



2016
ANNUAL REPORT

Our Mission

To provide each Guest with a fun and memorable experience that makes them feel good.



Our Goals

- *Create enduring memories for our Guests.*
- *Develop in our staff job skills and work values that serve them well throughout their lives.*
- *Be a success that benefits investors, staff and the community.*

Company Values

We are Committed to Quality

We use only the highest quality ingredients to make the best ice cream possible. We maintain high standards of professionalism, appearance and customer service.

We are Customer Oriented

The customer is the most important part of our business. We have an uncompromising focus on the individual customer, treating every customer as our special guest.

We Have Fun with Our Customers

To provide a memorable experience for guests we need to be having fun. We never take ourselves too seriously, and we put our own troubles aside when dealing with guests.

We are Creative, Can-Do People

We encourage innovation and an attitude of, "We can do that!" Our business strategy guides our overall direction, but only sound judgment on the part of the individual can guide daily activities.

We Value Our People

Our success depends on the people who make the business run. We look for new ideas from every member of the team, and recognize and reward their contributions. We only hire and develop the best people available, providing learning opportunities and professional growth.

We are Part of Our Community

We support programs that help make our community a better place to live. The focus of our outreach is children's and educational programs.

We Work with Honesty and Integrity

In our dealings with customers and each other we must be completely honest and worthy of the trust placed upon us.

Luke 16:10

TABLE OF CONTENTS

LETTER FROM THE CEO	2
BENEFITS REPORT.....	3
COST OF AN ICE CREAM CONE	5
FINANCIAL STATEMENTS - ICE CREAM LAB INC.	6
FINANCIAL STATEMENTS - CREAMERY	12
NOTES TO THE FINANCIAL STATEMENTS	17
BOARD OF DIRECTORS.....	25
COMPANY INFORMATION	26

Forward-Looking Statements

Statements that are not based on historical fact are forward-looking statements. Although such statements are based on management's current estimates and expectations, and currently available competitive, financial, and economic data, forward-looking statements are inherently uncertain. We, therefore, caution the reader that there are a variety of factors that could cause business conditions and results to differ materially from what is contained in our forward-looking statements. We caution readers that we do not undertake to update any forward-looking statements.

LETTER FROM THE CEO

Dear Shareholders,

The past year had its share of challenges, but I know that growth only occurs when we step outside our comfort zone. And through the challenges we have emerged with a very solid foundation to face future growth challenges.



2016 MILESTONES

- Doc Burnstein's Creamery, our production plant, began operations July 15th. It is reducing labor in production by 30%, and we are ready for the increased output our growth will bring.
- We introduced our own hand-crafted fudge flavors, adding to winter season sales and capturing several large corporate gift-giving accounts.
- The Company faced its first trademark challenge, requiring some legal work but resulting in a federal registration now classified as "incontestable".
- Our first full financial audit taught us how to strengthen our internal procedures to the level of a large company.
- The Public Stock Offering is receiving an extremely positive response from shareholders, and the approval prepared us for a future SEC-level offering.
- The Creamery was spun off into a wholly-owned subsidiary to better track costs and profitability of each area of business.

COMMUNITY BENEFITS

Along the way, we maintained our commitment to being a Benefit Corporation. During last April's Shareholder Meeting we reached our goal of raising enough funds to put a clean-water well in Africa. Our Spring Make-A-Wish campaign granted another child's wish, and our monthly Blood Drives brought in over 800 donors. The full Benefits Statement can be found later in this Report, and we are again extremely proud of the impact we have on our Communities.

LOOKING AHEAD

After 14 years of establishing both a solid brand reputation and business structure, I am extremely excited about the road ahead. We have clear ideas to capture the best of our brand and enhance it. Our Community Building Business model is welcomed here, and we are poised to bring it to new regions. With thoughtful planning, hard work, and God's blessings, we will someday achieve our goal of becoming **"#1 in the Hearts and Minds of America when it comes to Ice Cream"**.

Greg Steinberger
Founder/CEO

BENEFITS STATEMENT

As a registered California Beneficial Corporation, Community support is important to our shareholders and is public record. Doc Burnstein's pledges to donate 10% of profits to youth education programs each year. In addition to this focused giving, we support other worthy causes in our communities every year. Following is a summary of our impact in 2016.

Make-a-Wish Campaign



Doc's continued its partnership with Make-a-Wish to create a unique ice cream flavor inspired by 4-yr-old Wish Kid, Matthew. "Me Like Cookies" contributed to another successful year as a portion of sales of the flavor, along with customer donations added to total donations now exceeding \$19,000 for Make-a-Wish Tri-Counties. We are working on a 2017 Make-a-Wish flavor, and look forward to continuing the annual tradition.

School and Non-Profit Fundraisers

We hosted 21 fundraisers where 15% of sales were donated to the school or non-profit featured. Total cash donations of \$3,300. Some of the benefactors of these fundraisers include:

- St. Patrick's School
- Ocean View Elementary
- Alice Shaw Elementary
- St. Joseph High School
- Fairgrove Elementary
- Ralph Dunlap Elementary
- Oceanview Elementary
- Shell Beach Elementary
- Arroyo Grande High School
- Happy Time Co-op Preschool



Scholarship Day

In our 11th Annual Scholarship Day, all sales on August 9, 2016 contributed to our Scholarship and Tuition Assistance Programs. This year \$5,871.94 was contributed into the Programs, for an 11-year total scholarships of \$44,421.

