



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

DIVISION OF  
CORPORATION FINANCE

October 16, 2019

John Sullivan  
Costco Wholesale Corporation  
jsullivan@costco.com

Re: Costco Wholesale Corporation

Dear Mr. Sullivan:

This letter is in regard to your correspondence dated October 16, 2019 concerning the shareholder proposal (the "Proposal") submitted to Costco Wholesale Corporation (the "Company") by NorthStar Asset Management, Inc. Funded Pension Plan (the "Proponent") for inclusion in the Company's proxy materials for its upcoming annual meeting of security holders. Your letter indicates that the Proponent has withdrawn the Proposal and that the Company therefore withdraws its September 19, 2019 request for a no-action letter from the Division. Because the matter is now moot, we will have no further comment.

Copies of all of the correspondence related to this matter will be made available on our website at <http://www.sec.gov/divisions/corpfin/cf-noaction/14a-8.shtml>. For your reference, a brief discussion of the Division's informal procedures regarding shareholder proposals is also available at the same website address.

Sincerely,

Dorrie Yale  
Attorney-Advisor

cc: Mari C. Schwartzer  
NorthStar Asset Management, Inc. Funded Pension Plan  
mschwartz@northstarasset.com



October 16, 2019

**VIA EMAIL**

Office of Chief Counsel  
Division of Corporation Finance  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Email Address: *shareholderproposals@sec.gov*

**Re: Withdrawal of No-Action Request Dated September 19, 2019 Relating to  
Shareholder Proposal Submitted by NorthStar Asset Management, Inc. Funded  
Pension Plan -- Rule 14a-8**

Ladies and Gentlemen:

In a letter dated September 19, 2019 (the "*No-Action Request*"), Costco Wholesale Corporation ("*Costco*") requested that the staff of the Division of Corporation Finance (the "*Staff*") of the Securities and Exchange Commission concur that a shareholder proposal (the "*Proposal*") and statements in support thereof submitted to Costco by NorthStar Asset Management, Inc. Funded Pension Plan (the "*Proponent*") may be omitted from Costco's proxy materials for its 2020 annual meeting of shareholders.

Costco and the Proponent have reached agreement on the Proponent's withdrawal of the Proposal, and Costco is hereby withdrawing the request for a no-action letter.

If you have any questions concerning any aspect of this matter or require any additional information, please feel free to contact me at (425) 427-7577. Please email a response to this letter to *jsullivan@costco.com*.

Sincerely,

A handwritten signature in black ink, appearing to read "John Sullivan", written in a cursive style.

John Sullivan  
Senior Vice President, General Counsel and  
Secretary

cc: NorthStar Asset Management, Inc.



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September 19, 2019

**VIA EMAIL**

Office of Chief Counsel  
Division of Corporation Finance  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Email Address: *shareholderproposals@sec.gov*

**Re: Shareholder Proposal Submitted by the NorthStar Asset Management, Inc. Funded Pension Plan Pursuant to Rule 14a-8**

Ladies and Gentlemen:

Pursuant to Rule 14a-8(j) under the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), Costco Wholesale Corporation, a Washington corporation (“*Costco*”), is writing to notify the Securities and Exchange Commission (the “*Commission*”) of Costco’s intention to exclude from its proxy materials (the “*Proxy Materials*”) for its 2020 annual meeting of shareholders (the “*Annual Meeting*”) a shareholder proposal (the “*Proposal*”) and statements in support thereof submitted to Costco by the NorthStar Asset Management, Inc. Funded Pension Plan (the “*Proponent*”) by letter dated August 8, 2019.

Pursuant to Rule 14a-8(j), Costco has submitted this letter to the Commission no later than eighty (80) calendar days before Costco intends to file its definitive 2020 Proxy Materials with the Commission and concurrently sent copies of this correspondence to the Proponent.

