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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016.

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-35496

SUMMER ENERGY HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

20-2722022

(I.R.S. Employer
Identification No.)

800 Bering Drive, Suite 260, 77057

(Address of principal executive offices) (Zip Code)

(713) 375-2790

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act:

Common Stock, \$0.001 par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐Accelerated filer ☐Non-accelerated filer ☐Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [☐]

No [X]

The aggregate market value of the registrant's common stock, \$0.001 par value per share, held by non-affiliates of the registrant on June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$15,896,915 (based on the average bid price of the common stock on that date). For this purpose, shares of common stock held by each officer and director and each person known to the registrant to own 10% or more of the outstanding voting securities of the registrant were excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes. The registrant has one class of securities, its common stock.

As of March 29, 2017, the registrant had 22,463,224 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE.

Part III incorporates by reference certain information from the registrant's definitive proxy statement (the "Proxy Statement") for the 2017 Annual Meeting of Stockholders to be filed on or before April 28, 2017.

SUMMER ENERGY HOLDINGS, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

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Cautionary Note Regarding Forward-Looking Statements

From time to time, we and our representatives may provide information, whether orally or in writing, including certain statements in this Annual Report on Form 10-K (this "Annual Report"), which are deemed to be "forward-looking" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that concern matters that involve risks and uncertainties which could cause actual results to differ materially from those projected in the forward-looking statements. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act") and are based on our beliefs as well as assumptions made by us using information currently available. All statements other than statements of historical fact contained in this Annual Report, including statements regarding future events, our future financial performance, our future business strategy and the plans and objectives of management for future operations, are forward-looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended or using other similar expressions. In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Annual Report, any exhibits to this Annual Report and other public statements we make. Such factors are set forth in the "Business" section, the "Risk Factors" section, the "Legal Proceedings" section, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and other sections of this Annual Report, as well as in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. We expressly disclaim any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations, except as required by applicable law.

PART I

ITEM 1. BUSINESS.

Introduction

Summer Energy Holdings, Inc. (including our subsidiaries, Summer Energy, LLC ("Summer LLC"), Summer Energy of Ohio ("Summer Ohio") and Summer EM Marketing, LLC ("Marketing LLC"), are referred to collectively in this Annual Report, as the "Company," "Summer Energy," "we," "our" and "us"). The Company's primary business operations are conducted through Summer LLC, our wholly-owned subsidiary. Summer LLC is a Texas limited liability company that has been licensed within the State of Texas as a Retail Electric Provider ("REP") by the Public Utility Commission of Texas ("PUCT"). As stated above, references to the "Company," the "Registrant," "we," "our," and "us" or similar terms, refer to Summer Energy Holdings, Inc. (f/k/a Castwell Precast Corporation), and its predecessors and its subsidiaries (including Summer LLC), except where the context makes clear that the reference is only to Summer LLC.

For more information on the Company and our products and services, please see the information set forth below or visit our website at www.summerenergy.com. The inclusion of our internet address in this Annual Report does not include or incorporate by reference into this Annual Report any information on our website. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other filings with the Securities and Exchange Commission (the "SEC") are generally available through the EDGAR system maintained by the SEC at www.sec.gov.

Description of Our Company and Predecessor

The Company was incorporated in the State of Nevada under the name Castwell Precast Corporation on March 25, 2005. On March 27, 2012, the Company (f/k/a Castwell Precast Corporation), closed the transaction (the "Transaction") contemplated by that certain Agreement and Plan of Contribution entered into on January 17, 2012 among the Company, Summer LLC, and the individual members of Summer LLC. A copy of the Contribution Agreement was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 19, 2012, and the description contained herein of the terms of the Contribution Agreement is qualified in its entirety by reference to the provisions thereof. Further, a more complete description of the Transaction is set forth in the Company's Current Report on Form 8-K dated March 30, 2012. Prior to the consummation of the Transaction, the Company's principal business activity, carried out entirely through its wholly-owned subsidiary Castwell Precast Inc., was the manufacture and installation of decorative window wells made from precast concrete. Castwell Precast Inc. was incorporated in the State of Utah on March 24,

2005. The Company ceased the business of manufacturing and installing decorative window wells, and currently conducts the business of purchasing and reselling electric power within the State of Texas through its wholly owned subsidiary Summer LLC.

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Overview

Following the Transaction, the Company now carries on, through Summer LLC, the business of an REP in the State of Texas, with head offices located at 800 Bering Drive, Suite 260, Houston, Texas 77057. The Company's telephone number is (713) 375-2790, its fax number is (713) 375-2794, and its website is www.summerenergy.com. The information accessible through the Company's website does not constitute part of, and is not incorporated by reference into, this Annual Report.

Summer LLC was organized as a Texas limited liability company on April 6, 2011, by the filing of a certificate of organization with the Texas Secretary of State. In September of 2011, Summer LLC was awarded a license by the Public Utility Commission of Texas (PUCT) to operate as an REP in Texas. In general, Texas regulatory structure permits REPs, such as Summer LLC, to procure and sell electricity at unregulated prices. REPs pay the local transmission and distribution utilities a regulated tariff rate for delivering electricity to their customers. As an REP, we sell electricity and provide the related billing, customer service, collections and remittance services to residential and commercial customers. We offer our customers competitive electricity rates, flexible payment and pricing choices, simple offers with understandable terms, and responsive customer service.

We offer retail electricity to commercial and residential customers in designated target markets within the State of Texas. In the commercial market, the primary targets are small to medium-sized customers (less than one megawatt of peak usage), but we will also selectively pursue larger commercial customers through management's existing, historical relationships. Residential customers are a secondary target market. At this time, a majority of our customers are located in the Houston and Dallas-Fort Worth metropolitan areas, although we anticipate a growing number will be located in a variety of other metropolitan and rural areas within Texas.

We rely upon established relationships and low-cost branding programs to attract commercial and residential customers. We continue to evaluate opportunities to expand our areas of operations within Texas as certain market regions elect to opt-in to deregulation. In addition, we continue to evaluate and pursue opportunities to acquire other REPs to the extent these acquisitions would provide value to us.

In most jurisdictions, we are required to enter into agreements with local transmission and distribution service providers for use of the local distribution and transmission systems and operation of functional interfaces necessary for us to serve our customers. With respect to energy supply, we utilize wholesale purchase agreements with wholesale energy providers. We serve as our own qualified scheduling entity for open market purchases and sales of electricity, forecasting our energy demand, and conducting procurement activities through an experienced team of professionals. The forecast for electricity load requirements is based on our aggregate customer base currently served and anticipated weather conditions, as well as forecasted customer acquisition and attrition. We continuously monitor and update our supply positions based on our retail demand forecasts and market conditions. Our policy is to maintain a balanced supply/demand book to limit commodity risk exposure. At this time, we do not plan on maintaining a financial book in addition to our physical supply/demand book for risk-hedging purposes.

We began delivering electricity to customers in mid-February, 2012. We have continued to experience growth in our customer base since that time.

As of December 31, 2016, we had 62 full-time employees. Our employees are not represented by any collective bargaining agreement, and we have never experienced a work stoppage. We believe our employee relations are good.

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Regulatory Environment and the Texas Retail Electric Market

Deregulation of the wholesale electricity market in Texas began in 1995, enabling independent power generators and/or suppliers to: (i) establish operations in Texas alongside those of the regulated utilities; and (ii) gain access to the transmission capabilities of the power grid. Additional legislation in 1999 created an integrated marketplace by linking generators, transmission and delivery companies, REPs, and the independent grid operator, which is the Electric Reliability Council of Texas ("ERCOT"). Beginning January 2002, pursuant to Senate Bill 7, Texas electricity consumers had the choice of picking their Retail Electricity Provider, or REP. As a result of these legislative developments, former integrated utilities were essentially split apart into three business segments: (1) unregulated wholesale power generators; (2) regulated transmission and distribution service providers ("TDSPs"); and (3) unregulated REPs.

In the market, REPs that were spun off from previously integrated utilities are referred to as "affiliated REPs." When affiliated REPs operate in their incumbent markets (an incumbent market refers to those areas previously served by the integrated utility), they are sometimes referred to as "incumbent REPs." Incumbent REPs are subject to restrictions on their ability to compete on price in their incumbent markets in order to foster competition. The two largest affiliated REPs in Texas are TXU and Reliant Energy, situated in the Dallas/Ft. Worth and Houston areas, respectively.

The primary responsibilities of an REP in Texas include customer account initiation and termination, energy supply management and scheduling, billing/remittance processing, and customer service. All REPs must be certified by ERCOT to operate within the Texas market.

ERCOT was founded in 1970, and it oversees all aspects of the Texas power grid for the deregulated market. Under deregulation, ERCOT serves as the Independent System Operator ("ISO") of the power grid and enables REPs, generators, TDSPs, and ultimately customers, to operate in a deregulated marketplace. ERCOT is responsible for coordinating and monitoring all communications by and between the power generator, the retail electric provider and the TDSP, including customer sign up, meter reading and billing between the end user, power generator and the REP.

Subsequent Legislative Developments in Texas

Following its initial efforts at deregulation, Texas adopted subsequent legislation that: (i) allowed retail customers situated in the ERCOT region of Texas to choose an REP; (ii) permitted REPs who are not affiliated with an incumbent utility in a particular market to, with certain exceptions, directly disconnect customers who fail to pay their power bills in a timely manner; and (iii) removed pricing restrictions otherwise known as "Price to Beat" from Incumbent/affiliated REPs, creating a true deregulated competitive market.

Markets Outside of Texas

If the Company enters deregulated markets outside of Texas, we will be required to operate within the specific regulatory environment of such state or region. The rules in the other markets vary from Texas, with some aspects being more favorable and some less favorable than Texas. We will evaluate the regulatory environment of each market, in addition to other operational, financial and customer considerations, before determining whether to pursue other market area opportunities.

Marketing and Sales

The Company is in the process of implementing a multi-tiered marketing and sales strategy. The short-term emphasis is on controlled growth, utilizing indirect marketing through third-party relationships. Indirect marketing efforts, including the following, allow the Company to facilitate growth while keeping expenses low by avoiding the expense associated with creating and managing a full sales team:

- Aggregators, Brokers, Consultants - often referred to as "ABC's" in the retail power industry;

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- Affinity Programs - airline miles, credit card points, and participating gift cards;
- Multifamily Housing Programs - incentivizing property management companies based on referrals to their tenants;
- Referrals - reaching out to individuals connected to the community and providing incentives for sign-ups; and
- Charitable Programs - enhancing referral programs and offering customers the chance to donate referral fees to local charitable organizations.

As the Company grows, we expect to achieve long-term growth by building our in-house sales team to manage our third-party, as well as our direct marketing efforts. Our direct marketing efforts include, or will include, without limitation:

- In-house sales staff focused on small to medium sized commercial sales;
- Face-to-face marketing, including presentations, customer meetings, and business development through newly-formed relationships with consumers (a/k/a cold calling);
- Direct sales using independent sales associates;
- Responding to website inquiries from commercial businesses;
- Identifying opportunities in underserved markets (e.g. South Texas and West Texas); and
- Community Involvement - establishing our brand throughout the community by giving back and volunteering our time and assistance.

Relationship marketing will play a key role in both channels and should facilitate growth in the marketplace.

Competition and Perceived Competitive Advantages

As more fully set forth under the heading entitled "Risk Factors," the Company faces competition from many competitors who have significantly greater financial resources, well-established brand names, and large, existing installed customer bases. We expect the level of competition to intensify in the future. There is also significant competition from incumbent, traditional, and new electricity providers which may be better capitalized than the Company.

It is understood that there is significant competition in the retail electric market; however, most established competitors target the larger customer segment such as large commercial and industrial operations. This creates a niche that we aggressively target. We focus on small to medium size commercial, residential, and select large businesses in our core marketing efforts. We believe this market segment will yield a higher per-unit-margin with improved customer loyalty.

The Company anticipates the addition of new market participants. Recent entries into the marketplace include single-client companies established for a select number of large electricity users such as refineries or industrial plants. These new participants' strategy is to focus most of their marketing dollars on high-end users, as they assume the larger customers provide the highest return. The Company differentiates its strategy by focusing on the small to mid-size customer segment and building lasting relationships through excellent customer service, flexible terms, unique sales techniques, and competitive pricing.

The Company's present management and staff have significant experience working in the Texas retail energy market. Management and staff also have experience with retail electric providers who operate in Maryland, the District of Columbia and Massachusetts. We believe management's experience with these entities will contribute to management's ability to market and grow the Company into a successful retail electricity provider in Texas.

Because of management's prior experience, management and staff have developed and maintained strong connections with agents, brokers, property owners and others in the Texas market. Through these relationships, the Company anticipates building sales momentum.

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The Company has not applied for any patents or copyrights. The Company has filed a trademark application for "Summer Energy." The Company has not spent any significant time since its inception on research and development activities.

Additional Information

As more fully set forth under the heading entitled "Risk Factors," the Company is subject to governmental regulation and will face additional costs in complying with such regulations. At this time, the Company does not have an estimate of its annual regulatory compliance costs.

ITEM 1A. RISK FACTORS

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other information contained in this Annual Report and in our other filings with the SEC, including subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on the Company, our business, financial condition, results of operations and/or liquidity could be seriously harmed. In that event, the market price of our common stock will likely decline, and you may lose all or part of your investment.

In General**Risks Factors Related to Our Business and Industry**

We have a relatively limited operating history and limited historical financial information upon which you may evaluate our performance.

You should consider, among other factors, our prospects for success in light of the risks and uncertainties encountered by companies that, like us, are in a relatively early stage of development. We may not successfully address the usual and ordinary risks and uncertainties associated with being an early stage company or successfully implement our existing and new products and services. If we fail to do so, it could materially harm our business. Even if we accomplish these objectives, we may not generate the positive cash flows or profits we anticipate in the future. Unanticipated problems, expenses and delays are frequently encountered in establishing a new business and developing new products and services. These include, but are not limited to, inadequate funding, lack of consumer acceptance, competition, product development, and inadequate sales and marketing. Our failure to meet any of these conditions would have a material adverse effect upon us and may force us to reduce or curtail our operations. No assurance can be given that we will operate profitably. Even though we are being managed by individuals with significant industry experience, our limited operating history makes it difficult to predict the long-term success of our business model.

We depend on key personnel.

For the foreseeable future, our success will depend largely on management's industry knowledge, marketing skills and relationships with key investors, customer bases, and industry leaders. The Company has employment agreements with management and other key personnel. Should any of these individuals leave the Company, it may have a material adverse effect on our future results of operations.

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Outside of our wholesale contracts, our customer contracts, and our REP certificate, the Company currently has limited assets that are available to satisfy liabilities and other obligations of the Company. If the Company becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Company's assets.

We will indemnify Management and the members of the Board of Directors.

These key decision-makers will be entitled to indemnification from the Company except in certain circumstances, as more fully set forth in our Articles of Incorporation, Bylaws and separate indemnification agreements.

Stockholders will have no right to participate in management of the Company.

Stockholders in the Company will not have the right to participate in the management of the Company or in decisions made by the Management on the Company's behalf. As a result, stockholders will have almost no control over their investments in the Company or their prospects with respect thereto.

Uncertain economic conditions.

