



QUARTERLY DISCLOSURE REPORT  
MARCH 31, 2017  
UNAUDITED

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

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**CONTENTS**

|  | Page: |
|--|-------|
| OTC PINK BASIC DISCLOSURE GUIDELINES .....   | 2     |
| INTERIM FINANCIAL STATEMENTS:  |       |
| ○ Consolidated Balance Sheet (unaudited), as of March 31, 2017 and<br>December 31, 2016 .....  | 10    |
| ○ Consolidated Statements of Earnings (unaudited), for the<br>three months ended March 31, 2017, and 2016 .....  | 12    |
| ○ Consolidated Statement of Stockholder’s Equity (unaudited),<br>for the three months ended March 31, 2017 and the year ended<br>December 31, 2016 ..... | 13    |
| ○ Consolidated Statements of Cash Flows (unaudited), for<br>the three months ended March 31, 2017 and 2016 .....   | 14    |
| ○ Notes to Consolidated Financial Statements (unaudited) .....   | 15    |
| SUPPLEMENTAL INFORMATION:  |       |
| ○ Management Discussion and Analysis .....   | 27    |
| ○ Legal Proceedings .....  | 29    |
| ○ Defaults Upon Senior Securities .....  | 29    |
| ○ Exhibits .....   | 29    |

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

**OTC PINK BASIC DISCLOSURE GUIDELINES**

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

2. ADDRESS OF THE ISSUER'S PRINCIPAL EXECUTIVE OFFICES:

Company Headquarters:

Address 1: 30588 San Antonio Street

Address 2: Hayward, CA 94544

Phone: (510) 441-9300

Email: [amnf@armaninofoods.com](mailto:amnf@armaninofoods.com)

Website: [www.armaninofoods.com](http://www.armaninofoods.com)

IR Contact:

Address 1: 30588 San Antonio Street

Address 2: Hayward, CA 94544

Phone: (510) 441-9300

Email: [amnf@armaninofoods.com](mailto:amnf@armaninofoods.com)

Website: [www.armaninofoods.com](http://www.armaninofoods.com)

3. SECURITY INFORMATION:

a. Trading Symbol: AMNF

b. Title and class of securities outstanding: Common Stock

CUSIP: 042166801

Par or Stated Value: no par

|   | March 31,<br><u>2017</u> | March 31,<br><u>2016</u> | March 31,<br><u>2015</u> |
|---|--------------------------|--------------------------|--------------------------|
| Common Shares authorized                    | 40,000,000               | 40,000,000               | 40,000,000               |
| Common Shares outstanding                   | 32,065,645               | 32,065,645               | 32,065,645               |
| Freely tradable shares                      | 31,265,997               | 30,203,203               | 30,203,203               |
| # of beneficial shareholders <sup>(1)</sup> | 1,300                    | 1,300                    | 1,300                    |
| # of shareholders of record                 | 111                      | 119                      | 120                      |

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

ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

---

c. Additional class of securities: Preferred Stock

CUSIP: 042166801

Par or Stated Value: no par

|                              | March 31,<br><u>2017</u> | March 31,<br><u>2016</u> | March 31,<br><u>2015</u> |
|------------------------------|--------------------------|--------------------------|--------------------------|
| Shares authorized            | 10,000,000               | 10,000,000               | 10,000,000               |
| Shares outstanding           | -                        | -                        | -                        |
| Freely tradable shares       | -                        | -                        | -                        |
| # of beneficial shareholders | -                        | -                        | -                        |
| # of shareholders of record  | -                        | -                        | -                        |

d. Transfer Agent:

Name: Computershare Trust Company, N.A.

Address 1: 250 Royall Street

Address 2: Canton, MA 02021

Phone: (303) 262-0710

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

f. Restrictions on the transfer of security:

799,648 shares of common stock are restricted as of 3/31/17; 1,862,442 shares as of 3/31/16; and 1,862,442 shares as of 3/31/15.

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

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

The Company's financial statements are prepared in accordance with US GAAP. Refer to the Company's interim financial statements starting on page 10.

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 and other 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. The Company owned all of its manufacturing equipment as of March 31, 2017.

