. See page 15.

(12) Includes 422 shares held by a trust of which Mr. Stanton is a trustee. Mr. Stanton disclaims beneficial ownership of the shares owned by the trust.

Equity Compensation Plan Information  
(at Fiscal Year-End)

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>1</sup>	Weighted-average exercise price of outstanding options, warrants and rights (\$) <sup>2</sup>	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (1)) <sup>3</sup>
Equity compensation plans approved by security holders	8,326,656	—	15,068,000
Equity compensation plans not approved by security holders	—	—	—
Total	8,326,656	—	15,068,000

(1) Shares of common stock issuable upon vesting of outstanding RSUs granted under the Seventh Restated 2002 Incentive Plan and predecessor plans.

(2) There were no options, warrants, or rights outstanding as of August 28, 2016.

(3) Available for issuance under the Seventh Restated 2002 Incentive Plan, assuming issuance as RSUs. Includes the effect of adjustments made for the special dividends.

## EXECUTIVE COMPENSATION

## COMPENSATION DISCUSSION AND ANALYSIS

Following is a discussion and analysis of our compensation programs as they apply to our Chief Executive Officer, the Chief Financial Officer, and the three other most highly compensated individuals who were serving as executive officers at the end of fiscal 2016 (the “Named Executive Officers”). Our Named Executive Officers were: W. Craig Jelinek, President and Chief Executive Officer; Jeffrey H. Brotman, Chairman of the Board; Richard A. Galanti, Executive Vice President, Chief Financial Officer; Dennis R. Zook, Executive Vice President, COO-Southwest Division and Mexico; and Joseph P. Portera, Executive Vice President, COO-Eastern and Canadian Divisions.

## Compensation Philosophy and Objectives

Our compensation programs are designed to motivate our executives and employees and to participate in the growth of our business. 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 programs have contributed to the financial and competitive success of the Company. Accordingly, the Committee believes it is desirable to continue these programs.

At the 2016 Annual Meeting, the advisory shareholder vote on executive compensation was 97.7% in favor. The Committee did not determine to make any changes to the compensation programs as a result of the vote.

Compensation levels approved by the Committee for the Named Executive Officers for fiscal 2016 are not materially changed from those approved for the prior year. Discussions by certain directors and management with a number of shareholders since the 2016 Annual Meeting have not revealed concerns about the structure or operation of the Company's compensation programs.

## 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 2016, the Committee initially consisted of Ms. Ruckelshaus and Mr. Munger; after January 2016, it consisted of Messrs. Munger and Stanton (chair). The Committee has authority under its charter to engage compensation consultants but has not used any. 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 for the current fiscal year; (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 and since fiscal 2009 solely of performance-based RSUs), base salary, cash bonuses, and other benefits (primarily consisting of health plans, a 401(k) plan and a deferred compensation plan). The Committee believes that these components are appropriate and are consistent with the Company's long-standing approach to executive compensation, which has made equity awards the dominant form of compensation.

The Committee did not 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.

**Performance-based RSUs.** Performance-based 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 helps to align the interests of employee-grantees with those of shareholders, both in the shorter term (with the one-year performance conditions) and in the longer term (with time-based 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. The Committee's view is that the general five-year vesting period and the stock ownership requirement provide a long-term dimension to the equity awards.

**Base salary.** Base salary is the second largest compensation component. It is consistent with the need for executive officers to have predictable cash compensation, which has been subject generally to modest annual increases.

**Cash bonus.** Cash bonuses are a relatively small component of compensation and (subject to caps) are awarded at the discretion of the Committee, based on a variety of metrics. 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.** Consistent with its position as a low-overhead operator, the Company has modest "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).

The foregoing components of compensation combine a mix of incentives that are intended to reward 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 a one-year performance metric and, to a significantly lesser extent, cash bonuses that are subject to a combination of one-year performance metrics. Longer-term incentives come primarily from the RSU award vesting of up to five years, and, to a lesser extent, share ownership requirements for executive officers and vesting elements in certain benefit plans (such as the deferred compensation plan and 401(k) retirement plan matches).

The Committee believes that these elements do not promote unreasonable risk-taking behavior. The value of shorter-term incentives (including cash bonus awards with caps and performance conditions for awards of RSUs) is substantially exceeded by longer-term incentives (including equity awards that vest up to five years) and share ownership requirements, which the Committee believes reward sustained performance that

is aligned with shareholder interests. In addition, the Company's Corporate Governance Guidelines include a "claw back" provision, giving the Committee the power to require the return of incentive compensation that has been earned by improper means.

