

ANNUAL REPORT

HYLETE, Inc.

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www.hylete.com

HYLETE

HYLETE, Inc., having offered and sold shares of its Class B Non-Voting Common Stock pursuant to Regulation Crowdfunding under the Securities Act of 1933, is filing this annual report pursuant to Rule 202 of Regulation Crowdfunding for the fiscal year ended December 31, 2016. A copy of this report may be found on the company's website at www.hylete.com/invest.

FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this report that are subject to risks and uncertainties. These forward-looking statements include statements regarding future prospects, profitability, liquidity, market risk, values and financial and other projections. The words “believes,” “expects,” “may,” “will,” “should,” “projects,” “contemplates,” “anticipates,” “forecasts,” “intends” or other similar words or terms are intended to identify forward looking statements.

These forward looking statements are subject to significant uncertainties because they are based upon or are affected by factors disclosed in this Annual Report, including, without limitation, those set forth in the “Risk Factors” section of this Annual Report as well as changes in current risks, management’s assumptions regarding competitive factors, general economic conditions, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices and one-time events.

Because of these uncertainties, the Company’s actual future results may be materially different from the results indicated by these forward-looking statements. We undertake no obligation to update or otherwise revise any forward looking statements, whether as a result of new information, future events or otherwise, and such statements should not be considered representations or warranties by us.

THE COMPANY AND ITS BUSINESS

The company's business

HYLETE, Inc. is engaged in the design, development, manufacturing and distribution of premium performance apparel and gear. We are a brand focused on people living a fitness-based lifestyle, and we constantly strive to push the limits of what we can do to strengthen and support the fitness community. We are a California corporation, formed on January 13, 2015, and our address is 560 Stevens Avenue, Solana Beach, CA 92075. Our website is www.hylete.com.

Our apparel products include a full line of apparel and accessories for men and women, including items such as shorts, pants, tops and jackets designed for fitness and other athletic pursuits. We also produce gear that includes a growing bag and backpack line, socks and other accessories, and we have plans to launch footwear in the next 12-18 months. Our product team designs products with proprietary fabrics and/or innovative features that we believe differentiate us from the competition.

We utilize a community-based approach to building awareness of our brand. We currently have over 10,000 passionate ambassadors and a strong social media presence. We also work with charities and other strategic partners to support the community and acquire new customers. Our products are sold direct to consumer through our website (www.hylete.com). Approximately 10% of our revenue is derived from other channels, such as 3rd party ecommerce sites and international distributors.

Our brand is widely known within the CrossFit community, due in large part to our focus on functional fitness. Over the past several years, functional fitness has become much more predominant and our customer base has become much more diverse. In the future, we believe our brand will continue to evolve and become more widely known within the broader sports and fitness markets.

We compete with other major athletic apparel brands such as Nike and Lululemon. Since we sell our products almost exclusively on www.hylete.com, we have no retail channel conflict and are able to offer our customers high quality apparel for much lower prices than our competing brands. This, coupled with our community based marketing approach, are our primary competitive advantages.

We source our products from suppliers located in the United States, Asia and other countries. The products are shipped to our third party logistics partner, which handles all of our warehousing and fulfillment operations. Our customers place an order on www.hylete.com and it is shipped directly to the customer from our third party warehouse.

We currently hold a trademark on the name HYLETE in the United States, Canada and in other countries where our products will be either sold or manufactured. We also hold a patent on our waist tightening system and have two patents pending. Our trademark application for our current HYLETE icon has been opposed and is currently under appeal with the Trademark Trial and Appeal Board. Currently, we have 17 employees.

THE TEAM

Officers and directors

Ronald Wilson	Cofounder, CEO/President and Director
Matthew Paulson	Cofounder and Director
Garrett Potter	CFO and Secretary
James Caccavo	Director
Kevin Park	Director
Courtney Reum	Director

Ronald Wilson, CEO

Ron is one of the cofounders of HYLETE and has been our CEO since 2012. He was also the founder of Jaco Clothing, Kelysus, and 180s, which grew to over \$50 million in sales and achieved a ranking of #9 on Inc Magazine's 500 fastest growing companies. Ron is a former Ernst & Young Entrepreneur of the Year National Finalist and an SFIA "Top 25 Leaders in Sporting Goods". He holds a BS in Industrial and Systems Engineering from Virginia Tech and an MBA from The Wharton School.