8. OFFICERS, DIRECTORS, AND CONTROL PERSONS

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

ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

| <u>Name</u>                     | <u>Business Address</u>                       | <u>Positions and Offices Held &amp; Term as a Director</u>   | <u>Shares Owned</u> |
|---------------------------------|---|--|---------------------|
| <b>Edmond J. Pera</b>           | 30588 San Antonio Street<br>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             |
| <b>Douglas R. Nichols</b>       | 30588 San Antonio Street<br>Hayward, CA 94544 | Chairman of the Board since February 2009. Previously served as Director since June 2001.  | 983,545             |
| <b>John Micek III</b>           | 30588 San Antonio Street<br>Hayward, CA 94544 | Director since February 1988.  | 142,960             |
| <b>David B. Scatena</b>         | 30588 San Antonio Street<br>Hayward, CA 94544 | Director since February 1988 and Vice Chairman of the Board since February 1999.   | 8,280               |
| <b>Joseph F. Barletta</b>       | 30588 San Antonio Street<br>Hayward, CA 94544 | Director since December 1999.  | -                   |
| <b>Patricia A. Fehling</b>      | 30588 San Antonio Street<br>Hayward, CA 94544 | Director since December 2004.  | 100,000             |
| <b>Deborah Armanino LeBlanc</b> | 30588 San Antonio Street<br>Hayward, CA 94544 | Director and Secretary since February 2009.  | 936,975             |

- 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

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

- 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

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

9. THIRD PARTY PROVIDERS

a. Legal Counsel

Name: Mark Cassanego  
Firm: Carr McClellan, P.C.  
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: alan@gandacpa.com

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

10. ISSUER CERTIFICATION

I, Edmond J. Pera certify that:

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

May 15, 2017  
/s/Edmond J Pera  
CEO

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

10. ISSUER CERTIFICATION (Continued)

I, Edgar Estonina certify that:

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

May 15, 2017  
/s/Edgar Estonina  
COO/CFO

ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

---

**INTERIM FINANCIAL STATEMENTS**

**CONSOLIDATED BALANCE SHEETS:**

|  | As of March 31,<br>2017 | As of December 31<br>2016 |
|--|-------------------------|---------------------------|
| <b>CURRENT ASSETS:</b>                 |                         |                           |
| Cash                                   | \$ 3,654,281            | \$ 3,702,067              |
| Certificates of Deposit                | 1,132,629               | 871,787                   |
| Accounts Receivable, net               | 5,144,954               | 4,549,206                 |
| Inventories                            | 3,051,258               | 3,437,923                 |
| Prepaid Expenses                       | 183,337                 | 367,319                   |
| Current Deferred Tax Asset             | -                       | 109,359                   |
| Total Current Assets                   | 13,166,459              | 13,037,661                |
| <br><b>PROPERTY AND EQUIPMENT, net</b> |                         |                           |
| accumulated depreciation               | 2,348,492               | 1,644,986                 |
| <br><b>OTHER ASSETS:</b>               |                         |                           |
| Deposits                               | 20,000                  | 20,000                    |
| Goodwill                               | 375,438                 | 375,438                   |
| Trademarks                             | 83,251                  | 72,570                    |
| Total Other Assets                     | 478,689                 | 468,008                   |
| Total Assets                           | \$ 15,993,640           | \$ 15,150,655             |

The accompanying notes are an integral part of these financial statements

ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

CONSOLIDATED BALANCE SHEETS:

|   | As of March 31,<br>2017 | As of December 31<br>2016 |
|---|-------------------------|---------------------------|
| <b>CURRENT LIABILITIES:</b>   |                         |                           |
| Notes Payable - Current Portion   | \$ 35,982               | \$ 89,949                 |
| Accounts Payable - Trade  | 1,690,034               | 1,304,649                 |
| Accrued Payroll and Payroll Taxes   | 406,230                 | 701,331                   |
| Other Accrued Liabilities   | 37                      | 180                       |
| Dividends Payable   | 641,313                 | 641,313                   |
| Accrued Income Taxes  | 445,730                 | -                         |
| Total Current Liabilities   | 3,219,326               | 2,737,422                 |
| <b>DEFERRED TAX LIABILITY, net</b>  | 23,307                  | 132,613                   |
| Total Liabilities   | 3,242,633               | 2,870,035                 |
| <b>STOCKHOLDERS' EQUITY:</b>  |                         |                           |
| Preferred Stock; no par value,<br>10,000,000 shares authorized, no<br>shares issued and outstanding   | -                       | -                         |
| Common Stock; no par value, 40,000,000<br>shares authorized, 32,065,645 and<br>32,065,645 and shares issued<br>and outstanding at March 31, 2017 and<br>December 31, 2016, respectively | 2,774,990               | 2,774,990                 |
| Additional Paid-in Capital  | 48,202                  | 48,202                    |
| Accumulated Other Comprehensive Income  | (24)                    | (113)                     |
| Retained Earnings   | 9,927,839               | 9,457,541                 |
| Total Stockholders' Equity  | 12,751,007              | 12,280,620                |
| Total Liabilities and Stockholders' Equity  | \$ 15,993,640           | \$ 15,150,655             |

