

RESOLVED, that shareholders request that Costco disclose what risks may endanger the Company and its investors as a result of animal abuse issues within its grocery division's supply chain. The disclosure should be made within six months after the 2016 annual meeting, at reasonable cost, and omit proprietary information.

SUPPORTING STATEMENT:

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A 2015 Food Marketing Institute report concluded that among social issues, "shoppers prioritize animal welfare second only to employment practices" and, "Animal welfare must now therefore be considered as a shopper value that retailers need to manage towards, as it rivals and surpasses several environmental [issues]."

Indeed, animal abuse can impact companies. For example, SeaWorld's stock price plummeted nearly 60% in the 17 months following a film's release alleging animal abuse, and a cattle company incurred a \$155 million judgment stemming from abuse.

Costco too has been embroiled in scandals. Most recently, a company egg supplier was caught locking chickens inside cages with the mummified corpses of dead birds—and Costco was caught selling those eggs in packages depicting free-range hens.

ABC's Nightline aired an investigative report. Reuters, The Associated Press, *TIME*, The *New York Times*, and others covered it. U.S. Senator Richard Blumenthal—ranking member of the Senate Commerce Subcommittee on Consumer Protection—investigated. "Captured in video are birds locked in cages with the corpses of other birds, confined so tightly they are unable to spread their wings," wrote Blumenthal in an inquiry to Costco's CEO. "Costco nonetheless sells those eggs in cartons emblazoned with an image of free-roaming hens..."

This is just one of several examples from recent years in which Costco has been publicly implicated in animal abuse scandals.

Clearly, Costco isn't appropriately mitigating animal abuse problems—and it lacks disclosure around how that endangers investors. For example, of every published Costco Corporate Sustainability Report, not one even mentions the issue, despite third-party evidence about its material relevance. In addition to the 2015 FMI report:

- "In the case of animal welfare," reports the World Bank's International Finance Corporation, "failure to keep pace...could put companies and their investors at a competitive disadvantage."
- Notes the Associated Press, about Walmart's animal welfare program: "Wal-Mart said its own research showed 77 percent of its shoppers said they will increase their trust and 66 percent will increase their likelihood to shop at a retailer that improves the treatment of livestock."
- Citigroup concludes that "headline risks" endangering food companies include "concerns over animal cruelty."
- Institutional Shareholder Services has supported similar proposals. And reports Glass Lewis: a company "should consider its exposure to regulatory, legal and reputational risk due to its animal welfare policies and practices."

CONCLUSION:

With Costco having been embroiled in national scandals related to animal abuse, it seems the company may lack appropriate risk mitigation measures regarding that issue—while failing to disclose to investors how those risks may endanger them. As such, shareholders are urged to vote **FOR** this proposal, which simply seeks disclosure around risks associated with this significant social and business concern.