



QUARTERLY DISCLOSURE REPORT
MARCH 31, 2012
UNAUDITED

ARMANINO FOODS OF DISTINCTION, INC.
QUARTERLY REPORT
MARCH 31, 2012
UNAUDITED

ITEM I. NAME OF ISSUER
Armanino Foods of Distinction, Inc.
30588 San Antonio Street, Hayward, California 94544
Office: (510) 441 9300.
Fax: (510) 441-0101
Web: www.armaninofoods.com

ITEM II. SHARES OUTSTANDING

A. Common Stock

	<u>Mar 31, 2012</u>	<u>Mar 31, 2011</u>	<u>Mar 31, 2010</u>
Shares authorized	40,000,000	40,000,000	40,000,000
Shares outstanding	32,364,373	33,777,535	34,877,780
Freely tradable shares	30,089,531	28,346,141	30,175,480
# of beneficial shareholders ⁽¹⁾	1,300	1,300	1,300
# of shareholders of record	127	126	124

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

B. Preferred Stock

	<u>Mar 31, 2012</u>	<u>Mar 31, 2011</u>	<u>Mar 31, 2010</u>
Shares authorized	10,000,000	10,000,000	10,000,000
Shares outstanding	-	-	-
Freely tradable shares	-	-	-
# of beneficial shareholders	-	-	-
# of shareholders of record	-	-	-

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ITEM III. INTERIM FINANCIAL STATEMENTS

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ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

BALANCE SHEET

	<u>As of March 31,</u> <u>2012</u>	<u>As of December 31,</u> <u>2011</u>
CURRENT ASSETS:		
Cash	\$ 1,431,408	\$ 1,369,903
Certificates of Deposit	850,159	1,050,615
Accounts Receivable, net	3,761,664	2,700,612
Inventories	1,941,520	2,321,746
Prepaid Expenses	154,285	269,605
Current Deferred Tax Asset	80,398	80,398
Total Current Assets	<u>8,219,434</u>	<u>7,792,879</u>
PROPERTY AND EQUIPMENT, net		
accumulated depreciation	<u>875,525</u>	<u>907,628</u>
OTHER ASSETS:		
Deposits	20,000	32,000
Goodwill	375,438	375,438
Deferred Tax Asset	118,428	119,013
Total Other Assets	<u>513,866</u>	<u>526,451</u>
Total Assets	<u>\$ 9,608,825</u>	<u>\$ 9,226,958</u>

The accompanying notes are an integral part of these financial statements

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	<u>As of March 31,</u> 2012	<u>As of December 31,</u> 2011
CURRENT LIABILITIES:		
Line of Credit Payable	\$ -	\$ 900,000
Notes Payable - Current Portion	343,388	187,341
Accounts Payable - Trade	1,391,606	1,365,665
Accrued Payroll and Payroll Taxes	375,600	434,488
Other Accrued Liabilities	6,047	6,210
Dividends Payable	388,372	392,498
Accrued Income Taxes	329,957	-
Total Current Liabilities	<u>2,834,970</u>	<u>3,286,202</u>
Notes Payable and Long-Term Debt	1,504,572	706,231
Other Long-Term Liabilities	11,248	12,667
Total Long Term Liabilities	<u>1,515,820</u>	<u>718,898</u>
Total Liabilities	<u>4,350,790</u>	<u>4,005,100</u>
STOCKHOLDERS' EQUITY:		
Preferred Stock; no par value, 10,000 shares authorized, no no shares issued and outstanding	-	-
Common Stock; no par value, 40,000,000 shares authorized, 32,364,373 32,708,181 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	3,034,500	3,307,529
Additional Paid-in Capital	48,202	48,202
Deferred Compensation	(15,977)	(22,002)
Treasury Stock, at cost, 0 and 60,800, shares held at March 31, 2012 and December 31, 2011, respectively	-	(47,636)
Accumulated Other Comprehensive Income	(10,896)	(11,893)
Retained Earnings	2,202,206	1,947,658
Total Stockholders' Equity	<u>5,258,035</u>	<u>5,221,858</u>
Total Liabilities and Stockholders' Equity	<u>\$ 9,608,825</u>	<u>\$ 9,226,958</u>