Recent economic events have created uncertainty with respect to the condition of the economy in the United States. Certain economic factors and indicators have suggested that such events have had a substantial negative effect on the economies of the United States and Texas. Furthermore, several industries have experienced financial difficulties. In addition, there have been material adverse effects on the world's economies caused by illegal activities in the business and accounting professions resulting in significant declines in the United States equity markets. Other equity markets have been similarly affected. It is impossible to determine at this time the long-term effects of these events and conditions on the economy. Any negative change in the general economic conditions could adversely affect the financial condition and our operating results. Unforeseen incidents, such as terrorist attacks, corporate fraud or general weakness in the economy, could have a negative impact on the overall economic state of the market in which we intend to market and utilize our products and services. The Company may experience difficulty in raising additional capital necessary for expenses and growth, may experience underfunding due to the timing of payments received and due to the seasonality of the Texas market and customer electricity usage.

Adequacy of funds for operations or capital expenditures.

To the extent that the Company's expenses increase, unanticipated expenses arise, or capital expenditures are necessary, and accumulated reserves are insufficient to meet such expenses, the Company may be required to obtain cash advances and additional funds through borrowing or additional equity raises, if available. Such debt and/or equity raises may have a material negative adverse effect on the Company's profitability.

We are dependent on a single party to purchase our electricity.

We are party to an Energy Marketing Agreement for Electric Power with DTE Energy Trading, Inc. ("DTE") whereby, with limited exceptions, we are required to purchase all of our electric power and associated services requirements from DTE. We therefore rely on DTE in order to meet our customers' needs. If we default in our obligations to DTE, we may be unable to purchase the required electricity supply to service our customers. If we are unable to purchase through DTE, we may be forced to purchase substantial electricity supply in the open market to meet customer demand at a time when energy prices are volatile, which could have an adverse impact on our financial condition. Our obligations to DTE are secured by a first position security interest in all of our assets, equipment and inventory.

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Our REP certification is subject to PUCT review.

The PUCT (the Public Utility Commission of Texas) may at any time initiate an investigation into whether our operations comply with PUCT rules and whether we have met all of the requirements for REP certification, including financial requirements. Any revocation of our REP certification would mean that we would no longer be allowed to provide electricity to retail customers. Such decertification would undoubtedly have a material effect on our results of operations, liquidity, and financial condition.

Volatile energy prices and regulatory risk.

Sustained high energy prices and/or ongoing price volatility also creates a risk of increased regulatory and/or legislative intervention, which may limit our flexibility within the deregulated market. In addition, ERCOT possesses significant regulatory control over our business. Factors outside of our control may cause ERCOT to change its regulatory structure at any time, which may have an adverse effect upon our business. Additionally, the PUCT may impose rules and regulations that adversely affect the Company's operations, finances and business practices.

The Company believes that competitive markets yield a broad range of innovative prices and service alternatives to consumers and ultimately lead to the most efficient use of resources. We believe regulatory entities should continue to take actions that encourage competition in the industry, but no assurance can be given that this will be the case. Regulatory and/or legislative intervention could disrupt the relationship in electricity prices, which could impact the Company's results of operations. The Company's earnings and cash flows may also be adversely affected in any period in which the demand for power significantly varies from forecasted supply, which may occur due to, among other factors, weather events, competition and economic conditions.

Reliance on transmission and distribution service providers ("TDSPs") affiliated with our competitors to perform some functions for our customers.

Under our regulatory structure, we will be required to enter into agreements with local incumbent utilities for use of the local distribution systems, and for the creation and operation of functional interfaces necessary for us to serve our customers. While we are optimistic about our ability to enter into acceptable agreements in Texas, any delay in future negotiations for access or our inability to enter into reasonable agreements to operate could delay or negatively impact our ability to serve our customers, which could have a material negative impact on our business, results of operations, and financial condition.

We are dependent on TDSPs for maintenance of the infrastructure through which we deliver electricity to our retail customers. Any infrastructure failure that interrupts or impairs delivery of electricity to our customers could negatively impact the satisfaction of our customers with our service and could have a material adverse effect on our results of operations, financial condition and cash flow. Additionally, we are dependent on TDSPs for performing service initiations and changes, and for reading our customers' energy meters. We are required to rely on the TDSPs, or, in some cases, ERCOT, to provide us with our customers' information regarding energy usage, and we may be limited in our ability to confirm the accuracy of the information. The provision of inaccurate information or delayed provision of such information by the TDSPs or ERCOT could have a material adverse effect on our business, results of operations, financial condition, and cash flow. In addition, any operational problems with our new systems and processes could similarly have a material adverse effect on our business, results of operations, financial condition, and cash flow. Further, we rely on the TDSPs to properly repair and maintain electrical lines in outages caused by severe weather which may produce a delay in providing service to the Company's customers, which can negatively impact the Company.

We are subject to government regulation and extensive government regulation may increase our costs and slow our growth.

Significant regulations imposed at the federal, state, and local levels govern the provision of utility services and affect our business and our existing and potential competitors. Delays in receiving required regulatory approvals, the enactment of adverse legislation, regulations or regulatory requirements, or the application of existing laws and regulations to certain services may have a material adverse effect on our business, financial condition, results of operations and cash flow. In addition, future legislative, judicial and regulatory agency actions could alter competitive conditions in the markets in which we intend to operate, in ways not necessarily to our advantage.

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In addition, ERCOT has and may continue to modify the market structure and other market mechanisms in an attempt to improve market efficiency. Moreover, existing regulations may be revised or reinterpreted and new laws and regulations may be adopted or become applicable to our commercial activities. These actions could have a material adverse effect on our results of operations, financial conditions and cash flows.

New legislation or regulation.

We cannot determine what effect additional state or federal governmental legislation, regulations, or administrative orders, when and if promulgated, would have on our business in the future. New legislation or regulations may require the reformulation of our business to meet new standards, require us to cease operations, impose stricter qualification and/or registration standards, impose additional record keeping, or require expanded consumer protection measures.

Reliance on information technology systems; Collection of sensitive customer data.

Our business is dependent on information sharing among market participants (including ERCOT, the TDSPs, and third-party service providers). This information includes customer enrollment information, ERCOT transactions, meter readings, invoices for wire line charges, etc. Therefore, our success as an independent REP is impacted by our ability to handle this information and we are dependent on third parties to provide timely and accurate information to us. We rely on a combination of internal systems including telephone, Internet, load forecasting, as well as systems operated by third parties. Failure to receive timely and accurate information could have an adverse impact on our business.

We have implemented, or intend to implement, both processes and infrastructure to provide for redundancy of core data due to business interruption associated with our billing platform; however, that is only one component of our business model. In addition, our systems and those we rely upon from third parties need continued development and investment to ensure reliability and scalability as our business grows at a rapid rate.

Despite the implementation of security measures, our networks may be vulnerable to unauthorized access, computer viruses and other disruptive problems. A party who is able to circumvent security measures could misappropriate proprietary information or cause interruptions in our Internet operations. We may be required to expend significant capital or other resources to protect against the threat of security breaches or to alleviate problems caused by such breaches. Although we intend to continue to implement industry-standard security measures, there can be no assurance that measures implemented by us will not be circumvented in the future.

Our business requires access to sensitive customer data in the ordinary course of business. Examples of sensitive customer data are names, addresses, account information, historical electricity usage, expected patterns of use, payment history, credit bureau data, credit and debit card account numbers, driver's license numbers, social security numbers and bank account information. We may need to provide sensitive customer data to vendors and service providers who require access to this information in order to provide services. It is possible that our security controls over personal data, our training of employees and consultants on data security, and other practices we follow may not prevent the improper disclosure of personally identifiable information. If a significant breach occurred, our reputation may be adversely affected, customer confidence may be diminished, or our business may be subject to legal claims, any of which may contribute to the loss of customers and have a negative impact on the business and/or results of operations.

Certain political and natural events may affect our Company.

Catastrophic events or geo-political conditions may disrupt our business. A disruption or failure of our systems or operations in the event of a major earthquake, weather event, cyber-attack, terrorist attack, or other catastrophic event or natural disaster could cause delays in performing critical functions. A catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could harm our ability to conduct normal business operations and our operating results.

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Weather and other related commodity risks may affect our ability to manage and maintain a balanced supply/demand book.

Commitments for future purchase of electricity supply (forward power contracts) are based not only on our expected customer base at a given point in time, but also weather forecasts for the geographical areas in which we operate. We plan to maintain a long position in our forward power contracts (contracted electricity supply purchases are slightly greater than forecasted demand by our customers) to minimize the need to purchase power on the balancing markets at varying market prices. However, fluctuations in actual weather conditions may have an impact on the actual power needs of customers on a given day. Extreme weather conditions may force us to purchase electricity in the balancing market on days when weather is unexpectedly severe, and the pricing for balancing market energy may be significantly higher on such days than the cost of electricity in our existing fixed priced contracts. Unusually mild weather conditions could leave us with excess power which may be sold in the balancing market at a loss if the balancing market price is lower than the Company's cost of electricity in our existing fixed priced contracts.

Commodity pricing is an inherent component of our business operations and our financial results. The prevailing market prices for electricity and fuel may fluctuate substantially over relatively short periods of time, potentially adversely impacting our results of operations, financial condition, and cash flows. Changes in market prices for electricity and fuel may result from any of the following:

- weather conditions;
- seasonality;
- demand for energy commodities and general economic conditions;
- forced or unscheduled plant outages;
- disruption of electricity or gas transmission or transportation infrastructure or other constraints or inefficiencies;
- addition of generating capacity;
- availability of competitively priced alternative energy sources;
- availability and levels of storage and inventory for fuel stocks;
- natural gas, crude oil and refined products, and coal production levels;
- the creditworthiness or bankruptcy or other financial distress of market participants;
- changes in market liquidity;
- natural disasters, wars, embargoes, acts of terrorism and other catastrophic events; and
- Federal and state governmental regulation and legislation.

We may have difficulty obtaining a sufficient number of customers.

We anticipate that we will incur significant costs as we enter new markets and pursue customers by utilizing a variety of marketing methods. In order for us to recover these expenses, we must attract and retain a large number of customers. While the Company is optimistic, there can be no assurance that efforts to secure customers will provide the revenue base needed to succeed in Texas and/or expand into additional markets.

We may experience difficulty attracting customers because many customers may be reluctant to switch to a new supplier for a commodity as critical to their well-being as electric power. A major focus of our ongoing marketing efforts will be to demonstrate to potential customers that we will be a reliable provider with sufficient resources to meet our commitments. If our marketing strategy does not prove to be successful, our business, results of operations, and financial condition will be materially adversely affected.

We bear the credit risk and billing responsibility for our customers.

In Texas, the sole market in which we currently operate, we are responsible for the billing and collection functions for our customers. As we seek to expand our operations into additional markets, the billing and collection functions may also be our responsibility. In many of these markets, we may be limited in our ability to terminate service to customers who are delinquent in payment. Even if we terminate service to customers who fail to pay their electricity bill in a timely manner, we may remain liable to our suppliers and to the local utilities for services related to the transmission and distribution of the electricity. The failure of our customers to pay their bills in a timely manner or our failure to maintain adequate billing and collection programs could materially adversely affect our business.

[TABLE OF CONTENTS](#)***We may not be able to manage our growth successfully.***

The development of our operations will depend upon, among other things, our ability to create and expand our customer base in Texas and to enter new markets in a timely manner and at reasonable costs. In addition, we anticipate that our employee base will grow in order for us to accommodate our increased customer base. We may experience difficulty managing the growth of a portfolio of customers that is diverse both with respect to the types of services they will require, the market rules in their jurisdiction and the infrastructure required to deliver electricity to those customers. Expanding our operations may also require continued development of our operating and financial controls and may place additional stress on our management, finances and operational resources. If we are unable to manage our growth and development successfully, our operating results and financial condition could be materially adversely affected.

We face strong competition from incumbent utilities and other competitors.

The market in which the Company operates is highly competitive. The Company faces competition from many competitors with significantly greater financial resources, well-established brand names and large, existing installed customer bases. We expect the level of competition to intensify in the future. We expect significant competition from incumbent, traditional, and new electricity providers which may be better capitalized than the Company.

In most markets, our principal competitor may be the local incumbent utility's unregulated affiliates. These affiliates have the advantage of long-standing relationships with their customers, and they may have longer operating histories, greater financial and other resources and greater name recognition in their markets than we do. In addition, incumbent utilities have been subject to regulatory oversight, in some cases for close to a century, and thus have a significant amount of experience regarding the regulators' policy preferences as well as a critical economic interest in the outcome of proceedings concerning their revenues and terms and conditions of service.

Some of our competitors, including affiliated retailers, have formed alliances and joint ventures in order to compete in the restructured, deregulated retail electricity industry. Many customers of these incumbent utilities may decide to stay with their long-time energy provider if they have been satisfied with its service in the past.

In addition to competition from the incumbent utilities and their affiliates, we face competition from a number of other energy service providers, including start-up companies focusing on internet marketing and online services, and other energy industry participants who may develop businesses that will compete with us in both local and national markets. Many of these competitors or potential competitors are larger than the Company and have access to more significant capital resources.

Payment defaults by other REPs to ERCOT.

In the event of a default by an REP of its payment obligations to ERCOT, the portion of that obligation that is unrecoverable by ERCOT from the defaulting REP is assumed by the remaining market participants in proportion to each participant's load ratio. As an REP and market participant in ERCOT, we may have to pay a portion of the amount owed to ERCOT should such a default occur, and ERCOT is not successful in recovering such amounts. As an early stage company, any such default of an REP in its obligations to ERCOT could have a material adverse effect on our business, results of operations, financial conditions and cash flows.

ERCOT has experienced problems with its information systems.

Problems in the flow of information between ERCOT, TDSPs, and the REPs have resulted in delays and other problems in enrolling and billing customers. When customer enrollment transactions are not successfully processed by all involved parties, ownership records in the various systems supporting the market are not synchronized properly and subsequent transactions for billing and settlement are adversely affected. The impact may mean that we are not listed as the electric provider-of-record for intended or agreed upon time periods, delays in receiving customer consumption data that is necessary for billing and settlement either through ERCOT or directly with TDSPs, as well as the incorrect application of rates or prices and imbalances in our electricity supply forecast and actual sales.

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Our future results of operations may be negatively impacted by settlement adjustments determined by ERCOT related to prior periods.

Settlement information for most operating activity is due from ERCOT within two months after the operating day, and true-up settlements are due from ERCOT within six months after the operating day. ERCOT has the ability to resettle any operating day at any time after the six month settlement period, usually the result of a lingering dispute, an alternative dispute resolution process, or litigated event. As a result, we are subject to settlement adjustments from ERCOT related to prior periods, which may result in charges or credits impacting our future reported results of operations.

Our results of operations and financial condition could be negatively impacted by any development or event beyond our control that causes economic weakness in the ERCOT market.

We are not geographically diversified. We derive substantially all of our revenues from operations in the ERCOT market, which covers approximately 75% of the geographical area in the State of Texas. As a result, regardless of the state of the economy in areas outside the ERCOT market, economic weakness in the ERCOT market could lead to reduced demand for electricity in the ERCOT market. Such a reduction could have a material negative impact on our results of operations, liquidity, and financial condition.

Risks Related to the Company

We may have contingent liabilities related to the Company's operations prior to the Transaction of which we are not aware and for which we have not adequately provisioned.

Prior to the consummation of the Transaction, the Company was engaged in the business of manufacturing and installing decorative window wells made from precast concrete. We cannot ensure that there are no material claims outstanding, or other circumstances of which we are not aware, that would give rise to a material liability relating to these prior operations, even though we have not recorded any provisions in our financial statements related to such potential liabilities. If we are subject to past claims or material obligations relating to our operations prior to the consummation of the Transaction, such claims could materially adversely affect our business, financial condition, and results of operations.

We have a substantial amount of indebtedness, which may adversely affect our financial resources and our ability to operate our business.

