ARMANINO FOODS OF DISTINCTION, INC.

QUARTERLY DISCLOSURE REPORT
JUNE 30, 2014
UNAUDITED

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## OTC PINK BASIC DISCLOSURE GUIDELINES

1. NAME OF THE ISSUER AND ITS PREDESSORS (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

| | June 30, 2014 | June 30, 2013 | June 30, 2012 |
|---|---|---|---|
| Common Shares authorized | 40,000,000 | 40,000,000 | 40,000,000 |
| Common Shares outstanding[1] | 32,065,645 | 32,065,645 | 32,172,773 |
| Freely tradable shares | 30,203,203 | 29,932,343 | 29,897,931 |
| # of beneficial shareholders [2] | 1,300 | 1,300 | 1,300 |
| # of shareholders of record | 122 | 126 | 129 |

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

| | *June 30, 2014* | *June 30, 2013* | *June 30, 2012* |
|---|---|---|---|
| *Common shares outstanding on record with Transfer Agent* | *32,065,645* | *32,092,360* | *32,172,773* |
| *Less common stock held in treasury* | *-* | *<26,715>* | *-* |
| *Common shares outstanding* | *32,065,645* | *32,065,645* | *32,172,773* |

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

c. Additional class of securities: Preferred Stock
CUSIP: 042166801
Par or Stated Value: no par

| | June 30, 2014 | June 30, 2013 | June 30, 2012 |
|---|---|---|---|
| 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 6/30/14; 2,133,302 shares as of 6/30/13; and, 2,274,842 shares as of as of 6/30/12.

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

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 June 30, 2014.

8. OFFICERS, DIRECTORS, AND CONTROL PERSONS

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

| Name | Business Address | Positions and Offices Held & Term as a Director | Shares Owned |
|---|---|---|---|
| **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

9. THIRD PARTY PROVIDERS

a. Legal Counsel
Name: Mark Cassanego
Firm: Carr, McClellan, Ingersoll, Thompson & Horn, a Professional Law Corporation
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

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.

August 5, 2014
/s/Edmond J Pera
CEO

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.

August 5, 2014
/s/Edgar Estonina
CFO

## INTERIM FINANCIAL STATEMENTS

BALANCE SHEET

| | As of June 30, 2014 | As of December 31, 2013 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | $ 2,292,704 | $ 2,345,737 |
| Certificates of Deposit | 702,466 | 701,466 |
| Accounts Receivable, net | 4,089,696 | 3,743,506 |
| Inventories | 2,355,661 | 2,106,600 |
| Prepaid Expenses | 644,000 | 283,476 |
| Current Deferred Tax Asset | 78,956 | 78,956 |
| Total Current Assets | 10,163,483 | 9,259,741 |
| PROPERTY AND EQUIPMENT, net accumulated depreciation | 1,169,692 | 1,270,047 |
| OTHER ASSETS: | | |
| Deposits | 20,000 | 20,000 |
| Goodwill | 375,438 | 375,438 |
| Total Other Assets | 395,438 | 395,438 |
| Total Assets | $ 11,728,613 | $ 10,925,226 |

The accompanying notes are an integral part of these financial statements

| | As of June 30, 2014 | As of December 31, 2013 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Notes Payable - Current Portion | $ 411,376 | $ 401,461 |
| Accounts Payable - Trade | 1,155,923 | 1,421,548 |
| Accrued Payroll and Payroll Taxes | 490,426 | 452,678 |
| Other Accrued Liabilities | 6,404 | 7,497 |
| Dividends Payable | 513,050 | 513,050 |
| Accrued Income Taxes | 433,114 | 11,104 |
| Total Current Liabilities | 3,010,293 | 2,807,338 |
| Notes Payable and Long-Term Debt | 604,894 | 812,042 |
| DEFERRED TAX LIABILITY | 46,669 | 45,197 |
| Other Long-Term Liabilities | 4,099 | 6,984 |
| Total Long Term Liabilities | 655,662 | 864,223 |
| Total Liabilities | 3,665,955 | 3,671,561 |
| 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 June 30, 2014 and December 31, 2013, respectively | 2,774,990 | 2,774,990 |
| Additional Paid-in Capital | 48,202 | 48,202 |
| Accumulated Other Comprehensive Income | (6,617) | (9,123) |
| Retained Earnings | 5,246,083 | 4,439,596 |
| Total Stockholders' Equity | 8,062,658 | 7,253,665 |
| Total Liabilities and Stockholders' Equity | $ 11,728,613 | $ 10,925,226 |

