COSTCO WHOLESALE CORP /NEW
Form 10-K/A
October 21, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended August 28, 2016
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 ý NO o
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 o NO ý
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 ý NO o
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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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 the Form 10-K or any amendment to the Form 10-K. ý
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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO ý
The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 14, 2016 was $64,810,523,114.
The number of shares outstanding of the registrant's common stock as of October 4, 2016 was 437,126,569.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on January 26, 2017, are incorporated by reference into Part III of the Form 10-K.

EXPLANATORY NOTE

Costco Wholesale Corporation is filing this Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended August 28, 2016, originally filed with the Securities and Exchange Commission on October 11, 2016. The amendment corrects an understatement in the amount of purchase obligations (merchandise) and related totals in the table of Contractual Obligations in Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations. This error did not impact any other areas of the Form 10-K.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, we have included the entire text of Item 7 of the Form 10-K as amended by this Form 10-K/A. The required exhibits for this Form 10-K/A have also been included in Item 15 and the exhibits that were filed with the Form 10-K have been incorporated by reference from the Form 10-K.

Except as expressly set forth above, this amendment does not, and does not purport to, amend, update or restate the information in any other item of the Form 10-K or reflect any events that have occurred after the filing of the Form 10-K. Accordingly, this amendment should be read in conjunction with the Form 10-K.

PART II

Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations (amounts in millions, except per share, share, membership fee, and warehouse count data)

OVERVIEW

We believe that the most important driver of our profitability is sales growth, particularly comparable sales growth. We define comparable sales as sales from warehouses open for more than one year, including remodels, relocations and expansions, as well as online sales related to websites operating for more than one year. Comparable sales growth is achieved through increasing shopping frequency from new and existing members and the amount they spend on each visit (average ticket). Sales comparisons can also be particularly influenced by certain factors that are beyond our control: fluctuations in currency exchange rates (with respect to the consolidation of the results of our international operations); and changes in the cost of gasoline and associated competitive conditions (primarily impacting our U.S. and Canadian operations). The higher our comparable sales exclusive of these items, the more we can leverage certain of our selling, general and administrative expenses, reducing them as a percentage of sales and enhancing profitability. Generating comparable sales growth is foremost a question of making available to our members the right merchandise at the right prices, a skill that we believe we have repeatedly demonstrated over the long term. Another substantial factor in sales growth is the health of the economies in which we do business, especially the United States. Sales growth and gross margins are also impacted by our competition, which is vigorous and widespread, across a wide range of global, national and regional wholesalers and retailers. While we cannot control or reliably predict general economic health or changes in competition, we believe that we have been successful historically in adapting our business to these changes, such as through adjustments to our pricing and to our merchandise mix, including increasing the penetration of our private label items.

Our philosophy is to provide our members with quality goods and services at the most competitive prices. We do not focus in the short term on maximizing prices charged, but instead seek to maintain what we believe is a perception among our members of our “pricing authority” – consistently providing the most competitive values. Our investments in merchandise pricing can, from time to time, include reducing prices on merchandise to drive sales or meet competition and holding prices steady despite cost increases instead of passing the increases on to our members, all negatively impacting near-term gross margin as a percentage of net sales (gross margin percentage). We believe that our gasoline business draws members but it generally has a significantly lower gross margin percentage relative to our non-gasoline business. A higher penetration of gasoline sales will generally lower our gross margin percentage. Rapidly changing gasoline prices may significantly impact our near-term net sales growth. Generally, rising gasoline prices benefit net sales growth

Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations (amounts in millions, except per share, share, membership fee, and warehouse count data) (Continued)

which, given the higher sales base, negatively impacts our gross margin percentage but decreases our selling, general and administrative expenses as a percentage of net sales. A decline in gasoline prices has the inverse effect.

We also achieve sales growth by opening new warehouses. As our warehouse base grows, available and desirable potential sites become more difficult to secure, and square footage growth becomes a comparatively less substantial component of growth. The negative aspects of such growth, however, including lower initial operating profitability relative to existing warehouses and cannibalization of sales at existing warehouses when openings occur in existing markets, are increasingly less significant relative to the results of our total operations. Our rate of square footage growth is generally higher in foreign markets, due to the smaller base in those markets, and we expect that to continue. Our online business growth both domestically and internationally has also increased our sales.

Our membership format is an integral part of our business model and has a significant effect on our profitability. This format is designed to reinforce member loyalty and provide continuing fee revenue. The extent to which we achieve growth in our membership base, increase penetration of our Executive members, and sustain high renewal rates, materially influences our profitability.

