COSTCO WHOLESALE CORP /NEW
Form DEF 14A
December 17, 2018
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. __)
Filed by the Registrant
Filed by a party other than the Registrant
Check the appropriate box:
Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material under §240.14a-12
Costco Wholesale Corporation
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
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(3) Filing Party:
(4) Date Filed:

999 Lake Drive
Issaquah, Washington 98027

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO OUR SHAREHOLDERS:

The Annual Meeting of the Shareholders of Costco Wholesale Corporation (the “Company”) will be held at the Meydenbauer Center, Center Hall, 11100 NE 6th Street, Bellevue, Washington 98004, on Thursday, January 24, 2019, at 4:00 p.m., for the following purposes:

1. To elect the three Class II directors nominated by the Board of Directors to hold office until the 2022 Annual Meeting of Shareholders and until their successors are elected and qualified;
2. To ratify the selection of KPMG LLP ("KPMG") as the Company’s independent auditors for fiscal 2019;
3. To approve, on an advisory basis, the compensation of the Company’s named executive officers for fiscal 2018 as disclosed in these materials;
4. To approve the 2019 Incentive Plan;
5. To approve an amendment to the articles of incorporation to declassify the Board and provide for annual election of directors;
6. To approve an amendment to the articles of incorporation to eliminate a supermajority voting requirement;
7. To vote on a shareholder proposal described in the accompanying proxy statement, if properly presented at the meeting; and
8. To transact such other business as may properly come before the meeting or any adjournments thereof.

Only shareholders of record at the close of business on November 19, 2018, are entitled to notice of and to vote at the meeting. All shareholders are requested to be present in person or by proxy. Any shareholder who later finds that he or she can be present at the meeting, or for any reason desires to do so, may revoke the proxy at any time before it is voted.

Important Notice Regarding the Availability of Proxy Materials for the 2019 Annual Meeting. We are mailing to many of our shareholders a notice of availability over the Internet of the proxy materials, rather than mailing a full paper set of the materials. The notice of availability contains instructions on how to access our proxy materials on the Internet, as well as instructions on obtaining a paper copy. All shareholders who do not receive such a notice of availability, including shareholders who have previously requested to receive a paper copy of the materials, will receive a full set of paper proxy materials by U.S. mail. This process will reduce our costs to print and distribute our proxy materials.

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

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

VOTE BY INTERNET

http://www.proxyvote.com
24 hours a day/7 days a week

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time on January 23, 2019. Have your proxy card in hand when you access the website, and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY TELEPHONE

(800) 690-6903 via touch-tone
phone toll-free
24 hours a day/7 days a week

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time on January 23, 2019. Have your proxy card in hand when you call and then follow the instructions.

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

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

December 14, 2018

Important Notice Regarding the Availability of Proxy Materials for
the Meeting of Shareholders to be Held on January 24, 2019
The Proxy Statement and Annual Report to Shareholders are available at
http://investor.costco.com.

PARKING FACILITY AND DRIVING DIRECTIONS

MEYDENBAUER CENTER
11100 NE 6th Street
Bellevue, Washington

DRIVING DIRECTIONS

• From Seattle via SR-520:
• Take SR-520 east to I-405 south.
• Take Exit 13A west to NE 4th Street.
• Turn right onto NE 4th Street.
• Turn right onto 112th Ave NE.
• Turn left onto NE 6th Street to Meydenbauer Center's parking garage on the right.

• From Seattle via I-90:
• Take I-90 east to I-405 north.
• Take Exit 13A west to NE 4th Street.
• Turn left onto NE 4th Street.
• Turn right onto 112th Avenue NE.
• Turn left onto NE 6th Street to Meydenbauer Center's parking garage on the right.

PARKING

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

Meydenbauer Center's Parking Garage is located at 11100 NE 6th Street. It does not accommodate vehicles over 6'9" tall.

OVERFLOW PARKING

Bellevue Corporate Plaza Garage & Skyline Plaza can be accessed from 110th Ave NE.

Griffin Lot is located on the corner of NE 8th Street and 110th Avenue NE.

Parking in these facilities for this event will be paid for by the Company. As you leave, tell the attendant you attended the Costco Wholesale Annual Meeting.

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PROXY STATEMENT
FOR ANNUAL MEETING OF SHAREHOLDERS TO BE HELD
January 24, 2019

SOLICITATION AND REVOCATION OF PROXY

Proxies in the form furnished are solicited by the Board of Directors of the Company to be voted at the Annual Meeting of Shareholders to be held on January 24, 2019, or any adjournments (the "Annual Meeting"). The individuals named as proxy are Hamilton E. James and W. Craig Jelinek. A Notice of Internet Availability of Proxy Materials was first sent to shareholders and the accompanying notice of meeting, this Proxy Statement and the form of proxy are first being made available to shareholders on or about December 14, 2018.

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

1. FOR the nominees for director listed in these materials and on the proxy;
2. FOR the ratification of the selection of the Company's independent auditors;
3. FOR the approval, on an advisory basis, of the compensation of the Company's named executive officers for fiscal 2018 as disclosed in these materials;
4. FOR approval of the Company's 2019 Incentive Plan;
5. FOR approval of an amendment to the articles of incorporation to declassify the Board and provide for annual election of directors;
6. FOR approval of an amendment to the articles of incorporation to eliminate a supermajority voting requirement; and
7. AGAINST the shareholder proposal.

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

Only shareholders of record at the close of business on November 19, 2018 (the "Record Date") will be entitled to vote at the Annual Meeting. At the close of business on the Record Date, there were 440,570,601 shares of common stock outstanding, which represent all of the voting securities of the Company. Each share of common stock is entitled to one vote. Shareholders do not have cumulative voting rights in the election of directors.

A majority of the common stock entitled to vote at the Annual Meeting, present either in person or by proxy, will constitute a quorum. Shareholders who abstain from voting on any or all proposals will be included in the number of shareholders present at the meeting for purposes of determining the presence of a quorum. Abstentions and broker non-votes will not be included in the total of votes cast and will not affect the outcome of the vote on proposals 1 through 4 and 7 and will have the same effect as a vote “against” on proposals 5 and 6.

With respect to proposal 1, the election of directors, the three directors receiving the highest number of votes will be elected. The Company’s bylaws provide that in an uncontested election for directors a nominee who receives a greater number of “withhold” votes than votes “for" shall offer his or her resignation. A committee of independent directors whose election is not at issue will determine and publicly report the action to be taken with respect to the resignation offer. With respect to proposals 2 through 4 and 7, to approve each proposal the votes that shareholders cast “for” must exceed the votes cast “against.” With respect to proposals 5 and 6, to approve each proposal the votes “for” must represent not less than two-thirds of the outstanding shares entitled to be cast generally in the election of directors.

If your shares are held by a broker or other financial institution on your behalf (that is, in “street name”), and you do not instruct that firm as to how to vote these shares, Nasdaq rules allow the firm to vote your shares only on routine matters. Proposal 2, the ratification of the selection of the Company’s independent auditors for fiscal 2019, is the only matter for consideration at the meeting that Nasdaq rules deem to be routine. For all other proposals, you must submit voting instructions to the firm that holds your shares if you want your vote to count. When a firm votes a client’s shares on some but not all of the proposals, the missing votes are referred to as “broker non-votes.” Please instruct your broker or other financial institution so your vote can be counted.