We are party with Blue Water Capital Funding, LLC (the "Lender"), to, and liable with our subsidiary Summer LLC for, up to \$5 million of outstanding debt under a revolving loan a Loan Agreement and accompanying Revolving Promissory Note (collectively, the "Loan Agreement"). The maturity date of the outstanding Loan Agreement is June 30, 2018. Our resulting substantial level of indebtedness and other financial obligations increase the possibility that we may be unable to pay, when due, the principal of, interest on, or other amounts due in respect of, our indebtedness. Further, under the Loan Agreement, we are subject to certain restrictive covenants that, among other things, may limit our ability to obtain additional financing for working capital requirements, product development activities, debt service requirements, and general corporate or other purposes. These restrictive covenants include, without limitation, restrictions on our ability to: (1) incur additional indebtedness; (2) incur liens; (3) make certain dispositions of assets; (4) merge, dissolve, consolidate or sell all or substantially all of our assets; and (5) enter into certain transactions with affiliates during the term of the Loan Agreement. If we breach any of these restrictive covenants or are unable to pay our indebtedness under the Loan Agreement when due, this could result in a default under the Loan Agreement. In such event, the Lender may elect (after the expiration of any applicable notice or grace periods) to declare all outstanding borrowings, together with accrued and unpaid interest and other amounts payable under the Loan Agreement, to be immediately due and payable. Any such occurrence would have an immediate and materially adverse impact on our business and results of operations. The Loan Agreement is secured by a second position security interest in all assets of the Company.

[TABLE OF CONTENTS](#)**Risks Related to the Transaction and the Ownership of the Common Stock of the Company**

We face increased costs and demands upon management and accounting and finance resources as a result of complying with the laws and regulations affecting public companies; any failure to establish and maintain adequate internal controls over financial reporting or to recruit, train and retain necessary accounting and finance personnel could have an adverse effect on our ability to accurately and timely prepare our consolidated financial statements.

As a public operating company, we incur significant administrative, legal, accounting and other burdens and expenses beyond those of a private company, including those associated with corporate governance requirements and public company reporting obligations. In particular, we may need to enhance and supplement our internal accounting resources with additional accounting and finance personnel with the requisite technical and public company experience and expertise, as well as refine our quarterly and annual financial statement closing process, to enable us to satisfy such reporting obligations. However, even if we are successful in doing so, there can be no assurance that our finance and accounting organization will be able to adequately meet the increased demands that result from being a public company.

Furthermore, we are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. In order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we are required to document and test our internal control procedures and prepare annual management assessments of the effectiveness of our internal control over financial reporting. These assessments will need to include disclosure of identified material weaknesses in our internal control over financial reporting. Testing and maintaining internal control over financial reporting will involve significant costs and could divert management's attention from other matters that are important to our business. Additionally, we cannot provide any assurances that we will be successful in remediating any deficiencies that may be identified. If we are unable to remediate any such deficiencies or otherwise fail to establish and maintain adequate accounting systems and internal control over financial reporting, or we are unable to recruit, train and retain necessary accounting and finance personnel, we may not be able to accurately and timely prepare our consolidated financial statements and otherwise satisfy our public reporting obligations. Any inaccuracies in our financial statements or other public disclosures (in particular if resulting in the need to restate previously filed financial statements), or delays in our making required SEC filings, could have a material adverse effect on the confidence in our financial reporting, our credibility in the marketplace and the trading price of our common stock.

We devote significant resources to address these public company-associated requirements, including compliance programs and investor relations, as well as our financial reporting obligations. Complying with these rules and regulations increases our legal and financial compliance costs and makes some activities more time-consuming and costly.

An active, liquid and orderly trading market for our common stock may not develop, and the price of our stock may be volatile and may decline in value.

There currently is not an active public market for our common stock. An active trading market may not develop or, if developed, may not be sustained. The lack of an active market may impair the ability of stockholders to sell shares of common stock at the time they wish to sell them or at a price they consider reasonable. An inactive market may also impair our ability to raise capital by selling shares of common stock and may impair our ability to acquire other companies or assets by using shares of our common stock as consideration.

The stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies with securities traded in those markets. Broad market and industry factors may seriously affect the market price of companies' stock, including ours, regardless of actual operating performance.

[TABLE OF CONTENTS](#)***The Company may not be able to attract the attention of brokerage firms.***

Because the Transaction is characterized as a "reverse acquisition," securities analysts of brokerage firms may not provide coverage of the Company. No assurance can be given that brokerage firms will want to conduct any secondary offerings on behalf of the Company in the future, should the need arise.

Our common stock may not be eligible for listing on a national securities exchange.

Our common stock is not currently listed on a national securities exchange, and we do not currently meet the initial quantitative listing standards of a national securities exchange. We cannot assure you that we will be able to meet the initial listing standards of any national securities exchange, or, if we do meet such initial qualitative listing standards, that we will be able to maintain any such listing. Our common stock is currently quoted on the OTC Markets and, until our common stock is listed on a national securities exchange, we expect that it will continue to be eligible and quoted on the OTC Markets, another over-the-counter quotation system, or in the "pink sheets." In these venues, an investor may find it difficult to obtain accurate quotations as to the market value of our common stock. In addition, if we fail to meet the criteria set forth in SEC regulations, various requirements would be imposed by law on broker-dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling our common stock, which may further affect its liquidity. This would also make it more difficult for us to raise additional capital in the future.

The Company's common stock may be considered "a penny stock" and may be difficult to sell.

The SEC has adopted regulations which generally define "penny stock" to be an equity security that has a market price of less than \$5.00 per share, or an exercise price of less than \$5.00 per share, subject to specific exemptions. The market price of our common stock is likely to be less than \$5.00 per share and, therefore, may be designated as a "penny stock" according to SEC rules. This designation requires any broker or dealer selling these securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may affect the ability of investors to sell their shares.

Our stockholders may experience significant dilution if future equity offerings are used to fund operations or acquire complementary businesses.

If we engage in capital raising activities in the future, including issuances of common stock, to fund the growth of our business, our stockholders could experience significant dilution. In addition, securities issued in connection with future financing activities or potential acquisitions may have rights and preferences senior to the rights and preferences of our common stock. We have an equity incentive plan pursuant to which equity awards may be granted to eligible employees (including our executive officers), directors and consultants, if our board of directors determines that it is in the best interest of the Company and our stockholders to do so. The issuance of shares of our common stock upon the exercise of any such equity awards may result in dilution to our stockholders and adversely affect our earnings.

If securities or industry analysts do not publish, or cease publishing, research or reports about us, our business or our market, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by whether industry or securities analysts publish research and reports about us, our business, our market or our competitors and, if any analysts do publish such reports, what they publish in those reports. We may not obtain analyst coverage in the future. Any analysts that do cover us may make adverse recommendations regarding our stock, adversely change their recommendations from time to time, and/or provide more favorable relative recommendations about our competitors. If any analyst who may cover us in the future were to cease coverage of our company or fail to regularly publish reports on us, or if analysts fail to cover us or publish reports about us at all, we could lose, or never gain, visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

[TABLE OF CONTENTS](#)***We do not anticipate paying any dividends in the foreseeable future.***

We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends to holders of our common stock in the foreseeable future.

The forward looking statements contained in this Annual Report may prove incorrect.

This Annual Report contains certain forward-looking statements. These forward-looking statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. In addition to the other risks described elsewhere in this "Risk Factors" discussion, important factors to consider in evaluating such forward-looking statements include: (i) changes to external competitive market factors or in our internal budgeting process which might impact trends in our results of operations; (ii) anticipated working capital or other cash requirements; (iii) changes in our business strategy or an inability to execute our strategy due to unanticipated changes in our industry; and (iv) various competitive factors that may prevent us from competing successfully in the marketplace. In light of these risks and uncertainties, many of which are described in greater detail elsewhere in this "Risk Factors" discussion, there can be no assurance that the events predicted in forward-looking statements contained in this Annual Report will, in fact, transpire. Any negative change in the factors listed above could adversely affect the financial condition and operating results of the Company and its products.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

We currently lease approximately 6,467 square feet of office space at 800 Bering Drive, Suite 260, Houston, Texas 77057, pursuant to a lease agreement, as amended, that expires on October 31, 2019.

The current base lease payments under the lease are \$12,665 per month. Beginning on November 1, 2016 and through October 31, 2017, the base lease payments were increased to \$12,665 per month, beginning November 1, 2017 through October 31, 2018 the base payments will be increased to \$12,934 and beginning November 1, 2018 through October 31, 2019 the base lease payments will increase to \$13,203.

The premises are sufficient for the Company's current needs.

ITEM 3. LEGAL PROCEEDINGS.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

[TABLE OF CONTENTS](#)**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

Our common stock is traded on the OTC Markets, OTCQB, under the symbol "SUME." As such, the market for our common stock may be less liquid, receive less coverage by security analysts and news media, and generate lower prices than might otherwise be obtained if it were listed on a national exchange.

There is not, nor has there been, an active trading market for our common stock. The following table presents quarterly information on the high and low sales prices of our Common Stock through March 30, 2017, and the fiscal years ended December 31, 2016 and 2015, furnished by the OTC Markets.

	High	Low
Fiscal Year Ending December 31, 2017		
First Quarter (through March 28, 2017)	\$ 1.30	\$ 1.30
Fiscal Year Ended December 31, 2016		
First Quarter	\$ 1.40	\$ 1.00
Second Quarter	\$ 1.55	\$ 1.01
Third Quarter	\$ 2.30	\$ 1.53
Fourth Quarter	\$ 1.75	\$ 1.40
Fiscal Year Ended December 31, 2015		
First Quarter	\$ 1.75	\$ 0.20
Second Quarter	\$ 1.55	\$ 0.75
Third Quarter	\$ 1.35	\$ 0.80
Fourth Quarter	\$ 1.35	\$ 1.00

The high and low sales prices for our Common Stock on March 28, 2017, as quoted on the OTCQB, were \$1.30 and \$1.30, respectively.

Holders

On March 29, 2017, we had approximately 124 stockholders of record.

Dividends

We have never paid cash dividends on our common stock and do not anticipate paying such dividends in the foreseeable future. The future payment of dividends, if any, will be determined by our Board of Directors (the "Board") in light of conditions then existing, including our financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

Repurchases

During the fiscal year ended December 31, 2016, we did not repurchase any of our securities.

[TABLE OF CONTENTS](#)**Securities Authorized for Issuance under Equity Compensation Plans**

The following table provides certain information as of December 31, 2016 with respect to our existing equity compensation plans under which shares of our common stock are authorized for issuance.

Plan	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuances Under Plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1):	632,000	\$ 1.24	2,000
Equity compensation plans approved by security holders (2):	899,500	\$ 1.37	645,500
Equity compensation plans not approved by security holders (3):	1,927,993	\$ 1.43	
Total	3,459,493		647,500

(1) This plan is the 2012 Stock Option and Stock Award Plan.

(2) This plan is the 2015 Stock Option and Stock Award Plan.

(3) From time to time and at the discretion of the Board, we may issue warrants and stock options to our key individuals or officers as performance based compensation.

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion presents information about our consolidated results of operations, financial condition, liquidity and capital resources and should be read in conjunction with our consolidated financial statements and the notes thereto beginning on page F-1 of this Annual Report.

Recent Developments

The consolidated financial statements include the accounts of Summer Energy Holdings, Inc., a Nevada corporation and its wholly-owned subsidiaries Summer Energy, LLC, a Texas limited liability company ("Summer LLC"), Summer Energy of Ohio, LLC, an Ohio limited liability company ("Summer Ohio") and Summer EM Marketing ("Marketing LLC") (collectively referred to as the "Company," "we," "our," or "us").

On March 27, 2012, Summer LLC became a wholly-owned subsidiary of Summer Energy Holdings, Inc. (formerly known as Castwell Precast Corporation) through a reverse acquisition transaction, which resulted in the former members of Summer LLC owning approximately 92.3% of the Summer Energy Holdings, Inc. outstanding common stock. Our sole operations are conducted through Summer LLC.

Marketing, LLC was formed in the state of Texas on November 6, 2012 to provide marketing services to Summer LLC. Summer Ohio was formed in the State of Ohio on December 13, 2013 to procure and sell electricity in the State of Ohio. The Public Utilities of Ohio ("PUCO") issued a certificate of a Retail Electric Service Provider to Summer Ohio on June 16, 2015. At this time, there is no business activity in the State of Ohio.

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Overview

Our wholly owned subsidiary, Summer LLC, is a licensed Retail Electricity Provider (REP) in the State of Texas. In general, Texas regulatory structure permits REPs, such as Summer LLC, to procure and sell electricity at unregulated prices. REPs pay the local transmission and distribution utilities a regulated tariff rate for delivering electricity to their customers. As a REP, we sell electricity and provide the related billing, customer service, collections and remittance services to residential and commercial customers. We offer retail electricity to commercial and residential customers in designated target markets within the State of Texas. In the commercial market, the primary target is small to medium-sized customers (less than one megawatt of peak usage), but we will also selectively pursue larger commercial customers through management's existing, historical relationships. Residential customers are a secondary target market. We anticipate that a majority of our customers will be located in the Houston and Dallas-Fort Worth metropolitan areas; although, we anticipate a growing number will be located in a variety of other metropolitan and rural areas within Texas.

We began delivering electricity to customers in mid-February 2012.

During the year ended 2016, we added ten full-time employees to our workforce, and we anticipate these staffing additions will enable us to effectively expand our presence throughout Texas.

As of December 31, 2016, we had 62 full-time employees.

Application of Critical Accounting Policies

The SEC defines critical accounting policies as those that are, in management's view, most important to the portrayal of our financial condition and results of operations and most demanding of our judgment. The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which were prepared in accordance with accounting principles generally accepted in the U.S., which is referred to as "GAAP." The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate these estimates, including those related to stock-based compensation, customer programs and incentives, bad debts, supply inventories, intangible assets, income taxes, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We consider the following accounting policies to be those most important to the portrayal of our financial condition and those that require the most subjective judgment:

Revenue Recognition

Our electricity revenue is recognized by our Company upon delivery of electricity to a customer's meter. This method of revenue recognition is commonly referred to as the flow method. The flow method of revenue relies upon Electric Reliability Council of Texas ("ERCOT") settlement statements to determine the estimated revenue for a given month. Supply delivered to customers for the month, measured on a daily basis, provides the basis for revenues. Electricity revenue consists of proceeds from energy sales, including, pass through charges from the Transmission and Distribution Providers ("TDSPs") billed to the customer at cost.

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Unbilled Revenue and Accounts Receivable

Electric services not billed by month-end are accrued based upon estimated deliveries to customers as tracked and recorded by ERCOT multiplied by our average billing rate per kilowatt hour ("kWh") in effect at the time. At the end of each calendar month, revenue is accrued to unbilled receivables based on the estimated amount of power delivered to customers using the flow technique. Unbilled revenue also includes accruals for estimated TDSP charges and monthly service charges applicable to the estimated electricity usage for the period. All charges that were physically billed to customers in the calendar month are recorded from the unbilled account to the customer receivable account. Accounts receivable are customer obligations billed at the conclusion of a month's electricity usage and due within 16 days of the date of the invoice. Balances past due are subject to a late fee that is assessed on that billing.

Cost Recognition

Direct energy costs are recorded when the electricity is delivered to the customer's meter.

Cost of Goods Sold ("COGS") include electric power purchased and pass through charges from the TDSPs in the areas serviced by the Company. TDSP charges are costs for metering services and maintenance of the electric grid. TDSP charges are established by regulation of the Public Utility Commission of Texas (PUCT).