Our financial performance depends heavily on our ability to control costs. While we believe that we have achieved successes in this area historically, some significant costs are partially outside our control, most particularly health care and utility expenses. With respect to expenses relating to the compensation of our employees, our philosophy is not to seek to minimize their wages and benefits. Rather, we believe that achieving our longer-term objectives of reducing employee turnover and enhancing employee satisfaction requires maintaining compensation levels that are better than the industry average for much of our workforce. This may cause us, for example, to absorb costs that other employers might seek to pass through to their workforces. Because our business is operated on very low margins, modest changes in various items in the income statement, particularly merchandise costs and selling, general and administrative expenses, can have substantial impacts on net income.

Our operating model is generally the same across our U.S., Canada, and Other International operating segments (see Note 11 to the consolidated financial statements included in Item 8 of this Report). Certain countries in the Other International segment have relatively higher rates of square footage growth, lower wages and benefit costs as a percentage of country sales, and/or less or no direct membership warehouse competition. Additionally, we operate our lower-margin gasoline business in all countries except Mexico, Korea, and Taiwan.

In discussions of our consolidated operating results, we refer to the impact of changes in foreign currencies relative to the U.S. dollar, which are references to the differences between the foreign-exchange rates we use to convert the financial results of our international operations from local currencies into U.S. dollars for financial reporting purposes. This impact of foreign-exchange rate changes is calculated based on the difference between the current period's currency exchange rates and that of the comparable prior period. The impact of changes in gasoline prices on net sales is calculated based on the difference between the current period's average price per gallon sold and that of the comparable prior period.

Our fiscal year ends on the Sunday closest to August 31. Fiscal years 2016, 2015 and 2014 were 52-week fiscal years ending on August 28, 2016, August 30, 2015 and August 31, 2014, respectively. Certain percentages presented are calculated using actual results prior to rounding. Unless otherwise noted, references to net income relate to net income attributable to Costco.

Highlights for fiscal year 2016 included:

- We opened 29 net new warehouses in 2016, 21 in the U.S., two in Canada, and six in our Other International segment, compared to 23 net new warehouses in 2015;

Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations (amounts in millions, except per share, share, membership fee, and warehouse count data) (Continued)

- Net sales increased 2% to $116,073, driven by sales at new warehouses opened in 2015 and 2016, while comparable sales were flat. Net and comparable sales results were negatively impacted by changes in most foreign currencies relative to the U.S. dollar and decreases in the price of gasoline;
- Membership fee revenue increased 4% to $2,646, primarily due to membership sign-ups at existing and new warehouses and executive membership upgrades, partially offset by the negative impact of changes in most foreign currencies relative to the U.S. dollar;
- Gross margin percentage increased 26 basis points, primarily from the impact of gasoline price deflation on net sales;
- Selling, general and administrative (SG&A) expenses as a percentage of net sales increased 33 basis points, largely driven by the impact of gasoline price deflation on net sales;
- Net income decreased 1% to $2,350, or $5.33 per diluted share compared to $2,377, or $5.37 per diluted share in 2015. The 2015 results were positively impacted by a $57 tax benefit, or $0.13 per diluted share, in connection with the special cash dividend paid to the Company's 401(k) Plan participants;
- Changes in foreign currencies relative to the U.S. dollar adversely impacted diluted earnings per share by $0.24, largely driven by changes in the Canadian dollar and Mexican peso;
- In December 2015, we paid the outstanding principal balance and associated interest on the 0.65% Senior Notes of approximately $1,204, from our cash and cash equivalents and short-term investments;
- The Board of Directors approved an increase in the quarterly cash dividend from $0.40 to $0.45 per share in April 2016; and
- In June 2016, we transitioned to our new Citibank-Visa exclusive co-branded credit card in the U.S. (described in further detail in Item 9B of this Report).