The accompanying notes are an integral part of these financial statements

ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

CONSOLIDATED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME:

|  | <b>FOR THE<br/>THREE MONTHS ENDED<br/>MARCH 31,</b> |              |
|--|---|--------------|
|  | <b>2017</b>   | <b>2016</b>  |
| <b>NET SALES</b>   | \$ 9,088,013  | \$ 8,991,242 |
| <b>COST OF GOODS SOLD</b>  | 5,913,625   | 5,783,638    |
| <b>GROSS PROFIT</b>  | 3,174,388   | 3,207,604    |
| <b>OPERATING EXPENSES:</b>   |   |              |
| General, administrative and selling expense  | 471,549   | 463,618      |
| Salaries & wages   | 718,154   | 781,195      |
| Commissions  | 292,057   | 272,214      |
| Total Operating Expense  | 1,481,760   | 1,517,027    |
| <b>INCOME FROM OPERATIONS</b>  | 1,692,628   | 1,690,577    |
| <b>OTHER INCOME (EXPENSE)</b>  |   |              |
| Interest and other income  | 43,956  | 34,027       |
| Interest (expense)   | (709)   | (3,244)      |
| Total Other Income (Expense)   | 43,247  | 30,783       |
| <b>INCOME BEFORE INCOME TAXES</b>  | 1,735,874   | 1,721,360    |
| <b>CURRENT TAX EXPENSE</b>   | 624,265   | 636,903      |
| <b>DEFERRED TAX (BENEFIT)</b>  | -   | -            |
| <b>NET INCOME</b>  | \$ 1,111,610  | \$ 1,084,458 |
| Derivative instrument accounted for as a<br>hedge, net of tax of \$53 and \$269,<br>respectively | 89  | 459          |
| <b>COMPREHENSIVE INCOME</b>  | \$ 1,111,699  | \$ 1,084,917 |
| <b>EARNINGS PER COMMON AND<br/>EQUIVALENT SHARES:</b>  |   |              |
| <b>BASIC EARNINGS PER SHARE</b>  | \$ 0.035  | \$ 0.034     |
| <b>WEIGHTED AVERAGE COMMON<br/>SHARES OUTSTANDING</b>  | 32,065,645  | 32,065,645   |
| <b>DILUTED EARNINGS PER SHARE</b>  | \$ 0.035  | \$ 0.034     |
| <b>WEIGHTED AVERAGE COMMON SHARES<br/>OUTSTANDING ASSUMING DILUTION</b>                          | 32,065,645  | 32,065,645   |

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ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY:

|   | Common Stock             |                            | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive | Retained<br>Earnings       |
|---|--------------------------|----------------------------|----------------------------------|---------------------------------------|----------------------------|
|   | Shares                   | Amount                     |                                  | Income                                |                            |
| <b>BALANCE, December 31, 2015</b>                                     | <b><u>32,065,645</u></b> | <b><u>\$ 2,774,990</u></b> | <b><u>\$ 48,202</u></b>          | <b><u>\$ (1,233)</u></b>              | <b><u>\$ 7,764,587</u></b> |
| Dividends on common shares  | -                        | -                          | -                                | -                                     | (2,533,187)                |
| Derivative instrument accounted for<br>as a hedge net of tax of \$658 | -                        | -                          | -                                | 1,120                                 | -                          |
| Net income for the year ended<br>December 31, 2016                    | -                        | -                          | -                                | -                                     | 4,226,141                  |
| <b>BALANCE, December 31, 2016</b>                                     | <b><u>32,065,645</u></b> | <b><u>\$ 2,774,990</u></b> | <b><u>\$ 48,202</u></b>          | <b><u>\$ (113)</u></b>                | <b><u>\$ 9,457,541</u></b> |
| Dividends on common shares  | -                        | -                          | -                                | -                                     | (641,312)                  |
| Derivative instrument accounted for<br>as a hedge net of tax of \$53  | -                        | -                          | -                                | 89                                    | -                          |
| Net income for the three months<br>ended March 31, 2017               | -                        | -                          | -                                | -                                     | 1,111,610                  |
| <b>BALANCE, March 31, 2017</b>  | <b><u>32,065,645</u></b> | <b><u>\$ 2,774,990</u></b> | <b><u>\$ 48,202</u></b>          | <b><u>\$ (24)</u></b>                 | <b><u>\$ 9,927,839</u></b> |