#### Peer Companies

For fiscal 2016, 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, The Kroger Company, and Lowe's Companies. This peer group is the same group as was used for fiscal 2015. These companies were selected because they are recognized as successful retailers and one of them represents the other major membership warehouse operator that is publicly traded. In utilizing the comparative data, the Committee took into account that one of the companies is substantially larger than the Company. The Committee did not use the comparable company data to set mid-points or other specific quantitative comparisons of executive compensation; it used them only for general reference.

#### Equity Compensation

If fully earned based upon the achievement of performance targets and fully vested, equity compensation is the largest component of compensation for executive officers. RSU grants to all executive officers are performance-based, with performance-vesting over a one-year period, time-vesting over five years, and vesting for long service 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 over the longer term. Following satisfaction of performance targets, RSUs become time-vested RSUs that, subject to 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 non-executive officers and employees is not performance-based.) To the extent time-vesting requirements are met, RSUs are settled and paid in shares of common stock (net of shares withheld for minimum statutory withholding taxes). Recipients are not entitled to vote or receive dividends on unvested and undelivered RSUs.

All officers and employees who receive RSU grants receive 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). This accelerated vesting entitles officers and employees to receive shares within ten business days of the anniversary of the grant date or of the initial grant date if the years of service requirement has been met prior to the grant date.

The criteria for the fiscal 2016 performance-based grants were a 3% increase (versus fiscal 2015) of total sales or a 1% increase in pre-tax income (with both measures based on local currencies). After the end of fiscal 2016, the Committee determined that both goals were exceeded. 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. For fiscal 2016, RSU grants were made on October 22, 2015, and the performance criteria for the grants were established in November 2015. All RSU awards in fiscal 2016 were made under the Company's Seventh Restated 2002 Stock Incentive Plan, approved by the Company's shareholders and as amended in January 2015 as the Seventh Restated 2002 Incentive Plan, the only equity plan maintained by the Company.

#### Other Compensation

The Company provides the Named Executive Officers with benefits of a type 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 non-qualified deferred-compensation plan for the





benefit of certain highly compensated employees, including the Named Executive Officers. The plan provides that the first \$10,000 of an employee's contributions may be matched 50% 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 a car allowance. There is a company match for certain charitable contributions. The Committee believes the benefits are modest and consistent with its overall objective of attracting and retaining highly qualified executive officers.

#### 2016 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 particularly critical to the continued success of the Company. Near the beginning of fiscal 2016, the Committee approved a written employment contract for Mr. Jelinek, related to service during fiscal 2016 (subsequently extended to calendar 2016) as Chief Executive Officer. The agreement provided for an annual base salary of \$700,000, unchanged from the prior year. The agreement further provided for a cash bonus of up to \$200,000 (unchanged from the prior year), determined by the Board or the Committee, and an RSU award determined by the Board or the Committee. Mr. Brotman, who is an executive chairman, does not have an employment agreement. His salary in fiscal 2016 was unchanged at \$650,000. Apart from the change-in-control provision in the Company's equity plan applicable to all grantees (described below under "Potential Payments Upon Termination or Change-in-Control"), neither Mr. Brotman nor Mr. Jelinek (nor any other employee) has any change-in-control arrangement with the Company.

For fiscal 2016, the Committee granted 35,190 performance-based RSUs to Mr. Brotman and Mr. Jelinek. The Committee determined after the end of the fiscal year that the performance criteria were exceeded, and all of the RSUs were earned, subject to further time-vesting and accelerated-vesting for long service.

Cash bonuses for the Chief Executive Officer and the Chairman of the Board have generally been capped at no more than \$200,000 since fiscal 1997. For fiscal 2016, Mr. Brotman and Mr. Jelinek each earned a cash bonus of \$81,600. The bonus amounts for Messrs. Brotman and Jelinek were determined by the Committee as follows: (i) up to one-half of bonus eligibility was determined by the Company's progress toward its pre-tax income goal, which was not fully achieved in fiscal 2016; and (ii) eligibility for the remaining half was determined by applying a percentage representing the amount of bonus received by other executive officers in comparison to their bonus eligibility (approximately 81.6%). The criteria governing bonuses to these executive officers are described below.

#### 2016 Compensation of Other Named Executive Officers

The most significant component of the compensation in fiscal 2016 was the award of performance-based RSUs. RSU amounts awarded to Messrs. Galanti, Portera, and Zook were 18,440 each. The amounts awarded were based on the recommendations of Mr. Jelinek. As noted above, the performance criteria were exceeded and the Named Executive Officers earned all of the RSUs granted, with further time-vesting and accelerated-vesting for long service.