The accompanying notes are an integral part of these financial statements

## STATEMENT OF EARNINGS

| | For the Three Months Ended June 30, 2014 | For the Three Months Ended June 30, 2013 | For the Six Months Ended June 30, 2014 | For the Six Months Ended June 30, 2013 |
|---|---|---|---|---|
| NET SALES | $ 7,664,883 | $ 7,246,520 | $ 14,971,208 | $ 13,915,593 |
| COST OF GOODS SOLD | 4,769,512 | 4,624,034 | 9,362,107 | 8,859,075 |
| GROSS PROFIT | 2,895,371 | 2,622,486 | 5,609,101 | 5,056,518 |
| OPERATING EXPENSES: | | | | |
| General, administrative and selling expense | 406,023 | 383,631 | 851,913 | 818,778 |
| Salaries & wages | 630,843 | 603,885 | 1,277,473 | 1,204,320 |
| Commissions | 274,795 | 251,224 | 504,074 | 438,409 |
| Total Operating Expense | 1,311,661 | 1,238,740 | 2,633,460 | 2,461,507 |
| INCOME FROM OPERATIONS | 1,583,710 | 1,383,746 | 2,975,641 | 2,595,011 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest and Other Income | 18,518 | 19,219 | 37,086 | 40,541 |
| Interest (Expense) | (10,997) | (14,518) | (23,228) | (30,910) |
| Total Other Income (Expense) | 7,521 | 4,701 | 13,858 | 9,631 |
| INCOME BEFORE INCOME TAXES | 1,591,231 | 1,388,447 | 2,989,499 | 2,604,642 |
| CURRENT TAX EXPENSE | 616,080 | 536,994 | 1,156,905 | 1,006,837 |
| DEFERRED TAX (BENEFIT) | - | - | - | - |
| NET INCOME | $ 975,151 | $ 851,453 | $ 1,832,594 | $ 1,597,805 |
| Derivative instrument acounted for as a hedge, net of tax of $728, $1,198, $1,472 and $1,723, respectively | 2,506 | 2,040 | 2,506 | 2,935 |
| COMPREHENSIVE INCOME | $ 977,657 | $ 853,493 | $ 1,835,100 | $ 1,600,740 |
| EARNINGS PER COMMON AND EQUIVALENT SHARES: | | | | |
| BASIC EARNINGS PER SHARE | $ 0.030 | $ 0.027 | $ 0.057 | $ 0.050 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 32,065,645 | 32,063,447 | 32,065,645 | 32,039,678 |
| DILUTED EARNINGS PER SHARE | $ 0.030 | $ 0.026 | $ 0.057 | $ 0.050 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING ASSUMING DILUTION | 32,065,645 | 32,139,239 | 32,065,645 | 32,114,044 |

The accompanying notes are an integral part of these financial statements

## STATEMENT OF STOCKHOLDER'S EQUITY

| | Common Stock | | Treasury Stock | | Additional Paid-in | Accumulated Other Comprehensive | Retained |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Income | Earnings |
| 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) |
| Cancelation 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 acounted 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 | - | - | - | - | - | - | (1,026,106) |
| Derivative instrument acounted for as a hedge net of tax of $1,472 | - | - | - | - | - | 2,506 | - |
| Net income for the six months ended June 30, 2014 | - | - | - | - | - | - | 1,832,594 |
| BALANCE, June 30, 2014 | 32,065,645 | $ 2,774,990 | - | $ - | $ 48,202 | $ (6,617) | $ 5,246,083 |

The accompanying notes are an integral part of these financial statements

## STATEMENT OF CASH FLOW

| | For the Six Months June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Cash Flows from Operating Activities: | | |
| Net Income | $ 1,832,594 | $ 1,597,805 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation and amortization | 119,473 | 117,032 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (346,190) | (763,842) |
| (Increase) decrease in inventory | (249,061) | 215,253 |
| (Increase) decrease in prepaid expenses | (360,524) | 183,056 |
| Increase (decrease) in accounts payable, accrued expenses, and taxes payable | 194,132 | (386,003) |
| Total Adjustments | (642,170) | (634,504) |
| Net Cash Provided by Operating Activities | 1,190,424 | 963,301 |
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment | (19,118) | (497,553) |
| Proceeds (Purchase) of certificates of deposit | (1,000) | (300,000) |
| Net Cash Used by Investing Activities | (20,118) | (797,553) |
| Cash Flows from Financing Activities: | | |
| Payments on notes payable | (197,233) | (189,129) |
| Proceeds from exercise of stock options | - | 36,150 |
| Dividends paid | (1,026,106) | (384,508) |
| Net Cash Used by Financing Activities | (1,223,339) | (537,487) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (53,033) | (371,739) |
| Cash and Cash Equivalents at Beginning of Period | 2,345,737 | 1,329,955 |
| Cash and Cash Equivalents at End of Period | $ 2,292,704 | $ 958,216 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | $ 23,228 | $ 30,910 |
| Income Taxes | $ 1,153,000 | $ 985,000 |