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STATEMENT OF EARNINGS

	For the Three Months Ended	
	March 31,	
	2012	2011
NET SALES	\$ 6,683,614	\$ 5,864,470
COST OF GOODS SOLD	4,365,021	3,822,435
GROSS PROFIT	<u>2,318,593</u>	<u>2,042,035</u>
OPERATING EXPENSES:		
General, administrative and selling expense	424,155	361,058
Salaries & wages	634,617	593,483
Commissions	209,168	198,955
Total Operating Expense	<u>1,267,940</u>	<u>1,153,496</u>
INCOME FROM OPERATIONS	<u>1,050,653</u>	<u>888,539</u>
OTHER INCOME (EXPENSE)		
Interest and Other Income	18,111	18,803
Interest (Expense)	(22,172)	(2,056)
Total Other Income	<u>(4,061)</u>	<u>16,747</u>
INCOME BEFORE INCOME TAXES	1,046,592	905,286
CURRENT TAX EXPENSE	403,671	345,561
DEFERRED TAX (BENEFIT)	-	-
NET INCOME	<u>\$ 642,921</u>	<u>\$ 559,725</u>
Derivative instrument accounted for as a hedge, net of tax of \$585 and 0, respectively	997	-
COMPREHENSIVE INCOME	<u>\$ 643,918</u>	<u>\$ 559,725</u>
EARNINGS PER COMMON AND EQUIVALENT SHARES:		
BASIC EARNINGS PER SHARE	<u>\$ 0.020</u>	<u>\$ 0.016</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	<u>32,679,679</u>	<u>34,848,620</u>
DILUTED EARNINGS PER SHARE	<u>\$ 0.020</u>	<u>\$ 0.016</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING ASSUMING DILUTION	<u>32,704,559</u>	<u>34,913,938</u>

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STATEMENT OF STOCKHOLDER'S EQUITY

	<u>Common Stock</u>		<u>Treasury Stock</u>		<u>Deferred Compensation Expense</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
BALANCE , December 31, 2010	<u>35,017,780</u>	<u>\$ 5,105,133</u>	<u>(44,600)</u>	<u>\$ (33,530)</u>	<u>\$ (46,103)</u>	<u>\$ 48,202</u>	<u>\$ -</u>	<u>\$ 1,018,135</u>
Dividends on common shares	-	-	-	-	-	-	-	(1,462,043)
Shares of common stock issued for options exercised at \$0.28 per share, March 2011	100,000	28,000	-	-	-	-	-	-
Repurchase of common shares at \$0.70 to \$0.94 per share in December	-	-	(2,425,799)	(1,839,710)	-	-	-	-
Cancellation of common shares held in treasury	(2,409,599)	(1,825,604)	2,409,599	1,825,604	-	-	-	-
Deferred compensation expense recognized for the year ended December 31, 2011	-	-	-	-	24,101	-	-	-
Interest swap accounted for as a cashflow hedge	-	-	-	-	-	-	(14,307)	-
Derivative instrument accounted for as a hedge net of tax of \$1,418.	-	-	-	-	-	-	2,414	-
Net income for the year ended December 31, 2011	-	-	-	-	-	-	-	2,391,566
BALANCE , December 31, 2011	<u>32,708,181</u>	<u>\$ 3,307,529</u>	<u>(60,800)</u>	<u>\$ (47,636)</u>	<u>\$ (22,002)</u>	<u>\$ 48,202</u>	<u>\$ (11,893)</u>	<u>\$ 1,947,658</u>
Dividends on common shares	-	-	-	-	-	-	-	(388,373)
Repurchase of common shares at \$0.77 to \$0.82 per share in December	-	-	(283,008)	(225,393)	-	-	-	-
Cancellation of common shares held in treasury	(343,808)	(273,029)	343,808	273,029	-	-	-	-
Deferred compensation expense recognized for the period ended March 31, 2012	-	-	-	-	6,025	-	-	-
Derivative instrument accounted for as a hedge net of tax of \$585.	-	-	-	-	-	-	997	-
Net income for three months ended March 31, 2012	-	-	-	-	-	-	-	642,921
BALANCE , March 31, 2012	<u>32,364,373</u>	<u>\$ 3,034,500</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (15,977)</u>	<u>\$ 48,202</u>	<u>\$ (10,896)</u>	<u>\$ 2,202,206</u>