Salaries for other Named Executive Officers were based upon the recommendation of Mr. Jelinek, who focused on the amount of increase deserved over the prior year's salary level. Base salary levels for these officers increased up to 3% over fiscal 2015.

The Named Executive Officers (other than Messrs. Brotman and Jelinek) received cash bonuses of up to \$52,640, less than the prior year, as a result of the Company's having not met the pre-tax income goal for fiscal 2016. Bonus criteria were approved by the Committee in early fiscal 2016, based upon the recommendation of Mr. Jelinek. After the close of the fiscal year, Mr. Jelinek recommended bonus amounts to the Committee for most of the Named Executive Officers of approximately 65% of the eligible amounts (up to \$80,000).

As with other bonus-eligible employees, 50% of the bonus potential was related to the degree of the Company's attainment of its internal pre-tax income target. For fiscal 2016 that target was \$3.64 billion, on a generally accepted accounting principles basis; 99% of the target was achieved; actual pre-tax income was \$3.62 billion. Based on Mr. Jelinek's recommendation, the Committee determined to award 50% of the potential bonus (except for Messrs. Jelinek and Brotman, for whom none was awarded). Eligibility for the bonus portion not associated with the Company's pre-tax 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 pre-tax 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 responsibility. For each officer there is also a small component (approximately 10% of total bonus eligibility) based on the discretion of Mr. Jelinek. Mr. Jelinek is not bound to recommend any specific bonus amount based on these factors; he considers what he believes to be the appropriate bonus in view of all the circumstances (subject to the caps noted above). The Committee maintains the discretion to vary from the Chief Executive Officer's recommendations but historically has deferred to it, as it did this fiscal year. To be eligible for the annual bonus, the individual must be employed by the Company and in the same or similar executive-level position at the time bonus checks are issued (historically in November).

#### Clawback Policy

The Corporate Governance Guidelines provide that the Company will seek to recover, at the direction of the Committee after it has considered the costs and benefits of doing so, incentive compensation (including bonus, incentive payment, and equity award) awarded or paid to an officer for a fiscal period if the result of a performance measure upon which the award was based or paid is subsequently restated or otherwise adjusted in a manner that would reduce the size of the award or payment. Where the incentive compensation is not awarded or paid on a formulaic basis, the Committee may determine in its discretion the amount, if any, by which the payment or award should be reduced. In addition, if an officer engaged in intentional misconduct (as determined by the Committee in its sole discretion) that contributed to the award or payment of incentive compensation to the officer that is greater than would have been paid or awarded in the absence of the misconduct, the Company may take other remedial and recovery action, as determined by the Committee.

#### Stock Ownership Requirements

All executive officers are required to own and maintain at least 12,000 shares of common stock. All executive officers are in compliance, with the exception of one recently-promoted officer who has been given an extension of time to comply.

#### Hedging and Pledging Policy

The Corporate Governance Guidelines prohibit transactions involving hedging of Company shares by directors and executive officers without the approval of the Board and prohibit pledging of Company shares by directors and executive officers without the approval of a designated Trading Compliance Committee, which reviews risks of proposed transactions.

#### Impact of Tax Considerations

The Committee examined compensation in light of the impact of section 162(m) of the Internal Revenue Code of 1986, as amended, which generally prohibits any publicly-held corporation from taking a federal income tax deduction for compensation paid in excess of one million dollars in any taxable year to the Named Executive Officers (other than the Chief Financial Officer), subject to certain exceptions for performance-based compensation (paid only if an individual satisfies objective performance goals that the Committee has established in advance based on performance criteria approved by shareholders). Performance-based RSUs granted to Named Executive Officers are intended to satisfy the performance-based exception. The Committee may grant awards that do not qualify for tax deductibility under section 162(m), and there is no guarantee that awards intended to qualify for tax deductibility under section 162(m) will ultimately be viewed as so qualifying by the Internal Revenue Service.

#### 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 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 28, 2016, for filing with the SEC.

John W. Stanton, Chair  
Charles T. Munger

## Summary of Compensation

The following table sets forth information regarding compensation for each of the Named Executive Officers for fiscal 2016, 2015, and 2014.