Rule 14a-8(k) and SEC Staff Legal Bulletin No. 14D (Nov. 7, 2008) (“*SLB 14D*”), provide that shareholder proponents are required to send companies a copy of any correspondence that the proponents elect to submit to the Commission or the staff of the Division of Corporation Finance (the “*Staff*”). Accordingly, Costco is taking this opportunity to inform the Proponent that if the Proponent elects to submit additional correspondence to the Commission or the Staff with respect to the Proposal, a copy of that correspondence should be furnished concurrently to Costco pursuant to Rule 14a-8(k) and SLB 14D.

Costco currently intends to file its definitive 2020 Proxy Materials with the Commission on or about December 10, 2019.

## THE PROPOSAL

The Proposal sets forth the following resolution to be voted on by shareholders at the Annual Meeting:

“RESOLVED: Shareholders of Costco urge the Board of Directors to produce an annual report to shareholders, at reasonable cost and omitting proprietary information, assessing the risks associated with potential supplier noncompliance with the company’s Global Policy on Prison Labor.”

A copy of the Proposal, as well as related correspondence with the Proponent, is attached to this letter as Exhibit A.

## BASIS FOR EXCLUSION

Costco hereby respectfully requests that the Staff concur in Costco’s view that it may exclude the Proposal from the 2020 Proxy Materials pursuant to Rule 14-8(i)(10) because Costco has substantially implemented the Proposal.

## ANALYSIS

### **The Proposal May Be Excluded Under Rule 14a-8(i)(10) Because It Has Been Substantially Implemented.**

#### *A. Rule 14a-8(i)(10) Background*

Rule 14a-8(i)(10) permits a company to exclude a shareholder proposal from its proxy materials if the company has already “substantially implemented” the proposal. The Staff has stated that the purpose of the predecessor provision to Rule 14a-8(i)(10) was “to avoid the possibility of shareholders having to consider matters which already have been favorably acted upon by the management.” *Exchange Act Release No. 12598* (July 7, 1976). The Commission later stated that a formalistic application of the rule requiring full implementation “defeated [the rule’s] purpose,” and then adopted a revised interpretation of the rule to permit the omission of proposals that had been “substantially implemented.” *Exchange Act Release No. 20091* (Aug. 16, 1983) and *Exchange Act Release No. 40018*, at n.30 (May 21, 1998) (emphasis added).

A “determination that the company has substantially implemented the proposal depends upon whether [the company’s] particular policies, practices and procedures compare favorably with the guidelines of the proposal.” *Texaco, Inc.* (Mar. 28, 1991). When a company has satisfied the proposal’s underlying concerns and essential objectives, the proposal has been “substantially implemented” and may be excluded under Rule 14a-8(i)(10). *NETGEAR, Inc.* (Mar. 31, 2015); *Pfizer Inc.* (Jan. 11, 2013, *recon. denied* Mar. 1, 2013); *Exelon Corporation* (Feb. 26, 2010); *Hewlett-Packard Company* (Dec. 11, 2007).

*B. Costco Has Already Addressed the Proponent’s Underlying Concerns and Essential Objective*

Based upon the Proponent’s supporting statement (the “**Supporting Statement**”) and the language of the Proposal, Costco interprets the Proponent’s “underlying concern” to be “risks associated with potential supplier noncompliance with the company’s Global Policy on Prison Labor.” The Proposal’s “essential objective” is to have Costco provide an annual report that assesses supplier compliance with its Global Policy on Prison Labor (the “**Global Policy**”)<sup>1</sup> and an evaluation of the risks related to noncompliance. Costco has addressed the Proposal’s underlying concerns and essential objective by providing Costco’s Statement on Prison Labor (the “**Statement on Prison Labor**”), which is attached to this letter as Exhibit B and publicly available at <http://investor.costco.com/corporate-governance/highlights>. The Supporting Statement goes on to recommend that such report should include quantitative metrics on the supplier audits completed and an evaluation of certain risks that Costco faces in the event of noncompliance, but ultimately leaves the content of the report to “the board and management’s discretion.” The Statement on Prison Labor not only substantially implements the Proposal by addressing the Proposal’s underlying concerns and essential objective, it also covers the information the Supporting Statement recommends being included by disclosing quantitative metrics related to supplier compliance with the Global Policy and detailing how Costco assesses specific risks related to supplier noncompliance.