In addition to mailing the Notice of Internet Availability of Proxy Materials (the "Notice") to shareholders, the Company has asked banks and brokers to forward copies of the Notice, and upon request, paper copies of the proxy materials to persons for whom they hold stock of the Company and to request authority for execution of the proxies. The Company will reimburse the banks and brokers for their reasonable out-of-pocket expenses in doing so. Officers and employees of the Company may, without being additionally compensated, solicit proxies by mail, telephone, facsimile or personal contact. All proxy-soliciting expenses will be paid by the Company in connection with the solicitation of votes for the Annual Meeting. Alliance Advisors may solicit proxies at a cost we anticipate will not exceed $11,000.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

PROPOSAL 1: ELECTION OF DIRECTORS

The Board of Directors is divided into three classes. Directors are elected by class, for three-year terms. Successors to the class of directors whose term expires at any annual meeting are elected for three-year terms. Each of Hamilton E. James, John W. Stanton and Mary Agnes (Maggie) Wilderotter is nominated as a member of Class II, to serve for a three-year term until the annual meeting of shareholders in 2022 and until a successor is elected and qualified. All nominees are current directors.

Each nominee has indicated a willingness and ability to serve as a director. If any nominee becomes unable or unwilling to serve, the accompanying proxy may be voted for the election of such other person as will be designated by the Board. The proxies being solicited will be voted for no more than three nominees at the Annual

Meeting. Each director will be elected by a plurality of the votes cast, in person or by proxy, at the Annual Meeting, assuming a quorum is present.
The candidates for election have been nominated by the Board based on the recommendation of the Nominating and Governance Committee. In addition to the information presented below regarding each nominee's specific experience, qualifications, attributes and skills that led the Board to conclude that he or she should serve as a director, the Board believes that each nominee has demonstrated: outstanding achievement in his or her professional career; relevant experience; personal and professional integrity; ability to make independent, analytical inquiries; experience with and understanding of the business environment; and willingness and ability to devote adequate time to Board duties. We also believe that our directors collectively have the skills and experience that make them well-suited to oversee the Company. They are established leaders in important areas of business and non-profit service. In addition, members of our Board have had a great diversity of experiences and bring a wide variety of views that strengthen their ability to guide our Company.
The Board of Directors unanimously recommends that you vote FOR Proposal 1.
Directors
The following table sets forth information regarding each nominee for election as a director and each director whose term of office will continue after the Annual Meeting.

Name	Current Position with the Company	Age	Expiration of Term as Director
Hamilton E. James	Chairman of the Board of Directors	67	2019
Susan L. Decker	Director	56	2020
Kenneth D. Denman	Director	60	2021
Richard A. Galanti	Executive Vice President, Chief Financial Officer and Director	62	2020
W. Craig Jelinek	President, Chief Executive Officer and Director	66	2021
John W. Meisenbach	Director	82	2020
Charles T. Munger	Director	94	2020
Jeffrey S. Raikes	Director	60	2021
John W. Stanton	Director	63	2019
Mary Agnes (Maggie) Wilderotter	Director	63	2019

Set forth below is information with respect to each director of the Company, which as used below means Costco Wholesale Corporation and includes its predecessor company, Costco Wholesale Corporation, as it existed prior to the 1993 merger with The Price Company.
Hamilton E. James has been a director of the Company since August 1988. He was the Lead Independent Director from 2005 until becoming the non-executive Chairman of the Board in August 2017. He was until March 1, 2018, President and Chief Operating Officer of The Blackstone Group, a global alternative asset manager and provider of financial advisory services and is currently its Executive Vice Chairman. He is also a member of the board of directors of its general partner, Blackstone Group Management L.L.C. He was previously a director of Credit Suisse First Boston USA, Inc. Mr. James's qualifications to serve on the Board include the knowledge and experience he has gained, and contributions he has made, during his tenure as a director of our Company and his broad-ranging experiences in the financial services industry, including senior leadership positions.
Susan L. Decker has been a director of the Company since October 2004. She is Chief Executive Officer and a co-founder of Raftr, a digital media product, launched in 2017. She also serves as an adviser to several Internet start-ups. During the 2009 school year, she was an Entrepreneur-in-Residence at Harvard Business School. From 2000 to 2009, Ms. Decker served in various executive management roles at Yahoo! Inc., including President from 2007 to 2009 and Executive Vice President and Chief Financial Officer from 2000 to 2007. She is a director of Berkshire Hathaway Inc., Vail Resorts, Inc. and SurveyMonkey and was previously a director of Intel Corporation and Pixar. Ms. Decker's qualifications to serve on the Board include the knowledge and

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experience she has gained, and contributions she has made, during her tenure as a director of our Company, her service on the boards of other public companies, and her broad-ranging experiences, including senior leadership positions, in the areas of finance, technology and marketing.

Kenneth D. Denman was elected to the Board in March 2017. He is a Venture Partner at Sway Ventures. He was President and Chief Executive Officer of Emotient, Inc., a developer of technology to analyze facial expressions, until the company was acquired by Apple in January 2016. Previously, Mr. Denman was the Chief Executive Officer of Openwave Systems, Inc. and iPass, Inc. and a Senior Vice President for MediaOne. He is a member of the boards of directors of LendingClub Corp., Mitek Systems, Inc. and Motorola Solutions, Inc. Previously he was a director at ShoreTel Inc. and United Online, Inc. Mr. Denman served in the Edward V. Fritzky chair as visiting professor at the University of Washington's Foster School of Business in the 2012 school year. Mr. Denman also serves on the board of directors of the Foster School and the University of Washington Foundation. Mr. Denman's qualifications to serve on the Board include knowledge and experience from service on the boards of other public companies, and his broad-ranging experiences, including chief executive and other leadership positions, in the areas of technology and international business.

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

W. Craig Jelinek has been a director and President of the Company since February 2010, and Chief Executive Officer since January 1, 2012. Mr. Jelinek previously was President and Chief Operating Officer from February 2010 until January 2012, and was Executive Vice President in charge of merchandising beginning in 2004. He spent the previous twenty years in various management positions in warehouse operations. Mr. Jelinek's qualifications to serve on the Board include his extensive knowledge of our Company's business developed over his long career here, particularly in the areas of operations and merchandising.

John W. Meisenbach has been a director of the Company since its inception. Mr. Meisenbach was the CEO of MCM, a financial services company that he founded in 1962, from 2008 to 2013, and chairman of the board of directors until the company was sold in 2015 to Assured Partners. He previously served as a director of Expeditors International, where he was Chair of the Compensation Committee. He currently serves as a director of M Financial Holdings Inc. where he is on the Executive Committee and previously served as Chair of the Securities Committee.

Mr. Meisenbach's qualifications to serve on the Board include the knowledge and experience he has gained, and contributions he has made, during his tenure as a director of our Company, his service on the boards of other public companies, and his broad-ranging experiences in the insurance industry.

Charles T. Munger has been a director of the Company since January 1997. He is Vice Chairman of the Board of Directors of Berkshire Hathaway Inc., and Chairman of the Board of Directors of Daily Journal Corporation.

Mr. Munger's qualifications to serve on the Board include the knowledge and experience he has gained, and contributions he has made, during his tenure as a director of our Company, his service on the boards of other public companies, and his broad-ranging experiences in the areas of investments, finance, and insurance.

Jeffrey S. Raikes has been a director of the Company since December 2008. He is the co-founder of the Raikes Foundation, the mission of which is to empower young people to transform their lives. He was the Chief Executive Officer of the Bill & Melinda Gates Foundation from 2008 to 2014. Mr. Raikes held several positions with Microsoft Corp. from 1981 to 2008, including President of the Business Division from 2005 to 2008. Mr. Raikes' qualifications to serve on the Board are his broad-ranging experiences, including senior leadership positions, in the areas of technology and marketing and at the world's largest foundation.