RESULTS OF OPERATIONS

Net Sales

	2016	2015	2014
Net Sales	$116,073	$113,666	$110,212
Changes in net sales:			
U.S.	3 %	5 %	7 %
Canada	(2)%	(3)%	5 %
Other International	4 %	2 %	14 %
Total Company	2 %	3 %	7 %
Changes in comparable sales:			
U.S.	1 %	3 %	5 %
Canada	(3)%	(5)%	2 %
Other International	(3)%	(3)%	3 %
Total Company	0 %	1 %	4 %
Increases in comparable sales excluding the impact of changes in foreign currency and gasoline prices:			
U.S.	3 %	6 %	5 %
Canada	8 %	8 %	9 %
Other International	4 %	6 %	4 %
Total Company	4 %	7 %	6 %

Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations (amounts in millions, except per share, share, membership fee, and warehouse count data) (Continued)

2016 vs. 2015
Net Sales
Net sales increased $2,407 or 2% during 2016. This was attributable to sales at new warehouses opened in 2015 and 2016. Comparable sales were flat. Changes in foreign currencies relative to the U.S. dollar negatively impacted net sales by approximately $2,690, or 237 basis points, compared to 2015. The negative impact was attributable to most foreign countries in which we operate, predominantly Canada of $1,646, Mexico of $550, and UK of $224. Changes in gasoline prices negatively impacted net sales by approximately $2,194, or 193 basis points, due to a 19% decrease in the average sales price per gallon.
Comparable Sales
Comparable sales were flat during 2016 and were positively impacted by an increase in shopping frequency offset by a decrease in the average ticket. The average ticket and comparable sales results were negatively impacted by changes in foreign currencies relative to the U.S. dollar and a decrease in gasoline prices. Changes in comparable sales also includes the negative impact of cannibalization (established warehouses losing sales to our newly opened locations).
2015 vs. 2014
Net Sales
Net sales increased $3,454 or 3% during 2015. This was attributable to sales at new warehouses opened in 2014 and 2015 and a 1% increase in comparable sales. Changes in foreign currencies relative to the U.S. dollar negatively impacted net sales by approximately $3,344, or 303 basis points, compared to 2014. The negative impact was attributable to all foreign countries in which we operate, predominantly Canada of $2,027, Mexico of $385, and Japan of $368. Changes in gasoline prices negatively impacted net sales by approximately $2,902, or 263 basis points, due to a 22% decrease in the average sales price per gallon.
Comparable Sales
Comparable sales increased 1% during 2015 and were positively impacted by an increase in shopping frequency partially offset by a decrease in the average ticket. The average ticket and comparable sales results were negatively impacted by changes in foreign currencies relative to the U.S. dollar and a decrease in gasoline prices. Changes in comparable sales also includes the negative impact of cannibalization.
Membership Fees

	2016		2015		2014	
Membership fees	$2,646		$2,533		$2,428	
Membership fees increase	4	%	4	%	6	%
Membership fees as a percentage of net sales	2.28	%	2.23	%	2.20	%

2016 vs. 2015
The increase in membership fees was primarily due to membership sign-ups at existing and new warehouses and increased number of upgrades to our higher-fee Executive Membership program. These increases were partially offset by changes in foreign currencies relative to the U.S. dollar, which negatively impacted membership fees by approximately $52 in 2016. At the end of 2016, our member renewal rates were 90% in the U.S. and Canada and 88% worldwide.
2015 vs. 2014
Membership fees increased 4% in 2015. This increase was primarily due to membership sign-ups at existing and new warehouses and increased number of upgrades to our higher-fee Executive Membership program.

Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations (amounts in millions, except per share, share, membership fee, and warehouse count data) (Continued)

These increases were partially offset by changes in foreign currencies relative to the U.S. dollar, which negatively impacted membership fees by approximately $76 in 2015.

Gross Margin

	2016	2015	2014
Net sales	$116,073	$113,666	$110,212
Less merchandise costs	102,901	101,065	98,458
Gross margin	$13,172	$12,601	$11,754
Gross margin percentage	11.35 %	11.09 %	10.66 %

2016 vs. 2015

The gross margin of our core merchandise categories (food and sundries, hardlines, softlines and fresh foods), when expressed as a percentage of core merchandise sales (rather than total net sales), increased 13 basis points, primarily due to increases in these categories other than fresh foods. This measure eliminates the impact of changes in sales penetration and gross margins from our warehouse ancillary and other businesses.

Total gross margin percentage increased 26 basis points compared to 2015. Excluding the impact of gasoline price deflation on net sales, gross margin as a percentage of adjusted net sales was 11.14%, an increase of five basis points. A larger LIFO benefit in 2016 compared to 2015 positively contributed three basis points. The LIFO benefit resulted largely from lower costs for merchandise inventories, primarily in food and sundries and gasoline. Our core merchandise categories positively contributed one basis point, primarily due to an increase in hardlines, partially offset by food and sundries due to a decrease in sales penetration. Warehouse ancillary and other business gross margin positively contributed one basis point, primarily due to hearing aids and e-commerce businesses, partially offset by our gasoline business. Changes in foreign currencies relative to the U.S. dollar negatively impacted gross margin by approximately $286 in 2016.