The energy portion of our COGS is comprised of two components: bilateral wholesale costs and balancing/ancillary costs. These two cost components are incurred and recognized differently as follows:

Bilateral wholesale costs are incurred through contractual arrangements with wholesale power suppliers for firm delivery of power at a fixed volume and fixed price. We are invoiced for these wholesale volumes at the end of each calendar month for the volumes purchased for delivery during the month, with payment due 20 days after the end of the month.

Balancing/ancillary costs are based on the customer load and are determined by ERCOT through a multiple step settlement process. Balancing costs/revenues are related to the differential between supply that we provided through our bilateral wholesale supply and the supply required to serve our customer load. The Company endeavors to minimize the amount of balancing/ancillary costs through our load forecasting and forward purchasing.

Stock-Based Compensation

Under the fair value recognition provisions of the authoritative guidance, stock-based compensation cost granted to employees is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service or performance period, which is the vesting period. Stock options and warrants issued to consultants and other non-employees as compensation for services to be provided to us are accounted for based upon the fair value of the services provided or the estimated fair value of the option or warrant, whichever can be more clearly determined. We currently use the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, the expected term of the award, the risk-free interest rate and any expected dividends. Compensation cost associated with grants of restricted stock units are also measured at fair value. We evaluate the assumptions used to value restricted stock units on a quarterly basis. When factors change, including the market price of the stock, share-based compensation expense may differ significantly from what has been recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense.

Income Taxes

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of tax-related assets and liabilities and income tax expense. These estimates and assumptions are based on the requirements of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") relating to accounting for uncertainty in income taxes. Our policy is to classify interest and penalties related to unrecognized income tax benefits as a component of income tax expense.

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We assess whether previously unrecognized tax benefits may be recognized when the tax position is (1) more likely than not of being sustained based on its technical merits, (2) effectively settled through examination, negotiation or litigation, or (3) settled through actual expiration of the relevant tax statutes. Implementation of this requirement requires the exercise of significant judgment. Recognizing deferred tax assets will increase tax benefits and increase net income.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the period in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits and penalties in income tax expense.

New Customer Implementation Costs

We ordinarily incur additional costs to implement our services for new customers. These costs are comprised primarily of additional labor and support. These costs are expensed as incurred, and have a negative impact on our statements of operations and cash flows during the implementation phase.

Warrants

The Company's common stock warrants are measured at fair value using the Black-Scholes valuation model which takes into account, as of the measurement date, factors including the current exercise price, the term of the instrument, the current price of the underlying stock and its expected volatility, expected dividends on the stock and the risk-free interest rate for the term of the item.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP, with no need for management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. Please see our audited consolidated financial statements and notes thereto which begin on page F-1 of this Annual Report on Form 10-K, which contain accounting policies and other disclosures required by GAAP and please refer to the disclosures in Note 2 of our financial statements for a summary of our significant accounting policies.

Results of Operations

Year Ended December 31, 2016, compared to the Year Ended December 31, 2015

Revenue – For the year ended December 31, 2016, the Company generated \$90,180,309 in electricity revenue from commercial customers and various long and short-term residential customers. The majority of our revenue comes from the flow of electricity to customers. However, included within these revenues are revenues from contract cancellation fees, disconnection fees and late fees in the amount of \$4,351,695. Electricity revenues for the year ended December 31, 2015 were \$81,047,598, including \$3,764,386 from contract cancellation fees, disconnection fees and late fees.

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Management plans to continue to execute on its sales and marketing program to solicit individual commercial and residential customers. Management also plans to continue to acquire portfolios of commercial and residential customers when offered at reasonable prices.

Cost of Goods Sold and Gross Profit – For the year ended December 31, 2016, cost of goods sold and gross profit totaled \$76,716,334 and \$13,463,975, respectively. Cost of goods sold and gross profit for the year ended December 31, 2015 totaled \$65,757,108 and \$15,290,490, respectively.

Operating expenses – Operating expenses for the year ended December 31, 2016, totaled \$13,426,756, consisting of general and administrative of \$6,820,886, bank services fees of \$674,502, collection fees/sales verification fees of \$61,507, outside commissions' expense of \$3,124,275, professional fees of \$234,054, bad debt reserve of \$1,543,840 and \$967,692 of billing fees. Billing fees are primarily costs paid to a third party Electronic Data Inter-Chain (EDI) providers to handle transactions between us, ERCOT and the TSDPs in order to produce customer bills.

Operating expenses for the year ended December 31, 2015 totaled \$12,137,902, consisting of general and administrative expenses of \$5,691,841, bank services fees of \$592,755, collection fees/sales verification fees of \$82,900, outside commissions' expense of \$2,560,234, professional fees of \$319,995, bad debt expense of \$1,975,073 and \$915,104 of billing fees.

Net Income/(Loss) – Net income/loss for the years ended December 31, 2016 and 2015, totaled \$(1,173,864) and \$1,382,064, respectively, primarily due to operating expenses and cost of goods sold incurred in excess of revenue as we attempt to obtain economies of scale.

Liquidity and Capital Resources

At December 31, 2016 and 2015, our cash totaled \$1,523,008 and \$382,490, respectively. Our principal cash requirements for the year ended December 31, 2016 and 2015, were for operating expenses and cost of goods sold (including power purchases, employee cost, and customer acquisition and capital expenditures). During the year ended December 31, 2016, the primary source of cash was from electricity revenues, \$2,500,000 in loan proceeds, and \$4,228,450 from capital raised pursuant to a private placement of our common stock. During the year ended December 31, 2015, the primary source of cash was from electricity revenues, \$3,100,000 in loan proceeds, and \$130,000 from capital raised pursuant to private placements of our common stock and warrants.

General - The Company's increase in net cash flows during 2016 when compared to the year ended December 31, 2015 is attributable to \$861,401 cash used in operating activities during the year ended December 31, 2016 and \$1,348,792 cash used in investing activities during that same period including \$76,762 used for the purchase of property and equipment and net cash of \$3,350,711 provided from financing activities primarily from \$4,228,450 received by the Company from the sale of our common stock through private placements conducted in 2016. During the year ended 2015, the Company's decrease in net cash flows was attributable to \$2,078,006 cash used in operating activities during the year ended December 31, 2015 and \$229,922 cash used in investing activities during that same period including \$194,841 used for the purchase of property and equipment and net cash of \$2,140,076 provided from financing activities primarily from \$3,100,000 proceeds received from long term notes payable.

The Company has no present agreements or commitments with respect to any material acquisitions of other businesses, products, product rights or technologies. However, we will continue to evaluate acquisitions of and/or investments in products, technologies, or companies that complement our business and may make such acquisitions and/or investments in the future. Accordingly, we may need to obtain additional sources of capital in the future to finance any such acquisitions and/or investments. We may not be able to obtain such financing on commercially reasonable terms, if at all. If we are able to obtain additional financing, such financing may result in restrictions on our operations, in the case of debt financing, or substantial dilution for stockholders, in the case of equity financing.

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Cash Outflows for Capital Assets, Customer Acquisition and Deposits

We expect to expend funds for capital assets, customer acquisition and deposits in connection with the expansion of our business in the upcoming year ending December 31, 2017. The anticipated source of funds is electricity revenues, lending and capital raised in the upcoming year ending December 31, 2017.

Future Financing Needs

The Company did not commence operations and the generation of revenue until the middle of the three month period ended March 31, 2012. Management believes that we have adequate liquidity to support operations. But, this belief is based upon many assumptions and is subject to numerous risks.

While we believe in the viability of our plan of operations and strategy to generate revenues and in our ability to raise additional funds, there can be no assurances that our plan of operations or ability to raise capital will be successful. The ability to grow is dependent upon our ability to further implement our business plan, generate revenues, and obtain additional financing, if and as needed.

Off-Balance Sheet Arrangements

Our existing wholesale power purchase agreement provides that we will provide additional credit support to cover mark-to-market risk in connection with the purchase of long term power. A mark-to-market credit risk occurs when the price of previously purchased long term power is greater than the current market price for power purchased for the same term. While we believe that the current environment of historically low power prices limits our exposure to risk, a collateral call, should it occur, could limit our working capital and, if we fail to meet the collateral call, could cause liquidation of power positions.

Related Party Transactions

On August 29, 2013, the Company entered into two five (5) year credit facility agreements with two members of the Company's board of directors, Neil Leibman and Tom O'Leary. Both parties agreed to act as surety and personal guarantors ("Guarantors") with respect to \$826,000 of the Company's depository requirements, consisting of a line of credit from a financial institution and certain extensions of credit by critical vendors that were necessary for the Company to carry out its business. As consideration for acting as surety and personal Guarantors, the Company issued each member 413,000 shares of its Series A Preferred Stock ("Series A Preferred") totaling 826,000 shares of Series A Preferred. On May 6, 2014, the Guarantors were released from such obligation by the Company when the Company exercised the Call Right reflected within the Credit Facility Agreements to purchase the 826,000 shares of Series A Preferred stock from the two assisting parties. On May 13, 2014, in consideration for the purchase of the 826,000 shares of Series A Preferred from the Guarantors, the Company granted a five-year stock option to each Guarantor to purchase 151,115 shares of the Company's common stock at an exercise price of \$1.50 per share.

On August 29, 2013, the Company entered into two five (5) year credit facility agreements with two members of the Company's board of directors, Neil Leibman and Tom O'Leary. Both parties agreed to act as surety and personal guarantors ("Guarantors") with respect to \$826,000 of the Company's depository requirements, consisting of a line of credit from a financial institution and certain extensions of credit by critical vendors that were necessary for the Company to carry out its business. As consideration for acting as surety and personal Guarantors, the Company issued each 413,000 shares of its Series A Preferred Stock. On May 6, 2014, the Guarantors were released from such obligation by the Company when the Company exercised the Call Right reflected within the two Credit Facility Agreements. On May 13, 2014, the Company granted a five-year stock option to each Guarantor to purchase 151,115 shares of the Company's common stock at an exercise price of \$1.50 per share.

On April 18, 2014, four members of the Company's board of directors, Stuart Gaylor, Andrew Bursten, Tom O'Leary and Neil Leibman ("Guarantors") guaranteed an Advance to Loan Note in the amount of \$1,500,000 which increased to \$1,700,000. The Company agreed to issue the four Guarantors a total of 120,000 shares of the Company's common stock per month (30,000 shares of common stock per month per Guarantor) reduced accordingly as the loan is reduced in consideration for agreeing to act as a Guarantor of the Advance to Loan Amount. In May 2016, the Company released the Guarantors from the obligation to guaranty the Advance to Loan Amount Note and stock payments for such guaranty were discontinued as of May 31, 2016. The balance of the Advance to Loan Amount was zero as of December 31, 2016.

On July 22, 2016, the Company advanced \$611,424 to a related party for purposes of short-term financing. Such advances were paid back in full to the Company on August 9, 2016.

During the calendar year 2016, the Company provided employee services to a related party valued at \$73,078. In addition, the related party provided aviation services to the Company in the amount of \$20,463. The net effect of these services to the Company was \$52,615. There were no outstanding balances between the Company and such related party as of December 31, 2016.

[TABLE OF CONTENTS](#)**Contractual Obligations, Contingent Liabilities and Commitments**

We currently lease approximately 6,467 square feet of office space in Houston, Texas pursuant to a lease agreement, as amended, that expires on October 31, 2019.

The current base lease payments under the lease are \$12,665 per month. Beginning on November 1, 2016 and through October 31, 2017, the base lease payment is \$12,665 per month, beginning November 1, 2017 through October 31, 2018 the base payments will be increased to \$12,934 and beginning November 1, 2018 through October 31, 2019 the base lease payments will increase to \$13,203.

<u>Rent Period</u>	<u>Monthly Base Rent</u>
09/01/2014 – 08/31/2015	\$11,182
09/01/2015 – 08/31/2016	\$11,451
09/01/2016 – 10/31/2016	\$0
11/01/2016 – 10/31/2017	\$12,665
11/01/2017 – 10/31/2018	\$12,934
11/01/2018 – 10/31/2019	\$13,203

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements required by this item are included in Part IV, Item 15 of this Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our "disclosure controls and procedures" as of the end of the period covered by this Annual Report, pursuant to Rules 13a-15(b) and 15d-15(b) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as of the end of the period covered by this Annual Report, were effective.

[TABLE OF CONTENTS](#)**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Management conducted an assessment of the effectiveness, as of December 31, 2016, of our internal control over financial reporting, based on the 2013 framework established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on their assessment under the COSO framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to final rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The information with respect to our executive officers and directors appearing in our Definitive Proxy Statement to be filed with the SEC in connection with the 2017 Annual Meeting of Stockholders ("Proxy Statement"), is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information with respect to compensation of our executive officers appearing in our Proxy Statement is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information with respect to the security ownership of certain beneficial owners and management appearing in our Proxy Statement is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information with respect to certain relationships and related transactions with management appearing in our Proxy Statement is hereby incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information with respect to the principal accounting fees and services appearing in the Proxy Statement is hereby incorporated by reference.

[TABLE OF CONTENTS](#)**PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

(a)

(1) Financial Statements

The following consolidated financial statements, and related notes thereto of our independent auditor are filed as part of this Annual Report:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2016 and 2015	F-2
Consolidated Statements of Operations for the years ended December 31, 2016 and 2015	F-3
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2016 and 2015	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015	F-5
Notes to Consolidated Financial Statements	F-6

(2) Financial Statement Schedules

All other financial statement schedules were omitted because they are not applicable, not required or the information required is shown in the financial statements or the notes thereto.

(3) Exhibits

The exhibits listed on the accompanying index to exhibits immediately following the financial statements are filed as part of, or hereby incorporated by reference into, this Annual Report.

[TABLE OF CONTENTS](#)**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of
Summer Energy Holdings, Inc.
Houston, TX

We have audited the accompanying consolidated balance sheets of Summer Energy Holdings, Inc. as of December 31, 2016 and 2015 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2016. Summer Energy Holdings, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summer Energy Holdings, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

/S/ LBB & ASSOCIATES LTD., LLP
LBB & Associates Ltd., LLP

Houston, Texas
March 30, 2017

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**SUMMER ENERGY HOLDINGS, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015**

	December 31, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash	\$ 1,523,008	\$ 382,490
Restricted cash	1,904,898	632,868
Accounts receivable, net	15,655,886	12,737,133
Prepaid and other current assets	<u>325,640</u>	<u>107,364</u>
Total current assets	19,409,432	13,859,855
Property and equipment, net	238,793	372,512
Deferred financing cost, net	134,916	-
Total assets	<u><u>\$ 19,783,141</u></u>	<u><u>\$ 14,232,367</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable	\$ 407,602	\$ 357,501
Accrued wholesale power purchased	5,636,942	4,730,703
Accrued expenses	5,256,595	3,894,748
Advance to loan amount note	-	111,057
Short-term debt, net of debt discount	<u>-</u>	<u>3,000,000</u>
Total current liabilities	11,301,139	12,094,009
Long-Term Liabilities		
Long-term debt	<u>2,500,000</u>	<u>-</u>
Total long-term liabilities	<u>2,500,000</u>	<u>-</u>
Total liabilities	<u><u>13,801,139</u></u>	<u><u>12,094,009</u></u>
Commitments and Contingencies	-	-
Stockholders' Equity		
Series B Preferred Stock - \$.001 par value, 3,000,000 authorized, 0 shares and 1,900,000 shares issued and outstanding at December 31, 2016 and December 31, 2015 respectively	-	1,900
Common Stock - \$.001 par value, 100,000,000 shares authorized, 22,463,424 and 16,216,619 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively	22,463	16,216
Subscription receivable	(52,000)	(52,000)
Additional paid in capital	14,615,555	9,492,454
Accumulated deficit	<u>(8,604,016)</u>	<u>(7,320,212)</u>
Total stockholders' equity	<u>5,982,002</u>	<u>2,138,358</u>
Total liabilities and stockholders' equity	<u><u>\$ 19,783,141</u></u>	<u><u>\$ 14,232,367</u></u>

See accompanying notes to the consolidated financial statements.