The table below succinctly demonstrates both that the Statement on Prison Labor is responsive to the Proposal’s underlying concerns and essential objective and, even though not required for the Proposal to be substantially implemented, that it addresses each of the recommended points in Supporting Statement.

<u><b>Proposal Recommendations</b></u>	<u><b>Select Excerpts from the Statement on Prison Labor Responsive to the Proposal</b></u>
Quantitative metrics regarding:	
(a) “the number of supplier audits completed by the Company or third party auditors that evaluated whether prison labor is present in the supply chain”	<p>Through a survey of suppliers in industries that Costco deemed more prone to the legal use of prison labor in 2017, “it was revealed that approximately eleven facilities, in the agriculture sector, had a prison labor program.”</p> <p>For fiscal year 2019, Costco reported that it is aware of “nine facilities with legal prison labor that remain in [Costco’s] supply chain.”</p>

<sup>1</sup> The Global Policy is available online as Exhibit A to the Supplier Code of Conduct at: <http://investor.costco.com/corporate-governance/highlights>

	<p>In addition, Costco disclosed that it conducts, through third parties, social audits on over four thousand locations annually, which include assessment of any prison labor.</p>
<p>(b) “the portion of such audits that assessed compliance with the company’s Global Policy on Prison Labor and summarizing the levels of noncompliance detected”</p>	<p>Of the eleven facilities that had a prison labor program in 2017, “nine were or came into compliance with [the Global Policy], and the remainder were removed from [Costco’s] supply chain.”</p> <p>In 2019, of the nine facilities with legal prison labor, “eight of these facilities were found to be in compliance with [the Global Policy]; one is taking corrective action to increase wages by a small amount.”</p> <p>“Thus far, [Costco has] not experienced a situation where potential noncompliance with [the Global Policy] has surfaced other than through [Costco]’s monitoring process. If such a situation were to occur, [Costco] would take corrective action and require compliance by the supplier or terminate the relationship.”</p> <p>Historically, when there have been public reports of supplier noncompliance with Costco’s labor standards (not involving prison labor), “the Company has taken corrective action and has not in its judgment experienced material adverse effects.”</p>
<p>(c) “Evaluate any risks to finances, operations, and reputation related to prison labor in the Costco supply chain including from undetected uses of noncompliant prison labor in the supply chain.</p>	<p>“[Costco] believe[s] [its] compliance program and corrective action, as well as the likely immaterial nature of any infraction discovered in light of the multitude of supplier relationships the Company has, would render insubstantial any reputational harm associated with the temporary non-compliance.”</p> <p>Costco believes that the risk of significant supplier non-compliance with the Global Policy is “extremely low” and gives the following reasons Costco considered to support that</p>

	<p>conclusion:</p> <p>“(1) the Company has broadly educated the supplier community concerning the policy, and the risk of supplier termination for non-compliance represents a substantial incentive to adhere to the policy;</p> <p>(2) the Company, through third parties, conducts social audits on over four thousand locations annually, and those audits include assessment of any prison labor; while [Costco’s] risk-based approach to audits recognizes that practical limits of the ability to audit a substantial portion of the supplier base each year, every supplier knows that it is subject to audit;</p> <p>(3) [Costco’s] buyers visit numerous suppliers annually, with attention to (among other things) compliance with [Costco’s] Supplier Code of Conduct;</p> <p>(4) since [Costco] enhanced [its] focus on lawful prison labor in 2016, the incidence of lawful prison labor detected has been trivial, with most of those instances involving reputable U.S. consumer products suppliers that maintain their own substantial compliance regimes; no instances of unlawful prison labor have been found;</p> <p>(5) [Costco] require[s] all suppliers whose merchandise [Costco] import[s] into the United States to disclose in advance whether prisoner, forced, or child labor have been used and if so no importation occurs until further investigation and appropriate action has occurred; and</p> <p>(6) [Costco] maintains a confidential reporting hotline, available globally through the web and/or telephonically, to receive reports about violations of [Costco’s] policies; no such report has concerned prison labor.”</p>
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The Statement on Prison Labor conveys Costco's commitment to supplier compliance with the Global Policy, describes the measures Costco takes to ensure such compliance and details a thoughtful analysis of the risks associated with noncompliance. The level of detail in the Statement on Prison Labor compares favorably with the Proposal given that the Proposal requests a report on supplier compliance audits and an evaluation of risks associated with noncompliance. The Statement on Prison Labor also includes details on each of the recommended, but not required, pieces of information outlined in the Supporting Statement. Costco specifically discloses the number of audits it has undertaken, the findings of those audits and even describes its actions and policies with respect to suppliers that were found to be noncompliant. The Statement on Prison Labor goes on to summarize the risks Costco believes are associated with noncompliance and provides a detailed list of the factors Costco considers when evaluating such risks.

