



QUARTERLY DISCLOSURE REPORT
MARCH 31, 2014
UNAUDITED

ARMANINO FOODS OF DISTINCTION, INC.
QUARTERLY REPORT
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OTC PINK BASIC DISCLOSURE GUIDELINES

1. NAME OF THE ISSUER AND ITS PREDECESSORS (IF ANY):
 Armanino Foods of Distinction, Inc. (The Company)

2. ADDRESS OF THE ISSUER'S PRINCIPAL EXECUTIVE OFFICES:
 Company Headquarters:
 Address 1: 30588 San Antonio Street
 Address 2: Hayward, CA 94544
 Phone: (510) 441-9300
 Email: amnf@armaninofoods.com
 Website(s): www.armaninofoods.com

IR Contact:
 Address 1: 30588 San Antonio Street
 Address 2: Hayward, CA 94544
 Phone: (510) 441-9300
 Email: amnf@armaninofoods.com
 Website(s): www.armaninofoods.com

3. SECURITY INFORMATION:
 a. Trading Symbol: AMNF
 b. Title and class of securities outstanding: Common Stock
 CUSIP: 042166801
 Par or Stated Value: no par

	March 31, <u>2014</u>	March 31, <u>2013</u>	March 31, <u>2012</u>
Common Shares authorized	40,000,000	40,000,000	40,000,000
Common Shares outstanding ⁽¹⁾	32,065,645	32,015,645	32,364,373
Freely tradable shares	30,203,203	29,740,803	30,089,531
# of beneficial shareholders ⁽²⁾	1,300	1,300	1,300
# of shareholders of record	124	125	127

(1) Common stock shares outstanding are calculated as follows:

	<u>March 31, 2014</u>	<u>March 31, 2013</u>	<u>March 31, 2012</u>
Common shares outstanding on record with Transfer Agent	32,065,645	32,042,360	32,364,373
Less common stock held in treasury	-	<26,715>	-
Common shares outstanding	<u>32,065,645</u>	<u>32,015,645</u>	<u>32,364,373</u>

(2) The number of beneficial shareholders for each year represent estimates, only, as the actual information is not readily available.

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c. Additional class of securities: Preferred Stock

CUSIP: 042166801

Par or Stated Value: no par

	March 31, <u>2014</u>	March 31, <u>2013</u>	March 31, <u>2012</u>
Shares authorized	10,000,000	10,000,000	10,000,000
Shares outstanding	-	-	-
Freely tradable shares	-	-	-
# of beneficial shareholders	-	-	-
# of shareholders of record	-	-	-

d. Transfer Agent:

Name: Computershare Trust Company, N.A.

Address 1: 250 Royall Street

Address 2: Canton, MA 02021

Phone: (303) 262-0710

e. Is the Transfer Agent registered under the Exchange Act? Yes: No:

f. Restrictions on the transfer of security:

1,862,442 shares of common stock are restricted as of 3/31/14; 2,274,842 shares as of 3/31/13; and, 2,274,842 shares as of as of 3/31/12.

g. Trading suspension orders issued by the SEC in the past 12 months: None

h. Stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months: None

4. ISSUANCE HISTORY

The Company had no events which resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period, including offerings of equity securities, debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services.

5. FINANCIAL STATEMENTS

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The Company's financial statements are prepared in accordance with US GAAP. Refer to the Company's interim financial statements starting on page 9.

6. ISSUER'S BUSINESS, PRODUCTS, AND SERVICES

a. Issuer's business operations:

The Company is currently engaged in the production of upscale and innovative frozen and refrigerated food products, including pesto and other sauces, stuffed pasta products, and cooked meat products.

b. Date and State (or Jurisdiction) of Incorporation:

Colorado, 1986

c. Issuer's primary and secondary SIC Codes:

2030

d. Issuer's fiscal year end date:

December 31

e. Principal products or services, and their markets:

The Company's line of frozen products presently includes pesto sauces, stuffed pastas and pasta sheets, as well as value-added specialty Italian pastas, and cooked meat products.

7. ISSUER'S FACILITIES

The Company leases approximately 24,375 square feet of office, production and warehouse space located at 30588 San Antonio Street, Hayward, California, 94544. The Company also leases approximately 7,408 square feet of additional office and warehouse space located at 30641 San Antonio Street, Hayward, California, 94544. Except for a Co2 tank which it leases, the Company owned all of its manufacturing equipment as of March 31, 2014.