Matthew Paulson, Chief Integration Officer

Matt is one of the cofounders of HYLETE and has served as our Chief Integration Officer since 2012. Earlier in his career, he also cofounded Xtreme Sponge, a cleaning supply company. Prior to HYLETE, Matt worked as the Director of Sales and Marketing for Jaco Clothing. He holds a BS from the Marriott School of Management, BYU, and an MBA from San Diego State University.

Garrett Potter, CFO

Garrett has served as our Chief Financial Officer since 2014. Prior to joining HYLETE, Garrett was a Managing Director for Steelpoint Capital, a private equity fund focused on growing consumer brands, since 2009. While there he served on the Board of Directors of prAna, a successful yoga apparel company, and currently serves on the Board of Directors of SKLZ, a sports equipment manufacturer. He holds a BS in Finance and a MS in Accounting, both from San Diego State University.

Peter Dirksing, VP Product

Pete joined the company in 2014 as our Vice President of Product. Prior to joining HYLETE, Pete was the Director of Product Management at X-1 Audio from 2012-2014 and the Director of Product at Jaco Clothing from 2009-2012. He holds a BA from the University of California, San Diego.

James Wardlow, VP Marketing

Jamie joined the company in 2013 as our Director of Marketing, and he was later promoted to VP of Marketing in 2016. Prior to joining HYLETE, Jamie was the E-commerce Manager at Nixon Watches from 2011-2013. He holds a BS in Marketing from San Diego State University.

James Caccavo, Director

Jim has served as Managing Partner for Steelpoint Capital Partners, a San Diego based private equity firm, since 2003. He currently serves on the Board of Directors at SKLZ (2013-present), Greatcall (2007-present) and HookIt (2008-present). He has been a Director at HYLETE since 2013.

Kevin Park, Director

Kevin has served as CFO/COO of Perverse Sunglasses since 2015, CEO for SimplePitch Ventures since 2011, and Advisor at TBG Equity since 2012. He has been a Director at HYLETE since 2013.

Courtney Reum, Director

Courtney was the Cofounder and CEO of VeeV Spirits from 2007-2016, and has been Cofounder for M13 Partners since 2016. He currently serves on the Board of Directors at KeVita (2010-present) and Force of Nature by Laird Hamilton (2014-present). He has been a Director at HYLETE since 2014.

Related party transactions

The Company has not engaged in any transactions with related parties.

RISK FACTORS

The SEC requires the Company to identify risks that are specific to its business and its financial condition. Prospective investors should be aware that an investment in the Company is speculative and involves a high degree of risk. In addition to the other information contained in this document, the Company believes that the following risk factors are the most significant for potential investors and should be considered carefully in evaluating whether to make an investment in the Company. If any of the risks described in this document actually occurs, the Company may not be able to conduct its business as currently planned and its financial condition, operating results and cash flows could be seriously harmed. The risks listed do not necessarily comprise all those associated with an investment in the Company. Additional risks and uncertainties not presently known to the Company, or which the Company currently deems immaterial, may also have an adverse effect on the Company. In particular, the Company's performance may be affected by changes in market or economic conditions and in legal, regulatory and tax requirements. The risks listed below are not set out in any particular order of priority. These are the principal risks that relate to the Company and its business:

- ***Our success depends on our ability to uphold the reputation of our brand, which will depend on the effectiveness of our marketing, our product quality, and our customer experience.*** Any harm to our brand could have a material adverse effect on our company.
- ***We rely upon our suppliers to produce our products consistently, on time and with the highest level of quality.*** Many of our products are only available from only one supplier. The operations of our suppliers can be subject to additional risks beyond our control, including shipping delays, labor disputes, trade restrictions or any other change in local conditions. Any disruption in our supply chain could have a material adverse effect on our business.
- ***We rely upon information systems to operate our website, process transactions, and communicate with customers.*** Any disruption or slowdown of our systems, including system failures, breaches or other causes could disrupt our business and reduce our sales.

