



OUTLIER INCORPORATED

ANNUAL BENEFIT REPORT

Outlier Incorporated (“Outlier”) was incorporated in the State of New York on June 17, 2008 and on February 17, 2012, Outlier filed an amendment to its Certificate of Incorporation electing to become one of New York’s first “benefit corporations” under the newly adopted Article 17 of the New York Business Corporation Law (the “NY B-Corp Law”). New York was the seventh state to authorize some form of the benefit corporation, with a number of additional states adopting similar benefit corporation laws since.

Often called a “B-Corp”, this new type of business entity requires a business to have as one of its corporate purposes the creation of a net positive impact on society and the environment. Where regular corporations are generally required only to maximize profits for their shareholders, a B-Corp is required consider the impact of the company’s actions on employees, customers, and the local and global community.

Under § 1708 of the NY B-Corp Law, Outlier is required to deliver an annual benefit report to each shareholder and make this report available on the public portion of Outlier’s website within 120 days of the end of the company’s fiscal year. The benefit report must also be delivered to the New York Department of State.

This annual benefit report for Outlier’s 2012 fiscal year contains:

- [Outlier’s General Public Benefit—Goals and Philosophy](#)
- [Social and Environmental Performance Assessment](#)
- [Plans for Improvement](#)
- [Compensation of Outlier’s Directors](#)
- [5% Shareholders of Outlier](#)

GENERAL PUBLIC BENEFIT—GOALS AND PHILOSOPHY

Outlier was born out of the chance meeting of our two founders Abe Burmeister & Tyler Clemens in the spring of 2008, each separately working on a better type of clothing and a vision for a better kind of clothing company. In February of 2012, we elected to become one of New York’s first benefit corporations under the new NY B-Corp Law. We believe the ideals behind the benefit corporation concept will help us fulfill our vision for Outlier as a company concerned not just with profits but with improving communities and the environment.

Under the NY B-Corp Law, the purpose of every benefit corporation must include the creation of a “general public benefit”, which is defined as:

“a material positive impact on society and the environment, taken as a whole, assessed against a third-party standard, from the business and operations of a benefit corporation.”

Having a net positive impact on our communities and the environment has always been one of Outlier’s core goals. Our overarching philosophy is to benefit the world by running an ethical and responsible company. By making conscientious choices about how we do business, even as a small company, we believe we are able to have a meaningful impact on the lives of our employees, customers, the local community and the larger community of all people involved in making our garments at each level of the supply and production chain.

Under § 1708(a)(1) of the NY B-Corp Law, Outlier is required to include a narrative description of the following as part of this benefit report:

- **The process and rationale for selecting the third-party standard used to prepare the benefit report.**

We selected B Labs’ “B Impact Assessment” tool as the third-party standard to assess the company’s progress in the creation of a general public benefit and living up to our philosophy. After looking at a number of alternative third-party standards, we select B Labs because of their knowledge and experience in serving the benefit corporation

community and we felt they had a more business driven approach that aligned with Outlier's benefit corporation philosophy. The results of the B Impact Assessment are provided in the next section of this report.

- **The ways in which we pursued the general public benefit during the year and the extent to which a general public benefit was created.**

We believe that every action and decision that we take as a company has a greater impact on the lives of our employees, the local Brooklyn and New York community, our supply chain and production community and the environment. With respect to each of these areas of impact, we pursued and achieved the following general public benefit in the past year.

Employees

Being a good employer starts with creating a work environment that treats all employees with respect. Our commitment to a building a better world starts with creating high quality jobs that pay a livable wage and provide opportunities for each employee to grow and succeed with the company. In 2012, Outlier employed 10 full-time employees and a number of part-time workers and independent contractors.

Over the past year, the company has made efforts to ensure a quality working environment and livable wage for our employees. In 2012, we offered every employee above a livable wage and participation in a bonus plan. All of our full-time employees were offered health insurance, flexible working arrangements and other benefits, including onsite dog care. Additionally, we implemented a new plan that allows all employees to participate in product development, regardless of an employee's primary role.

Local Community

Approximately 90% of our garments are sewn in New York City. We also support local independent business by working with a number of local service providers and merchants.

Although we ship worldwide, our customers are part of the close Outlier community and we do our best to have a positive impact on our customer's lives. One of our

company's guiding philosophies is that having well-designed clothes that allow people to engage in the activities they enjoy while maintaining their sense of style is important to the quality of life. To support our customers after purchase we offer fair return and exchange policies and free repairs for defects.

We support and work directly with Transportation Alternatives (TA), New York City's leading transportation advocacy group, to help develop better transportation policies in the city. In addition to outfitting TA's street outreach team and making direct financial contributions, we work with them on lobbying and image consulting. All TA members are eligible for discounts on Outlier products.

Supply Chain and Production Community

Outlier is committed to working with local, fair trade and sustainable suppliers, vendors and sewing contractors to the greatest extent possible. Approximately 90% of our fabric and raw material suppliers have social and environmental certification or approval. Whenever possible we go with bluesign® certified vendors and materials.

We invest a lot of time and energy into finding the best sources of materials for our garments, employing a full spectrum research approach where we evaluate all the available options and attempt to pinpoint the absolute best. In selecting a supplier, consideration and preference is always given to suppliers with proven fair labor and environmental practices. Perhaps most importantly, we never use price as a main determining factor in our purchasing decisions. At every opportunity, we encourage vendors to make conscious decisions that might drive up costs, but also the quality of the goods and the protection of workers and the environment. In contrast to the vast majority of the fabric market that relies on middlemen, who have very little contact with actual fabric production, Outlier gets as close to the raw material source as possible, so that we have direct communication with weavers, knitters and finishers.