Gross margin on a segment basis, when expressed as a percentage of the segment's own sales and excluding the impact of gasoline price deflation on net sales (segment gross margin percentage), increased in our U.S. operations, predominately due to a positive contribution from our core merchandise categories, primarily hardlines and softlines, and the LIFO benefit discussed above. The segment gross margin percentage in our Canadian operations decreased, primarily due to a decrease in all core merchandise categories, except hardlines, partially offset by increases in warehouse ancillary and other businesses, primarily pharmacy and e-commerce businesses. The segment gross margin percentage in Other International operations decreased in all merchandise categories, except fresh foods, which was higher.

2015 vs. 2014

The gross margin of our core merchandise categories (food and sundries, hardlines, softlines and fresh foods), when expressed as a percentage of core merchandise sales, increased five basis points, primarily due to increases in softlines and food and sundries, partially offset by a decrease in fresh foods.

Our gross margin percentage increased 43 basis points compared to 2014 and most of the improvement was derived from the impact of gasoline price deflation on net sales. Excluding this impact, gross margin as a percentage of adjusted net sales was 10.81%, an increase of 15 basis points from the prior year. This increase was predominantly due to: an increase in our warehouse ancillary and other business gross margin of 23 basis points, due primarily to our gasoline business; partially offset by a negative contribution from core merchandise categories of 12 basis points, as a result of a decrease in their sales penetration. A LIFO benefit in 2015 compared to a charge in 2014 positively contributed five basis points. The LIFO benefit resulted largely from lower costs of gasoline. Changes in foreign currencies relative to the U.S. dollar negatively impacted gross margin by approximately $359 in 2015.

Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations (amounts in millions, except per share, share, membership fee, and warehouse count data) (Continued)

Segment gross margin percentage increased in our U.S. operations, primarily due to our gasoline business and the LIFO benefit discussed above. The segment gross margin percentage in our Canadian operations decreased across our core merchandise categories. The segment gross margin percentage in our Other International operations decreased, primarily in food and sundries.

Selling, General and Administrative Expenses

	2016	2015	2014
SG&A expenses	$12,068	$11,445	$10,899
SG&A expenses as a percentage of net sales	10.40 %	10.07 %	9.89 %

2016 vs. 2015

SG&A expenses as a percentage of net sales increased 33 basis points compared to 2015. Excluding the negative impact of gasoline price deflation on net sales, SG&A expenses as a percentage of adjusted net sales were 10.20%, an increase of 13 basis points. This was largely due to: higher central operating costs of six basis points, predominantly due to costs associated with our information systems modernization, including increased depreciation for projects placed in service, incurred by our U.S. operations; and higher stock compensation expense of four basis points, due to appreciation in the trading price of our stock at the time of grant. Our investment in modernizing our information systems is ongoing and expected to continue to negatively impact SG&A expenses. Charges for non-recurring legal and regulatory matters during 2016 negatively impacted SG&A expenses by two basis points. Our warehouse operating costs were higher by one basis point due to higher payroll and employee benefit costs, primarily health care, in our U.S. operations. This increase was partially offset by lower payroll expense as a percentage of net sales in our Canadian operations. Changes in foreign currencies relative to the U.S. dollar decreased our SG&A expenses by approximately $211 in 2016.

2015 vs. 2014

SG&A expenses as a percentage of net sales increased 18 basis points, mostly due to the negative impact of gasoline price deflation on net sales. Excluding this impact, SG&A expenses as a percentage of adjusted net sales were 9.82%, an improvement of seven basis points. This was due to lower warehouse operating costs of 16 basis points, primarily from improvements in payroll expenses in our core business as a result of leveraging increased sales. This improvement was partially offset by higher central operating costs of five basis points, predominantly due to increased depreciation and service contract costs associated with our information systems modernization projects that were placed into service during the year, primarily incurred by our U.S. operations. Higher stock compensation expense also negatively impacted our SG&A expenses by four basis points, due to an appreciation in the trading price of our stock at the time of grant. Changes in foreign currencies relative to the U.S. dollar decreased our SG&A expenses by approximately $282 in 2015.