John W. Stanton has been a director of the Company since October 2015. He is the Chairman of Trilogy International Partners, Inc., which operates wireless systems internationally, Trilogy Equity Partners, which invests in wireless-related companies, and First Avenue Entertainment LLLP, which is the owner of the Seattle Mariners. Mr. Stanton founded and served as Chairman and Chief Executive Officer of Western Wireless Corporation, a wireless telecommunications company, from 1992 until shortly after its acquisition by ALLTEL Corporation in 2005. He was Chairman and a director of T-Mobile USA, formerly VoiceStream Wireless Corporation, a mobile telecommunications company, from 1994 to 2004, and was Chief Executive Officer from

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1998 to 2003. Mr. Stanton was a director of Clearwire Corp. from 2008 to 2013, Chairman between 2011 and 2013, and interim Chief Executive Officer during 2011. He is currently a director of Trilogy International Partners, Microsoft Corp., GameChanger Media, Inc. and was previously a director of Columbia Sportswear Company. Mr. Stanton's qualifications to serve on the Board are his broad-ranging experiences, including senior leadership positions, in the areas of telecommunications and technology, and service on the boards of other companies.

Mary Agnes (Maggie) Wilderotter has been a director of the Company since October 2015. She is the Chief Executive Officer and Chairman of the Grand Reserve Inn. She was the Executive Chairman of Frontier Communications, a public telecommunications company, from April 2015 until April 2016. Mrs. Wilderotter served as Frontier's Chief Executive Officer from 2004 to 2015 and Chairman of the Board from December 2005. Prior to joining Frontier, she was a senior vice president of Microsoft Corp. from 2002 to 2004. From 1997 to 2002, she was President and Chief Executive Officer of Wink Communications, an interactive telecommunications and media company. Mrs. Wilderotter was previously a director of Xerox Corporation, DreamWorks Animation SKG, and The Procter & Gamble Company. She is currently a director of Cadence Design Systems, Hewlett Packard Enterprise, and DocuSign. Mrs. Wilderotter served in 2016 on the President's Commission on Enhancing National Cybersecurity. Her qualifications to serve on the Board include the knowledge and experience she has gained, and contributions she has made, during her service on the boards of over thirty public companies in her career, and her broad-ranging corporate experiences, including senior leadership positions, in the areas of telecommunications and technology.

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

Committees of the Board

The Board has determined that each member of the Audit, Compensation and Nominating and Governance Committees meets Nasdaq listing standards regarding "independence," including applicable committee independence requirements. Each committee has a written charter, which may be viewed at our website at www.costco.com through the Investor Relations page. Directors deemed independent are Mses. Decker and Wilderotter and Messrs. Denman, James, Munger, Raikes and Stanton, who constitute a majority of the Board. The non-executive directors of the Company met in executive session presided over by the non-executive Chairman at four meetings this fiscal year.

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

- providing direct communication between the Board and the Company's internal and external auditors;
- monitoring the design and maintenance of the Company's system of internal accounting controls;
- selecting, evaluating and, if necessary, replacing the external auditors;
- reviewing the results of internal and external audits as to the reliability and integrity of financial and operating information;
- maintaining procedures for receipt, retention and treatment of any complaints received by the Company about its accounting, internal accounting controls or auditing matters and for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- reviewing the relationships between the Company and the external auditors to ascertain the independence of the external auditors; and
- approving compensation of the external auditors.

The members of the committee are Messrs. Munger (chair) and Denman and Ms. Decker. The Board has determined that Mr. Munger is an "audit committee financial expert" as defined by the rules of the Securities and Exchange Commission ("SEC"). In order to ensure continuing auditor independence, the Audit Committee periodically considers whether there should be a regular rotation of the external auditors. In conjunction with the mandated rotation of the external auditor's lead engagement partner, the Audit Committee and its chairperson are directly involved in the selection of the new lead engagement partner. The Audit Committee met eight times during fiscal 2018. A report of the Audit Committee is set forth below.

Compensation Committee. The Compensation Committee reviews the salaries, bonuses and stock-based compensation provided to executive officers of the Company and oversees the overall administration of the Company's compensation and stock-based compensation programs. Except with respect to setting the compensation of the Chief Executive Officer, the committee may delegate its authority to a subcommittee of the committee (consisting either of a subset of members of the committee or any members of the Board who would be eligible to serve on the committee). In addition, to the extent permitted by applicable law, the committee may delegate to one or more executive officers of the Company the authority to grant stock awards to employees who are not executive officers or members of the Board. The committee has delegated certain authority to the Chief Executive Officer with respect to such awards not involving executive officers. See Compensation Discussion and Analysis below for a further description of the role of the committee. The members of the committee are Messrs. Stanton (chair) and Munger and Mrs. Wilderotter and it met four times during fiscal 2018. A report of the Compensation Committee is set forth below.

Nominating and Governance Committee. The functions of the Nominating and Governance Committee are to identify and approve individuals qualified to serve as members of the Board, select director nominees for the annual meeting of shareholders, evaluate the Board's performance, develop and recommend to the Board corporate governance guidelines, and provide oversight with respect to corporate governance and ethical conduct. The committee is authorized by its charter to engage its own advisors. The committee approved the nomination of the candidates reflected in proposal 1. The Board is responsible for nominating members for election to the Board and for filling vacancies on the Board that may occur between annual meetings of shareholders. The committee is responsible for identifying, screening and recommending to the Board candidates for Board membership. When formulating its recommendations, the committee will also consider advice and recommendations from others as it deems appropriate. The members of the committee are Messrs. Raikes (chair) and Denman and Mrs. Wilderotter; the committee met five times in fiscal 2018.

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

We believe that the Company benefits from having directors with a diversity of viewpoints, backgrounds, and experiences. Currently, of the ten directors on the Board, two are women and one is African American. In addition, as discussed above, our directors bring a diversity of viewpoints and experiences as established leaders in important areas of business and non-profit service that we believe strengthens the Board's ability to guide our Company.

Pursuant to our Corporate Governance Guidelines, the Nominating and Governance Committee oversees a self-assessment of the Board's performance every year. The assessment seeks to identify specific areas, if any, in need of improvement or strengthening, including with respect to the diversity of our Board in terms of viewpoints, backgrounds and experiences. Recommendations arising from the self-assessment process in fiscal 2018 primarily related to improving the efficiency and effectiveness of board processes. Since 2014, the Board, led by the Nominating and Governance Committee, has been engaged in a process to refresh its membership. Since the beginning of that process, six members have retired or passed away and three new independent directors have been added. The refreshment process is continuing.

Our bylaws provide for proxy access by eligible shareholders. Shareholder nominations require compliance with section 2.1 of the bylaws, which are available on our website. There is otherwise no formal process prescribed for identifying and evaluating nominees, except as described in the Corporate Governance Guidelines.

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

Board Structure.   The Corporate Governance Guidelines provide that the Board does not require the separation of the offices of the Chairman of the Board and the Chief Executive Officer and shall be free to choose its Chairman in any way that it deems best for the Company at any given point in time. Currently the positions of Chairman and Chief Executive Officer are filled separately. Our Chief Executive Officer has primary responsibility for the operational leadership and strategic direction of the Company, while our non-executive Chairman facilitates our Board's independent oversight of management, promotes communication between management and our Board and leads our Board's consideration of key governance matters. The Board believes that this leadership structure is appropriate for the Company at this time.