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SUMMER ENERGY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Year Ended December 31, 2016 and 2015

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Revenue	\$ 90,180,309	\$ 81,047,598
Cost of Goods Sold		
Power purchases and balancing/ancillary	40,009,008	36,093,015
Transportation and distribution providers charge	<u>36,707,326</u>	<u>29,664,093</u>
Total cost of goods sold	<u>76,716,334</u>	<u>65,757,108</u>
Gross Profit	13,463,975	15,290,490
General and Administrative	<u>(13,426,756)</u>	<u>(12,137,902)</u>
Operating Income/(Loss)	37,219	3,152,588
Other Income (Expense)		
Financing costs	(577,959)	(1,030,623)
Interest expense, net	<u>(548,024)</u>	<u>(608,401)</u>
Total other income (expense)	<u>(1,125,983)</u>	<u>(1,639,024)</u>
Net Income (Loss) Before Income Taxes	(1,088,764)	1,513,564
Income Taxes	<u>85,100</u>	<u>131,500</u>
Net Income (Loss)	(1,173,864)	1,382,064
Series B Preferred shares dividend	(109,940)	(228,004)
Net Income/(Loss) applicable to common shareholders	<u>\$ (1,283,804)</u>	<u>\$ 1,154,060</u>
Net Income/(Loss) per common share:		
Basic	<u>\$ (0.06)</u>	<u>\$ 0.07</u>
Dilutive	<u>\$ (0.06)</u>	<u>\$ 0.07</u>
Weighted average number of shares		
Basic	<u>19,417,246</u>	<u>15,534,196</u>
Dilutive	<u>19,417,246</u>	<u>15,634,455</u>

See accompanying notes to the consolidated financial statements.

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SUMMER ENERGY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2016 and 2015

	Common Stock		Series A Preferred Stock		Series B Preferred Stock		Subscription	Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Receivable	paid in capital	Deficit	
Balance at December 31, 2014	14,943,426	\$14,943	-	\$ -	1,900,000	\$1,900	\$ (52,000)	\$8,135,134	\$ (8,474,272)	\$ (374,295)
Vesting of Stock Options and restricted shares associated with the 2012 Stock Option and Award Plan	-	-	-	-	-	-	-	13,376	-	13,376
Vesting of Stock Options and restricted shares associated with the 2015 Stock Option and Award Plan	-	-	-	-	-	-	-	72,021	-	72,021
Issuance of Common Stock associated with a Private Placement Offering	130,000	130	-	-	-	-	-	129,870	-	130,000
Conversion of note payable to common stock	100,000	100	-	-	-	-	-	99,900	-	100,000
Issuance of Common Stock as interest payment	1,006,171	1,006	-	-	-	-	-	1,005,167	-	1,006,173

for
personal
guaranty

Issuance of
Common
Stock and
cash as
dividends
on Series B
Preferred
Shares

37,022	37	-	-	-	-	-	36,986	(228,004)	(190,981)
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Net Income	-	-	-	-	-	-	-	1,382,064	1,382,064
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Balance at
December

31, 2015	16,216,619	\$16,216	-	\$	-	1,900,000	\$1,900	\$	(52,000)	\$9,492,454	\$	(7,320,212)	\$2,138,358
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	Common Stock		Series A Preferred Stock		Series B Preferred Stock		Subscription	Additional	Accumulated	Total
	Shares Amount		Shares Amount		Shares Amount		Receivable	paid in capital	Deficit	
Vesting of Stock Options and restricted shares associated with the 2012 Stock Option and Award Plan	-	-	-	-	-	-	-	2,259	-	2,259
Vesting of Stock Options and restricted shares associated with the 2015 Stock Option and Award Plan	-	-	-	-	-	-	-	340,606	-	340,606
Issuance of Common Stock associated with a Private Placement Offering	3,844,854	3,845	-	-	-	-	-	4,224,605	-	4,228,450
Issuance of Common Stock as interest payment for personal guaranty	482,156	482	-	-	-	-	-	532,506		532,988
Issuance of Common Stock and cash as dividends on Series B Preferred Shares	19,795	20	-	-	-	-	-	23,125	(109,940)	(86,795)

Conversion
of Series B
Preferred to
Common

Shares	1,900,000	1,900	-	-	(1,900,000)	(1,900)	-	-	-	-
Net Loss	-	-	-	-	-	-	-	-	(1,173,864)	(1,173,864)
Balance at December 31, 2016	<u>22,463,424</u>	<u>\$22,463</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>(52,000)</u>	<u>\$14,615,555</u>	<u>\$ (8,604,016)</u>	<u>\$ 5,982,002</u>

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SUMMER ENERGY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Cash Flows from Operating Activities		
Net income/(loss)	\$ (1,173,864)	\$ 1,382,064
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Stock compensation expense	342,865	85,397
Non-cash financing costs	577,959	1,006,173
Depreciation of property and equipment	210,481	295,375
Bad debt expense	1,543,840	1,975,073
Changes in operating assets and liabilities:		
Accounts receivable	(4,462,593)	(6,025,293)
Prepaid and other current assets	(218,276)	749,278
Accounts payable	50,101	54,804
Accrued wholesale power purchases	906,239	(1,738,395)
Accrued expenses	1,361,847	137,518
Net cash used in operating activities	<u>(861,401)</u>	<u>(2,078,006)</u>
Cash Flows from Investing Activities		
Purchase of restricted cash	(83,830)	(50,125)
Proceeds (purchase) of certificate of deposit – restricted	-	15,044
Cash reserved as collateral on letters of credit	(1,188,200)	-
Purchase of property and equipment	(76,762)	(194,841)
Net cash used in investing activities	<u>(1,348,792)</u>	<u>(229,922)</u>
Cash Flows from Financing Activity		
Deferred financing costs, net	(179,887)	-
Proceeds from long term notes payable	2,500,000	3,100,000
Repayment on long term notes payable	(3,000,000)	
Proceeds from advance from loan note	356,600	
Repayment on advance from loan note	(467,657)	(898,943)
Payment of dividends in cash on Series B Preferred stock	(86,795)	(190,981)
Proceeds from issuance of common shares in a private placement, net	4,228,450	130,000
Net cash provided in financing activities	<u>3,350,711</u>	<u>2,140,076</u>
Net Change in Cash	1,140,518	(167,852)
Cash at Beginning of Period	<u>382,490</u>	<u>550,342</u>
Cash at End of Period	<u>\$ 1,523,008</u>	<u>\$ 382,490</u>
Supplemental Disclosure of Cash Flow Information:		
Income taxes paid	<u>\$ 11,210</u>	<u>\$ -</u>
Interest paid, net	<u>\$ 548,024</u>	<u>\$ 609,375</u>
Non-cash Transactions:		
Conversion of Series B Preferred stock to common stock	<u>\$ 1,900,000</u>	<u>\$ -</u>

Series B Preferred stock dividends	\$ 23,145	\$ 37,023
Conversion of note payable to common stock	\$ -	\$ 100,000

See accompanying notes to the consolidated financial statements.

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SUMMER ENERGY HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - ORGANIZATION

The consolidated financial statements include the accounts of Summer Energy Holdings, Inc. (formerly Castwell Precast Corporation) and its wholly owned subsidiaries Summer Energy, LLC ("Summer LLC"), Summer Energy of Ohio ("Summer Ohio") and Summer EM Marketing, LLC ("Marketing LLC") (collectively referred to as the "Company," "we," "us," or "our"). All significant intercompany transactions and balances have been eliminated in these consolidated financial statements.

On March 27, 2012, Summer LLC became a wholly-owned subsidiary of Summer Energy Holdings, Inc. (previously known as Castwell Precast Corporation) through a reverse acquisition transaction, which resulted in the former members of Summer LLC owning approximately 92.3% of Summer Energy Holdings, Inc.'s outstanding common stock. The operations of Summer LLC are the Company's sole line of business. The transaction was treated as a recapitalization of Summer LLC, and Summer LLC (and its historical financial statements) is the continuing entity for financial reporting purposes.

Summer LLC is a retail electric provider in the state of Texas under a license with the Public Utility Commission of Texas ("PUCT"). Summer LLC procures wholesale energy and resells to commercial and residential customers. Summer LLC was organized on April 6, 2011, under the laws of the State of Texas.

Marketing, LLC was formed in the State of Texas on November 6, 2012 to provide marketing services to Summer LLC.

Summer Ohio was formed in the State of Ohio on December 16, 2013 to procure and sell electricity in the state of Ohio. The Public Utilities Commission of Ohio ("PUCO") issued a certificate as a Retail Electric Service Provider to Summer Ohio on June 16, 2015. At December 31 2016, there was no business activity in the State of Ohio

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amount of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Revenue Recognition

Our electricity revenue is recognized by our Company upon delivery of electricity to a customer's meter. This method of revenue recognition is commonly referred to as the flow method. The flow method of revenue relies upon Electric Reliability Council of Texas ("ERCOT") settlement statements to determine the estimated revenue for a given month. Supply delivered to customers for the month, measured on a daily basis, provides the basis for revenues. Electricity revenue consists of proceeds from energy sales, including pass through charges from the Transmission and Distribution Providers ("TDSPs") billed to the customer at cost.

Unbilled Revenue and Accounts Receivable

Electric services not billed by month-end are accrued based upon estimated deliveries to customers as tracked and recorded by ERCOT multiplied by our average billing rate per kilowatt hour ("kWh")

[TABLE OF CONTENTS](#)**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

in effect at the time. At the end of each calendar month, revenue is accrued to unbilled receivables based on the estimated amount of power delivered to customers using the flow technique. Unbilled revenue also includes accruals for estimated TDSP charges and monthly service charges applicable to the estimated electricity usage for the period. All charges that were physically billed in the calendar month are recorded from the unbilled account to the customer's receivable account. Unbilled accounts as of December 31, 2016, and 2015 were estimated at \$10,922,288 and \$8,463,954, respectively. Accounts receivable are customer obligations billed at the customer's monthly meter read date for that period's electricity usage and due within 16 days of the date of the invoice. The balances past due are customers subject to a late fee that is assessed on that billing.

The Company determines the allowance based upon a review of outstanding receivables, historical write-off experience and existing economic conditions. Receivables past due over 90 days are considered delinquent and reviewed individually for collectability. After all means of collection have been exhausted, delinquent receivables are written off. Management has determined that the allowance for doubtful accounts as of December 31, 2016, and 2015 is \$999,046 and \$1,571,965, respectively. Bad debt expense for the years ended December 31, 2016 and 2015 is \$1,543,840 and \$1,975,073, respectively.

Cost Recognition

Direct energy costs are recorded when the electricity is delivered to the customer's meter.

Cost of Goods Sold ("COGS") include electric power purchased and pass through charges from the TDSPs in the areas serviced by the Company. TDSP charges are costs for metering services and maintenance of the electric grid. TDSP charges are established by regulation of the PUCT.

The energy portion of our COGS is comprised of two components: bilateral wholesale costs and balancing/ancillary costs. These two cost components are incurred and recognized differently as follows:

Bilateral wholesale costs are incurred through contractual arrangements with wholesale power suppliers for firm delivery of power at a fixed volume and fixed price. We are invoiced for these wholesale volumes at the end of each calendar month for the volumes purchased for delivery during the month, with payment due 20 days after the end of the month.

Balancing/ancillary costs are based on the customer load and are determined by ERCOT through a multiple step settlement process. Balancing costs/revenues are related to the differential between supply that we provided through our bilateral wholesale supply and the supply required to serve our customer load. The Company endeavors to minimize the amount of balancing/ancillary costs through our load forecasting and forward purchasing programs.

Basic and Diluted Income/(Loss) Per Share

Basic income/(loss) per share are computed by dividing net income/loss applicable to the weighted-average number of shares outstanding during the period. Diluted income per share is determined using the weighted-average number of shares outstanding during the period, adjusted for the dilutive effect of share equivalents, using the treasury method, consisting of shares that might be issued upon exercise of share equivalents. In periods where losses are reported, the weighted-average number of shares outstanding excludes share equivalents of 345,889 as of December 31, 2016 because their inclusion would be anti-dilutive.

[TABLE OF CONTENTS](#)**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Stock-Based Compensation

Under the fair value recognition provisions of the authoritative guidance, stock-based compensation cost granted to employees is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service or performance period, which is the vesting period.

Stock options and warrants issued to consultants and other non-employees as compensation for services to be provided to us are accounted for based upon the fair value of the services provided or the estimated fair value of the option or warrant, whichever can be more clearly determined. We currently use the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, the expected term of the award, the risk-free interest rate and any expected dividends. Compensation cost associated with grants of restricted stock units are also measured at fair value. We evaluate the assumptions used to value restricted stock units on a quarterly basis. When factors change, including the market price of the stock, share-based compensation expense may differ significantly from what has been recorded in the past.

If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense.

Income Taxes

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of tax-related assets and liabilities and income tax expense. These estimates and assumptions are based on the requirements of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") relating to accounting for uncertainty in income taxes. Our policy is to classify interest and penalties related to unrecognized income tax benefits as a component of income tax expense.

We assess whether previously unrecognized tax benefits may be recognized when the tax position is (1) more likely than not of being sustained based on its technical merits, (2) effectively settled through examination, negotiation or litigation, or (3) settled through actual expiration of the relevant tax statutes. Implementation of this requirement requires the exercise of significant judgment. Recognizing deferred tax assets will increase tax benefits and increase net income.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the period in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

[TABLE OF CONTENTS](#)**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits and penalties in income tax expense.

New Customer Implementation Costs

We ordinarily incur additional costs to implement our services for new customers. These costs are comprised primarily of additional labor and support. These costs are expensed as incurred, and have a negative impact on our statements of operations and cash flows during the implementation phase.

Warrants

The Company's common stock warrants are measured at fair value using the Black-Scholes valuation model which takes into account, as of the measurement date, factors including the current exercise price, the term of the instrument, the current price of the underlying stock and its expected volatility, expected dividends on the stock and the risk-free interest rate for the term of the item.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

The Company maintains its cash in demand deposit accounts or "noninterest-bearing transaction accounts" which, at times, may exceed federally insured limits. The Company's management periodically assesses the financial stability of these banks. The Company has not experienced any losses on such accounts.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term investments and debt instruments with an original maturity of three months or less to be cash equivalents.

Restricted cash represents funds held in escrow for customer deposits and for securing irrevocable stand-by letters of credit for the benefit of the Transmission and Distribution Providers that provide transmission services to the Company in the amount of \$1,904,898 and \$632,868 as of December 31, 2016, and 2015, respectively.

[TABLE OF CONTENTS](#)**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the following estimated useful lives:

Estimated Lives

Computer software	3 years
Computer hardware	3 years
Furniture and fixtures	5 years
Leasehold improvements	5 years
Website	3 years
Other equipment	7 years

Expenditures for additions, major renewals and betterments are capitalized, and expenditures for maintenance and repairs are charged against income as incurred. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in operations.

Deferred Financing Costs

The Company's deferred financing costs in the amount of \$179,887 are amortized over the two year life of the financing from Blue Water Capital Funding LLC (See Note 8). Amortization of deferred financing costs as of December 31, 2016, and 2015 were \$44,971 and \$0.