Preopening Expenses

	2016	2015	2014
Preopening expenses	$ 78	$ 65	$ 63
Warehouse openings, including relocations			
United States	25	14	17
Canada	2	1	3
Other International	6	11	10
Total warehouse openings, including relocations	33	26	30

Preopening expenses include costs for startup operations related to new warehouses, including relocations, development in new international markets, and expansions at existing warehouses. Preopening expenses

Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations (amounts in millions, except per share, share, membership fee, and warehouse count data) (Continued)

vary due to the number of warehouse openings, the timing of the opening relative to our year-end, whether the warehouse is owned or leased, and whether the opening is in an existing, new, or international market.

Interest Expense

	2016	2015	2014
Interest expense	$133	$124	$113

Interest expense in 2016 primarily relates to Senior Notes issued by the Company (described in further detail under the heading "Cash Flows from Financing Activities" and in Note 4 to the consolidated financial statements included in Item 8 of this Report). The increase in interest expense is primarily due to the Senior Notes issued in February 2015.

Interest Income and Other, Net

	2016	2015	2014
Interest income	$ 41	$50	$ 52
Foreign-currency transaction gains, net	28	47	26
Other, net	11	7	12
Interest income and other, net	$ 80	$104	$ 90

2016 vs. 2015

The decrease in interest income in 2016 is attributable to lower average cash and investment balances, due in part to the payment of the outstanding principal balance and interest on the 0.65% Senior Notes in the second quarter of 2016 (see discussion in Item 8, Note 4 of this Report). Foreign-currency transaction gains, net include mark-to-market adjustments for forward foreign-exchange contracts and the revaluation or settlement of monetary assets and liabilities by our Canadian and Other International operations. See Derivatives and Foreign Currency sections in Item 8, Note 1 of this Report.

2015 vs. 2014

The increase in net foreign-currency transaction gains was primarily attributable to favorable mark-to-market adjustments for forward foreign exchange contracts compared to the prior year. The increase was also attributable to net gains on the revaluation or settlement of monetary assets and liabilities during the year.

Provision for Income Taxes

	2016	2015	2014
Provision for income taxes	$1,243	$1,195	$1,109
Effective tax rate	34.3 %	33.2 %	34.7 %

In 2015, our provision was favorably impacted by net tax benefits of $68, primarily due to a tax benefit recorded in connection with a special cash dividend paid to employees through our 401(K) Retirement Plan. Dividends paid on these shares are deductible for U.S. income tax purposes.

Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations (amounts in millions, except per share, share, membership fee, and warehouse count data) (Continued)

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our significant sources and uses of cash and cash equivalents:

	2016	2015	2014
Net cash provided by operating activities	$3,292	$4,285	$3,984
Net cash used in investing activities	(2,345)	(2,480)	(2,093)
Net cash used in financing activities	(2,419)	(2,324)	(786)

Our primary sources of liquidity are cash flows generated from warehouse operations, cash and cash equivalents and short-term investments. Cash and cash equivalents and short-term investments were $4,729 and $6,419 at the end of 2016 and 2015, respectively. Of these balances, approximately $1,071 and $1,243 at the end of 2016 and 2015, respectively, represented unsettled credit and debit card receivables. These receivables generally settle within one week. Cash and cash equivalents were positively impacted by changes in exchange rates by $50 in 2016 and negatively impacted by $418 and $11 in 2015 and 2014, respectively.

We have not provided for U.S. deferred taxes on cumulative undistributed earnings of certain non-U.S. consolidated subsidiaries, including the remaining undistributed earnings of our Canadian operations, because our subsidiaries have invested or will invest the undistributed earnings indefinitely, or the earnings, if repatriated would not result in an adverse tax consequence. Although we have historically asserted that certain non-U.S. undistributed earnings will be permanently reinvested, we may repatriate such earnings to the extent we can do so without an adverse tax consequence. If we determine that such earnings are no longer indefinitely reinvested, deferred taxes, to the extent required and applicable, are recorded at that time. During 2016, we repatriated the earnings in our Canadian operations that in 2015 were no longer considered indefinitely reinvested. Subsequent to the end of the fiscal year, we determined that a portion of the undistributed earnings in our Canadian operations could be repatriated without adverse tax consequences. Accordingly, we no longer consider that portion to be indefinitely reinvested.