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$) <sup>1</sup>	Bonus (\$) <sup>2</sup>	Stock Awards (\$) <sup>3</sup>	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) <sup>4</sup>	All Other Compensation (\$) <sup>5</sup>	Total (\$)
W. Craig Jelinek President and Chief Executive Officer	2016	700,000	81,600	5,563,064	57,227	101,385	6,503,276
	2015	698,079	188,800	5,322,962	35,319	95,233	6,340,393
	2014	651,731	90,400	4,783,200	8,541	90,786	5,624,658
Jeffrey H. Brotman Chairman of the Board	2016	650,000	81,600	5,563,064	78,842	108,248	6,481,754
	2015	650,000	188,800	5,322,962	45,513	103,303	6,310,578
Richard A. Galanti Executive Vice President, Chief Financial Officer	2014	650,000	90,400	4,783,200	10,735	95,517	5,629,852
	2016	700,001	52,640	2,915,115	117,177	110,480	3,895,413
Dennis R. Zook Executive Vice President, COO- Southwest Division & Mexico	2015	699,041	75,520	2,794,440	74,173	102,583	3,745,757
	2014	683,654	36,160	2,511,180	17,859	103,915	3,352,768
Joseph P. Portera Executive Vice President, COO- Eastern & Canadian Divisions	2016	657,730	50,223	2,941,903	21,094	105,944	3,776,894
	2015	641,753	77,073	2,794,440	12,303	98,960	3,624,529
	2014	626,866	55,868	2,511,180	2,807	97,465	3,294,186
	2016	660,231	52,039	2,915,115	26,549	115,718	3,769,652
	2015	644,431	78,259	2,794,440	18,093	110,286	3,645,509
	2014	629,713	56,047	2,511,180	5,465	108,032	3,310,437

(1) Certain salaries in all fiscal years have been restated to reflect retroactive pay when earned rather than received.

(2) Amounts awarded under the Company's executive cash bonus program.

Awards reflect adjustments for the special dividends paid in February 2015. This represents the grant-date fair value of performance-based RSUs granted to the Named Executive Officers during fiscal 2016, 2015 and 2014, which are earned upon attainment of performance criteria and subject to additional time-based vesting. The performance criteria 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

(3) present value of the expected dividends forgone during the vesting period. For a description of the assumptions used in calculating the fair value of the performance-based RSUs, see Note 1 of our financial statements in our Form 10-K for the year ended August 28, 2016. 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. Each Named Executive Officer (among certain other employees) is eligible to participate in the Company's non-qualified 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 (4) 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 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.

Detail is provided below in the Fiscal 2016 All Other Compensation table. Executives, their families, and invited (5) guests occasionally fly on the corporate aircraft as additional passengers on existing business flights. Any incremental cost to the Company is de minimis, and no amount is reflected in the table.

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## FISCAL 2016 ALL OTHER COMPENSATION

Name	Deferred Compensation Match (\$)	401(k) Matching Contribution (\$) <sup>1</sup>	401(k) Discretionary Contribution (\$) <sup>1</sup>	Executive Life Insurance (\$)	Health Care Insurance Premiums (\$)	Vehicle Allowance (\$)	Long-Term Disability Premiums (\$)	Tax Gross-Up (\$) <sup>2</sup>	Other (\$)	Total All Other Compensation (\$)
W. Craig Jelinek	5,000	500	23,850	5,060	37,221	16,503	8,370	4,692	189	101,385
Jeffrey H. Brotman	5,000	—	23,850	11,203	36,181	16,845	11,602	3,567	—	108,248
Richard A. Galanti	5,000	500	23,850	3,540	46,207	17,289	8,710	4,140	1,244	110,485
Dennis R. Zook	5,000	500	23,850	6,580	36,181	17,974	9,320	6,325	214	105,944
Joseph P. Portera	5,000	500	23,850	5,060	47,767	17,038	9,408	6,885	210	115,718

The Company has a 401(k) retirement plan that is available to all U.S. employees who have completed 90 days of employment. For all U.S. employees, with the exception of California union employees, the plan allows pre-tax (1) 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. Vesting in the matching and discretionary contributions is 100% after five years of service.

Executives are compensated for additional tax costs associated with the Company's payments on their behalf for (2) long-term disability insurance. The insurance benefit is extended to all employees who are either at the level of senior vice-president and above or who are eligible to participate in the deferred compensation plan (approximately 1,000 eligible employees) and who have 20 or more years of service.

The following table provides information regarding grants of performance-based RSUs during fiscal 2016 to each of the Named Executive Officers.