8. OFFICERS, DIRECTORS, AND CONTROL PERSONS

a. Name of Officers, Directors, and Control Persons:

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<u>Name</u>	<u>Business Address</u>	<u>Positions and Offices Held & Term as a Director</u>	<u>Shares Owned</u>
Edmond J. Pera	30588 San Antonio Street Hayward, CA 94544	President and Chief Executive Officer since February 2009. Also, Secretary, Treasurer until February 2009, and Director since August 2000. Served as Chief Operating Officer (Principal Financial Officer) from May 2003 to February 2009.	450,000
Douglas R. Nichols	30588 San Antonio Street Hayward, CA 94544	Chairman of the Board since February 2009. Previously served as Director since June 2001.	1,843,270
John Micek III	30588 San Antonio Street Hayward, CA 94544	Director since February 1988.	142,960
David B. Scatena	30588 San Antonio Street Hayward, CA 94544	Director since February 1988 and Vice Chairman of the Board since February 1999.	8,280
Joseph F. Barletta	30588 San Antonio Street Hayward, CA 94544	Director since December 1999.	-
Patricia A. Fehling	30588 San Antonio Street Hayward, CA 94544	Director since December 2004	100,000
Deborah Armanino LeBlanc	30588 San Antonio Street Hayward, CA 94544	Elected to the Board of Directors in February 2009. Secretary since February 2009.	1,184,292

- b. Legal/Disciplinary History – persons who have, in the last five years, been the subject of:
- A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses): None
 - The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person’s involvement in any type of business, securities, commodities, or banking activities: None
 - A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated: None
 - The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person’s involvement in any type of business or securities activities: None
- c. Beneficial Shareholders -- Name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer’s equity securities: None

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9. THIRD PARTY PROVIDERS

a. Legal Counsel

Name: Mark Cassanego
Firm: Carr, McClellan, Ingersoll
Address 1: 216 Park Road
Address 2: Burlingame, CA 94011-0513
Phone: (650) 342-9600
Email: amnf@armaninofoods.com

b. Accountant or Auditor

Name: Alan Gregory
Firm: Gregory & Associates, LLC
Address 1: 4397 South Albright Drive
Address 2: Salt Lake City, UT 84124
Phone: (801) 277-2763
Email: amnf@armaninofoods.com

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10. ISSUER CERTIFICATION

I, Edmond J. Pera certify that:

- (i) I have reviewed this quarterly disclosure statement of Armanino Foods of Distinction, Inc.;
- (ii) Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
- (iii) Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 14, 2014
/s/Edmond J Pera
CEO

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10. ISSUER CERTIFICATION (Continued)

I, Edgar Estonina certify that:

- (i) I have reviewed this quarterly disclosure statement of Armanino Foods of Distinction, Inc.;
- (ii) Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
- (iii) Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 14, 2014
/s/Edgar Estonina
CFO

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INTERIM FINANCIAL STATEMENTS

BALANCE SHEET

	As of March 31, 2014	As of December 31, 2013
CURRENT ASSETS:		
Cash	\$ 2,847,854	\$ 2,345,737
Certificates of Deposit	701,466	701,466
Accounts Receivable, net	4,160,599	3,743,506
Inventories	2,058,206	2,106,600
Prepaid Expenses	177,629	283,476
Current Deferred Tax Asset	78,956	78,956
Total Current Assets	10,024,710	9,259,741
 PROPERTY AND EQUIPMENT, net		
accumulated depreciation	1,224,344	1,270,047
 OTHER ASSETS:		
Deposits	20,000	20,000
Goodwill	375,438	375,438
Total Other Assets	395,438	395,438
Total Assets	\$ 11,644,492	\$ 10,925,226

The accompanying notes are an integral part of these financial statements

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	As of March 31, 2014	As of December 31, 2013
CURRENT LIABILITIES:		
Notes Payable - Current Portion	\$ 405,658	\$ 401,461
Accounts Payable - Trade	1,615,110	1,421,548
Accrued Payroll and Payroll Taxes	309,903	452,678
Other Accrued Liabilities	6,993	7,497
Dividends Payable	1,026,101	513,050
Accrued Income Taxes	433,114	11,104
Total Current Liabilities	<u>3,796,879</u>	<u>2,807,338</u>
Notes Payable and Long-Term Debt	709,928	812,042
Deferred Tax Liability	45,941	45,197
Other Long-Term Liabilities	5,477	6,984
Total Long Term Liabilities	<u>761,346</u>	<u>864,223</u>
Total Liabilities	<u>4,558,225</u>	<u>3,671,561</u>
STOCKHOLDERS' EQUITY:		
Preferred Stock; no par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common Stock; no par value, 40,000,000 shares authorized, 32,065,645 and 32,065,645 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	2,774,990	2,774,990
Additional Paid-in Capital	48,202	48,202
Accumulated Other Comprehensive Income	(7,857)	(9,123)
Retained Earnings	4,270,932	4,439,596
Total Stockholders' Equity	<u>7,086,267</u>	<u>7,253,665</u>
Total Liabilities and Stockholders' Equity	<u>\$ 11,644,492</u>	<u>\$ 10,925,226</u>