Blood Drives



We hosted 12 Blood Drives in 2016, and saw 830 blood donations as a result of our drives. That brings the total to over 7,200 donations at our drives since 2003. The donated pints of ice cream pale in comparison to the lives touched and saved by the generous contributions of the blood donors.

Other Community Support

Doc Burnstein's supports many other non-profits and community organizations through donations of ice cream, field trips and coupons. This includes:

- Fort Hope
- Make-a-Wish Foundation
- Cal Poly Organizations
- Hospice Partners
- Arroyo Grande Harvest Festival
- Relay for Life
- South County Historical Society
- Rotary Club of the Five Cities
- New Life Community Church
- OASIS Senior Center
- Arroyo Grande Summer Concerts
- Youth Sports Organizations
- Arroyo Grande Women's Club
- Guadalupe Kids Come First
- City of Arroyo Grande Recreation
- Cops N' Kids Fundraiser
- Five Cities Vineyard Church
- Alzheimer's Association
- Nipomo Foothill 4-H
- Orcutt Children's Art Foundation
- Boy Scouts of America
- Morro Bay Comm. Foundation
- Boys & Girls Clubs
- SM Valley Humane Society
- Woods Humane Society
- AGHS Programs
- Family Care Network
- Rancho Nipomo Dana Adobe
- Newman Catholic Center SLO
- City of Pismo Beach Recreation
- SLO Children's Museum
- Campfire Central Coast
- Nipomo High School
- Jack's Helping Hand
- Guadalupe-Nipomo Dunes Center
- Allan Hancock College
- Kiwanis of Greater Pismo Beach
- Knights of Columbus
- Edna 4-H
- St. Louis de Montfort
- Sheriff's Advisory Council
- Women's Shelter Program of SLO
- ALS Association
- Animals in Need
- Santa Maria/SLO Public Libraries
- Christopher Meadows Fund
- CASA of San Luis Obispo
- Monarch Butterfly Grove
- Children's Resource Network
- Central Coast Firefighters
- Special Olympics of SLO County
- Relay for Life
- Congregation Beth David
- Habitat for Humanity
- Headstart
- St. Patrick's Church Outreach
- Clark Center Association
- San Luis Coastal Teachers Assoc.
- Senior Nutrition Program of SLO
- Coastal Performing Arts
- United Methodist Center
- SLOHS Programs
- Marianne Talley Foundation
- And Many More!

Doc Burnstein's takes great pride in its support of our employees and Community. Total Community Giving was valued at over \$28,200 last year.

1 Peter 4:10

COST OF AN ICE CREAM CONE

The graphic below presents a 2016 Statement of Income Summary as the cost of a Single Scoop at a parlor. Detailed Financial Statements and Notes to Financials are on the pages to follow.



Unaudited Reports

Financial Statements in this report have been reviewed for accuracy and presented by the management of the Company. They are currently being audited by an outside firm in preparation for a future Stock Offering. The Auditor's Statement will be made available upon completion of the Audit.

DOC BURNSTEIN'S ICE CREAM LAB, INC.

FINANCIAL STATEMENTS
(unaudited)

DECEMBER 31, 2016

DOC BURNSTEIN'S ICE CREAM LAB, INC.
BALANCE SHEET
ASOF DECEMBER 31, 2016

ASSETS			
	<u>2014</u>	<u>2015</u>	<u>2016</u>
CURRENT ASSETS			
Cash	\$ 21,457	\$ 60,411	\$ 42,547
Accounts Receivable (Note 2)	16,310	14,894	17,221
Inventory (Note 3)	87,128	100,507	23,425
Other Current Assets	159	5	4,615
Total Current Assets	<u>125,054</u>	<u>175,817</u>	<u>87,808</u>
FIXED ASSETS (Note 5)			
Machinery and Equipment	312,426	337,523	323,948
Furniture and Fixtures	15,941	17,154	18,194
Leasehold Improvements	570,055	328,433	458,157
Vehicles	52,977	116,933	116,933
Less: Accumulated Depreciation	(389,449)	(432,025)	(465,531)
Total Fixed Assets (Net)	<u>561,950</u>	<u>368,018</u>	<u>451,701</u>
OTHER ASSETS			
Security Deposits	15,439	16,364	20,514
Creamery Corporation Investment	0	0	10,000
Intangible Assets	0	15,777	169,752
Deferred Income Tax Benefit (Note 4)	53,479	50,773	42,342
Total Other Assets	<u>68,918</u>	<u>82,914</u>	<u>242,608</u>
TOTAL ASSETS	<u>\$ 755,922</u>	<u>\$ 626,749</u>	<u>\$ 782,117</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts Payable	88,364	65,921	141,154
Gift Cards (Note 6)	17,848	25,456	30,828
Short-term Debt	54,921	10,089	25,000
Current Portion of Long Term Debt (Note 8)	32,636	15,039	16,161
Other Current Liabilities	2,421	875	2,176
Total Current Liabilities	<u>196,190</u>	<u>117,380</u>	<u>215,319</u>
LONG-TERM LIABILITIES			
Long-Term Debt, net of current portion (Note 8)	328,513	79,276	59,770
TOTAL LIABILITIES	<u>524,703</u>	<u>196,656</u>	<u>275,089</u>
STOCKHOLDERS' EQUITY			
Common Stock	13,995	20,948	21,948
Retained Earnings	(174,507)	(153,486)	(126,550)
Additional Paid in Capital	391,731	562,631	611,630
TOTAL STOCKHOLDERS' EQUITY	<u>231,219</u>	<u>430,093</u>	<u>507,028</u>
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	<u>\$ 755,922</u>	<u>\$ 626,749</u>	<u>\$ 782,117</u>