The accompanying notes are an integral part of these financial statements

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 $1,744,451 and $1,724,923 in excess of federally insured amounts in its bank accounts at June 30, 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 June 30, 2014 and December 31, 2013, the Company had certificates of deposit with a purchase value and fair value totaling $702,466, and $699,996, respectively, amortized Value totaling $702,466 and $701,466, respectively, and which mature through March 2016.

Accounts Receivable - Accounts receivable consist of trade receivables arising in the normal course of business. At June 30, 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 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 Revenue Recognition. 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 June 30, 2014 and 2013:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Gross Sales | $ 8,878,875 | $ 8,330,103 | $ 17,264,848 | $ 16,083,093 |
| Less: Discounts | $ (138,037) | $ (121,516) | $ (255,749) | $ (235,120) |
| Slotting | $ (2,629) | $ - | $ (5,001) | |
| Promotions | $ (1,073,326) | $ (962,067) | $ (2,032,890) | $ (1,932,380) |
| Net Sales | $ 7,664,883 | $ 7,246,520 | $ 14,971,208 | $ 13,915,593 |

Advertising Cost - Cost incurred in connection with advertising of the Company's products are expensed as incurred. Such costs amounted to $1,480 and $1,480 for the three months ending June 30, 2014 and 2013, respectively; and $1,480 and $1,480 for the six months ending June 30, 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 June 30, 2014 and 2013 are $8,894 and $1,327, respectively, of research and development costs; and $19,547 and $2,448, respectively, for the six months ending June 30, 2014 and 2013.

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.

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 after December 31, 2005 is recognized over the vesting period of the underlying options.

Derivative Financial Instruments - The Company is required to recognize all of its derivative instruments as either assets or liabilities in the Consolidated Balance Sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated, and is effective, as a hedge and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, or cash flow hedge. Gains and losses related to a hedge are either recognized in income immediately to offset the gain or loss on the hedged item or are deferred and reported as a component of Accumulated Other Comprehensive Income in the Stockholders' Equity and subsequently recognized in Net income when the hedged item affects Net income. The change in fair value of the ineffective portion of a financial instrument is recognized in Net income immediately. The gain or loss related to financial instruments that are not designated as hedges are recognized immediately in Net income.

Derivative financial instruments are used in the normal course of business to manage interest rate. Credit risk is managed through the selection of sound financial institutions as counterparties.

On April 29, 2011, the Company entered into a five-year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates associated with the $1,000,000 of the $2,000,000 line of credit/note payable. See Note 8, “Derivative Financial Instruments” for additional information regarding the Company’s derivative instrument.

On April 29, 2012, the Company entered into a five-year interest rate swap agreement to manage interest costs and the risk associated with changing interest rates associated with the remaining $1,000,000 of the $2,000,000 line of credit/note payable. See Note 8, “Derivative Financial Instruments” for additional information regarding the Company’s derivative instrument.

Treasury Stock - The Board of Directors may authorize share repurchases of the Company’s common stock (Share Repurchase Authorizations). Share repurchases under these authorizations may be made through open market transactions, negotiated purchase or otherwise, at times and in such amounts as the Company, and a committee of the Board, deem appropriate. Shares repurchased under Share Repurchase Authorizations are held in treasury for general corporate purposes, including issuances under various employee share-based award plans. Treasury shares are accounted for under the cost method and reported as a reduction of Stockholders' Equity. Share Repurchase Authorizations may be suspended, limited or terminated at any time without notice.