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STATEMENT OF EARNINGS

	For the Three Months Ended	
	March 31,	
	2014	2013
NET SALES	\$ 7,306,325	\$ 6,669,072
COST OF GOODS SOLD	4,592,595	4,235,041
GROSS PROFIT	<u>2,713,730</u>	<u>2,434,031</u>
OPERATING EXPENSES:		
General, administrative and selling expense	445,890	435,146
Salaries & wages	646,630	600,435
Commissions	229,279	187,185
Total Operating Expense	<u>1,321,799</u>	<u>1,222,766</u>
INCOME FROM OPERATIONS	<u>1,391,931</u>	<u>1,211,265</u>
OTHER INCOME (EXPENSE)		
Interest and Other Income	18,568	21,322
Interest (Expense)	(12,231)	(16,392)
Total Other Income (Expense)	<u>6,337</u>	<u>4,930</u>
INCOME BEFORE INCOME TAXES	1,398,268	1,216,195
CURRENT TAX EXPENSE	540,825	469,842
DEFERRED TAX (BENEFIT)	-	-
NET INCOME	<u>\$ 857,443</u>	<u>\$ 746,353</u>
Derivative instrument accounted for as a hedge, net of tax of \$744 and \$525, respectively	1,266	894
COMPREHENSIVE INCOME	<u>\$ 858,709</u>	<u>\$ 747,247</u>
EARNINGS PER COMMON AND EQUIVALENT SHARES:		
BASIC EARNINGS PER SHARE	<u>\$ 0.027</u>	<u>\$ 0.023</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	<u>32,065,645</u>	<u>32,015,381</u>
DILUTED EARNINGS PER SHARE	<u>\$ 0.027</u>	<u>\$ 0.023</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING ASSUMING DILUTION	<u>32,065,645</u>	<u>32,088,320</u>

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STATEMENT OF STOCKHOLDER'S EQUITY

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings
	Shares	Amount	Shares	Amount			
BALANCE , December 31, 2012	32,042,360	\$ 2,762,773	(26,715)	\$ (23,934)	\$ 48,202	\$ (14,830)	\$ 2,906,307
Dividends on common shares	-	-	-	-	-	-	(1,795,076)
Cancellation of common shares held in treasury	(26,715)	(23,933)	26,715	23,934	-	-	-
Shares of common stock issued for options exercised at \$0.723 per share, March 2013	50,000	36,150	-	-	-	-	-
Derivative instrument accounted for as a hedge net of tax of \$3,351	-	-	-	-	-	5,707	-
Net income for the year ended December 31, 2013	-	-	-	-	-	-	3,328,365
BALANCE , December 31, 2013	32,065,645	\$ 2,774,990	-	\$ -	\$ 48,202	\$ (9,123)	\$ 4,439,596
Dividends on common shares	-	-	-	-	-	-	(1,026,107)
Derivative instrument accounted for as a hedge net of tax of \$744	-	-	-	-	-	1,266	-
Net income for the three months ended March 31, 2014	-	-	-	-	-	-	857,443
BALANCE , March 31, 2014	32,065,645	\$ 2,774,990	-	\$ -	\$ 48,202	\$ (7,857)	\$ 4,270,932

The accompanying notes are an integral part of these financial statements

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STATEMENT OF CASH FLOW

	For the Three Months Ended	
	March 31,	
	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Net Income	\$ 857,443	\$ 746,353
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	60,184	57,949
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(417,093)	(187,729)
(Increase) decrease in inventory	48,394	128,947
(Increase) decrease in prepaid expenses	105,846	274,643
Increase (decrease) in accounts payable, accrued expenses, and taxes payable	472,798	(429,394)
Total Adjustments	<u>270,129</u>	<u>(155,584)</u>
Net Cash Provided by Operating Activities	<u>1,127,572</u>	<u>590,769</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(14,488)	(16,961)
Proceeds (Purchase) of certificates of deposit	-	(300,000)
Net Cash Used by Investing Activities	<u>(14,488)</u>	<u>(316,961)</u>
Cash Flows from Financing Activities:		
Payments on notes payable	(97,917)	(93,894)
Proceeds from exercise of stock options	-	-
Dividends paid	(513,050)	-
Net Cash Used by Financing Activities	<u>(610,967)</u>	<u>(93,894)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	502,117	179,914
Cash and Cash Equivalents at Beginning of Period	2,345,737	1,329,955
Cash and Cash Equivalents at End of Period	<u>\$ 2,847,854</u>	<u>\$ 1,509,869</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 12,231	\$ 16,392