Although the Statement on Prison Labor does address each of the primary points identified in the Proposal, the Commission has historically found that proposals requesting reports from a company may be substantially implemented even when implementation is not identical to the guidelines set forth in the proposal. The proposal in *Exelon Corp.* (Feb. 26, 2010) called for a report on different aspects of the company's political contributions. The Commission concurred with exclusion of the proposal under Rule 14a-8(i)(10) because the company had already adopted its own set of political contribution guidelines and issued a report that provided a current summary of the company's policies and procedures with respect to political contributions. Similarly, the Commission concurred with exclusion under Rule 14a-8(i)(10) in *The Boeing Co.* (Feb. 17, 2011) where the proposal requested that the company "review its policies related to human rights" and report its findings, and the company had already adopted human rights policies and provided an annual report on corporate citizenship. In *Merck & Co., Inc.* (Mar. 14, 2012), exclusion was permitted on the same grounds where the proposal requested a report on the safe and humane treatment of animals because the company had already provided information on its website and additional information was publicly available through disclosures made to governmental authorities. *See also Entergy Corp.* (Feb. 14, 2014) (concurring with the exclusion under Rule 14a-8(i)(10) of a proposal calling for a report "on policies the company could adopt to take additional near-term actions to reduce its greenhouse gas emissions" where the company had already provided an "animal welfare policy committing the company to use alternatives to animal testing"); *The Dow Chemical Co.* (Mar. 5, 2008) (concurring with the exclusion under Rule 14a-8(i)(10) of a proposal requesting a "global warming report" evaluating how the company's efforts to diminish the effects of climate change may have affected the global climate when the company had already made statements about its efforts related to climate change in various disclosures).

Similar to the examples identified above, Costco's existing Statement on Prison Labor addresses the essential objective of the Proposal for Costco to issue a report evaluating supplier compliance with the Global Policy. As described above, and as requested by the Proposal, the Statement on Prison Labor provides quantitative metrics on the supplier audits completed and an evaluation of



the risks associated with noncompliance. Accordingly, Costco's existing disclosures already implement the Proposal and the Proposal therefore may be excluded from the Proxy Materials pursuant to 14a-8(i)(10).

### CONCLUSION

Based on the foregoing facts and analysis, Costco respectfully requests that the Staff confirm that it will not recommend to the Commission that enforcement action be taken against Costco if it excludes the Proposal from its Proxy Materials.

If you have any questions concerning any aspect of this matter or require any additional information, please feel free to contact me at (425) 427-7577. Please email a response to this letter to [jsullivan@costco.com](mailto:jsullivan@costco.com).

Sincerely,

A handwritten signature in black ink that reads "John Sullivan". The signature is written in a cursive, slightly stylized font.