The accompanying notes to the financial statements are an integral part of this statement.

DOC BURNSTEIN'S ICE CREAM LAB, INC.
STATEMENT OF INCOME AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
SALES	\$ 2,200,413	\$ 2,347,411	\$ 2,464,659
COST OF GOODS SOLD	(1,382,745)	(1,465,533)	(1,612,774)
GROSS PROFIT	<hr/> 837,668	<hr/> 881,878	<hr/> 851,885
GENERAL AND ADMINISTRATIVE EXPENSES	(741,226)	(762,445)	(741,081)
INCOME FROM OPERATIONS	<hr/> 76,442	<hr/> 119,433	<hr/> 110,804
OTHER INCOME (EXPENSES)			
Depreciation	(63,296)	(72,080)	(75,161)
Interest Expense	(26,559)	(22,018)	(5,508)
Other Income (Loss)	1,687	(807)	6,030
TOTAL OTHER INCOME (EXPENSES)	<hr/> (88,168)	<hr/> (94,905)	<hr/> (74,639)
INCOME BEFORE TAXES	<hr/> -11,726	<hr/> 24,528	<hr/> 36,165
PROVISION FOR INCOME TAXES			
Current (Expense)	(800)	(800)	(800)
Deferred Benefit	2,918	(2,705)	(8,431)
TOTAL INCOME TAX BENEFIT (EXPENSE)	<hr/> 2,118	<hr/> (3,505)	<hr/> (9,231)
NET INCOME (LOSS)	<hr/> <hr/> (9,608)	<hr/> <hr/> 21,023	<hr/> <hr/> 26,934

The accompanying notes to the financial statements are an integral part of this statement.

DOC BURNSTEIN'S ICE CREAM LAB, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

	Common Stock Class A	Common Stock Class B	Retained Earnings	Additional Paid in Capital *	Totals
Balance at December 31, 2015	14,848	6,100	(153,486)	562,631	430,093
Net Income (Loss)	-	-	26,934	-	26,934
Shares Issued	0	1,000	-	49,000	50,000
Balance at December 31, 2016	<u>14,848</u>	<u>7,100</u>	<u>(126,550)</u>	<u>611,631</u>	<u>507,027</u>

* In 2016 the Board of Directors approved converting Common Stock from \$1 Par Value to Zero Par Value, to take effect in 2017. The result is that all proceeds from Stock Sales are listed within each Class, and portions are no longer combined under the "Additional Paid in Capital Account".

The accompanying notes to the financial statements are an integral part of this statement.

DOC BURNSTEIN'S ICE CREAM LAB, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Sources of Cash	
Cash Received From Customers	2,457,717
Operating Uses of Cash	
Payments of Costs of Goods Sold	(1,470,889)
Payments of General and Administrative Expenses	(750,988)
Payment of State Income Tax	(800)
Total Operating Uses of Cash	<u>(2,222,677)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	235,040
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Fixed Assets	(157,856)
Purchase of Intangible Assets	(153,975)
Investment in Creamery Corporation	(10,000)
(Gain)/Loss on Sale/Disposal of Assets	725
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(321,106)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of Long-Term Debt	(6,072)
Issuance of Long-Term Debt	0
Issuance of Short-term Debt (Aulon)	25,000
Proceeds from Common Stock Sold	50,000
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>68,928</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,863)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>60,410</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>42,547</u>

The accompanying notes to the financial statements are an integral part of this statement.

**DOC BURNSTEIN'S ICE CREAM LAB, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income (Loss)	26,934
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation	75,161
(Gain)/Loss on Sale/Disposal of Equipment	725
Deferred Income Tax Benefit	8,431
Assets - (Increase)/Decrease	
Accounts Receivable	(2,247)
Line of Credit Loan to Creamery	(4,695)
Prepaid Expenses	5
Inventory	77,082
Security Deposits	(4,150)
Liabilities - Increase/(Decrease)	
Accounts Payable	64,803
Sick/PTO Liability Accrual	1,053
Gift Certificates	5,372
Accrued Interest	(13,434)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	235,040
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash Paid During the Year for Interest	5,508

The accompanying notes to the financial statements are an integral part of this statement.