The accompanying notes are an integral part of these financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Presentation - The consolidated financial statements include the accounts of Armanino Foods of Distinction, Inc. (the “Company”), which engages in the production and marketing of upscale and innovative food products, including primarily frozen pesto sauces, frozen pasta products, cooked and frozen meat and poultry products, garlic spreads and its wholly-owned dormant subsidiary AFDI, Inc. which was incorporated in May 1995.

Consolidation - All significant inter-company accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company had \$1,993,921 and \$1,724,923 in excess of federally insured amounts in its bank accounts at March 31, 2014 and December 31, 2013.

Certificates of Deposit and Treasury Bills - The Company accounts for investments in debt and equity securities in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) ASC Topic 320 Investments – Debt and Equity Securities. Under Topic 320 the Company’s certificates of deposit and treasury bills (debt securities) have been classified as held-to-maturity and are recorded at amortized cost. Held-to-maturity securities represent those securities that the Company has both the positive intent and ability to hold until maturity. At March 31, 2014 and December 31, 2013, the Company had certificates of deposit with a purchase value and fair value totaling \$701,466 and \$701,466, Amortized Value totaling \$701,466 and \$701,466 and mature through March, 2016.

Accounts Receivable - Accounts receivable consist of trade receivables arising in the normal course of business. At March 31, 2014 and December 31, 2013, the Company has established an allowance for doubtful accounts of \$10,000 and \$10,000, respectively, which reflects the Company’s best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on known troubled accounts, historical experience, and other currently available evidence. Amounts written off for the years presented are insignificant for disclosure.

Inventory - Inventory is carried at the lower of cost or market, as determined on the first-in, first-out method.

Property and Equipment - Property and equipment are stated at cost. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are

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capitalized, upon being placed in service. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed for financial statement purposes on a straight-line basis over the estimated useful lives of the assets which range from two to twenty-five years (See Note 4).

Intangible Assets – Intangible assets consist of Goodwill and indefinite life intangible assets which include proprietary formulas and trademarks. Goodwill represents the excess of purchase price paid over the fair market value of identifiable net assets of companies acquired. The Company accounts for goodwill and indefinite life intangible assets in accordance with FASB ASC Topic 350, “Goodwill and Other Intangible Assets” and accordingly tests these assets at least annually for impairment.

Revenue Recognition and Sales Incentives - The Company's accounts for revenue recognition in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), FASB ASC 605. The Company recognizes revenue when rights and risk of ownership have passed to the customer, when there is persuasive evidence of an arrangement, product has been shipped or delivered to the customer, the price and terms are finalized, and collections of resulting receivable is reasonably assured. Products are primarily shipped FOB shipping point at which time title passes to the customer. In some instances the Company uses common carriers for the delivery of products. In these arrangements, sales are recognized upon delivery to the customer. The Company's revenue arrangements with its customers often include early payment discounts and such sales incentives as trade allowances, promotions and co-operative advertising. These sales incentives are recorded at the later of when revenue is recognized or when the incentives are offered. Sales incentives that do not provide an identifiable benefit or provide a benefit where the Company could not have entered into an exchange transaction with a party other than the customer are netted against revenues. Incentives providing an identifiable benefit, where the Company could have entered into the same transaction with a party other than the customer, are classified under "General, administrative and selling expenses" in the Operating Expenses section of the Consolidated Statements of Earnings.

Net sales comprised of the following for the three months ending March 31, 2014 and 2013:

	For the Three Months Ended	
	March 31,	
	2014	2013
Gross Sales	\$ 8,385,973	\$ 7,752,991
Less: Discounts	(117,712)	(113,605)
Slotting	(2,371)	-
Promotions	(959,565)	(970,314)
Net Sales	\$ 7,306,325	\$ 6,669,072

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Advertising Cost - Cost incurred in connection with advertising of the Company's products are expensed as incurred. Such costs amounted to \$0 and \$0 for the three months ending March 31, 2014 and 2013, respectively.

Research and Development Cost - The Company expenses research and development costs for the development of new products as incurred. Included in general and administrative expense for the three months at March 31, 2014 and 2013 are \$10,653 and \$1,121, respectively, of research and development costs.

Income Taxes - The Company accounts for income taxes in accordance with FASB ASC Topic 740 for Income Taxes. This statement requires an asset and liability approach for accounting for income taxes.