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ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

CONSOLIDATED STATEMENTS OF CASH FLOW:

|   | <b>FOR THE THREE</b>          |                     |
|---|-------------------------------|---------------------|
|   | <b>MONTHS ENDED MARCH 31,</b> |                     |
|   | <b>2017</b>                   | <b>2016</b>         |
| <b>Cash Flows from Operating Activities:</b>                                    |                               |                     |
| Net Income  | <u>\$ 1,111,610</u>           | <u>\$ 1,084,458</u> |
| Adjustments to reconcile net income<br>to net cash provided by operations:      |                               |                     |
| Depreciation and amortization   | 81,892                        | 95,005              |
| Change in deferred tax asset / liability  | -                             | -                   |
| Changes in assets and liabilities:  |                               |                     |
| (Increase) decrease in accounts receivable                                      | (595,747)                     | (654,414)           |
| (Increase) decrease in inventory  | 386,664                       | 85,394              |
| (Increase) decrease in prepaid expenses   | 183,983                       | 371,715             |
| Increase (decrease) in accounts payable,<br>accrued expenses, and taxes payable | <u>536,012</u>                | <u>(130,403)</u>    |
| Total Adjustments   | <u>592,804</u>                | <u>(232,703)</u>    |
| Net Cash Provided by Operating Activities                                       | <u>1,704,414</u>              | <u>851,755</u>      |
| <b>Cash Flows from Investing Activities:</b>                                    |                               |                     |
| Purchase of property and equipment  | (785,398)                     | (36,125)            |
| Purchase of Trademarks  | (10,681)                      | (2,202)             |
| Proceeds (Purchase) of certificates of deposit                                  | <u>(260,842)</u>              | <u>267,718</u>      |
| Net Cash Used by Investing Activities   | <u>(1,056,921)</u>            | <u>229,391</u>      |
| <b>Cash Flows from Financing Activities:</b>                                    |                               |                     |
| Payments on notes payable   | (53,967)                      | (106,494)           |
| Dividends paid  | <u>(641,312)</u>              | <u>(609,249)</u>    |
| Net Cash Used by Financing Activities   | <u>(695,279)</u>              | <u>(715,743)</u>    |
| <b>Net Increase (Decrease) in Cash<br/>and Cash Equivalents</b>                 | (47,786)                      | 365,403             |
| <b>Cash and Cash Equivalents at<br/>Beginning of Period</b>                     | 3,702,067                     | 3,437,695           |
| <b>Cash and Cash Equivalents at<br/>End of Period</b>                           | <u>\$ 3,654,281</u>           | <u>\$ 3,803,098</u> |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                       |                               |                     |
| Cash paid during the period for:  |                               |                     |
| Interest  | \$ 709                        | \$ 3,655            |
| Income Taxes  | \$ -                          | \$ -                |

The accompanying notes are an integral part of these financial statements

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

## 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 and other 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 \$3,536,033 and \$3,282,919 in excess of federally insured amounts in its bank accounts at March 31, 2017 and December 31, 2016.

**Certificates of Deposit** - 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, 2017, the Company had thirteen certificates of deposit with a purchase value of \$1,126,945 and a fair value totaling \$1,132,629, amortized value totaling \$1,132,629 and mature through April 29, 2019. At December 31, 2016, the Company had ten certificates of deposit with a purchase value of \$866,686 and a fair value totaling \$871,787, amortized value totaling \$871,787 and mature through April 29, 2019.

**Accounts Receivable** - Accounts receivable consist of trade receivables arising in the normal course of business. At March 31, 2017 and December 31, 2016, 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.