## FISCAL 2016 GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards (units) <sup>1</sup>	Grant-Date Fair Value of Stock Awards (\$) <sup>2</sup>
W. Craig Jelinek	10/22/2015	35,190	5,563,064
Jeffrey H. Brotman	10/22/2015	35,190	5,563,064
Richard A. Galanti	10/22/2015	18,440	2,915,115
Dennis R. Zook	10/22/2015	18,440	2,941,903
Joseph P. Portera	10/22/2015	18,440	2,915,115

Represents the number of performance-based RSUs granted to the Named Executive Officers during fiscal 2016, subject to attainment of the performance criteria described under "Compensation Discussion and Analysis – Equity (1) Compensation." After the end of fiscal 2016, the Committee determined that the performance criteria had been exceeded 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 acceleration of vesting for long service.

(2) Represents the grant-date fair value of RSU awards granted, computed as described in Note 3 to the Summary Compensation Table above.

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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 28, 2016.

OUTSTANDING EQUITY AWARDS AT FISCAL 2016 YEAR-END

Name	Number of Shares or Units of Stock Unvested at Fiscal Year- End <sup>1,2</sup>	Stock Award Grant Date <sup>3</sup>	Market Value of Shares or Units of Stock Unvested at Fiscal Year-End (\$) <sup>4</sup>
W. Craig Jelinek	3,737	10/22/2011	612,606
	7,474	10/21/2012	1,225,213
	8,338	10/22/2013	1,366,848
	11,120	10/22/2014	1,822,902
	35,190	10/22/2015	5,768,697
Jeffrey H. Brotman	3,737	10/22/2011	612,606
	7,474	10/21/2012	1,225,213
	8,338	10/22/2013	1,366,848
	11,120	10/22/2014	1,822,902
	35,190	10/22/2015	5,768,697
Richard A. Galanti	1,867	10/22/2011	306,057
	3,736	10/21/2012	612,442
	4,374	10/22/2013	717,030
	5,834	10/22/2014	956,368
	18,440	10/22/2015	3,022,869
Dennis R. Zook	1,867	10/22/2011	306,057
	3,737	10/21/2012	612,606
	4,376	10/22/2013	717,358
	5,837	10/22/2014	956,859
	18,440	10/22/2015	3,022,869
Joseph P. Portera	1,867	10/22/2011	306,057
	3,736	10/21/2012	612,442
	4,374	10/22/2013	717,030
	5,834	10/22/2014	956,368
	18,440	10/22/2015	3,022,869

(1) Reflects the adjustment for the special dividends.

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 (2) for long service. Specifically, RSUs with the following grant dates vest as follows, assuming satisfaction of the one-year performance conditions:

Grant Date Vesting

2011, 2012, Vest 20% annually on each subsequent October 22, subject to accelerated vesting of 33%, 66% or 100%  
2013, and of unvested shares for those who attain 25, 30 or 35 years of service, respectively, with the residual  
2014 vesting ratably over the remaining portion of the five-year vesting period.

2015 Subsequent to the end of fiscal 2016, the Compensation Committee certified that the performance criteria had been exceeded and the awards were earned. All grants are made annually on October 22. Therefore, the shares above do not reflect accelerated vesting for long service as the awards have not been released.

(3) All stock awards were granted on October 22.

(4) Based on the closing market price of \$163.93 on August 26, 2016.





## FISCAL 2016 STOCK AWARDS VESTED

The following table provides information regarding stock awards that vested during fiscal 2016 for each of the Named Executive Officers. No stock options were exercised in fiscal 2016 or are currently outstanding.

Name	Stock Awards	
	Number of Shares Acquired on Vesting	Value Realized on Vesting (\$)
W. Craig Jelinek	43,860	6,567,089
Jeffrey H. Brotman	44,597	6,683,646
Richard A. Galanti	23,141	3,465,781
Dennis R. Zook	23,130	3,464,082
Joseph P. Portera	23,141	3,465,781

## FISCAL 2016 NON-QUALIFIED DEFERRED COMPENSATION

The following table provides information relating to the non-qualified deferred compensation plan for each of the Named Executive Officers. See Note 4 to the Summary Compensation Table above for additional information about the plan.

Name	Executive Contributions in Last Fiscal Year (\$) <sup>1</sup>	Registrant Contributions in Last Fiscal Year (\$) <sup>2</sup>	Aggregate Earnings in Last Fiscal Year (\$) <sup>3</sup>	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last Fiscal Year-End (\$) <sup>4</sup>
W. Craig Jelinek	280,000	5,000	160,251		3,825,532
Jeffrey H. Brotman	689,920	5,000	218,018		5,293,756
Richard A. Galanti	392,000	5,000	329,871		7,790,524
Dennis R. Zook	164,288	5,000	58,467		1,424,602
Joseph P. Portera	50,000	5,000	76,056	93,616	1,734,417

(1) These amounts were also included in “Salary” or “Bonus” in the Summary Compensation Table.