Earnings Per Share - The Company calculates earnings per share in accordance with FASB ASC 260 Earnings Per Share. Basic earnings per common share (EPS) are based on the weighted average number of common shares outstanding during each period. Diluted earnings per common share are based on shares outstanding (computed as under basic EPS) and potentially dilutive common shares. Potential common shares included in the diluted earnings per share calculation include in-the-money stock options that have been granted but have not been exercised.

Fair Value of Financial Instruments - The Company accounts for fair value measurements for financial assets and financial liabilities in accordance with FASB ASC Topic 820. The authoritative guidance, which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as the exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Unless otherwise disclosed, the fair value of the Company's financial instruments including cash, accounts receivable, prepaid expenses, accounts payable, accrued expenses and notes payable approximates their recorded values due to their short-term maturities.

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Accounting 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, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Stock Options - The Company accounts for the stock option issued in accordance with FASB ASC Topic 718, Stock Compensation, accordingly the fair value of options issued is recognized over the vesting period of the underlying options.

Recent Accounting Pronouncements - Recent accounting pronouncements issued by the FASB did not or are not believed by management to have a material impact on the Company's present or future financial statements.

NOTE 2 - RELATED PARTY TRANSACTIONS

During the three months ending March 31, 2014 and 2013, the Company paid accounting fees of \$0 and \$0 respectively to a company controlled by a director/shareholder. Services provided by this accounting firm are in the area of tax preparation and related services, management and business consulting. No audit services were provided by this company.

NOTE 3 - INVENTORY

Inventory consists of the following at March 31, 2014 and December 31, 2013:

	March 31, 2014	December 31, 2013
Raw Materials and Supplies	803,832	756,746
Finished Goods	1,279,374	1,374,854
Reserve for Obsolescence	(25,000)	(25,000)
	<u>\$ 2,058,206</u>	<u>\$ 2,106,600</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at March 31, 2014 and December 31, 2013:

	Useful Life	March 31 2014	December 31, 2013
Office equipment & furniture	2 – 10	650,812	650,607
Machinery and equipment	5 – 20	4,865,973	5,117,055
Vehicles	7	45,989	45,989
Leasehold improvements	3 – 25	2,265,277	1,999,913
		<u>7,828,052</u>	<u>7,813,564</u>
Less Accumulated Depreciation		(6,603,708)	(6,543,517)
Net Property and Equipment		<u>\$ 1,224,344</u>	<u>\$ 1,270,047</u>

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Depreciation expense amounted to \$60,184 and \$57,949 for the three months ending March 31, 2014 and 2013, respectively.

NOTE 5 - INTANGIBLE ASSETS

Goodwill represents the excess of the cost of purchasing Alborough, Inc. over the fair market value of the assets on May 20, 1996.

During the three months ended March 31, 2014, the Company tested the Company's intangible assets for impairment in accordance with FASB ASC Topic 350. The Company used the quoted market price of its stock to test its intangible assets for impairment and determined that the Company's intangible assets were not impaired.

NOTE 6 - LEASES

Operating Leases - In February 2012, the Company amended and restated its lease agreement for 30588 San Antonio Street in Hayward. Under the amended and restated lease agreement the expiration of the lease term on this building will be extended from August 9, 2013, to December 31, 2016, with an option to extend the lease for another five years thereafter. The monthly base rent from August 10, 2013 through December 31, 2016, is \$18,997. If the Company elects to extend the lease agreement for another five years after December 31, 2016, the base rent will be set at the prevailing fair market rental value, but not less than \$18,997. The Company also leases equipment under an operating lease expiring upon 90 days written notice.

The future minimum lease payments for non-cancelable operating leases having remaining terms in excess of one year as of March 31, 2014 are as follows:

Year ending December 31,

2014	215,313
2015	288,344
2016	289,640
Thereafter	
Total minimum lease payments	<u>793,297</u>

Lease expense charged to operations were \$71,769 and \$71,465 for the three months ending March 31, 2014 and 2013, respectively.

NOTE 7 – LINE OF CREDIT

Note Payable - On April 29, 2011, the Company entered into a swap agreement which enabled the Company to effectively lock in a fixed 4.5% interest rate on the \$1,000,000

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which it had drawn through March 31, 2011, from its \$2,000,000 line of credit. Under the terms, \$1,000,000 of the line is payable over a 5 year amortization period starting on June 2, 2011 and has been recorded as a note payable in the accompanying financial statements.