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

**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. 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.

ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

---

Net sales comprised of the following for the three months ending March 31, 2017 and 2016:

|                        | <b>FOR THE<br/>THREE MONTHS ENDED<br/>MARCH 31,</b> |                     |
|------------------------|---|---------------------|
|                        | <b>2017</b>   | <b>2016</b>         |
| <b>Gross Sales</b>     | \$ 10,834,491                                       | \$ 10,630,746       |
| <b>Less: Discounts</b> | (166,364)   | (147,500)           |
| <b>Slotting</b>        | -   | -                   |
| <b>Promotions</b>      | (1,580,114)   | (1,492,004)         |
| <b>Net Sales</b>       | <u>\$ 9,088,013</u>                                 | <u>\$ 8,991,242</u> |

**Advertising Cost** - Cost incurred in connection with advertising of the Company's products are expensed as incurred. Such costs amounted to \$1,223 and \$2,705 for the three months ending March 31, 2017 and 2016, respectively.

**Research and Development Cost** - The Company expenses research and development costs for the development of new products as incurred. Included in general and administrative expense for the three months at March 31, 2017 and 2016 are \$487 and \$8,256, respectively, of research and development costs.

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

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

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

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

- 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 is recognized over the vesting period of the underlying options.

**Reclassification** – The financial statements for the period ended prior to March 31, 2017 have been reclassified to conform to the headings and classifications used in the March 31, 2017 financial statements.

**Recent Accounting Pronouncements** - In 2015, the FASB issued an amended standard requiring that we classify all deferred tax assets and liabilities as non-current on the balance sheet instead of separating deferred taxes into current and non-current. The amended standard was adopted effective January 1, 2017 by the Company on a prospective basis and prior periods were not retrospectively adjusted and the only effect was the reclassification of current deferred taxes to long-term in the underlying financial statements as of March 31, 2017.

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

## **NOTE 2 - RELATED PARTY TRANSACTIONS**

During the three months ending March 31, 2017 and 2016, the Company paid accounting fees of \$615 and \$0, respectively, to a company controlled by a director/shareholder. Services provided by this accounting firm are in the area of tax preparation and related services, management and business consulting. No audit services were provided by this company.

ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

---

**NOTE 3 - INVENTORY**

Inventory consists of the following at March 31, 2017 and December 31, 2016:

|                            | <u>March 31,<br/>2017</u> | <u>December 31,<br/>2016</u> |
|----------------------------|---------------------------|------------------------------|
| Raw Materials and Supplies | 843,562                   | 995,927                      |
| Finished Goods             | 2,232,696                 | 2,466,996                    |
| Reserve for Obsolescence   | (25,000)                  | (25,000)                     |
|                            | <u>\$ 3,051,258</u>       | <u>\$ 3,437,923</u>          |

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at March 31, 2017 and December 31, 2016:

|                               | Useful Life | <u>March 31,<br/>2017</u> | <u>December 31,<br/>2016</u> |
|-------------------------------|-------------|---------------------------|------------------------------|
| Office equipment & furniture  | 2 – 10      | 607,134                   | 598,734                      |
| Machinery and equipment       | 5 – 20      | 3,641,710                 | 3,606,683                    |
| Vehicles                      | 7           | 45,989                    | 45,989                       |
| Leasehold improvements        | 3 – 25      | 2,286,731                 | 2,286,731                    |
| Construction in Progress      |             | 904,220                   | 162,249                      |
|                               |             | 7,485,784                 | 6,700,386                    |
| Less Accumulated Depreciation |             | (5,137,292)               | (5,055,400)                  |
| Net Property and Equipment    |             | <u>\$ 2,348,492</u>       | <u>\$ 1,644,986</u>          |

Depreciation expense amounted to \$81,892 and \$95,005 for the three months ending March 31, 2017 and 2016, respectively.

**NOTE 5 - INTANGIBLE ASSETS**

**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, 2017 and December 31, 2016, Goodwill amounted \$375,438.

**Trademarks** - Trademarks represent the current costs seeking Trademarks. At March 31, 2017 and December 31, 2016, Trademarks amounted \$83,251 and \$72,570.

ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

---

During the three months ended March 31, 2017, the Company tested the Company's Goodwill and Trademarks 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 and trademarks for impairment and determined that the Company's goodwill and Trademarks were not impaired.

**NOTE 6 - LEASES**

**Operating Leases** - During 2016, the Company renewed the lease of 30588 San Antonio Street in Hayward for another five years through December 31, 2021, and negotiated two additional five year options to extend the lease thereafter. Under the amended and restated lease agreement, the monthly base rent commencing January 1, 2017 is \$21,000, with fixed annual rent increases ranging from 2.6% to 2.8%. If the Company elects to exercise its first five year option, the base rent will be set at the then prevailing fair market rental value, but not less than \$23,806, with annual rent increases fixed at 2%. If the Company elects to exercise its second five year option, the base rent will be set at the then prevailing fair market rental value, but not less than \$26,283, with annual rent increases fixed at 2%.