The Role of the Board in Risk Oversight.   One Board function is to oversee the ways in which management deals with risk. The Board seeks to ensure that management has processes for dealing appropriately with risk. It is the responsibility of the Company's senior management to develop and implement the Company's short- and long-term objectives and to identify, evaluate, manage and mitigate the risks inherent in seeking to achieve those objectives. Management is responsible for identifying risk and risk controls related to significant business activities and Company objectives, and developing programs to determine the sufficiency of risk identification, the balance of potential risk to potential reward, the appropriate manner in which to control risk, and the support of the risk-controlling behavior and the risk to Company strategy. The Board implements its risk oversight responsibilities primarily through the Audit Committee, which receives management reports on the potentially significant risks, including (without limitation) cybersecurity matters, that the Company faces and how the Company is seeking to control risk where appropriate and oversees internal control over financial reporting. The Audit Committee reports to the full board on its risk-management tasks, including the enterprise risk management review. In more limited cases, such as with risks of significant new business concepts and substantial entry into new markets, risk oversight is addressed as part of the full Board's engagement with the Chief Executive Officer and management. Board members also often discuss risk as a part of their review of the ongoing business, financial, and other activities of the Company. The Board also has overall responsibility for executive-officer succession planning. The Nominating and Governance Committee also exercises oversight regarding risks associated with corporate governance matters and certain issues relating to the Company's ethics and compliance programs.

Compensation of Directors

Each non-employee director earns $30,000 per year for serving on the Board and $1,000 for each Board and committee meeting attended. Directors are reimbursed for travel expenses incurred in connection with their duties. In fiscal 2018, each non-employee director received a grant of restricted stock units ("RSUs"), with a target value of $270,000. Based on the closing share price at the time of grant, each director received a grant of 1,680 restricted stock units. These RSUs vest one-third annually, beginning on the first anniversary of the date of grant and are subject to accelerated vesting upon the director's retirement: 50% and 100% after five and ten years of service, respectively. Stock ownership requirements, which have been met by all directors, mandate that non-executive directors own and maintain at least 6,000 shares of Company stock within five years of joining the Board.

The following table summarizes compensation for the non-employee directors of the Company for fiscal 2018.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)[1]	All Other Compensation ($)	Total ($)
Susan L. Decker	43,000	262,500	—	305,500
Kenneth D. Denman	52,000	262,500	—	314,500
Dan Evans(2)	19,000	262,500	—	281,500
Hamilton E. James	35,000	262,500	—	297,500
John W. Meisenbach	35,000	262,500	—	297,500
Charles T. Munger	47,000	262,500	—	309,500
Jeffrey S. Raikes	40,000	262,500	—	302,500
James Sinegal(2)	12,000	262,500	—	274,500
John W. Stanton	49,000	262,500	—	311,500
Mary Agnes (Maggie) Wilderotter	46,000	262,500	—	308,500

(1) Represents the grant-date fair value of the RSUs granted in October 2017. The value is calculated as the market value of the common stock on the grant date less the present value of the expected dividends forgone during the vesting period. These amounts thus do not reflect the amount of compensation actually received during the fiscal year. For a description of the assumptions used in calculating the fair value of equity awards, see Note 1 of our financial statements in our Form 10-K for the year ended September 2, 2018.

(2) Messrs. Evans and Sinegal retired from the Board on January 30, 2018.

At the end of fiscal 2018, non-employee directors held the following outstanding equity awards and shares:

Name	Restricted Stock Units	Shares Owned	Total
Susan L. Decker	3,919	47,890	51,809
Kenneth D. Denman	2,328	325	2,653
Hamilton E. James	3,919	33,925	37,844
John W. Meisenbach	3,919	22,735	26,654
Charles T. Munger	3,919	179,302	183,221
Jeffrey S. Raikes	3,919	27,955	31,874
John W. Stanton	3,734	15,722	19,456
Mary Agnes (Maggie) Wilderotter	3,919	2,207	6,126

Shareholder Communications to the Board

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

Meeting Attendance

During the Company’s last fiscal year, the Board met four times. Other than one committee meeting where one member was absent due to a communication error by the Company, each member of the Board attended all of the Board meetings and meetings of the committees on which he or she served. As set forth in our Corporate Governance Guidelines, directors are encouraged to attend meetings of shareholders. All directors except two attended the meeting in 2018.

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding ownership of the common stock by each person known to the Company to own more than 5% of the outstanding shares of the common stock on November 19, 2018.

Name and Address of Beneficial Owner	Shares[2&3]	Percent[1]
Vanguard Group Inc. P.O. Box 2600, V26 Valley Forge, Pennsylvania 19482	35,457,639	8.05%
BlackRock Inc. 55 East 52nd Street New York, NY 10055	28,041,444	6.36%

(1) Based on 440,570,601 shares of common stock outstanding on November 19, 2018. In accordance with SEC rules, percent of class as of this date is calculated for each person and group by dividing the number of shares beneficially owned by the sum of the total shares outstanding plus the number of shares subject to securities exercisable by that person or group within 60 days.

(2) Information based on Form 13F-HR filed with the SEC by Vanguard Group Inc. on November 14, 2018.

(3) Information based on Form 13F-HR filed with the SEC by BlackRock Inc. on November 9, 2018.

The following table sets forth the shares of the common stock owned by each director of the Company, each nominee for election as a director of the Company, the executive officers named in the Summary Compensation Table, and all directors and executive officers as a group on November 19, 2018.

Name of Beneficial Owner	Shares Beneficially Owned[1]	Percent of Class[2]
W. Craig Jelinek	311,359(3)	*
Susan L. Decker	52,988	*
Kenneth D. Denman	3,832	*
Richard A. Galanti	39,270(4)	*
Hamilton E. James	39,023	*
John W. Meisenbach	21,833(5)	*
Paul G. Moulton	40,233(6)	*
Charles T. Munger	184,400(7)	*
James P. Murphy	45,540	*
Joseph P. Portera	37,020(8)	*
Jeffrey S. Raikes	33,053	*
John W. Stanton	20,635(9)	*
Mary Agnes (Maggie) Wilderotter	7,305	*
All directors and executive officers as a group (17 persons)	952,650	*

*Less than 1%.

(1) Includes RSUs outstanding.

(2) Based on 440,570,601 shares of common stock outstanding, and 6,506,175 RSUs outstanding. In accordance with SEC rules, percent of class as of this date is calculated for each person and group by dividing the number of shares beneficially owned by the sum of the total shares outstanding plus the number of shares subject to securities that will vest within 60 days.

(3) Includes 34,158 pledged shares. The pledge initially was reviewed and approved in accordance with the Corporate Governance Guidelines at that time. Although new pledges by directors and executive officers are now prohibited, this pledge has been grandfathered until May 2019.

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

(5) Includes 12,000 shares held by a trust of which Mr. Meisenbach is the principal beneficiary, of which he may be deemed to be beneficial owner.

(6) Includes 536 shares held by a trust of which Mr. Moulton is a trustee.

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

(8) Includes 11,447 shares held by a trust of which Mr. Portera is a trustee.

(9) Includes 422 shares held by a trust of which Mr. Stanton is a trustee. Mr. Stanton disclaims beneficial ownership of these shares.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Following is a discussion and analysis of our compensation programs as they apply to our Chief Executive Officer, Chief Financial Officer, and three other most highly compensated individuals who served as executive officers in fiscal 2018. These individuals are referred to as the “Named Executive Officers.” Our Named Executive Officers were: W. Craig Jelinek, President and Chief Executive Officer; Richard A. Galanti, Executive Vice President, Chief Financial Officer; Joseph P. Portera, Executive Vice President, COO-Eastern and Canadian Divisions; Paul Moulton, Executive Vice President, Chief Information Officer; and James P. Murphy, Executive Vice President - COO-International Division.