Management believes that our cash position and operating cash flows will be sufficient to meet our liquidity and capital requirements for the foreseeable future. We believe that our U.S. current and projected asset position is sufficient to meet our U.S. liquidity requirements and have no current plans to repatriate for use in the U.S. cash and cash equivalents and short-term investments held by these non-U.S. consolidated subsidiaries whose earnings are considered indefinitely reinvested. Cash and cash equivalents and short-term investments held at these subsidiaries with earnings considered to be indefinitely reinvested totaled $1,535 at August 28, 2016.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled $3,292 in 2016, compared to $4,285 in 2015. Our cash flow provided by operations is primarily derived from net sales and membership fees. Cash flow used in operations generally consists of payments to our merchandise vendors, warehouse operating costs including payroll and employee benefits, credit and debit card processing fees, and utilities. Cash used in operations also includes payments for income taxes. The decrease in net cash provided by operating activities for 2016 when compared to 2015 was primarily due to accelerated vendor payments of approximately $1,700 made in the last week of fiscal 2016, in advance of implementing our modernized accounting system at the beginning of fiscal 2017.

Cash Flows from Investing Activities

Net cash used in investing activities totaled $2,345 in 2016 compared to $2,480 in 2015. Cash flow used in investing activities is primarily related to funding warehouse expansion and remodeling activities. Net cash flows from investing activities also included purchases and maturities of short-term investments.

Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations (amounts in millions, except per share, share, membership fee, and warehouse count data) (Continued)

Capital Expenditure Plans

We opened 29 new warehouses and relocated four warehouses in 2016 and plan to open up to 31 new warehouses and relocate up to three warehouses in 2017. Our primary requirement for capital is acquiring land, buildings, and equipment for new and remodeled warehouses. To a lesser extent, capital is required for initial warehouse operations, the modernization of our information systems, and working capital. In 2016 we spent $2,649 on capital expenditures, and it is our current intention to spend approximately $2,600 to $2,800 during fiscal 2017. These expenditures are expected to be financed with cash from operations, existing cash and cash equivalents, and short-term investments. There can be no assurance that current expectations will be realized and plans are subject to change upon further review of our capital expenditure needs.

Cash Flows from Financing Activities

Net cash used in financing activities totaled $2,419 in 2016 compared to $2,324 in 2015. The primary uses of cash in 2016 were related to the $1,200 repayment of our 0.65% Senior Notes in December 2015, dividend payments of $746, repurchases of common stock, and payment of withholding taxes on stock-based awards. Net cash used in financing activities in 2015 included a $5.00 per share special cash dividend, totaling approximately $2,201, partially offset by the issuance of $1,000 in Senior Notes.

In March 2016, our Japanese subsidiary issued approximately $103 of 0.63% Guaranteed Senior Notes through a private placement. Additionally, in June 2016, our Japanese subsidiary issued approximately $93 of zero percent Guaranteed Senior Notes through a private placement. Interest on both issuances are payable semi-annually, and principal is due in March 2026 and June 2021, respectively.

Stock Repurchase Programs

During 2016 and 2015, we repurchased 3,184,000 and 3,456,000 shares of common stock, at an average price of $149.90 and $142.87, totaling approximately $477 and $494, respectively. The remaining amount available to be purchased under our approved plan was $3,222 at the end of 2016. 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.

Dividends

Cash dividends paid in 2016 totaled $1.70 per share, as compared to $6.51 per share in 2015, which included a special cash dividend of $5.00 per share. In April 2016, our Board of Directors increased our quarterly cash dividend from $0.40 to $0.45 per share.

Bank Credit Facilities and Commercial Paper Programs

We maintain bank credit facilities for working capital and general corporate purposes. At August 28, 2016, we had borrowing capacity within these facilities of $429, of which $358 was maintained by our international operations. Of the $358, $177 is guaranteed by the Company. There were no outstanding short-term borrowings under the bank credit facilities at the end of 2016 and 2015.

The Company has letter of credit facilities, for commercial and standby letters of credit, totaling $153. The outstanding commitments under these facilities at the end of 2016 totaled $96, including $94 in standby letters of credit with expiration dates within one year. The bank credit facilities have various expiration dates, all within one year, and we generally intend to renew these facilities prior to their expiration. The amount of borrowings available at any time under our bank credit facilities is reduced by the amount of standby and commercial letters of credit then outstanding.

Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations (amounts in millions, except per share, share, membership fee, and warehouse count data) (Continued)

Contractual Obligations

As of August 28, 2016, our commitments to make future payments under contractual obligations were as follows:

	Payments Due by Fiscal Year				
Contractual obligations	2017	2018 to 2019	2020 to 2021	2022 and thereafter	Total
Purchase obligations (merchandise)[1]	$6,828	$3	$—	$ —	$6,831
Long-term debt[2]	1,221	1,392	1,845	998	5,456
Operating leases [3]	200	379	337	2,204	3,120
Construction and land obligations	700	57	—	—	757
Capital lease obligations[4]	31	61	63	593	748
Purchase obligations (equipment, services and other)[5]	458	98	61	1	618
Other[6]	18	26	11	71	126
Total	$9,456	$2,016	$2,317	$ 3,867	$17,656

(1) Includes only open merchandise purchase orders.