Derivative Instruments

The Company's business operations require entering into physically settled commodity contracts that meets the definition of a derivative. The Company has elected "normal purchases and normal sales" exception which is a term specific to ASC 815-10-15-22. When the contract satisfies certain criteria, including a requirement that physical delivery of the underlying commodity is probable and is expected to be used in normal course of business. Retail revenues and retail cost of revenues resulting from deliveries of commodities under normal purchase contracts and normal sales contracts are included in earnings at the time of contract settlement.

Recent Pronouncements

ASU 2014-15 — In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern within one year after the financial statements are available to be issued. The Company adopted this ASU effective December 31, 2016.

ASU 2016-18 — In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*, Restricted Cash, or ASU No. 2016-18. The amendments of ASU No. 2016-18 were issued to address the diversity in classification and presentation of changes in restricted cash and restricted cash equivalents on the statement of cash flows which is currently not addressed under Topic 230. The amendments of ASU No. 2016-18 would require an entity to include amounts generally described as restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning of period and end of period total amounts on the statement of cash flows. The amendments of ASU No. 2016-18 are effective for annual reporting periods beginning

[TABLE OF CONTENTS](#)**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted and the adoption of ASU No. 2016-18 should be applied retrospectively. The Company is currently evaluating the impact of the standard on the Company's statement of cash flows.

ASU 2016-02 — In 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), or Topic 842 with the objective to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and to improve financial reporting by expanding the related disclosures. The guidance in Topic 842 provides that a lessee that may have previously accounted for a lease as an operating lease under current GAAP should recognize the assets and liabilities that arise from a lease on the balance sheet. In addition, Topic 842 expands the required quantitative and qualitative disclosures with regards to lease arrangements. The Company expects to adopt the standard effective January 1, 2019 utilizing the required modified retrospective approach for the earliest period presented. It is currently not practicable to quantify the impact of adopting the ASU at this time.

NOTE 3 - INCOME TAXES

The components of income tax expense (benefit) from continuing operations for the years ended December 31, 2016 and 2015 are as follows:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
2016			
U.S. Federal	-	\$ -	\$ -
States and Local	85,100	-	85,100
Total	<u>\$ 85,100</u>	<u>\$ -</u>	<u>\$ 85,100</u>
2015			
U.S. Federal	30,500	\$ -	\$ 30,500
States and Local	101,000	-	101,000
Total	<u>\$ 131,500</u>	<u>\$ -</u>	<u>\$ 131,500</u>

Actual income tax expense for the years ended December 31, 2016 and 2015 is reconciled from the amount computed by applying the U.S. federal income tax rate of 34% and an effective state tax rate of (7.80%) to income before income taxes as follows:

	<u>2016</u>	<u>2015</u>
Expected tax expense	(314,500)	581,000
Reconciling items:		
Permanent Differences/Discrete Items	(29,500)	11,500
Change in Valuation Allowance	429,100	(461,000)
Others	-	-
Total tax expense	<u>\$ 85,100</u>	<u>\$ 131,500</u>

[TABLE OF CONTENTS](#)**NOTE 3 - INCOME TAXES (CONTINUED)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2016 and 2015 are presented below:

	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Net operating loss carryforward - Federal	\$ 2,017,500	\$ 1,554,000
Federal Minimum Tax	28,000	30,500
Reserve for accounts receivable	340,000	534,500
Organizational costs	10,000	11,000
Accrued expenses	167,000	41,500
Total gross deferred tax assets	<u>2,562,500</u>	<u>2,171,500</u>
Valuation allowance	<u>(2,530,000)</u>	<u>(2,103,000)</u>
Net deferred tax assets	<u>32,500</u>	<u>68,500</u>
Deferred tax liabilities:		
Plant and equipment	<u>(32,500)</u>	<u>(68,500)</u>
Net deferred tax liabilities	<u>(32,500)</u>	<u>(68,500)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

There was a valuation allowance of \$2,530,000 and \$2,103,000 as of December 31, 2016 and 2015, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income, projections for future taxable income over the periods in which the deferred tax assets are deductible, and the scheduled reversal of deferred tax liabilities, management does not believe it is more likely than not the Company will realize the full benefits of these deductible differences at December 31, 2016.

Net operating loss carryforwards attributable to federal was \$5,934,000 at December 31, 2016 expires at different dates through 2036.

There is not a provision for material uncertain tax positions for the Company at December 31, 2016 or 2015.

As of December 31, 2016, with few exceptions, the Company is no longer subject to U.S. Federal income tax examinations by tax authorities for years before 2013 and for state for years before 2012.

[TABLE OF CONTENTS](#)**NOTE 4 – PRIVATE PLACEMENT OF SERIES B PREFERRED SHARES**

On February 19, 2014, the Company filed a Certificate of Designation of Rights, Preferences, Privileges and Restrictions (the "Series B Designation") with respect to a class of preferred stock designated as Series B Preferred Stock (the "Series B Preferred"). The Series B Preferred entitles holders thereof to receive a dividend payable in cash or common stock, at the election of the holder, at an annual rate of 12% of the Deemed Original Issue Price. The "Deemed Original Issue Price" of the Series B Preferred for purposes of calculating the Series B Preferred dividend is \$1.00 per share, which the board of directors of the Company determined represents the estimated fair market value as of the date of grant. The Series B Preferred dividends are payable in cash or by the issuance of common stock ten (10) days following the end of each month, or portion thereof. The number of shares to be paid as a dividend shall be determined based on the fair market value of the shares of common stock on the record date for the dividend. On February 21, 2014, the Company entered into Series B Preferred Stock Purchase Agreements (each an "Agreement" and collectively the "Agreements") with several investors. Pursuant to the Agreements, the Company sold an aggregate of 1,900,000 shares of the Series B Preferred, for an aggregate purchase price of \$1,900,000 as of December 31, 2014. Several members of the Company's board of directors directly or indirectly participated in the offering.

The foregoing is only a brief description of the material terms of the Series B Designation and the offering of the Series B Preferred, and does not purport to be a complete description of the rights and obligations of the parties thereunder and such descriptions are qualified in their entirety by reference to the full text of the Certificate of Designation which was filed as Exhibit 3.1 to our Form 8-K filed on February 24, 2014.

In accordance with the Series B Designation, dividends due to holders of Series B Preferred may be paid at the option of the holder in shares of the Company's \$0.001 par value common stock valued at the fair market value of such shares of common stock as determined in good faith by the Board of Directors on the record date of the dividend.

The holders of outstanding shares of Series B Preferred are entitled to receive, out of funds legally available for the payment of dividends, cumulative monthly dividends at the annual rate of 12% of the Deemed Original Issue Price per share, in preference to and in priority over any dividends with respect to Common Stock. At the option of the holders of Series B Preferred Stock, dividends may be paid to holders of Series B Preferred Stock in shares of the Company's common stock valued at fair market value of such shares of common stock as determined in good faith by the board of directors.

During the year ended December 31, 2015, the Company had paid \$228,004 of cumulative monthly dividends on Series B Preferred Stock. Certain shareholders elected to be paid in shares of the Company's common stock shares valued at \$37,023 and the remaining holders were paid a total of \$190,981 in cash.

During the year ended December 31, 2016, the Company paid \$109,940 of cumulative monthly dividends on Series B Preferred Stock. Certain shareholders elected to be paid in shares of the Company's common stock shares valued at \$23,145 and the remaining holders were paid a total of \$86,795 in cash.

On June 24, 2016, the Series B Stockholders affirmatively elected to convert all outstanding Series B Shares into shares of common stock with a Conversion Price as of such date equal to \$1.00 per Series B Share.

[TABLE OF CONTENTS](#)**NOTE 5 - LETTERS OF CREDIT**

During the year ended December 31, 2016, the Company secured nine irrevocable stand-by letters of credit totaling \$1,188,200 with a financial institution for the benefit of the Transmission and Distribution Providers ("TDSPs") that provide transition services to the Company. The nine letters of credit will expire during the second quarter of 2017 and are subject to automatic extension and renewal provisions. The nine letters of credit are secured by restricted cash held by the financial institution who issued the irrevocable stand-by letters of credit.

As of December 31, 2016, none of the letters of credit issued on behalf of the Company were drawn upon.

NOTE 6 - ADVANCE TO LOAN AMOUNT NOTE

On April 18, 2014, the Company signed an Advance to Loan Amount Note (the "Note") with Comerica Bank in the amount of \$1,500,000. The Note had an original maturity date of December 22, 2014, which was extended through February 22, 2015. On February 22, 2015, the Note was increased from \$1,500,000 to \$1,700,000 and extended again to November 4, 2016, with interest thereon at a per annum rate equal to the "Prime Referenced Rate" plus the "Applicable Margin." The "Prime Referenced Rate" means, for any day, a per annum interest rate which is equal to the "Prime Rate" in effect on such day, but in no event and at no time shall the "Prime Reference Rate" be less than the sum of the Daily Adjusting LIBOR Rate for such day plus two and one-half percent (2.5%) per annum. "Prime Rate" means the per annum rate established by Comerica Bank as its prime rate for its borrowers at any such time. "Applicable Margin" means 2% per annum. Accrued and unpaid interest on the unpaid principal balance outstanding shall be payable monthly, in arrears, on the first Business Day of each month.

Guaranty of the Note was made by four members of the Company's board of directors ("Guarantors"). The Company agreed to issue the four Guarantors a total of 120,000 shares of the Company's common stock per month (30,000 shares of common stock per month per Guarantor) reduced accordingly as the loan is reduced for agreeing to act as a Guarantor of the Note.

During the year ended December 31, 2015, the Company issued 1,006,171 shares of common stock to the Guarantors and recognized \$1,006,173 in financing cost, and the balance of the Note was \$111,057 at year end.

In May 2016, the Company released the Guarantors from the obligation to guaranty the Note and stock payments for such guaranty were discontinued as of May 31, 2016.

During the year ended December 31, 2016, the Company issued 482,156 shares of common stock to the Guarantors and recognized \$532,988 in financing cost.

The Advance to Loan Amount Note was paid in full on June 14, 2016 and at such time of payoff the loan terminated.

NOTE 7 - FINANCING FROM BLACK INK ENERGY LLC AND ISSUANCE OF WARRANT

On March 2, 2015, Summer Energy, LLC (the "Borrower"), a wholly owned subsidiary of Summer Energy Holdings, Inc. ("SEH"), entered into a Second Lien Term Loan Agreement (the "Agreement") with Black Ink Energy, LLC ("BIE"). Pursuant to the Agreement, BIE agreed to provide a term loan (the "Term Loan") to the Borrower, and the Borrower agreed to borrow and repay funds loaned by BIE.

The amount of the Term Loan was Three Million Dollars \$3,000,000, and the loan was not revolving in nature. Pursuant to the Agreement, any amounts prepaid or repaid may not be re-borrowed by the Borrower. The maturity date of the loan was September 2, 2016. The Term Loan bore interest at a rate of 15% per annum, except in the occurrence of an event of default, at which point the default interest rate would be 18%. Interest is payable in arrears on the last day of each month and on the maturity date of the loan. The Term Loan was not evidenced by a promissory note.

Additionally, the Borrower agreed to pay to BIE a facility fee. The facility fee in the amount of \$24,450 was expensed immediately as fees occurred to obtain financial resource.

In connection with the Agreement and the Term Loan, SEH issued BIE a warrant (the "Warrant") to purchase up to 800,000 shares of SEH's common stock. The Warrant has a term of ten (10) years, has an exercise price of \$1.50 per share, and is subject to adjustment as set forth in the Warrant. The Warrant also contains a cashless or net exercise provision, pursuant to which the holder of the Warrant

may elect to convert all or a portion of the Warrant without the payment of additional consideration, by receiving a net number of shares

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[TABLE OF CONTENTS](#)**NOTE 7 - FINANCING FROM BLACK INK ENERGY LLC AND ISSUANCE OF WARRANT (CONTINUED)**

calculated pursuant to a formula set forth in the Warrant. SEH agreed to reserve 120% of the number of shares issuable upon the exercise of the Warrant so long as the Warrant is exercisable and outstanding. Additionally, SEH agreed to grant to the holder piggyback registration rights.

The term loan had a relative fair value of \$2,967,535 and the warrant had a relative fair value of \$32,465 at the date of issuance determined using the Black-Scholes option-pricing model. The assumptions used to calculate the fair market value are as follows: (i) risk-free interest rate of 0.87% (ii) estimated volatility of 17% (iii) dividend yield of 0.00% and (iv) expected life of the options of five years.

During the years ended December 31, 2016 and 2015, the Company paid interest expense in the amount of \$227,500 and \$381,250, respectively, to BIE.

On June 30, 2016, the Term Loan to BIE was paid in full and the Agreement between the Company and BIE was terminated.

NOTE 8 - FINANCING FROM BLUE WATER CAPITAL FUNDING LLC

On June 29, 2016, Summer Energy, LLC (the "Borrower"), a wholly-owned subsidiary of Summer Energy Holdings, Inc. ("SEH"), entered into a Loan Agreement (the "Agreement") with Blue Water Capital Funding, LLC ("Blue Water"). Pursuant to the Agreement, Blue Water agreed to provide a revolving loan (the "Loan") to the Borrower, and the Borrower agreed to borrow and repay funds loaned by Blue Water.

The amount of available credit under the Loan is Five Million Dollars (\$5,000,000). The Loan is revolving in nature and is evidenced by a Revolving Promissory Note (the "Note"). The maturity date of the Loan is June 30, 2018. The Loan will bear interest at a rate of 11% per annum, with a minimum monthly financing fee of \$22,500 per month. Interest is payable on the tenth day of each month and on the maturity date of the Note. The loan balance as of December 31, 2016 is \$2,500,000.

The proceeds of the Loan may be used by the Borrower to repay indebtedness owed to Black Ink Energy, LLC ("Black Ink"), and for other corporate purposes. Simultaneous with the closing of the Loan, Borrower paid off all outstanding debt due and owing to Black Ink and Black Ink's security interest in and to the assets of the Borrower and to SEH's ownership interest in Borrower were terminated.

In connection with the Agreement, the Borrower made certain customary representations and warranties, and agreed that while the Loan amount remains outstanding, it would not take certain actions, including that it will not incur certain debts (as defined in the Agreement); create, assume, or suffer to exist any lien on any property or asset of the Borrower, except those set forth in and allowed by the Agreement; consolidate or merge with any other entity; or sell, lease, or transfer all or substantially all of the assets of the Borrower.

In connection with the Agreement, the Borrower and Blue Water also entered into a Security Agreement (the "Security Agreement"), and SEH executed a Guaranty (the "Guaranty") in favor of Blue Water.

Security Agreement

Pursuant to the Security Agreement, the Borrower granted to Blue Water a second position security interest in and to the Borrower's collateral, as more fully defined in the Security Agreement, and which includes receivables, equipment, inventory, personal property, other intangibles, and proceeds from any of these, to secure the Borrower's payment of its obligations under the Loan. The security interest granted to Blue Water is subordinate to a security interest granted to DTE Energy Trading, Inc. ("DTE") pursuant to a credit agreement between the Borrower and DTE dated April 1, 2014.

[TABLE OF CONTENTS](#)**NOTE 9 – PRIVATE PLACEMENT OFFERING AND ISSUANCE OF WARRANTS**

During 2015, the Company accepted subscription agreements from various accredited investors and entered into Securities Purchase Agreements with such investors to purchase from the Company 130,000 shares of the Company's common stock at a price of \$1.00 per share totaling \$130,000. Such subscription agreements also included 115,000 warrants at an exercise price of \$1.50 per share.