During 2016, the Company renewed the lease of 30641 San Antonio Street in Hayward for another five years through December 31, 2021, and negotiated one additional five year option to extend the lease thereafter. Under the amended and restated lease agreement, the monthly base rent commencing January 1, 2017 is \$4,300 plus \$1,622 in common operating expenses, with fixed annual rent increases of 3%. If the Company elects to exercise its five year option, the base rent will be set at the prevailing fair market rental value.

The future minimum lease payments for non-cancelable operating leases having remaining terms in excess of one year as of March 31, 2017 are as follows:

| <u>Year Ended December 31,</u> | <u>Lease Payment</u> |
|--------------------------------|----------------------|
| 2017                           | 242,298              |
| 2018                           | 331,668              |
| 2019                           | 340,260              |
| 2020                           | 348,816              |
| 2021                           | 357,612              |
| Thereafter                     | -                    |
| Future Minimum Lease Payments  | <u>\$ 1,620,654</u>  |

Lease expense charged to operations were \$80,766 and \$72,410 for the three months ending March 31, 2017 and 2016, respectively.

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

**NOTE 7 – LINE OF CREDIT / NOTE PAYABLE**

**Note Payable** - At March 31, 2017 and December 31, 2016, there was \$35,982 and \$89,949 outstanding on a note payable with an effective fixed interest rate of 3.9% through an interest swap agreement, maturing June 2017.

Future Maturities of the note payable at March 31, 2017 are as follows:

| <u>Year ended March 31, 2017</u> |                  |
|----------------------------------|------------------|
| 2017                             | \$ 35,982        |
| Thereafter                       | -                |
|                                  | <u>\$ 35,982</u> |

On January 3, 2017, the Company entered into a \$550,000 equipment loan agreement with a financial institution to finance the cost of future equipment purchases that will secure the loan. The loan will accrue interest at a fixed rate of 4.25%. The availability period for this loan ends on July 3, 2017. At March 31, 2017, the entire \$550,000 was available on the loan.

**Line of Credit** - On September 30, 2016, the Company entered into a non-revolving \$3,100,000 line of credit agreement with a financial institution to support its plant expansion project. The availability period for this line ends on September 15, 2017. The line accrues interest at a fixed rate of 3.35% and is secured by all of the Company's personal property. At March 31, 2017, the entire \$3,100,000 was available on the line.

**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 swap 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 Note. In order to manage this risk, 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 Note payable, which enabled the Company to effectively lock in a fixed 3.9% interest rate on the note payable.

ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

The Company formally documented the effectiveness of this qualifying hedge instrument (both at the inception of the swap and on an ongoing basis) in offsetting changes in cash flows of the hedged transaction. The fair value of the interest rate swap is calculated as described in Note 9, "Fair Value of Financial Instruments", taking into consideration current interest rates and the current creditworthiness of the counterparties or the Company, as applicable.

As a result of this swap, the Company paid interest at a fixed rate and received payment at a variable rate. The swap effectively fixed the interest rate to 3.9% on the under note payable, with the outstanding balance subject to the swap declining over time. The interest rate swap expires 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. As of March 31, 2017, the fair value of the Company's derivative instruments was recorded as follows:

|   | March 31, 2017                                 |    | Fair Value |
|---|--|----|------------|
| <b><u>Derivatives designated as hedging instruments</u></b> | Balance Sheet Location                         |    |            |
| Interest rate swap – current                                | Accrued expenses and other current liabilities | \$ | 37         |
| Total   |  | \$ | 37         |

The effect of derivative instruments on the Consolidated Statements of Income for the three months ended March 31, 2017 and 2016 was as follows:

|  | Amount of Gain/(Loss) Recognized in Accumulated | Location of Gain/(Loss) Reclassified from Accumulated | Amount of Gain/(Loss) Reclassified from Accumulated | 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) |
|--|---|---|---|---|---|
| <b><u>For the three months ended March 31, 2017:</u></b> |   |   |   |   |   |
| Interest rate swap                                       | \$ 142  | Interest expense                                      | \$ 142  | Interest expense  | \$ -  |
| <b><u>For the three months ended March 31, 2016:</u></b> |   |   |   |   |   |
| Interest rate swap                                       | \$ 728  | Interest expense                                      | \$ 728  | Interest expense  | \$ -  |

ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

---

**NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

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

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

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

Level 3: Financial assets and financial liabilities whose values are based on prices or 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, 2017 | Level 1 | Level 2 | Level 3 |
|----------------------|---------|---------|---------|
| Interest Rate Swap   | -       | (37)    | -       |
| Total                | -       | (37)    | -       |
| Interest Rate Swap   | -       | (180)   | -       |
| Total                | -       | (180)   | -       |

ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

---

**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, 2017 and 2016 the Company matching contributions to the plan expensed were \$19,831 and \$17,405, respectively.