Compensation Philosophy and Objectives

Our compensation programs are designed to motivate our executives and employees and enable them to participate in the growth of our business. The Company believes it has been very successful in attracting and retaining quality employees, generally achieving low turnover in our executive, staff and warehouse management ranks. In addition, in the judgment of the Compensation Committee, the programs have contributed to the financial and competitive success of the Company. Accordingly, the Committee believes it is desirable to continue these programs.

At the 2018 Annual Meeting, the advisory shareholder vote on executive compensation was 96.37% in favor. The Committee did not determine to make any changes to the compensation programs as a result of the vote.

Compensation levels approved by the Committee for the Named Executive Officers for fiscal 2018 did not materially change from those approved for the prior year. Discussions by certain directors and management with a number of shareholders since the 2018 Annual Meeting have not revealed significant concerns about the structure or operation of the Company's compensation programs.

Role of the Compensation Committee

The Committee determines the amounts and elements of compensation for our Chief Executive Officer. For other executive officers, it reviews the recommendations of the Chief Executive Officer, with which it generally agrees. The Committee’s function is more fully described above, under “Committees of the Board — Compensation Committee.” During fiscal 2018, the Committee consisted of Messrs. Stanton (chair) and Munger and Mrs. Wilderotter (who joined in January 2018). The Committee has authority under its charter to engage compensation consultants but has not used any. The Committee’s primary activity occurs in the fall, following the close of the fiscal year, when the Committee: (i) approves grants of RSUs, including performance targets for RSUs granted to executive officers for the current fiscal year; (ii) determines whether performance targets have been satisfied for RSUs granted during the prior fiscal year; (iii) approves total compensation levels for executive officers for the fiscal year just concluded, including any salary increases and cash bonuses; and (iv) approves the executive officer cash bonus program for the current fiscal year.

Elements of Compensation

The components of our executive compensation programs are equity compensation (consisting solely of performance-based RSUs), base salary, cash bonuses, and other benefits (primarily consisting of health plans, a 401(k) plan and a deferred compensation plan). The Committee believes that these components are appropriate and are consistent with the Company’s long-standing approach to executive compensation, which has made equity awards the dominant form of compensation. The Committee did not reevaluate this year whether there is an optimal mix of equity, salary, bonus and other compensation components for each executive officer. Rather, it relied upon the fact that the current structure has been utilized successfully in years past and gave more particular attention to the incremental changes in the components of the mix and the value of the total compensation packages.

Performance-based RSUs. Performance-based RSU grants represent the largest component of compensation, based on their fair value at the time they are granted. The Committee believes that emphasizing this form of compensation helps align the interests of employee-grantees with those of shareholders, both in the shorter term (with the one-year performance conditions) and in the longer term (with time-based vesting of up to five years, subject to earlier vesting for long service, as described below). To a lesser extent, the Committee also takes into account that longer-term vesting requirements can help promote executive retention. The Committee's view is that the general five-year vesting period and the stock ownership requirements provide a long-term dimension to the equity awards.

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

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

Executive base salaries and cash bonuses are, in the Committee’s view, generally lower than those at other companies in our peer group, described below under “Peer Companies.”

Other elements. Consistent with its position as a low-overhead operator, the Company has modest “other compensation.” A significant component of this compensation is related to helping executives fund their retirement needs (through the 401(k) and the deferred compensation plans).

These components of compensation mix incentives that are intended to reward shorter-term (twelve months) and longer-term performance (five years and beyond). Shorter-term incentives come primarily from the initial award of RSUs being subject to achievement of a one-year performance metric and, to a significantly lesser extent, cash bonuses that are subject to one-year performance metrics. Longer-term incentives come primarily from the RSU award vesting of up to five years, and, to a lesser extent, share ownership requirements for executive officers and vesting elements in certain benefit plans (such as the deferred compensation and 401(k) plan matches).

The Committee believes that these elements do not promote unreasonable risk-taking behavior. The value of shorter-term incentives (including cash bonus awards with caps and performance conditions for awards of RSUs) is substantially exceeded by longer-term incentives (including equity awards that vest up to five years) and share ownership requirements, which the Committee believes reward sustained performance that is aligned with shareholder interests. In addition, the Company’s Corporate Governance Guidelines include a “claw back” provision, giving the Committee the power to require the return of incentive compensation earned by improper means.

Peer Companies

For fiscal 2018, the Committee primarily considered executive compensation data obtained from proxy statements for the following peer companies: Wal-Mart Stores, Inc., The Home Depot, Inc., Target Corporation, The Kroger Company, and Lowe’s Companies. This peer group is the same group as was used for fiscal 2017. These companies were selected because they are recognized as successful retailers and one of them represents the other major membership warehouse operator that was publicly traded for the whole fiscal year. The Committee took into account that one of the companies is substantially larger than the Company. The Committee did not use the comparable company data to set mid-points or other specific quantitative comparisons of executive compensation; it used them only for general reference.

Equity Compensation

If fully earned based upon the achievement of performance targets and fully vested, equity compensation is the largest component of compensation for executive officers. RSU grants to all executive officers are performance-based, with performance-vesting over a one-year period, time-vesting over five years, and vesting for long service contingent upon maintaining employment status at the vest date. The Board and the Committee believe that the five-year vesting requirement helps to foster motivation over the longer term. Following satisfaction of performance targets, RSUs become time-vested RSUs that, subject to accelerated vesting for long service (described below) vest 20% upon the first anniversary of the grant date (following the determination by the Committee that the performance criteria have been satisfied) and 20% vest over each of the ensuing four years. (Vesting of RSUs awarded to non-executive officers and employees is not performance-based.) To the extent time-vesting requirements are met, RSUs are settled and paid in shares of common stock (net of shares withheld for taxes). Recipients are not entitled to vote or receive dividends on unvested and undelivered RSUs.

All officers and employees who receive RSU grants receive accelerated vesting prior to termination if they have achieved long service with the Company (33% vesting credited on the first anniversary of the date of grant after 25 years of service, 66% vesting after 30 years of service, and 100% vesting after 35 years of service, with any remainder vesting ratably over the remaining vesting period). This accelerated vesting entitles officers and employees to receive shares within ten business days of the anniversary of the grant date or of the initial grant date if the years of service requirement has been met prior to the grant date.

The criteria for the fiscal 2018 performance-based grants were a 4% increase (versus fiscal 2017) of total sales or a 3% increase in pre-tax income (with both measures based on local currencies). After the end of fiscal 2018, the Committee determined that both goals were exceeded. Accordingly, the executive officers earned all of the RSUs granted, subject to time-based and long-service vesting. All executive officers received accelerated vesting for long service for at least a portion of these RSUs, with a further time-based vesting occurring on the first anniversary of the grant for those not fully vested at the time the RSUs were deemed earned. Dollar values for grants in fiscal 2018 (based on the closing share price on the business day preceding the grant date) were increased by approximately 3% from the grant values in fiscal 2017 except that the increase for Mr. Jelinek was higher.

The Board adopted in July 2008 a fixed date of October 22 for RSU grants, with exceptions as approved in advance by the Committee. For fiscal 2018, RSU grants were made on October 22, 2017, and the performance criteria for the grants were established in November 2017. All grants in fiscal 2018 were made under the Company’s Seventh Restated 2002 Stock Incentive Plan, approved by the Company’s shareholders in January 2015 and currently the Company's only equity plan.

