COSTCO WHOLESALE CORP /NEW
Form 10-K
October 16, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended August 30, 2009

OR

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

Commission file number 0-20355

Costco Wholesale Corporation

(Exact name of registrant as specified in its charter)

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

999 Lake Drive, Issaquah, WA 98027

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller company)	Smaller reporting company ¨

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at February 15, 2009 was $18,392,604,029

The number of shares outstanding of the registrant s common stock as of October 2, 2009 was 435,989,212

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s Proxy Statement for the Annual Meeting of Stockholders to be held on January 28, 2010, are incorporated by reference into Part III of this Form 10-K.

Table of Contents

COSTCO WHOLESALE CORPORATION

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED AUGUST 30, 2009

TABLE OF CONTENTS

2

Table of Contents

Certain statements contained in this document constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They include statements that address activities, events, conditions or developments that we expect or anticipate may occur in the future. Such forward-looking statements involve risks and uncertainties that may cause actual events, results, or performance to differ materially from those indicated by such statements. See Item 1A Risk Factors for a discussion of risks and uncertainties that may affect our business.

PART I

Item 1 Business

Costco Wholesale Corporation and its subsidiaries (Costco or the Company) began operations in 1983 in Seattle, Washington. In October 1993, we merged with The Price Company, which had pioneered the membership warehouse concept, to form Price/Costco, Inc., a Delaware corporation. In January 1997, after the spin-off of most of our non-warehouse assets to Price Enterprises, Inc., we changed our name to Costco Companies, Inc. On August 30, 1999, we reincorporated from Delaware to Washington and changed our name to Costco Wholesale Corporation. Our common stock trades on The NASDAQ Global Select Market under the symbol COST.

General

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

We buy the majority of our merchandise directly from manufacturers and route it to a cross-docking consolidation point (depot) or directly to our warehouses. Our depots receive container-based shipments from manufacturers and reallocate these goods for shipment to our individual warehouses, generally in less than twenty-four hours. This maximizes freight volume and handling efficiencies, lowering our receiving costs by eliminating many of the costs associated with multiple-step distribution channels. Such traditional steps include purchasing from distributors as opposed to manufacturers, use of central receiving, storing and distributing warehouses, and storage of merchandise in locations off the sales floor.

Because of our high sales volume and rapid inventory turnover, we generally have the opportunity to sell and be paid for inventory before we are required to pay many of our merchandise vendors, even though we take advantage of early payment discounts whenever available to us. To the extent that sales increase and inventory turnover becomes more rapid, a greater percentage of inventory is financed through payment terms provided by suppliers rather than by our working capital.

Our typical warehouse format averages approximately 143,000 square feet; newer units tend to be larger. Floor plans are designed for economy and efficiency in the use of selling space, the handling of merchandise, and the control of inventory. Because shoppers are attracted principally by the quality of merchandise and the availability of low prices, our warehouses need not have elaborate facilities. By strictly controlling the entrances and exits of our warehouses and using a membership format, we have limited inventory losses (shrinkage) to less than two-tenths of one percent of net sales in the last several fiscal years well below those of typical discount retail operations.

Table of Contents

Item 1 Business (Continued)

We generally limit marketing and promotional activities to new warehouse openings, occasional direct mail to prospective new members and regular direct marketing programs (such as The Costco Connection, a magazine we publish for our members, coupon mailers, weekly email blasts from costco.com, and handouts) to existing members promoting selected merchandise. These practices result in lower marketing expenses as compared to typical retailers. In connection with new warehouse openings, our marketing teams personally contact businesses in the area that are potential wholesale members. These contacts are supported by direct mailings during the period immediately prior to opening. Potential Gold Star (individual) members are contacted by direct mail or by membership offerings distributed through employee associations and other entities. After a membership base is established in an area, most new memberships result from word-of-mouth advertising, follow-up messages distributed through employee groups and ongoing direct solicitations to prospective members.

Our warehouses generally operate on a seven-day, 69-hour week, open weekdays between 10:00 a.m. and 8:30 p.m., with earlier closing hours on the weekend. Gasoline operations generally have extended hours. Because the hours of operation are shorter than those of traditional retailers, discount retailers and supermarkets, and due to other efficiencies inherent in a warehouse-type operation, labor costs are lower relative to the volume of sales. Merchandise is generally stored on racks above the sales floor and displayed on pallets containing large quantities of each item, thereby reducing labor required for handling and stocking.

Our merchandising strategy is to provide our members with a broad range of high quality merchandise at prices consistently lower than they can obtain elsewhere. We seek to limit specific items in each product line to fast-selling models, sizes and colors. Therefore, we carry an average of approximately 3,800 active stock keeping units (SKUs) per warehouse in our core warehouse business, as opposed to 45,000 to 140,000 SKUs or more at discount retailers, supermarkets, and supercenters. Many consumable products are offered for sale in case, carton, or multiple-pack quantities only.

In keeping with our policy of member satisfaction, we generally accept returns of merchandise. On certain electronic items, we have a 90-day return policy in the United States, Canada and the United Kingdom and provide, free of charge, technical support services, as well as an extended warranty.

The following table indicates the approximate percentage of net sales accounted for by major category of items:

	2009	**2008**	**2007**
Sundries (including candy, snack foods, tobacco, alcoholic and nonalcoholic beverages and cleaning and institutional supplies)	23%	22%	23%
Hardlines (including major appliances, electronics, health and beauty aids, hardware, office supplies, garden and patio, sporting goods, furniture, and automotive supplies)	19%	19%	21%
Food (including dry and institutionally packaged foods)	21%	20%	19%
Softlines (including apparel, domestics, jewelry, housewares, media, home furnishings, cameras and small appliances)	10%	10%	11%
Fresh Food (including meat, bakery, deli and produce)	12%	12%	12%
Ancillary and Other (including gas stations, pharmacy, food court, optical, one-hour photo, hearing aid and travel)	15%	17%	14%

Table of Contents

Item 1 Business (Continued)

Ancillary businesses within or next to our warehouses provide expanded products and services and encourage members to shop more frequently. The following table indicates the number of ancillary businesses in operation at fiscal year end:

	2009	2008	2007
Food Court and Hot Dog Stands	521	506	482
One-Hour Photo Centers	518	504	480
Optical Dispensing Centers	509	496	472
Pharmacies	464	451	429
Gas Stations	323	307	279
Hearing-Aid Centers	303	274	237
Print Shops and Copy Centers	10	7	8
Car Washes	2	2	1
Number of warehouses	527	512	488

Costco Mexico, our 50%-owned joint venture, operated 32 warehouses, under our oversight, at August 30, 2009. The Costco Mexico warehouses are not included in the table above as Costco Mexico is accounted for using the equity method of accounting for investments.

Our electronic commerce businesses, costco.com in the U.S. and costco.ca in Canada, provide our members additional products generally not found in our warehouses, in addition to services such as digital photo processing, pharmacy, travel, and membership services.

Our warehouses accept cash, checks, certain debit cards, American Express and a private label Costco credit card. Losses associated with dishonored checks have been minimal, as members who have issued dishonored checks are identified and prevented from making payments at the point of sale until restitution is made.

We have direct buying relationships with many producers of national brand-name merchandise. We do not obtain a significant portion of merchandise from any one supplier. We have not experienced any difficulty in obtaining sufficient quantities of merchandise, and believe that if one or more of our current sources of supply became unavailable, we would be able to obtain alternative sources without substantial disruption of our business. We also purchase selected private label merchandise, as long as quality and customer demand are comparable and the value to our members is greater as compared to name brand items.

Certain financial information for our segments and geographic areas is included in Note 12 to the accompanying consolidated financial statements included in Item 8 of this Report.

We report on a 52/53-week fiscal year, consisting of thirteen four-week periods and ending on the Sunday nearest the end of August. The first three quarters consist of three periods each, and the fourth quarter consists of four periods (five weeks in the thirteenth period in a 53-week year). There is no material seasonal impact on our operations, except an increased level of net sales and earnings during the winter holiday season. References to 2009, 2008, and 2007 relate to the 52-week fiscal years ended August 30, 2009, August 31, 2008, and September 2, 2007, respectively.

Membership Policy

Our membership format is designed to reinforce customer loyalty and provide a continuing source of membership fee revenue, which allows us to offer lower prices. Members can utilize their memberships

Table of Contents

Item 1 Business (Continued)

at any Costco warehouse location in any country. We have two primary types of members: Business and Gold Star (individual). We continue to experience strong member renewal rates, currently at 87%. Businesses, including individuals with a business license, retail sales license or other evidence of business existence, may become Business members. Business members generally pay an annual membership fee of $50 for the primary and spouse membership card, with add-on membership cards available for an annual fee of $40 (including a free spouse card). Many of our business members also shop at Costco for their personal needs. Individual memberships (Gold Star memberships) are available to individuals who do not qualify for a Business membership, for an annual fee of $50, which includes a spouse card.

Our membership base was made up of the following (in thousands):

	2009	2008	2007
Gold Star	21,500	20,200	18,600
Business	5,700	5,600	5,400
Business, Add-on Primary	3,400	3,400	3,500
Total primary cardholders	30,600	29,200	27,500
Additional cardholders	25,400	24,300	22,900
Total cardholders	56,000	53,500	50,400

These numbers exclude approximately 2,800, 2,800, and 2,700 cardholders of Costco Mexico at the end of 2009, 2008, and 2007, respectively.

Executive membership is available to all members in the U.S., Canada, and United Kingdom for an annual fee of approximately $100. The program offers additional savings and benefits on various business and consumer services offered by Costco, such as merchant credit-card processing, auto and home insurance, business telephone service, and check printing services. The services are generally provided by third-parties and vary by country and state. In addition, Executive members qualify for a 2% annual reward (which can be redeemed at Costco warehouses), up to a maximum of approximately $500 per year, on all qualified purchases made at Costco. At the end of 2009, 2008, and 2007, Executive members represented 29%, 26%, and 23%, respectively of our primary membership base. Executive members spend more than other members, and the percentage of our net sales attributable to these members continues to increase. In 2008, Costco Mexico launched an Executive Membership program similar to the program in the U.S. and Canada.

Labor

Our employee count approximated:

	2009	2008	2007
Full-time employees	79,000	75,000	70,000
Part-time employees	63,000	62,000	57,000
Total employees	142,000	137,000	127,000

These numbers exclude approximately 9,000 individuals who were employed by Costco Mexico at the end of 2009, 2008 and 2007. Approximately 13,500 hourly employees in certain of our locations (all former Price Company locations) in five states are represented by the International Brotherhood of Teamsters. All remaining employees are non-union. We consider our employee relations to be very good.

Table of Contents

Item 1 Business (Continued)

Competition

Our industry is highly competitive, based on factors such as price, merchandise quality and selection, warehouse location and member service. Over 1,200 warehouse club locations exist across the U.S. and Canada, including our 483 North American warehouses, and every major metropolitan area has several club operations. In addition to other membership warehouse operators such as Wal-Mart s Sam s Club and BJ s Wholesale Club, we compete with a wide range of national and regional retailers and wholesalers, including supermarkets, supercenters, general merchandise chains, specialty chains, gasoline stations, as well as electronic commerce businesses, such as Amazon. Wal-Mart, Target and Kohl s are significant general merchandise retail competitors. We also compete with low-cost operators selling a single category or narrow range of merchandise, such as Lowe s, Home Depot, Office Depot, PetSmart, Staples, Trader Joe s, Whole Foods, Best Buy and Barnes & Noble. Our international operations face similar competitors.

Regulation

Certain state laws require that we apply minimum markups to our selling prices for specific goods, such as tobacco products, alcoholic beverages, and gasoline. While compliance with such laws may cause us to charge higher prices, other retailers are also typically governed by the same restrictions, and we believe that compliance with such laws does not have a material adverse effect on our operations.