The accompanying notes are an integral part of these financial statements

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ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

STATEMENT OF CASH FLOW

	For the Three Months Ended March 31,	
	2012	2011
Cash Flows from Operating Activities:		
Net Income	\$ 642,921	\$ 559,725
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	56,200	56,357
Compensation from stock options	6,025	6,017
Change in deferred tax asset / liability	-	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,061,053)	(198,220)
(Increase) decrease in inventory	380,226	(52,671)
(Increase) decrease in prepaid expenses	115,320	(4,943)
Increase (decrease) in accounts payable, accrued expenses, and taxes payable	297,010	161,986
Total Adjustments	(206,272)	(31,474)
Net Cash Provided by Operating Activities	436,649	528,251
Cash Flows from Investing Activities:		
Purchase of property and equipment	(24,097)	(49,495)
Proceed from the refund of deposits	12,000	-
Proceeds from the maturity of certificates of deposit	200,456	-
Net Cash Generated/(Used) by Investing Activities	188,359	(49,495)
Cash Flows from Financing Activities:		
Proceeds from line of credit	100,000	950,000
Payments on notes payable	(45,612)	-
Proceeds from exercise of stock options	-	28,000
Repurchase of common shares	(225,393)	(946,097)
Dividends paid	(392,498)	(350,178)
Net Cash Used by Financing Activities	(563,503)	(318,275)
Net Increase (Decrease) in Cash and Cash Equivalents	61,505	160,481
Cash and Cash Equivalents at Beginning of Period	1,369,903	1,274,725
Cash and Cash Equivalents at End of Period	\$ 1,431,408	\$ 1,435,206
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 22,172	\$ 2,056

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ITEM III. INTERIM FINANCIAL STATEMENTS – (Continued)

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 intercompany 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 1,426,059 and \$1,403,182 in excess of federally insured amounts in its bank accounts at March 31, 2012 and December 31, 2011, respectively.

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, 2012, the Company had five certificates of deposit with a purchase value and fair value totaling \$850,000, an amortized value totaling \$850,159, and which mature during May 2012. At December 31, 2011, the Company had seven certificates of deposit with a purchase value and fair value totaling \$1,050,025, an amortized value totaling \$1,050,615, and which mature through May 2012.

Accounts Receivable - Accounts receivable consist of trade receivables arising in the normal course of business. At March 31, 2012, and December 31, 2011, 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

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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.

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Net sales comprised of the following for the three months ending March 31, 2012 and 2011:

	For the Three Months Ended	
	March 31, 2012	March 31, 2011
Gross Sales	\$ 7,780,632	\$ 6,799,884
Less: Discounts	(99,062)	(97,646)
Slotting	(3,402)	(4,708)
Promotions	(994,554)	(833,060)
Net Sales	\$ 6,683,614	\$ 5,864,470

Advertising Cost - Cost incurred in connection with advertising of the Company’s products are expensed as incurred. Such costs amounted to \$0 and \$800 for the three months ending March 31, 2012 and 2011, 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 March 31, 2012 and 2011 are \$2,706 and \$1,666, respectively, of research and development costs.

Income Taxes - The Company accounts for income taxes in accordance with FASB ASC Topic 740, “Accounting 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 fair value of cash equivalents, certificates of deposit, accounts receivable and payable are determined by reference to market data and by other valuation techniques. Unless disclosed, the fair value of financial instruments 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

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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, Compensation – Stock Compensation, “Accounting for Stock-Based Compensation.” Accordingly the fair value of options issued after December 31, 2005 is recognized over the vesting period of the underlying options.