Other Compensation

The Company provides the Named Executive Officers with benefits of a type offered to all other employees in most respects. The value of these benefits constitutes a small percentage of each executive’s total compensation. Key benefits include paid vacation, premiums paid for long-term disability insurance, a matching contribution and a discretionary 401(k) plan contribution, and the payment of premiums for health insurance and basic life insurance. In addition, the Company has a non-qualified deferred-compensation plan for the benefit of certain eligible employees (approximately 1,000), including the Named Executive Officers. The plan provides that the first $10,000 of an employee’s contributions may be matched 50% by the Company, subject to certain limitations. This match will vest over a specified period of time. The Company does not maintain a pension plan or post-retirement medical plan for any Named Executive Officer. The Company also provides the Named Executive Officers with a car allowance. There is a company match for certain charitable contributions. The Committee believes the benefits are modest and consistent with its overall objective of attracting and retaining highly-qualified executive officers.

2018 Compensation of the Chief Executive Officer

In addition to considering the Company's compensation policies generally, the Committee reviews executive compensation and concentrates on the compensation packages for the Chief Executive Officer. Near the beginning of fiscal 2018, the Committee approved a written employment contract for Mr. Jelinek, related to service during fiscal 2018 (subsequently extended to calendar 2018) as Chief Executive Officer. For fiscal 2018 Mr. Jelinek received an annual base salary of $800,000 (based on a fifty-two week year), an increase of $100,000 from the prior fiscal year. The agreement further provided for a cash bonus of up to $200,000 (unchanged from the prior year), determined by the Board or the Committee, and an RSU award determined by the Board or the Committee. Apart from the change-in-control provision in the Company's equity plan applicable to all grantees (described below under "Potential Payments Upon Termination or Change-in-Control"), none of Mr. Jelinek or any other employee has or had any change-in-control arrangement with the Company.

For fiscal 2018, the Committee granted 37,330 performance-based RSUs to Mr. Jelinek, which in value at the grant date represented an increase of 8% over the prior fiscal year. The Committee determined after the end of the fiscal year that the performance criteria were exceeded, and all of the RSUs were earned, subject to further time-vesting and accelerated-vesting for long service.

Cash bonuses for the Chief Executive Officer have generally been capped at no more than $200,000 since fiscal 1997. For fiscal 2018, Mr. Jelinek earned a cash bonus of $97,000. The bonus amount for Mr. Jelinek was determined by the Committee as follows: (i) one-half of bonus eligibility was determined by the Company's attainment of its pre-tax income goal, which was fully achieved in fiscal 2018; and (ii) eligibility for the remaining half was determined by applying a percentage representing the amount of bonus received by other executive officers in comparison to their bonus eligibility (approximately 97%). The criteria governing bonuses to these executive officers are described below. With respect to the former half, although the Company's performance entitled Mr. Jelinek to payment, he declined to receive it because of the Company's determination that it had a material weakness in internal control during the fiscal year, related to ineffective information technology general controls. The Committee concurred with Mr. Jelinek's request. The criteria governing bonuses to other executive officers are described below.

2018 Compensation of Other Named Executive Officers

The most significant component of the compensation in fiscal 2018 was performance-based RSUs. RSU amounts awarded to Messrs. Galanti, Portera, Moulton, and Murphy were 18,680 each. The amounts awarded were based on the recommendations of Mr. Jelinek and approved by the Compensation Committee before grant. As noted above, the performance criteria were exceeded and the Named Executive Officers earned all of the RSUs granted, with accelerated-vesting for long service and further time-based vesting.

Salaries for other Named Executive Officers were based upon the recommendation of Mr. Jelinek, who focused on the amount of increase deserved over the prior year's salary level. Base salary levels for these officers increased up to 4% over fiscal 2017.

The Named Executive Officers (other than Mr. Jelinek) received cash bonuses of up to $84,340, slightly higher than the prior year because of improved operating performance. Bonus criteria were approved by the Committee in early fiscal 2018, based upon the recommendation of Mr. Jelinek. After the close of the fiscal year, Mr. Jelinek recommended bonus amounts to the Committee for the Named Executive Officers of up to approximately 111% of the eligible amounts. Based on the recommendation of Mr. Jelinek, the Committee reduced the bonuses payable to Mr. Galanti ($20,000) and Mr. Moulton ($10,000) due the Company's determination that it had a material weakness in internal control at the end of fiscal 2018 in areas falling within the oversight of these two officers.

As with other bonus-eligible employees, 50% of the bonus potential was related to the Company's attainment of its internal pre-tax income target. For fiscal 2018 that target was $4.2 billion, on a generally accepted accounting principles basis; the target was achieved, as actual pre-tax income was $4.4 billion. Based on Mr. Jelinek's recommendation, the Committee determined to award all of the potential pre-tax income bonus (except as described above). Eligibility for the bonus portion not associated with the Company's pre-tax income target was determined based on goals relevant to the executive officer's area of responsibility: for those whose responsibilities are operational, the goals related to sales, controllable expenses, inventory shrinkage, and pre-tax profit in their areas of responsibility; for those whose responsibilities are primarily buying, the goals related to sales and gross margin in their areas of responsibility; for those whose responsibilities combine operational and buying functions, the goals related to a combination of those described above; and for those whose responsibilities are staff functions, the goals related to a combination of Company-wide operational and buying goals, in addition to qualitative factors relevant to their areas of responsibility. For each officer there is also a small component (approximately 10% of total bonus eligibility) based on the discretion of Mr. Jelinek. Mr. Jelinek is not bound to recommend any specific bonus amount based on these factors; he considers what he believes to be the appropriate bonus in view of all the circumstances (subject to the caps noted above). The Committee maintains the discretion to vary from the Chief Executive Officer’s recommendations but historically has deferred to it, as it did this fiscal year. To be eligible for the annual bonus, the individual must be employed by the Company and in the same or similar executive-level position at the time bonus checks are issued (historically in November).

Clawback Policy

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

Stock Ownership Requirements

Executive officers are required by the end of each calendar year to own and retain shares of Company common stock representing in value at least three times (seven times for the Chief Executive Officer) the base salary of the officer in effect at the beginning of the fiscal year. Newly-promoted officers have twenty-four months to achieve compliance. The Nominating and Governance Committee may authorize an extension should the timing present an undue burden.

Hedging and Pledging Policy

The Corporate Governance Guidelines, as amended in August 2018, prohibit transactions involving hedging of Company shares by directors, officers, and employees and prohibit pledging of Company shares by directors and executive officers.

Impact of Tax Considerations

Our RSU grants impose performance conditions for the CEO and executive vice presidents. These conditions for fiscal 2018 and prior years were intended to qualify the awards as tax-deductible under section 162(m) of the Internal Revenue Code. As a result of changes in December 2017 to federal tax laws, we expect that equity awards granted or other compensation provided under arrangements entered into or materially modified after November 2, 2017 generally will not be deductible to the extent they result in compensation to certain executive officers that exceeds $1 million in any one year for any such officer. Due to uncertainties as to the application and interpretation of Section 162(m), including the scope of the transition relief under the legislation repealing the exemption the Section 162(m) deduction limit, no assurance can be given that compensation intended to satisfy the requirements for exemption in fact will do so.

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Because of the importance of linking pay and performance, RSU grants made for fiscal 2019 continued to impose performance conditions on grants to the CEO and executive officers.

Conclusion

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

Report of the Compensation Committee of the Board of Directors

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

The Committee has reviewed and discussed with management the Compensation Discussion and Analysis contained in this Proxy Statement. Based on the review and discussions with management, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended September 2, 2018, for filing with the SEC.