Certain states, counties, and municipalities have enacted or proposed laws and regulations that would prevent or restrict the operations or expansion plans of certain large retailers and warehouse clubs, including us, within their jurisdictions. We believe that, if enacted, such laws and regulations could have a material adverse affect on our operations.

Intellectual Property

We believe that our trademarks, trade names, copyrights, proprietary processes, trade secrets, patents, trade dress and similar intellectual property add significant value to our business and are important factors in our success. We have invested significantly in the development and protection of our well-recognized brands including Costco Wholesale and our premium private label brand, Kirkland Signature®. Kirkland Signature products are premium products offered to our members at prices that are generally lower than those for national brand products. Kirkland Signature products allow us to ensure our quality standards are met, while minimizing costs and differentiating our merchandise offerings from other retailers, and we generally earn higher margins on sales of Kirkland products. We expect that our private label items will increase their share of our sales in the future. We rely on trademark and copyright law, trade secret protection, and confidentiality and/or license agreements with our employees and others to protect our proprietary rights. Effective intellectual property protection may not be available in every country in which we operate.

Available Information

Our internet website is www.costco.com. We make available through the Investor Relations section of that site, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and Forms 3, 4 and 5, and any amendments to those reports, as soon as reasonably practicable after filing such materials with, or furnishing such documents to, the Securities and Exchange Commission (SEC). The information found on our website is not part of this or any other report filed with or furnished to the SEC.

Table of Contents

Item 1 Business (Continued)

Executive Officers of the Registrant

The following is a list of the names, ages and positions of the executive officers of the Company.

Name	Position With Company	Executive Officer Since	Age
James D. Sinegal	President and Chief Executive Officer. Mr. Sinegal is a co-founder of the Company and has been a director since its inception.	1983	73
Jeffrey H. Brotman	Chairman of the Board. Mr. Brotman is a co-founder of the Company and has been a director since its inception.	1983	67
Richard D. DiCerchio	Sr. Executive Vice President, Chief Operating Officer, Global Operations, Distribution and Construction, Manufacturing and Ancillary Businesses. Mr. DiCerchio has been a Senior Executive Vice President of the Company since 1997 and has been a director since 1986.	1986	66
Richard A. Galanti	Executive Vice President and Chief Financial Officer. Mr. Galanti has been a director of the Company since January 1995.	1993	53
W. Craig Jelinek	Executive Vice President, Chief Operating Officer, Merchandising. Mr. Jelinek has been Executive Vice President, Chief Operating Officer, Merchandising since February 2004.	1995	57
Paul G. Moulton	Executive Vice President, Real Estate Development.	2001	58
Joseph P. Portera	Executive Vice President, Chief Operating Officer, Eastern and Canadian Divisions.	1994	57
Douglas W. Schutt	Executive Vice President, Chief Operating Officer Northern and Midwest Division. Mr. Schutt has been Executive Vice President, Chief Operating Officer Northern and Midwest Division, since February 2004.	2004	50
Thomas K. Walker	Executive Vice President, Construction, Distribution and Traffic. Mr. Walker has been Executive Vice President, Construction, Distribution and Traffic since February 2004.	2004	69
Dennis R. Zook	Executive Vice President, Chief Operating Officer Southwest and Mexico Divisions.	1993	60

All executive officers have 25 or more years of service with the Company, with the exception of Mr. Moulton and Mr. Schutt, each of whom has 24 years of service.

Table of Contents

Item 1 Business (Continued)

The Company has adopted a code of ethics for senior financial officers pursuant to Section 406 of the Sarbanes-Oxley Act. Copies of the code are available free of charge by writing to Secretary, Costco Wholesale Corporation, 999 Lake Drive, Issaquah, WA 98027.

Item 1A Risk Factors

The risks described below could materially and adversely affect our business, financial condition, and/or results of operations. These risks could cause our actual results to differ materially from our historical experience and from results predicted by our forward-looking statements. Those statements may relate to such matters as sales growth, increases in comparable store sales, impact of cannibalization, price changes, earnings performance, earnings per share, stock-based compensation expense, warehouse openings and closures, the effect of adopting certain accounting standards, future financial reporting, financing, margins, return on invested capital, strategic direction, expense control, membership renewal rates, shopping frequency, litigation impact and the demand for our products and services. You should read these risk factors in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Report and our consolidated financial statements and related notes in Item 8 of this Report. There may be other factors that we cannot anticipate or that are not described in this report, generally because we do not presently perceive them to be material, that could cause results to differ materially from our expectations. Forward-looking statements speak only as of the date they are made, and we do not undertake to update these forward-looking statements. You are advised to review any further disclosures we make on related subjects in our periodic filings with the SEC.

We face strong competition from other retailers and warehouse club operators, which could negatively affect our financial performance.

The retail business is highly competitive. We compete for members, employees, warehouse sites, products and services and in other important respects with many other local, regional and national retailers, both in the United States and in foreign countries. We compete with other warehouse club operators, discount retailers, supermarkets, supercenter stores, retail and wholesale grocers, department, drug, variety and specialty stores and general merchandise wholesalers and distributors, as well as internet-based retailers, wholesalers and catalog businesses. Such retailers and warehouse club operators compete in a variety of ways, including merchandise pricing, selection and availability, services, location, convenience, store hours, and price. Our inability to respond effectively to competitive pressures and changes in the retail markets could negatively affect our financial performance. Some competitors may have greater financial resources, better access to merchandise, and/or greater market penetration than we do.

General economic factors, domestically and internationally, may adversely affect our financial performance.

Higher interest rates, energy costs, inflation, levels of unemployment, healthcare costs, consumer debt levels, unsettled financial markets, weaknesses in housing and real estate markets, reduced consumer confidence, changes related to government fiscal and tax policies and other economic factors could adversely affect demand for our products and services or require a change in the mix of products we sell. Prices of certain commodity products, including gasoline and other food products, are historically volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, labor costs, competition, market speculation, government regulations and periodic delays in delivery. Rapid and significant changes in commodity prices may affect our sales and profit margins. These factors can also increase our merchandise costs and/or selling, general and administrative expenses, and otherwise adversely affect our operations and results. General economic conditions can also be affected by the outbreak of war, acts of terrorism, or other significant national or international events.

Item 1A Risk Factors (Continued)

Our growth strategy includes expanding our business, both in existing markets and in new markets.

Our future growth is dependent, in part, on our ability to acquire property, and build or lease new warehouses. We compete with other retailers and businesses for suitable locations. Local land use and other regulations restricting the construction and operation of our warehouses, as well as local community actions opposed to the location of our warehouses at specific sites and the adoption of local laws restricting our operations and environmental regulations may impact our ability to find suitable locations, and increase the cost of constructing, leasing and operating our warehouses. We also may have difficulty negotiating leases or real estate purchase agreements on acceptable terms. Failure to manage these and other similar factors effectively will affect our ability to timely build or lease new warehouses, which may have a material adverse affect on our future growth and profitability.

We seek to expand our business in existing markets in order to attain a greater overall market share. Because our warehouses typically draw members from their local areas, a new warehouse may draw members away from our nearby existing warehouses and may adversely affect comparable warehouse sales performance and member traffic at those existing warehouses.

We also intend to open warehouses in new markets. The risks associated with entering a new market include difficulties in attracting members due to a lack of familiarity with us, attracting members of other wholesale club operators currently operating in the new market, our lack of familiarity with local member preferences, and seasonal differences in the market. In addition, entry into new markets may bring us into competition with new competitors or with existing competitors with a large, established market presence. In new markets, we cannot ensure that our new warehouses will be profitably deployed; as a result, our future profitability may be delayed or otherwise materially adversely affected.

We are highly dependent on the financial performance of our United States and Canada operations.

Our financial and operational performance is highly dependent on our United States and Canada operations, which comprised 93% of consolidated net sales in 2009 and 2008, and 92% of operating income in 2009 and 2008. Within the United States, we are highly dependent on our California operations, which comprised 27% of consolidated net sales in 2009 and 2008. Our California market in general, has a larger percentage of higher volume warehouses as compared to our other markets. As a result, the operating income from our California operations is generally higher as a percentage of total operating income than other regions. Any substantial slowing or sustained decline in these operations could materially adversely affect our business and financial results. Declines in financial performance of our United States operations, particularly in California, and our Canada operations could arise from, among other things: failing to meet targets for warehouse openings; declines in actual or estimated comparable warehouse sales growth rates and expectations; negative trends in operating expenses, including increased labor, healthcare and energy costs; cannibalizing existing locations with new warehouses; shifts in sales mix toward lower gross margin products; changes or uncertainties in economic conditions in our markets; and failing consistently to provide high quality products and innovative new products to retain our existing member base and attract new members.

We depend on vendors to supply us with quality merchandise at the right prices in a timely manner.

We depend heavily on our ability to purchase merchandise in sufficient quantities at competitive prices. We have no assurances of continued supply, pricing or access to new products, and any vendor could at any time change the terms upon which it sells to us or discontinue selling to us. Member demands may lead to out-of-stock positions of our merchandise, leading to loss of sales and profits.

Table of Contents

Item 1A Risk Factors (Continued)

We purchase our merchandise from numerous domestic and foreign manufacturers and importers and have thousands of vendor relationships. Our inability to acquire suitable merchandise on acceptable terms or the loss of key vendors could negatively affect us. We may not be able to develop relationships with new vendors, and products from alternative sources, if any, may be of a lesser quality or more expensive than those from existing vendors.

Our suppliers are subject to risks, including labor disputes, union organizing activities, financial liquidity, inclement weather, natural disasters, supply constraints, and general economic and political conditions, that could limit their ability to timely provide us with acceptable merchandise. For these or other reasons, one or more of our suppliers might not adhere to our quality control, legal or regulatory standards. These deficiencies may delay or preclude delivery of merchandise to us and might not be identified before we sell such merchandise to our members. This failure could lead to litigation and recalls, which could damage our reputation and our brands, increase our costs, and otherwise hurt our business.

In addition, the United States foreign trade policies, tariffs and other impositions on imported goods, security and safety regulations, trade sanctions imposed on certain countries, the limitation on the importation of certain types of goods or of goods containing certain materials from other countries and other factors relating to foreign trade are beyond our control.

We depend on our depot operations to effectively and efficiently supply product to our warehouses.

We depend on the orderly operation of the receiving and distribution process, primarily through our depots. Although we believe that our receiving and distribution process is efficient, unforeseen disruptions in operations due to fires, hurricanes or other catastrophic events, labor disagreements or shipping problems, may result in delays in the delivery of merchandise to our warehouses, which could adversely affect sales and the satisfaction of our members.

We may not timely identify or effectively respond to consumer trends, which could negatively affect our relationship with our members, the demand for our products and services, and our market share.

It is difficult to consistently and successfully predict the products and services our members will demand. The success of our business depends in part on our ability to identify and respond to trends in demographics and consumer preferences. Failure to timely identify or effectively respond to changing consumer tastes, preferences and spending patterns could negatively affect our relationship with our members, the demand for our products and services and our market share. If we are not successful at predicting our sales trends and adjusting our purchases accordingly, we may have excess inventory, which could result in additional markdowns and reduce our operating performance. This could have an adverse effect on margins and operating income.

Our failure to maintain positive membership loyalty and brand recognition could adversely affect our financial results.

Damage to our brands or reputation may negatively impact comparable warehouse sales, lower employee morale and productivity, diminish member trust, and reduce member renewal rates and, accordingly, membership fee revenues, resulting in a reduction in shareholder value.