During 2016, the Company accepted subscription agreements from various accredited investors and entered into Securities Purchase Agreements with such investors to purchase from the Company 3,844,854 shares of the Company's common stock at a price of \$1.10 per share totaling \$4,228,450. No warrants were issued in connection with the 2016 Securities Purchase Agreements.

NOTE 10 - WARRANTS

During the calendar year 2015, the Company issued a total of 1,065,000 warrants comprised of 115,000 warrants issued in association with Private Placement Agreements (Note 9), 800,000 warrants issued in association with the financing agreement with Black Ink Energy LLC (Note 7) and 150,000 warrants issued in association with a promissory note converted to 100,000 shares of the Company's common stock on October 19, 2015. The exercise price of 1,015,000 of the warrants issued in 2015 was \$1.50 per share and the exercise price of 50,000 of the warrants issued in 2015 was \$2.00 per share.

The Company issued no warrants during the calendar year ended December 31, 2016.

Warrant activity for the years ended December 31, 2016 and 2015, was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Grant Date Fair Value
Outstanding at December 31, 2014	826,000	\$ 1.33	3.56	\$ 75,406
Warrants granted	1,065,000	1.52	4.19	38,420
Warrants exercised	-	-	-	-
Warrants cancelled/forfeited/expired	-	-	-	-
Outstanding at December 31, 2015	1,891,000	\$ 1.44	3.47	\$ 113,826
Warrants granted	-	-	-	-
Warrants exercised	-	-	-	-
Warrants cancelled/forfeited/expired	-	-	-	-
Outstanding at December 31, 2016	1,891,000	\$ 1.44	2.46	\$ 113,826
Vested at December 31, 2016	1,625,763	\$ 1.51	2.50	\$ 68,826
Exercisable at December 31, 2016	1,625,763	\$ 1.51	2.50	\$ 68,826

[TABLE OF CONTENTS](#)**NOTE 11 - WHOLESALE POWER PURCHASE AGREEMENT**

On April 25, 2014, the Company closed a transaction with DTE Energy Trading, Inc. ("DTE"), with an effective date of April 1, 2014. As part of the transaction, the Company and DTE entered into an Energy Marketing Agreement for Electric Power (the "Energy Marketing Agreement"). Pursuant to the terms of the Energy Marketing Agreement, the Company agreed to purchase its electric power and associated services requirements from DTE, and DTE agreed to provide the Company with certain credit facilities to assist the Company in the purchase of its electric power and associated service requirements. The Company also agreed to pay DTE a fixed monthly fee, as well as certain fees based on megawatt hours purchased. The terms of the Energy Marketing Agreement are governed by the ISDA 2002 Master Agreement, as well as a Schedule and Power Annex thereto (the "2002 Master Agreement"). In conjunction, therewith, the Company and DTE also entered into a Credit Agreement, a Security Agreement and a Membership Interest Pledge Agreement.

Pursuant to the Credit Agreement, among other things DTE agreed to (i) provide a guaranty (a "Credit Guaranty") to the Electric Reliability Council of Texas ("ERCOT") for the benefit of the Company, and (ii) provide commodity loans for the purchase of electricity ("Commodity Loans"). Each Commodity Loan and any Credit Guaranty shall bear interest on the outstanding principal amount thereof, from the date such Commodity Loan or Credit Guaranty is issued until it becomes due or is revoked, respectively, at a rate per annum equal to the Prime Rate (as reported by the Wall Street Journal) plus two percent (2%). The Company covenanted not to, among other things, (a) merge or consolidate with any other person, (b) acquire all or substantially all of the capital stock or property of another person, (c) create, assume or suffer to exist any lien on any property now owned or hereafter acquired by the Company except for permitted liens (as set forth in the Credit Agreement) or (d) become liable for any indebtedness (other than permitted indebtedness, as set forth in the Credit Agreement).

In consideration of the services and credit support provided by DTE to the Company, and pursuant to the Security Agreement, the Company is required to, among other things (i) grant a priority security interest to DTE in all of its assets, equipment and inventory; (ii) require its customers to remit monthly payments into a lockbox account over which DTE has a security interest; and (iii) deliver monthly and annual forecasted and audited statements to DTE.

Pursuant to the Membership Interest Pledge Agreement, the Company pledged to DTE, and granted to DTE a security interest in all of the membership interests of Summer Energy, LLC owned by the Company, as well as all additional membership interests of Summer Energy, LLC from time to time acquired by the Company.

The foregoing is only a brief description of the material terms of the transaction with DTE and does not purport to be a complete description of the rights and obligations of the parties thereunder and such descriptions are qualified in their entirety by reference to the text of the Energy Marketing Agreement, the 2002 Master Agreement, the Credit Agreement, the Security Agreement, the Membership Interest Pledge Agreement and the Novation Agreement, which were filed as Exhibits 10.1-10.6, respectively, to our Form 10-Q filed on May 15, 2014.

NOTE 12 – 2012 STOCK OPTION AND STOCK AWARD PLAN

During 2012, the Company approved the 2012 Stock Option and Stock Award Plan ("Plan") established to advance the interest of the Company and its shareholders by providing an incentive to attract, retain and reward persons performing services for the Company and by motivating such persons to contribute to the growth and profitability of the Company.

The maximum aggregate number of (i) shares of stock that may be issued under the Plan, and (ii) shares of stock with respect to which stock appreciation rights may be granted, is 785,000 and consists of authorized but unissued or reacquired shares of stock or any combination thereof. Such number of shares of stock may be may be issued under the Plan pursuant to Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock Grants, Stock Appreciation Right Grants or any combination thereof, so long as the aggregate number of shares so issued does not exceed such number of shares, as adjusted.

[TABLE OF CONTENTS](#)**NOTE 12 – 2012 STOCK OPTION AND STOCK AWARD PLAN (CONTINUED)**

The Plan continues in effect until the earlier of its termination by the Board or the date on which all the shares of stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms on the Plan and the agreement evidencing awards granted under the Plan have lapsed. However, all awards shall be granted, if at all, within ten (10) years from the earlier of the date the Plan is adopted by the Board or the date the Plan is duly approved by the Shareholders of the Company. As of December 31, 2016, 2,000 shares remain available for issuance.

On December 6, 2012, a Form S-8 Registration Statement was filed with the United States Securities and Exchange Commission regarding the Plan.

During the calendar year 2015, the Company granted stock options from the 2012 Plan to purchase up to 153,750 shares of the Company's common stock. The fair value of the options was \$14,026 determined using the Black-Scholes option-pricing model. The assumptions used to calculate the fair market value are as follows: (i) risk-free interest rate of 0.87% (ii) estimated volatility of 17% (iii) dividend yield of 0.00% and (iv) expected life of the options of five years.

During the calendar year 2016, the Company granted stock options from the 2012 Plan to purchase up to 2,500 shares of the Company's common stock. The options covering a total of 2,500 shares vest one year after the date of grant. The stock options have an exercise price of \$2.00 per share and will expire ten (10) years from the date of grant. The fair value of the options of \$5,344 was determined using the Black-Scholes option-pricing model. The assumptions used to calculate the fair market value are as follows: (i) risk-free interest rate of 1.07% (ii) estimated volatility of 172% (iii) dividend yield of 0.00% and (iv) expected life of the options of ten years.

During the year ended December 31, 2016, the Company recognized total stock compensation expenses of \$2,259 for vesting options issued from the 2012 Plan and \$13,376 during the year 2015 relating to the vesting of stock options issued from the 2012 Plan.

As of December 31, 2016, there are 2,500 stock options issued from the 2012 Plan which are not vested and the unrecognized expense for vesting of such options issued from the 2012 Plan is \$3,116.

As of December 31, 2016, the Company had outstanding granted stock options from the 2012 Stock Option and Stock Award Plan, net of forfeitures to purchase 632,000 shares summarized as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Grant Date Fair Value
Outstanding at December 31, 2014	479,250	\$ 1.22	8.57	\$ 48,563
Options granted	153,750	1.3	9.07	14,026
Options exercised	-	-	-	-
Options cancelled/forfeited/expired	(2,000)	1.5		(82)
Outstanding at December 31, 2015	631,000	\$ 1.25	7.93	\$ 62,507
Options granted	2,500	\$ 2.00	10.00	\$ 5,344
Options exercised				
Options cancelled/forfeited/expired	(1,500)	\$ 1.5	-	\$ (62)
Outstanding at December 31, 2016	632,000	\$ 1.24	6.86	\$ 67,789
Vested at December 31, 2016	629,500	\$ 1.23	6.89	\$ 64,673
Exercisable at December 31, 2016	629,500	\$ 1.23	6.89	\$ 64,673

[TABLE OF CONTENTS](#)**NOTE 13 – 2015 STOCK OPTION AND STOCK AWARD PLAN**

During the year ended December 31, 2015, the Company's stockholders approved the 2015 Stock Option and Stock Award Plan ("Plan"), which was established to advance the interest of the Company and its stockholders by providing an incentive to attract, retain and reward persons performing services for the Company and by motivating such persons to contribute to the growth and profitability of the Company.

The maximum aggregate number of (i) shares of stock that may be issued under the Plan, and (ii) shares of stock with respect to which stock appreciation rights may be granted, is 1,500,000 and consists of authorized but unissued or reacquired shares of stock or any combination thereof. Such number of shares of stock may be issued under the Plan pursuant to Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock Grants, Stock Appreciation Right Grants or any combination thereof, so long as the aggregate number of shares so issued does not exceed such number of shares, as adjusted.

The Plan continues in effect until the earlier of its termination by the Board or the date on which all the shares of stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms on the Plan and the agreement evidencing awards granted under the Plan have lapsed. However, all awards shall be granted, if at all, within ten (10) years from the earlier of the date the Plan is adopted by the Board or the date the Plan is duly approved by the Shareholders of the Company.

As of December 31, 2016, 600,500 shares remain available for issuance.

On July 2, 2015, a Form S-8 Registration Statement was filed with the United States Securities and Exchange Commission regarding the Plan.

During 2015, the Company granted a total of 643,500 stock options from the 2015 Plan with a fair value of approximately \$78,574 on the date of grant. The fair value of the options in the amount of \$78,574 was determined using the Black-Scholes option-pricing model. The weighted average assumptions used to calculate the fair market value are as follows: (i) risk-free interest rate of 0.87% (ii) estimated volatility of 17% (iii) dividend yield of 0.00% and (iv) expected life of all options averaging 5.49 years.

During 2016, the Company granted a total of 263,500 stock options from the 2015 Plan with a fair value of approximately \$349,181 on the date of grant. The fair value of the options in the amount of \$349,181 was determined using the Black-Scholes option-pricing model. The weighted average assumptions used to calculate the fair market value are as follows: (i) risk-free interest rate of 1.25% (ii) estimated volatility of 132.67% (iii) dividend yield of 0.00% and (iv) expected life of all options averaging 10 years.

During the year ended December 31, 2016, the Company recognized total stock compensation expenses of \$340,606 for vesting options issued from the 2015 Plan and \$72,021 during the year 2015 relating to the vesting of options issued from the 2015 Plan.

As of December 31, 2016, the unrecognized expense for vesting of options issued from the 2015 plan is \$8,906 relating to 147,000 of unvested shares.

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As of December 31, 2016, the Company had outstanding granted stock options from the 2015 Stock Option and Stock Award Plan, net of forfeitures to purchase 899,500 shares summarized as follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (in Years)</u>	<u>Grant Date Fair Value</u>
Outstanding at December 31, 2014	-	\$ -	-	\$ -
Options granted	643,500	1.27	9.57	78,574
Options exercised	-	-	-	-
Options cancelled/forfeited/expired	-	-	-	-
Outstanding at December 31, 2015	643,500	\$ 1.27	9.57	78,574
Options granted	263,500	\$ 1.51	9.65	349,181
Options exercised	-	-	-	-
Options cancelled/forfeited/expired	(7,500)	\$ 1.83	-	(810)
Outstanding at December 31, 2016	<u>899,500</u>	<u>\$ 1.33</u>	<u>8.75</u>	<u>426,945</u>
Vested at December 31, 2016	<u>752,500</u>	<u>\$ 1.27</u>	<u>8.87</u>	<u>418,848</u>
Exercisable at December 31, 2016	<u>752,500</u>	<u>\$ 1.27</u>	<u>8.87</u>	<u>418,848</u>

NOTE 14 – PROPERTY AND EQUIPMENT

Property and equipment are carried at cost and are depreciated over their estimated useful lives (3 to 7 years) using the straight-line method. Costs of assets include those capital expenditures which improve the efficiency of the assets or lengthen their useful lives. Expenditures for maintenance and repairs are charged against income as incurred. Costs and related accumulated depreciation of assets sold or otherwise retired are removed from accounts, and any resulting gain or loss is reflected in income. Depreciation expense charged to operations totaled \$210,481 for the year ended December 31, 2016 and \$295,375 for the year ended December 31, 2015.

As of December 31, 2016 and 2015, property and equipment consisted of the following:

	<u>December 31, 2016 (\$)</u>	<u>December 31, 2015 (\$)</u>
Computer software	113,451	107,399
Computer hardware	155,182	136,982
Furniture and fixtures	49,723	49,723
Leasehold improvements	86,714	86,714
Website	775,881	723,371
Other equipment	-	-
Total property and equipment	1,180,951	1,104,189
Less: Accumulated depreciation	(942,158)	(731,677)
Property and equipment, net	<u>238,793</u>	<u>372,512</u>

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The Company assumed an operating lease for office space on November 1, 2011, under a non-cancellable lease obligation which expired on August 31, 2016. The Sixth Amendment to the office space lease extended the obligation to October 31, 2019.

Future minimum commitments including extension options under all non-cancellable operating lease obligations are as follows:

Contractual Obligations	2017	2018	2019	2020	2021	Total
Operating Leases	\$152,513	\$155,747	\$132,035	\$0	\$0	\$440,295

Lease expense for the years ended December 31, 2016 and 2015 totaled \$116,945 and \$135,268, respectively.

NOTE 16 – RELATED PARTY

On August 29, 2013, the Company entered into two five (5) year credit facility agreements with two members of the Company's board of directors, Neil Leibman and Tom O'Leary. Both parties agreed to act as surety and personal guarantors ("Guarantors") with respect to \$826,000 of the Company's depository requirements, consisting of a line of credit from a financial institution and certain extensions of credit by critical vendors that were necessary for the Company to carry out its business. As consideration for acting as surety and personal Guarantors, the Company issued each member 413,000 shares of its Series A Preferred Stock ("Series A Preferred") totaling 826,000 shares of Series A Preferred. On May 6, 2014, the Guarantors were released from such obligation by the Company when the Company exercised the Call Right reflected within the Credit Facility Agreements to purchase the 826,000 shares of Series A Preferred stock from the two assisting parties. On May 13, 2014, in consideration for the purchase of the 826,000 shares of Series A Preferred from the Guarantors, the Company granted a five-year stock option to each Guarantor to purchase 151,115 shares of the Company's common stock at an exercise price of \$1.50 per share.

On April 18, 2014, four members of the Company's board of directors, guaranteed an Advance to Loan Note in the amount of \$1,500,000 which increased to \$1,700,000. The Company agreed to issue the four Guarantors a total of 120,000 shares of the Company's common stock per month (30,000 shares of common stock per month per Guarantor) reduced accordingly as the loan is reduced in consideration for agreeing to act as a Guarantor of the Advance to Loan Amount.

In May 2016, the Company released the Guarantors from the obligation to guaranty the Advance to Loan Amount Note and stock payments for such guaranty were discontinued as of May 31, 2016. The balance of the Advance to Loan Amount was zero as of December 31, 2016 (Note 6).