Recently Enacted Accounting Standards – 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 June 30, 2014 and 2013, the Company paid accounting fees of $7,985 and $4,915, respectively, to a company controlled by a director/shareholder. For the six months ending June 30, 2014 and 2013 these fees amounted to $7,985 and $4,915 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 June 30, 2014 and December 31, 2013:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Raw Materials and Supplies | 767,537 | 756,746 |
| Finished Goods | 1,613,123 | 1,374,854 |
| Reserve for Obsolescence | (25,000) | (25,000) |
| | $ 2,355,661 | $ 2,106,600 |

## NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2014 and December 31, 2013:

| | Useful Life (Years) | June 30, 2014 | December 31, 2013 |
|---|---|---|---|
| Office equipment & furniture | 2-10 | $ 643,389 | $ 650,607 |
| Machinery & equipment | 5-20 | 5,058,001 | 5,117,055 |
| Vehicles - Trucks | 7 | 45,989 | 45,989 |
| Leasehold Improvements | 3-25 | 2,085,303 | 1,999,913 |
| | | 7,832,682 | 7,813,564 |
| Less Accumulated Depreciation | | (6,662,990) | (6,543,517) |
| Net property & equipment | | $ 1,169,692 | $ 1,270,047 |

Depreciation expense amounted to $59,289 and $59,083 for the three months ending June 30, 2014 and 2013, respectively, and $119,473 and $117,032 for the six months ending June 30, 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 six months ended June 30, 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 was 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 June 30, 2014 are as follows:

| Year ending December 31, | |
|---|---|
| 2014 | 143,542 |
| 2015 | 288,344 |
| 2016 | 289,640 |
| Thereafter | |
| Total minimum lease payments | 721,526 |

Lease expense charged to operations were $71,771 and $71,465 for the three months ending June 30, 2014 and 2013 $143,543 and $142,930 for the six months ending June 30, 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 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.

During the three months ended March 31, 2012, the Company drew down the remaining $100,000 that was available on the revolving line. On May 2, 2012, the Company entered into a swap agreement which enabled the Company 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, 2013,. 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 June 30, 2014 and December 31, 2013, there was $1,016,270 and $1,213,503, respectively, outstanding on the note.

Future Maturities of the note payable at June 30, 2014 are as follows:

| Year ending December 31, | |
|---|---|
| 2014 | 204,228 |
| 2015 | 418,676 |
| 2016 | 303,417 |
| 2017 | 89,949 |
| Thereafter | |
| Total Notes Payable | 1,016,270 |

## 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 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. 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 8, “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 these swaps, 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 swaps 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 swaps declining over time. The interest rate swaps expire 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 June 30, 2014, the fair value of the derivative instruments were recorded as follows:

| | June 30, 2014 | |
|---|---|---|
| | Balance Sheet Location | Fair Value |
| Derivatives designated as hedging instruments | | |
| Interest rate swap – current | Accrued expenses and other current liabilities | $ 6,404 |
| Interest rate swap – non-current | Other non-current liabilities | 4,909 |
| | | $ 11,313 |

The effect of derivative instruments on the Consolidated Statements of Income for the six months ended June 30, 2014 and 2013 was as follows:

| 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) |
|---|---|---|---|---|---|
| For the Six Months Ended June 30 2014 | | | | | |
| Interest rate swap | $ 3,978 | Interest expense | $ 3,978 | Interest expense | $ — |
| For the Six Months Ended June 30, 2013 | | | | | |
| Interest rate swap | $ 4,659 | Interest expense | $ 4,659 | 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; and
- 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 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 June 30, 2014 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Interest Rate Swap | - | (11,313) | - |
| Total | - | (11,313) | - |

| 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 June 30, 2014 and 2013 the Company matching contributions to the plan expensed were $17,725 and $17,492, respectively. For the six months ending June 30, 2014 and 2013 the Company matching contributions were $32,882 and $32,215.

## 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 June 30, 2014, and December 31, 2013, the total of all deferred tax assets was $82,842, 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.

The temporary differences, tax credits and carry forwards gave rise to the following deferred tax asset at June 30, 2014 and December 31, 2013:

| | June 30, 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 | 3,886 | 5,358 |
| | 46,669 | 45,197 |
| | $ 32,287 | $ 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.

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 June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Net Income | $ 975,151 | $ 851,453 | $ 1,832,594 | $ 1,597,805 |
| Weighted average number of common shares outstanding used in basic earnings per share | 32,065,645 | 32,063,447 | 32,065,645 | 32,039,678 |
| Effect of dilutive securities: Stock Options | - | 75,792 | - | 74,366 |
| Weighted average number of common shares and pontential dilutive shares outstanding used in diluted earnings per share | 32,065,645 | 32,139,239 | 32,065,645 | 32,114,044 |

For the six months ended June 30, 2014 and 2013, the Company had no options that were not included in the computation of diluted earnings per share.