On May 2, 2012, the Company entered into another swap agreement which enabled it to effectively lock in a fixed 3.9% interest rate on the remaining \$1,000,000 from its \$2,000,000 line of credit, which it had drawn through March 31, 2012. Under the terms, the remaining \$1,000,000 of the line is payable over a 5 year amortization period starting on June 4, 2012 and has been recorded as a note payable in the accompanying financial statements.

At March 31, 2014 and December 31, 2013, there was \$1,115,586 and \$1,213,503 outstanding on the note.

Future Maturities of the note payable at March 31, 2014 are as follows:

Year ending December 31,

2014	303,544
2015	418,676
2016	303,417
2017	89,949
Thereafter	
Total Notes Payable	<u>1,115,586</u>

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company is exposed to certain risks related to fluctuations in interest rates. The Company uses a derivative contract interest rate swaps, to manage risks from these market fluctuations. The financial instruments used by the Company are straight-forward, non-leveraged instruments. The counterparties to these financial instruments are financial institutions with strong credit ratings. The Company maintains control over the size of positions entered into with any one counterparty and regularly monitors the credit ratings of these institutions.

Interest Rate Risk

The Company is exposed to changes in interest rates on its \$2,000,000 Note payable / Line of Credit. In order to manage this risk, on April 29, 2011, and May 2, 2012 the Company entered into a five year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates. The Company designated this interest rate swap as a cash flow hedge of floating rate borrowings and expects the hedge to be highly effective in offsetting fluctuations in the designated interest payments resulting from changes in the benchmark interest rate. The gains and losses on the designated swap agreement will offset changes in the interest rate of the \$2,000,000 Note payable / line of credit, which enabled the Company to effectively lock in a fixed 4.5% interest rate on the \$1,000,000 which it had

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drawn through March 31, 2011, and to effectively lock in a fixed 3.9% interest rate on the remaining \$1,000,000 of the \$2,000,000 Note payable / line of credit which it had drawn down through March 31, 2012. The Company formally documented the effectiveness of this qualifying hedge instrument (both at the inception of the swap and on an ongoing basis) in offsetting changes in cash flows of the hedged transaction. The fair value of the interest rate swap is calculated as described in Note 9, "Fair Value of Financial Instruments", taking into consideration current interest rates and the current creditworthiness of the counterparties or the Company, as applicable.

As a result of this swap, the Company will pay interest at a fixed rate and receive payment at a variable rate beginning on April 29, 2011 and May 2, 2012. The swap effectively fixes the interest rate to 4.5% on \$1,000,000 and 3.9% on the remaining \$1,000,000 under the Note Payable, with the outstanding balance subject to the swap declining over time. The interest rate swap expires on April 29, 2016 and May 2, 2017. The effective portion of the change in value of the swap is reflected as a component of comprehensive income and recognized as Interest expense, net as payments are paid or accrued. The remaining gain or loss in excess of the cumulative change in the present value of the future cash flows of the hedged item, if any (i.e., the ineffective portion) or hedge components excluded from the assessment of effectiveness are recognized as Interest expense, net during the current period.

Under the terms, \$1,000,000 of the line is payable over a 5 year amortization period starting on June 2, 2011 and the remaining \$1,000,000 is payable over a 5 year amortization period starting May 2, 2012 and have been recorded as a note payable in the accompanying financial statements.

As of March 31, 2014, the fair value of the Company's derivative instruments were recorded as follows:

	March 31, 2014	
	Balance Sheet Location	Fair Value
<u>Derivatives designated as hedging instruments</u>		
Interest rate swap – current	Accrued expenses and other current liabilities	\$ 6,993
Interest rate swap – non-current	Other non-current liabilities	5,447
Total		\$ 12,440

The effect of derivative instruments on the Consolidated Statements of Income for the three months ended March 31, 2014 and 2013 was as follows:

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Derivatives Designated as Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in Accumulated OCL on Derivative (Effective Portion)	Location of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
<u>For the three months ended March 31, 2014:</u>					
Interest rate swap	\$ 2,010	Interest expense	\$ 2,010	Interest expense	\$ -
<u>For the three months ended March 31, 2013:</u>					
Interest rate swap	\$ 1,419	Interest expense	\$ 1,419	Interest expense	\$ -

NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fair Value Measurement and Disclosure Topic of FASB and ASC:

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value;
- Establishes a three-level hierarchy for fair value measurement based upon the transparency of inputs to the valuation as of the measurement date;
- Expands disclosures about financial instruments measured at fair value.

Financial assets and financial liabilities record on the Balance sheet at fair value are categorized based on the reliability of inputs to the valuation techniques as follows:

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access.