Recently Enacted Accounting Standards – In June 2009, the FASB issued SFAS 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162” (now known as ASC 105-10). ASC 105-10 provides for the FASB Accounting Standards Codification (the “Codification”) to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change GAAP but reorganizes the literature. ASC 105-10 is effective for interim and annual periods ending after September 15, 2009.

NOTE 2 - RELATED PARTY TRANSACTIONS

During the three months ending March 31, 2012 and 2011, the Company paid accounting fees of \$920 and \$450, 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, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Raw Materials and Supplies	\$ 722,031	\$ 895,810
Finished Goods	1,244,489	1,450,936
Reserve for Obsolescence	(25,000)	(25,000)
Net Inventory	<u>\$ 1,941,520</u>	<u>\$ 2,321,746</u>

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NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at March 31, 2012 and December 31, 2011:

	Useful Life (Years)	March 31, 2012	December 31, 2011
Office equipment & furniture	2-10	\$ 519,952	\$ 513,600
Machinery & equipment	5-20	4,441,821	4,507,287
Vehicles - Trucks	7	45,989	45,989
Leasehold Improvements	3-25	2,004,808	1,921,596
		7,012,570	6,988,472
Less Accumulated Depreciation		(6,137,045)	(6,080,844)
Net property & equipment		<u>875,525</u>	<u>907,628</u>

Depreciation expense amounted to \$56,200 and \$56,456 for the three months ending March 31, 2012 and 2011, respectively.

NOTE 5 - GOODWILL

Goodwill represents the excess of the cost of purchasing Alborough, Inc. over the fair market value of the assets on May 20, 1996 less applicable amortization prior to the adoption of FASB ASC Topic 350. At March 31, 2012 and December 31, 2011, Goodwill amounted \$375,438.

During the three months ended March 31, 2012, the Company tested the Company's Goodwill for impairment in accordance with FASB ASC Topic 350. The Company used the quoted market price of its stock and projected earnings from the underlying assets purchased to test goodwill for impairment and determined that the Company's goodwill was not impaired.

NOTE 6 - LEASES

Operating Leases - The Company leases its main office and production facility under an operating lease expiring in December 31, 2016, with options to extend the lease for another five years thereafter. The monthly base rent on this facility is \$18,997 through December 31, 2016. 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 additional office and storage space under an operating lease expiring in December 31, 2013. The monthly base rent for this additional facility is \$6,282. The Company also leases equipment under an operating lease expiring upon 90 days

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written notice.

The future minimum lease payments for non-cancelable operating leases having remaining terms in excess of one year as of March 31, 2012 are as follows:

<u>Year ending December 31</u>	<u>Lease Payments</u>
2012	224,675
2013	301,553
2014	227,960
2015	227,960
2016	227,960
Thereafter	-
Total Minimum Lease Payments	<u><u>\$ 1,210,108</u></u>

Lease expense charged to operations was \$78,751 and \$75,090 for the three months ending March 31, 2012 and 2011, respectively.

NOTE 7 – LINE OF CREDIT / NOTES PAYABLE

\$2,000,000 Line of Credit / Note Payable – On September 14, 2010, the Company entered into a \$2,000,000 line of credit agreement with a financial institution to support its effort to repurchase common stock (see Note 11 regarding “Treasury Stock”). Under the terms of the agreement the Company had a one year draw period from October 1, 2010 to October 1, 2011, which was extended to July 1, 2012. During the draw period, payments of interest only are due each month calculated on any outstanding balance at a rate of prime (3.25% on December 31, 2011) plus 1% with a floor of 5%. After the draw period closes, the Company is required to repay any balance outstanding over a five year period from then on based on a seven year amortization at a market rate fixed interest to be determined at that time. A balloon payment for any balances outstanding is due at the end of the five year period.

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 since December 31,

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2011. At March 31, 2012 and December 31, 2011, there was \$1,000,000 and \$900,000, respectively, outstanding on the line. The \$1,000,000 outstanding on the line at March 31, 2012 has been classified as a note payable in the accompanying financial statements

At March 31, 2012 and December 31, 2011, there was \$1,847,960 and \$893,572 outstanding on the note, respectively.