Table of Contents

Item 1A Risk Factors (Continued)

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including, but not limited to, revenue recognition, sales returns reserves, impairment of long-lived assets and warehouse closing costs, inventories, self-insurance, income taxes, unclaimed property laws and litigation, are highly complex and involve many subjective assumptions, estimates and judgments by our management. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance. Provisions for losses related to self-insured risks are generally based upon independent actuarially determined estimates. The assumptions underlying the ultimate costs of existing claim losses can be highly unpredictable, which can affect the liability recorded for such claims. For example, variability in inflation rates of health care costs inherent in these claims can affect the amounts realized. Similarly, changes in legal trends and interpretations, as well as a change in the nature and method of how claims are settled can impact ultimate costs. Although our estimates of liabilities incurred do not anticipate significant changes in historical trends for these variables, any changes could have a considerable effect upon future claim costs and currently recorded liabilities and could materially impact our consolidated financial statements.

Changes in Tax Rates

We compute our income tax provision based on enacted tax rates in the countries in which we operate. As the tax rates vary among countries, a change in earnings attributable to the various jurisdictions in which we operate could result in an unfavorable change in our overall tax provision. Additionally, any change in the enacted tax rates, any adverse outcome in connection with any income tax audits in any jurisdiction, or any change in the pronouncements relating to accounting for income taxes may have a material adverse affect on our financial condition, results of operation, or cash flows.

Failure of our internal control over financial reporting could limit our ability to report our financial results accurately and timely.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes: maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of the financial statements; providing reasonable assurance that our receipts and expenditures of our assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to and cannot provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud.

Table of Contents

Item 1A Risk Factors (Continued)

Our international operations subject us to risks associated with the legislative, judicial, accounting, regulatory, political and economic factors specific to the countries or regions in which we operate, which could adversely affect our financial performance.

Our international operations could form a larger portion of our business in future years. Future operating results internationally could be negatively affected by a variety of factors, many beyond our control. These factors include political conditions, economic conditions, regulatory constraints, currency regulations and exchange rates, and other matters in any of the countries or regions in which we operate, now or in the future. Other factors that may impact international operations include foreign trade, monetary and fiscal policies both of the United States and of other countries, laws and regulations of foreign governments and the United States (such as the Foreign Corrupt Practices Act), agencies and similar organizations, and risks associated with having major facilities located in countries which have been historically less stable than the United States. Risks inherent in international operations also include, among others, the costs and difficulties of managing international operations, adverse tax consequences and greater difficulty in enforcing intellectual property rights. Additionally, foreign currency exchange rates and fluctuations may have an impact on our future costs or on future cash flows from our international operations.

Market expectations for our financial performance is high.

We believe that the price of our stock generally reflects high market expectations for our future operating results. Any failure to meet or delay in meeting these expectations, including our comparable warehouse sales growth rates, earnings and earnings per share or new warehouse openings, could cause the market price of our stock to decline, as could changes in our dividend or share repurchase policies.

We rely extensively on computer systems to process transactions, summarize results and manage our business. Disruptions in both our primary and back-up systems could harm our business.

Although we have independent, redundant, and primary and secondary computer systems, given the number of individual transactions we have each year, it is important that we maintain uninterrupted operation of our business-critical computer systems. Our computer systems, including our back-up systems, are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, internal or external security breaches, catastrophic events such as fires, earthquakes, tornadoes and hurricanes, and errors by our employees. If our computer systems and our back-up systems are damaged or cease to function properly, we may have to make significant investment to fix or replace them, and we may suffer interruptions in our operations in the interim. Any material interruption in our computer systems may have a material adverse effect on our business or results of operations. The costs, potential problems, and interruptions associated with implementing technology initiatives could disrupt or reduce the efficiency of our operations in the short term. These initiatives might not provide the anticipated benefits or provide them in a delayed or more costly manner.

Natural disasters or other catastrophic events could unfavorably affect our financial performance.

Natural disasters, such as hurricanes or earthquakes, particularly in California or in Washington state, where our centralized operating systems and administrative personnel are located, could unfavorably affect our operations and financial performance. Such events could result in physical damage to one or more of our properties, the temporary closure of one or more warehouses or depots, the temporary lack of an adequate work force in a market, the temporary or long-term disruption in the supply of products from some local and overseas suppliers, the temporary disruption in the transport of goods

Item 1A Risk Factors (Continued)

from overseas, delays in the delivery of goods to our depots or warehouses within a country in which we operate and the temporary reduction in the availability of products in our warehouses. Public health issues, such as a potential H1N1 flu pandemic (Swine flu), whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of suppliers or customers, or have an adverse impact on consumer spending and confidence levels. We may be required to suspend operations in some or all of our locations, which could have a material adverse effect on our business, financial condition, and results of operations. These events could also reduce demand for our products or make it difficult or impossible to receive products from suppliers.

We are subject to a wide variety of federal, state, regional, local and international laws, and regulations relating to the use, storage, discharge, and disposal of hazardous materials and hazardous and non-hazardous wastes, and other environmental matters.

Any failure to comply with these laws could result in costs to satisfy environmental compliance, remediation or compensatory requirements, or the imposition of severe penalties or restrictions on operations by governmental agencies or courts that could adversely affect our operations.

We are involved in a number of legal proceedings and audits, and while we cannot predict the outcomes of such proceedings and other contingencies with certainty, some of these outcomes may unfavorably affect our operations or increase our costs.

We are involved in a number of legal proceedings and audits, including grand jury investigations, other government investigations, consumer, employment, tort and other litigation (see discussion of Legal Proceedings in Note 11 to the consolidated financial statements included in Item 8 of this Report). We cannot predict with certainty the outcomes of these legal proceedings and other contingencies, including environmental remediation and other proceedings commenced by governmental authorities. The outcome of some of these legal proceedings and other contingencies could require us to take or refrain from taking actions which could unfavorably affect our operations or could require us to pay substantial amounts of money. Additionally, defending against these lawsuits and proceedings may involve significant expense and diversion of management s attention and resources. Our business requires compliance with a great variety of laws and regulations. Failure to achieve compliance could subject us to lawsuits and other proceedings, and lead to damage awards, fines and penalties.

We are subject to the risk of product liability claims.

If our merchandise offerings, including food and prepared food products for human consumption, drugs and childrens products, do not meet applicable safely standards or our members expectations regarding safety, we could experience lost sales, increased costs and be exposed to legal and reputational risk. The sale of these items involves the risk of injury to our members. Such injuries may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, manufacturing, storage, handling and transportation phases. All of our vendors must comply with applicable product safety laws, and we are dependent on them to ensure that the products we buy comply with all safety standards. While we are subject to governmental inspection and regulations and work to comply in all material respects with applicable laws and regulations, we cannot be sure that consumption of our products will not cause a health-related illness in the future or that we will not be subject to claims, lawsuits, or government investigations relating to such matters, resulting in costly product recalls and other liabilities. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential members and our corporate and brand image and these effects could be long term.

Table of Contents

Item 1A Risk Factors (Continued)

Our success depends, in part on the continued contributions of management and on our ability to attract, train and retain highly qualified employees.

Our success depends to a significant degree on the continued contributions of members of our senior management and other key operations, merchandising and administrative personnel, and the loss of any such person(s) could have a material adverse effect. Other than an annual agreement with our President and CEO, Mr. Sinegal, we have no employment agreements with our officers. We must attract, train and retain a large and growing number of highly qualified employees, while controlling related labor costs. Our ability to control labor costs is subject to numerous external factors, including prevailing wage rates and healthcare and other insurance costs. We compete with other retail and non-retail businesses for these employees and invest significant resources in training and motivating them. There is no assurance that we will be able to attract or retain highly qualified employees in the future, which could have a material adverse effect on the Company s business, results of operations and financial condition. The Company does not maintain key man insurance.

If we do not maintain the privacy and security of member-related information, we could damage our reputation with members, incur substantial additional costs and become subject to litigation.

We receive, retain, and transmit certain personal information about our members. In addition, our online operations at www.costco.com and www.costco.ca depend upon the secure transmission of confidential information over public networks, including information permitting cashless payments. A compromise of our security systems or those of other business partners that results in our members personal information being obtained by unauthorized persons could adversely affect our reputation with our members and others, as well as our operations, results of operations, financial condition and liquidity, and could result in litigation against us or the imposition of penalties. In addition, a security breach could require that we expend significant additional resources related to the security of information systems and could result in a disruption of our operations, particularly our online sales operations.

Additionally, the use of individually identifiable data by our business and our business associates is regulated at the international, federal and state levels. Privacy and information security laws and regulations change, and compliance with them may result in cost increases due to necessary systems changes and the development of new administrative processes. If we or those with whom we share information fail to comply with these laws and regulations or experience a data security breach, our reputation could be damaged, possibly resulting in lost future business, and we could be subjected to additional legal risk as a result of non-compliance.

Item 1B Unresolved Staff Comments

None.

Table of Contents

Item 2 Properties

Warehouse Properties

At August 30, 2009, we operated 527 membership warehouses:

NUMBER OF WAREHOUSES

	Own Land and Building	Lease Land and/or Building(1)	Total
United States and Puerto Rico	323	83	406
Canada	68	9	77
United Kingdom	19	2	21
Japan	1	8	9
Korea	3	4	7
Taiwan		6	6
Australia	1		1
Total	415	112	527

(1) 75 of the 112 leases are land-leases only, where Costco owns the building.

The following schedule shows warehouse openings (net of closings) by region for the past five fiscal years and expected warehouse openings (net of closings) through December 31, 2009:

Openings by Fiscal Year	United States	Canada	Other International	Total	Total Warehouses in Operation
2005 and prior	338	65	30	433	433
2006	20	3	2	25	458
2007	25	3	2	30	488
2008	15	4	5	24	512
2009	8	2	5	15	527
2010 (expected through 12/31/09)	7			7	534
Total	413	77	44	534	

The 32 warehouses operated by Costco Mexico, under our oversight, at the end of 2009 are not included in the above tables. We opened one warehouse in Mexico in 2009.

At the end of 2009, our warehouses contained approximately 75.2 million square feet of operating floor space: 58.6 million in the United States, 10.5 million in Canada and 6.1 million in other international locations, excluding Mexico.

Our executive offices are located in Issaquah, Washington and occupy approximately 445,000 square feet. We operated eight regional offices in the United States, two regional offices in Canada and five regional offices internationally at the end of 2009, containing approximately 334,000 square feet. Additionally, we operate regional cross-docking facilities (depots) for the consolidation and distribution of most shipments to the warehouses, and various processing, packaging, and other facilities to support ancillary and other businesses. At the end of 2009, we operated eleven depots in the United States, four in Canada and three internationally, excluding Mexico, consisting of approximately 7.3 million square feet.

Item 3 Legal Proceedings

See discussion of Legal Proceedings in Note 11 to the consolidated financial statements included in Item 8 of this Report.

Table of Contents

Item 4 Submission of Matters to a Vote of Security Holders

Our annual meeting is scheduled for 4:00 p.m. on January 28, 2010, at the Meydenbauer Center in Bellevue, Washington. Matters to be voted on will be included in our proxy statement to be filed with the SEC and distributed prior to the meeting.

Table of Contents

PART II

Item 5 Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Dividend Policy

Our common stock is traded on the National Market tier of The NASDAQ Global Select Market (NASDAQ) under the symbol COST. On October 2, 2009 we had 8,459 stockholders of record.

The following table shows the quarterly high and low closing sale prices as reported by NASDAQ for each quarter during the last two fiscal years and the quarterly cash dividend declared per share of our common stock during the periods indicated.