(2) Includes contractual interest payments and excludes deferred issuance costs.

(3) Operating lease obligations exclude amounts for common area maintenance, taxes, and insurance and have been reduced by $129 to reflect sub-lease income.

(4) Includes build-to-suit lease obligations and contractual interest payments.

(5) 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.

(6) Includes $64 in asset retirement obligations, and $62 in deferred compensation obligations. The total amount excludes $51 of non-current unrecognized tax contingencies and $29 of other obligations due to uncertainty regarding the timing of future cash payments.

Off-Balance Sheet Arrangements

In the opinion of management, 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 financial statements other than the operating leases included in the table above and discussed in Note 1 and Note 5 to the consolidated financial statements included in Item 8 of this Report.

Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP) requires that we make estimates and judgments, including those related to revenue recognition, merchandise inventory valuation, impairment of long-lived assets, insurance/self-insurance liabilities, and income taxes. We base our estimates on historical experience and on assumptions that we believe to be reasonable, and we continue to review and evaluate these statements. For further information on significant accounting policies, see discussion in Note 1 to the consolidated financial statements included in Item 8 of this Report.

Revenue Recognition

We generally recognize sales, which include shipping fees where applicable, net of returns, at the time the member takes possession of merchandise or receives services. When we collect payment from members prior to the transfer of ownership of merchandise or the performance of services, the amount is generally

Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations (amounts in millions, except per share, share, membership fee, and warehouse count data) (Continued)

recorded as deferred sales in the consolidated balance sheets until the sale or service is completed. We provide for estimated sales returns based on historical trends and reduce sales and merchandise costs accordingly. Our sales returns reserve is based on an estimate of the net realizable value of merchandise inventories to be returned. Amounts collected from members for sales and value added taxes are recorded on a net basis.

We evaluate whether it is appropriate to record the gross amount of merchandise sales and related costs or a net amount. 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 a net amount, which is reflected in net sales. We record related shipping fees on a gross basis.

We account for membership fee revenue, net of refunds, on a deferred basis, whereby revenue is recognized ratably over one year. Our Executive members qualify for a 2% reward on qualified purchases (up to a maximum reward of approximately $750 per year in the U.S. and Canada and varies in our Other International operations), which can be redeemed only at Costco warehouses. We account for this reward as a reduction in sales. The sales reduction and corresponding liability are computed after giving effect to the estimated impact of non-redemptions based on historical data.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market, as determined primarily by the retail inventory method, and are stated using the last-in, first-out (LIFO) method for substantially all U.S. merchandise inventories. Merchandise inventories for all foreign operations are primarily valued by the retail inventory method and are stated using the first-in, first-out (FIFO) method. We record an adjustment each quarter, if necessary, for the estimated effect of inflation or deflation, and these estimates are adjusted to actual results determined at year-end. We believe the LIFO method more fairly presents the results of operations by more closely matching current costs with current revenues.

We provide for estimated inventory losses (shrink) between physical inventory counts as a percentage of net sales. The provision is adjusted 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 approaches.

Impairment of Long-Lived Assets

We evaluate our long-lived assets for impairment on an annual basis, when relocating or closing a facility, or when events or changes in circumstances occur that may indicate the carrying amount of the asset group, generally an individual warehouse, may not be fully recoverable. 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 value.

Insurance/Self-Insurance Liabilities

We use a combination of insurance and self-insurance mechanisms, including for certain risks, a wholly-owned captive insurance subsidiary and participation in a reinsurance program, to provide for potential liabilities for workers’ compensation, general liability, property damage, directors’ and officers’ liability, vehicle liability, and 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.

Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations (amounts in millions, except per share, share, membership fee, and warehouse count data) (Continued)

Income Taxes

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 associated with uncertain tax positions are recorded in our consolidated financial statements only after determining a more-likely-than-not probability that the positions will withstand challenge from tax authorities. When facts and circumstances change, we reassess these positions and record any changes in the consolidated financial statements as appropriate. Additionally, our cumulative foreign undistributed earnings were considered indefinitely reinvested as of August 28, 2016. These earnings would be subject to U.S. income tax if we changed our position and could result in a U.S. deferred tax liability. Although we have historically asserted that certain non-U.S. undistributed earnings will be permanently reinvested, we may repatriate such earnings to the extent we can do so without an adverse tax consequence.