Level 2: Financial assets and financial liabilities whose values are based on the following:

Quoted prices for similar assets or liabilities in active markets; Quoted prices for identical or similar assets or liabilities in non-active markets or Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the assets or liability

Level 3: Financial assets and financial liabilities whose values are based on prices or

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valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs may reflect our estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The following tables summarize Level 1, 2 and 3 financial assets and financial (liabilities) by their classification in the Statement of Financial Position:

As of March 31, 2014	Level 1	Level 2	Level 3
Interest Rate Swap	-	(12,440)	-
Total	-	(12,440)	-
As of December 31, 2013	Level 1	Level 2	Level 3
Interest Rate Swap	-	(14,481)	-
Total	-	(14,481)	-

NOTE 10 - AGREEMENTS AND COMMITMENTS

Manufacturing - Certain of the Company's products are manufactured and packaged on a "co-pack" or "toll-pack" basis by third parties at agreed upon prices. The agreements with the co-packers have terms of one year and allow for periodic price adjustments. These agreements generally allow for either party to give a two months cancellation notice.

401(K) Profit Sharing Plan - The Company has a 401(K) profit sharing plan and trust that covers all employees. The Company matches 50% up to a maximum of 7% deferral. Any employees who are employed by the Company during a six consecutive month period and have reached age 21 are eligible to participate in the plan. The plan became effective January 1, 1993 and has a plan year of January 1 through December 31. During the three months ending March 31, 2014 and 2013 the Company matching contributions to the plan expensed were \$15,157 and \$14,723 respectively.

NOTE 11 - INCOME TAXES

The Company accounts for income taxes in accordance with FASB ASC Topic 740 which requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting and any available operating loss or tax credit carry forwards. At March 31, 2014, and December 31, 2013, the total of all deferred tax assets was \$83,570, and \$84,314 respectively, and the total of the deferred tax liabilities was \$50,555, and \$50,555, respectively. The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the Company's future earnings, and other future events, the effects of which cannot be determined.

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The temporary differences, tax credits and carry forwards gave rise to the following deferred tax asset at March 31, 2014, and December 31, 2013:

	March 31, 2014	December 31, 2013
Inventory 263A adjustment	\$ 29,370	\$ 29,370
Reserve for accrued vacation	49,586	49,586
	78,956	78,956
Excess of tax over book depreciation	(50,555)	(50,555)
Other	4,614	5,358
	(45,941)	(45,197)
	\$ 33,015	\$ 33,759

Management estimates that the Company will generate adequate net profits to use the deferred tax assets, consequently, a valuation allowance has not been recorded.

The Company files U.S. federal, and California state income tax returns, and we are generally no longer subject to tax examinations for years prior to 2010 for U.S. federal and U.S. states tax returns.

NOTE 12 - EARNINGS PER SHARE

The following data shows the amounts used in computing earnings per share and the effect on income and the weighted average number of shares of potential dilutive common stock:

	For the Three Months Ended	
	March 31,	
	2014	2013
Net Income	\$ 857,443	\$ 746,353
Weighted average number of common shares outstanding used in basic earnings per share	32,065,645	32,015,381
Effect of dilutive securities: Stock Options	-	72,939
Weighted average number of common shares and potential dilutive shares outstanding used in diluted earnings per share	32,065,645	32,088,320

For the three months ended March 31, 2014 and 2013, the Company had no options that were not included in the computation of diluted earnings per share.

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NOTE 13 - STOCKHOLDERS' EQUITY

Preferred Stock - The Company is authorized to issue 10,000,000 shares of no par value preferred stock with such rights and preferences and in such series as determined by the Board of Directors at the time of issuance. No shares are issued or outstanding as of March 31, 2014 and December 31, 2013.

Common Stock Issuances – During April 2013, the Company issued 50,000 common shares of stock, at \$0.723 per share, upon the exercise of stock options under the 2002 Stock option plan.

Dividends - During the three months ended March 31, 2014 and 2013, the Company paid \$513,050 and \$0, in dividends to common shareholders, none of which was considered a liquidating dividend.

Repurchase of Common Shares - The Board of Directors has authorized the Company to repurchase up to \$2,500,000 of the Company's Common Stock at market prices. The amount and timing of the shares to be repurchased are at the discretion of management. During the three months ending March 31, 2014 and 2013, the Company repurchased \$0 and \$23,934 (or 26,715 shares) of its Common Stock under this program. At March 31, 2014, the Company was authorized to repurchase an additional \$105,706 of the Company's common stock.

2002 Stock Option Plan - During the three months ended March 31, 2014 and 2013, the Company received \$0 and \$36,150 upon the exercise awards and realized an estimated tax benefit of \$0 and \$7,000 due to the exercise of the options.