## 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 June 30, 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 six months ended June 30, 2014 and 2013, the Company paid $1,026,106 and $384,508, respectively, 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. Through June 30, 2014, 3,102,135 shares, at $0.70 to $0.94 per share at an aggregate cost of $2,394,294, were repurchased and canceled under this program. At June 30, 2014, the Company is authorized to repurchase an additional $105,706 of the Company's common stock.

2002 Stock Option Plan - During the Six months ended June 30, 2014 and 2013, the Company received $0 and $36,150, respectively, upon the exercise awards and realized an estimated tax benefit of $0 and $7,000, respectively, 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 67%, and 16% of outstanding receivables at June 30, 2014, 62% and 15% at December 31, 2013.

During the three months ending June 30, 2014 and 2013, 55% and 53% of the Company's total gross sales, respectively, were handled by a non-exclusive national distributor. For the six months ended June 30, 2014 and 2013 these same distributors represented 55% and 54%.

During the three months ending June 30, 2014 and 2013 Asian sales amounted to 11% and

13% of the Company's total gross sales, respectively. For the six months ended June 30, 2014, sales into Asia represented 12% and 12%, respectively, of the Company's total gross sales for such period.

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 from continuing operations through each of the Company's top three brokers for the three and six months ending June 30:

| | For the Three Months Ended June 30, | | | For the Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | 2014 | | 2013 | 2014 | 2013 |
| Broker A | 1,295,568 | $ | 1,247,260 | $2,569,792 | 2,372,934 |
| Broker B | 952,192 | $ | 850,282 | $1,838,375 | 1,639,308 |
| Broker C | 696,986 | $ | 619,108 | $1,302,900 | 1,180,793 |

NOTE 15 – SUBSEQUENT EVENT

Subsequent events have been evaluated through August 5, 2014.

On June 12, 2014, the Company's Board of Directors declared a regular cash dividend of $0.016 per share that was paid on July 24, 2014 to shareholders of record on July 2, 2014.

## SUPPLEMENTAL INFORMATION

1. MANAGEMENT DISCUSSION AND ANALYSIS

A. Results of Operations

Liquidity and Capital Resources:

At June 30, 2014 the Company had working capital of $7,153,190 compared to $6,452,403 at December 31, 2013. This increase largely reflects higher accounts receivables, inventories, prepaid expenses, and timing differences in the payment of trade payables, offset by the accrual of income taxes.

Results of Operations:

Net sales for the quarter ending June 30, 2014 increased by 6% to $7,664,883 from $7,246,520 in the same quarter last year. This increase reflects higher demand for the Company's core products and an increase in its customer base. The majority of growth in second quarter sales was derived from U.S. domestic sales. International sales during this period were solid.

Cost of goods sold as a percentage of net sales for the quarter ending June 30, 2014 decreased to 62% from 64% in the same quarter last year. This positive trend largely reflects the impact of a more favorable mix of sales of higher margin products, as well as lower costs in some commodity ingredients.

Operating expenses as a percentage of net sales for the quarter ending June 30, 2014 remained at 17% compared to the same quarter last year.

Net income of $975,150 for the three months ended June 30, 2014 increased by $123,699 or 15% over net income of $851,451 for the three months ended June 30, 2013.

The Company continues to remain cautiously optimistic about its overall sales and profitability for the remainder of 2014 as its flavorful natural products, wide distribution network, excellent quality assurance programs and customer service continue to be well received by the foodservice and industrial food market segments. It continued to invest in higher than normal promotional expenses in the second quarter which helped fuel higher sales, but affected profitability. The Company expects that these strategic expenditures will support the generation of additional sales and overall profitability in future quarters. The Company's domestic and international sales pipeline and its cash position currently remain strong.

Cash Flow:
For the six months ended June 30, 2014 cash flow from operating activities increased by $227,123 to $1,190,424 from $963,301 in the same period last year. This increase is consistent with the Company’s growth in year to date sales and profitability and is also a result of the impact from timing differences in the collection of cash from receivables, and expenditure of cash related to inventories, prepaid expenses, and liabilities.

Net cash used in investing activities for the six months ending June 30, 2014 decreased by $777,435 to $<20,118> from $<797,553> in the same period last year largely due to the one-time prior year impact from the purchase of $300,000 in certificates of deposits, and $497,553 expenditure towards new manufacturing equipment.

Net cash used by financing activities for the six months ending June 30, 2014 increased by $685,852 to $<1,223,339> from $<537,487> 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 the Company intends to closely manage its cash flow activities for the remainder of 2014.

B. <u>Off-Balance Sheet Arrangements</u>

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.