John Sullivan  
Senior Vice President, General Counsel and  
Secretary

Enclosures

cc: NorthStar Asset Management, Inc. Funded Pension Plan

**Exhibit A**

**Proposal and Related Correspondence**

August 8, 2019

John Sullivan  
Secretary  
Costco Wholesale Corporation  
999 Lake Drive  
Issaquah, WA 98027  
Via email (jsullivan@costco.com) and USPS Express Mail

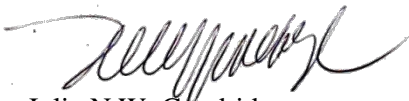
Dear Mr. Sullivan:

In the United States, over 2.2 million individuals are incarcerated; the vast majority of which are employed during incarceration. Many incarcerated people work for outside for-profit corporations, and some of those inmates may be doing work that appears in our company's supply chain. While we acknowledge Costco's new policy on prison labor, we are concerned about the potential risks to our company posed by a lack of adherence to this policy by our suppliers. Therefore as the beneficial owner, as defined under Rule 13(d)-3 of the General Rules and Regulations under the Securities Act of 1934, of more than \$2,000 worth of shares of Costco common stock held for more than one year, the NorthStar Asset Management Funded Pension Plan is submitting for inclusion in the next proxy statement, in accordance with Rule 14a-8 of the General Rules, the enclosed shareholder proposal. The proposal requests that the company produce a report regarding information known to the company regarding supplier compliance with the company's Global Policy on Prison Labor.

As required by Rule 14a-8, the NorthStar Asset Management, Inc Funded Pension Plan has held these shares for more than one year and will continue to hold the requisite number of shares through the date of the next stockholders' annual meeting. Proof of ownership will be provided within 15 business days. I or my appointed representative will be present at the annual meeting to introduce the proposal.

A commitment from Costco to create the requested report will allow this resolution to be withdrawn. We believe that this proposal is in the best interest of our Company and its shareholders.

Sincerely,



Julie N.W. Goodridge  
President and CEO  
Trustee, NorthStar Asset Management, Inc. Funded Pension Plan

Encl.: shareholder resolution

## Report on Prison Labor in the Supply Chain

**WHEREAS:** The use of services derived from or sale of goods produced through prison labor can pose financial and operational risks including supply chain disruption, litigation, and reputational damage;

Prison labor (both voluntary and involuntary) often involves mistreatment and is frequently compared to modern slavery. Although companies benefit from low overhead expenses when incarcerated people work for the company or its suppliers, companies have experienced public backlash, boycotts, and long-term brand name and reputation harm from a connection to prison labor;

Incarcerated individuals produce a variety of products such as produce, meats and eggs, furniture, circuit boards, packaging materials, electronic equipment, and providing services such as call center or shipping services. U.S. prisoners may be paid as little as \$0.23-\$1.15 per hour for work that sometimes occurs in unsafe or unhealthy conditions, and in some prison industries inmates may be coerced into working by threat of punishment for declining work;

After shareholder engagement in 2017-2018, Costco adopted a Global Policy on Prison Labor which lays out minimum requirements for purchasing products made by prison labor, including payment of wages on par with non-incarcerated persons in the same geographic area, and states that “[t]hird-party audits must be able to verify compliance with the above requirements.” The Company then disclosed limited information in its 2019 proxy statement about several identified connections to prison labor. However, to the proponent's knowledge, there is no requirement for routine verification that suppliers using prison labor are adhering to this company policy;

Careful review of our supply chain for adherence to our company's Global Policy on Prison Labor would help ensure that Costco suppliers are consistent with Company policies and minimize risks to Costco's reputation and shareholder value.

**RESOLVED:** Shareholders of Costco urge the Board of Directors to produce an annual report to shareholders, at reasonable cost and omitting proprietary information, assessing the risks associated with potential supplier noncompliance with the company's Global Policy on Prison Labor.

**SUPPORTING STATEMENT:** Shareholders recommend that the report, at the board and management's discretion:

- Provide annual quantitative metrics regarding the number of supplier audits completed by the Company or third party auditors that evaluated whether prison labor is present in the supply chain, the portion of such audits that assessed compliance with the company's Global Policy on Prison Labor, and summarizing levels of noncompliance detected;
- Evaluate any risks to finances, operations, and reputation related to prison labor in the Costco supply chain including from undetected uses of noncompliant prison labor in the supply chain.