- ***Our success depends on our ability to design and manufacture products that appeal to our customers.*** It is possible that future new products will fail to gain market acceptance for any number of reasons. If the new products fail to achieve significant sales and acceptance in the marketplace, this could materially and adversely impact the value of your investment.
- ***We operate in a highly competitive market and the size and resources of some of our competitors may allow them to compete more effectively than we can.*** Competition may result in pricing pressure, reduced profit margins or a reduction in market share, any of which could substantially harm our business and results of operations.
- ***The Trademark Trial and Appeal Board (TTAB) has preliminarily determined that the registration of our logo as a trademark should not be allowed.*** The TTAB has preliminarily determined that our logo could potentially cause confusion in the marketplace, and as a result has determined that the U.S. Patent and Trademark Office should reject registration of our logo. We believe that the TTAB's determination is incorrect and we may appeal the decision to the Federal Circuit.
- ***We rely on third parties to provide services essential to the success of our business.*** Our third party partners provide a variety of essential business functions, including warehousing and distribution, website hosting and design, and many others. If we encounter problems with one or more of these parties and they fail to perform to expectations, it could have a material adverse impact on the company.
- ***An economic downturn in our key markets may adversely affect consumer discretionary spending and demand for our products.*** Factors affecting the level of consumer spending include general economic conditions, consumer confidence in future economic conditions, the availability of consumer credit, levels of unemployment, and tax rates, among others. Poor economic conditions may lead consumers to delay or reduce purchase of our products, which could have a material adverse effect on our financial condition.
- ***Our failure or inability to protect our intellectual property rights could diminish the value of our brand and weaken our competitive position.*** We continue to take steps to protect and maintain our intellectual property rights, however we cannot be sure that these steps will be adequate. If we fail to procure, protect or maintain our intellectual property rights, the value of our brand could be diminished and our competitive position may suffer.
- ***Our trademarks may conflict with the rights of others and we may be prevented from selling some of our products.*** We have applied for and obtained several United States and foreign trademark registrations, and will continue to evaluate the registration of additional trademarks as appropriate. However, we cannot guarantee that any of our pending trademark applications will be approved. Additionally, third parties may assert intellectual property claims against us, particularly as we expand our business. Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products. In addition, resolution of claims may require us to redesign our products, license rights from third parties or cease using those rights altogether. Any of these events could harm our business and cause our results, liquidity and financial condition to suffer.
- ***Our future success is dependent on the continued service of our senior management.*** Any loss of key members of our executive team could have a negative impact on our ability to manage and grow our business effectively. The experience, technical skills and commercial

relationships of the personnel of the Company provide us with a competitive advantage. We do not maintain a key person life insurance policy on any of the members of our senior management team. As a result, we would have no way to cover the financial loss if we were to lose the services of members of our senior management team.

- ***We rely on continued equity financing to support our working capital requirements and operating losses.*** If we cannot obtain enough equity to fund our business in the future, we could be forced to modify our growth plans, issue equity below its current price and/or potentially liquidate, all of which could adversely impact the value of your investment.
- ***Requirement for further investment.*** The Company likely will require additional capital in the future for expansion, its activities and/or business development, whether from equity or debt sources. There can be no guarantee that the necessary funds will be available on a timely basis, on favorable terms, or at all, or that such funds if raised, would be sufficient. If additional funds are raised by issuing equity securities, dilution to the then existing shareholdings may result. The level and timing of future expenditure will depend on a number of factors, many of which are outside our control. If we are not able to obtain additional capital on acceptable terms, or at all, we may be forced to curtail or abandon such expansion, activities and/or business development which could adversely impact upon the Company, its business, development, financial condition, operating results or prospects.

OWNERSHIP AND CAPITAL STRUCTURE; RIGHTS OF THE SECURITIES

The capital stock of the company consists of two classes designated, respectively, Common Stock and Preferred Stock. The Common Stock consists of two series, Class A Common Stock and Class B Common Stock. The Preferred Stock consists of three series, Series A Preferred Stock, Series A-1 Preferred Stock and Series A-2 Preferred Stock.

The summary of the fully diluted capitalization of the company as of March 31, 2017 is as follows:

<u>Class</u>	<u>Authorized</u>	<u>Issued & Outstanding</u>	<u>Outstanding %</u>	<u>Fully Diluted</u>	<u>Fully Diluted %</u>
Class A Common	26,482,500	7,824,600	36.9%	7,824,600	30.1%
Class B Common *	6,000,000	1,000,000	4.7%	1,000,000	3.8%
Series A-2 Preferred	5,971,000	4,721,500	22.2%	5,971,000	23.0%
Series A-1 Preferred	5,970,300	5,970,300	28.1%	5,970,300	23.0%
Series A Preferred	1,712,200	1,712,200	8.1%	1,712,200	6.6%
Class A Common Options	3,517,500	0	0.0%	3,517,500	13.5%
Total	49,653,500	21,228,600	100.0%	25,995,600	100.0%

* *The number of issued and outstanding Class B Common Shares is an estimate based on our recent Title III crowdfunding offering and could change slightly upon settlement of our final closing.*

Ronald Wilson, HYLETE's Cofounder and CEO, owns 20.1% of the company's outstanding equity securities, calculated on the basis of voting power. No other person or entity owns more than 20%.

The rights of each class of security are described below.

Conversion Rights: Shares of Preferred Stock are convertible, at the option of the holder, at any time, into fully paid and nonassessable shares of the Company's Class A Common stock at the then-applicable conversion rate. At the date of this report, the conversion rate for each series of Preferred Stock is one share of Class A Common Stock, per one share of Preferred Stock. The conversion rate is subject to adjustment in the event of stock splits, reverse stock splits or the issuance of a dividend or other distribution payable in additional shares of Common Stock. Additionally, each share of Preferred Stock will automatically convert into Class A Common Stock immediately prior to the closing of a firm commitment underwritten public offering, registered under the Securities Act of 1933, as amended, in which the gross proceeds to the Company are at least Thirty Million Dollars (\$30,000,000), or, at any time upon the affirmative election of the holders of a majority of the outstanding shares of the Preferred Stock, voting together on an as-converted basis.

Voting Rights: Holders of Class B Common stock are not entitled to any voting rights, except as required by law. Holders of Class A Common Stock vote together with the Preferred Stock. Holders of the Preferred Stock shall be entitled to the number of votes equal to the whole number of shares of Class A Common Stock into which such shares of Preferred Stock could be converted immediately after the effective date of such written consent and shall have voting rights and powers equal to the voting rights and powers of the Class A Common Stock and shall be entitled to notice of any shareholders' meeting in accordance with the Bylaws of the Company. The Preferred Stock shall vote together with the Class A Common Stock at any annual or special meeting of the shareholders and not as a separate class, and may act by written consent in the same manner as the Class A Common Stock.

In addition to any other vote or consent required, the vote or written consent of the holders of at least a majority of the outstanding Preferred Stock, voting together on an as-converted basis, shall be necessary for effecting or validating the following actions (whether by amendment, merger or consolidation, or by any wholly-owned subsidiaries or otherwise): (i) alter or change the rights, preferences or privileges of the Preferred Stock, or effect any transaction in which the Preferred Stock are treated differently than the Common Stock; (ii) authorize, create or issue any new class or series of stock or other security, including any security that is junior, pari passu or senior to the Preferred Stock with respect to voting, dividends, redemption or liquidation rights; (iii) issue any Preferred Stock after the effective date of the Company's Third Amended and Restated Articles of Incorporation (the "Restated Articles"); (iv) effect the sale of any material assets of the Company, including but not limited to intellectual property, other than in the ordinary course of business; (v) effect any transaction with any affiliates of the Company unless approved by the Company's Board of Directors; (vi) increase or decrease the authorized numbers of directors constituting the Company's Board of Directors; (vii) enter into a different line of business; (viii) Amend or waive any provision of the Restated Articles; (ix) redeem or repurchase any Common Stock or Preferred Stock (other than buy/sell agreements with employees not to exceed \$50,000) or pay or declare any dividend on any Common Stock or Preferred Stock other than redemptions of or dividends on the Preferred Stock as expressly authorized by the Restated Articles; (x) effect any Liquidating Event (as defined below); (xi) issue Common Stock or Preferred Stock, including options exercisable into Common Stock, except for options approved for issuance by the Board of Directors; (xii) incur or refinance any funded indebtedness above \$250,000, except as approved by the Company's Board of Directors; and (xiii) conversion into a different type of entity or transfer of jurisdiction.

Election of Board of Directors: The Company's Board of Directors shall consist of five (5) members. The holders of the Series A Preferred Stock, voting as a separate series and separate class, shall be entitled to elect one (1) member (the "Series A Preferred Director"), and remove such Series A Preferred Director and fill any vacancy caused by the resignation, death or removal of such Series A Preferred Director. The holders of Preferred Stock, voting as a separate class, shall be entitled to elect one (1) member (the "Preferred Director"), and remove such Preferred Director and fill any vacancy caused by the resignation, death or removal of such Preferred Director. The holders of Class A Common Stock, voting as a separate class, shall be entitled to elect one (1) member (the "Common Director"), and remove such Common Director and fill any vacancy caused by the resignation, death or removal of such Common Director. The holders of the Preferred Stock and Class A Common Stock, voting together as a single class, shall be entitled to elect one (1) member of the Board of Directors, who shall not be an officer or employee of the Company (the "Independent Director"). Removal of the Independent Director and any vacancy of the Independent Director position shall be made by the majority approval of the Series A Preferred Director, the Preferred Director, the Common Director and the CEO Director, unless otherwise prohibited by law. The holders of the Preferred Stock and Class A Common Stock, voting together as a single class, shall be entitled to elect one (1) member of the Board of Directors, who shall be the Chief Executive Officer of the Company (the "CEO Director"). Removal of the CEO Director and any vacancy of the CEO Director position shall be made by the unanimous approval of the Series A Preferred Director, the Preferred Director and the Common Director, unless otherwise prohibited by law.

Dividend Rights: Holders of Preferred Stock, in preference to the holders of Common Stock of the Company, shall be entitled to receive, when and as declared by the Board of Directors, but only out of funds that are legally available therefor, cash dividends at the rate of twelve percent (12%) of the Original Issue Price (as defined below), for such share of Preferred Stock, per annum on each outstanding share of Preferred Stock (as adjusted for any stock dividends, combinations, splits recapitalizations and the like with respect to such shares after the filing date of the Restated Articles). Except in connection with a Liquidating Event, as further described in the Restated Articles, such dividends shall be payable only when, as and if declared by the Board of Directors, and shall be cumulative. In the event dividends are paid on any share of Common Stock, the Company shall pay an additional dividend on all outstanding shares of Preferred Stock in an amount equal per share (on an as-if-converted to Common Stock basis) to the amount paid or set aside for each share of Common Stock.

Right to Receive Liquidation Distributions: In the event of a liquidation, dissolution or winding up of the Company, or certain other events such as the sale or merger of the Company, as further set forth in the Restated Articles (each, a "Liquidating Event"), all holders of Preferred stock are entitled to a liquidation preference that is senior to holders of the Common stock. Holders of preferred stock will receive an amount for each share equal to the original price per share at issuance, adjusted for any stock split, stock dividend, reclassification, or the like as follows: \$0.5143 per share for each share of Series A-2 Preferred Stock; \$0.3078 per share for each share of Series A-1 Preferred Stock; \$0.1917 per share for each share of Series A Preferred Stock (each, the "Original Issue Price"); in each case plus any unpaid dividends. If, upon such Liquidating Event, the assets (or the consideration received in such transaction) that are distributable to the holders of Preferred stock are insufficient to permit the payment to such holders of the full amount of their respective liquidation preference, then all of such funds will be distributed ratably among the holders of the Preferred stock in proportion to the full preferential amounts to which they would otherwise be entitled to receive.

After the payment of the full liquidation preference of the Preferred Stock, the remaining assets of the Company legally available for distribution (or the consideration received in such transaction), if any, shall be distributed ratably to the holders of the Common Stock in proportion to the number of shares of Common Stock held by each such holder.

Redemption Right: The holders of at least seventy-five percent (75%) of the then-outstanding shares of Preferred Stock, voting together on an as-if-converted basis, may require the Company, to the extent it may lawfully do so, to redeem the Preferred Stock at any time on or after the fifth anniversary of the most recent issuance of convertible securities (as further described in the Restated Articles). The Company shall effect such redemption by paying in cash in exchange for the shares of Preferred Stock to be redeemed a sum equal to the Original Issue Price per share of the Preferred Stock (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like after the filing date of the Restated Articles) plus unpaid dividends with respect to such shares, whether or not declared by the Board of Directors.

What it means to be a hold Non-Voting Common Stock:

Our Class B Common Stock holds no voting rights. Class B shareholders will hold a minority interest in the Company and the holders of the majority of the Preferred Stock and Class A Common Stock will control the Company. Class B shareholders will have limited ability, if any at all, to influence our policies or any other corporate matter, including the election of directors, changes to our Company's governance documents, additional issuances of securities, Company repurchases of securities, a sale of the Company or of assets of the Company or transactions with related parties.

Dilution:

The investor's stake in a company could be diluted when a company issues additional shares. In other words, when the company issues more shares, the percentage of the company that you own will go down, even though the value of the company may go up. You will own a smaller percentage of a larger company. This increase in the number of shares outstanding could result from a stock offering (such as an initial public offering, another crowdfunding round, a venture capital round or angel investment), employees exercising stock options, or by conversion of certain instruments, such as convertible preferred shares, options or warrants, into stock.

If the company decides to issue more shares, an investor could experience value dilution, with each share being worth less than before, and control dilution, with the total percentage an investor owns being less than before. There may also be earnings dilution, with a reduction in the amount earned per share (though this typically occurs only if the company offers dividends, and most early stage companies are unlikely to offer dividends, preferring to invest any earnings into the company).

If you are making an investment expecting to own a certain percentage of the Company or expecting each share to hold a certain amount of value, it's important to realize how the value of those shares can decrease by actions taken by the Company. Dilution can make drastic changes to the value of each share, ownership percentage, voting control, and earnings per share.

Transferability of Securities:

Our stock is not currently traded on any stock exchange. There is not now, and there may not ever be, a public market for the stock. Our Bylaws place restrictions on the ability to transfer or sell the stock to third parties. As a result, you may not be able to sell your stock at the time you desire and any sale may be at a substantial discount. Because the stock is being sold in accordance with exemptions from

the registration and/or qualification requirements of federal and state securities laws, resale or further transfer of the stock is highly restricted by such securities laws which an investor desiring to resell or transfer his/her/its securities must fully comply with and pay all of the costs associated with. We cannot assure you that the stock will ever appreciate in value to the point where, even if the stock were sold at a substantial discount, you would receive the price you paid for your Stock.

Without limiting the generality of the above, investors may not make any disposition of their stock unless (i) there is then in effect a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), covering such proposed disposition and such disposition is made in accordance with such registration statement, (ii) the disposition is made to an "accredited investor" as defined in Section 501 of the Securities Act, and also in compliance with Rule 144 or Rule 701 of the Securities Act, (iii) such disposition is to the Company, (iv) to a revocable trust for the benefit of the transferring investor and/or his or her spouse, parents, lineal descendants or legally adopted children, or (v) upon the death of the investor, to such investor's spouse, parents, lineal descendants or legally adopted children.

The stock is being offered pursuant to exemptions from the registration requirements of the Securities Act, and must be held indefinitely unless the stock is subsequently registered under the Securities Act or an exemption from such registration is available and state securities laws are complied with. The Company is under no obligation to register the stock under the Securities Act or qualify such shares under any state securities laws. Share certificates will bear appropriate legends with respect to these restrictions.

Drag-Along Provision:

In the event of a sale of the Company and any other event deemed a Liquidating Events as defined in the Company's Third Amended and Restated Articles of Incorporation, each holder of Class B Common Stock shall be obligated to vote all shares of the capital stock then held by him/her/it in favor of such event and take all action as reasonably requested by the Company to carry out the terms of the Liquidating Event, including executing and delivering all instruments of conveyance and transfer, and any stock purchase agreement, merger agreement or any other agreement(s) in connection with such Liquidating Event.

FINANCIAL STATEMENTS, FINANCIAL CONDITION & MATERIAL INDEBTEDNESS

Financial statements

Our audited financial statements for the fiscal periods ending December 31, 2015 and December 31, 2016 can be found in Exhibit A to this Form C-AR.

Financial condition

Results of operations

Revenue for fiscal year 2016 was \$6.9 million, 21% annual growth over 2015, with a net income loss of \$2.1 million. Revenue for fiscal year 2015 was \$5.7 million, with a net income loss of \$1.9 million. We improved our inventory turnover ratio in 2016, and as a result our cash flow from operating activities improved from a loss of \$2.7 million in 2015 to a loss of \$1.3 million in 2016. We closed fiscal year 2016 with over \$3.0 million in current assets versus only \$1.1 million in current liabilities.

Financial milestones

The company is investing for continued growth of the brand, as is generating sizeable net income losses as a result. Management currently forecasts 2017, 2018 and 2019 revenue of \$10 million, \$14 million and \$20 million, respectively, and believes the company will generate positive net income beginning in 2019.

Liquidity and capital resources

The company is generating operating losses and requires the continued infusion of new capital to continue business operations. We raised approximately \$1.0 million in new capital through a Title III crowdfunding offering in March and April of 2017, which will be used to fund working capital and various growth initiatives. We plan to continue to try to raise additional capital under crowdfunding offerings, equity or debt issuances, or any other method available to the company. Absent additional capital, we may be forced to significantly reduce expenses and could become insolvent.

Indebtedness

The company has an outstanding promissory note for \$3.15 million. The notes bears interest of 12.5% per year, paid monthly in arrears, with the balance due at maturity on July 30, 2019. The company also has an outstanding note to one of its existing shareholders for \$200,000. The notes bears cash interest of 1.5% per month, paid monthly, with the balance due and payable on December 31, 2017.

Recent offerings of securities

In February of 2013, the company issued a \$300,000 convertible promissory note to an accredited investor. The note was converted into 2,446 shares of Series A Preferred Stock in December 2013.

In June 2014, the company issued \$1,500,000 in Series A-1 Preferred Stock through a Title II offering to accredited investors. The company also converted \$300,000 plus accrued interest from an existing inventory financing note (from an accredited investor) into 8,529 Series A-1 Preferred Stock.

In March 2015, the company issued \$1,500,000 in Series A-2 Preferred Stock through a Title II offering to accredited investors. The company issued a total of 4,167 Preferred shares in the offering.

In July 2015, the company issued a series of convertible notes through a Title II offering to accredited investors. The notes, which totaled \$880,726 plus accrued interest, were converted into 2,575 shares of Series A-2 Preferred Stock in 2016.

In July 2016, the company issued a warrant for 1,785 Series A-2 Preferred Stock shares in conjunction with a senior debt facility of \$3.15 million.

In March and April 2017, the company issued Class B Common Stock through a Title III crowdfunding offering. The company issued a total of 1,000,000 shares in the offering, through five different closings, for a total of \$1,000,000 (subject to any changes upon final settlement).

All of the proceeds above were used for growth and general working capital purposes. The shares of the company were split 700:1 in January 2017.

DETERMINATION OF OFFERING PRICE

The offering price of our shares is determined solely by the Company and its Board of Directors. The price should not be considered a determination of the actual present or future value of the Company's

shares. Additionally, this price may not be indicative of the price at which the shares would trade if they were listed on an exchange or actively traded by brokers nor of the proceeds that an investor would receive if we were liquidated or dissolved.

In the event the Company requires additional investment to fund its operation, it may sell and issue to third parties additional equity securities in the Company, which would have a dilutive effect on all shareholders of the Company, including investors.

ADDITIONAL INFORMATION

Disqualification

No disqualifying events have been recorded with respect to the Company or its officers or directors.

Annual reports

Commencing on April 30, 2017, the Company will make annual reports available on its website under a tab titled, "*Investor Information*".

Compliance failure

The Company has not previously failed to comply with the ongoing reporting requirements of Regulation CF.

EXHIBIT A TO FORM C-AR

**FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANT'S AUDIT FOR
HYTELE, INC.**