DOC BURNSTEIN'S CREAMERY

FINANCIAL STATEMENTS
(unaudited)

DECEMBER 31, 2016

**DOC BURNSTEIN'S CREAMERY
BALANCE SHEET
AS OF DECEMBER 31, 2016**

ASSETS

	<u>2016</u>
CURRENT ASSETS	
Cash	\$ 3,749
Accounts Receivable (Note 2)	14,536
Inventory (Note 3)	107,709
Other Current Assets	0
Total Current Assets	125,994
FIXED ASSETS (Note 5)	
Machinery and Equipment	0
Furniture and Fixtures	0
Leasehold Improvements	0
Vehicles	0
Less: Accumulated Depreciation	0
Total Fixed Assets (Net)	0
OTHER ASSETS	
Security Deposits	0
Intangible Assets	0
Deferred Income Tax Benefit (Note 4)	6,475
Total Other Assets	0
TOTAL ASSETS	\$ 132,469

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts Payable	102,119
Gift Cards (Note 6)	0
Short-term Debt	39,695
Other Current Liabilities	1,336
Total Current Liabilities	143,150
LONG-TERM LIABILITIES	
Long-Term Debt, net of current portion (Note 8)	0
TOTAL LIABILITIES	143,149
STOCKHOLDERS' EQUITY	
Common Stock	10,000
Retained Earnings	(20,680)
Additional Paid in Capital	0
TOTAL STOCKHOLDERS' EQUITY	(10,680)
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 132,469

The accompanying notes to the financial statements are an integral part of this statement.

DOC BURNSTEIN'S CREAMERY
STATEMENT OF INCOME AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2016</u>
SALES (only to Doc Burnstein's Inc.)	\$ 411,378
COST OF GOODS SOLD	(295,516)
GROSS PROFIT	<u>115,862</u>
GENERAL AND ADMINISTRATIVE EXPENSES	(141,254)
INCOME FROM OPERATIONS	<u>(25,392)</u>
OTHER INCOME (EXPENSES)	
Depreciation	0
Interest Expense	(762)
Other Income (Loss)	<u>(1,000)</u>
TOTAL OTHER INCOME (EXPENSES)	(1,762)
INCOME BEFORE TAXES	<u>(27,154)</u>
PROVISION FOR INCOME TAXES	
Current (Expense)	0
Deferred Benefit	<u>6,474</u>
TOTAL INCOME TAX BENEFIT (EXPENSE)	6,474
NET INCOME (LOSS)	<u><u>(20,680)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Common</u> <u>Stock</u>	<u>Retained</u> <u>Earnings</u>	<u>Additional</u> <u>Paid in</u> <u>Capital *</u>	<u>Totals</u>
Balance at December 31, 2015	-	-	-	-
Net Income (Loss)	-	(21,481)	-	(21,481)
Shares Issued	10,000	-	-	10,000
Balance at December 31, 2016	<u>10,000</u>	<u>(21,481)</u>	=	(11,481)

Doc Burnstein's Creamery was formed on June 22, 2016 with a \$10,000 investment of inventory by Doc Burnstein's Ice Cream Lab, Inc., the Parent Company. All shares are owned by Doc Burnstein's Ice Cream Lab, Inc. The Creamery leases equipment and other assets from the parent Company and from Aulon Arch, Inc

The accompanying notes to the financial statements are an integral part of this statement.

**DOC BURNSTEIN'S CREAMERY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Sources of Cash	
Cash Received From Customers	396,857
Operating Uses of Cash	
Payments of Costs of Goods Sold	(296,411)
Payments of General and Administrative Expenses	(146,392)
Payment of State Income Tax	0
Total Operating Uses of Cash	<u>(442,803)</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES (45,946)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Fixed Assets	0
--------------------------	---

NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES 0

CASH FLOWS FROM FINANCING ACTIVITIES

Issuance of Short-Term Debt	39,695
Proceeds from Common Stock Sold	10,000

NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES 49,695

**NET INCREASE (DECREASE) IN CASH AND CASH
EQUIVALENTS** 3,749

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 0

CASH AND CASH EQUIVALENTS AT END OF YEAR 3,749

The accompanying notes to the financial statements are an integral part of this statement.

**DOC BURNSTEIN'S CREAMERY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income (Loss)	(20,680)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation	0
Deferred Income Tax Benefit	(6,474)
Assets - (Increase)/Decrease	
Accounts Receivable	(14,521)
Inventory	(107,709)
Security Deposits	0
Liabilities - Increase/(Decrease)	
Accounts Payable	97,407
S-T Liabilities	4,695
Other Liabilities	1,336
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(45,946)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash Paid During the Year for Interest	762

The accompanying notes to the financial statements are an integral part of this statement.

DOC BURNSTEIN'S ICE CREAM LAB, INC. & CREAMERY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following items comprise the significant accounting policies of Doc Burnstein's Ice Cream Lab, Inc. (the Company). The policies reflect industry practices and conform to generally accepted accounting principles.