Future Maturities of the note payable at March 31, 2012 are as follows:

Twelve Months Ended December 31,

2013	343,388
2014	388,986
2015	405,658
2016	423,056
2017	250,890
Thereafter	35,982
	<u>\$ 1,847,960</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 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. 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. 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 \$1,000,000 of \$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, from its \$2,000,000 line of credit. The Company formally documented the effectiveness of this qualifying hedge instrument (both at the inception of the swap

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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 this swap, the Company will pay interest at a fixed rate and receive payment at a variable rate beginning on April 29, 2011. The swap effectively fixes the interest rate to 4.5% on \$1,000,000 of the outstanding balance under the Note Payable, with the outstanding balance subject to the swap declining over time. The interest rate swap expires on April 29, 2016. 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 has been recorded as a note payable in the accompanying financial statements.

As of March 31, 2012, the fair value of the Company’s derivative instruments were recorded as follows:

		March 31, 2012	
		Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments			
Interest rate swap – current	Accrued expenses and other current liabilities		\$ 6,047
Interest rate swap – non-current	Other non-current liabilities		11,248
			\$ 17,295

The effect of derivative instruments on the Consolidated Statements of Income for the three months ended March 31, 2012 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 Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from 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)
Interest rate swap	\$ 1,582	Interest expense, net	\$ 1,582	Interest expense, net	\$ —

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

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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 March 31, 2012	Level 1	Level 2	Level 3
Interest Rate Swap	-	(17,295)	-
Total	-	(17,295)	-
As of December 31, 2011	Level 1	Level 2	Level 3
Interest Rate Swap	-	(18,877)	-
Total	-	(18,877)	-

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, 2012 and 2011 the Company matching contributions to the plan expensed were \$15,693 and \$15,062, respectively.

NOTE 11 - INCOME TAXES

The Company accounts for income taxes in accordance with FASB ASC Topic 740, Accounting for Income Taxes, which requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary

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reporting differences between book and tax accounting and any available operating loss or tax credit carry forwards. At March 31, 2012, and December 31, 2011, the total of all deferred tax assets was \$198,826, and \$199,411, respectively, and the total of the deferred tax liabilities was \$0, and \$0, 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 March 31, 2012, and December 31, 2011:

	March 31, 2012	December 31, 2011
Inventory 263A adjustment	\$ 35,976	\$ 35,976
Reserve for accrued vacation	44,422	44,422
Net Current Tax Asset	<u>80,398</u>	<u>80,398</u>
Excess of tax over book depreciation	112,029	112,029
Other	6,399	6,984
	<u>\$ 118,428</u>	<u>\$ 119,013</u>
Net Long Term Tax Asset	<u>\$ 198,826</u>	<u>\$ 199,411</u>

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

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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, 2012, and 2011:

	For the Three Months Ended	
	March 31, 2012	March 31, 2011
Net Income	\$ 642,921	\$ 559,725
Weighted average number of common shares outstanding used in basic earnings per share	32,679,679	34,848,620
Effect of dilutive securities: Stock Options	24,880	65,318
Weighted average number of common shares and potential dilutive shares outstanding used in diluted earnings per share	32,704,559	34,913,938

For the three months ended March 31, 2012 and 2011, 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 March 31, 2012 and 2011.

Common Stock Issuances – During 2011, the Company issued 100,000 shares of stock, at \$0.28 per share, upon exercise of stock options under the 2002 stock option plan.

Dividends - The Company paid \$392,498 and \$350,178, in dividends to common shareholders, during the three months ended March 31, 2012 and 2011.