**NOTE 11 - INCOME TAXES**

The Company accounts for income taxes in accordance with FASB ASC Topic 740 which requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting and any available operating loss or tax credit carry forwards. At March 31, 2017, and December 31, 2016, the total of all deferred tax assets was \$109,359 and \$109,359, respectively, and the total of the deferred tax liabilities was \$132,613 and \$132,613, 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 (liabilities) at March 31, 2017 and December 31, 2016:

|                                      | March 31,<br>2017  | December 31,<br>2016 |
|--------------------------------------|--------------------|----------------------|
| Inventory 263A adjustment            | \$ 39,303          | \$ 39,303            |
| Reserve for accrued vacation         | 69,990             | 69,990               |
| Other                                | 66                 | 66                   |
|                                      | <u>109,359</u>     | <u>109,359</u>       |
| Excess of tax over book depreciation | <u>(132,613)</u>   | <u>(132,613)</u>     |
| Deferred Tax Liability, Net          | <u>\$ (23,254)</u> | <u>\$ (23,254)</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.

ARMANINO FOODS OF DISTINCTION, INC.  
 QUARTERLY REPORT  
 MARCH 31, 2017  
 UNAUDITED

---

The Company files U.S. federal, and California state income tax returns, and we are generally no longer subject to tax examinations for years prior to 2013 for U.S. federal and U.S. states tax returns.

**NOTE 12 - EARNINGS PER SHARE**

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

For the three months ended March 31, 2017 and 2016, the Company had no options that were not included in the computation of diluted earnings per share.

|   | <b>For the Three Months Ended<br/>March 31,</b> |              |
|---|---|--------------|
|   | <b>2017</b>                                     | <b>2016</b>  |
| Net Income  | \$ 1,111,610                                    | \$ 1,084,458 |
| Weighted average number of common shares<br>outstanding used in basic earnings per share                                    | 32,065,645                                      | 32,065,645   |
| Effect of dilutive securities: Stock Options  | -   | -            |
| Weighted average number of common shares and<br>potential dilutive shares outstanding used in<br>diluted earnings per share | 32,065,645                                      | 32,065,645   |

**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, 2017 and December 31, 2016.

**Dividends** - During the three months ended March 31, 2017 and 2016, the Company paid \$641,312 and \$609,249, 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 March 31, 2017, 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 March 31, 2017, the Company was authorized to repurchase an additional \$105,706 of the Company's common stock.

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

**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 73% and 12% of outstanding receivables at March 31, 2017, 71% and 14% at December 31, 2016.

During the three months ending March 31, 2017 and 2016, 59% and 56% of the Company's total gross sales, respectively, were handled by a non-exclusive national distributor.

During the three months ending March 31, 2017 and 2016, Asia sales amounted to 9% and 12% 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:

|          | <b>For the Three Months Ended</b> |              |
|----------|-----------------------------------|--------------|
|          | <b>March 31</b>                   |              |
|          | <b>2017</b>                       | <b>2016</b>  |
| Broker A | \$ 1,336,400                      | \$ 1,338,944 |
| Broker B | 1,189,665                         | 1,064,440    |
| Broker C | 749,397                           | 709,768      |

**NOTE 13 – SUBSEQUENT EVENT**

The Company's management has reviewed all material events through May 15, 2017.

On March 7, 2017, the Company's Board of Directors declared a regular cash dividend of \$0.02 per share that was paid on April 28, 2017 to shareholders of record on April 3, 2017.

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

**SUPPLEMENTAL INFORMATION**

**1. MANAGEMENT DISCUSSION AND ANALYSIS**

A. Results of Operations

Liquidity and Capital Resources:

At March 31, 2017, the Company had working capital of \$9,947,133, compared to \$10,300,239 at December 31, 2016. This decrease was largely due to the timing of estimated tax payments due and a decrease in inventories consistent with the Company's growth in sales for this period, offset by the timing related to the collection of receivables. The Company's strong cash position has enabled it to pay down its debt used to repurchase common shares and declare another quarterly dividend - the Company's 68th consecutive regular quarterly dividend.