# NORTHSTAR

## ASSET MANAGEMENT

Progressive Wealth  
Management Since 1990

August 12, 2019

John Sullivan  
Secretary  
Costco Wholesale Corporation  
999 Lake Drive  
Issaquah, WA 98027  
Via email (jsullivan@costco.com) and USPS Express Mail



Dear Mr. Sullivan:

This letter is regarding the shareholder proposal filed for the next proxy statement by the NorthStar Asset Management Funded Pension Plan. Enclosed, please find a letter from our brokerage, Morgan Stanley Wealth Management (a DTC participant), verifying that the NorthStar Funded Pension Plan has held the requisite amount of common stock in Costco Wholesale Corporation for more than one year prior to filing the shareholder proposal. As previously stated, we intend to continue to hold these shares through the next shareholder meeting.

Please note that we are submitting this proof of ownership on a timely basis consistent with Rule 14a-8. In the event that you find any defect in this documentation, we request that you notify us promptly of any concerns or deficiencies.

Should you need anything further, do not hesitate to contact me at mschwartz@northstarasset.com. Thank you in advance for your attention to this matter.

Sincerely,

Mari C. Schwartz  
Director of Shareholder Activism and Engagement

Encl.: proof of ownership

Wealth Management  
35 Village Road, Suite 601  
Middleton, MA 01949  
direct 978 739 9600  
fax 978 739 9650  
toll free 800 730 3326

## Morgan Stanley

August 12, 2019

John Sullivan  
Secretary  
Costco Wholesale Corporation  
999 Lake Drive  
Issaquah, WA 98027

Dear Mr. Sullivan:

Morgan Stanley Wealth Management, a DTC participant, acts as the custodian for the NorthStar Asset Management, Inc. Funded Pension Plan. On August 8, 2019, the NorthStar Asset Management, Inc. Funded Pension Plan held 413 shares of Costco Wholesale Corporation common stock valued at \$113,492.40. Morgan Stanley Wealth Management has continuously held those shares valued on behalf of the NorthStar Asset Management Funded Pension Plan since August 8, 2018.

We are presenting the information contained herein pursuant to our Client's request. It is valid as of the date of issuance. Morgan Stanley does not warrant or guarantee that such identified securities, assets or monies will remain in the Client's Account(s). The Client has the ability to withdraw assets from the Account(s) at any time.

Sincerely,



Stephen A. Calderara CFP®  
Family Wealth Advisor  
Financial Advisor  
Morgan Stanley Wealth Management  
NMLS # 1401593

Investments and Services are offered through Morgan Stanley Smith Barney LLC & accounts carried by Morgan Stanley & Co. Incorporated. Member SIPC

The information contained herein is based upon data obtained from sources believed to be reliable. However, such data is not guaranteed as to its accuracy or completeness and is for informational purposes only. Clients should refer to their confirmations and statements for tax purposes as the official record for their account.

THE ABOVE SUMMARY/QUOTE/STATISTICS CONTAINED HEREIN HAVE BEEN OBTAINED FROM SOURCES BELIEVED RELIABLE BUT ARE NOT NECESSARILY COMPLETE AND CANNOT BE GUARANTEED. ERRORS AND OMISSIONS EXCEPTED.

**Exhibit B**

**Statement on Prison Labor**

COSTCO WHOLESALE CORP.  
STATEMENT ON PRISON LABOR  
2019

Costco Wholesale allows suppliers to use legal prison labor, to support rehabilitation and restitution, under limited conditions and has communicated in writing our Global Policy on Prison Labor to all suppliers and continues to do so in various formats. (A copy of the policy is attached.) We also ask suppliers to identify any use of prison labor in their facilities during the audit scheduling and audit process itself. All identified facilities with legal prison labor are audited annually.