2002 Stock Option Plan - During 2002, the Board of Directors adopted a Stock Option Plan (the Plan). Under the terms and conditions of the Plan, the board is empowered to grant stock options to employees, officers, directors and consultants of the Company. Additionally, the Board will determine at the time of granting the vesting provisions and whether the options will qualify as Incentive Stock Options under Section 422 of the Internal Revenue Code (Section 422 provides certain tax

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advantages to the employee recipients). The Plan was approved by the shareholders of the Company at its 2002 annual shareholder meeting. The total number of shares of common stock available under the Plan may not exceed 1,600,000. At March 31, 2012 and December 31, 2011, total options available to be granted under the Plan were 250,000 and 550,000, respectfully.

Stock Options – A summary of the status of the options granted under the Company’s 2002 stock option plans and other agreements at March 31, 2012, and changes during the year then ended is presented below:

	March 31, 2012			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life	Average Intrinsic Value
Outstanding 12/31/11	250,000	0.723	1.0	34,250
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding 3/31/11	250,000	0.723	.75	22,500
Vested and expected to vest	125,000	0.723	.75	11,250
Exercisable 3/31/11	125,000	0.723	.75	11,250

During December 2010, the Company granted 250,000 options to its directors and recorded \$48,202 in deferred compensation of which \$6,025 and \$6,017 was recorded in general and administrative expenses for stock options during the three months ended March 31, 2012 and 2011.

At March 31, 2012, 125,000 of the Company’s options outstanding had vested with the remainder vesting over the 9 months.

The total intrinsic value of options exercised during the three months ended March 31, 2011 was \$50,000. Intrinsic value is measured using the fair market value at the date of exercise (for shares exercised) or at March 31, 2012 (for outstanding options), less the applicable exercise price.

During the three months ended March 31, 2011, the Company received \$28,000 upon the exercise of awards and realized an estimated tax benefit of \$19,917 due to the exercise of options.

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A summary of the status of the options outstanding under the Company’s stock option plans and employment agreements at March 31, 2012 is presented below:

March 31, 2012					
Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.270	250,000	.75	\$ 0.723	125,000	\$ 0.723
	250,000			125,000	

The 2002 Stock Plan expired in 2012. The Company has chosen to not adopt a new plan.

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 63%, and 16% of outstanding receivables at March 31, 2012, and 62% and 15% at December 31, 2011.

During the three months ending March 31, 2012 and 2011, 50% and 51% of the Company’s total gross sales, respectively, were handled by a non-exclusive national distributor.

During the three months ending March 31, 2012 and 2011 Asian sales amounted to 12% and 6% 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 from continuing operations through each of the Company’s top three brokers for the three months ending March 31:

	For the Three Months Ended	
	March 31, 2012	March 31, 2011
Broker A	\$1,096,063	\$1,158,567
Broker B	\$754,471	\$693,642
Broker C	\$500,550	\$503,092

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NOTE 15 – SUBSEQUENT EVENT

The Company's management has reviewed all material events through the date of this report.

On February 9, 2012, the Company's Board of Directors declared a regular cash dividend of \$0.012 per share that was paid on April 27, 2012 to shareholders of record on April 2, 2012.

On May, 2012, the Company entered into a \$1,000,000 interest rate swap agreement which enabled it to effectively lock in a fixed 3.9% interest rate on the remaining \$1,000,000 of the line of credit. Under the terms, \$1,000,000 of the line is payable over a 5 year amortization period starting on June 2, 2012

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ITEM IV. MANAGEMENT DISCUSSION AND ANALYSIS

A. Results of Operations

Liquidity and Capital Resources:

At March 31, 2012 the Company had working capital of \$5,384,464, compared to \$4,506,677 on December 31, 2011. This increase is due to a combination of factors including timing differences as reflected in the growth of cash, and accounts receivables, and a decrease in accrued payroll and payroll taxes. Another contributing factor to the increase in working capital is the net impact from the conversion of the line of credit into a long term notes payable for purposes of securing a low fixed interest rate on the liability and establishing a 5 year amortization for payment. All of this is offset by the impact of timing differences as reflected in the decrease of certificates of deposit, inventories, and prepaid expenses, as well as the increase in trade payables and accrued income taxes.