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

The amount representing interest on the Named Executive Officer’s balance that is “above market” (greater than (3) 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.

(4) Of the amounts in this column, the following amounts have also been reported in the Summary Compensation Table for fiscal 2016, 2015, and 2014:

Name	Reported for Fiscal 2016 (\$)	Previously Reported for Fiscal 2015 (\$)	Previously Reported for Fiscal 2014 (\$)
W. Craig Jelinek	342,227	300,858	277,541
Jeffrey H. Brotman	773,762	598,550	239,728
Richard A. Galanti	514,177	465,982	390,859
Dennis R. Zook	190,382	124,563	17,807
Joseph P. Portera	81,549	73,093	60,465

## Potential Payments Upon Termination or Change-in-Control

The Company does not have any change-in-control agreements with any executive officer, director, or employee. Plans under which RSUs have been granted provide that in the event of a change in control, the Board (or other authorized plan administrator) may accelerate RSU vesting.<sup>1</sup> The amounts shown in the following table reflect the potential value to the Named Executive Officers, as of the end of fiscal 2016, 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.

The amounts shown assume that a change in control was effective as of the last business day of fiscal 2016 and that the price of Costco common stock on which the calculations were based was the closing price on August 26, 2016 (\$163.93 per share). 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. In the event of a termination other than for cause: (i) proportional vesting (measured on a quarterly basis) occurs for the time period between termination and the grant date or grant date anniversary and (ii) 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 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 <sup>1,2,4</sup>	Total Value of RSUs That May Vest Upon Change in Control (\$) <sup>3</sup>	RSUs Vested Upon Termination Without Cause <sup>2, 4</sup>	Total Value of RSUs Vested Upon Termination Without Cause (\$) <sup>3</sup>
W. Craig Jelinek	65,859	10,796,266	34,995	5,736,730
Jeffrey H. Brotman	65,859	10,796,266	34,995	5,736,730
Richard A. Galanti	34,251	5,614,766	18,206	2,984,510
Dennis R. Zook	34,257	5,615,750	25,076	4,110,709
Joseph P. Portera	34,251	5,614,766	18,206	2,984,510

(1) Column displays the maximum number of RSUs that, in the event of a change in control of the Company, the Board may choose 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 28, 2016, and utilizing the market closing price on August 26, 2016 (\$163.93 per share).

(4) Values assume satisfaction of the performance conditions for the October 2015 grants, which were certified subsequent to the end of fiscal 2016.

<sup>1</sup>The Seventh Restated 2002 Stock Plan provides that in connection with a change in control, the Board may take any one or more of the following actions: (a) arrange for the substitution of options or other compensatory awards of equity securities other than shares (including, if appropriate, equity securities of an entity other than the Company) in exchange for stock awards; (b) accelerate the vesting and termination of outstanding stock awards so that stock awards can be exercised in full before or otherwise in connection with the closing or completion of the transaction or event, but then terminate; or (c) cancel stock awards in exchange for cash payments to participants. The plan requires that if the Company merges with another entity in a transaction in which the Company is not the surviving entity or if, as a result of any other transaction or event, other securities are substituted for Company shares or shares may no longer be issued (a “Fundamental Transaction”), then the Board shall do one or more of the foregoing, contingent on the closing or completion of the Fundamental Transaction.

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 balance of each Named Executive Officer's deferred compensation account as of the end of fiscal 2016 is set forth in the table above titled "Fiscal 2016 Non-qualified Deferred Compensation." In the event of a threatened change in control of the Company, the Compensation Committee may take 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.

Potential Payments Under Mr. Jelinek's Employment Agreement. The Company and Mr. Jelinek entered into an employment agreement effective August 31, 2015 with a one-year term, subject to renewal for additional one-year terms upon mutual agreement. The agreement was extended until December 31, 2016. If Mr. Jelinek's employment is terminated by the Company without cause or by Mr. Jelinek with good reason, Mr. Jelinek will receive: (i) a lump-sum cash payment equal to 1.5 times his annual base salary and target bonus; (ii) continued coverage under the Company's medical plans until age 65; and (iii) full acceleration of any unvested RSUs. The estimated amount Mr. Jelinek would have received in the event of such termination as of August 28, 2016 as cash severance is \$1.35 million and the estimated cost of continued medical coverage is \$26,079. The actual amounts could be determined only at the time of any actual termination. Upon termination due to disability, Mr. Jelinek would receive continued medical coverage and full acceleration of any unvested RSUs as described above.