In the third quarter of 2016, the Company's Board of Directors approved a plant expansion of the Company's manufacturing plant facility that was budgeted to cost approximately \$3.5 million. In order to finance the plant expansion project, on September 30, 2016 the Company secured a non-revolving \$3,100,000 line of credit with a financial institution. The availability period for this line ends on September 15, 2017. The line accrues interest at a fixed rate of 3.35% and is secured by all of the Company's personal property. At March 31, 2017, the entire \$3,100,000 was available on the line. On January 3, 2017, the Company also secured a \$550,000 equipment loan with a financial institution. At March 31, 2017, the entire \$550,000 was available on the loan. The loan will be secured by the new equipment and accrue interest at a fixed rate of 4.25%. The Company intends to keep total spending for the project within the budget approved by the Board. At this point, the Company does not expect that it will materially exceed the budget.

The Company began construction of its plant expansion project in February of 2017 and has made significant progress on this project since then. As of the end of this first quarter, the Company spent a total of \$904,220 on this project. The Company estimates that the project will be completed before the end of the third quarter of 2017.

Results of Operations:

The Company achieved its highest first quarter sales and profitability results during the first quarter of 2017. Net sales for the quarter ending March 31, 2017 increased by 1% to \$9,088,013 from \$8,991,242 in the same quarter last year. This increase reflects higher demand for the Company's core products from new and existing

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

domestic customers, fueled in part by the Company's aggressive investment in promotional expenditures, offset by weaker sales in its Asian markets.

Cost of goods sold as a percentage of net sales for the quarter ending March 31, 2017 was 65% compared to 64% during the first quarter last year. This increase is largely due to the effects of a change in the mix of products sold this year versus last year.

Operating expenses as a percentage of net sales for the quarter ending March 31, 2017 were 16% compared to 17% during the same quarter last year. This decrease is largely due to a decrease in salaries and wages reflecting the non-recurring impact of personnel changes.

Net income of \$1,111,610 for the three months ended March 31, 2017 increased \$27,152 or 3% over net income of \$1,084,458 for the three months ended March 31, 2016, reflecting higher demand for the Company's products while achieving economies of scale in its overall costs as well as the expected impact from higher research and development tax credits stemming from work done on the plant expansion project, as well as an increase in new product research and development.

The Company's sales pipeline and its cash position are currently strong. It is cautiously optimistic about its financial performance for the rest of this year. The Company continues to aggressively invest in domestic promotional expenditures in order to grow in the US market. While the Company is cautiously optimistic about sales in its domestic markets, it remains guarded on its outlook for sales in its Asian markets due to the lingering effects of a soft economy in that part of the world.

Cash Flow:

For the three months ending March 31, 2017 cash flow from operating activities increased by \$852,659 to \$1,704,414 from \$851,755 in the same period last year. This increase is attributable to the timing in the collection of receivables, payments to suppliers, and changes in inventory levels.

Net cash used in investing activities for the three months ending March 31, 2017, was \$<1,056,921> resulting from the purchase of certificates of deposit, property and equipment and investment in registering the Company's trademarks in non-US markets. During the three months March 31, 2016, the Company's investing activities provided \$229,391 due to proceeds from the maturity of certificate of deposits offset by the purchase of new equipment and investment in securing trademark rights.

Net cash used by financing activities for the three months ending March 31, 2017 decreased by \$20,464 to \$<695,279> from \$<715,743> in the same period of 2016. The decrease is mainly reflects the impact from the Company fully paying off a note

ARMANINO FOODS OF DISTINCTION, INC.  
QUARTERLY REPORT  
MARCH 31, 2017  
UNAUDITED

---

from 2011 which subsequently matured after 3/31/16. The Company's existing note from 2012 will be fully paid off in the 2<sup>nd</sup> quarter of this year.

While the Company's cash flow is currently strong, it intends to closely manage its cash flow activities for the remainder of 2017.

B. Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

2. LEGAL PROCEEDINGS

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

3. DEFAULTS UPON SENIOR SECURITIES

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

4. EXHIBITS

There are no updates to the "Material Contracts", "Articles of Incorporation" or "Bylaws" described in items XVIII and XIX, respectively, of the Company's 2016 Annual Report.