NOTE 14 - SIGNIFICANT CUSTOMERS / CONCENTRATION

The Company's products are marketed by a network of food brokers and sold to retail, foodservice, club-type stores, and industrial accounts. The Company's products are sold by the Company and through distributors.

The Company had two customers who accounted for 70%, and 18% of outstanding receivables at March 31, 2014, 62% and 15% at December 31, 2013.

During the three months ending March 31, 2014 and 2013, 54% and 54% of the Company's total gross sales, respectively, were handled by a non-exclusive national distributor.

During the three months ending March 31, 2014 and 2013 sales outside of the U.S. amounted to 14% and 10% of the Company's total gross sales, respectively.

The Company's food brokers are paid commissions ranging from 2% to 5% of sales depending on products sold and selling price. The following table lists the total gross sales

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from continuing operations through each of the Company's top three brokers for the three months ending March 31:

	<u>For the Three Months Ended</u> <u>March 31,</u>	
	<u>2014</u>	<u>2013</u>
Broker A	\$1,217,916	\$1,125,674
Broker B	\$ 886,183	\$789,026
Broker C	\$ 605,914	\$561,684

NOTE 15 – SUBSEQUENT EVENT

The Company's management has reviewed all material events through May 14, 2014. On March 6, 2014, the Company's Board of Directors declared a regular cash dividend of \$0.016 per share that was paid on April 25, 2014 to shareholders of record on April 3, 2014.

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SUPPLEMENTAL INFORMATION

1. MANAGEMENT DISCUSSION AND ANALYSIS

A. Results of Operations

Liquidity and Capital Resources:

At March 31, 2014 the Company had working capital of \$6,227,831 compared to \$6,452,403 on December 31, 2013. This decrease largely reflects the impact from timing differences in the payment of dividends and income taxes payable, offset by increases in cash and accounts receivable consistent with the Company's continued profitability.

Results of Operations:

Net sales for the quarter ending March 31, 2014 has increased by 10% to \$7,306,325 from \$6,669,072 in the same quarter last year. This increase reflects higher demand in the Company's core products as well as an increase in its customer base.

Cost of goods sold as a percentage of net sales for the quarter ending March 31, 2014 has decreased to 63% from 64% in the same quarter last year. This positive trend largely reflects the impact of a more favorable product mix of sales of higher margin products.

Operating expenses as a percentage of net sales for the quarter ending March 31, 2014 remained at 18% compared to the same quarter last year.

Net income of \$857,443 for the three months ended March 31, 2014 increased by \$111,090 or 15% over the net income of \$746,353 for the three months ended March 31, 2013 reflecting the higher demand for our product and higher margins on products sales.

The Company continues to remain cautiously optimistic about its overall sales and profitability for the remainder of 2014. First quarter sales in the western part of the United States and internationally were very strong. Even though first quarter sales in the eastern and mid-western parts of the U.S. initially started out slowly because of inclement weather, revenue had rebounded significantly by the end of the quarter to make up enough ground to result in higher year over year sales in those territories. The Company invested in higher than normal promotional expenses which helped fuel its sales increase, but these expenditures did affect its first quarter bottom line. The Company expects that these strategic expenditures will support the generation of additional sales and overall profitability for future

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quarters. Both the Company's sales pipeline and its cash position currently remain strong.

Cash Flow:

For the three months ending March 31, 2014 cash flow from operating activities increased by \$536,803 to \$1,127,572 from \$590,769 in the same period last year. This increase is consistent with the increase in net income and increases in liabilities offset by the change in current assets due to timing differences.

Net cash used in investing activities for the three months ending March 31, 2014 decreased by \$302,473 to \$<14,488> from \$<316,961> in the same period last year largely due to the impact from the purchase of \$300,000 in certificates of deposits during the prior year.

Net cash used by financing activities for the three months ending March 31, 2014 increased by \$<517,073> to \$<610,967> from \$<93,894> in the same period of 2013. The increase is mainly due to prior year timing differences in the payment of dividends – no dividends were paid in the first quarter of 2013 because the Company decided to pay it earlier than usual in December of the prior year so that shareholders could take advantage of lower tax rates on dividends for that year.

While the Company's cash flow is currently strong it intends to closely manage its cash flow activities for the remainder of 2014.

B. Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

2. LEGAL PROCEEDINGS

The Company is not party to any material legal proceedings or administrative actions.

3. DEFAULTS UPON SENIOR SECURITIES

The Company is not in default upon any of its debts.

4. EXHIBITS

There are no updates to the "Material Contracts", "Articles of Incorporation" or "Bylaws" described in items XVIII and XIX, respectively, of the Company's 2013 Annual Report.