Doc Burnstein's Ice Cream Lab is an authentic old fashioned ice cream parlor serving up our original hand-crafted ice cream. The Company features classic ice cream flavors like its award winning Vanilla, as well as some crazy creations like "Elvis Special", "Merlot-Raspberry Truffle" (made with real Central Coast wine – just a little) and the ever popular "Motor Oil"™ custom created for the Pismo Beach Car Show.

Cash

For purposes of the Statement of Cash Flows, the Company considers all highly liquid-debt instruments purchased with a maturity of three months or less to be cash equivalents.

Inventories

Our inventories are accounted for using the first-in, first-out (FIFO) method.

Provisions are recorded to reduce inventory for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory levels and turns, product spoilage, and specific identification of items, such as product discontinuance.

Capital Assets

Capital assets are carried at cost. Depreciation of capital assets is provided using the straight-line method for financial reporting purposes at rates based on the following estimated useful lives:

	Years
Machinery & Equipment	3-15
Furniture & Fixtures	3-15
Leasehold Improvements	5-15
Vehicles	3-5

For federal income tax purposes, depreciation is computed using the accelerated cost recovery system and the modified accelerated cost recovery system. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Gift Cards

When gift cards are sold to customers the Company records a liability for the amount of the sale. The Company recognizes revenue on gift cards when the customer purchases goods and merchandise by using the gift card.

The Company recognizes breakage income for unused cards as 15% of the year end balance, because at that point, the likelihood of redemption is deemed to be remote. The Company reduces general and administrative expenses by the estimated annual breakage amount. The Company does not have a legal obligation to remit the value of unredeemed gift cards to the state of California.

DOC BURNSTEIN'S ICE CREAM LAB, INC. & CREAMERY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Employees of the Company are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. Estimate for the amount of compensation for future absences is accounted for as a liability, as recorded in the accompanying financial statements.

Credit Risk

The Company maintains cash balances principally in one financial institution. The Company switched its banking relationship to Coast Hills Credit Union in 2017. As of December 31, 2016 the Company had no significant concentrations of credit risk.

Uncertainties, Contingencies, and Risks

For a description of the business and investment risks faced by the Company, refer to the Form U-7 disclosure document offered by the Company. The U-7 describes the Company, the terms of the offering, and the risks of the investment, amongst other things

Income Taxes

Deferred tax assets and liabilities are recognized by applying applicable tax rates to the differences between the financial statement basis and tax basis of the Company's assets and liabilities. Deferred tax benefits are reduced by a valuation allowance for any benefits that, in the opinion of management, are not expected to be realized.

The Company has implemented the amended accounting principles related to accounting or uncertainty in income taxes and has determined that there is no material impact on the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: ACCOUNTS RECEIVABLE

As of December 31, 2016, accounts receivable consisted of the following:

	Lab, Inc	Creamery
Wholesale Accounts Receivable:		
Scoop Shops & Restaurants	\$ 13,683	\$ 0
Novelty Customers	1,833	0
Catering & Corporate Fudge Sales	1,705	0
Totals	\$ 17,221	\$ 0
Internal Receivables (Lab Inc. to Creamery)	(14,536)	14,536

DOC BURNSTEIN'S ICE CREAM LAB, INC. & CREAMERY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 3: INVENTORY

Inventory in the parent Company and the subsidiary, Doc Burnstein's Creamery, as of December 31, 2016 consisted of the following:

<u>Doc Burnstein's Ice Cream:</u>	<u>Lab, Inc.</u>	<u>Creamery</u>
Ingredient Items	\$ 2,830	\$ 35,103
Paper & Plastic Items	2,400	10,110
Finished Products	15,608	26,477
Merchandise	1,906	5,273
Other Items	<u>681</u>	<u>30,746</u>
Totals	\$ 23,445	\$ 107,709

NOTE 4: DEFERRED INCOME TAX BENEFIT

As of December 31, 2016 deferred income tax benefits consist of the following:

<u>Doc Burnstein's Ice Cream:</u>	<u>Lab, Inc.</u>	<u>Creamery</u>
Net Operating loss Carry-forward	\$ 169,430	\$ 27,155
Total Deferred Income Tax Benefit	42,343	6,474

NOTE 5: FIXED ASSETS

All Fixed Assets are retained in the parent Company. Assets used in the Creamery are leased to the Creamery from the Parent Company.

Components of fixed assets at December 31, 2016 were as follows:

	Dec. 31, <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	Dec. 31, <u>2016</u>
Fixed assets being depreciated:				
Machinery and equipment	\$ 337,523	\$ 30,080	(\$43,655)	\$ 323,948
Furniture and fixtures	17,153	1,041	-	18,194
Leasehold improvements	328,434	129,724	-	458,158
Vehicle	<u>116,933</u>	<u>-</u>	<u>-</u>	<u>116,933</u>
Total fixed assets depreciated	800,043	160,845	(43,655)	917,233
Less accumulated depreciation	(432,025)	(75,161)	43,655	(465,531)
Fixed assets, net	\$ 368,018	\$85,684	\$ -	\$ 451,702

Depreciation expense was \$75,161 the year ended December 31, 2015.