	Price Range		Cash Dividends
	High	Low	Declared
2009:			
Fourth Quarter	$ 51.77	$ 44.54	$ 0.180
Third Quarter	48.91	38.44	0.180
Second Quarter	55.58	42.76	0.160
First Quarter	70.37	44.99	0.160
2008:			
Fourth Quarter	74.66	60.35	0.160
Third Quarter	72.65	60.04	0.160
Second Quarter	71.83	63.24	0.145
First Quarter	69.24	57.00	0.145

Payment of future dividends is subject to declaration by the Board of Directors. Factors considered in determining the size of the dividends are our profitability and expected capital needs. Subject to these qualifications, we presently expect to continue to pay dividends on a quarterly basis.

Issuer Purchases of Equity Securities (dollars in millions)

There was no common stock repurchase program activity for the fourth quarter of 2009.

Our stock repurchase program is conducted under authorizations made by our Board of Directors: $300 and $1,000 were authorized in September 2007 and November 2007, which expire in August 2010 and November 2010, respectively; and $1,000 authorized in July 2008, which expires in July 2011. The maximum remaining dollar value of shares that may be purchased under the stock repurchase program is $2,002.

Equity Compensation Plans

Information related to our equity compensation plans is incorporated herein by reference to the Proxy Statement. The Proxy Statement will be filed with the SEC within 120 days of the end of our fiscal year.

Table of Contents

Item 6 Selected Financial Data

The following table sets forth certain information concerning our consolidated financial condition, operating results, and key operating metrics for the dates and periods indicated. This information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 and our consolidated financial statements included in Item 8.

SELECTED FINANCIAL DATA

(dollars in millions, except per share and warehouse data)

As of and for the year ended(1)	**Aug. 30, 2009 (52 weeks)**	**Aug. 31, 2008 (52 weeks)**	**Sept. 2, 2007 (52 weeks)**	**Sept. 3, 2006 (53 weeks)**	**Aug. 28, 2005 (52 weeks)**
RESULTS OF OPERATIONS					
Net sales	$ 69,889	$ 70,977	$ 63,088	$ 58,963	$ 51,879
Merchandise costs	62,335	63,503	56,450	52,745	46,347
Gross Margin	7,554	7,474	6,638	6,218	5,532
Membership fees	1,533	1,506	1,313	1,188	1,073
Operating income	1,777	1,969	1,609	1,626	1,474
Net income	1,086	1,283	1,083	1,103	1,063
Net income per diluted common share	2.47	2.89	2.37	2.30	2.18
Dividends per share	$ 0.68	$ 0.61	$ 0.55	$ 0.49	$ 0.43
(Decrease) increase in comparable warehouse sales(2)					
United States	(2)%	6%	5%	7%	6%
International	(8)%	15%	9%	11%	11%
Total	(4)%	8%	6%	8%	7%
Increase in International comparable warehouse sales in local currency	7%	6%	5%	7%	4%
BALANCE SHEET DATA					
Net property and equipment	$ 10,900	$ 10,355	$ 9,520	$ 8,564	$ 7,790
Total assets	21,979	20,682	19,607	17,495	16,665
Short-term borrowings	16	134	54	41	54
Current portion of long-term debt	81	6	60	309	3
Long-term debt, excluding current portion	2,206	2,206	2,108	215	711
Stockholders equity	$ 10,018	$ 9,192	$ 8,623	$ 9,144	$ 8,881
WAREHOUSE INFORMATION					
Warehouses in Operation(3)					
Beginning of year	512	488	458	433	417
Opened(4)	19	34	30	28	21
Closed(4)	(4)	(10)		(3)	(5)
End of Year	527	512	488	458	433

(1) Certain reclassifications have been made to prior years to conform to the presentation adopted in the current year.

(2) Includes net sales at warehouses open greater than one year, including relocated locations.

(3) Excludes warehouses operated in Mexico through a 50% owned joint venture.

(4) Includes relocations and the closure in July 2009 of two Costco Home locations.

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data)

OVERVIEW

Our fiscal year ends on the Sunday closest to August 31. References to 2009, 2008, and 2007 relate to the 52-week years ended August 30, 2009, August 31, 2008, and September 2, 2007 respectively.

Key items for 2009 included:

- Net sales decreased 1.5% from the prior year to $69,889, attributable to a 4% decrease in comparable sales (sales in warehouses open for at least one year, including relocated warehouses), partially offset by the opening of 15 new warehouses (19 opened, two closed due to relocation, and the closure of our two Costco Home locations) in 2009. Net sales were significantly impacted by the year-over-year decrease in the price of gasoline and by certain foreign exchange rates;

- Membership fees increased 1.8%, to $1,533, primarily due to new membership sign-ups at warehouses opened in 2009, the continued benefit of membership sign-ups at warehouses opened in 2008, and increased penetration of our higher-fee Executive Membership program. Membership fees were negatively impacted by a $27 charge related to a proposed litigation settlement concerning our membership renewal policy;

- Gross margin (net sales less merchandise costs) as a percentage of net sales increased 28 basis points over the prior year,

- Selling, general and administrative (SG&A) expenses as a percentage of net sales increased 58 basis points over the prior year;

- Net income decreased 15% to $1,086, or $2.47 per diluted share, in 2009 compared to $1,283, or $2.89 per diluted share, in 2008;

- The Board of Directors approved an increase in the quarterly cash dividend from $0.16 to $0.18 per share; and

- We repurchased 895,000 shares of our common stock, at an average cost of $63.84 per share, totaling approximately $57.

As previously reported, 2007 was impacted by the following unusual items, the effects of which are reflected in the table below:

- Sales returns reserve: We revised our estimate of our sales returns reserve to include a longer timeframe for returns, as well as a lower realization rate on certain returned items.

- Employee tax consequences on stock options: We made payments to employees in connection with changes in exercise prices designed to avoid adverse tax consequences for employees and recorded a charge for the estimated amount to remedy adverse tax consequences related to stock options held and previously exercised by employees outside the United States.

- Excise tax refund: We received a refund related to 2002 through 2006, as a result of a settlement with the U.S. Internal Revenue Service relating to excise taxes previously paid.

Deferred membership: We analyzed the timing of recognition of membership fees, resulting in a reduction to membership fee revenue and a corresponding increase to deferred membership fees on our consolidated balance sheet.

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

We believe disclosing the effects of these items helps provide a meaningful comparison of our current year results to prior years. The impact of each of these items noted above is presented below:

	2007				
	Sales return reserve	Employee tax consequences on stock options	Deferred membership	Excise tax refund	Total
Net sales	$ (452)	$	$	$	$ (452)
Membership fees			(56)		(56)
Total revenue	(452)		(56)		(508)
Merchandise costs	358			9	367
Gross margin[1]	(94)			9	(85)
SG&A		(47)			(47)
Operating income	(94)	(47)	(56)	9	(188)
Interest expense					
Interest income and other	(1)			1	
Income before income taxes	(95)	(47)	(56)	10	(188)
Provision for income taxes	35	17	21	(4)	69
Net Income	$ (60)	$ (30)	$ (35)	$ 6	$ (119)

(1) Net sales less merchandise costs.

Results of Operations

Net Sales

	2009	2008	2007
Net sales	$ 69,889	$ 70,977	$ 63,088
Effect of change in estimated sales returns reserve			452
Net sales, as adjusted	$ 69,889	$ 70,977	$ 63,540
Net sales (decrease) increase	(1.5)%	12.5%	7.0%
Net sales (decrease) increase, as adjusted	(1.5)%	11.7%	7.8%
Increase (decrease) in comparable warehouse sales	(4)%	8%	6%
Warehouse openings, net	15	24	30

2009 vs. 2008

Net Sales

Our 2009 sales results, particularly in hardlines and softlines, were negatively impacted by general economic conditions, and we believe that those conditions may continue to have a significant adverse impact on spending by our members. We believe, however, that due to the nature of our business model, we are better positioned than many retailers to compete in such an environment.

Net sales decreased 1.5% during 2009 compared to 2008. The $1,088 decrease was comprised of a $2,590 decrease in comparable sales, partially offset by an increase of $1,502 primarily from sales at new warehouses opened during 2009 and 2008. Our sales were also impacted by a lower number of warehouse openings year-over-year.

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

Foreign currencies, particularly in Canada, the United Kingdom, and Korea, weakened against the U.S. dollar, which negatively impacted net sales during 2009 by approximately $2,421 (341 basis points). Net sales were also negatively impacted by gasoline price deflation during 2009 by approximately $2,164 (305 basis points), which resulted from a 30% decline in the average sales price per gallon.

Comparable Sales

Comparable sales decreased 4% in 2009. Weakening foreign currencies negatively impacted comparable sales by approximately $2,339 (333 basis points) in 2009. Gasoline price deflation negatively impacted comparable sales results by approximately $2,113 (298 basis points) during 2009. Comparable sales were negatively impacted by a decline in the average amount spent (after adjustment for gasoline price deflation and measured in local currencies), partially offset by an increase in shopping frequency. Reported comparable sales growth includes the negative impact of cannibalization (established warehouses losing sales to our newly opened locations). We believe the decline is a function of adverse economic conditions generally rather that a fundamental change in our members relationship to the company.

2008 vs. 2007

Net sales increased 12.5% to $70,977 in 2008, from $63,088 in 2007. Excluding the impact of the change in the estimated sales returns reserve in 2007, net sales, as adjusted, increased $7,437, or 11.7% in 2008 as compared to the previous year. The $7,437 increase in adjusted net sales is comprised of $5,153 from the increase in comparable warehouse sales and $2,284 primarily from sales at new warehouses opened during 2008 and 2007. In the third quarter of 2007, we introduced a 90-day return policy in the United States on certain electronic items.

Significantly stronger foreign currencies, particularly in Canada, positively impacted adjusted net sales by approximately $1,134, or 180 basis points. Gasoline sales also contributed to the $7,437 adjusted net sales growth by approximately $2,236, with approximately $1,489 related to the increase in gasoline sales prices. Additionally, we experienced price increases in certain foods and fresh foods items that positively impacted net sales, which were partially offset by price decreases in certain items within our hardlines category.

Most of the comparable sales growth was derived from increased amounts spent by members, with a smaller contribution from increases in shopping frequency. Gasoline sales positively impacted comparable warehouse sales growth by approximately $1,938. Comparable warehouse sales growth excluding gasoline would have been lower by approximately 267 basis points. Significantly stronger foreign currencies, particularly in Canada, positively impacted comparable sales by approximately $1,070, or 170 basis points. Reported comparable sales growth includes the negative impact of cannibalization (established warehouses losing sales to our newly opened locations).

Membership Fees

	2009	2008	2007
Membership fees	$ 1,533	$ 1,506	$ 1,313
Adjustment to deferred membership balance			56
Membership fees, as adjusted	$ 1,533	$ 1,506	$ 1,369
Membership fees increase	1.8%	14.7%	10.5%
Membership fees increase, as adjusted	1.8%	10.0%	15.2%
Membership fees as a percent of net sales	2.19%	2.12%	2.08%
Adjusted membership fees, as a percent of adjusted net sales	2.19%	2.12%	2.16%
Total cardholders	56,000	53,500	50,400

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

2009 vs. 2008

Membership fees increased 1.8% in 2009 compared to 2008, primarily due to membership sign-ups at the 15 new warehouses opened in 2009 (19 opened, two closed due to relocations, and two closed Costco Home locations), the continued benefit of membership sign-ups at warehouses opened in 2008, and increased penetration of our higher-fee Executive Membership program. This increase was negatively impacted by a charge of $27 related to a proposed litigation settlement concerning our membership renewal policy and the weakening of foreign currencies against the U.S. dollar, particularly in Canada, the United Kingdom, and Korea, which negatively impacted membership fees during 2009 by approximately $50. Membership fees were also impacted by a lower number of warehouse openings year-over-year. Our member renewal rate, currently at 87% is consistent with recent years.