John W. Stanton, Chair
Charles T. Munger
Mary Agnes (Maggie) Wilderotter

Summary of Compensation

The following table sets forth information regarding compensation for the Named Executive Officers for fiscal 2018, 2017, and 2016.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)[1]	Bonus ($)[2]	Stock Awards ($)[3]	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)[4]	All Other Compensation ($)[5]	Total ($)
W. Craig Jelinek	2018	800,000	97,000	6,295,829	107,888	107,796	7,408,513
President and Chief Executive Officer	2017	713,462	192,800	5,533,799	76,965	103,943	6,620,969
	2016	700,000	81,600	5,563,064	57,227	101,385	6,503,276
Richard A. Galanti	2018	740,000	59,040	3,150,444	212,805	124,604	4,286,893
Executive Vice President, Chief	2017	745,000	77,120	2,898,732	154,762	113,098	3,988,712
Financial Officer	2016	710,155	52,640	2,915,115	117,177	110,480	3,905,567
Joseph P. Portera	2018	700,000	84,340	3,150,444	45,348	120,079	4,100,211
Executive Vice President, COO-	2017	693,846	82,490	2,898,732	33,989	119,534	3,828,591
Eastern & Canadian Divisions	2016	660,616	52,039	2,915,115	26,549	115,718	3,770,037
Paul G. Moulton	2018	680,000	68,240	3,150,444	18,202	105,705	4,022,591
Executive Vice President, Chief	2017	685,865	77,120	2,898,732	8,273	103,359	3,773,349
Information Officer	2016	652,981	51,840	2,915,115	8,414	100,074	3,728,424
James P. Murphy	2018	620,000	79,040	3,150,444	18,677	116,641	3,984,802
Executive Vice President,	2017	606,923	77,120	2,898,732	16,149	114,254	3,713,178
COO-International Division	2016	575,384	52,640	2,901,721	12,489	111,804	3,654,038

(1) Certain salaries in all fiscal years have been restated to reflect retroactive pay when earned rather than received. Salaries paid in fiscal 2017 reflect the additional week in that year.

(2) Awarded under the Company's cash bonus program.

(3) This represents the grant-date fair value of performance-based RSUs granted to the Named Executive Officers during fiscal 2018, 2017 and 2016, which were earned upon attainment of performance criteria and subject to additional time-based vesting. The performance criteria are described under "Compensation Discussion and Analysis – Equity Compensation." The value is calculated as the market value of the common stock on the measurement date less the present value of the expected dividends forgone during the vesting period. For a description of the assumptions used in calculating the fair value of the performance-based RSUs, see Note 1 of our financial statements in our Form 10-K for the year ended September 2, 2018. The measurement date is the date that the Compensation Committee establishes the performance conditions, near the end of the first fiscal quarter. These amounts thus do not reflect the amount of compensation actually received by the Named Executive Officer during the fiscal year.

(4) Each Named Executive Officer (among certain other employees) is eligible to participate in the Company's non-qualified deferred-compensation plan, which allows the employee to defer up to 80% of salary and 90% of bonus and to receive a Company match of up to 50% of the deferred amount, up to a maximum annual match of $5,000. The minimum deferral period is five years, and the matching credit vests ratably over five years unless the participant has attained a sum of age and years of service totaling 65, in which case the Company match vests in one year. Interest accrues on deferred amounts at the Bank of America prime rate. For contributions made after January 1, 1997, an additional 1% interest is credited upon the participant's attaining a sum of age and years of service totaling 65. The amounts reported in this column represent the interest on the officer's balance to the extent

that it is "above market" – greater than 120% of the applicable federal long-term rate.

(5) Detail is provided below in the All Other Compensation table.

FISCAL 2018 ALL OTHER COMPENSATION

Name	Deferred Compensation Match ($)	401(k) Matching Contribution ($)[1]	401(k) Discretionary Contribution ($)[1]	Executive Life Insurance ($)	Health Care Insurance Premiums ($)	Vehicle Allowance ($)	Long-Term Disability Premiums ($)[2]	Tax Gross-Up ($)[3]	Other ($)	Total Al Other Compen ($)
W. Craig Jelinek	5,000	500	24,300	6,000	37,986	18,000	9,038	6,541	431	107,796
Richard A. Galanti	5,000	500	24,300	4,220	47,213	18,000	9,326	6,737	9,308	124,604
Joseph P. Portera	5,000	500	24,300	6,000	46,797	18,000	10,101	9,261	120	120,079
Paul G. Moulton	5,000	500	24,300	6,580	36,946	18,000	8,308	6,011	60	105,705
James P. Murphy	5,000	500	24,300	5,750	48,773	18,000	8,249	5,949	120	116,641

(1) The Company has a 401(k) retirement plan that is available to all U.S. employees who have completed 90 days of employment. For all U.S. employees, with the exception of union employees, the plan allows for both pre-tax and/or after-tax (Roth) deferral, for which the Company matches 50% of the first $1,000 of employee contributions. In addition, the Company provides each eligible participant an annual discretionary contribution based on salary and years of service. The matching and discretionary contributions vest ratably until fully vested after five years of service.

(2) Long-term disability insurance is extended to all employees who are either at the level of senior vice-president and above or who are eligible to participate in the deferred compensation plan (approximately 1,000 eligible employees) and who have 20 or more years of service.

(3) Executives are compensated for their additional tax costs associated with the Company's payments on their behalf for long-term disability insurance.

The following table provides information regarding grants of performance-based RSUs during fiscal 2018.

FISCAL 2018 GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards (units)[1]	Grant-Date Fair Value of Awards ($)[2]
W. Craig Jelinek	10/22/2017	37,330	6,295,829
Richard A. Galanti	10/22/2017	18,680	3,150,444
Joseph P. Portera	10/22/2017	18,680	3,150,444
Paul G. Moulton	10/22/2017	18,680	3,150,444
James P. Murphy	10/22/2017	18,680	3,150,444

(1) The number of performance-based RSUs granted during fiscal 2018, subject to attainment of the performance criteria described under "Compensation Discussion and Analysis – Equity Compensation." After the end of fiscal 2018, the Committee determined that the performance criteria had been exceeded and the awards were earned. The earned awards vest 20% on the first anniversary of the grant date and an additional 20% vest over each of the ensuing four years, with acceleration of vesting for long service.

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

The following table sets forth information regarding outstanding stock options and unvested stock awards held at September 2, 2018.

OUTSTANDING EQUITY AWARDS AT FISCAL 2018 YEAR-END

Name	Number of Shares or Units of Stock Unvested at Fiscal Year-End[1,2]	Stock Award Grant Date	Market Value of Shares or Units of Stock Unvested at Fiscal Year-End ($)[3]
W. Craig Jelinek	2,866	10/22/2013	668,151
	5,736	10/22/2014	1,337,234
	7,258	10/22/2015	1,692,058
	10,279	10/22/2016	2,396,343
	37,330	10/22/2017	8,702,743
Richard A. Galanti	1,503	10/22/2013	350,394
	3,008	10/22/2014	701,255
	3,802	10/22/2015	886,360
	5,384	10/22/2016	1,255,172
	18,680	10/22/2017	4,354,868
Joseph P. Portera	1,503	10/22/2013	350,394
	3,008	10/22/2014	701,255
	3,802	10/22/2015	886,360
	5,384	10/22/2016	1,255,172
	18,680	10/22/2017	4,354,868
Paul G. Moulton	1,503	10/22/2013	350,394
	3,008	10/22/2014	701,255
	3,803	10/22/2015	886,593
	5,384	10/22/2016	1,255,172
	18,680	10/22/2017	4,354,868
James P. Murphy	1,506	10/22/2013	351,094
	3,009	10/22/2014	701,488
	3,802	10/22/2015	886,360
	5,384	10/22/2016	1,255,172
	18,680	10/22/2017	4,354,868

(1) Reflects adjustments for special dividends.