On the manufacturing side of our business, we make frequent visits to the factories that sew our garments to ensure not only the high-quality of our garments but also that our factories are living up to the standards they claim to practice.

Environment

We source and use environmentally sustainable fabrics and materials in all of our garments. In addition, by improving the quality and longevity of our garments themselves, we reduce the amount of waste created by cheap, disposable clothing. We produce our garments to survive the maximum number of wash cycles possible while still retaining an acceptable hand feel.

Within a garment's lifecycle, studies have shown that up to 80% of the energy consumption and carbon emissions attributable to a garment result from its "use phase", that is the customer's washing and drying, with machine drying making up the largest portion of the energy usage. Making clothing that require less washing and almost no use of drying machines means that our garments require dramatically less energy use than generic equivalents.

Water resistant fabrics, however, pose their own environmental challenges. For all of our water resistant fabrics, we use chemicals and treatment processes that meet the bluesign® standard. Although the bluesign® standard is accepted through the textile industry, we continue to explore other alternatives' that may be safer for the environment and we do a considerable amount of research to try to stay ahead of the curve. For example, Outlier uses only C6 fluorocarbons, instead of the far more damaging C8 fluorocarbons still used by many companies. At the same time, we are actively following the research to create alternatives to fluorocarbon based water repellent treatments, looking at everything from paraffin to ammonia to plasma based treatments, as well as a few whose chemistries are not yet public.

In our office, we use recycled packaging and office supply materials to the greatest extent possible.

- **The ways in which we pursued any specific public benefit that is our purpose to create and the extent to which that specific public benefit was created.**

When electing to become a benefit corporation, the NY B-Corp Law allows a company to specify in its certificate of incorporation one or more "specific public benefits" that the company intends to pursue. Rather than adopt a list of formal goals, we remain

dedicated to providing a general public benefit, and believe that broad definition better captures the social and environmental goals and philosophy of Outlier.

- **Circumstances that have hindered the creation of a general public benefit.**

As a new benefit corporation, we are still looking for the best means of pursuing our public benefit goals and philosophy. The difficulties and circumstances that have hindered achieving some of our social and environmental goals in the past year have been:

- Inability to source enough high quality fabric and materials from suppliers with fair labor and environmentally sustainable practices.
- Limited company resources in terms of time and money to dedicate towards adopting formal company policies with respect to employees, social impact and environmental standards that are part of our goals.
- As a small company, we are unable to assert significant influence over our supplier's and manufacturer's social and environmental practices.
- Certain new technologies and processes are not being adopted by preferred local, manufacturers, requiring some off-shoring in the production of our garments.

PERFORMANCE ASSESSMENT

As part of being a NY benefit corporation, each year Outlier is required to complete an assessment of its performance with respect to the actual creation of a general public benefit using a third-party standard. Outlier chose the “B Impact Assessment” standards and online assessment tool adopted by B Labs to measure our success.

Outlier completed its first B Impact Assessment on April 22, 2013, receiving a score of 66.4 out of 200 available points. For reference, a score of at least 80 points is needed for B Corp certification by B Labs, which is a distinct certification separate from Outlier's status as a New York benefit corporation. While this score is not great, we have plans to improve and the assessment has helped us identify new areas where we can make a difference.

The results of Outlier's B Lab performance assessment are summarized as follows:

B Impact Assessment

Category	Points Earned	% of Points Available
Governance	11.1	68.2%
Workers	26.6	66.5%
Community	12.8	28.5%
Environment	15.9	35.2%
Overall Scored Rating	66.4	

PLANS FOR IMPROVEMENT

We are not satisfied with the results of our first social and environmental performance assessment and plan on taking steps to improve our performance. We believe that part of the reason for our failing score is the lack of documented company policies. We realize it is out time that we put in writing what we practice. We also know that our practices and commitment to bettering the community and environment can improve as well.

We plan on taking the following steps in 2013 to pursue our social and environmental goals and philosophy and improve our positive impact in all areas:

- **Adoption of an employee equity incentive plan.**

In order to improve the working environment for our employees, we intend to adopt an equity incentive plan that will give employees a stake in ownership of the company.

- **Adopt employee policies and guidelines to ensure a fair and safe working environment.**

One of the areas in which the assessment revealed the company needed improvement on was the creation of written policies and guidelines that formalize our commitment to our employees and providing a fair and safe working environment. As a small company, we tend to rely on informal policies and practices. However, we realize that as we grow, we will need to put what we practice on paper to ensure that all employees are treated fairly and there are adequate channels for employees to report complaints.

- **Create formal social and environmental guidelines to hold the company, our suppliers and vendors up to.**

We believe there are always opportunities to improve our internal commitment to contracting with fair and sustainable business partners. Putting our standards in writing will help us to develop and live up to those commitments.

- **Choosing suppliers with fair labor and environmental practices.**

Throughout 2013, we intend to expand our search for suppliers of fabrics and other raw materials that meet our commitment to living wages for workers and ecologically friendly practices at all levels of our supply and production chain.

DIRECTOR COMPENSATION

No director of Outlier received any compensation in connection with his role as director of the company.

SHAREHOLDERS

Outlier's shareholders individually owning at least 5% of the total outstanding shares of capital stock of the company are:

- Abe Burmeister
- Tyler Clemens

END