DOC BURNSTEIN'S ICE CREAM LAB, INC. & CREAMERY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 6: GIFT CARDS

The components of the gift card liability at December 31, 2016 were as follows:

	December 31, 2015	Sales of Gift Cards	Gift Cards Redeemed	Annual Gift Cards Breakage	December 31, 2016
Gift Card Liability	25,456	42,903	(29,830)	(7,701)	30,828

NOTE 7: LINE OF CREDIT

The Company maintains a secured bank line of credit with Coast Hills Credit Union. Issued initially on February 7, 2017 and renewable after five years, in the amount of \$50,000. The interest rate on the Note is variable, and is calculated at 2.25% above the Prime Rate. The date of maturity is January 31, 2022. The Company pays 12 payments of interest only on the disbursed principal balance, payable on the first day of each month.

There was no activity on the line of credit for the year ending December 31, 2016:

NOTE 8: LONG-TERM DEBT

Long-term debt at December 31, 2016 consists of the following:

Orcutt Loan Landlord - Issued on October 13, 2011, in the amount of \$12,325, and increased on March 13, 2012, to a total loan amount of \$25,033, with a term of 5 years, maturing April 1, 2017. This loan was made by the Will Family Partnership, owners of the Orcutt Union Plaza, for the purchase of leasehold improvements to the Orcutt retail location at 165 S. Broadway in Orcutt, California. Interest rate is 7.00%, and the Company pays principal and interest payments of \$497.49 monthly. This loan is fully paid off in April 2017.	\$ 1,961
Greg Steinberger – Initially issued January 9, 2008 in the amount of \$169,440. Interest accrued at 12% APR and payments were made each month through July 2009, at which time the APR was reduced to 8% and all payments ceased. Interest then accrued in an account until July 2015. In November 2015, \$77,000 of Principal was converted to Class-B Shares and the remaining Accrued Interest is listed as a long-term liability, with payments of \$1,000. Maturity date of July 2020.	36,920

DOC BURNSTEIN'S ICE CREAM LAB, INC. & CREAMERY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Don & Sue Steinberger - Issued on December 15, 2003, in the amount of \$25,380, with an initial term of 10 years. The loan has no collateral security. Loan extended and principal amount increased to \$42,568 on May 15, 2007, with an interest rate of 5%, and again to \$53,630 on December 29, 2008. Interest rate and term adjusted to 4% on April 1, 2009. The Company pays principal and interest payments of \$500 monthly, on the tenth calendar day of each month. Maturity date of December 2023. 37,050

Total debt	\$ 75,931
Less: current portion	(15,949)
Total long-term debt	\$ 59,982

Following is a summary of activities of long-term debt for the year ended December 31, 2016:

	December 31, 2015	Additions	Reductions	December 31, 2016	Portion Due Within One Year
Orcutt Loan	\$ 7,578	0	(5,617)	\$ 1,961	1,961
Greg Steinberger	55,354	0	(18,434)	36,920	9,386
Don & Sue Steinberger	41,472	0	(4,422)	37,050	4,602
Total	104,404	0	(28,473)	\$ 75,931	15,949

Payments for the Orcutt Landlord Loan for the succeeding five years are as follows:

Year Ended December 31,	Principal	Interest	Total
2017	\$ 1,961	\$ 29	\$ 1,990

Payments for the Greg Steinberger Loan for the succeeding five years and thereafter are as follows:

Year Ended December 31,	Principal	Interest	Total
2017	\$ 9,386	\$ - 2,614	\$ 12,000
2018	10,165	- 1,835	12,000
2019	11,008	- 992	12,000
2020	6,362	- 161	6,523
Total	\$ 36,921	\$ - 5,602	\$ 42,523

Payments for the Don & Sue Steinberger Loan for the succeeding five years and thereafter are as follows:

Year Ended December 31,	Principal	Interest	Total
2017	\$ 4,602	\$ 1,398	\$ 6,000
2018	4,789	1,211	6,000
2019	4,984	1,016	6,000
2020	5,187	812	6,000
2021	5,399	601	6,000
2022-2023	11,467	534	12,000
Total	\$36,428	\$ 5,572	\$ 42,000

DOC BURNSTEIN'S ICE CREAM LAB, INC. & CREAMERY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 9: LEASE COMMITMENTS

The Company leases various types of office, store front and other facilities generally over periods ranging up to 5 years with possible extensions. Properties include the following:

Arroyo Grande Retail operations are located at 114 W. Branch St, Arroyo Grande, California in a leased 2,650 sq. ft. facility, which has been leased since 2003. It has two 5-year extensions available to the company to continue through 2023. Rent is \$3,325 per month plus a monthly billing for some utilities and CAMs that amounts to \$300 on average per month. Amounts shown are based on \$3,625 per month x 12 months. The Landlord has the option to adjust the rent to fair market value in 2018.