RSUs are granted subject to satisfaction of one-year performance conditions and vesting over four years thereafter.

(2) RSUs are also subject to accelerated vesting prior to termination for long service. RSUs with the following grant dates vest as follows:

Grant Date	Vesting
2013 - 2016	Vest 20% annually on each subsequent October 22, subject to accelerated vesting of 33%, 66% or 100% of unvested shares for those who attain 25, 30 or 35 years of service, respectively, with the residual vesting ratably over the remaining portion of the five-year vesting period.
2017	After the end of fiscal 2018, the Compensation Committee certified that the performance criteria had been exceeded and that the awards were earned. All grants are made annually on October 22. The shares above do not reflect accelerated vesting for long service as the awards were not yet released.

(3) Based on the closing market price of $233.13 on August 31, 2018.

FISCAL 2018 RESTRICTED STOCK UNITS VESTED

The following table provides information regarding restricted stock units that vested during fiscal 2018.

Name	Number of Shares Acquired on Vesting	Value Realized on Vesting ($)
W. Craig Jelinek	40,290	6,609,033
Richard A. Galanti	21,017	3,447,844
Joseph P. Portera	21,017	3,447,844
Paul G. Moulton	21,016	3,447,683
James P. Murphy	35,562	5,751,781

FISCAL 2018 NON-QUALIFIED DEFERRED COMPENSATION

The following table provides information relating to the non-qualified deferred compensation plan. See footnote 4 to the Summary Compensation Table above for additional information about the plan.

Name	Executive Contributions in Last Fiscal Year ($)[1]	Registrant Contributions in Last Fiscal Year ($)[2]	Aggregate Earnings in Last Fiscal Year ($)[3]	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year-End ($)[4]
W. Craig Jelinek	329,077	5,000	259,388	—	4,902,746
Richard A. Galanti	458,538	5,000	512,864	—	9,600,181
Joseph P. Portera	50,000	5,000	109,666	14,147	2,014,567
Paul G. Moulton	350,145	5,000	42,083	35,424	915,106
James P. Murphy	10,000	5,000	46,034	149,779	798,670

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

(2) Amounts were reported as "All Other Compensation" in the Summary Compensation Table.

(3) Amount representing interest on the Named Executive Officer's balance that is "above market" (greater than 120% of the applicable federal long-term rate) was included in "Change in Pension Value and Nonqualified Deferred Compensation Earnings" in the Summary Compensation Table.

(4) Of these amounts, the following amounts have also been reported in the Summary Compensation Table:

Name	Reported for Fiscal 2018 ($)	Previously Reported for Fiscal 2017 ($)	Previously Reported for Fiscal 2016 ($)
W. Craig Jelinek	441,965	361,965	342,227
Richard A. Galanti	676,343	587,700	514,177
Joseph P. Portera	100,348	88,790	81,549
Paul G. Moulton	373,347	288,223	152,100
James P. Murphy	33,677	41,149	27,489

Potential Payments Upon Termination or Change-in-Control

The Company does not have any change-in-control agreements with any executive officer, director, or employee. Plans under which RSUs have been granted provide that in the event of a change in control, the Board (or other authorized plan administrator) may accelerate RSU vesting.[1] The amounts shown in the following table reflect the potential value to the Named Executive Officers, as of the end of fiscal 2018, of full acceleration of all unvested RSUs upon a change in control of the Company and acceleration of unvested RSUs upon certain terminations of employment.

The amounts shown assume that a change in control or termination was effective as of the last business day of fiscal 2018 and that the price of Costco common stock on which the calculations were based was the closing price on August 31, 2018 ($233.13). They are estimates of the incremental amounts that would be received upon a change in control or termination of employment; the actual amount could be determined only at the time of any actual change in control or termination of employment. In the event of a termination other than for cause: (i) proportional vesting (measured on a quarterly basis) occurs for the time period between termination and the grant date or grant date anniversary and (ii) accelerated vesting for long service occurs based on years of service. For purposes of the foregoing, the vesting formula for long service is: 33% for 25 or more years of service; 66% for 30 or more years of service; and 100% for 35 or more years of service. RSUs also provide for accelerated vesting for long service prior to termination. There is no accelerated vesting in the event of a termination for cause.

ESTIMATED POTENTIAL INCREMENTAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Name	RSUs That May Vest Upon Change in Control[1,2,4]	Total Value of RSUs That May Vest Upon Change in Control ($)[3]	RSUs Vested Upon Termination Without Cause[2, 4]	Total Value of RSUs Vested Upon Termination Without Cause ($)[3]
W. Craig Jelinek	63,469	14,796,528	34,798	8,112,458
Richard A. Galanti	32,377	7,548,050	17,603	4,103,787
Joseph P. Portera	32,377	7,548,050	17,603	4,103,787
Paul G. Moulton	32,378	7,548,283	17,603	4,103,787
James P. Murphy	32,381	7,548,983	17,606	4,104,487

(1) Maximum number of RSUs that in the event of a change in control of the Company the Board may choose to accelerate.

(2) RSUs are granted subject to satisfaction of one-year performance conditions and vesting over four years thereafter, subject to additional vesting for long service.

(3) Total value calculated assuming a termination or change-in-control date of September 2, 2018, and utilizing the market closing price on August 31, 2018.

(4) Values assume satisfaction of the performance conditions for the October 2017 grants, which was certified in October 2018.

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

In the event that a Named Executive Officer's employment with the Company is terminated, either voluntarily or involuntarily, the officer will receive the balance of the deferred compensation account no sooner than six months following termination of employment or death. The balance of each Named Executive Officer's deferred compensation account as of the end of fiscal 2018 is set forth in the table above titled "Fiscal 2018 Non-qualified Deferred Compensation." In the event of a threatened change in control of the Company, the Compensation Committee may act to protect the participants, including accelerating vesting or terminating the plan and paying benefits to participants.

Potential Payments Under Mr. Jelinek's Employment Agreement. The Company and Mr. Jelinek entered into an employment agreement effective January 1, 2017 with a one-year term, subject to renewal for additional one-year terms upon mutual agreement. It was renewed for calendar 2018. If Mr. Jelinek's employment is terminated by the Company without cause or by Mr. Jelinek with good reason, Mr. Jelinek will receive: (i) a lump-sum cash payment equal to 1.5 times his annual base salary and target bonus; (ii) continued coverage under the Company's medical plans until age 65; and (iii) full acceleration of any unvested RSUs. The estimated amount Mr. Jelinek would have received in the event of such termination as of September 2, 2018 as cash severance is $1.5 million. The actual amount could be determined only at the time of any actual termination. Upon termination due to disability, Mr. Jelinek would receive continued medical coverage and full acceleration of any unvested RSUs as described above.

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

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

Under the terms of Mr. Jelinek's fiscal 2018 RSU award, in the event of termination of his employment for any reason other than cause, if the Compensation Committee of the Board determines that the performance goals established for the award have been met, Mr. Jelinek will receive the award, subject to the long service and quarterly vesting provisions generally applied for terminations in connection with RSU awards as described above. The table above shows the estimated incremental amounts Mr. Jelinek would receive in respect of his 2018 award in connection with a hypothetical termination of employment at December 31, 2018.

Compensation Committee Interlocks and Insider Participation

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

CEO Pay Ratio

As required by SEC rules, we are reporting the ratio of the annual total compensation of our CEO to the annual total compensation of our "median employee." The latter is an estimate calculated consistent with SEC rules, based on our payroll and employment records and the methodology described below. SEC rules allow a variety of methodologies and exclusions and permit reasonable estimates and assumptions.

Identification of the Median Employee