"Good reason" is defined in the agreement as a material diminution in the executive's salary or target bonus, in his authority, duties or responsibilities, or in the budget over which he retains authority, causing the executive to report to anyone other than the Board, a material change in geographic location at which the executive must perform services, or any breach by the Company of the employment agreement.

"Cause" is defined in the agreement as an intentional tort causing substantial loss, damage or injury to the Company, any serious crime or intentional, material act of fraud or dishonesty against the Company, the commission of a felony that results in other than immaterial harm to the Company's business or to the reputation of the Company or the executive; habitual neglect of the executive's reasonable duties, disregard of written, material policies of the Company that causes other than immaterial loss, damage or injury to the property or reputation of the Company, or any material breach of the executive's obligation to not disclose confidential information or to assign intellectual property developed during employment.

Under the terms of Mr. Jelinek's 2017 performance-vested RSU award ("PRSU"), in the event of termination of his employment for any reason other than cause, if the Compensation Committee of the Board determines that the performance goals established for the PRSU award has been met, Mr. Jelinek will receive the shares underlying the PRSU, subject to the long service and quarterly vesting provisions generally applied for terminations in connection with RSU awards as described above. The table above shows the estimated incremental amounts Mr. Jelinek would receive in respect of his 2016 PRSU award in connection with a termination of employment as of December 31, 2016.

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

Dennis R. Zook's sons were employed by the Company during fiscal year 2016. One had an annual salary of \$156,500 and received a bonus of \$42,089 and two RSU grants totaling 2,020 shares. The other son had an annual salary of \$102,561 and received a bonus of \$20,072 and an RSU grant of 610 shares.

Richard M. Libenson's daughter was employed by the Company during fiscal year 2016 at an annual salary of \$102,037 and received a bonus of \$19,953 and an RSU grant of 610 shares. All of these individuals also participate in benefit plans generally available to employees. The cash bonus and RSU grants were

awarded under terms and conditions comparable to those applicable to employees of the Company similarly situated. The Board of Directors has appointed Mr. Libenson Director Emeritus for a three-year term beginning immediately after the Annual Meeting. As Director Emeritus, Mr. Libenson will be entitled to receive written notices and information that are provided to the Board and to attend all Board meetings except as the Board may determine for particular meetings or issues. He will not be subject to any attendance policy, counted in determining if a quorum is present at a Board meeting, or entitled to vote at any meeting. As Director Emeritus Mr. Libenson will receive compensation in an amount equal to that received by non-employee directors, as described under "Compensation of Directors" and will have a portion of his medical insurance premiums paid by the Company comparable to what has occurred historically. His current consulting arrangement with the Company will continue, consisting of a cash payment of \$300,000 for each fiscal year and disability and life insurance benefits. The aggregate amount of such insurance benefits for fiscal 2016 is described under "Compensation of Directors." Should the consulting arrangement cease, the Company will continue the medical insurance benefits until January 2020. These services and transactions were approved by the Audit Committee. Mr. Libenson will also continue eligibility to participate in the Company's executive matching program for charitable contributions.

These relationships and related 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 Item 404(a) of Regulation S-K. There were no transactions required to be reported in this Proxy Statement since the beginning of fiscal 2016 where this policy did not require review, approval or ratification or where this policy was not followed.

No family members of executive officers or directors are executive officers of the Company.

#### 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 securities 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 2016, such SEC filing requirements were satisfied.

Report of the Audit Committee

October 25, 2016

To the Board of Directors:

We reviewed and discussed with management the Company's audited consolidated financial statements as of and for the fiscal year ended August 28, 2016. We discussed with the independent auditors the matters required to be discussed by Auditing Standard No. 16, as adopted by the Public Company Accounting Oversight Board, and the matters required to be reported to the Audit Committee by the independent registered public accounting firm pursuant to SEC Regulation S-X, Rule 2.07.

We 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 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 28, 2016.

Charles T. Munger, Chair

Susan L. Decker

Daniel J. Evans

Code of Ethics for Senior Financial Officers

The Board 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 chief executive officer, chief financial officer, or controller, we will disclose (on our website at [www.costco.com](http://www.costco.com) through the Investor Relations page 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 has served as our independent auditors since May 13, 2002. Upon recommendation of the Audit Committee, the Board has appointed KPMG as our independent auditors for the fiscal year 2017.