As previously disclosed, effective with renewals occurring on and after March 1, 2009, we changed an element of our membership renewal policy. Memberships renewed within two months after expiration of the current membership year are extended for twelve months from the expiration date. (Under the previous policy, renewals within six months of the expiration date were extended for twelve months from the expiration date.) Memberships renewed more than two months after such expiration date are extended for twelve months from the renewal date. Although this change will have the effect of deferring recognition of certain membership fees paid by late-renewing members, the effect is not expected to be material.

2008 vs. 2007

Membership fees increased 14.7% to $1,506, or 2.12% of net sales in 2008, from $1,313, or 2.08% of net sales in 2007. Excluding the adjustment to deferred membership fees in 2007, adjusted membership fees increased 10.0% from 2007. The increase was primarily due to: new membership sign-ups at the 24 new warehouses opened (34 opened and 10 closed due to relocations); increased penetration of the higher-fee Executive Membership program; and the five dollar increase in our annual membership fee in the second half of 2006 for non-Executive members. Our member renewal rate at the end of 2008 was 87%.

Gross Margin

	2009	2008	2007
Gross margin	$ 7,554	$ 7,474	$ 6,638
Unusual items			85
Gross margin, as adjusted	$ 7,554	$ 7,474	$ 6,723
Gross margin increase	1.1%	12.6%	6.8%
Gross margin increase, as adjusted	1.1%	11.2%	8.1%
Gross margin as a percent of net sales	10.81%	10.53%	10.52%
Adjusted gross margin as a percent of adjusted net sales	10.81%	10.53%	10.58%

2009 vs. 2008

Gross margin, as a percent of net sales, increased 28 basis points compared to 2008. This increase was primarily related to a net 18 basis point increase in our core merchandise departments, primarily in food and sundries, partially offset by a decrease in softlines, and a net seven basis point increase from our warehouse ancillary businesses, primarily our gasoline and pharmacy departments. The majority of this gross margin improvement was due to our lower margin gas business having lower sales penetration, due to the decline in the average selling price per gallon. Increased sales penetration of the Executive Membership two-percent reward program negatively affected gross margin by six basis

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

points. In addition, gross margin was favorably impacted by nine basis points due to reversing the $32 LIFO reserve established in the prior year as we experienced net deflation, year-over-year, in the cost of our merchandise inventories.

Foreign currencies, particularly in Canada, the United Kingdom and Korea, weakened against the U.S. dollar, which negatively impacted gross margin for 2009 by approximately $258.

2008 vs. 2007

Gross margin, as a percent of net sales, increased one basis point compared to 2007. Excluding the unusual items affecting net sales and gross margin in 2007, adjusted gross margin as a percent of adjusted net sales decreased five basis points in 2008 as compared to 2007. This decrease was largely due to a net 12 basis point decrease in our warehouse ancillary businesses, particularly in one-hour photo, tire shop and food services, partially offset by an increase in our gasoline business; a $32, or five basis point LIFO charge, resulting from price increases in certain food items and gasoline; and a three basis point decrease resulting from the increased penetration of the Executive Membership two-percent reward program and increased spending by Executive members. These decreases were partially offset by a net 15 basis point increase from our merchandise departments, particularly fresh foods, food and sundries, Costco Online and our international operations, partially offset by a decrease in softlines.

Selling, General and Administrative Expenses

	2009	2008	2007
Selling, general and administrative expenses	$ 7,252	$ 6,954	$ 6,273
Unusual items			(47)
SG&A, as adjusted	$ 7,252	$ 6,954	$ 6,226
SG&A as a percent of net sales	10.38%	9.80%	9.94%
Adjusted SG&A as percent of adjusted net sales	10.38%	9.80%	9.80%

2009 vs. 2008

SG&A expenses, as a percent of net sales, increased 58 basis points compared to 2008. Increased warehouse operating and central administrative costs, as a percent of net sales, negatively impacted SG&A by approximately 56 basis points, resulting primarily from lower sales levels and higher employee health care costs. Higher stock-based compensation expense had a negative impact of one basis point. In addition, we recorded an adjustment to the net realizable value of the cash surrender value of employee life insurance contracts, which negatively impacted SG&A, as a percent of net sales, by two basis points. The net realizable value of the insurance contracts is largely based on changes in investment assets underlying the policies and is subject to conditions generally affecting equity and debt markets. In 2008, we recorded a $16 reserve in connection with a legal settlement, which positively impacted the comparison to current year s SG&A expense, as a percent of net sales, by two basis points.

SG&A expenses, as a percent of net sales, for 2009 were adversely impacted by the decrease in the price of gasoline, as it produced a decline in sales dollars without a comparative reduction in labor or other administrative costs. Foreign currencies, particularly in Canada, the United Kingdom, and Korea, weakened against the U.S. dollar, which positively impacted SG&A for 2009 by approximately $217.

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

2008 vs. 2007

SG&A expenses, as a percent of net sales, decreased 14 basis points compared to 2007. Excluding the unusual items affecting net sales and SG&A expenses in 2007, adjusted SG&A as a percentage of adjusted net sales was comparable to 2007. Warehouse operating and central administrative costs positively impacted adjusted SG&A comparisons, on a net basis, by approximately seven basis points, primarily due to decreased payroll and benefits costs as a percent of adjusted net sales. Stock-based compensation expense negatively impacted adjusted SG&A comparisons by three basis points, primarily due to a higher closing stock price on the date that our October 2007 RSU grant was valued as compared to previous grants. Additionally, in 2008, we recorded a $16 reserve in connection with a litigation settlement and accrued approximately $9 for compensation adjustments we made to employees enrolled in our medical and dental plans related to a decision to share a portion of the health plan s savings that we achieved. These two items negatively impacted adjusted SG&A comparisons by four basis points.

Preopening Expenses

	2009	2008	2007
Preopening expenses	$ 41	$ 57	$ 55
Warehouse openings	19	34	30

Preopening expenses include costs incurred for startup operations related to new warehouses and the expansion of ancillary operations at existing warehouses. Preopening expenses can vary due to the timing of the opening relative to our year-end, whether the warehouse is owned or leased, whether the opening is in an existing, new, or international market. The decline in 2009 is primarily attributable to fewer warehouse openings.

Provision for Impaired Assets and Closing Costs, Net

	2009	2008	2007
Warehouse closing expenses	$ 9	$ 9	$ 16
Impairment of long-lived assets	8	10	
Net gains on the sale of real property		(19)	(2)
Provision for impaired assets & closing costs, net	$ 17	$	$ 14

This provision primarily includes costs related to impairment of long-lived assets; future lease obligations of warehouses that have been closed or relocated to new facilities; accelerated depreciation, based on the shortened useful life through the expected closing date, on buildings to be demolished or sold and that are not otherwise impaired; and losses or gains resulting from the sale of real property, largely comprised of former warehouse locations.

2009 vs. 2008

The net provision for impaired assets and closing costs was a $17 in 2009, compared to a nominal amount in 2008. The provision in 2009 included charges of $9 for warehouse closing expenses, and impairment charges of $8, primarily related to the closing of our two Costco Home locations in July 2009.

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

2008 vs. 2007

The net provision for impaired assets and closing costs was a nominal amount in 2008, compared to $14 in 2007. The provision in 2008 included charges of $9 for warehouse closing expenses, and impairment charges of $10, primarily related to a location in Michigan that was demolished and rebuilt. These charges were offset by $19 of net gain on the sale of real property, largely former warehouse locations.

At the end of both 2009 and 2008, the reserve for warehouse closing costs was $5 and primarily related to future lease obligations.

Interest Expense

	2009	2008	2007
Interest expense	$ 108	$ 103	$ 64

2009 vs. 2008

Interest expense primarily relates to our $900 of 5.3% and $1,100 of 5.5% Senior Notes (2007 Senior Notes) issued in 2007. The increase in interest expense is primarily due to a decrease in capitalized interest related to reduced new warehouse and remodel construction activity year-over-year.

2008 vs. 2007

The increase in interest expense resulted primarily from the issuance of our 2007 Senior Notes in February 2007, partially offset by lower interest expense resulting from the repayment in March 2007 of the $300 5.5% Senior Notes.

Interest Income and Other

	2009	2008	2007
Interest income	$ 27	$ 96	$ 128
Earnings of affiliates	33	42	36
Minority interest and other	(15)	(5)	1
Interest Income and other	$ 45	$ 133	$ 165

2009 vs. 2008

The decrease in interest income was largely due to lower interest rates, year-over-year, on our cash and cash equivalents and short-term investment balances resulting from a change in policy to invest primarily in U.S. government and agency securities, which earn a lower interest rate. In addition, we recognized $12 of other-than-temporary impairment losses on certain securities within our investment portfolio in 2009 compared to an impairment loss of $5 in 2008. See further discussion in Liquidity and Capital Resources. The decrease in the earnings of affiliates is primarily attributable to our investment in Costco Mexico (a 50%-owned joint venture). Costco Mexico s earnings were lower in 2009, primarily due to the peso weakening against the U.S. dollar. The decrease in minority interest and other is primarily due to a negative $5 mark-to-market charge in 2009, compared to a $6 gain in 2008, related to our forward foreign exchange contracts. See the Derivatives section for more information.

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

2008 vs. 2007

The decrease in interest income was largely due to lower interest rates, year-over-year, on our cash and cash equivalents and short-term investment balances. In addition, we recognized $5 of other-than-temporary impairment losses on certain securities within our investment portfolio. The increase in the earnings of affiliates is primarily attributable to our investment in Costco Mexico (a 50%-owned joint venture).

Provision for Income Taxes

	2009	2008	2007
Income tax expense	$ 628	$ 716	$ 627
Effective tax rate	36.7%	35.8%	36.7%

The lower tax rate in 2008 was primarily attributable to discrete benefits recognized during the year.

Net Income

	2009	2008	2007
Net income	$ 1,086	$ 1,283	$ 1,083
Unusual items (net of tax)			119
Net income, as adjusted	$ 1,086	$ 1,283	$ 1,202
Diluted earnings per share	$ 2.47	$ 2.89	$ 2.37
Shares used to calculate diluted net income per common share (000 s)	440,454	444,240	457,641
Diluted earnings per share (decrease) / increase	(15)%	22%	3%

2009 vs. 2008

Net income for 2009 decreased to $1,086, or $2.47 per diluted share, from $1,283, or $2.89 per diluted share, during 2008, representing a 15% decrease in diluted net income per share. As previously discussed, foreign currencies, particularly in Canada, the United Kingdom and Korea, weakened against the U.S. dollar, which negatively impacted net income for 2009 by approximately $83 after-tax, or $0.19 per diluted share. Additionally, net income for 2009 was negatively impacted by a $34 pre-tax charge, or approximately $0.05 per diluted share, related to a proposed litigation settlement concerning our membership renewal policy, as well as a $23 pre-tax charge, or approximately $0.03 per diluted share, for an adjustment to the net realizable value of the cash surrender value of employee life insurance contracts. Net income for 2009 was positively impacted by a $32 pre-tax, or $0.05 per diluted share, benefit due to the reversal of the LIFO reserve established in 2008.

2008 vs. 2007

Net income for 2008 increased to $1,283, or $2.89 per diluted share, from $1,083, or $2.37 per diluted share, during 2007. The unusual items previously discussed totaled $119, net of tax, or $0.26 per diluted share in 2007. Exclusive of these items, earnings in 2007 were $2.63 per diluted share. Net income per diluted share in 2008 represents an increase of 10% over this adjusted amount. During 2008, we repurchased and retired 13,812,000 shares of common stock, favorably impacting earnings per diluted share by approximately $0.03.