Recent Accounting Pronouncements

See Note 1 to the consolidated financial statements included in Item 8 of this Report for a detailed description of recent accounting pronouncements.

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 the Form 10-K in Item 8 of Part II.

2. Financial Statement Schedules:

All schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements, including the notes thereto.

3. Exhibits:

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

(b) Financial Statement Schedules—None.

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 20, 2016

COSTCO WHOLESALE CORPORATION
(Registrant)

By /s/ RICHARD A. GALANTI
Richard A. Galanti
Executive Vice President, Chief Financial Officer and Director

The following exhibits are filed as part of this Annual Report on Form 10-K/A or are incorporated herein by reference.

			Incorporated by Reference		
Exhibit Number	Exhibit Description	Filed Herewith	Form	Period Ending	Filing Date
3.1	Articles of Incorporation as amended of Costco Wholesale		10-Q	2/15/2015	3/11/2015
3.2	Bylaws as amended of the registrant		8-K		9/30/2016
10.1*	Costco Wholesale Executive Health Plan		10-K	9/2/2012	10/19/2012
10.1.2*	Fifth Restated 2002 Stock Incentive Plan		10-Q	2/14/2010	3/17/2010
10.1.3*	Sixth Restated 2002 Stock Incentive Plan		8-K		1/31/2012
10.1.4*	Seventh Restated 2002 Stock Incentive Plan		DEF 14A		12/19/2014
10.1.5*	Seventh Restated 2002 Stock Incentive Plan Restricted Stock Unit Award Agreement-U.S. Employee		10-Q	11/22/2015	12/17/2015
10.1.6*	Seventh Restated 2002 Stock Incentive Plan Restricted Stock Unit Award Agreement-Non-U.S. Employee		10-Q	11/22/2015	12/17/2015
10.1.7*	Seventh Restated 2002 Stock Incentive Plan Restricted Stock Unit Award Agreement-Non-Executive Director		10-Q	11/22/2015	12/17/2015
10.1.8*	Seventh Restated 2002 Stock Incentive Plan Letter Agreement for 2016 Performance-Based Restricted Stock Units-Executive		10-Q	11/22/2015	12/17/2015
10.1.9*	Executive Employment Agreement, effective August 31, 2015, as amended, between Craig Jelinek and Costco Wholesale Corporation		10-K	8/28/2016	10/11/2016
10.2*	Form of Indemnification Agreement		14A		12/13/1999
10.4*	Deferred Compensation Plan		10-K	9/1/2013	10/16/2013
10.5**	Citibank, N.A. Co-Branded Credit Card Agreement		10-Q/A	5/10/2015	8/31/2015
10.5.1**	First Amendment to Citi, N.A. Co-Branded Credit Card Agreement		10-Q	11/22/2015	12/17/2015
10.5.2**	Second Amendment to Citi, N.A. Co-Branded Credit Card Agreement		10-Q	2/14/2016	3/9/2016

Table of Contents

EXHIBIT INDEX (Continued)

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference		
			Form	Period Ending	Filing Date
10.5.3***	Third Amendment to Citi, N.A. Co-Branded Credit Card Agreement		10-K	8/28/2016	10/11/2016
10.6*	Fiscal 2016 Executive Bonus Plan		8-K		10/30/2015
21.1	Subsidiaries of the Company		10-K	8/28/2016	10/11/2016
23.1	Consent of Independent Registered Public Accounting Firm		10-K	8/28/2016	10/11/2016
31.1	Rule 13a – 14(a) Certifications	x			
32.1	Section 1350 Certifications		10-K	8/28/2016	10/11/2016
101.INS	XBRL Instance Document		10-K	8/28/2016	10/11/2016
101.SCH	XBRL Taxonomy Extension Schema Document		10-K	8/28/2016	10/11/2016
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document		10-K	8/28/2016	10/11/2016
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document		10-K	8/28/2016	10/11/2016
101.LAB	XBRL Taxonomy Extension Label Linkbase Document		10-K	8/28/2016	10/11/2016
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document		10-K	8/28/2016	10/11/2016

* Management contract, compensatory plan or arrangement.
** Portions of this exhibit have been omitted under a confidential treatment order issued by the Securities and Exchange Commission.
*** Portions of this exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission.