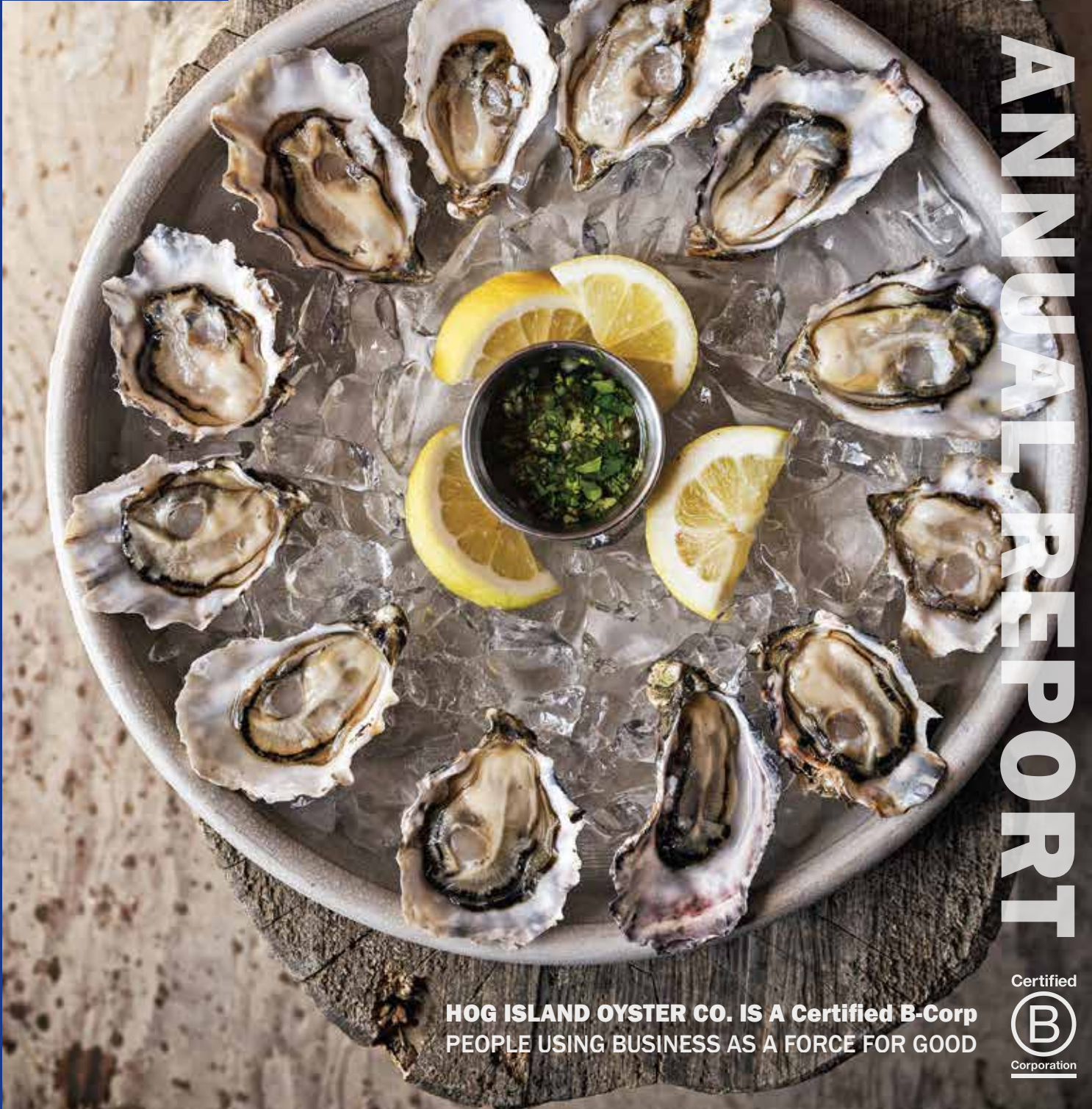


# HOG ISLAND OYSTER CO.

MARSHALL  
SAN FRANCISCO  
NAPA  
HUMBOLDT

# 2016 ANNUAL REPORT



**HOG ISLAND OYSTER CO. IS A Certified B-Corp**  
PEOPLE USING BUSINESS AS A FORCE FOR GOOD



**Dear Shareholders,**

Hog Island Oyster Company surpassed \$20 million in revenues for the first time in history and net income topped \$1 million. Shareholder equity rose from \$5.42 per share to \$7.09 per share, a 31 percent increase. The company sold 5,465,205 oysters in 2016.

The bottom line benefitted from retroactive R&D credits and a tax credit for installation of solar panels. There were some negative impacts as well. While the bottom line benefitted in 2015 from the opening of the new Ferry Building restaurant, many of the costs weren't captured until 2016.

The ongoing investment in the Humboldt Bay seed farm and nursery was a slight drag on profits. Ramping up production of seeds in Humboldt created a temporary "black hole" in production early in 2016 which resulted in a shortage of home-grown product and more reliance on outside growers. The result reduced margins and increased costs.

Humboldt production increased steadily through 2016 with over 7.1 million animals transferred from Humboldt to Marshall. In addition, the company sold 6.25 million seeds (\$263,415) to outside growers.

The Humboldt facility was nearing completion (see attached photos) of an 11,000 sq. ft. building at year's end, which includes wet and dry storage, hatchery, production area, offices, and a greenhouse to grow algae for the hatchery. Investment through 2016 totaled \$3,446,725 including building construction, permits, FLUPSYs, seed barge, et al.

Shareholders approved Hog Island becoming a B Corp. at the annual meeting in May.

The Company purchased Leali Ranch (see attached map). The ranch is critical for ongoing operations including storage, stock handling and parking. There is a long-range plan to turn the ranch into a revenue producing asset. In the very near future, it will allow administration offices to be relocated, freeing more space for boat-picnic revenues.

Communications and Branding: ongoing PR, local advertising, and outreach programs, and a 38 percent increase in online followers with over 34,000 website visits per month.

The company is strong, and well-positioned for the opportunities that await.

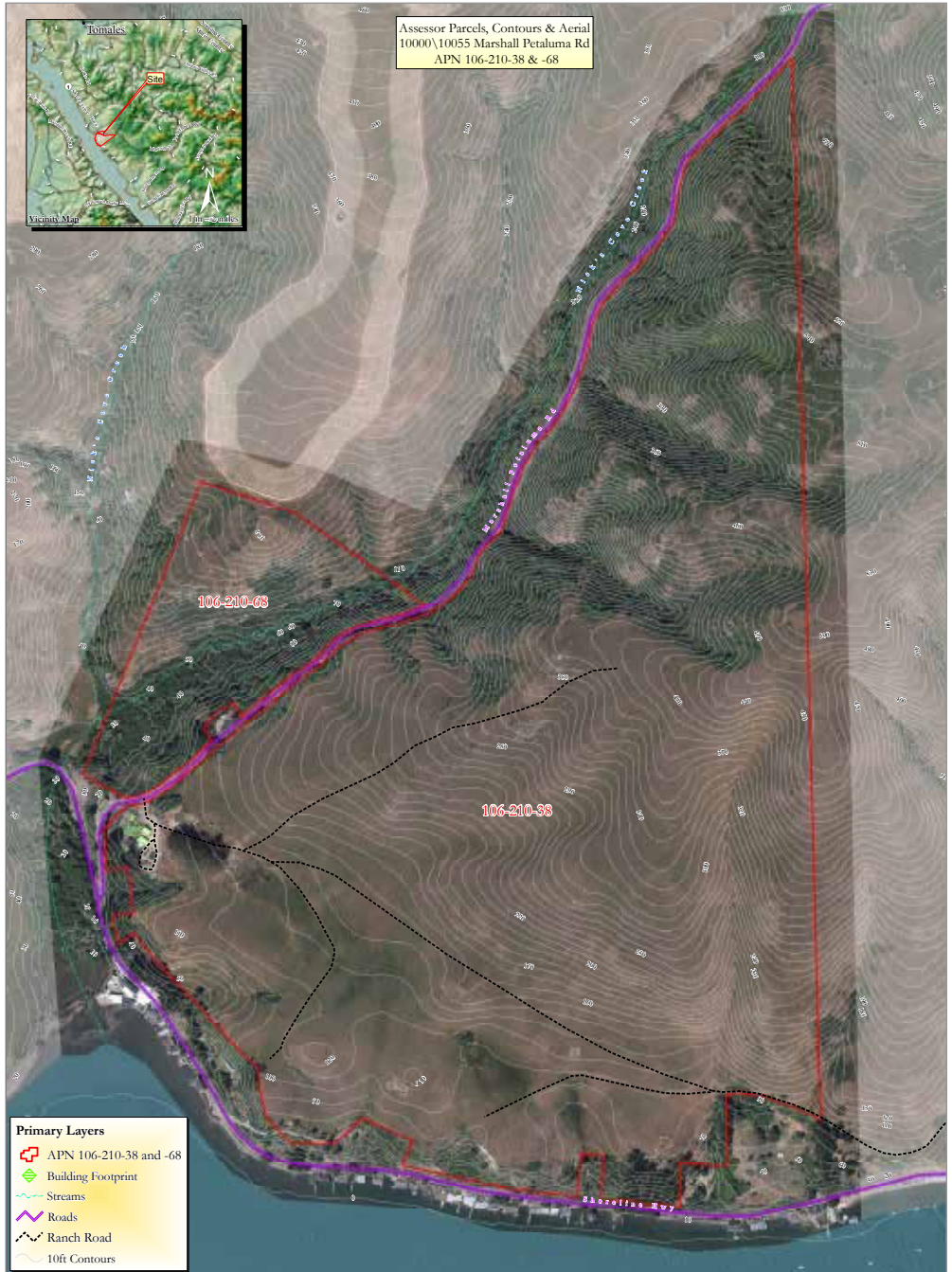
Finally, I am pleased to invite you to our 2017 Hog Island Oyster Company Annual Meeting and Shareholder Celebration, Sunday, May 7, at the Ferry Building in San Francisco. The Annual Business Meeting will convene at 5:00 pm, the Celebration, 6:00-9:00 pm. We are giving the farm a break this year but we guarantee a festive party at our Ferry Building restaurant.

Full details of the Meeting and resolutions are included in this packet. If you would like to vote on the resolutions but cannot attend the meeting, you may appoint a proxy to exercise all or any of your rights to attend, speak, or vote, by completing the enclosed proxy and returning it to the Secretary.

Thank you for your ongoing support and being a Hog Island shareholder.

**Dale F. Bentson**  
**Chairman**

# HUMBOLDT HATCHERY MAP OF LEALI RANCH, MARSHALL



**Dear Shareholders,**

2016 proved to be a year of milestones. We exceeded \$20 million dollars in revenues. We also now have more than 200 employees and over 100 shareholders. 2016 also marks 20 years from our first private offering. We have certainly come a long way together, and we have exciting opportunities in front of us.

Our Humboldt Bay facility had another great year. We once again produced enough seed to fill our needs in Tomales Bay as well as generate sales to other growers. The hatchery building construction was nearing completion at year's end and is now complete. We hope to be operational (setting larvae) by mid-2017. We are still awaiting final permits on the growing area leases we were awarded in Humboldt Bay. The Harbor District has had numerous delays in their permitting process but is hopeful that final permits will be forthcoming by mid-2017.

As you all know, we closed out 2016 with the purchase of the 250-acre Leali Ranch, just up the hill from our Marshall site. This ranch is our first real estate purchase and will allow us to continue our growth. Improved shellfish farm infrastructure and space necessary for handling increased volumes of product are now possible. We will also be looking to do some terrestrial farming, as well as create an event space and visitor accommodations. One of the great things about this transaction is that it came about in a way that honored our long relationship with Jenni Leali and her family, who have owned the ranch for three generations. Jenni, who is in her mid-80s, cared deeply about who the new owners would be and she wanted that to be us. Here is an excerpt from the letter she wrote to us:

Dear John and Terry,  
I want to thank you for buying my ranch. You were always my first choice as new owners. I wish you love, happiness and wealth in your new adventures. My sincere thanks and appreciation for making this sale so pleasant.  
Jenni Leali

For us, this purchase has always been about more than just buying a piece of land. It is about continuing our relationships. We look forward to growing with this land, slowly, and honoring the Leali family legacy of stewardship and conservation for future generations.

2016 was also a very active year as far as stock transactions. 28,250 Hog Island shares traded hands. As a result, we welcomed 13 new shareholders to our family. We also added seven additional shareholders through our Management Stock Purchase Plan.

In this Shareholder report, you will find our first annual Benefit Corporation Report along with Hog Island Oyster Co.'s annual financial report. Now that we are a legal Benefit Corporation, this is a requirement. As you all know, we are also a certified B Corp. as part of the annual report; you will see our Impact Assessment score which allowed us to be certified by B-lab. Now the work will be to improve upon that score for our two-year re-certification in late 2017. We believe that these improvements, regarding our impacts, will also improve our bottom line.

We hope to see you all at the annual meeting and celebration on May 7th at the Ferry Building, in San Francisco. At the meeting, we will be diving into more detail on future plans. If you can't make it that day, please reach out to us or stop by, we love to hear your questions and share what we are up to with you.

Thank you so much for your continued support.

Onward,  
**John**

**Terry**

# 2016 BOARD MEMBERS



Dale Bentson, Chairman  
Executive, Audit Committees



John Ash  
Strategic Plan,  
Compensation Committees



Steven Birer  
Strategic Plan,  
Audit Committees



Bruce Schroffel  
Compensation Committee



Scott Woodward  
Strategic Plan,  
Compensation Committees



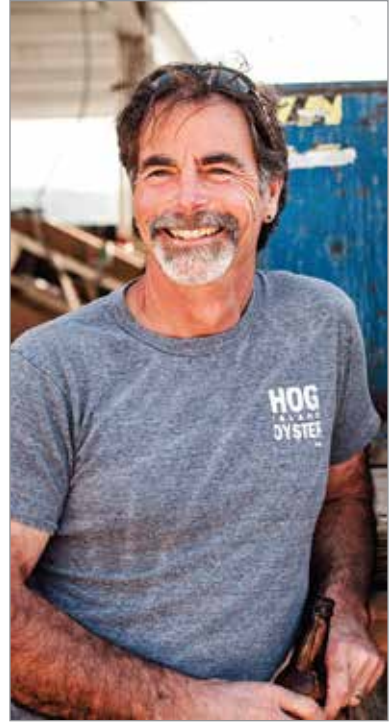
Michael Meniktas  
Compensation Committee



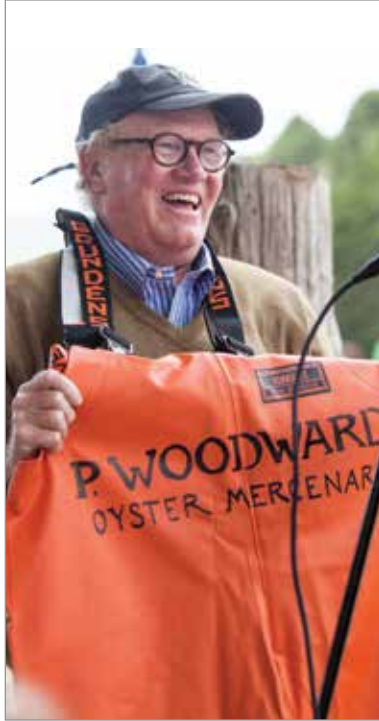
Anna Beuselinck  
Executive Committee



John Finger  
Strategic Plan,  
Executive Committees



Terry Sawyer



Phil Woodward  
Past Board member  
Audit Committee Chair

# Annual Benefit Report

## 2015 / 2016

### Cultivating the Best

**Hog Island Oyster Co.** is a community of friends and family, farmers and chefs, customers and neighbors. We strive to cultivate, create and serve the best oyster experience possible. We help and take care of each other, our customers, our communities and our planet...and we have a lot of fun doing it.

In December 2015, **Hog Island Oyster Co.** joined a global community of businesses—including Patagonia, Ben & Jerry's, Etsy and Seventh Generation—as a Certified B Corporation.

B Corps are companies that have been certified to have met rigorous standards of social and environmental performance, accountability, and transparency. Worldwide, there are more than 1,800 Certified B Corporations across 120 industries and 50 countries working together toward one unifying goal: using business as a force for good. We became a B Corp for several reasons:

- **Being Part of a Community of Leaders with Shared Values:** The strength of the B Corp community—and the sense of being part of something bigger than our individual business—that is one of the most deeply fulfilling aspects of B Corp certification.
- **Protecting HIOC's Mission for the Long Term:** Certified B Corporations, in addition to meeting rigorous standards of social and environmental performance, amend their governing documents to be more supportive of maintaining their social and environmental mission over time.
- **Identifying Areas for Improvement:** B Corp certification is an independent, rigorous, third-party standard that evaluates every aspect of our business—from how we treat our workers, to our community involvement, to our overall effect on the environment. We believe this will help us continue to create social, environmental, and financial value.
- **Attracting and Retaining Top Talent:** Many studies have shown that the best people want to work for a company with a larger purpose. B Corp certification helps us signal to prospective and existing employees that we are committed to using business as a force for good.
- **Building Collective Voice:** Many of the movements taking place around the globe—from clean tech, microfinance, and sustainable agriculture to the buy local and cooperative ownership movements—are manifestations of the same idea: how to use business for good. The B Corporation organizes and amplifies the voices of this diverse marketplace behind the power of a unifying brand.

We are proud of the work our team has accomplished over this past year to improve our impact. We are also eager to learn from our peers in the B Corp community about how we can do even more. This is an essential contribution toward a vision of business that works for people, the planet, and the bottom line.

**John Finger & Terry Sawyer**  
**Head Hogs**

## Benefit Report Narrative

Hog Island Oyster Co. Inc is a legally incorporated benefit corporation in the state of California. A benefit corporation is a corporation that has voluntarily met the highest standards of corporate purpose, accountability, and transparency.

Benefit corporations have a corporate purpose to create a material positive impact on society and the environment, have expanded the fiduciary duty of their directors to include consideration of stakeholder interests, and are required to report on their overall social and environmental performance.

## B Impact Report

The B Impact Report is a quantitative and qualitative summary of Hog Island's overall social and environmental performance assessed against the B Impact Assessment (BIA), a third party standard created by the nonprofit B Lab. The BIA assesses Hog Island Oyster Co.'s performance in the areas of environment, workers, community, and governance.

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# Hog Island Oyster Co. Inc 2015 B Impact Report

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	Company Score	Median Score*
<i>Overall B Score</i>	<b>87</b>	<b>55</b>
<i>Environment</i>	<b>19</b>	<b>7</b>
Environmental Products & Services (e.g. Renewable energy, recycling)	5	N/A
Environmental Practices	14	6
Land, Office, Plant	5	3
Energy, Water, Materials	6	1
Emissions, Water, Waste	2	1
Suppliers & Transportation	1	N/A



<i>Workers</i>	<b>21</b>	<b>18</b>
Compensation, Benefits & Training	15	12
Worker Ownership	3	1
Work Environment	4	3
<i>Community</i>	<b>41</b>	<b>17</b>
Community Practices	41	15
Suppliers & Distributors	4	2
Local	7	5
Diversity	3	2
Job Creation	2	2
Civic Engagement & Giving	4	3
<i>Governance</i>	<b>7</b>	<b>6</b>
Accountability	5	3
Transparency	2	3
<i>Overall</i>	<b>87</b>	<b>55</b>

**To highlight our performance, here are some of the specific practices we have adopted:**

**Environment:**

- Solar panels on Hog Island Oyster Co. headquarters in Marshall, CA
- Ability to monitor and record energy, water, and waste efficiency
- Implemented energy conserving appliances, lighting, and HVAC systems
- Installation of low-flow faucets and toilets at Marshall Farm
- Active end-of-life shell reclamation program

**Workers:**

- Full insurance coverage for full-time employees, and part-time employees qualify for health care benefits at 20+ hours per week
- Employee retirement plan with socially responsible investing option
- HSA for qualified medical expenses
- Domestic partner, civil union, and same-sex marriage spousal benefits
- Behavioral health counseling services and Employee Assistance Programs

**Community:**

- Annual donations and in-kind support to local nonprofit organizations working on education, health, the environment and community services. Donations in 2015 totalled \$95,000. Donations in 2016 totalled \$127,000.
- Volunteer and pro bono services offered to employees
- Allow workers to select charities to receive company's donations
- Majority of ownership lives locally to the company
- Bank locally with New Resource Bank, a Certified B Corporation and member of the Global Alliance for Banking on Values

**Governance:**

- Company treats people and planet as primary measures of success for our business
- Social and environmental training included in new employee orientation, training, and instruction
- Board of directors kept informed about the company's social and environmental performance
- Solicit specific feedback about the company social and environmental performance at our annual stakeholder meeting
- Written employee whistle-blowing policy provides legal protection to workers

**Third-Party Assessment**

**Hog Island Oyster Co. Inc.** selected the B Impact Assessment (BIA) as the third party performance standard to prepare this benefit report because it is the most widely used impact measurement and management tool in the world.

The BIA is used by more than 40,00 businesses to measure, compare, and improve their overall social and environmental performance, as well as by an increasing number of investors, business associations, and government entities serious about understanding and benchmarking the impact of the companies in which they invest and with which they do business.

The BIA is governed by the nonprofit B Lab and meets the statutory requirement that a third party standard must be comprehensive, credible, transparent, and independent. More information about the BIA and B Lab is available at [bimpactassessment.net](http://bimpactassessment.net).

**Statement from the Board of Directors**

The Board of Directors of Hog Island Oyster Company prepared the following statement pursuant to Sections 14630 and 14621 of the California Corporations Code, "In the opinion of the Board of Directors of Hog Island Oyster Company, the benefit corporation succeeded in pursuing its general public benefit purpose in all material respects during the period covered by this report."