Arroyo Grande Retail future minimum rental payments due under the lease are as follows:

Year Ending December 31,	
2017	\$ 43,500
2018	43,500
2019	43,500
2020	43,500
2021	43,500
2022-2023	87,000
Total	\$304,500

San Luis Obispo Retail operations are located at 860 Higuera St, San Luis Obispo, California in a leased 2,297 sq. ft. facility, with a 10-year lease commencing on August 1, 2013 through July 31, 2023, and two 5-year extensions available. Rent is \$7,520 plus CAM of \$296 (fixed) per month. Cost of Living Adjustments are scheduled to occur on August 1 of 2017, 2019, and 2021. Adjustment will be no more than 5%, but no less than 2%, in any given year. Amounts are based on a 2% increase in August of 2017

Leasehold Improvements at this location are owned by Aulon Arch, Inc. and leased to the Company in a two-year operating lease that commenced September 2015, with one possible two-year extension to August 2017. Lease payments are fixed at \$2,600 per month for the term of the lease.

San Luis Obispo Retail future minimum rental payments due under the lease are as follows:

Year Ending December 31,	
2017	\$ 94,417
2018	95,668
2019	95,668
2020	95,668
2021	95,668
2022-2023	143,502
	\$620,591

DOC BURNSTEIN'S ICE CREAM LAB, INC. & CREAMERY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Orcutt Retail operations are located at 168 Clark Ave., Orcutt, California in a leased 1,450 sq. ft. facility, which has been leased since February 2012 through February 2018, with two 5-year extensions available. The current lease of \$2,841 rent plus \$371 for the 12 months of 2017.

Orcutt Retail future minimum rental payments due under the lease are as follows:

Year Ending December 31,	
2017	\$ 38,544
2018	6,424

Grover Beach Production Plant located at 974 Griffin Street, Unit C, Grover Beach, California began a lease in December 2015 for a 5,000 sq. ft. facility to house a production and distribution center, leased until 2020 with two 5-year extensions. Rent is \$4,000 per month.

Grover Beach Production Plant future minimum rental payments due under the lease are as follows:

Year Ending December 31,	
2017	\$ 48,000
2018	48,000
2019	48,000
2020	48,000
	\$192,000

Grover Beach Corporate Office located at 150 S. 6th St, Grover Beach, California is a 1,000 sq. ft. office building, commencing May 16, 2016 and terminating April 30, 2018. Rent is \$1,100 per month. An extension of lease may be negotiated at the end of the term, but there are no extensions written into the current lease.

Grover Beach Corporate Offices future minimum rental payments due under the lease are as follows:

Year Ending December 31,	
2017	\$ 13,200
2018	4,400
	\$ 17,600

DOC BURNSTEIN'S ICE CREAM LAB, INC. & CREAMERY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 10: RELATED PARTIES

Related Party	Nature of Relationship
Greg Steinberger	Founder, CEO, and Member of the Board of Directors. Greg is a long-time creditor to the Company, and was paid \$18,434 in interest and principal 2016.
Don & Sue Steinberger	Parents of Greg Steinberger, and long-time creditors to the Company. They were paid \$6,000 in interest & principal 2016.
Chuck Anders	Owner of Strategic Initiatives and Chairman of the Board of Directors. Strategic Initiatives was paid \$425 in 2016 services.
Jim Richardson	Member of the Board of Directors and owner of Click-thru Consulting. Click-thru Consulting was paid \$0 in 2016.
Ted Malley	Member of the Board of Directors and owner of Related Matters, Inc. Related Matters, Inc. was paid \$0 in 2016.
Steven Eis	Member of the Board of Directors and owner of Imperial Innovations. Imperial Innovations was paid \$0 in 2016.
David Long	Advisor to the Board of Directors and CEO of Aulon Arch, Inc. Aulon Arch was paid \$49,675 in 2016 for leases on tenant Improvements and equipment.
Pauline Malysko	Advisor to the Board of Directors and owner of Blue Wave Consulting. Blue Wave was paid \$36,147 in 2016 for services.

NOTE 11: SUBSEQUENT EVENTS

On March 1, 2017 the Par Value of Common Stock was set to zero, (formerly \$1., before splits). The purpose of the change was to reflect actual cash received for each Class of stock within that stock category, rather than combining funds from both Classes into the "Additional Paid in Capital" account.

In March 2017, Doc Burnstein's Ice Cream Lab, Inc. commenced a Shareholder-approved Public Stock Offering of up to 20,000 shares of Class-A Common Stock as approved by the California Department of Business Oversight in February 2017. Proceeds are to be used to build infrastructure for expansion outside the Central Coast region, and to commence expansion with parlors in other regions. A portion of the proceeds may be used to purchase assets previously purchased in 2016 for Doc Burnstein's Creamery.

Management evaluated subsequent events through March 30, 2017, the date which the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2016 that would require recognition or disclosure in such financial statements.

Forward-Looking Statements

Statements that are not based on historical fact are forward-looking statements. Although such statements are based on management's current estimates and expectations, and currently available competitive, financial, and economic data, forward-looking statements are inherently uncertain. We, therefore, caution the reader that there are a variety of factors that could cause business conditions and results to differ materially from what is contained in our forward-looking statements. We caution readers that we do not undertake to update any forward-looking statements.