Services and Fees of KPMG

The following table presents fees for services rendered by KPMG for fiscal 2016 and fiscal 2015:

	2016	2015
Audit fees	\$6,215,000	\$6,251,000
Audit-related fees	359,000	392,000
Tax fees	642,000	322,000
All other fees	191,000	170,000
Total	\$7,407,000	\$7,135,000

KPMG was paid fees for the following types of services during fiscal 2016:

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.

All 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 pre-approved by the Audit Committee or a designated member of the Audit Committee, as provided in the committee's written policies. All services provided by KPMG in fiscal 2016 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 2016 is compatible with KPMG's maintaining its independence.

**PROPOSAL 2:**

**RATIFICATION OF SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS**

Subject to ratification by the shareholders at the Annual Meeting, the Board, upon recommendation of the Audit Committee, has selected KPMG to audit the consolidated financial statements of the Company and its subsidiaries for the fiscal year ending September 3, 2017. 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 28, 2016. 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 Audit Committee and Board of Directors unanimously recommend that you vote FOR Proposal 2.

**PROPOSAL 3:**

**ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION**

As required by Section 14A of the Securities Exchange Act of 1934, we are asking for your advisory (non-binding) vote on the following resolution ("say on pay"):

"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."

The Board will include say on pay votes in the Company's proxy materials annually until the next required shareholder vote on the frequency of such votes, subject to the Board's consideration of the results of this year's advisory vote on the frequency of holding a say on pay vote (Proposal 4).

The Board and the Compensation Committee, which is composed of independent directors, expect to take into account the outcome of the say on pay 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 TO APPROVE THE FREQUENCY OF HOLDING 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 the ability to cast an advisory vote on whether the advisory vote on executive compensation should be held every one, two, or three years.

Since 2011, following the advisory vote of shareholders in favor of annual "say on pay" votes, the Company has held such votes every year. The Company has not observed any reason why the previously expressed shareholder preference should not continue to govern, and market practice is that annual "say on pay" votes are held.

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 "1 Year" for future advisory votes on executive compensation.

**OTHER MATTERS**

Neither the Board 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 judgment.

**SHAREHOLDER PROPOSALS FOR THE 2018 ANNUAL MEETING**

In order for a shareholder proposal to be included in the proxy statement for the 2018 annual meeting of shareholders, it must comply with SEC Rule 14a-8 and be received by the Secretary of the Company, at the address set forth below, no later than August 17, 2017.

In 2016, our Board amended the Company's bylaws to permit a shareholder, or a group of up to 20 shareholders, that has owned at least 3% of our outstanding common stock for at least three years to nominate and include in our proxy statement candidates for our Board, subject to certain requirements (a "proxy access director nomination"). To be properly brought before the 2018 annual meeting of shareholders, a shareholder's notice of a proxy access director nomination must be received by the Secretary of the Company, at the address set forth below, no earlier than July 19, 2017 and no later than the close of business (5:30 p.m./ Pacific Time) on August 18, 2017. Any such notice must meet the other requirements set forth in our bylaws, which are publicly available on our website.

A shareholder who intends to present a proposal at the Company's 2018 annual meeting, other than pursuant to Rule 14a-8 or a proxy access director nomination, must comply with the requirements as set forth in our bylaws, which provide that the notice of such intentions must be received by the Secretary of the Company, at the address set forth below, no earlier than September 28, 2017, and no later than October 28, 2017, 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 2018 annual meeting with respect to any such proposal without discussion of the matter in the Company's proxy statement.

Notices of intention to present proposals or nominate directors at the 2018 annual meeting, and all supporting materials required by our bylaws, must be submitted by mail to the attention of the Secretary, Costco Wholesale Corporation, 999 Lake Drive, Issaquah, Washington 98027.

The Company reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements. The submission of a shareholder proposal or proxy access director nomination does not guarantee that it will be included in our proxy statement.

#### ANNUAL REPORT TO SHAREHOLDERS AND FORM 10-K

The fiscal 2016 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 2016 Annual Report to Shareholders are available at [www.costco.com](http://www.costco.com), through the Investor Relations page.

Additionally, and in accordance with SEC rules, you may access our Proxy Statement at [www.proxyvote.com](http://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 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.

**Electronic Delivery.** 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 properly recorded.

**Householding Information.** 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: Computershare, Inc., 250 Royall St., Canton, MA 02021; (800) 249-8982.

By order of the Board of Directors,

John Sullivan

Senior Vice President, General Counsel and Secretary