Profit & Loss:

Net sales for the quarter ending March 31, 2012 increased by 14% to \$6,683,614 from \$5,864,470 in the same quarter last year. This increase largely reflects the Company's continued gains from core product sales to existing customers as well as to new customers in food service and chain businesses.

Cost of goods sold as a percentage of net sales for the quarters ending March 31, 2012 and 2011 were both 65%. While some costs of raw materials and packaging have increased during this period, this increase was offset by a change in the sales mix to more profitable products.

Operating expenses as a percentage of net sales for the quarter ending March 31, 2012 decreased to 19% from 20% in the same quarter last year. This favorable change reflects a combination of two main factors. First, the Company is able to maintain economies of scale in most of its operating expenses while increasing its sales. Also, while the Company is cautiously optimistic regarding its sales and profitability for the remainder of 2012, it continues to strategically manage its expenses.

Other income and expenses for the quarter ending March 31, 2012 decreased to (\$4,061) from \$16,747 in the same quarter last year. This decrease largely reflects the impact from higher interest expense

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ITEM IV. MANAGEMENT DISCUSSION AND ANALYSIS – (Continued)

incurred on monies drawn from the Company's \$2,000,000 line of credit which was used to fund its stock buyback program.

Net income as a percentage of net sales for quarter ending March 31, 2012 has increased to 9.6% from 9.5% in the same quarter last year.

Despite continued uncertainty about the global economy, the Company has achieved strong year over year operating results for the three months ended March 31, 2012. The Company remains cautiously optimistic about the remainder of 2012.

Cash Flow:

For the three months ending March 31, 2012 cash flow from operating activities decreased by \$91,602 to \$436,649 from \$528,251 in the same period last year. This decrease is primarily a result of negative timing differences in the collection of accounts receivables, offset by higher profitability and positive timing differences associated with inventories, prepaid expenses, and payables.

Net cash generated/used by investing activities for the three months ending March 31, 2012 increased by \$237,854 to \$188,359 from \$<49,495> in the same period last year. The increase largely reflects the impact of proceeds received from the maturity of certificates of deposit, offset by expenditures made for equipment and leasehold improvements to its manufacturing facilities.

Net cash used by financing activities for the three months ending March 31, 2012 increased by \$<245,228> to \$<563,503> from \$<318,275> in the same period last year. The increase reflects the payment of higher dividends during the first quarter of 2012 and the repurchase of \$225,393 of common shares offset by additional borrowings net of payments of \$54,388.

While the Company's cash flow is currently strong, management intends to closely manage the Company's cash flow activities for the remainder of 2012 in light of the global economic uncertainty.

B. Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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ITEM V. LEGAL PROCEEDINGS

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

ITEM VI. DEFAULTS UPON SENIOR SECURITIES

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

ITEM VII. OTHER INFORMATION

None

ITEM VIII. 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 2011 Annual Report.

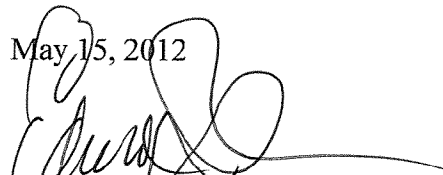
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ITEM IX. CERTIFICATIONS

I, Edmond J. Pera, certify that:

1. I have reviewed this quarterly disclosure statement of Armanino Foods of Distinction, Inc.;
2. 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
3. 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 15, 2012



Edmond J. Pera, CEO

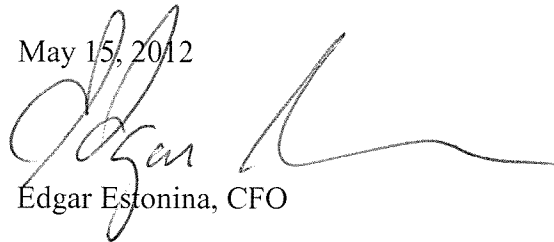
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ITEM IX. CERTIFICATIONS (Continued)

I, Edgar Estonina, certify that:

1. I have reviewed this quarterly disclosure statement of Armanino Foods of Distinction, Inc.;
2. 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
3. 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 15, 2012



Edgar Estonina, CFO