BOARD OF DIRECTORS



Greg Steinberger

Greg Steinberger is Founder and CEO of Doc Burnstein's Ice Cream Lab, Inc. Greg graduated from the University of Wisconsin Naval ROTC in 1986, then served 8 years as a Naval Flight Officer. He completed an evening MBA program at the University of California, Berkeley in 1994 as he completed his military service, and worked in Human Resources for corporations in the S.F. Bay area until moving to Arroyo Grande in 2002. He founded Doc Burnstein's in 2003, with the assistance of Chuck Burns, Founder of Burnardo'z Ice Cream, with a desire to create a business that would become a nationwide brand. Greg also serves on the Arroyo Grande/Grover Beach Chamber Marketing Committee and the Arroyo Grande Parking Advisory Board.



Chuck Anders

Chuck Anders joined our Board in 2014, and is President of Strategic Initiatives, a consulting and performance coaching organization that helps business and governmental organizations create a deeper connection with their customers, stakeholders and employees. Chuck specializes in using innovative group collaboration technologies to quickly and effectively understand people's needs and align strategies for success. Prior to founding Strategic Initiatives in 1996, Chuck served as a principal consultant for an international engineering firm, Director of the Arizona State Environmental Protection Agency and Assistant Director of the Arizona Department of Transportation. He is active in local community organizations and is a past president of the San Luis Obispo County YMCA Board of Directors.



Jim Richardson

Jim Richardson has been a Board Member since 2009, and is a local business owner. After graduating from Cal State University in 1983 with an undergraduate degree in marketing, Jim Richardson launched a successful career in the financial services business. He devoted his business life to improving the success of his clients' closely held businesses and was the trusted advisor to hundreds of families. The author of two books, *Money Super Power* and *Success Simplified*, Jim has also been a contributing columnist for two trade publications. He has served on the boards of Make-A-Wish, Child Evangelism Fellowship, Link Care Center and he founded Valley Arts & Science Academy, a charter elementary school.



Ted Malley

Ted Malley joined our Board in 2013, and is the Co-Founder of Related Matters, Inc., a technology company that combines behavioral science, mobile technology and social networking into an app called TeamRelate. TeamRelate has been used by Doc's to improve team communication and enhance employee engagement. Prior to that, Ted brings over 20 years of experience as an executive in the human capital management software industry. He's held a variety of positions with Ceridian, Ultimate Software, ADP, and IBM. He is eager to help Doc Burnstein's grow by combining his industry experience with his family's great love for Doc's Ice Cream. Ted has a B.S. in Computer Science from Cal Poly San Luis Obispo, and lives in Arroyo Grande with his wife and 4 children.



Steven Eis

Steven Eis has spent his career in the food and dairy industry. Raised in a family owned dairy business, he graduated from Humboldt State and served as a veterinary technician in Vietnam. Steven worked for Knudsen Dairies and Dreyer's Ice Cream, domestically and in Hong Kong and China as a technical consultant in food and dairy manufacture. He has also started up ice cream co-packing operations in both Canada and Europe. Steven became associated with Doc Burnstein's while working for Ramar Foods and helping to formulate the current dairy base. Since his formal retirement in 2015, Steven has continued to work as consultant in the frozen products industry.



COMPANY INFORMATION

Company History

Doc Burnstein's Ice Cream Lab specializes in super-premium, hand-crafted ice creams. The retail parlor and manufacturing plant opened in Arroyo Grande in August of 2003, founded by Greg Steinberger, a graduate of the University Of Wisconsin School Of Business and the University of California, Berkeley MBA program. The parlor is a renovation of the Burnardo's ice cream parlor that had been in that location since 1976. The Doc Burnstein's concept and recipes were developed in collaboration with Chuck Burns, Founder and owner of Burnardo's from 1976 to 1993.

Doc Burnstein's registered as a California Benefit Corporation in 2012. Then in 2013 made its first Public Stock Offering, selling 8,000 shares to fund growth in San Luis Obispo. Over 360 new shareholders purchased the shares, making Doc Burnstein's Ice Cream Lab, Inc. a unique Community-Owned Benefit Corporation.

Doc Burnstein's has won numerous awards for its ice cream quality and community support. The ice cream has earned a Blue Ribbon from the National Ice Cream Retailers' Association, and five Gold Medals at the LA International Dairy Competition. Doc Burnstein's also wins numerous "Best Ice Cream of the Central Coast" awards each year. And in 2009 we were awarded the First Spirit of Small Business Award for SLO County from the Pacific Coast Business Times. In 2016, Doc Burnstein's was named Small Business of the Year Award for State Assembly District 33. Founder Greg Steinberger has also been named to Fenwal Blood Services National Donors Hall of Fame for the company's support of blood drives.

Corporate Offices

150 South 6th Street
Grover Beach, CA 93433

Tel (805) 474-4068

Fax (805) 474-4079

Doc Burnstein's Creamery

971 Huber Street
Grover Beach, CA 93433

www.DocBurnsteins.com

Arroyo Grande Parlor

114 W. Branch Street
Arroyo Grande, CA 93420

Orcutt Parlor

168 W. Clark Ave.
Orcutt, CA 93455

San Luis Obispo Parlor

860 Higuera Street
San Luis Obispo, CA 9340