In 2017, we surveyed suppliers in industries and areas that we deemed more prone to the legal use of prison labor. Through these efforts, it was revealed that approximately eleven facilities, in the agriculture sector, had a prison labor program, with the majority being in the U.S. These facilities were audited and nine were or came in compliance with our policy, and the remainder were removed from our supply chain. For fiscal year 2019, we are aware of nine facilities with legal prison labor that remain in our supply chain. Eight of these facilities were found to be in compliance with our policy; one is taking corrective action to increase wages by a small amount to be compliant.

Thus far, we have not experienced a situation where potential non-compliance with our policy has surfaced other than through our monitoring processes. If such a situation were to occur, we would take corrective action and require compliance by the supplier or terminate the relationship. We believe that our compliance program and corrective action, as well as the likely immaterial nature of any infraction discovered in light of the multitude of supplier relationships the Company has, would render insubstantial any reputational harm associated with that temporary non-compliance. From time to time historically there have been public reports of entities in Costco's supply chain being out of compliance with labor standards (not involving prison labor); the Company has taken corrective action and has not in its judgment experienced material adverse effects.

Because of the number of suppliers the Company has and their geographic dispersion, it is simply not practical to confirm on an ongoing basis that all suppliers are in compliance with all aspects of our Supplier Code of Conduct, vendor agreements, and other policies. Accordingly, the Company takes a risk-based approach with respect to targeting audits and otherwise seeking to confirm compliance.



With particular regard to our policy on prison labor, we believe that the risk of significant non-compliance is extremely low, for a variety of reasons: (1) the Company has broadly educated the supplier community concerning the policy, and the risk of supplier termination for non-compliance represents a substantial incentive to adhere to the policy; (2) the Company, through third parties, conducts social audits on over four thousand locations annually, and those audits include assessment of any prison labor; while our risk-based approach to audits recognizes that practical limits of the ability to audit a substantial portion of the supplier base each year, every supplier knows that it is subject to audit; (3) our buyers visit numerous suppliers annually, with attention to (among other things) compliance with our Supplier Code of Conduct; (4) since we enhanced our focus on lawful prison labor in 2016, the incidence of lawful prison labor detected has been trivial, with most of those instances involving reputable U.S. consumer products suppliers that maintain their own substantial compliance regimes; no instances of unlawful prison labor have been found; (5) we require all suppliers whose merchandise we import into the United States to disclose in advance whether prisoner, forced, or child labor have been used and if so no importation occurs until further investigation and appropriate action has occurred; and (5) we maintain a confidential reporting hotline, available globally through the web and/or telephonically, to receive reports about violations of our policies; no such report has concerned prison labor.

## COSTCO WHOLESALE GLOBAL POLICY ON PRISON LABOR

Costco allows suppliers to use legal prison labor, to support rehabilitation and restitution, under the following conditions:

MERCHANDISE PRODUCED FOR DOMESTIC USE 1. The use of prison or convict labor must be in compliance with the laws where the merchandise is manufactured or processed. 2. Prison or convict labor means work performed by incarcerated persons at public or private correctional facilities, off-site public or private work facilities or under work-release programs. 3. Costco Wholesale's Code of Conduct requirements apply in full to all persons regardless of their status. 4. The person voluntarily consents to work under the terms and conditions offered, including compensation. 5. The person's gross wage paid shall be the same wage as a non-incarcerated person for the same type of work in the same geographic area. Any deductions from gross wages, whether by the employer or the facility, must be no more than allowed by law. 6. Third-party audits must be able to verify compliance with the above requirements. 7. Assuming that the requirements of 1-6 above are met, the products may be purchased for sale in the country where the product is manufactured or processed.

MERCHANDISE PRODUCED FOR EXPORT 8. If the merchandise is to be exported into a country other than where manufactured or processed: (a) the laws of the exporting country must allow its export; (b) the laws of the importing country must permit importation; and (c) the labor must meet the requirements of 1-6 above. 8.1 Costco U.S. and Costco Canada cannot import any merchandise made with prison or convict labor, even if legal in the country of production. 9. No country may sell products made in China with prison labor.

Revised May 2018

<https://www.costco.com/wcsstore/CostcoUSBCatalogAssetStore/Attachment/Global-Prison-Labor-Policy.pdf>