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

LIQUIDITY AND CAPITAL RESOURCES

The following table itemizes components of our most liquid assets at the end of 2009 and 2008 (dollars in millions, except per share data):

	2009	2008
Cash and cash equivalents	$ 3,157	$ 2,619
Short-term investments	570	656
Total	$ 3,727	$ 3,275

Our primary sources of liquidity are cash flows generated from warehouse operations and existing cash, cash equivalents, and short-term investment balances, which were $3,727 and $3,275 at the end of 2009 and 2008, respectively. Of these balances, approximately $758 and $788 at the end of 2009 and 2008, respectively, represented debit and credit card receivables, primarily related to sales in the week prior to the end of the fiscal year.

Net cash provided by operating activities totaled $2,092 in 2009 compared to $2,206 in 2008, a decrease of approximately $114. This decrease was primarily attributable to a decrease in net income of $197, partially offset by an increase in depreciation and amortization and stock-based compensation of $90.

Net cash used in investing activities totaled $1,101 in 2009 compared to $1,717 in 2008, a decrease of approximately $616. The decrease in investing activities relates primarily to a $349 decrease in cash used for additions to property and equipment related to warehouse expansion and remodel projects and a prior year reclassification of $371 of cash and cash equivalents to short-term investments and other assets on our consolidated balance sheets, explained further below. These activities were partially offset by a decrease in cash provided by the net investment in short-term investments of $62 as a result of less cash needed to fund our common stock repurchase activity as well as a decrease in cash proceeds from the sale of property and equipment of $41.

In 2008, one of our enhanced money fund investments, Columbia Strategic Cash Portfolio Fund (Columbia), ceased accepting cash redemption requests and changed to a floating net asset value. In light of the restricted liquidity, we elected to receive a pro-rata allocation of the underlying securities in a separately managed account. We assessed the fair value of these securities through market quotations and review of current investment ratings, as available, coupled with an evaluation of the liquidation value of each investment and its current performance in meeting scheduled payments of principal and interest. During 2009 and 2008, we recognized $12 and $5, respectively, of other-than-temporary impairment losses related to these securities. The losses are included in interest income and other in the accompanying consolidated statements of income. At August 30, 2009 and August 31, 2008, the balance of the Columbia fund was $27 and $104, respectively, on the consolidated balance sheets.

In 2008, two other enhanced money fund investments, BlackRock Cash Strategies, LLC (BlackRock) and Merrill Lynch Capital Reserve Fund, LLC (Merrill Lynch), ceased accepting redemption requests and commenced liquidation. As of August 31, 2008, the balance of the BlackRock and Merrill Lynch funds was $82 and $43, respectively, on the consolidated balance sheets. During 2009, the remaining balances of these funds were liquidated.

During 2008, we reclassified $371 of these three funds from cash and cash equivalents to short-term investments and other assets. At August 30, 2009, $24 remained in short-term investments and $3

28

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

remained in other assets on the consolidated balance sheets, reflecting the timing of the expected distributions. At August 31, 2008, $161 was in short-term investments and $68 in other assets on the consolidated balance sheets.

The markets relating to these investments remain uncertain, and there may be further declines in the value of these investments that may cause additional losses in future periods.

Net cash used in financing activities totaled $439 in 2009 compared to $643 in 2008. The $204 decrease in net cash used in financing activities primarily resulted from a reduction in the cash used to repurchase common stock of $826, partially offset by a decrease in the net proceeds from stock-based awards and the excess tax benefit on share-based awards of $276, a decrease in the net proceeds from short-term borrowings of $195 as well as a decrease in the cash provided by the issuance of long-term debt of $103.

The effect of exchange rate changes, reflected in the consolidated statement of cash flows, decreased cash by $14 in 2009, compared to a decrease of $7 in 2008. This increase was due primarily to the significant weakening of the Canadian, Korean, and the United Kingdom currencies as compared to the U.S. dollar, during 2009.

Dividends

In April 2009, our Board of Directors increased our quarterly cash dividend from $0.16 to $0.18 per share or $0.72 on an annualized basis. Our quarterly cash dividends paid in 2009 totaled $0.68 per share. In 2008, we paid quarterly cash dividends totaling $0.61 per share.

Contractual Obligations

Our commitments at year-end to make future payments under contractual obligations were as follows, as of August 30, 2009:

	Payments Due by Year				
Contractual obligations	**2010**	**2011 to 2012**	**2013 to 2014**	**2015 and thereafter**	**Total**
Purchase obligations (merchandise)[1]	$ 3,539				$ 3,539
Long-term debt[2]	186	1,120	126	1,432	2,864
Operating leases[3]	145	266	247	1,351	2,009
Purchase obligations (property, equipment, services and other)[4]	151	14			165
Construction Commitments	137				137
Capital lease obligations and other[2]	9	11	11	131	162
Other[5]	17	4	2	24	47
Total	$ 4,184	$ 1,415	$ 386	$ 2,938	$ 8,923

(1) Includes open merchandise purchase orders.

(2) Includes contractual interest payments.

(3) Operating lease obligations exclude amounts commonly referred to as common area maintenance, taxes, and insurance and have been reduced by $163 to reflect sub-lease income.

(4) The amounts exclude certain services negotiated at the individual warehouse or regional level that are not significant and generally contain clauses allowing for cancellation without significant penalty.

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

(5) Consists of $24 in asset retirement obligations, $9 in deferred compensation obligations and includes $14 of current unrecognized tax benefits relating to uncertain tax positions. Amount excludes $16 of noncurrent unrecognized tax benefits due to uncertainty regarding the timing of future cash payments.

Expansion Plans

Our primary requirement for capital is the financing of land, building, and equipment costs for new and remodeled warehouses. Capital is also required for initial warehouse operations and working capital. While there can be no assurance that current expectations will be realized and plans are subject to change upon further review, it is our current intention to spend approximately $1,300 during fiscal 2010 for real estate, construction, remodeling, and equipment for warehouses and related operations. These expenditures are expected to be financed with a combination of cash provided from operations and existing cash and cash equivalents and short-term investments.

We plan to open approximately 16 to 18 new warehouses in 2010, including one to two relocations of existing warehouses to larger and better located facilities.

Additional Equity Investments in Subsidiaries and Joint Ventures

Our investments in the Costco Mexico joint venture and in other unconsolidated joint ventures that are less than majority owned are accounted for under the equity method. We did not make any capital contributions to our investment in Costco Mexico (a 50%-owned joint venture) in 2009, 2008, or 2007.

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

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

				Credit Line Usage at August 30, 2009				
Entity	**Credit Facility Description**	**Expiration Date**	**Total of all Credit Facilities**	**Stand-by LC & Letter of Guaranty**	**Commercial Letter of Credit**	**Short-Term Borrowing**	**Available Credit**	**Applicable Interest Rate**
U.S.	Uncommitted Stand By Letter of Credit	N/A	$ 22	$ 22	$	$	$	N/A
U.S.	Uncommitted Commercial Letter of Credit	N/A	50		20		30	N/A
Australia[1]	Guarantee Line	N/A	8				8	N/A
Canada[1]	Multi-Purpose Line	March-10	28	18			10	1.76%
Japan[1]	Revolving Credit	February-10	37			8	29	0.64%
Japan[1]	Bank Guaranty	March-10	11	11				N/A
Japan[1]	Revolving Credit	February-10	37			8	29	0.70%
Japan[2]	Commercial Letter of Credit	N/A	1				1	N/A
Korea[1]	Multi- Purpose Line	March-10	10	1			9	3.75%
Taiwan	Multi-Purpose Line	January-10	15	4			11	2.50%
Taiwan	Multi-Purpose Line	July-10	15	3			12	2.59%
United Kingdom	Revolving Credit	February-10	66				66	0.82%
United Kingdom	Uncommitted Money Market Line	N/A	33				33	3.05%
United Kingdom	Uncommitted Overdraft Line	N/A	49				49	1.50%
United Kingdom[2]	Letter of Guarantee	N/A	3	3				N/A
United Kingdom	Commercial Letter of Credit	N/A	3		1		2	N/A
	TOTAL		$ 388	$ 62	$ 21	$ 16	$ 289	

(1) The U.S. parent company, Costco Wholesale Corporation, guarantees this entity s credit facility.

(2) The letter of guarantee is fully cash-collateralized by the subsidiary.

31

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

Entity	Credit Facility Description	Expiration Date	Total of all Credit Facilities	Credit Line Usage at August 31, 2008			Available Credit	Applicable Interest Rate
				Stand-by LC & Letter of Guaranty	Commercial Letter of Credit	Short Term Borrowing		
U.S.	Uncommitted Stand By Letter of Credit	N/A	$ 25	$ 25	$	$	$	N/A
U.S.	Uncommitted Commercial Letter of Credit	N/A	160		45		115	N/A
Australia[1]	Guarantee Line	N/A	9	3			6	N/A
Canada[1, 3]	Multi-Purpose Line	March-09	142	20		85	37	3.43%
Japan[1]	Revolving Credit	February-09	32			4	28	1.00%
Japan[1]	Bank Guaranty	February-09	9	9				N/A
Japan[1]	Revolving Credit	February-09	32			14	18	1.04%
Korea[1]	Multi-Purpose Line	March-09	11	1	1		9	6.53%
Taiwan	Multi-Purpose Line	January-09	16	5			11	4.50%
Taiwan	Multi-Purpose Line	July-09	16	2			14	4.59%
United Kingdom	Revolving Credit	February-10	73				73	5.67%
United Kingdom	Uncommitted Money Market	May-09	37			31	6	5.36%
United Kingdom	Overdraft Line	May-09	64				64	6.00%
United Kingdom[2]	Letter of Guarantee	N/A	4	4				N/A
United Kingdom	Commercial Letter of Credit	N/A	3		1		2	N/A
	TOTAL		$ 633	$ 69	$ 47	$ 134	$ 383	

(1) This entity s credit facility is guaranteed by the U.S. parent company, Costco Wholesale Corporation.

(2) The letter of guarantee is fully cash-collateralized by the United Kingdom subsidiary.

(3) The amount shown for short-term borrowings under this facility is net of a note issue discount, which is excluded from the available credit amount.

Note: We have credit facilities (for commercial and standby letters of credit) totaling $116 and $239 as of August 30, 2009 and August 31, 2008, respectively. The outstanding commitments under these facilities at August 30, 2009 and August 31, 2008, totaled $83 and $116, respectively, including $62 and $69, respectively, in standby letters of credit. For those entities with multi-purpose lines, any issuance of either letters of credit (standby and/or commercial) or short-term borrowings will result in a corresponding decrease in available credit.

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

Financing Activities

In July 2009, we entered into a capital lease for a new warehouse building location and recorded a liability in the amount of $72, representing the net present value of $150 in aggregate future minimum lease payments at an imputed interest rate of 5.4%. This lease expires and becomes subject to a renewal clause in 2040. As of August 30, 2009, $71 is included in long-term debt and $1 in the current portion of long-term debt in our consolidated balance sheets. We have other minor capital lease obligations that amounted to $5 at the end of 2009 and 2008.

In June 2008, our wholly-owned Japanese subsidiary entered into a ten-year term loan in the amount of $32, with a variable rate of interest of Yen TIBOR (6-month) plus a 0.35% margin (0.95% and 1.24% at August 30, 2009 and August 31, 2008, respectively) on the outstanding balance. The net proceeds were used to repay the 1.187% Promissory Notes due in July 2008 and for general corporate purposes. Interest is payable semi-annually in December and June and principal is due in June 2018.

In October 2007, our wholly-owned Japanese subsidiary issued promissory notes through a private placement in the amount of $69, bearing interest at 2.695%. Interest is payable semi-annually, and principal is due in October 2017. The proceeds were used to repay the 2.07% Promissory Notes in October 2007 and for general corporate purposes.