On July 22, 2016, the Company advance \$611,424 to a related party for purposes of short-term financing. Such advances were paid back in full to the Company on August 9, 2016. As of December 31, 2016, there were no outstanding balances due between the Company and such related party.

During the calendar year 2016, the Company provided employee services to a related party valued at \$73,078. In addition, the related party provided aviation services to the Company in the amount of \$20,463. The net effect of these services to the Company was \$52,615. There were no outstanding balances between the Company and such related party as of December 31, 2016.

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On January 1, 2017, the Company entered into employment agreements with three key employees. The agreements require a total annual base compensation of \$550,000 in 2016 and \$605,000 in 2017.

On January 1, 2017, the employment agreements provided for these three key employees be granted an option to purchase a total of 235,000 shares of the Company's common stock with a strike price which is the greater of (i) the fair market value of a share of the Company common stock on the date of grant or (ii) \$2.50 per share, which option will vest five (5) years from the date of grant, so long as such key employees are employed by the Company.

A second option will be granted on January 1, 2018 to the key employees for an option to purchase a total of 235,000 shares of the Company's common stock with a strike price which is the greater of (i) the fair market value of a share of the Company's common stock on the date of grant or (ii) \$2.50 per share, so long as such key employees are employed by the Company.

In addition, the employee agreements provide that such key employees shall be eligible to receive additional options to purchase common stock of the Company upon reaching certain milestones related to the performance of the Company with a strike price which is the greater of (i), the fair market value of a share of the Company's common stock on the date of grant or (ii) \$2.50 per share based on metrics determined by the Board of Directors.

The Company may terminate the employment agreements without cause on thirty days advance written notice at which time the key employee would receive severance pay in accordance with such agreement of 6 months or 12 months.

The foregoing summary of the three employment agreements is qualified in its entirety by reference to the full context of the agreements which are found as Exhibits 10.1, 10.2 and 10.3 to our 8-K filing on January 4, 2017.

Stock Options

On January 1, 2017, the Company granted stock options to purchase up to 235,000 shares of the Company's common stock to two key employees. The options covering a total of 235,000 shares vest five years after the date of grant. The stock options have an exercise price of \$2.50 per share and will expire ten (10) years from the date of grant. The fair value of the options of \$328,665 was determined using the Black-Scholes option-pricing model. The assumptions used to calculate the fair market value are as follows: (i) risk-free interest rate of 1.93% (ii) estimated volatility of 171.44% (iii) dividend yield of 0.00% and (iv) expected life of the options of ten years.

On January 1, 2017, the Company granted stock options to purchase up to 5,000 shares of the Company's common stock to a key employee. The options covering a total of 5,000 shares vest one year after the date of grant. The stock options have an exercise price of \$2.50 per share and will expire ten (10) years from the date of grant. The fair value of the options of \$6,993 was determined using the Black-Scholes option-pricing model. The assumptions used to calculate the fair market value are as follows: (i) risk-free interest rate of 1.93% (ii) estimated volatility of 171.44% (iii) dividend yield of 0.00% and (iv) expected life of the options of ten years.

On February 2, 2017, the Company granted stock options to purchase up to 6,000 shares of the Company's common stock to two key employees. The options covering a total of 6,000 shares vest one year after the date of grant. The stock options have an exercise price of \$2.50 per share and will expire ten (10) years from the date of grant. The fair value of the options of \$8,620 was determined using the Black-Scholes option-pricing model. The assumptions used to calculate the fair market value are as follows: (i) risk-free interest rate of 1.92% (ii) estimated volatility of 117.37% (iii) dividend yield of 0.00% and (iv) expected life of the options of ten years.

On February 17, 2017, the Company granted stock options to purchase up to 2,500 shares of the Company's common stock to a key employee. The options covering a total of 2,500 shares vest one year after the date of

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grant. The stock options have an exercise price of \$2.50 per share and will expire ten (10) years from the date of grant. The fair value of the options of \$3,559 was determined using the Black-Scholes option-pricing model. The assumptions used to calculate the fair market value are as follows: (i) risk-free interest rate of 1.92% (ii) estimated volatility of 116.49% (iii) dividend yield of 0.00% and (iv) expected life of the options of ten years.

On February 17, 2017, the Company granted a total of 45,000 stock options to non-employee members of the Company's Board of Directors under the 2015 Stock Option and Stock Award Plan as compensation for service on the Company's Board. The director stock options were fully vested on the date of grant, have an exercise price of \$2.25 per share, will expire ten (10) years from the date of the grant and are estimated to have a fair value of approximately \$64,321 on the date of grant determined using the Black-Scholes option-pricing model. The assumptions used to calculate the fair market value are as follows: (i) risk-free interest rate of 1.92% (ii) estimated volatility of 116.49% (iii) dividend yield of 0.00% and (iv) expected life of the options of ten years.

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Exhibit No.	Description
2.1	Agreement and Plan of Contribution, by and among Castwell Precast Corporation, Summer Energy, LLC and the members of Summer Energy, LLC, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on January 19, 2012.
3.1	Articles of Incorporation of the Company dated March 25, 2005, incorporated by reference to Exhibit 3.1 to our Registration Statement on Form SB-2 filed on July 16, 2007.
3.2	Certificate of Amendment to Articles of Incorporation filed with the Nevada Secretary of State effective March 27, 2012, incorporated by reference to Exhibit 3.1 to our Form 8-K filed on March 30, 2012.
3.3	Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.2 to our Form 8-K filed on March 30, 2012.
3.4	Certificate of Designation of Rights, Preferences, Privileges and Restrictions for Series A Preferred Stock, filed with the Nevada Secretary of State on August 28, 2013, incorporated by reference to Exhibit 3.1 to our Form 8-K filed on September 4, 2013.
3.5	Certificate of Designation of Rights, Preferences, Privileges and Restrictions for Series B Preferred Stock, filed with the Nevada Secretary of State on February 19, 2014, incorporated by reference to Exhibit 3.1 to our Form 8-K filed on February 24, 2014.
10.1	Form of Master Power Purchase and Sale Agreement dated as of August 9, 2011 by and between Summer Energy, LLC and BP Energy Company, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on March 30, 2012.
10.2	Advisory Agreement by and between Summer Energy, LLC and Cambria Capital, LLC dated November 1, 2011, incorporated by reference to Exhibit 10.2 to our Form 8-K filed on March 30, 2012.
10.3	Warrant to Purchase Units of Membership Interest dated January 17, 2012, incorporated by reference to Exhibit 10.3 to our Form 8-K filed on March 30, 2012.
10.4	Form of Agreement to Assist with Credit Facility dated November 30, 2011, incorporated by reference to Exhibit 10.4 to our Form 8-K filed on March 30, 2012.
10.5	Agreement to Assist with Credit Facility – Rod Danielson, dated December 16, 2011, incorporated by reference to Exhibit 10.5 to our Form 8-K filed on March 30, 2012.
10.6	2012 Stock Option and Stock Award Plan, incorporated by reference to Exhibit 10.6 to our Form 8-K filed on March 30, 2012.*
10.7	Form of Lock Up Agreement, incorporated by reference to Exhibit 10.7 to our Form 8-K filed on March 30, 2012.
10.8	Executive Employment Agreement, effective January 21, 2013, by and between Summer Energy Holdings, Inc. and Neil Leibman, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on January 23, 2013.
10.9	Executive Employment Agreement, effective February 11, 2013, by and between Summer Energy Holdings, Inc. and Jaleea P. George, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on February 14, 2013.
10.10	Executive Employment Agreement, effective February 11, 2013, by and between Summer Energy Holdings, Inc. and Roderick L. Danielson, incorporated by reference to Exhibit 10.2 to our Form 8-K filed on February 14, 2013.
10.11	Executive Employment Agreement, effective February 11, 2013, by and between Summer Energy Holdings, Inc. and Angela Hanley, incorporated by reference to Exhibit 10.3 to our Form 8-K filed on February 14, 2013.
10.12	Form of Indemnification Agreement for Officers and Directors, incorporated by reference to Exhibit 10.1 to our Form S-8 filed on December 6, 2012
10.13	Office Lease Agreement, as amended, originally dated August 1, 2006, incorporated by reference as Exhibit 10.13 to our Form 10-K filed on March 28, 2013.
10.14	Form of 2013 Agreement to Assist with Credit Facility, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on September 4, 2013.
10.15	First Amendment to Executive Employment Agreement, effective February 3, 2014, by and between Summer Energy Holdings, Inc. and Angela Hanley, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on February 6, 2014.

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10.16	Form of Series B Preferred Stock Purchase Agreement, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on February 24, 2014
10.17	Energy Marketing Agreement by and between Summer Energy, LLC and DTE Energy Trading, Inc., dated as of April 1, 2014, incorporated by reference to Exhibit 10.1 to our Form 10-Q filed on May 15, 2014. Portions of this exhibit were redacted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission.
10.18	ISDA Master Agreement, Part 7 Power Annex to ISDA Master Agreement and Schedule to ISDA Master Agreement, by and between Summer Energy, LLC and DTE Energy Trading, Inc., dated as of April 1, 2014, incorporated by reference to Exhibit 10.2 to our Form 10-Q filed on May 15, 2014.
10.19	Credit Agreement by and between Summer Energy, LLC and DTE Energy Trading, Inc., dated as of April 1, 2014, incorporated by reference to Exhibit 10.3 to our Form 10-Q filed on May 15, 2014. Portions of this exhibit were redacted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission.
10.20	Security Agreement by and between Summer Energy, LLC and DTE Energy Trading, Inc., dated as of April 1, 2014, incorporated by reference to Exhibit 10.4 to our Form 10-Q filed on May 15, 2014.
10.21	Membership Interest Pledge Agreement made by Summer Energy Holdings, Inc. in favor of DTE Energy Trading, Inc., dated as of April 1, 2014, incorporated by reference to Exhibit 10.5 to our Form 10-Q filed on May 15, 2014.
10.22	Novation Agreement by and among BP Energy Company, Summer Energy, LLC and DTE Energy Trading, Inc., dated as of April 24, 2014, incorporated by reference to Exhibit 10.6 to our Form 10-Q filed on May 15, 2014
10.23	Advance to Loan Amount Note by Summer Energy, LLC in favor of Comerica Bank, dated as of April 18, 2014, incorporated by reference to Exhibit 10.7 to our Form 10-Q filed on May 15, 2014.
10.24	Executive Employment Agreement, effective January 1, 2015, by and between Summer Energy Holdings, Inc. and Jaleea P. George, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on January 27, 2015.
10.25	Executive Employment Agreement, effective January 1, 2015, by and between Summer Energy Holdings, Inc. and Neil Leibman, incorporated by reference to Exhibit 10.2 to our Form 8-K filed on January 27, 2015.
10.26	Second Lien Term Loan Agreement by and between Summer Energy, LLC and Black Ink Energy, LLC, dated as of March 2, 2015, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on March 5, 2015.
10.27	Second Lien Security Agreement by and between Summer Energy, LLC and Black Ink Energy, LLC, dated as of March 2, 2015, incorporated by reference to Exhibit 10.2 to our Form 8-K filed on March 5, 2015.
10.28	Second Lien Membership Interest Pledge Agreement by and between Summer Energy Holdings, Inc. and Black Ink Energy, LLC, dated as of March 2, 2015, incorporated by reference to Exhibit 10.3 to our Form 8-K filed on March 5, 2015.
10.29	Form of Warrant issued to Black Ink Energy, LLC, dated as of March 2, 2015, incorporated by reference to Exhibit 10.4 to our Form 8-K filed on March 5, 2015.
10.30	Form of Securities Purchase Agreement dated as of March 12, 2015.
10.31	Loan Agreement by and between Summer Energy, LLC and Blue Water Capital Funding, LLC, dated as of June 29, 2016, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on July 6, 2016.
10.32	Security Agreement by and between Summer Energy, LLC and Blue Water Capital Funding, LLC, dated as of June 29, 2016, incorporated by reference to Exhibit 10.2 to our Form 8-K filed on July 6, 2016.
10.33	Guaranty by and between Summer Energy Holdings, Inc. and Blue Water Capital Funding, LLC, dated as of June 29, 2016, incorporated by reference to Exhibit 10.3 to our Form 8-K filed on July 6, 2016.
10.34	Revolving Promissory Note made by Summer Energy, LLC for the benefit of Blue Water Capital Funding, LLC, dated as of June 29, 2016, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on July 6, 2016.
10.35	Executive Employment Agreement, effective January 1, 2017, by and between Summer Energy Holdings, Inc. and Jaleea P. George, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on January 4, 2017.

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10.36	Executive Employment Agreement, effective January 1, 2017, by and between Summer Energy Holdings, Inc. and Neil M. Leibman, incorporated by reference to Exhibit 10.2 to our Form 8-K filed on January 4, 2017.
10.37	Executive Employment Agreement, effective January 1, 2017, by and between Summer Energy Holdings, Inc. and Angela Hanley, incorporated by reference to Exhibit 10.3 to our Form 8-K filed on January 4, 2017.
14.1	Code of Business Conduct and Ethics, incorporated by reference to Exhibit 14.1 to our Form 10-Q filed on May 15, 2012.
16.1	Letter regarding change in certifying accountants, dated April 18, 2012, incorporated by reference to Exhibit 16.1 to our Form 8-K/A filed on April 20, 2012.
21.1	Schedule of Subsidiaries.
24	Power of Attorney (included on the Signature Page).
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of CEO and CFO pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.
99.1	Audit Committee Charter, incorporated by reference to Exhibit 99.1 to our Form 10-Q filed on May 15, 2013.
99.2	Compensation Committee Charter, incorporated by reference to Exhibit 99.2 to our Form 10-Q filed on May 15, 2013.
99.3	Nominating and Corporate Governance Committee Charter, incorporated by reference to Exhibit 99.3 to our Form 10-K filed on March 28, 2013

* Each of these Exhibits constitutes a management contract, compensatory plan or arrangement.

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Pursuant to the requirements of Section 13 or 15(d) with the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUMMER ENERGY HOLDINGS, INC.

By: /s/ Neil M. Leibman
Neil M. Leibman
President, Chief Executive Officer and
Principal Executive Officer

March 30, 2017

By: /s/ Jaleea P. George
Jaleea P. George
Chief Financial Officer and
Principal Financial Officer

March 30, 2017

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We, the undersigned directors and officers of Summer Energy Holdings, Inc., do hereby constitute and appoint each of Neil M. Leibman and Jaleea P. George as our true and lawful attorneys-in-fact and agents with power of substitution, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorneys-in-fact and agents, or either of them, may deem necessary or advisable to enable said corporation to comply with the Securities and Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically but without limitation, power and authority to sign for us or any of us in our names in the capacities indicated below, any and all amendments (including post-effective amendments) hereto; and we do hereby ratify and confirm all that said attorney-in-fact and agent, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Neil M. Leibman _____ Neil M. Leibman	Chief Executive Officer (Principal Executive Officer and Director)	March 30, 2017
/s/ Jaleea P. George _____ Jaleea P. George	Secretary, Treasurer, Chief Financial Officer (Principal Financial Officer and Accounting Officer)	March 30, 2017
/s/ Stuart C. Gaylor _____ Stuart C. Gaylor	Director (Non-executive Chairman of the Board)	March 30, 2017
/s/ Tom D. O'Leary _____ Tom D. O'Leary.	Director	March 30, 2017
/s/ Jefferey Mace Meeks _____ Jefferey Mace Meeks	Director	March 30, 2017
/s/ Andrew Bursten _____ Andrew Bursten	Director	March 30, 2017
/s/ James P. Stapleton _____ James P. Stapleton	Director	March 30, 2017