In February 2007, we issued $900 of 5.3% Senior Notes due March 15, 2012 at a discount of $2 and $1,100 of 5.5% Senior Notes due March 15, 2017 at a discount of $6 (together, the 2007 Senior Notes). Interest on the 2007 Senior Notes is payable semi-annually on March 15 and September 15 of each year. The discount and issuance costs associated with the 2007 Senior Notes are being amortized to interest expense over the terms of those notes. At our option, we may redeem the 2007 Senior Notes at any time, in whole or in part, at a redemption price plus accrued interest. The redemption price is equal to the greater of 100% of the principal amount of the 2007 Senior Notes to be redeemed, or the sum of the present values of the remaining scheduled payments of principal and interest to maturity. Additionally, we will be required to make an offer to purchase the 2007 Senior Notes at a price of 101% of the principal amount plus accrued and unpaid interest to the date of repurchase, upon certain events as defined by the terms of the 2007 Senior Notes.

In April 2003, our wholly-owned Japanese subsidiary issued promissory notes bearing interest at 0.92% in the amount of $43, through a private placement. Interest is payable semi-annually and principal is due in April 2010. In November 2002, our wholly-owned Japanese subsidiary issued promissory notes bearing interest at 0.88% in the aggregate amount of $32, through a private placement. Interest is payable semi-annually and principal is due in November 2009. The U.S. parent company, Costco Wholesale Corporation guarantees all of the promissory notes issued by our wholly-owned Japanese subsidiary.

In August 1997, we sold $900 principal amount at maturity 3.5% Zero Coupon Convertible Subordinated Notes (Zero Coupon Notes) due in August 2017. The Zero Coupon Notes were priced with a yield to maturity of 3.5%, resulting in gross proceeds of $450. The current Zero Coupon Notes outstanding are convertible into a maximum of 961,000 shares of Costco Common Stock shares at an initial conversion price of $22.71. Holders of the Zero Coupon Notes may require us to purchase the Zero Coupon Notes (at the discounted issue price plus accrued interest to date of purchase) in August 2012. At our option, we may redeem the Zero Coupon Notes (at the discounted issue price plus accrued interest to date of redemption) any time after August 2002. As of August 30, 2009, $858 in principal amount of the Zero Coupon Notes had been converted by note holders to shares of Costco Common Stock, of which $25, $1, and $61 in principal were converted in 2009, 2008, and 2007 respectively, or

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

$19 and $42 in 2009 and 2007, respectively, after factoring in the related debt discount. In 2008, the conversion of principle for Zero Coupon Notes after factoring the related debt discount was not significant.

Derivatives

Effective November 24, 2008, we adopted the disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities an Amendment of Financial Accounting Standards Board (FASB) Statement No. 133 (SFAS 161). We follow SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (as amended) (SFAS 133), in accounting for derivative and hedging activities.

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

We seek to manage the counterparty risk associated with these forward foreign exchange contracts by limiting transactions to counterparties with which we have established banking relationships. There can be no assurance, however, that this effectively mitigates counterparty risk. In addition, the contracts are limited to a time period of less than one year. See Note 1 and Note 3 to the consolidated financial statements included in Part II, Item 8 of this Report, for additional information related to these contracts.

We are exposed to risks due to fluctuations in energy prices, particularly electricity and natural gas, which we seek to partially mitigate through the use of fixed-price contracts with counterparties for approximately 24% of our warehouses and other facilities in the U.S. and Canada. We also enter into variable-priced contracts for some purchases of natural gas and fuel for our gas stations on an index basis. These contracts qualify for treatment as normal purchase or normal sales under SFAS 133 and require no mark-to-market adjustment.

Off-Balance Sheet Arrangements

With the exception of our operating leases, we have no off-balance sheet arrangements that have had, or are reasonably likely to have, a material current or future effect on our financial condition or consolidated financial statements.

Stock Repurchase Programs

In September and November of 2007, our Board of Directors approved $300 and $1,000, respectively, of stock repurchases, which expire in August 2010 and November 2010, respectively. In July 2008, our Board of Directors approved an additional $1,000, which expires in July 2011, bringing total authorizations by our Board of Directors since inception of the program in 2001 to $6,800.

During 2009, we repurchased 895,000 shares at an average price of $63.84 per share totaling approximately $57. During 2008, we repurchased 13,812,000 shares of common stock, at an average price of $64.22 per share, totaling approximately $887. The remaining amount available to be purchased under

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

our approved plan was $2,002 at the end of 2009. Purchases are made from time-to-time as conditions warrant in the open market or in block purchases, and pursuant to plans under SEC Rule 10b5-1. Repurchased shares are retired, in accordance with the Washington Business Corporation Act.

Critical Accounting Policies

The preparation of our financial statements requires that we make estimates and judgments. We continue to review our accounting policies and evaluate our estimates, including those related to revenue recognition, investments, merchandise inventory valuation, impairment of long-lived assets, warehouse closing costs, insurance/self-insurance liabilities, and income taxes. We base our estimates on historical experience and on other assumptions that we believe to be reasonable.

Revenue Recognition

We generally recognize sales, net of estimated returns, at the time the member takes possession of merchandise or receives services. When we collect payment from customers prior to the transfer of ownership of merchandise or the performance of services, the amount received is generally recorded as deferred revenue on the consolidated balance sheets until the sale or service is completed. We provide for estimated sales returns based on historical trends in merchandise returns. Amounts collected from members, which under common trade practices are referred to as sales taxes, are recorded on a net basis.

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

Membership fee revenue represents annual membership fees paid by substantially all of our members. We account for membership fee revenue on a deferred basis, whereby revenue is recognized ratably over the one-year membership period.

Our Executive members qualify for a 2% reward (which can be redeemed only at Costco warehouses), up to a maximum of $500 per year, on all qualified purchases made at Costco. We account for this 2% reward as a reduction in sales, with the related liability being classified within other current liabilities. The sales reduction and corresponding liability are computed after giving effect to the estimated impact of non-redemptions based on historical data.

Investments

Investments are reviewed quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment. In making this judgment, we employ a systematic methodology that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and our intent and ability to hold the investment. We also consider specific adverse conditions related to the financial health of and business outlook for the issuer, including industry and sector performance,

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. If market, industry, and/or issuer conditions deteriorate, we may incur future impairments.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market, as determined primarily by the retail inventory method of accounting, and are stated using the last-in, first-out (LIFO) method for substantially all U.S. merchandise inventories. Merchandise inventories for all other foreign operations are primarily valued by the retail inventory method of accounting and are stated using the first-in, first-out (FIFO) method. We believe the LIFO method more fairly presents the results of operations by more closely matching current costs with current revenues. We record an adjustment each quarter, if necessary, for the expected annual effect of inflation, and these estimates are adjusted to actual results determined at year-end. At the end of 2008, due to overall net inflationary trends, merchandise inventories valued at LIFO were lower than the FIFO value, resulting in a $32 charge to merchandise costs. During 2009, due to overall deflationary trends, we recorded a $32 benefit to merchandise costs to adjust inventories valued at LIFO. At the end of 2009 and 2007, merchandise inventories valued at LIFO approximated FIFO after considering the lower of cost or market principle.

We provide for estimated inventory losses between physical inventory counts as a percentage of net sales. The provision is adjusted periodically to reflect results of the actual physical inventory counts, which generally occur in the second and fourth quarters of the year.

Inventory cost, where appropriate, is reduced by estimates of vendor rebates when earned or as we progress toward earning those rebates, provided they are probable and reasonably estimable. Other consideration received from vendors is generally recorded as a reduction of merchandise costs upon completion of contractual milestones, terms of agreement, or other systematic and rational approaches.

Impairment of Long-Lived Assets and Warehouse Closing costs

We periodically evaluate our long-lived assets for indicators of impairment, such as a decision to relocate or close a warehouse location. Our judgments are based on existing market and operational conditions. Future events could cause us to conclude that impairment factors exist, requiring a downward adjustment of these assets to their then-current fair market value.

We provide estimates for warehouse closing costs for both leased and owned locations to be closed or relocated. A considerable amount of judgment is involved in determining any impairment or our net liability, particularly related to the estimated sales price of owned locations and the potential sublease income at leased locations. These estimates are based on real estate conditions in the markets and our experience in those markets. We make assumptions about the average period of time it would take to sublease the location and the amount of potential sublease income for each leased location. We reassess our liability each quarter and adjust our liability accordingly when our estimates change.

Insurance/Self Insurance Liabilities

We use a combination of insurance and self-insurance mechanisms, including a wholly-owned captive insurance entity and participation in a reinsurance pool, to provide for potential liabilities for workers compensation, general liability, property damage, director and officers liability, vehicle liability, and

Table of Contents

Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (dollars in millions, except per share and warehouse number data) **(Continued)**

employee health care benefits. Liabilities associated with the risks that we retain are not discounted and are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. The estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

Income Taxes

We adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48), which sets out criteria for the use of judgment in assessing the timing and amounts of deductible and taxable items, at the beginning of 2008. The determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The benefits of uncertain tax positions are recorded in our consolidated financial statements only after determining a more-likely-than-not probability that the uncertain tax positions will withstand challenge, if any, from tax authorities. When facts and circumstances change, we reassess these probabilities and record any changes in the consolidated financial statements as appropriate.

Recent Accounting Pronouncements

See discussion of Recent Accounting Pronouncements in Note 1 to the consolidated financial statements included in Part II, Item 8 of this Report.

Item 7A Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial market risk resulting from fluctuations in interest and foreign currency exchange rates. We do not engage in speculative or leveraged transactions, nor hold or issue financial instruments for trading purposes. The current condition of the financial markets, however, has rendered identifiable risks less predictable, and liquidity concerns and credit risks have increased.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment holdings that are diversified amongst money market funds, debt securities, corporate notes and bonds, and enhanced money funds with effective maturities of generally three months to five years at the date of purchase. The primary objective of our investment activities is to preserve principal while continuing to generate yields. A revised investment policy was approved in December 2007 by our Board of Directors, limiting future investments to direct U.S. Government and Government Agency obligations, repurchase agreements collateralized by U.S. Government and Government Agency obligations, and U.S. Government and Government Agency Money Market funds.

The investment policies of our subsidiaries are consistent with our primary objective to preserve principal while continuing to generate yields. Our wholly owned insurance subsidiary invests in U.S. Government and Government Agency obligations, corporate notes and bonds, and asset and mortgage backed securities with a minimum overall portfolio average credit rating of AA+.

All of our foreign subsidiaries investments are primarily in money market funds, investment grade securities, bankers acceptances, bank certificates of deposit and term deposits, all denominated in their local currencies. Additionally, our Canadian subsidiary may invest a portion of its investments in U.S. dollar investment grade securities and bank term deposits to meet current U.S. dollar obligations.

Table of Contents

Item 7A Quantitative and Qualitative Disclosures About Market Risk (Continued)

All of the investment policies of the Company and subsidiaries are reviewed at least annually.

Because most of our investments in cash and cash equivalents are of a short-term nature, if interest rates were to increase or decrease, the impact would likely be immaterial to our financial statements. Based on our overnight investments and bank balances within cash and cash equivalents at the end of 2009 and 2008, a 100 basis point increase or decrease in interest rates would result in an increase or decrease of approximately $24 and $18 (pre-tax), respectively, to interest income on an annual basis. For those investments that are classified as available-for-sale, the unrealized gains or losses related to fluctuations in market volatility and interest rates are reflected within stockholders equity in accumulated other comprehensive income.

The nature and amount of our long and short-term debt may vary as a result of future business requirements, market conditions and other factors. As of the end of 2009, our fixed-rate long-term debt included: $42 principal amount at maturity of 3.5% Zero Coupon Convertible Subordinated Notes carried at $32; $900 of 5.3% Senior Notes carried at $899; and $1,100 of 5.5% Senior Notes carried at $1,096, and additional notes and capital lease obligations totaling $228. Additionally, our variable rate long-term debt included a 0.35% over Yen Tibor (6-month) Term Loan of $32. Fluctuations in interest rates may affect the fair value of the fixed-rate debt and may affect the interest expense related to the variable rate debt. See Note 3 to the consolidated financial statements included in Part II, Item 8 of this Report for more information on our long and short-term debt.

Foreign Currency-Exchange Risk

Our foreign subsidiaries conduct limited transactions in their non-functional currencies, which exposes us to fluctuations in foreign currency exchange rates. We manage these fluctuations, in part, through the use of forward foreign exchange contracts, seeking to hedge the impact of fluctuations of foreign exchange on known future expenditures denominated in a foreign currency.

As of August 30, 2009, and August 31, 2008, we held forward foreign exchange contracts with a notional amount of $183 and $90, respectively, and a fair value liability of $2 and a fair value asset of $5, respectively, on the consolidated balance sheets. A hypothetical 10% strengthening of the functional currency compared to the non-functional currency exchange rates at August 30, 2009 and August 31, 2008 would have decreased the fair value of the contracts by $18 and $10, respectively.

Item 8 Financial Statements and Supplementary Data

Financial statements of Costco are as follows:

Table of Contents

Item 8 Financial Statements and Supplementary Data (Continued)

Management s Report on the Consolidated Financial Statements

Our management is responsible for the preparation, integrity and objectivity of the accompanying consolidated financial statements and the related financial information. The financial statements have been prepared in conformity with U.S. generally accepted accounting principles and necessarily include certain amounts that are based on estimates and informed judgments. Our management also prepared the related financial information included in this Annual Report on Form 10-K and is responsible for its accuracy and consistency with the financial statements.

The consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm, who conducted their audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). The independent registered public accounting firm s responsibility is to express an opinion as to the fairness with which such financial statements present our financial position, results of operations and cash flows in accordance with U.S. generally accepted accounting principles.

Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A Controls and Procedures

Disclosure Controls and Procedures

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

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

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

Management s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets; (2) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Table of Contents

Item 9A Controls and Procedures (Continued)

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, we assessed the effectiveness of our internal control over financial reporting as of August 30, 2009, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on its assessment, management has concluded that our internal control over financial reporting was effective as of August 30, 2009.

/s/ JAMES D. SINEGAL James D. Sinegal	/s/ RICHARD A. GALANTI Richard A. Galanti
President	Executive Vice President
Chief Executive Officer	Chief Financial Officer

Item 9B Other Information

None.

Table of Contents

PART III

Item 10 Directors, Executive Officers and Corporate Governance

The information required by this Item concerning our directors and nominees for director is incorporated herein by reference to the sections entitled Proposal 1: Election of Directors, Directors, Committees of the Board and Section 16(a) Beneficial Ownership Reporting Compliance Costco s proxy statement for its annual meeting of stockholders to be held on January 28, 2010 (Proxy Statement). The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of our fiscal year.

Item 11 Executive Compensation

The information required by this Item is incorporated herein by reference to the sections entitled Compensation of Directors, Executive Compensation, and Compensation Discussion and Analysis in Costco s Proxy Statement.

Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the sections entitled Equity Compensation Plan Information in Costco s Proxy Statement.

Item 13 Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the sections entitled Proposal 1: Election of Directors, Directors, Committees of the Board, Shareholder Communications to the Board, Meeting Attendance, Report of the Compensation Committee of the Board of Directors, Certain Relationships and Transactions and Report of the Audit Committee, in Costco s Proxy Statement.

Item 14 Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the sections entitled Independent Public Accountants, in Costco s Proxy Statement.

PART IV

Item 15 Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report are as follows:

1. Financial Statements:

See the listing of Financial Statements included as a part of this Form 10-K on Item 8 of Part II.

2. Financial Statement Schedules None.

3. Exhibits:

The required exhibits are included at the end of the Form 10-K Annual Report and are described in the Exhibit Index immediately preceding the first exhibit.

(b) Financial Statement Schedules None.

Table of Contents

SIGNATURES

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

October 16, 2009

COSTCO WHOLESALE CORPORATION

(Registrant)

By /s/ RICHARD A. GALANTI
Richard A. Galanti

Executive Vice President

and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By	/s/ JAMES D. SINEGAL James D. Sinegal *President, Chief Executive Officer and Director*	October 16, 2009
By	/s/ JEFFREY H. BROTMAN Jeffrey H. Brotman *Chairman of the Board*	October 16, 2009
By	/s/ RICHARD D. DICERCHIO Richard D. DiCerchio *Sr. Executive Vice President, Chief Operating Officer Global Operations, Distribution and Construction, Manufacturing and Ancillary Businesses and Director*	October 16, 2009
By	/s/ RICHARD A. GALANTI Richard A. Galanti *Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)*	October 16, 2009
By	/s/ DAVID S. PETTERSON David S. Petterson	October 16, 2009

	Senior Vice President and Controller	
	(Principal Accounting Officer)	
By	/s/ DR. BENJAMIN S. CARSON, SR., M.D. Dr. Benjamin S. Carson, Sr., M.D.	October 16, 2009
	Director	
By	/s/ SUSAN L. DECKER Susan L. Decker	October 16, 2009
	Director	

Table of Contents

By	/s/ DANIEL J. EVANS Daniel J. Evans *Director*	October 16, 2009
By	/s/ WILLIAM H. GATES William H. Gates *Director*	October 16, 2009
By	/s/ HAMILTON E. JAMES Hamilton E. James *Director*	October 16, 2009
By	/s/ RICHARD M. LIBENSON Richard M. Libenson *Director*	October 16, 2009
By	/s/ JOHN W. MEISENBACH John W. Meisenbach *Director*	October 16, 2009
By	/s/ CHARLES T. MUNGER Charles T. Munger *Director*	October 16, 2009
By	/s/ JEFFREY S. RAIKES Jeffrey S. Raikes *Director*	October 16, 2009
By	/s/ JILL S. RUCKELSHAUS Jill S. Ruckelshaus *Director*	October 16, 2009

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Costco Wholesale Corporation:

We have audited the accompanying consolidated balance sheets of Costco Wholesale Corporation and subsidiaries as of August 30, 2009 and August 31, 2008 and the related consolidated statements of income, stockholders equity and comprehensive income and cash flows for each of the 52-week periods ended August 30, 2009, August 31, 2008 and September 2, 2007. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Costco Wholesale Corporation and subsidiaries as of August 30, 2009 and August, 31, 2008, and the results of their operations and their cash flows for the 52-week periods ended August 30, 2009, August 31, 2008 and September 2, 2007, in conformity with U.S. generally accepted accounting principles.

Effective September 3, 2007, the beginning of the Company s fiscal year ended August 31, 2008, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109.*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of August 30, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated October 16, 2009 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington

October 16, 2009

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Costco Wholesale Corporation:

We have audited Costco Wholesale Corporation s internal control over financial reporting as of August 30, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management s annual report on internal control over financial reporting included in Item 9A. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 30, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of August 30, 2009 and August 31, 2008, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the 52-week periods ended August 30, 2009, August 31, 2008 and September 2, 2007, and our report dated October 16, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington

October 16, 2009

Table of Contents

COSTCO WHOLESALE CORPORATION

CONSOLIDATED BALANCE SHEETS

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

	August 30, 2009	August 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,157	$ 2,619
Short-term investments	570	656
Receivables, net	834	748
Merchandise inventories	5,405	5,039
Deferred income taxes and other current assets	371	400
Total current assets	10,337	9,462
PROPERTY AND EQUIPMENT		
Land	3,341	3,217
Buildings, leasehold and land improvements	8,453	7,749
Equipment and fixtures	3,265	3,057
Construction in progress	264	306
	15,323	14,329
Less accumulated depreciation and amortization	(4,423)	(3,974)
Net property and equipment	10,900	10,355
OTHER ASSETS	742	865
TOTAL ASSETS	$ 21,979	$ 20,682
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 16	$ 134
Accounts payable	5,450	5,225
Accrued salaries and benefits	1,418	1,321
Accrued sales and other taxes	302	283
Deferred membership fees	824	748
Current portion of long-term debt	81	6
Other current liabilities	1,190	1,157
Total current liabilities	9,281	8,874
LONG-TERM DEBT, excluding current portion	2,206	2,206
DEFERRED INCOME TAXES AND OTHER LIABILITIES	388	328
Total liabilities	11,875	11,408
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	86	82
STOCKHOLDERS EQUITY		
Preferred stock $.005 par value; 100,000,000 shares authorized; no shares issued and outstanding		

Common stock $.005 par value; 900,000,000 shares authorized; 435,974,000 and 432,513,000 shares issued and outstanding	2	2
Additional paid-in capital	3,811	3,543
Accumulated other comprehensive income	104	286
Retained earnings	6,101	5,361
Total stockholders equity	10,018	9,192
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 21,979	$ 20,682

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

46

Table of Contents

COSTCO WHOLESALE CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, except per share data)

	52 weeks ended August 30, 2009	52 weeks ended August 31, 2008	52 weeks ended September 2, 2007
REVENUE			
Net sales	$ 69,889	$ 70,977	$ 63,088
Membership fees	1,533	1,506	1,313
Total revenue	71,422	72,483	64,401
OPERATING EXPENSES			
Merchandise costs	62,335	63,503	56,450
Selling, general and administrative	7,252	6,954	6,273
Preopening expenses	41	57	55
Provision for impaired assets and closing costs, net	17		14
Operating income	1,777	1,969	1,609
OTHER INCOME (EXPENSE)			
Interest expense	(108)	(103)	(64)
Interest income and other	45	133	165
INCOME BEFORE INCOME TAXES	1,714	1,999	1,710
Provision for income taxes	628	716	627
NET INCOME	$ 1,086	$ 1,283	$ 1,083
NET INCOME PER COMMON SHARE:			
Basic	$ 2.50	$ 2.95	$ 2.42
Diluted	$ 2.47	$ 2.89	$ 2.37
Shares used in calculation (000 s)			
Basic	433,988	434,442	447,659
Diluted	440,454	444,240	457,641
Dividends per share	$ 0.68	$ 0.61	$ 0.55

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

Table of Contents

COSTCO WHOLESALE CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

(dollars in millions, except share data)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount				
BALANCE AT SEPTEMBER 3, 2006	462,279	$ 2	$ 2,823	$ 278	$ 6,041	$ 9,144
Comprehensive Income:						
Net income					1,083	1,083
Foreign currency translation adjustment and other				93		93
Comprehensive income						1,176
Stock options exercised and vesting of restricted stock units, including income tax benefits and other	9,735		351			351
Conversion of convertible notes	1,389		42			42
Stock repurchase	(36,390)		(233)		(1,746)	(1,979)
Stock-based compensation			135			135
Cash dividends					(246)	(246)
BALANCE AT SEPTEMBER 2, 2007	437,013	2	3,118	371	5,132	8,623
Cumulative effect of adjustments resulting from the adoption of FIN 48, net of tax					(6)	(6)
Adjusted balance at September 2, 2007	437,013	2	3,118	371	5,126	8,617
Comprehensive Income:						
Net income					1,283	1,283
Foreign currency translation adjustment and other				(85)		(85)
Comprehensive income						1,198
Stock options exercised and vesting of restricted stock units, including income tax benefits and other	9,299		363			363
Conversion of convertible notes	13					
Stock repurchase	(13,812)					